ENTREPRENEURS FIRST

ANNUAL REPORT 2009

BDC

Canada

“WE’RE GOING TO BEAT THIS RECESSION.

I KNOW I CAN COUNT ON BDC.”

Christine Lundahl
Chief Operating Officer
Dahlson Industries Ltd.
Calgary, Alberta

4 CHAIRMAN’S MESSAGE
6 PRESIDENT’S MESSAGE
9 MANAGEMENT’S DISCUSSION & ANALYSIS
47 CONSOLIDATED FINANCIAL STATEMENTS
85 CORPORATE GOVERNANCE
96 ADDITIONAL INFORMATION

THERE ARE MORE THAN **ONE MILLION EMPLOYER** BUSINESSES IN CANADA.

97.5%

ARE SMALL

2.2%

ARE MEDIUM-SIZED

0.3%

ARE LARGE

ENTREPRENEURS ARE UP AGAINST A **TOUGH** ECONOMY.

WE'RE PUSHING HARD TO HELP THEM.

Loans Outstanding – BDC Financing
As at March 31 ($ in millions)

WHY?

BECAUSE CANADA'S ECONOMY NEEDS ENTREPRENEURS TO SUCCEED, **AND WE EXIST TO SUPPORT THEM**.

WE MAKE A DIFFERENCE FOR OUR CLIENTS

Performance

Statistics Canada, in a study that compared BDC clients with non-BDC clients, found that:

> BDC clients outperform non-BDC clients in terms of revenue and employment growth

> BDC clients survive longer than non-BDC clients

Survival

BDC sticks with its clients, even when the going gets tough. After two years, over 95% of BDC-financed start-up firms survive, compared with 50% for Canadian start-ups in general.

WHO HAVE A POSITIVE IMPACT **ON CANADA'S ECONOMY**

Impact

- BDC supports 28,000 Canadian small and medium-sized enterprises.
- BDC's financing and investment commitments to these companies total $13.2 billion. That includes $3.1 billion in additional authorizations in fiscal 2009.
- Our clients generate an estimated $160 billion in sales, including about $22 billion in export sales.
- Our venture capital clients are turning knowledge into economic opportunity: they employ more than 5,000 people and generate more than $700 million a year in revenues.

“BDC: Serving entrepreneurs in a time of need.”

Entrepreneurs had trouble obtaining credit at precisely the time Canada's economy needed them to succeed. BDC's dedication and capabilities were more important than ever.

This past year was both sobering and galvanizing. Like everyone, we were dismayed by the speed and severity of the recession. But we were galvanized by a shared goal of helping entrepreneurs through the economic tumult.

Our entrepreneurs had a tough year. The credit crisis was akin to a drought: it suddenly became harder and more expensive for them to borrow the money they needed to create and grow companies. And while the relative good health of Canada's financial sector may have been the envy of entrepreneurs in many countries, it was shaken by the exit of many foreign banks and non-regulated financial institutions. The remaining financial institutions, BDC included, strained to meet greater demand at a time when risk levels had risen.

We faced a global economic slowdown: a time of greatly reduced international demand for Canadian commodities, products and services. Domestic demand also weakened.

Many companies struggled. For some, the primary concern was maintaining cash flow to stay alive. Those whose balance sheets permitted it scrambled to stay competitive.

As you will read in this report, BDC held firm in its support of entrepreneurs. Overall financial results were positive but, as might be expected in a recession, they were mixed.

Despite the market turbulence, BDC's portfolio grew by $1 billion. The Canadian venture capital market had another challenging year, and BDC's capacity to support fledgling high-tech client companies was constrained. Its portfolio suffered a loss of $106 million. And despite a fragmented consulting market, BDC's consulting revenues grew by 10.6%.

The government showed confidence in BDC by increasing its capital base, requesting that it play a key role in the Business Credit Availability Program, and relying on it to establish and manage the Canadian Secured Credit Facility. Our management and employees spent the latter part of fiscal 2009 with sleeves rolled up, designing and implementing these initiatives. The results will be evident in fiscal 2010.

Given the speed at which events are unfolding, it is also quite possible that the results of other, yet-to-be-decided initiatives targeting challenges such as high-risk financing and venture capital will become apparent in the months ahead.

As directors, our duty is to oversee BDC to ensure that it does what Parliament created it to do: promote entrepreneurship, with a special focus on small and medium-sized enterprises.

We commit to ensuring that governance at BDC rivals the best governance in both the public and private sectors.

Tumultuous times make stewardship more important than ever. Our overriding concern has been the need to ensure BDC has the people, money and expertise it needs to assume responsibility for the new, complex and risky tasks that the government has assigned it. We are confident it does and pleased to meet our shareholder's desire for BDC to play a greater role. For details on what our stewardship entails, please see page 86.

I would like to acknowledge the contribution of board colleagues who have completed their terms: Cindy Chan and John Hyshka. A special thank you to Terry B. Grieve for his many years of dedicated service.

I would like to welcome those board members who joined us this past year: Brian Hayward, Henry K.S. Lee and Prashant Pathak. They join a team that is honoured to serve on BDC's board.

Thank you as well to BDC's management team and employees. They have earned our gratitude and shown themselves capable of tackling the challenges ahead.

John A. MacNaughton
Chairman

"BDC's motto has never been more urgent: *Entrepreneurs first.*"

ENTREPRENEURS FIRST

If there is one thing that is going to help us exit these economic doldrums, it is people who create and grow businesses, hire workers and harness innovation. BDC's motto has never been more urgent: *Entrepreneurs first*.

If they are essential even in good times, they are critically important when recession strikes. When they succeed, Canada takes a step closer to recovery.

The contribution of small and medium-sized businesses is anything but small: they employ over half of all Canadian workers. We estimate our 28,000 clients to have revenues of close to $160 billion.

We tailor our financing, consulting and venture capital services so that entrepreneurs can choose precisely what they need, when they need it. That means, for example, helping them to secure working capital, expand facilities, pursue global opportunities or champion a new technology despite a difficult venture capital market.

> This support is all the more important when credit is scarce. **We accept more risk than private sector lenders and offer more flexibility in repayment terms.**

EXTRAORDINARY TIMES, EXTRAORDINARY EFFORTS

Last year was unexpectedly calamitous: the worst financial crisis since the Great Depression and a severe recession. BDC was pleased to support the Government of Canada's economic recovery plan.

We received a substantial injection of new capital and are using it to provide additional financing to entrepreneurs.

We are participating in the new Business Credit Availability Program, in which we work in collaboration with Export Development Canada and private sector banks to collectively make available an estimated $5 billion to businesses through various initiatives. We got off to a fast start with this program, delivering close to $600 million to businesses thus far.

We have also been asked to create and manage the new Canadian Secured Credit Facility. Through it, we will invest up to $12 billion to help jumpstart the stalled auto and equipment loan and leasing markets. Concretely, this program will mean more Canadians will be able to finance the purchase of cars, trucks and equipment.

FINANCIAL RESULTS

Given the dismal state of the global economy, and the depth and severity of the recession in Canada, I am quite satisfied with the results we've achieved in the last fiscal year. In financing and subordinate financing, we had strong results thanks to significant portfolio growth, higher margins and gains on financial instruments. In consulting, we posted a small loss but a 35% improvement over last year. In venture capital, we had disappointing but unsurprising losses rooted in the weak, problem-plagued Canadian venture capital market.

Our total portfolio grew to $11.7 billion. Most of this, $11.1 billion, is in our financing group. It also includes $155 million in subordinate financing and $442 million in venture capital investments. Consulting revenue reached $27.4 million this year.

We had yet another year of financial sustainability. Net income was $90.6 million and our return on common equity was 4.7%. This net income included $88.7 million in net realized and unrealized gains on financial instruments, without which BDC would have been basically at the break-even level, reflecting the higher risk it has taken in accordance with its public policy mandate. There will be an annual dividend of $16.8 million for the Government of Canada. Since 1997, we have paid a total of $156.7 million in dividends.

TREMENDOUS CONTRIBUTIONS

I send deep, heartfelt thanks to everyone on BDC's board of directors. Much was asked of them in this past extraordinary year. They leapt to the task and went beyond the call of duty in providing steady, sharp counsel, prudent oversight and solid decisions.

I also want to thank and congratulate BDC's employees. They did an outstanding job in meeting the new demands placed on BDC. In a year that was anything but ordinary, their contribution clinched our success.

Jean-René Halde
President and Chief Executive Officer

AN EXCEPTIONAL YEAR

In the latter part of 2007, the implosion of the U.S. sub-prime mortgage market triggered a global liquidity crisis.

BDC was not directly affected because it had no exposure to non-bank asset-backed commercial paper or other securities related to the sub-prime market.

Since then, turmoil in financial markets has led to the deepest, broadest and most pervasive financial crisis in decades. Liquidity contracted sharply as risk aversion became widespread and sources of credit exited the market. The growing difficulty of raising capital, the increased cost of borrowing, and the related dampening of consumer and business confidence contributed to the global economic slowdown.

EXCEPTIONAL MEASURES

> Extended repayment terms to entrepreneurs who were suffering cash flow problems;

> $350 million in new capital to offer more loans and new, time-limited guarantees for lines of credit;

> the new Canadian Secured Credit Facility, which will have up to $12 billion to support the financing of vehicles and equipment for businesses and consumers; and

> the new Business Credit Availability Program, a collective effort in which we, Export Development Canada and private sector banks will participate to help provide up to $5 billion in loans and other forms of credit support to businesses.

MANAGEMENT'S DISCUSSION & ANALYSIS

1. ROLE & ACTIVITIES PAGE_10

2. STRATEGY & KEY PERFORMANCE INDICATORS PAGE_20

3. RISK MANAGEMENT PAGE_28

4. ANALYSIS OF FINANCIAL RESULTS PAGE_32

5. ACCOUNTING & CONTROL MATTERS PAGE_44

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 uncertainties 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 & ACTIVITIES

1,800
EMPLOYEES

100
OFFICES ACROSS CANADA

4
BUSINESS LINES

1
MANDATE
SUPPORT CANADIAN ENTREPRENEURS

AN APPETITE FOR RISK

ENTREPRENEURS NEED PARTNERS WHO SHARE THEIR WILLINGNESS TO TAKE RISKS.

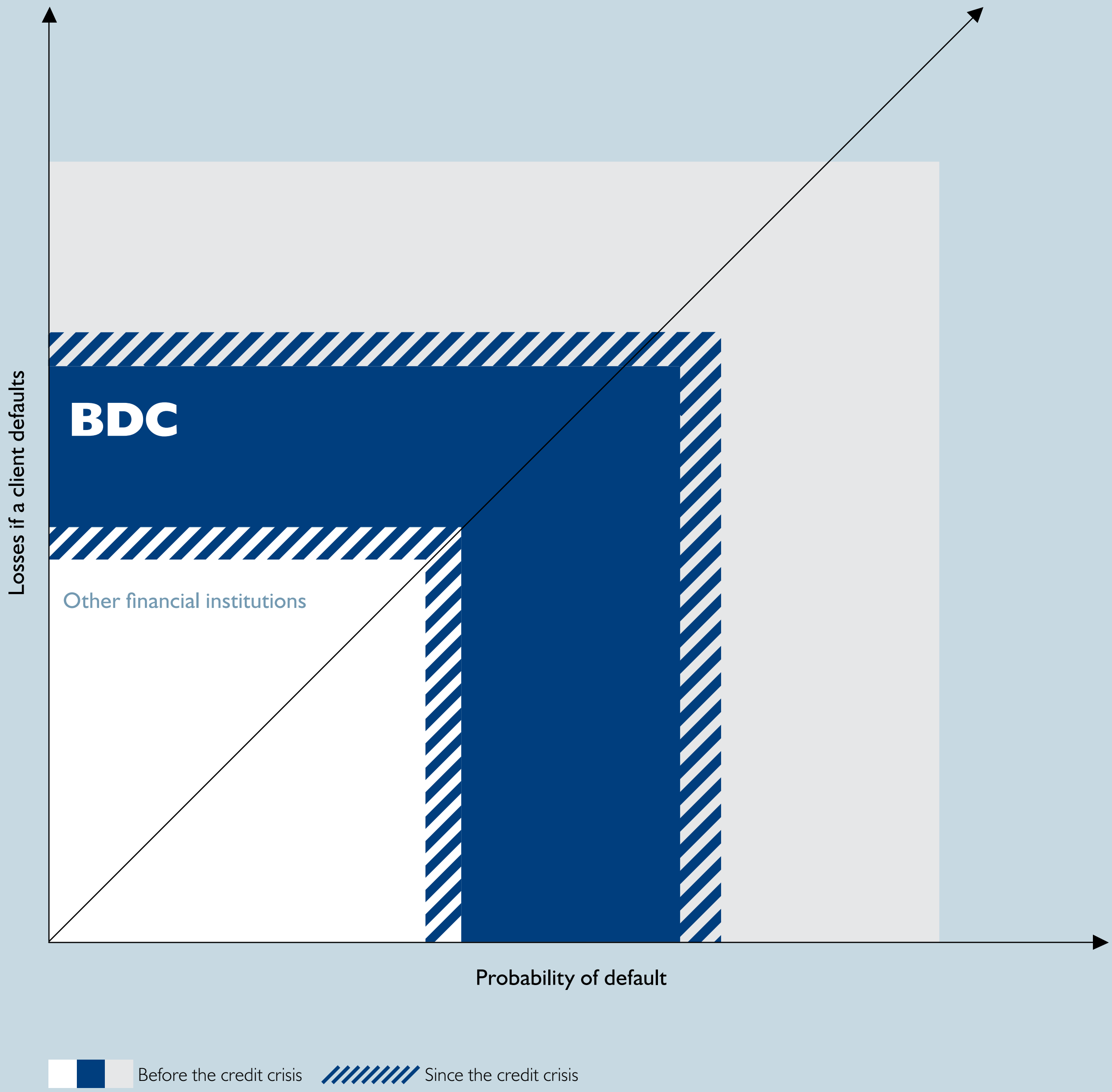
BDC SUPPORTS RISK.

CREDIT STABILITY

ENTREPRENEURS NEED PARTNERS THEY CAN COUNT ON IN TOUGH TIMES.

BDC IS PATIENT.

WE TAKE MORE RISK



As can be seen from this graph, BDC takes more risk than other financial institutions.

We Take More Risk

The adage "nothing ventured, nothing gained" omits an essential truth: ventures often need collective support. To start and grow their businesses, entrepreneurs often need loans and investments from others.

Private sector institutions are not always able to provide this financing. The greater the risk, the greater their reticence. The greater their reticence, the more likely that risky but creditworthy projects will wither. Because we provide financing under terms and conditions that complement those private sector banks offer, we support projects that are, in general, higher risk than the ones that they typically accept.

Our willingness to finance riskier projects and businesses is evident in our allowance for credit losses ratio, which is significantly higher than that of typical private sector banks.

"We're a fast-growing designer and manufacturer of oilfield equipment. When the slowdown came in the Alberta oilpatch, we got creative to protect our working capital, maintain revenues and find new markets. **We consider BDC a partner in our business and that's never been more true than during the slowdown.** They understand our business needs, both with financing and consulting, and have been there for us. **We're navigating through the recession. BDC is helping.**"

Christine Lundahl | Chief Operating Officer | **Dahlson Industries Ltd.**
Calgary, Alberta

"AngioChem is a clinical-stage biotechnology company that uses its patented EPiC technology to discover and develop innovative drugs for treating brain diseases. **BDC has been a valued partner since our founding and has provided us with much more than just venture capital.** Advice, professional contacts, strategic vision and support from BDC have been crucial to our company's progress and development. **When BDC is at the table, it means seriousness and professionalism.**"

Jean-Paul Castaigne | President and CEO | **AngioChem**
Montréal, Quebec

We provide support:

financing, venture capital and consulting services, giving special consideration to the needs of small and medium-sized enterprises. This support is **complementary** to that provided by private sector financial institutions.

ROLE

In 1995, Parliament passed the *Business Development Bank of Canada Act*. The Act created BDC to promote entrepreneurship.

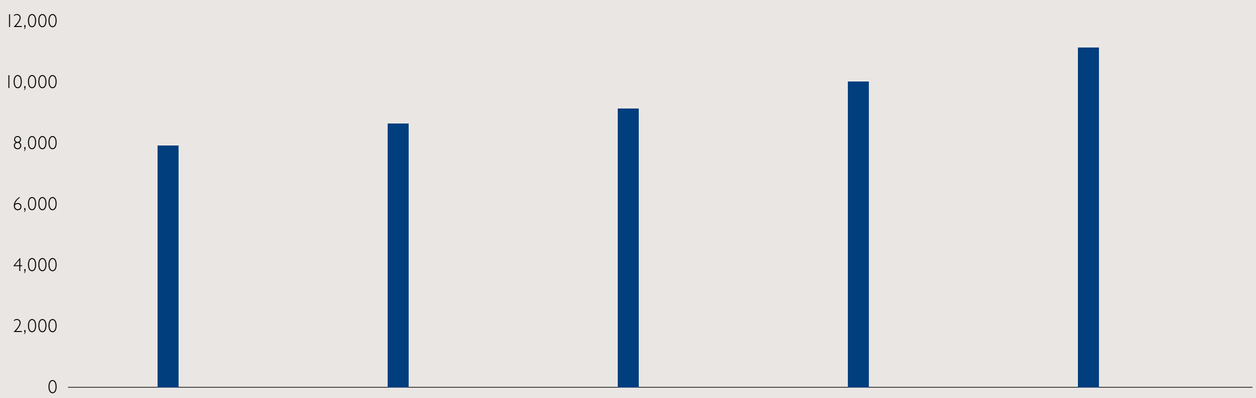
All Canadians benefit from the vibrant economy that entrepreneurs help to create when they succeed. For this reason, they merit support.

OUR ACTIVITIES

The services we offer to entrepreneurs determine our organizational structure: BDC Financing, BDC Subordinate Financing, BDC Venture Capital and BDC Consulting.

Loans Outstanding – BDC Financing
As at March 31 ($ in millions)

+11%



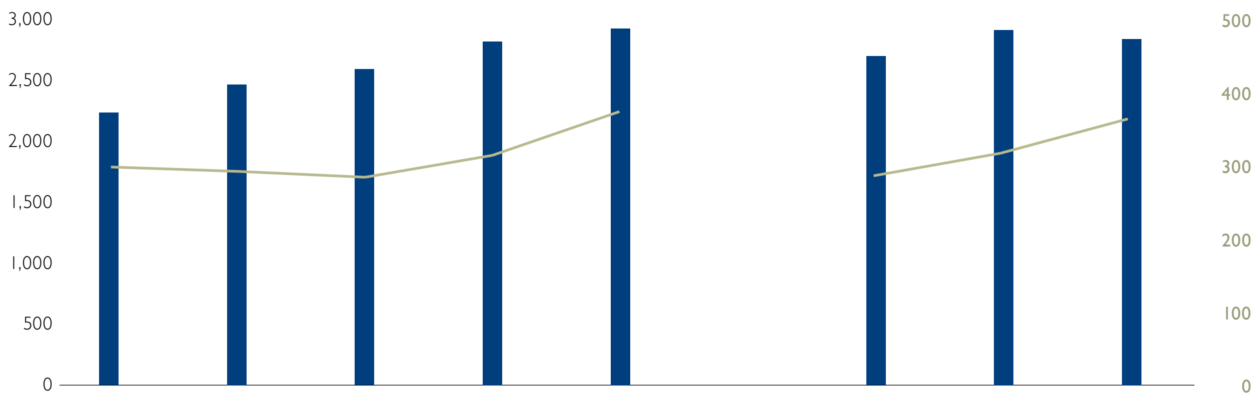
2005	2006	2007	2008	**2009**
7,918	8,627	9,128	10,014	**11,117**

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

WE CONTINUE TO SUPPORT ENTREPRENEURS.

BDC Financing

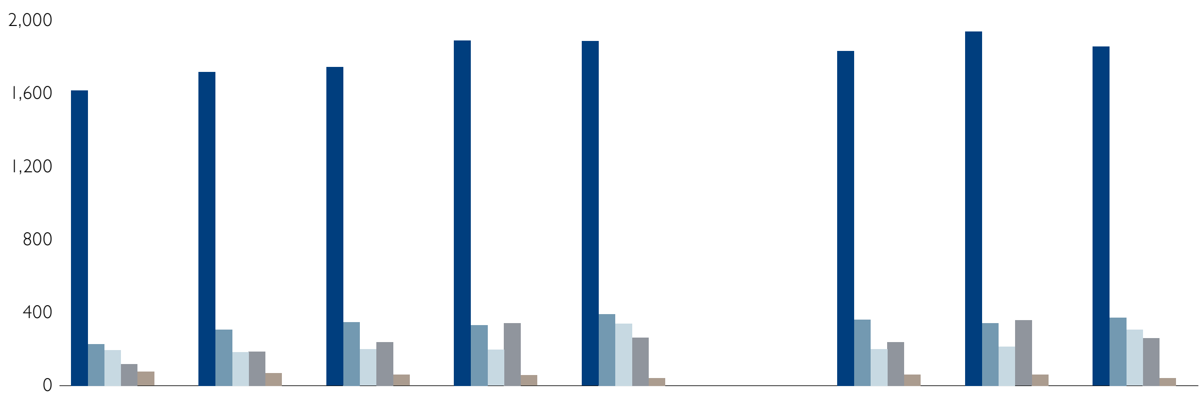
for the years ended March 31



	Authorizations*					Acceptances*		
	2005	2006	2007	2008	**2009**	2007	2008	**2009**
Amount ($ in millions)	2,230	2,462	2,586	2,814	**2,918**	2,692	2,907	**2,832**
Average transaction size ($ in thousands)	299	293	285	315	**375**	287	318	**365**

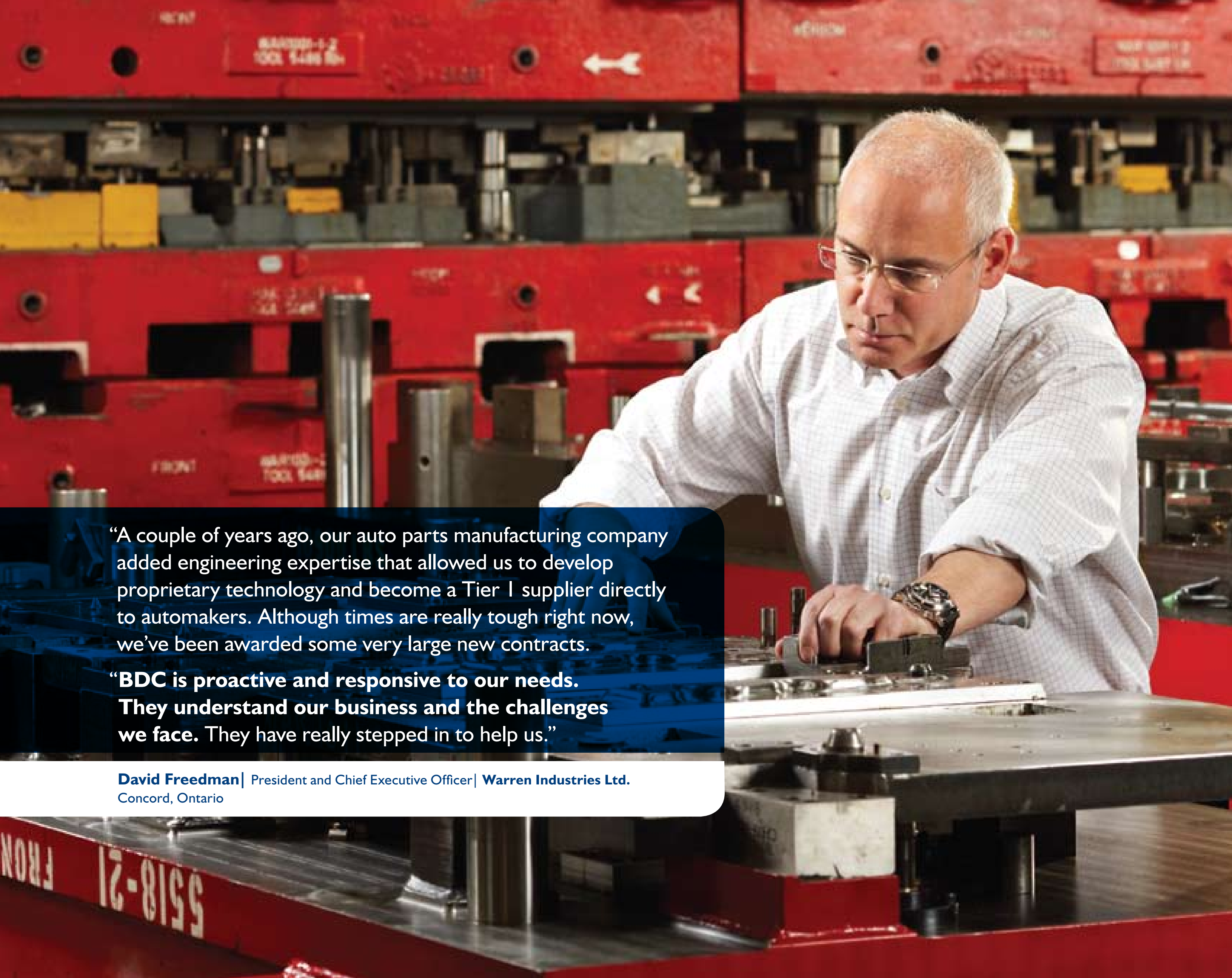
BDC Financing, by Primary Loan Purpose

for the years ended March 31 ($ in millions)



	Authorizations*					Acceptances*		
	2005	2006	2007	2008	**2009**	2007	2008	**2009**
Fixed assets	1,614	1,714	1,740	1,887	**1,882**	1,829	1,935	**1,852**
Refinancing	227	307	348	331	**392**	361	341	**373**
Working capital	195	184	199	196	**340**	201	213	**305**
Change of ownership	118	187	239	343	**263**	239	357	**260**
Other	76	70	60	57	**41**	62	61	**42**

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



"A couple of years ago, our auto parts manufacturing company added engineering expertise that allowed us to develop proprietary technology and become a Tier 1 supplier directly to automakers. Although times are really tough right now, we've been awarded some very large new contracts.

"**BDC is proactive and responsive to our needs. They understand our business and the challenges we face.** They have really stepped in to help us."

David Freedman | President and Chief Executive Officer | **Warren Industries Ltd.**
Concord, Ontario

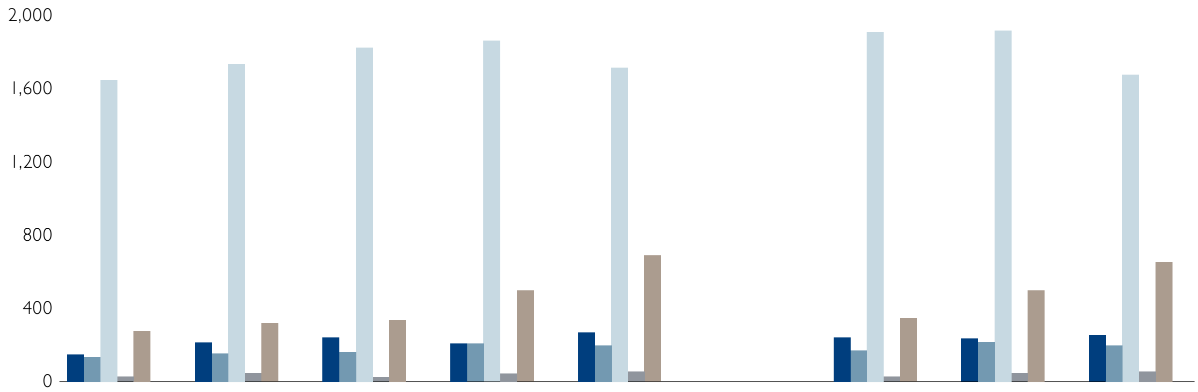
"We deliver affordable and reliable Internet and cellular communications to remote and rural communities across Canada and in more than 70 countries around the world. We have grown between 100% and 375% in each of the last four years and we don't see why that level of growth would slow down even in these challenging times. **Our relationship with BDC has been strong and more than just financial.** We have received unanticipated benefits, including help in finding valuable business partners and employees. The BDC relationship also lends us credibility when we bid for contracts abroad. **We are proud to be the partners of BDC and their support was a key contributor to OmniGlobe becoming the fastest growing technology company in Canada in 2008.**"

Dr. Jason Neale | Chief Executive Officer | **OmniGlobe Networks Inc.**
Montréal, Quebec

WE SUPPORT ENTREPRENEURS AT EVERY STAGE OF THEIR BUSINESSES.

BDC Financing, by Stage of Development

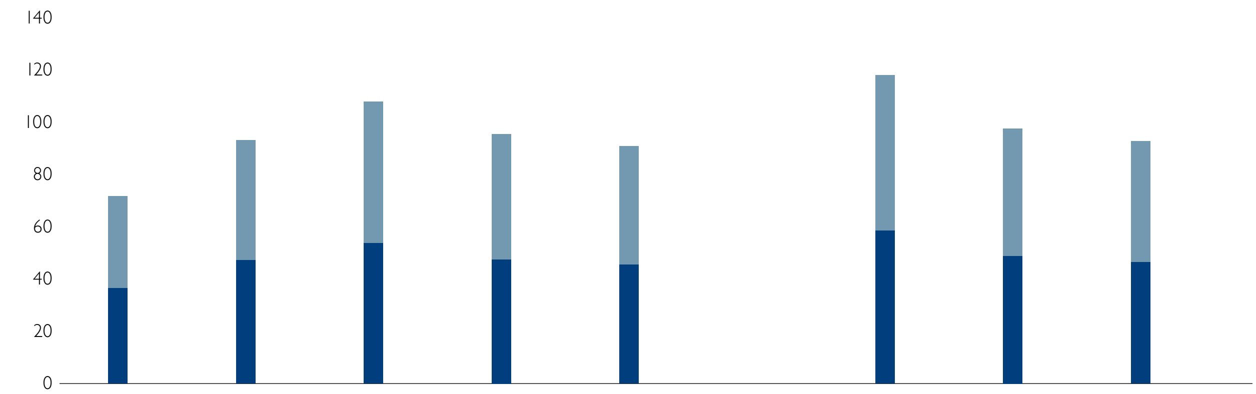
for the years ended March 31 ($ in millions)



	Authorizations*					Acceptances*		
	2005	2006	2007	2008	**2009**	2007	2008	**2009**
Start-up	149	213	242	209	**269**	242	234	**253**
Development	134	153	162	207	**197**	171	216	**197**
Expansion	1,644	1,731	1,821	1,857	**1,711**	1,906	1,913	**1,674**
Turnaround	27	46	24	45	**54**	27	46	**55**
Mature	276	319	337	496	**687**	346	498	**653**

BDC Subordinate Financing

for the years ended March 31 ($ in millions)



	Authorizations*					Acceptances*		
	2005	2006	2007	2008	**2009**	2007	2008	**2009**
BDC portion	36.4	47.1	53.6	47.4	**45.4**	58.4	48.7	**46.3**
Caisse portion	35.3	46.0	54.1	47.9	**45.4**	59.4	48.7	**46.3**
Total	71.7	93.1	107.7	95.3	**90.8**	117.8	97.4	**92.6**

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

We support entrepreneurs who want to grow their businesses but who may lack collateral for a conventional loan.

For entrepreneurs who need working capital to grow but do not have the tangible security that conventional lenders require, or do not want to dilute their ownership of their firm, we offer hybrid financing of 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, we received $92.6 million in acceptances (including the Caisse's portion).

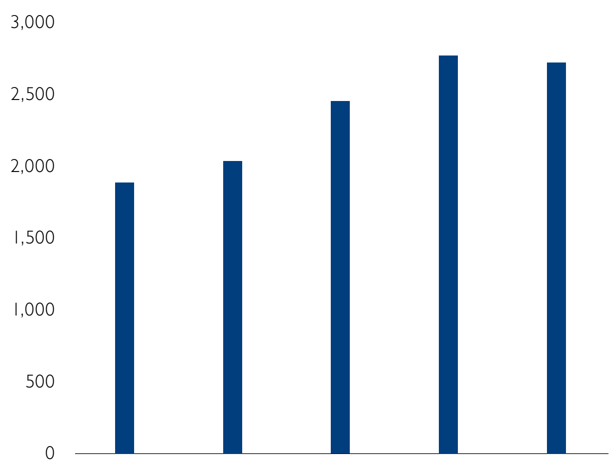
We help entrepreneurs improve their management skills.

It takes skill and know-how to survive a recession. We continue to offer entrepreneurs tailored, high-quality consulting services at a price they can afford.

Our goal is to help them learn new skills and become more competitive. This year, we started 2,720 consulting mandates.

BDC Consulting Mandates

for the years ended March 31 (in numbers)



2005	2006	2007	2008	**2009**
1,886	2,037	2,451	2,770	**2,720**

"Our workforce in Atlantic Canada processes thousands of tonnes of fish from a large list of species for domestic and international markets. We've had a very successful long-term relationship with BDC and it goes on year after year, whether the economy is up or down or sideways. **BDC has an impressive group of people working for them and they're easy to work with. It's about open dialogue.** They want to not only support individual companies, but to do so in the context of successful regions and building a successful Canada. **They're pro-entrepreneur, pro-regions, pro-exporters and pro-Canada.** And they do it in the context of being a supportive yet diligent, responsible lender ."

Bill Barry | President | **Barry Group Inc.**
Corner Brook, Newfoundland and Labrador

"As an Aboriginal company, we saw ISO quality management certification as a great third-party endorsement for our group and confirmation of our high level of corporate governance.

"BDC Consulting helped us achieve the certification at the parent company, Tribal Councils Investment Group, and our two largest operating companies. **BDC had the experience and expertise we were looking for and they provided terrific service.**"

Allan McLeod | President and Chief Executive Officer | **Tribal Councils Investment Group of Manitoba Ltd.** | Winnipeg, Manitoba

We continue to help entrepreneurs commercialize R&D.

Canada needs entrepreneurs who can turn new ideas and technology into attractive products and successful companies. Venture capital support for these entrepreneurs is a vital public policy goal for our shareholder. Canada's venture capital industry is struggling to tackle several challenges. The global recession has exacerbated its difficulties, so our support is more important than ever.

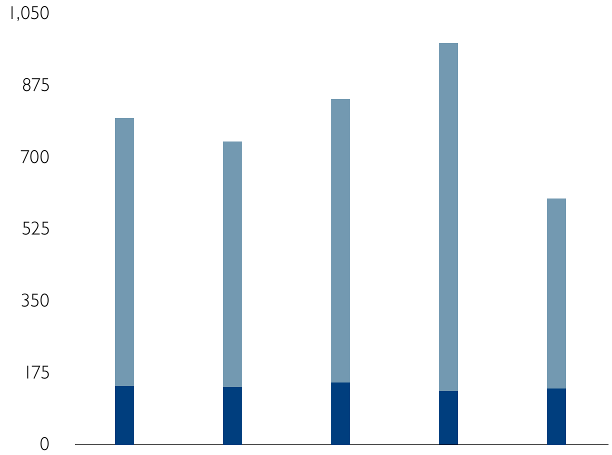
We are a leader in the critically important early-stage (including seed) investment phase. This year, we made 58% of the dollar value of our direct investments in early-stage firms. The industry average is 44%.

Over 39% of our direct venture capital portfolio companies originated and developed in universities and labs. These firms need BDC's expertise and long-term commitment.

This year, we authorized 54 direct investments totalling $64.1 million. We also authorized a $75-million investment in one late-stage fund.

Total Value of BDC Venture Capital Projects Financed

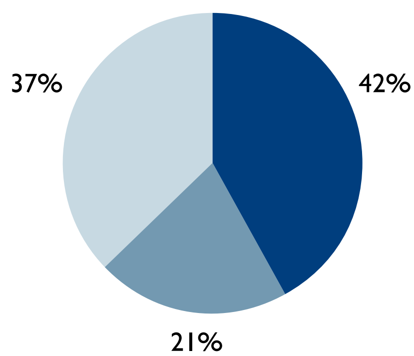
for the years ended March 31 ($ in millions)



	2005	2006	2007	2008	**2009**
BDC Venture Capital authorizations	143	140	151	130	**137**
Other sources of investment	652	598	690	848	**462**
Total	795	738	841	978	**599**

BDC Venture Capital Direct Investments Authorized, by Stage of Development

for the year ended March 31, 2009 (percentage of dollar value)



- Start-up or seed
- Development
- Expansion

WE PROMOTE ENTREPRENEURSHIP

To reach entrepreneurs in a diverse society like Canada, it takes a diverse team. And an inclusive approach.

That enables us to meet the many aspiring and potential entrepreneurs across the country, whose needs vary from place to place. We use a grassroots approach, collaborating with local business associations, community groups and universities.

Rural: We have formal partnerships with more than 220 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 1,000 entrepreneurs in fiscal 2009.

Aboriginal: We help promote economic development using 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 of 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 4,300 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 Regina.

Young Canadians and small businesses: Many young entrepreneurs find it hard to secure financing because they have little or no management experience, and no proven track record. At 22 Entrepreneurship Centres across Canada, we offer specialized lending, consulting and resources dedicated to meeting the needs of younger, smaller businesses. In fiscal 2009, the centres granted $190-million worth of loans. Over the past five years, we have authorized over $780 million in financing to young entrepreneurs across Canada.

We celebrate 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 use a variety of ways to foster an entrepreneurial spirit in Canadian youth. These aim to celebrate their creativity and provide practical support.

For high school students who are interested in developing their entrepreneurial skills, we support the Junior Achievement program.

We support Advancing Canadian Entrepreneurship (ACE), which helps stimulate an entrepreneurial mindset in colleges and universities; this support includes sponsorship of the Students In Free Enterprise (SIFE) program, which ACE organizes.

We support the Impact Entrepreneurship Group, a national student-run organization that is a catalyst for science students interested in entrepreneurship and leadership.

We support BDC Enterprize, a national competition in which university students from across the country submit business plans, competing in regional and national finals.

We sponsor the Vanier College – BDC Case Challenge, in which students from Ontario and Quebec vie for medals in a competition of entrepreneurial skills.

Finally, we support the Canadian Youth Business Foundation (CYBF), a national foundation that provides pre-launch coaching, business resources, start-up financing and mentoring for people between 18 and 34 who want to start businesses. We co-finance their business ventures.

CORPORATE SOCIAL RESPONSIBILITY

Acting responsibly is at the heart of our mandate. Through every client we serve, we fulfill our responsibility to Canadian society to support entrepreneurs.

We also operate responsibly. Our business, human resources and corporate governance practices are recognized as very good. You will see examples of our accolades throughout this report such as the Statistics Canada study that found that compared to their peers, our clients are more successful with regard to revenue and employment growth, and that they survive longer; our placement as a top contender in the 2009 Conference Board of Canada/Spencer Stuart National Awards in Governance; and our recognition as a Best Canadian Employer for New Canadians for the second year in a row.

But we can and intend to do more.

We have begun to formalize our commitment to corporate social responsibility (CSR). Our goal is to strategically, rigorously improve our performance to keep abreast of society's rising expectations of responsibility, particularly in relation to the environment. We group our impacts into three categories:

1) our impact on society;
2) our business practices; and
3) the workplace we create.

To help determine specific ways to improve, we have created a CSR Advisory Council. The 12 council members are from all regions of the country and all parts of BDC. Their mandate is to suggest ways to improve our policies, practices and reporting in the form of specific recommendations.

That is a long-term journey that will require effort and focus. We are committed to these efforts, as well as to publicly reporting on our progress.

We define CSR as more than compliance with law or charity. We define it as how companies make their profits. It goes beyond philanthropy and compliance to address the way organizations manage their economic, social and environmental impacts.

2. STRATEGY & KEY PERFORMANCE INDICATORS

WE MEASURE OUR PERFORMANCE AGAINST THE 2009-2013 CORPORATE PLAN.

Core values underpin our actions	Our resources enable us to execute strategic actions
BDC'S CORE VALUES	**RESOURCES**
Ethics	**Human Capital**
Client connection	Foster
Team spirit	> Business-minded, engaged and diverse workforce
Accountability	> Culture of responsibility and collaboration
Work/life balance	> Knowledgeable and trusted leadership
	Intangible Capital
	Develop and Leverage
	> SME expertise and knowledge
	> Partnerships and networks
	> Meaningful client relationships
	> Reputation and brand
	Tangible Capital
	Leverage
	> Service network
	> Productive portfolio
	> Information infrastructure and channels
	> Available capital

Strategic actions drive the key outcomes	Key outcomes ensure that we deliver shareholder value
STRATEGIC ACTIONS	**DESIRED KEY OUTCOMES**
Connecting With Our Clients	**Public Policy**
> Add value for clients > Support investment in strategic intangible assets > Differentiate through innovative and flexible solutions > Further our knowledge of SME needs	> Create and develop Canadian firms that can grow and compete successfully in changing global marketplaces > Inspire and support Canadian entrepreneurship
Agility and Management Excellence	**Client**
> Operate profitably > Improve efficiency > Embrace process and practice innovation > Continuously improve risk management and governance	> Create unique and valued relationships with Canadian entrepreneurs
Lead as a Development Bank	**Financial Sustainability**
> Help SMEs compete and grow in a global environment > Accelerate development of high-potential firms > Play a structuring role in developing a supportive environment for entrepreneurship	> Maintain sufficient profitability to fulfill development role in the long term

Our Key Performance Indicators

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 SUSTAINABILITY

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.

CLIENTS

We want the hallmark of our activity in the marketplace to be patient, long-term, capacity-building relationships with entrepreneurs. We create and nurture these relationships in order to be able to offer entrepreneurs 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

F2007 Actual	F2008 Actual	F2009 Objective	**F2009 Actual**	F2010 Objective
93%	93%	91%	**92%**	88%

PERFORMANCE IN FISCAL 2009

In fiscal 2009, the overall client satisfaction rating remained high: 92%. We consider this an exceptional accomplishment, given the credit crisis and recession. It is 1 percentage point lower than last year, but 1 percentage point above our fiscal 2009 objective.

Of our new financing clients, 95% said they were satisfied with our service. This figure is the same as in fiscal 2008. These new clients were also 91% satisfied with BDC's quality of service, our employees' knowledge and expertise, our loans policies and our company image.

This year, we also asked our clients if they considered our financing products and services to be complementary to those offered by private sector financial institutions; 85% of new client respondents said yes.

OBJECTIVE FOR FISCAL 2010

Our client satisfaction objective for fiscal 2010 is 88%, a decrease of 3 percentage points from fiscal 2009's objective. The recession is proving deeper and more severe than first anticipated; entrepreneurs are navigating through anxiety-producing times. We expect they will become increasingly sensitive to price. These factors will likely have a dampening effect on our client satisfaction rating. We will continue to build and nurture our relationships with entrepreneurs.

EMPLOYEES

We recruit people whose skills, professional effectiveness and dedication to our mandate will ensure that our clients are well served. Once we have hired them, we work to engage, train and keep them.

To gauge the degree to which our employees are "engaged" in their work, we consider 1) what they say about BDC; 2) whether their job commitment makes them want to stay at BDC; and 3) how much discretionary effort they are willing to put into their work, in addition to what their role requires. This "engagement" is measured through an annual employee engagement survey done by an external firm.

EMPLOYEE ENGAGEMENT

F2007 Actual	F2008 Actual	F2009 Objective	**F2009 Actual**	F2010 Objective
80%	76%	80%	**75%**	75%–80%

PERFORMANCE IN FISCAL 2009

Our employee engagement score remained similar to last year and now stands at 75% (76% in fiscal 2008). That is below our objective of 80% but compares well with the most recent Best Employer's engagement score of 76%, which is also down 1 percentage point from the previous year. Management at all levels will continue to dialogue with employees to address those issues that hinder a higher engagement score and propose action plans to improve matters.

This past year, we were recognized as one of the Top 100 Employers in Canada for the third year in a row and Best Employers for New Canadians for the second year in a row. We view this third-party recognition as a helpful indicator of our success in creating an attractive workplace environment.

OBJECTIVE FOR FISCAL 2010

Our fiscal 2010 employee engagement objective is between 75% and 80%. Note that we are targeting a range rather than a precise point. We base this change on our observation of the high number of internal and external factors that can influence employee engagement. Exact targets belie the dynamic, complex and often unpredictable nature of the many factors that affect employee engagement.

EFFICIENCY

We strive to be as efficient as possible. To measure our efficiency, we use a ratio of expenses to income. Specifically, we use our financing and subordinate financing operating and administrative expenses as a percentage of their net interest and other income. Other income includes fee income and realized gains or losses on financial instruments from financing, and realized gains or losses on investments and other income from subordinate financing. 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*

F2007 Actual	F2008 Actual	F2009 Objective	**F2009 Actual**	F2010 Objective
50.2%	48.0%	50.1%	**41.6%**	46.3%

* Excludes net unrealized gains or losses on financial instruments.

PERFORMANCE IN FISCAL 2009

The efficiency ratio in fiscal 2009 was significantly low: 41.6%. This is a 6.4 percentage point improvement from last year's result of 48.0% and 8.5 percentage points better than the corporate plan objective of 50.1%. This excellent result is primarily explained by higher net interest income resulting from the portfolio growth and higher margins achieved. In addition, operating and administrative expenses are $20.4 million lower than planned.

OBJECTIVE FOR FISCAL 2010

The efficiency ratio target for fiscal 2010 is 46.3%. That is a 3.8 percentage point improvement from the fiscal 2009 objective. In 2010, we expect an increase in pension expenses and a higher cost of resources in order to manage impaired loans and deploy the Business Credit Availability Program (see page 42).

FINANCIAL SUSTAINABILITY

OUTSTANDING BDC FINANCING PORTFOLIO

In fulfilling its public policy mandate, BDC must be profitable so that it can grow and invest in its services. The driving force of BDC's financial sustainability is its BDC Financing portfolio.

OUTSTANDING BDC FINANCING PORTFOLIO

($ in billions)

F2007 Actual	F2008 Actual	F2009 Objective	**F2009 Actual**	F2010 Objective
$9.1	$10.0	$10.4	**$11.1**	$12.3

PERFORMANCE IN FISCAL 2009

The gross closing portfolio rose from $10.0 billion to $11.1 billion. That was a significant increase of $1.1 billion, or 11.0% when compared with fiscal 2008. This result also exceeds the corporate plan objective by $0.7 billion.

The most important factor contributing to this growth was disbursements. We disbursed $2.8 billion in fiscal 2009, consistent with the fiscal 2008 level and the corporate plan objective—an excellent result, considering Canadian entrepreneurs were undertaking fewer investment projects due to adverse economic conditions. We were able to maintain our growth as we responded to mid-market businesses' needs and to new clients drawn to us due to the tightening supply of credit in the overall market.

This growth was also a result of lower payments resulting from BDC's extension of repayment terms to clients to increase their working capital, and lower prepayments due to lower liquidity in the markets.

OBJECTIVE FOR FISCAL 2010

The financing portfolio is expected to reach $12.3 billion at the end of fiscal 2010. That represents growth of 11% from the $11.1 billion achieved in fiscal 2009. Higher disbursement activity expected as a result of the Business Credit Availability Program and lower prepayments due to limited availability of credit from other financial institutions will foster growth despite difficult market conditions.

FINANCIAL SUSTAINABILITY

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.

BDC CONSULTING REVENUE

($ in millions)

F2007 Actual	F2008 Actual	F2009 Objective	**F2009 Actual**	F2010 Objective
$23.5	$24.8	$26.0	**$27.4**	$24.0

PERFORMANCE IN FISCAL 2009

In fiscal 2009, consulting revenues rose 10.6% to $27.4 million. That is a record high for BDC Consulting and is $1.4 million higher than planned.

OBJECTIVE FOR FISCAL 2010

The fiscal 2010 revenue objective for BDC Consulting is $24.0 million, $2.0 million lower than the fiscal 2009 objective to reflect the economic slowdown.

FINANCIAL SUSTAINABILITY

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

F2007 Actual	F2008 Actual	F2009 Objective	**F2009 Actual**	F2010 Objective
8.5%	4.7%	6.3%	**4.7%**	(8.1)%

PERFORMANCE IN FISCAL 2009

BDC's total ROE in fiscal 2009 was 4.7%, the same as last year's result but lower than the corporate plan objective of 6.3%. The shortfall in ROE compared to the plan is explained by the loss in BDC Venture Capital and higher provision for credit losses in BDC Financing. This was partly offset by important realized and unrealized gains on financial instruments. However, our ROE exceeded the government's average long-term cost of capital of 2.4% for the year.

OBJECTIVE FOR FISCAL 2010

In fiscal 2010, the ROE is expected to be negative 8.1% due to a projected net loss of $174 million as a result of difficult economic conditions. This expected net loss excludes the impact of the new Canadian Secured Credit Facility program (see page 43), which will be launched in fiscal 2010. Note that the ROE has been positive since 1995 and is expected to return to positive in future years.

DESIRED KEY OUTCOMES

Public Policy

1. Create and develop Canadian firms that can grow and compete successfully in changing global marketplaces.

In a 2009 study that compared BDC clients with non-BDC clients, Statistics Canada found that BDC clients:

> outperformed non-BDC clients in terms of revenue and employment growth; and

> survived longer than non-BDC clients.

Inspire and Support Canadian Entrepreneurship

2.

Small Business Week

- 28th consecutive year of nationwide activities to celebrate entrepreneurs

  Opportunities to:

  - Meet other entrepreneurs
  - Share ideas
  - Learn through conferences, trade fairs, seminars and workshops
  - Participate in the Young Entrepreneur Awards

E-Spirit: 8th Annual E-Spirit National Aboriginal Youth Business Plan Competition

- Mentorship, networking and business planning
- 200 students from across Canada

BDC Enterprize

- The largest nationwide university-level business plan competition in Canada
- 97 student teams from across Canada

Impact Leadership Conference

- 500 student leaders and young entrepreneurs from high schools, colleges and universities across Canada

3. RISK MANAGEMENT

We manage our risks by developing and communicating policies, establishing formal risk reviews and processes, and setting delegated authorities and limits.

Risk is a defining, unavoidable feature of the financial sector. It is inherent in virtually all of our activities.

Risk is also a defining, unavoidable feature of entrepreneurial activity. And as our mandate leads us toward entrepreneurs' projects, we must master the identification and management of several kinds of risk—to the greatest degree possible—to succeed.

The cornerstone of our approach is a strong culture of risk management that emphasizes transparency and accountability. We have codified this culture in approved policies and procedures.

Our board of directors provides the necessary, independent oversight of BDC's exposure to risk. We are all responsible for the risks we assume in our operations.

ENTERPRISE RISK MANAGEMENT

In January 2009, the board reviewed and approved the updated enterprise risk management (ERM) policy. This policy codifies the integrated, enterprise-wide process by which we identify, manage and report risks. It also defines the roles and responsibilities of board members, managers and employees in upholding the policy.

PRINCIPLES OF ENTERPRISE RISK MANAGEMENT

1. Risk management is everyone's responsibility, from the board of directors to individual employees.
2. Risk is managed by balancing the trade-offs between risk and return.
3. Risk management is integrated into strategic, business and budget planning, and lending, investing and consulting decisions.
4. BDC's risks are assessed regularly.
5. The umbrella ERM policy codifies a comprehensive, disciplined and continuous process by which we identify, analyze, and accept or mitigate risks.
6. ERM policy is not static; it changes through annual reviews that align it with BDC's evolving practices and needs.
7. All of BDC's policies and processes are consistent with ERM, the umbrella policy for all other risk policies.
8. The board of directors establishes the maximum levels of risk that BDC will tolerate in pursuit of its mandate.

THE BOARD OF DIRECTORS AND ITS RISK-RELATED COMMITTEES

The board of directors and its five committees oversee risk management.

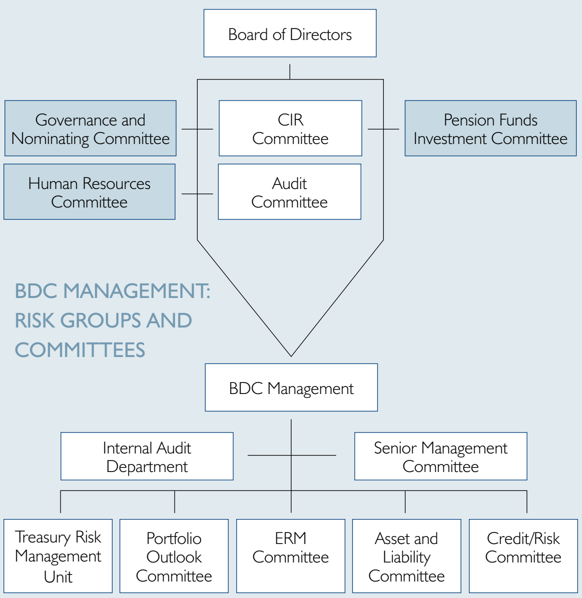
The board approves risk policies, risk appetite and strategies; ensures BDC's risk management is effective; reviews portfolio and treasury risks; and reviews capital adequacy and establishes clear levels of delegation of authority for committing BDC to various types of transactions.

Although all committees incorporate, as appropriate, considerations of risk into their deliberations, two are mandated with specific duties. These are the Credit/Investment and Risk Committee and the Audit Committee. (For full details on the board and its committees, please see page 85.)

The **Credit/Investment and Risk (CIR) Committee** advises the board to ensure that the principal risks of BDC's business are identified and effectively managed. It reviews reports on portfolio management, and recommends policies and guidelines regarding the delegation of authority to senior management.

The **Audit Committee** advises the board on the effectiveness of BDC's financial management of standards of integrity and conduct, internal control systems, and financial control and audit processes.

THE BOARD OF DIRECTORS AND ITS RISK-RELATED COMMITTEES



BDC MANAGEMENT: RISK GROUPS AND COMMITTEES

The **Internal Audit Department** promotes sound risk management practices and plans regular internal audits so they align with BDC's key risks. It reviews the way BDC is managing key risks, evaluates its reporting performance, and seeks assurance that risk management practices are present, appropriate and respected.

The **Senior Management Committee** is composed of the president and chief executive officer, the executive operating officers, the executive risk officer and designated vice presidents. It meets regularly to discuss emerging threats and opportunities. It also reviews the quarterly ERM reports.

The **Treasury Risk Management Unit** identifies, measures, monitors and reports financial risk exposures of treasury activities and ensures their compliance with the treasury risk policy, and policies of the board of directors and the minister of finance. It monitors the creditworthiness of counterparties to derivative transactions and their compliance with legal documentation standards. It also determines risk limits and develops risk measurement tools that adequately measure BDC's financial risk exposure in line with current industry and regulatory standards. Finally, it develops BDC's treasury risk management framework.

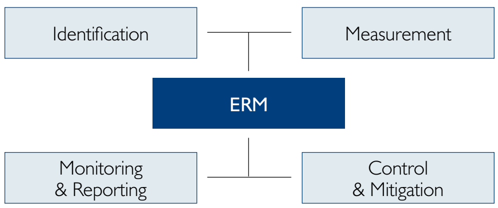
The **Portfolio Outlook Committee** comprises members from different parts of BDC, including field operations, market development, portfolio risk management and credit risk management. It reviews loan portfolio concentrations, risk migration, overall risk assessment and loan quality, and recommends actions. The committee also approves loans and investments that exceed the delegated authority of senior management, up to a limit set by the board.

Enterprise Risk Management (ERM) Committee members come from a cross-section of departments and disciplines. The committee identifies, assesses, and quantifies risks and opportunities in our day-to-day operations. Its mandate is to develop and oversee the implementation of action plans that involve more than one business unit. It also meets twice a year to consider the non-financial risks BDC is facing and to propose plans to mitigate or manage them.

The **Asset and Liability Committee** comprises the president and chief executive officer, the executive risk officer, executive operating officers and representatives from a cross-section of BDC's departments. It oversees treasury funding and compliance with treasury risk policy, including the matching of assets and liabilities.

The **Credit/Risk Committee** is a group of senior employees appointed by the president and chief executive officer. It scrutinizes large, high-risk credit decisions. Its principal responsibility is to adjudicate credit within prescribed limits; for larger transactions, it makes recommendations to the Credit/Investment and Risk Committee of the board.

ERM is a framework policy that ensures we are methodical and consistent in our decision making and operations. It precludes us from managing risk in an uncoordinated or piecemeal way.



IDENTIFICATION

We regularly review BDC's activities to identify significant risks. Senior managers informally discuss significant corporate risks at weekly meetings and, at least quarterly, in formal committees.

Every year, we identify, assess and prioritize risks at the corporate and functional unit level and present these to the board of directors. We also assess risks related to all significant projects, new products or services, and policy changes.

MEASUREMENT

We quantify risk for all of our businesses, products and services. The ERM team is responsible for developing and maintaining the tools to do so, as well as for supporting its colleagues on the operations team.

MONITORING AND REPORTING

We monitor activities affecting BDC's risk profile, material risk exposure, actual losses/loss events and corrective actions to reduce risk exposures.

We measure risk across our businesses, products and services to ensure they comply with our policies and limits. Board members and senior managers use this information to understand BDC's risk profile and portfolio performance (every quarter, the board's Credit/Investment and Risk Committee receives a comprehensive summary of both).

CONTROL AND MITIGATION

We set risk tolerance objectives that are consistent with BDC objectives and strategies, and establish policies and guidelines that codify our governance and risk management culture.

The internal audit and the portfolio risk management teams each monitor and periodically test the effectiveness of our risk management policies, procedures and internal controls. Every quarter, they present the results of these reviews to the Audit Committee of the board.

CATEGORIES OF RISK

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

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

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

Operational risk is the risk of potential losses arising from day-to-day errors caused by people, breakdowns in processes or systems, or events beyond our control, such as natural disasters.

Environmental risk is the risk of financial loss or damage to reputation caused by environmental issues. It is often embedded in other risks, such as credit or operational risk.

Reputational risk is the risk of revenue loss or criticism from stakeholders posed by real or perceived breaches in our ability to securely and responsibly conduct our business. It includes risks associated with the activities of our clients.

Legal and regulatory risk is the risk that failure to comply with laws, regulations, public sector guidelines, industry codes or ethical standards will have a negative impact on our business activities, earnings, regulatory relationships or reputation. Legal risk includes the effectiveness with which we prevent and handle litigation.

MANAGING FINANCIAL RISKS

In fiscal 2009, BDC adopted CICA Section 3862, *Financial Instruments – Disclosures*. This CICA section places increased emphasis on disclosure of the nature and extent of risks arising from financial instruments and how the entity manages those risks. Note 17 to the Consolidated Financial Statements, *Risk Management*, describes BDC's risk management policies and measurements for credit risk, market risk and liquidity risk.

Credit risk: 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.

It is at the branch level that we choose to take or avoid risk on individual transactions. All of our managers are trained to assess overall credit risk. 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.

For further details on our management of credit risk, please see page 70.

Market risk: For details on our management of market risk, please see page 71.

Liquidity risk: For details on our management of liquidity risk, please see page 72.

MANAGING OPERATIONAL RISK

Operational risk arises from day-to-day errors caused by people, breakdowns in processes or systems, or events beyond our control, such as natural disasters.

We have internal controls for systems and processes used in our business transactions. We also have comprehensive policies and procedures that govern the way we process information, administer loans, manage employees and carry out our activities. When we review our top risks, we include the action plans that govern operational risk.

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

We manage the risks associated with technology and telecommunications failures by replacing and upgrading our computer systems and equipment. We have security and control procedures to reflect laws and privacy standards, and to ensure our information is accurate and efficiently managed. These systems are regularly audited.

We have a comprehensive business recovery planning process to ensure the continuity of key business functions in case of disasters, such as pandemics. We regularly review and test this contingency plan, including ways we would prepare for and respond to a flu epidemic.

To mitigate operational risk, we also use internal controls, policies and procedures. We monitor these and subject them to internal audits.

MANAGING ENVIRONMENTAL RISK

Environmental risk is the risk of financial loss or damage to reputation caused by environmental issues. It is often embedded in other risks, such as credit or operational risk.

We have a well-defined process for identifying and evaluating environmental risk when we authorize a loan. Since 1991, our environmental risk policy has guided our decisions. And since 2006, we have also complied with the *Canadian Environmental Assessment Act*, to ensure we do not fund projects that might have a significant adverse impact on the environment.

We also have a monitoring process to ensure we continue to identify and appropriately manage environmental risk.

MANAGING REPUTATIONAL RISK

There are various ways in which BDC could suffer damage to its reputation by failing—or being perceived to fail—to meet the expectations of its stakeholders. We risk damaging our reputation if we

- use unethical practices;
- fail to deliver satisfactory standards of service quality;
- fail to meet legal and ethical standards, such as privacy laws, codes of conduct, environmental standards or good employment practices;
- commit operational failures, by using improper practices or breaching confidentiality, for example; or
- fail to meet the shareholder's expectation that we will support entrepreneurship.

Organizations representing entrepreneurs and small and medium-sized enterprises may criticize the effectiveness of BDC's activity in the marketplace. Other financial institutions may question the pertinence of BDC's role and presence in the market. Potential clients may criticize BDC's services as inadequate for their specific needs.

Reputational risk management is an integral part of our corporate risk policies, which include but are not limited to

- the BDC Employee Code of Conduct, Ethics and Values;
- the Charter of Client Rights;
- the enterprise risk management policy;
- the credit risk management policy;
- the venture capital policy;
- the policy on the handling of referrals and enquiries by members of Parliament, senators, ministerial staff and BDC directors.

At the corporate level, we also systematically track opinion leader and stakeholder interests, through dialogue and media monitoring.

At the operational level—that is, while carrying out transactions—we conduct screening and transaction due diligence before approving and underwriting projects. Our due diligence and approval process includes verifying that the potential client is not involved in money laundering or other corrupt activities, and ensuring that the potential client meets requirements related to transparency and disclosure, environmental performance, ethics, and credit eligibility. Broader decision-making responsibility rests with designated authorizing officers or authorizing committees.

MANAGING LEGAL AND REGULATORY RISK

The BDC Legal Affairs and Corporate Secretariat manages all litigation involving BDC and helps BDC employees comply with legal and regulatory requirements. It also maintains close ties to government departments—notably Treasury Board of Canada, Secretariat—as well as private sector organizations that help BDC learn about potential or imminent regulatory changes. Finally, it provides the board of directors with the information it needs to oversee BDC's management of its legal and regulatory risks.

4. ANALYSIS OF FINANCIAL RESULTS

This analysis compares our fiscal 2009 financial performance to fiscal 2008 results and 2009–2013 corporate plan objectives.

LINES OF BUSINESS

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

AN UNEXPECTEDLY TOUGH ECONOMIC ENVIRONMENT

In the latter part of 2007, the implosion of the U.S. sub-prime mortgage market triggered a global liquidity crisis. BDC was not directly affected, as it had no exposure to non-bank asset-backed commercial paper or other securities related to the sub-prime market.

Since then, turmoil in financial markets has led to the deepest, broadest and most pervasive financial crisis in decades. Liquidity contracted sharply as risk aversion became widespread and sources of credit exited the market. The growing difficulty of raising capital, the increased cost of borrowing, and the related dampening of consumer and business confidence contributed to the global economic slowdown. In late 2008, Canada entered a recession.

Governments have responded with financial sector bailouts and massive stimulus packages. In late 2008 and early 2009, the federal government announced measures to increase BDC's capacity to help viable Canadian businesses:

> $350 million in capital for increased term financing and a new time-limited facility providing guarantees for lines of credit;

> an increase from $1.5 billion to $3.0 billion of BDC's authorized capital limit and the approval of a $1.8-billion increase in borrowing capacity to enable BDC to offer more financial services;

> the creation of a Canadian Secured Credit Facility (CSCF)—to be established and managed by BDC—with up to $12 billion to support the financing of vehicles and equipment for businesses and consumers; and

> the creation of the Business Credit Availability Program (BCAP), a collective effort through which BDC, Export Development Canada and private sector banks will collaborate to provide up to $5 billion in loans and other forms of credit support and enhancement to businesses (BDC is using its $350-million capital injection as a leverage base for delivering lending under the BCAP umbrella).

BDC reacted quickly to support entrepreneurs by extending repayment terms and implementing the new initiatives. As a result, the financing portfolio grew significantly during the year, increasing by over $1.1 billion or 11% when compared with fiscal 2008.

Notwithstanding these initiatives, the recession affected our results, as entrepreneurs put investment projects on hold and as credit risk increased in our financing portfolio. Furthermore, venture capital activities suffered further this year: exit opportunities were poor and industry capacity for investment diminished. Considering the extraordinarily difficult economic environment, our fiscal 2009 financial performance was relatively strong. We are well positioned for the challenges ahead.

CONSOLIDATED NET INCOME

Consolidated net income for fiscal 2009 was $90.6 million, compared with $84.6 million reported in fiscal 2008. Excluding the net realized and unrealized gains on financial instruments, fiscal 2009 consolidated net income was $1.9 million, a decrease of $88.0 million from the 2008 comparative figure. This decrease is mainly due to an increase in the provision for credit losses and higher losses in Venture Capital, reflecting the impact of difficult economic conditions on our financing and investment portfolios.

BDC Net Income

for the years ended March 31 ($ in millions)

	2009	2008	2007	2006	2005
Financing*	**104.3**	166.2	168.0	141.1	163.7
Subordinate Financing	**6.8**	11.0	7.9	13.7	8.8
Venture Capital	**(106.3)**	(82.8)	(33.6)	(12.8)	(56.1)
Consulting	**(2.9)**	(4.5)	(4.3)	(3.8)	(2.9)
Net income before net gains (losses) on financial instruments	**1.9**	89.9	138.0	138.2	113.5
Net gains (losses) on financial instruments	**88.7**	(5.3)	n/a	n/a	n/a
Net income	**90.6**	84.6	138.0	138.2	113.5

* Excludes net gains (losses) on financial instruments.

Income from BDC Financing was $104.3 million, a decrease of $61.9 million compared to last year. This decrease was due to (i) a higher provision for credit losses as a result of difficult economic conditions encountered in fiscal 2009, which was partially offset by (ii) higher net interest income due to a significant portfolio growth and higher achieved margins.

Income from BDC Subordinate Financing was $6.8 million. That was $4.2 million lower than last year but a solid performance, considering the economic downturn. BDC Venture Capital suffered again from extremely difficult market conditions and recorded a loss of $106.3 million. With record-high revenues, BDC Consulting reduced its loss to $2.9 million in fiscal 2009, a 35% improvement from last year.

PERFORMANCE AGAINST OBJECTIVE

Consolidated net income of $90.6 million in fiscal 2009 was $27 million lower than the corporate plan target.

First, BDC Financing recorded a provision for credit losses that was $100 million higher than the corporate plan target. This was partly offset by BDC Financing revenue that was $45 million higher than planned and operating and administrative expenses that were $19 million lower than planned. Second, BDC Venture Capital recorded a loss that was $81 million higher than anticipated. The net effect of all of these factors was a shortfall of $117 million in net income. This shortfall was largely offset by the $88.7 million in net realized and unrealized gains on financial instruments recorded in fiscal 2009. Result: actual consolidated net income was $27 million lower than planned.

BDC FINANCING

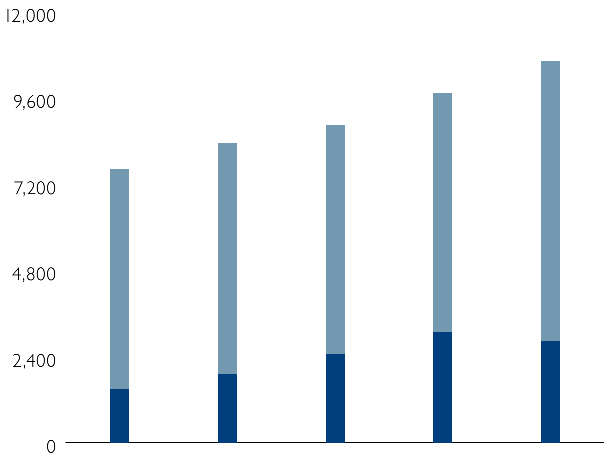
BDC Financing offers entrepreneurs secured and unsecured term loans and specialized services tailored to support them as they create and grow their businesses, develop and expand their markets, invest in intangible assets such as information technology, buy equipment, or transfer their companies to a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

FINANCING PORTFOLIO

BDC Financing's closing portfolio, before allowance for credit losses, rose from $10.0 billion to $11.1 billion in fiscal 2009. That was a significant increase of $1.1 billion, or 11.0% when compared to fiscal 2008. The most important factor contributing to this growth was disbursements. We disbursed $2.8 billion in fiscal 2009, consistent with the fiscal 2008 level—an excellent result, considering Canadian entrepreneurs were undertaking fewer investment projects due to adverse economic conditions. We were able to maintain our growth as we responded to mid-market businesses' needs and to new clients drawn to us due to the tightening supply of credit in the overall market. In addition, the payment and prepayment rate, at 15.6% of the opening outstanding portfolio, was 4.9 percentage points lower than the rate in fiscal 2008. That result was due to reduced liquidity in the market and to the fact that our clients availed themselves of repayment grace periods and extended terms, our initiatives to help them in these difficult economic conditions.

Performing Portfolio

as at March 31 ($ in millions)



	2005	2006	2007	2008	**2009**
Fixed rate portfolio	1,500	1,902	2,464	3,069	**2,824**
Floating rate portfolio	6,117	6,426	6,378	6,652	**7,777**
Total performing portfolio	7,617	8,328	8,842	9,721	**10,601**

The closing portfolio comprises $10.6 billion in performing loans and $0.5 billion in impaired loans. We borrow funds on the Canadian and global money markets and offer clients floating and fixed interest rates. Since April 2008, we have borrowed our funds from Her Majesty in Right of Canada, acting through the minister of finance. The rate we charge our clients takes into consideration the cost of funds, plus factors to cover operating expenses and the risk of each individual loan. As seen in the Performing Portfolio graph, a higher proportion of the performing portfolio in fiscal 2009—73.4%, compared with 68.4% in fiscal 2008—was composed of floating rate loans.

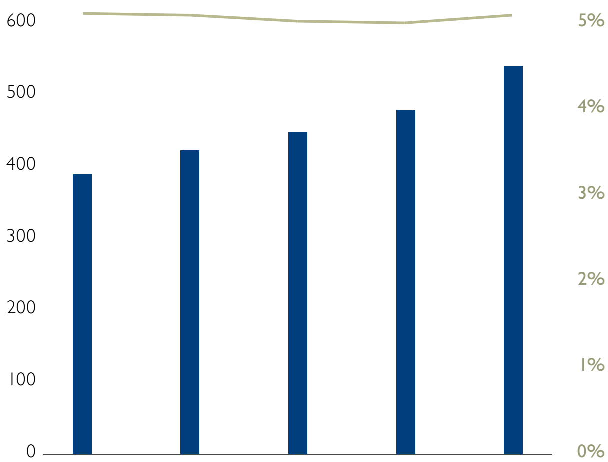
NET INTEREST INCOME

Net interest income of $540.1 million reflected interest income less interest expense on borrowings. It also included $17.9 million in interest earned on short-term investments and securities. That compared with $479.1 million of net interest income recorded in fiscal 2008. The increase of $61.0 million was the combined result of significant portfolio growth and higher achieved margins in fiscal 2009. Net interest income margin expressed as a percentage of the average portfolio increased by 9 basis points, due to lower funding costs resulting from a decline in interest rates due to the demand for securities issued by higher quality entities.

We also recorded fee income of $35.7 million from borrowers, which was $2.3 million higher than last year's result of $33.4 million.

BDC Financing Net Interest Income

for the years ended March 31 ($ in millions)



	2005	2006	2007	2008	**2009**
Net interest income	389.7	422.5	448.5	479.1	**540.1**
As a % of average loan portfolio	5.13%	5.11%	5.04%	5.02%	**5.11%**

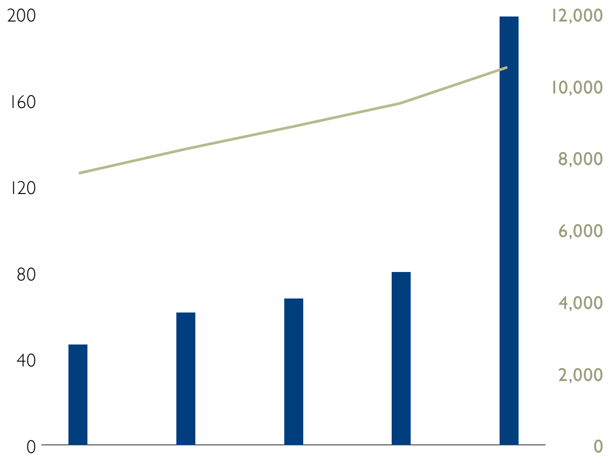
PROVISION FOR CREDIT LOSSES

BDC Financing recorded a specific provision for credit losses of $198.7 million and a general provision of $24.1 million in fiscal 2009. The total provision for credit losses of $222.8 million represented 2.1% of the average loan portfolio, compared with 1.1% in fiscal 2008. In fiscal 2008, the total provision was $101.5 million, comprising a specific provision of $80.1 million and a general provision of $21.4 million.

The specific provision for credit losses recorded during the year was much higher than last year, primarily due to the recession. The most significant factor influencing the specific provision was the level of loans that were downgraded from performing to impaired. When loans default, we classify them as impaired and record an amount equal to the net exposure as a specific provision. Impaired loans represented 4.6% of the total portfolio at March 31,2009, compared with 2.9% in fiscal 2008. The downgrading rate increased from 3.1% of the performing opening portfolio to 4.8% in fiscal 2009, again as a result of difficult economic conditions. Exposures related primarily to the manufacturing sector, the tourism sector, and the transportation and storage sector. Ontario was the most affected region; its downgrading rate was 6.3%.

Specific Provision for Credit Losses

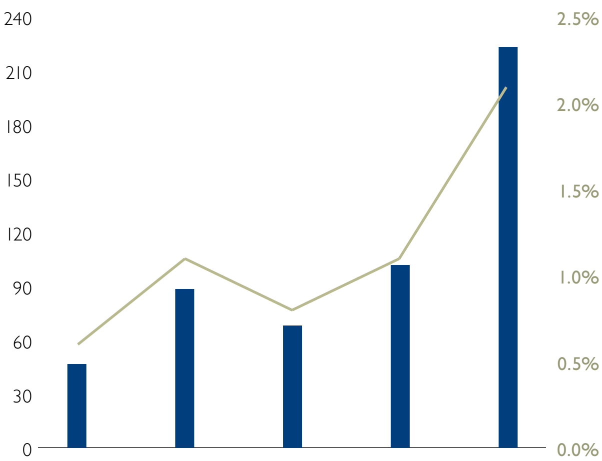
for the years ended March 31 ($ in millions)



	2005	2006	2007	2008	**2009**
Specific provision for credit losses	46.4	61.4	67.9	80.1	**198.7**
Average loan portfolio	7,595	8,275	8,902	9,552	**10,561**

Provision for Credit Losses

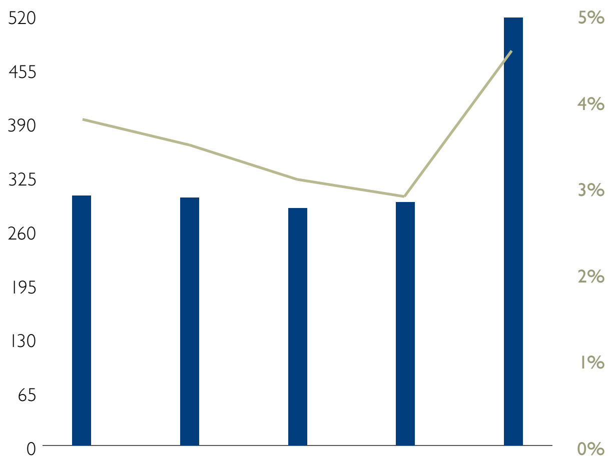
for the years ended March 31 ($ in millions)



	2005	2006	2007	2008	**2009**
Provision for credit losses	46.4	88.1	67.9	101.5	**222.8**
As a % of average loan portfolio	0.6%	1.1%	0.8%	1.1%	**2.1%**

Impaired Financing Portfolio

as at March 31 ($ in millions)

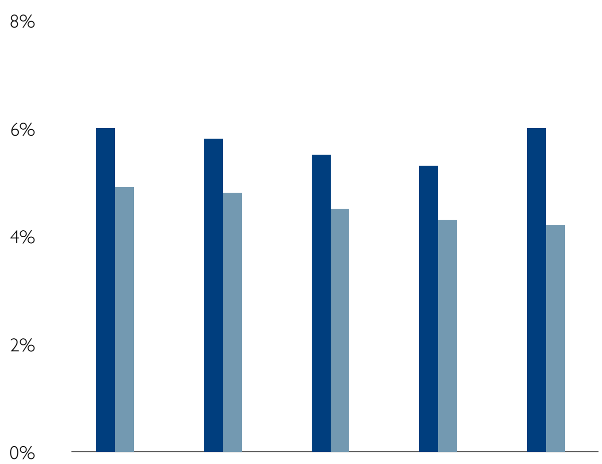


	2005	2006	2007	2008	**2009**
Impaired portfolio	301	299	286	293	**516**
Impaired portfolio as a % of loan portfolio	3.8%	3.5%	3.1%	2.9%	**4.6%**

BDC maintains the cumulative allowance for credit losses at a level considered adequate to absorb the credit losses in BDC's portfolio. As of March 31, 2009, the allowance totalled $665.0 million, compared with $532.7 million a year ago. The total allowance represented 6.0% of the loan portfolio outstanding at March 31, 2009, compared to 5.3% at March 31, 2008.

Allowance for Credit Losses

as at March 31 (percentage)



	2005	2006	2007	2008	**2009**
Total allowance as a % of loan portfolio	6.0	5.8	5.5	5.3	**6.0**
General allowance as a % of performing portfolio	4.9	4.8	4.5	4.3	**4.2**

The total allowance at March 31, 2009 included a specific allowance of $220.3 million and a general allowance of $444.7 million.

The general allowance is maintained to absorb impairment in the existing portfolio when a specific allowance cannot yet be determined. The general allowance represented 4.2% of the performing portfolio, compared with 4.3% in fiscal 2008.

The slight decrease related mainly to our prudent due diligence during this economic downturn to identify existing impairments, which the increase in our specific allowance reflected.

BDC closely monitored signs of problematic accounts. Credit risk management is discussed further in note 17 to the Consolidated Financial Statements.

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $248.7 million in fiscal 2009, compared with $244.8 million in fiscal 2008, a slight increase of 1.6%. Salaries and benefits decreased by $2.4 million, mostly due to lower variable compensation commensurate with weaker results. Other operating and administrative expenses, including premises and equipment, increased by $6.3 million. That was largely the result of investments in work process improvements and other special projects.

NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS

In fiscal 2009, BDC recorded net gains on financial instruments of $88.7 million. This includes net realized gains of $29.0 million and net unrealized gains of $59.7 million.

The net unrealized gains are mainly due to the abnormal gap—as a result of financial market instability—between the *Government Agency yield curve* used to fair value our borrowings instruments and the *Swap yield curve* used to fair value our derivative instruments. The net unrealized gains also included unrealized losses on derivative instruments due to the implementation of the CICA Emerging Issue Committee's Abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which requires an entity to take into account credit risk when determining the fair value of financial instruments.

INCOME FROM BDC FINANCING

Income from BDC Financing was $193.0 million in fiscal 2009, $32.1 million higher than the $160.9 million recorded in fiscal 2008. BDC Financing income before net gains or losses on financial instruments was $104.3 million in fiscal 2009, compared to $166.2 million in fiscal 2008, a decrease of $61.9 million. The decrease from fiscal 2008 was mainly caused by a significant increase in the provision for credit losses due to the difficult economic conditions, partially offset by higher net interest income.

PERFORMANCE AGAINST OBJECTIVE

The $11.1-billion portfolio was significantly higher than the corporate plan objective of $10.4 billion. Disbursements at $2.8 billion were consistent with the corporate plan objective of $2.7 billion. The higher than expected growth was due mainly to: lower payments resulting from BDC's extension of repayment terms to clients to increase their working capital; and lower prepayments due to lower liquidity in the markets.

Financing income for fiscal 2009 was $193.0 million, compared with $140 million targeted in the corporate plan. Excluding net realized and unrealized gains on financial instruments of $88.7 million, fiscal 2009 operating income of $104.3 million was $35.7 million below the corporate plan objective. This decrease was mainly due to a higher provision for credit losses, partially offset by higher net interest income and lower operating and administrative expenses.

Net interest income was $43.1 million higher than the $497 million targeted. The variance is explained by higher portfolio growth and better achieved margins due to the lower cost of borrowings.

The provision for credit losses of $222.8 million was much higher than the corporate plan objective of $123 million. We expected the credit environment to tighten slightly but did not anticipate the severity of the current recession.

While business growth exceeded our corporate plan objective, total operating and administrative expenses were $19.3 million below the corporate plan target. The decrease was mainly due to lower salaries and benefits, because the number of employees and variable compensation were both lower than expected. Other expenses were $6.6 million lower than planned as a result of management's focus on cost control.

BDC SUBORDINATE FINANCING

Subordinate financing investments are hybrid instruments that combine elements of debt and equity financing. We offer them to entrepreneurs who 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

The consolidated BDC Subordinate Financing portfolio of $155.1 million was consistent with last year's level of $156.2 million. Portfolio assets under BDC management increased slightly from $282.7 million to $285.9 million.

INCOME FROM SUBORDINATE FINANCING

BDC Subordinate Financing reported income of $6.8 million for the year, $4.2 million lower than reported in fiscal 2008 but still a very good result considering the difficult economic conditions.

Net interest income of $14.7 million was higher than the fiscal 2008 result of $13.7 million. Realized gains and losses on investments and other income totalled $7.3 million in fiscal 2009, a decrease of $2.7 million from fiscal 2008, as a result of higher write-offs. The change in unrealized depreciation of investments of $3.4 million was $3.1 million higher than fiscal 2008's level of $0.3 million, reflecting more difficult economic conditions.

PERFORMANCE AGAINST OBJECTIVE

Income from BDC Subordinate Financing of $6.8 million in 2009 was slightly above the corporate plan objective of $6.6 million.

BDC VENTURE CAPITAL

BDC Venture Capital invests in the development of high-potential Canadian technology firms and helps cultivate them into globally focused, growth-oriented companies.

These investments are essential to achieving our shareholder's goal of deriving economic benefit from its investments in research and development at educational and research institutions across the country.

Economic benefit derived from knowledge is a defining feature of advanced 21st-century economies. As such, it is a crucial part of Canada's long-term plan for prosperity.

BDC's specialized investments cover every stage of a venture-funded company's development cycle, from seed through expansion to market entry. We primarily focus on early-stage companies that are developing emerging technologies and that have the potential to become world leaders in niche markets.

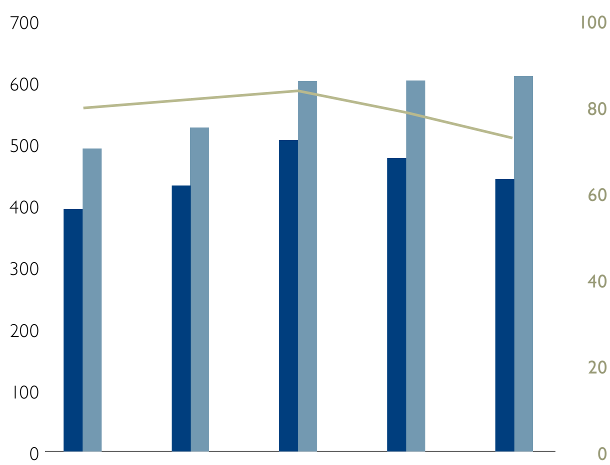
We invest in companies directly or via investment funds. We hold our venture capital assets through BDC Capital Inc. and have been measuring them at fair value since fiscal 2006.

VENTURE CAPITAL PORTFOLIO

The fair value of the portfolio decreased from $476.0 million in fiscal 2008 to $441.6 million as of March 31, 2009. Of the total fair value of $441.6 million, $389.4 million related to direct investments in companies and $52.2 million to investments in 18 funds. The decrease was due to dispositions, write-offs and fair value movements of $121.6 million, net of disbursements of $87.2 million.

Valuation of BDC Venture Capital: Total Investments

as at March 31 ($ in millions)



	2005	2006	2007	2008	**2009**
Fair value	393.2	431.4	505.1	476.0	**441.6**
Cost	491.5	525.6	601.2	601.4	**608.7**
Fair value as % of cost	80%	82%	84%	79%	**73%**

Since 2005, the portfolio at cost has increased by almost 25%. BDC Venture Capital has been growing its portfolio in accordance with the Government of Canada strategy that focuses on seed, start-up and development-stage companies. In fiscal 2009, investments were lower than in prior years due to capital constraints. We disbursed $87.2 million in additional rounds of financing to support our high-potential clients.

LOSS FROM VENTURE CAPITAL

Venture capital is a cyclical industry. Current economic uncertainty has exacerbated an existing broad slowdown in North American and global venture capital markets. Declining venture capital fundraising and the lack of profitable exit opportunities have severely curtailed venture capital investments in Canada, as well as the financial performance of venture capital firms. These market conditions, combined with the highly risky and illiquid nature of venture capital investments, have resulted in a pronounced volatility of earnings.

Venture capital investments are necessarily of several years' duration. In the years immediately following an investment, as entrepreneurs work to create value in their fledgling technology firms, investors habitually see a decline in the value of their holding. Exits during this period usually precipitate losses. It is only in later years—often after a decade or more—that investors can monetize this new value by selling their holding.

BDC Venture Capital Operations

for the years ended March 31 ($ in millions)

	2009	2008	2007	2006	2005
Net realized gains (losses) on investments	**(25.2)**	(40.9)	(1.2)	21.6	12.7
Write-down of investments / unrealized depreciation (2006–2009)	**(76.4)**	(34.5)	(26.5)	(27.7)	(47.4)
Venture capital operating loss	**(106.3)**	(82.8)	(33.6)	(12.8)	(56.1)

In fiscal 2009, BDC Venture Capital recorded a loss of $106.3 million, compared with a $82.8-million loss in fiscal 2008. Most of this loss was due to the change in the fair value of investments.

Once again, divestitures were low in fiscal 2009. Net realized losses on investments amounted to $25.2 million, compared with $40.9 million in fiscal 2008. Fiscal 2009 results included $27.4 million in net gains from sales and $52.7 million in write-offs. Despite difficult market conditions, BDC realized an important gain of $36.3 million from the sale of one investment, generating a 5.3:1 return of capital and achieving an internal rate of return of 73%. Interest, dividends and other income in fiscal 2009 totalled $2.2 million, compared with $9.7 million last year.

BDC recorded $34.8 million in unrealized foreign exchange gains on investments due to foreign exchange fluctuations on its U.S. dollar investments. BDC monitors U.S. currency fluctuations and uses foreign exchange contracts to partially hedge U.S. dollar investment. Therefore, a $28.4-million net loss on foreign exchange contracts partly offset gains recognized due to U.S. dollar appreciation.

The change in the unrealized depreciation of investments amounted to $76.4 million in fiscal 2009, an increase of $41.9 million compared with last year. The change in unrealized depreciation included a net depreciation of $140.7 million in the portfolio during fiscal 2009 and a reversal of net fair value depreciation on divested investments of $64.3 million.

The depreciation of $140.7 million in the portfolio reflected the fair value of our investments given the difficult market conditions described above. This amount comprised a $7.6-million depreciation in fund investments, a $13.9-million depreciation related to public company holdings and a $119.2-million depreciation of private company investments.

Operating and administrative expenses amounted to $13.3 million, a slight increase from the $12.8 million recorded in fiscal 2008.

PERFORMANCE AGAINST OBJECTIVE

The BDC Venture Capital loss of $106.3 million was significantly higher than the corporate plan objective of a $25-million loss, largely due to increased depreciation in the fair value of investments. Given the absence of exit opportunities in the market and the fact that most of BDC's early-stage venture capital portfolio has yet to fully mature, it is difficult for BDC to accurately project when investees may encounter financial difficulties. Fair value determinations of venture capital investments can thus be very volatile.

BDC CONSULTING

BDC Consulting offers customized business consulting services at a cost entrepreneurs can afford. We strive to provide Canadian entrepreneurs with the support they need to grow their business and enhance their competitiveness in local and global markets. That is especially true during recessions. Our clients' modest financial means and wide geographic dispersal give them no shelter from this imperative.

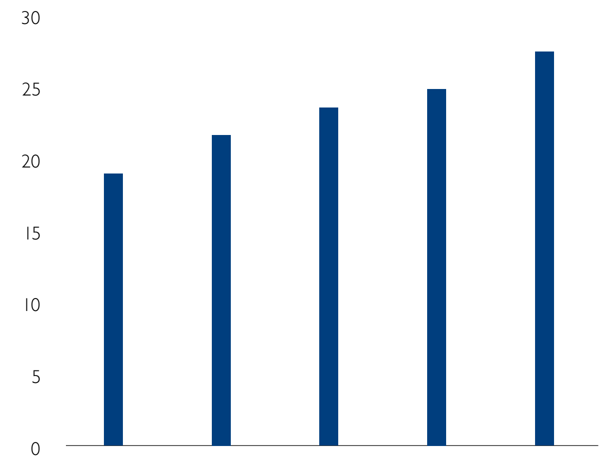
LOSS FROM CONSULTING

BDC generates consulting revenues as we perform mandates. BDC Consulting revenues reached a record high of $27.4 million in fiscal 2009, a 10.6% increase when compared with fiscal 2008.

BDC started 2,720 consulting mandates in fiscal 2009, in line with last year's result of 2,770 mandates but higher than our objective of 2,600 mandates.

BDC Consulting Revenue

for the years ended March 31 ($ in millions)



2005	2006	2007	2008	**2009**
18.9	21.6	23.5	24.8	**27.4**

As a result of higher revenues, BDC Consulting's loss was reduced by 35% from $4.5 million to $2.9 million. Operating and administrative expenses of $30.4 million increased by $1.0 million over last year.

PERFORMANCE AGAINST OBJECTIVE

Revenues of $27.4 million were $1.4 million better than the corporate plan target, due to an increase in average mandate size. At $2.9 million, the net loss was 27% better than the corporate plan objective of a $4.0-million loss.

BALANCE SHEET

In fiscal 2009, total assets were up by $667.3 million, or 5.8%, from a year ago, largely attributable to solid growth in our financing 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 $604.3 million at year-end fiscal 2009, compared with $816.6 million in fiscal 2008. Liquidity levels have been revised in fiscal 2009 to take into consideration the results of the Crown Borrowing Program, which allowed BDC to reduce its liquidity band requirements.

At $10.5 billion, the loan portfolio, net of allowance for credit losses, was the largest asset on the balance sheet. This portfolio increased by $970.7 million, or 10.2%, from fiscal 2008, as a result of high demand for BDC Financing services, as well as lower payments and prepayments due to decreased liquidity in the market and to BDC's initiatives to extend terms to support clients' working capital requirements in these difficult times.

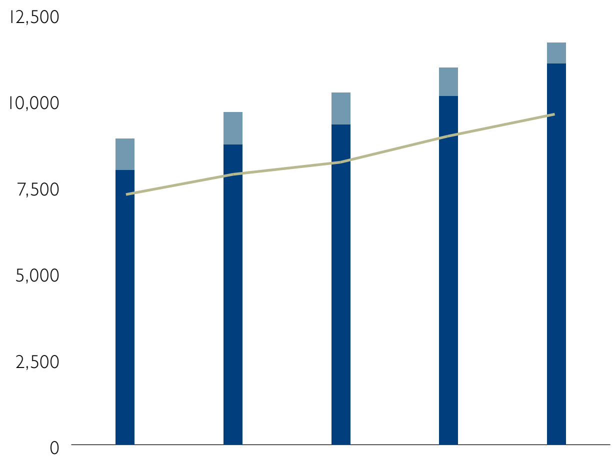
The subordinate financing loan and investment portfolio at $155.1 million was consistent with last year's level of $156.2 million. The fair value of the venture capital investment portfolio at $441.6 million decreased by $34.4 million or 7.2% compared with last year, reflecting difficult market conditions.

Derivative assets of $199.5 million and derivative liabilities of $51.7 million reflected the fair value of derivative financial instruments as at March 31, 2009.

Other assets of $214.1 million included an accrued benefit pension asset of $136.1 million, while other liabilities of $141.0 million included an accrued benefit pension liability of $109.9 million.

Borrowings

as at March 31 ($ in millions)



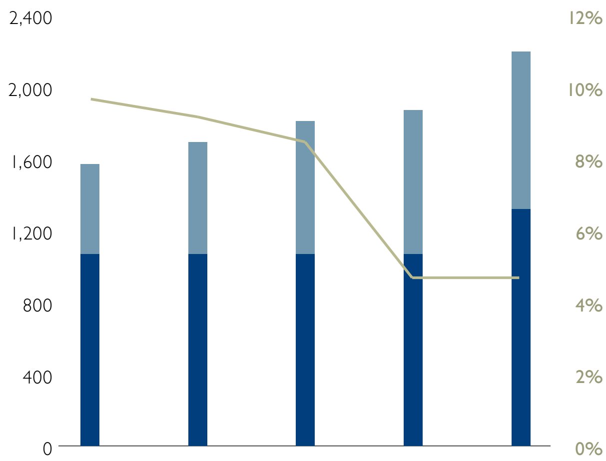
	2005	2006	2007	2008	**2009**
Liquid assets	903	930	929	817	**604**
Portfolios*	7,966	8,705	9,276	10,114	**11,049**
Borrowings	7,288	7,876	8,228	8,986	**9,629**

* Includes net portfolios and investments.

At March 31, 2009, we funded portfolios and liquidities with borrowings of $9.6 billion and total equity of $2.2 billion. Borrowings in short-term and long-term notes increased by 7.2% in relation to the overall growth in portfolio assets. The mix between short-term and long-term notes significantly changed, as we now fund a portion of the floating rate loan portfolio with long-term floating rate notes for which interest rates are adjusted monthly.

Total Shareholder's Equity

as at March 31 ($ in millions)

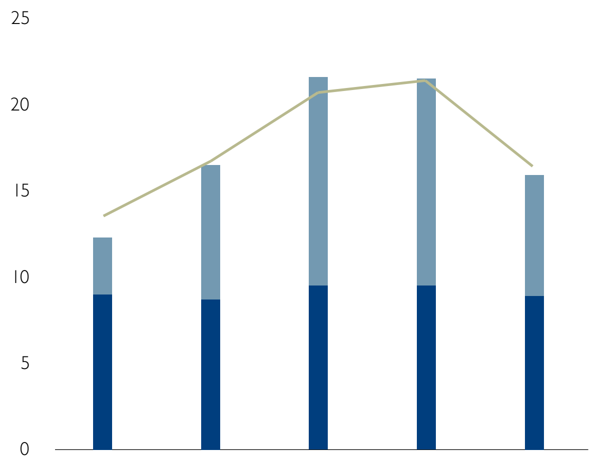


	2005	2006	2007	2008	**2009**
Paid-up capital*	1,066.2	1,066.2	1,066.2	1,066.2	**1,316.2**
Retained earnings	503.4	625.1	741.5	804.0	**878.1**
Accumulated other comprehensive income (loss)	–	–	–	(2.8)	**(4.7)**
Total shareholder's equity	1,569.6	1,691.3	1,807.7	1,867.4	**2,189.6**
Return on common equity	9.7%	9.2%	8.5%	4.7%	**4.7%**

* Includes $27.8 million of contributed surplus.

Dividends

for the years ended March 31 ($ in millions)



	2005	2006	2007	2008	**2009***
Preferred declared	9.0	8.7	9.5	9.5	**8.9**
Common declared	3.3	7.8	12.1	12.0	**7.0**
Total dividends declared	12.3	16.5	21.6	21.5	**15.9**
Total dividends paid	13.6	16.8	20.8	21.5	**16.5**

* In addition, based on BDC's fiscal 2009 performance, common dividends of $7.9 million were declared after March 31, 2009, and will be paid and recorded in fiscal 2010.

Equity consisted of $1.3 billion in paid-up capital, $878.1 million in retained earnings and $4.7 million in accumulated other comprehensive loss. Retained earnings grew by $74.1 million in fiscal 2009 to $878.1 million due to three factors: (i) a consolidated net income of $90.6 million, which increased retained earnings; (ii) declared dividends of $15.9 million, which reduced retained earnings; and (iii) a negative transition adjustment of $0.4 million attributable to the implementation of the CICA Emerging Issue Committee's Abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*.

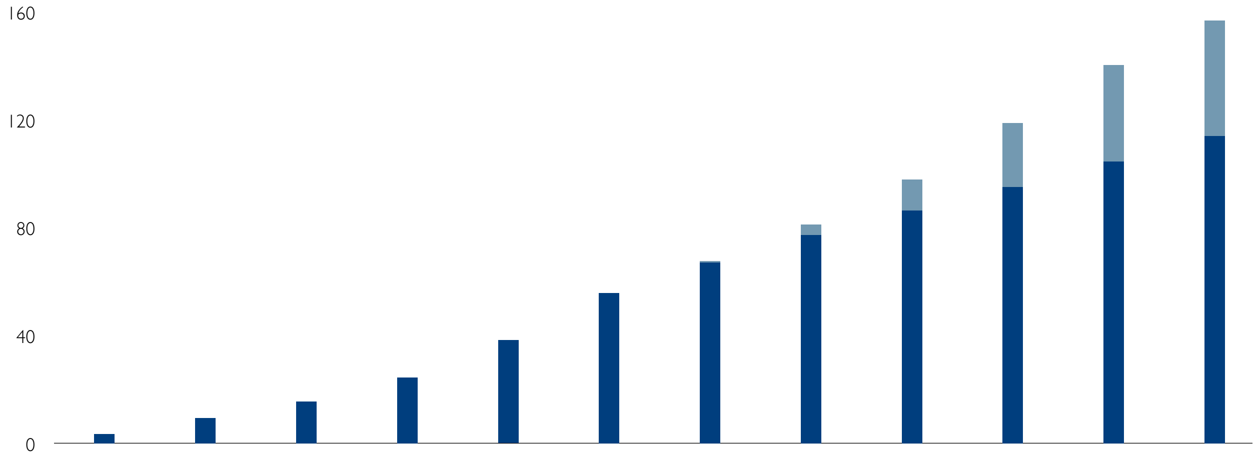
Return on common equity was 4.7%, consistent with fiscal 2008 but below the 6.3% planned for fiscal 2009.

DIVIDENDS

BDC pays dividends to its sole shareholder, the Government of Canada. We declared dividends of $15.9 million in fiscal 2009. Of this amount, $7.0 million was on common shares based on the fiscal 2008 results; the remainder was related to preferred shares. In fiscal 2009, we paid dividends of $16.5 million.

Cumulative Dividends Paid

as at March 31 ($ in millions)



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	**2009**
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	**114.0**
Common dividends paid	–	–	–	–	–	–	0.4	3.8	11.5	23.6	35.7	**42.7**
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	**156.7**

BDC will be making an additional total payment of $16.8 million in June 2009 ($8.9 million on preferred dividends declared in fiscal 2009, and $7.9 million on common dividends declared after March 31, 2009, based on fiscal 2009 performance).

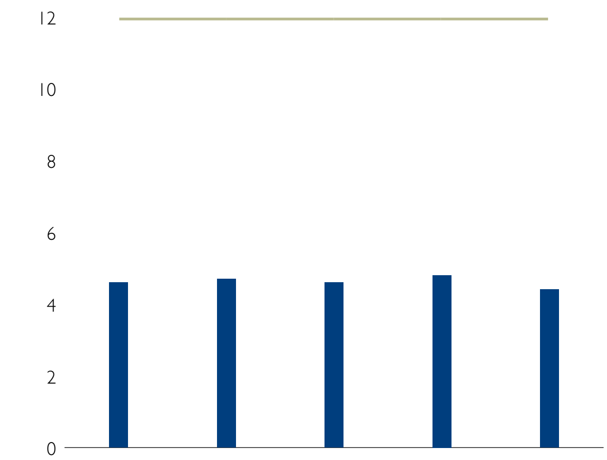
CAPITAL MANAGEMENT

STATUTORY LIMITATIONS

BDC's debt-to-equity ratio cannot exceed 12:1. At March 31, 2009, it was at 4.4:1, compared with 4.8:1 at March 31, 2008. In addition, the paid-in capital of BDC, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $3.0 billion. This maximum represents an increase of $1.5 billion compared to fiscal 2008, as a result of the 2009 federal budget. At March 31, 2009, these amounts totalled $1.316 billion ($1.066 billion as at March 31, 2008), an increase of $250 million from fiscal 2008, as the result of a capital injection.

Debt-to-Equity Ratio

as at March 31



	2005	2006	2007	2008	**2009**
Actual	4.6	4.7	4.6	4.8	**4.4**
Statutory limit	12.0	12.0	12.0	12.0	**12.0**

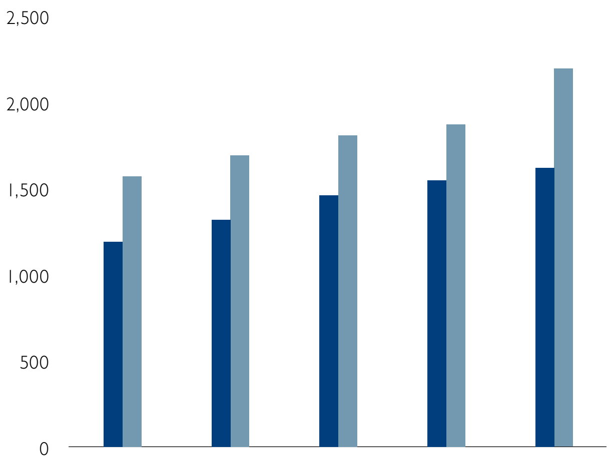
CAPITAL ADEQUACY

Treasury Board of Canada provides BDC with capital adequacy ratio guidelines. 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 at least 10% of net value for term loans, 25% for quasi-equity loans and 100% for venture capital investments. As per the graph below, BDC operates in accordance with its regulatory capital ratios.

Capital Adequacy

as at March 31 ($ in millions)



	2005	2006	2007	2008	**2009***
Minimum capital required	1,189	1,316	1,460	1,545	**1,618**
Actual	1,570	1,691	1,808	1,870	**2,194**

* Excludes accumulated other comprehensive income or loss.

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.

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 21 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.

BDC's employer contributions to the registered pension plan totalled $22.5 million in fiscal 2009, compared with $17.3 million in fiscal 2008. As of December 2008, the registered pension plan was in a deficit situation for funding purposes. The current economic environment negatively affected the performance of our pension plan assets and we expect to contribute higher amounts to our pension plans during the next years to manage our funded status. We fund our registered pension plan in accordance with actuarially determined amounts required to satisfy employee benefit obligations under current federal pension regulations.

In fiscal 2006, BDC also chose to fund the supplemental plans. BDC contributed $9.8 million in fiscal 2009, compared with $10.1 million in fiscal 2008. Other employee future benefits remained unfunded.

OUTLOOK FOR 2010

The difficult economic environment will curtail overall profitability in fiscal 2010. We project a consolidated net loss of $174 million in fiscal 2010, when excluding the impact of the Canadian Secured Credit Facility program.

We declared, after year-end, a common share dividend of $7.9 million based on our fiscal 2009 financial performance. We will record and pay this dividend in fiscal 2010. We also project a $9-million dividend on preferred shares, which we will declare in fiscal 2010.

BDC FINANCING

Notwithstanding the severe economic conditions, we are planning for our lending (volume in dollars) and our portfolio to increase in fiscal 2010.

Business Credit Availability Program (BCAP)

This is a new program initiated by our shareholder to support creditworthy business clients who would otherwise have insufficient access to credit. By participating in it, BDC, Export Development Canada and private sector banks will provide, at market prices, up to $5 billion in additional loans and other forms of credit support and enhancement.

BCAP has several components: loan syndications, a commercial mortgage loan purchase program, an operating line of credit guarantee, a working capital support program and loan referrals.

It is, however, important to note that BCAP is a collaborative effort in which BDC is but one of several participants. Its success is necessarily a function of factors such as demand and effective referrals that are beyond the control of any of its individual participants. For these reasons, it is difficult to predict financial outcomes and actual results may differ significantly from our corporate plan objectives.

In addition, we will increase our lending to high-risk businesses through the Working Capital Support program (WCS), an important contribution to the facilitation of economic recovery. The WCS will provide a combination of partially secured and unsecured working capital solutions to Canadian businesses so they can sustain their operations during this difficult period.

We anticipate that lower liquidity in the market will continue to increase the demand for our services, particularly from medium-sized firms and larger Canadian businesses.

As a consequence of our participation in BCAP, we expect the financing portfolio to increase from $11.1 billion in fiscal 2009 to $12.3 billion by the end of fiscal 2010.

2010 Objectives

Net interest and fee income is expected to increase from $575.8 million in fiscal 2009 to $639 million in fiscal 2010, mainly due to growth in the financing portfolio. We also plan a $10-million net unrealized losses on financial instruments reflecting the expected reversal of the net unrealized gains on financial instruments recorded in fiscal 2009. As fair value change on financial instruments is difficult to forecast, actual results may significantly differ from corporate plan objectives.

While loan activity and the portfolio will grow over the planning period, a slower economy and the higher risk transactions to be undertaken in the WCS will mean higher downgrades and provisions for credit losses. Consequently, provision for credit losses is projected to be 3.6% of the average outstanding financing portfolio in fiscal 2010. That represents $421 million, an increase of $198 million compared with fiscal 2009.

We expect operating and administrative expenses to rise by 18% to reach $294 million. This increase is due to higher pension expenses combined with the cost of resources needed to manage impaired loans and deploy BCAP initiatives.

Combined, these elements are expected to generate a BDC Financing loss of $86 million in fiscal 2010.

BDC SUBORDINATE FINANCING

Our subordinate financing portfolio is expected to decrease slightly in 2010, from $155.1 million to $147 million, as a result of difficult economic conditions. We expect to generate $4.4 million in income in 2010, $2.4 million lower than the result achieved in fiscal 2009.

BDC VENTURE CAPITAL

Venture capital investing requires patient, long-term commitment. Over the last several years, difficult venture capital market conditions and the absence of exit opportunities have had a considerable impact on BDC Venture Capital's portfolio of direct and fund investments. Average holding periods to exit have increased, resulting in fewer divestitures and increased need for capital to support portfolio companies. That is particularly true for BDC because it holds investments in many seed, start-up and early-stage companies.

At present, it is impossible to predict when market conditions will improve enough to permit profitable exits. We see no indications of improvements in the short term. But we remain committed to our shareholder's mandate to support commercialization in Canada. We will dedicate greater capital and management support to the investees that have the highest potential to succeed and will support their ability to grow and compete in world markets.

In our corporate plan, we assume a $250-million capital injection from the shareholder in fiscal 2010.

Based on these assumptions, we anticipate an increase in authorizations in fiscal 2010. The venture capital portfolio at fair value is planned to increase to $464 million.

Due to difficult market conditions, we project a loss of $85 million in fiscal 2010.

BDC CONSULTING

We expect BDC Consulting to report a loss of $7.0 million in fiscal 2010, due mainly to a decrease in revenues because of the economic slowdown. We expect revenues of $24.0 million, compared to $27.4 million in fiscal 2009.

CANADIAN SECURED CREDIT FACILITY

The Government of Canada has created the Canadian Secured Credit Facility (CSCF). The aim of the CSCF is to facilitate the provision of new credit to businesses and consumers in Canada by helping to re-create a market for auto and equipment loans and for leasing securitization through the purchase of AAA-rated term securities backed by loans and leases on vehicles and equipment. BDC has established and will manage the CSCF on behalf of the federal government.

Credit tightening, an economic downturn and illiquidity in credit markets have reduced investor appetite for asset-backed securities (ABS) products and have significantly increased the yield investors demand on ABS. The present yield demanded by investors has significantly increased the cost to both business and consumer borrowers and, in some cases, has completely removed certain financing products from the market. The role of the CSCF program is to increase liquidity in the market and to augment investor confidence in ABS backed by loans and leases on vehicles and equipment.

The acquisitions BDC will make directly and when acting as the agent for the Crown are expected to total $12 billion and will be undertaken by December 31, 2009.

Canadian accounting standards require the use of fair value accounting on initial recognition of financial assets. The fair value model at initial recognition will result in BDC recognizing a Day One loss on ABS purchases. This loss represents an accounting adjustment to reflect the difference between the yield that BDC is prepared to accept and the market-demanded yield for such securities.

The Day One loss is subject to significant uncertainty, given the current environment. It is important to understand that, where BDC holds an ABS to maturity, the Day One loss will reverse itself completely by the maturity of the ABS. If the ABS were to be sold before maturity, a subsequent fair value adjustment would take place and the value would depend on market conditions.

The CSCF program is expected to report a significant loss in fiscal 2010, due mainly to the Day One loss. In the following years, the CSCF program should report positive income to BDC.

5. ACCOUNTING & 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; the fair value of financial instruments, including venture capital and subordinate financing investments; and 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. It 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 assumptions and judgements by carrying out certain activities, 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 and on 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

Accounting standards require that all financial instruments 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 needed to determine their fair value. BDC derives its approach to fair value measurement from international 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 21 to the Consolidated Financial Statements present the key assumptions used and describe their sensitivity.

FUTURE CHANGES IN ACCOUNTING POLICIES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the CICA Accounting Standards Board announced that all Canadian publicly accountable enterprises must adopt International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The objective of the change is to help Canada contribute to the use of a single set of worldwide accounting standards, thereby facilitating and improving global capital flows, as well as improving financial reporting and transparency.

BDC will begin using IFRS on April 1, 2011. The fiscal 2012 Consolidated Financial Statements will also include comparative fiscal 2011 financial results under IFRS. Over the next two years, BDC will continue assessing the implications of converting to IFRS and estimate the impact on the Consolidated Financial Statements.

The conversion to IFRS is a significant initiative. BDC's board of directors and senior management are dedicated to ensuring its proper implementation. The IFRS conversion is being done in three phases. Phase I involves diagnostic and scoping activities; phase II includes the project setup and launch, the evaluation of financial statement components, and operational analysis; and phase III involves implementing changes in systems and processes.

BDC has completed phase I of its IFRS conversion. The objective of this exercise was to identify the key differences between BDC's application of GAAP and IFRS. The diagnostic and scoping phase provided a preliminary overview of potentially high-impact areas, identified in terms of the effort required to achieve compliance and the potential impact on BDC's Consolidated Financial Statements.

BDC is currently in phase II of its IFRS project. It has completed the project setup and launch, and it is well advanced in its evaluation of financial statement components and its operational analysis. Activities in this phase include identifying the differences between BDC's application of Canadian GAAP and IFRS, identifying potential business impacts, evaluating IFRS transitional adjustments and preparing IFRS financial statements.

The following table is designed to help stakeholders better understand BDC's IFRS changeover plan.

Phase I	Phase II		Phase III	
Diagnostics	**Project Setup**	**Component Evaluation and Issues Resolution**	**Initial Conversion**	**Embedding**

> Organize overall project
> Research financial information
> Perform initial diagnosis
> Assess process and system impacts
> Outline work plan
> Identify required resources and costs
> Determine final deliverables
> Start training
	> Define roles and responsibilities
	> Create detailed project plan
	> Identify and train project teams
	> Communicate project strategy
	> Select IFRS champions
		> Prepare component evaluations
		> Identify
		  > changes to accounting policies
		  > additional information requirements
		  > additional data requirements
		> Identify and resolve accounting treatment issues
			> Prepare IFRS adjustments
			> Post adjustments to reporting packages
			> Prepare IFRS financial statements
			> Perform systems diagnosis
				> Prepare accounting manual
				> Design new business processes
				> Develop implementation strategy
				> Implement change plan by business unit
				> Roll out process
				> Design and build systems

Key Outputs	**Key Outputs**	**Key Outputs**	**Key Outputs**	**Key Outputs**

> Accounting and financial information diagnosis completed
> Project scope and strategy recommended
	> Project management file establishes
	  > roles and responsibilities
	  > issue resolution methods
	  > communication plan
	  > conversion tools
		> Issues resolved
		> Accounting policies agreed on
		> Conversion strategy options identified
		> Systems schematic developed
			> Year 1 IFRS financial statements prepared
			> Systems modification design completed
				> Full IFRS reporting embedded across organization
				> Systems modifications completed

At this time, we cannot quantify the impact that the future adoption of IFRS will have on our Consolidated Financial Statements and operating performance measures. The impact may be material; however, we do not expect significant changes to our information technology and data systems. As we approach the changeover date, we will provide additional information that reflects our most current assumptions and expectations; circumstances may arise—such as changes in IFRS, regulations or economic conditions—that could change these assumptions or expectations.

CONTROLS AND PROCEDURES

During the last fiscal year, BDC finished implementing a certification regime for internal controls, evaluating the design of the internal controls over financial reporting, and evaluating the design of the disclosure controls and procedures, using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) control framework.

BDC expects to finish evaluating the effectiveness of the internal controls over financial reporting and of disclosure controls and procedures in fiscal 2010.

BDC has reached the following conclusions regarding the design of the internal controls over financial reporting.

The certifying officers have, at the end of the period,

- adequately designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Consolidated Financial Statements for external purposes, in accordance with GAAP; and
- documented internal controls over financial reporting.

BDC has reached the following conclusions on the design of the disclosure controls and procedures.

The certifying officers have, at the end of the period,

- adequately designed disclosure controls and procedures to provide reasonable assurance that
    - material information relating to BDC is made known to us by others, particularly during the period in which the Consolidated Financial Statements are being prepared, and
    - information that BDC must disclose in its Consolidated Financial Statements is processed, summarized and reported while the Consolidated Financial Statements are being prepared; and
- adequately designed disclosure controls and procedures to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Consolidated Financial Statements for external purposes, in accordance with GAAP.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION PAGE_48

AUDITOR'S REPORT PAGE_48

CONSOLIDATED BALANCE SHEET PAGE_49

CONSOLIDATED STATEMENT OF INCOME PAGE_50

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME PAGE_51

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY PAGE_51

CONSOLIDATED STATEMENT OF CASH FLOWS PAGE_52

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PAGE_53

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Consolidated Financial Statements of the Business Development Bank of Canada (BDC) 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 controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal controls 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
Montreal, Canada
May 22, 2009

Paul Buron, CA

Executive Vice President
and Chief Financial Officer

AUDITORS' REPORT

To the Minister of Industry

We have audited the consolidated balance sheet of the Business Development Bank of Canada as at March 31, 2009 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, 2009 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, the charter and the by-laws of its wholly-owned subsidiary, and the directive issued pursuant to Section 89 of the *Financial Administration Act* described in Note 1 to the consolidated financial statements.

Sheila Fraser

Sheila Fraser, FCA auditor
Auditor General of Canada

Montreal, Canada
May 22, 2009

Raymond Chabot Grant Thornton LLP[1]

[1] Chartered accountant auditor permit no. 6981

CONSOLIDATED BALANCE SHEET

As at March 31 ($ in thousands)

	2009	2008
Assets		
Cash and cash equivalents (Note 4)	**552,373**	725,376
Securities (Note 5)	**51,897**	91,210
	604,270	816,586
Loans, net of allowance for credit losses (Note 6)	**10,452,173**	9,481,449
Subordinate financing loans and investments (Note 7)	**155,070**	156,158
Venture capital investments (Note 8)	**441,631**	475,985
	11,048,874	10,113,592
Fixed assets, net of accumulated amortization (Note 9)	**24,192**	28,271
Derivative assets (Note 18)	**199,488**	206,882
Other assets (Note 10)	**214,087**	258,235
	437,767	493,388
Total Assets	**12,090,911**	11,423,566
Liabilities and Shareholder's Equity		
Accounts payable and accrued liabilities	**66,752**	65,503
Accrued interest on borrowings	**12,969**	34,144
	79,721	99,647
Borrowings (Note 11)		
Short-term notes	**1,984,001**	5,197,591
Long-term notes	**7,644,992**	3,788,058
	9,628,993	8,985,649
Derivative liabilities (Note 18)	**51,677**	321,805
Other liabilities (Note 12)	**140,956**	149,148
	192,633	470,953
Shareholder's Equity		
Share capital (Note 13)	**1,288,400**	1,038,400
Contributed surplus	**27,778**	27,778
Retained earnings	**878,107**	803,967
Accumulated other comprehensive income (loss)	**(4,721)**	(2,828)
	2,189,564	1,867,317
Guarantees, contingent liabilities and commitments (Note 20)		
Total Liabilities and Shareholder's Equity	**12,090,911**	11,423,566

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)

	2009	2008
Financing		
Interest income		
Loans	725,503	796,662
Cash equivalents and securities	17,881	47,880
	743,384	844,542
Interest expense	203,292	365,427
Net interest income	540,092	479,115
Fee income	35,751	33,399
Provision for credit losses (Note 6)	222,848	101,482
Income before operating and administrative expenses and net gains (losses) on financial instruments	352,995	411,032
Operating and administrative expenses (Note 15)	248,716	244,852
Income before net gains (losses) on financial instruments	104,279	166,180
Net realized gains on financial instruments	28,981	–
Net unrealized gains (losses) on financial instruments	59,768	(5,302)
Income from Financing	193,028	160,878
Subordinate Financing		
Interest income	18,760	18,446
Interest expense	4,025	4,715
Net interest income	14,735	13,731
Realized gains and losses on investments and other income	7,296	10,014
Change in unrealized depreciation of investments	(3,402)	(299)
Income before operating and administrative expenses	18,629	23,446
Operating and administrative expenses (Note 15)	11,869	12,439
Income from Subordinate Financing	6,760	11,007
Venture Capital		
Net realized losses on investments	(25,243)	(40,902)
Interest, dividends and other	2,167	9,713
Unrealized foreign exchange gains (losses) on investments	34,788	(15,542)
Net (losses) gains on foreign exchange contracts	(28,357)	11,176
Change in unrealized depreciation of investments	(76,366)	(34,455)
Loss before operating and administrative expenses	(93,011)	(70,010)
Operating and administrative expenses (Note 15)	13,280	12,791
Loss from Venture Capital	(106,291)	(82,801)
Consulting		
Revenue	27,435	24,802
Operating and administrative expenses (Note 15)	30,365	29,323
Loss from Consulting	(2,930)	(4,521)
Net Income	90,567	84,563

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)

	2009	2008
Net Income	**90,567**	84,563
Other Comprehensive Income (Loss)		
Net unrealized gains on available-for-sale assets	**147**	256
Reclassification to net income of (gains) losses on available-for-sale assets	**(17)**	27
Net Change in Unrealized Gains on Available-for-Sale Assets	**130**	283
Net unrealized losses on derivatives designated as cash flow hedges	**(1,515)**	(584)
Reclassification to net income of gains on derivatives designated as cash flow hedges	**(864)**	–
Net Change on Derivatives Designated as Cash Flow Hedges	**(2,379)**	(584)
Other Comprehensive Income (Loss)	**(2,249)**	(301)
Comprehensive Income	**88,318**	84,262

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended March 31 ($ in thousands)

	2009	2008
Share Capital (Note 13)	**1,288,400**	1,038,400
Contributed Surplus	**27,778**	27,778
Retained Earnings, Beginning of Year	**803,967**	741,540
Transition adjustment on financial instruments(1)	**(473)**	(639)
Net income	**90,567**	84,563
Dividends on common shares	**(7,038)**	(12,048)
Dividends on preferred shares	**(8,916)**	(9,449)
Retained Earnings, End of Year	**878,107**	803,967
Accumulated Other Comprehensive Income (Loss), Beginning of Year	**(2,828)**	–
Transition adjustment on financial instruments(1)	**356**	(2,527)
Other comprehensive income (loss)	**(2,249)**	(301)
Accumulated Other Comprehensive Income (Loss), End of Year	**(4,721)**	(2,828)
Total Retained Earnings and Accumulated Other Comprehensive Income (Loss)	**873,386**	801,139
Total Shareholder's Equity	**2,189,564**	1,867,317

(1) The 2009 transition adjustment relates to the application of the EIC-173 (Note 2) and the 2008 transition relates to the implementation of CICA section 3855.

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)	2009	2008
Cash Flows Provided by Operating Activities		
Net income	**90,567**	84,563
Adjustments to determine net cash flows:		
Amortization of premiums and discounts on borrowings	**18,977**	10,375
Net unrealized (gains) losses on financial instruments	**(59,768)**	5,302
Provision for credit losses	**222,848**	101,482
Net realized losses on investments	**30,922**	43,504
Unrealized foreign exchange (gains) losses on investments	**(34,788)**	15,542
Unrealized (gains) losses on foreign exchange contracts	**(1,168)**	2,902
Change in unrealized depreciation on investments	**79,768**	34,754
Amortization of fixed assets	**10,778**	13,169
Changes in operating assets and liabilities:		
Change in accrued interest receivable on financing	**6,584**	1,550
Change in accrued interest on borrowings	**(21,175)**	5,736
Net change in other assets and other liabilities	**35,128**	47,079
Net Cash Flows Provided by Operating Activities	**378,673**	365,958
Cash Flows Used in Investing Activities		
Maturities of securities	**46,506**	78,011
Disbursements for loans and subordinate financing investments	**(2,808,111)**	(2,880,580)
Repayments of loans and subordinate financing investments	**1,599,963**	1,907,687
Disbursements for venture capital investments	**(87,242)**	(129,682)
Proceeds on sales of venture capital investments	**55,863**	67,915
Acquisition of fixed assets	**(6,699)**	(7,558)
Net Cash Flows Used in Investing Activities	**(1,199,720)**	(964,207)
Cash Flows Provided by Financing Activities		
Net change in short-term notes	**(3,212,020)**	1,183,187
Issue of long-term notes	**6,463,645**	490,228
Repayment of long-term notes	**(2,837,094)**	(1,093,111)
Issue of common shares	**250,000**	–
Dividends paid on common and preferred shares	**(16,487)**	(21,482)
Net Cash Flows Provided by Financing Activities	**648,044**	558,822
Net Decrease in Cash and Cash Equivalents	**(173,003)**	(39,427)
Cash and Cash Equivalents at Beginning of Year	**725,376**	764,803
Cash and Cash Equivalents at End of Year (Note 4)	**552,373**	725,376
Supplemental Disclosure of Cash Flow Information		
Amount of interest paid in the year	**200,421**	364,406

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

($ in thousands except as otherwise indicated)

1 > ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

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 enterprises, 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 enterprises while earning an appropriate return on investment capital, which is used to further BDC's activities.

To finance these objectives, BDC borrows funds from Her Majesty in Right of Canada acting through the Minister of Finance. Prior to April 21, 2008, BDC also issued debt instruments, which were secured by the Government of Canada. *The Business Development Bank of Canada Act* (BDC Act) also allows the use of hybrid capital instruments to provide the capital required for its operations. The Crown would not be liable for payment of amounts owing under such capital instruments, of which none were outstanding as at March 31, 2009 and 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* (FAA) and is accountable for its affairs to Parliament through the Minister of Industry.

In September 2008, BDC, together with Canada Mortgage and Housing Corporation, Export Development Canada, the Canadian Commercial Corporation and Farm Credit Canada, was issued a directive (P.C. 2008-1598) pursuant to section 89 of the FAA. This directive ordered parent Crown corporations involved in commercial lending to give due consideration to the personal integrity of those they lend to or provide benefits to, in accordance with the government's policy to improve the accountability and integrity of federal institutions. BDC finalized its review of its policies and programs and has implemented the directive.

2 > SIGNIFICANT ACCOUNTING POLICIES

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 credit 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 wholly owned subsidiary and joint ventures. The subsidiary is used for investment purposes and all interests held by the subsidiary are recorded as investments at fair value as per accounting guideline 18 (AcG-18), *Investment Companies*. BDC also has direct interests in joint ventures. Joint ventures are those in which BDC 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 held by BDC directly, are included in these Consolidated Financial Statements. All inter-company transactions and balances have been eliminated.

SIGNIFICANT ACCOUNTING CHANGES

On April 1, 2008, BDC adopted three new standards that were issued by the Canadian Institute of Chartered Accountants (CICA): section 1535, *Capital Disclosures*, section 3862, *Financial Instruments – Disclosures*, and section 3863, *Financial Instruments – Presentation*. BDC also implemented abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* issued by the Emerging Issues Committee (EIC) on January 20, 2009.

2 > Significant Accounting Policies (continued)

Financial Instruments – Disclosures and Presentation
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 disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Capital Disclosures
Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity manages 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.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities
EIC-173 requires an entity to take into account its own credit risk and that of counterparties when determining the fair value of financial assets and financial liabilities, including derivative instruments. The fair value needs to be adjusted for factors that market participants would include in valuing instruments when a quoted risk does include a credit risk. In calculating the credit risk factor, credit service agreements have been taken into account as a credit enhancement.

This abstract is applied retrospectively without restatement of prior years. A negative transition adjustment of $473 was applied to opening retained earnings for derivative assets classified as held-for-trading and a positive transition adjustment of $356 was applied to accumulated other comprehensive income (AOCI) for derivative assets designated as cash flow hedges and available-for-sale assets.

The impact of EIC-173 implementation on fiscal 2009 results is: (i) an unrealized loss of $19.4 million recorded in net income for derivative assets classified as held-for-trading, and (ii) an unrealized loss of $0.5 million recorded in other comprehensive income (loss) (OCI) for derivative assets designated as cash flow hedges and available-for-sale assets.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

Other Comprehensive Income (loss)
OCI represents changes in shareholder's equity during a period arising from transactions and other events that include changes in 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 Consolidated Statement of Comprehensive Income which represents the net income for the year and the changes in these items while the cumulative changes in OCI are included in AOCI, which is presented as part of shareholder's equity on the Consolidated Balance Sheet.

Recognition and Measurement
The accounting standards for financial instruments require that financial assets and financial liabilities, including derivatives, be recognized on the Consolidated Balance Sheet when BDC becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. As per these standards, 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 or designated as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Financial assets and financial liabilities classified or designated 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 Consolidated Balance Sheet at fair value. Changes in the fair values of derivative instruments are recognized in net income except for derivatives designated as effective cash flow hedges for which the changes in fair value are recognized in OCI.

Transaction costs are expensed as incurred for all financial instruments. BDC accounts for all financial instruments using settlement date accounting.

Hedges
BDC uses derivative 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. As at March 31, 2009 and 2008, BDC has no hybrid instrument including embedded derivatives that should be separated from the host contract.

2 > Significant Accounting Policies (continued)

LOANS

Loans are 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 considered 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.

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 and subordinate financing investments are measured and presented at fair value as per AcG-18, *Investment Companies*.

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 in income at the time of disposal or write-off. Interest and dividends are recognized in income when reasonable assurance of realization is achieved. 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

2 > Significant Accounting Policies (continued)

PREMIUMS AND DISCOUNTS ON BORROWINGS
Premiums and discounts on borrowings are amortized in interest expense 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 assets designated as available-for-sale, foreign exchange gains and losses are included in net income for the year. Foreign exchange gains and losses for financial assets designated 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, securities, loans and investments.

Derivatives not designated for hedge accounting are classified as held-for-trading and are measured at fair value with changes recorded in net income. Derivatives designated as cash flow hedges are measured at fair value with changes recorded in OCI. When hedge accounting is discontinued or if the hedged item is terminated earlier, the amounts previously recognized in AOCI are reclassified to Net income. Derivatives designated as fair value hedges are measured at fair value with changes recorded in Interest income.

BDC documents all hedge relationships and its risk management objectives, 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.

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 value of plan assets is used for the purpose of calculating the expected return on plan assets. The market 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; and
- public equity investments are valued at fair value based on published closing prices or based on bid and ask prices, if the instruments are not traded on the fair value evaluation date. Private equity funds of funds are carried at fair value as determined by each general partner.

Actuarial gains (losses) on plan assets arise from the difference between the actual return 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.

2 > Significant Accounting Policies (continued)

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 (8.1 years in 2008); and
- the post-retirement benefits plan other than pension is 8.0 years (8.0 years in 2008).

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 have since been amortized to expense on a straight-line basis. The amortization was based on the average remaining service period of BDC's active employees in accordance with 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 transitional assets are fully amortized as of March 31, 2009.

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

3 > FUTURE ACCOUNTING CHANGES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) for fiscal year beginning on or after January 1, 2011. Effective April 1, 2011, BDC will have to apply IFRS as a basis for financial reporting. BDC has begun planning its transition to IFRS, but the impact on the Consolidated Financial Statements has not yet been determined.

The CICA have published new standards, which should have no significant impact on the Consolidated Financial Statements.

4 > CASH AND CASH EQUIVALENTS

	2009	2008
Bank account balances, net of cheques outstanding	**(20,115)**	(15,368)
Short-term bank notes		
Available-for-sale	**500,113**	710,432
Held-for-trading	**72,375**	30,312
	572,488	740,744
Cash and cash equivalents	**552,373**	725,376

Cash equivalents include short-term bank notes that have maturities at the original acquisition date of less than 90 days. In order to have more flexibility to meet its corporate objectives, BDC has designated short-term bank notes as available-for-sale or 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 these bank notes are sold. Gains and losses on disposal are recorded in net realized gains on financial instruments. Interest income earned on available-for-sale bank notes is recorded in Interest income using the effective rate method.

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 unrealized gains and losses on financial instruments, and any gains and losses on the sale of these bank notes in net realized gains on financial instruments. Interest income earned on held-for-trading cash equivalents is recorded in Interest income using the effective rate method.

The fair value of short-term bank notes 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.

5 > SECURITIES

	2009	2008
Financial institutions		
Amortized cost	**51,880**	91,052
Gross unrealized gains	**17**	158
Fair value	**51,897**	91,210
Yield	**1.61%**	4.67%
Interest income from securities	**2,033**	5,437
Securities in foreign currencies		
Total in US dollars – amortized cost	**–**	15,400
Total in euros – amortized cost	**31,000**	31,000
Total in Canadian dollars	**51,897**	66,188

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 are designated 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 net realized gains on financial instruments. Interest income earned on available-for-sale securities is recorded in Interest income using the effective rate method. 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.

All securities held as at March 31, 2009, were issued by Canadian entities at floating rates and have a maturity date within one year. Yields are based upon carrying values and contractual interest adjusted for amortization of premiums and discounts. 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. These swaps are designated as fair value hedges.

6 > LOANS

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	**414,910**	**2,823,506**	**7,362,559**	**10,600,975**	**(444,689)**	**–**	**(444,689)**	**10,156,286**
Impaired	**556**	**160,870**	**354,817**	**516,243**	**–**	**(220,356)**	**(220,356)**	**295,887**
Loans as at March 31, 2009	**415,466**	**2,984,376**	**7,717,376**	**11,117,218**	**(444,689)**	**(220,356)**	**(665,045)**	**10,452,173**
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

* Includes $293,446 of impaired loans.

ALLOWANCE FOR CREDIT LOSSES

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

	2009	2008
Balance at beginning of year	**532,665**	505,499
Write-offs and other	**(93,526)**	(76,031)
Interest income due to accretion	**(4,802)**	(4,398)
Recoveries	**7,860**	6,113
	442,197	431,183
Provision for credit losses	**222,848**	101,482
Balance at end of year	**665,045**	532,665

CREDIT RISK

The principal collaterals held as security and other credit enhancements for loans include: (i) various security on assets; (ii) personal and corporate guarantees; (iii) letters of credit; (iv) assignments of life insurance; (v) assignments or hypothec of third parties loans; and (vi) assignments of lease.

As at March 31, 2009, $15.8 million ($9.4 million in 2008) of the impaired loans is secured by assets that BDC has the power to sell in order to satisfy borrower commitments.

The following table summarizes performing loans outstanding as at March 31 classified by client credit risk exposure.

Client credit risk exposure	**2009**		2008	
Low	**2,303,735**	**21.7 %**	2,039,209	21.0 %
Medium	**5,379,913**	**50.8 %**	4,973,554	51.1 %
High	**2,917,327**	**27.5 %**	2,707,905	27.9 %
Performing loans outstanding	**10,600,975**	**100.0 %**	9,720,668	100.0 %

BDC considers a loan past due when a client has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either less than three months past due, secured, or collection efforts are reasonably expected to result in repayment.

Loans Past Due but Not Impaired

	Within 1 month	2 to 3 months	Over 3 months	Total
As at March 31, 2009	**112,677**	**29,523**	**8,694**	**150,894**
As at March 31, 2008	116,079	34,504	8,040	158,623

6 > Loans (continued)

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% (less than 1% in 2008).

Geographic Distribution	2009		2008	
Newfoundland and Labrador	**430,604**	**3.9 %**	388,073	3.9 %
Prince Edward Island	**43,745**	**0.4 %**	49,626	0.5 %
Nova Scotia	**301,168**	**2.7 %**	256,558	2.6 %
New Brunswick	**451,209**	**4.1 %**	413,277	4.1 %
Quebec	**3,799,220**	**34.2 %**	3,625,688	36.2 %
Ontario	**3,454,883**	**31.1 %**	3,146,308	31.4 %
Manitoba	**246,563**	**2.2 %**	230,586	2.3 %
Saskatchewan	**203,836**	**1.8 %**	168,877	1.7 %
Alberta	**1,023,516**	**9.2 %**	785,853	7.8 %
British Columbia	**1,080,418**	**9.7 %**	884,091	8.8 %
Yukon	**54,615**	**0.5 %**	40,368	0.4 %
Northwest Territories and Nunavut	**27,441**	**0.2 %**	24,809	0.3 %
Total loans outstanding	**11,117,218**	**100.0 %**	10,014,114	100.0 %

Industry Sector	2009		2008	
Manufacturing	**3,569,991**	**32.1 %**	3,373,957	33.7 %
Wholesale and retail trade	**2,418,757**	**21.8 %**	2,154,678	21.5 %
Tourism	**1,327,463**	**11.9 %**	1,167,434	11.7 %
Construction	**713,490**	**6.4 %**	597,948	6.0 %
Transportation and storage	**584,273**	**5.3 %**	531,452	5.3 %
Commercial properties	**589,090**	**5.3 %**	473,171	4.7 %
Business services	**514,089**	**4.6 %**	446,561	4.4 %
Other	**1,400,065**	**12.6 %**	1,268,913	12.7 %
Total loans outstanding	**11,117,218**	**100.0 %**	10,014,114	100.0 %

7 > SUBORDINATE FINANCING LOANS AND INVESTMENTS

BDC maintains a medium- to high-risk portfolio of subordinate financing loans and investments. 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, 2009						
Loans	**4,225**	**1,083**	**–**	**5,308**	**(1,969)**	**3,339**
Investments	**13,232**	**126,416**	**19,076**	**158,724**	**(6,993)**	**151,731**
Total	**17,457**	**127,499**	**19,076**	**164,032**	**(8,962)**	**155,070**
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

The principal collaterals held as security and other credit enhancements for loans and investments include: (i) various security on assets; (ii) personal and corporate guarantees; (iii) letters of credit; (iv) assignments of life insurance; (v) assignments or hypothec of third parties loans; (vi) assignments of lease; and (vii) hypothecation of shares and warrants.

The concentrations of the total loans and investments outstanding by geographic distribution as at March 31 are set out in the table below. The largest concentration in one individual or closely related group of clients is 3.1% (3.0% in 2008).

Geographic Distribution		**2009**		2008
Newfoundland and Labrador	**6,314**	**3.9 %**	5,212	3.2 %
Prince Edward Island	**379**	**0.2 %**	390	0.2 %
Nova Scotia	**3,001**	**1.8 %**	1,813	1.1 %
New Brunswick	**2,935**	**1.8 %**	1,817	1.1 %
Quebec	**89,238**	**54.4 %**	89,263	54.2 %
Ontario	**36,818**	**22.5 %**	38,822	23.5 %
Manitoba	**2,173**	**1.3 %**	3,028	1.8 %
Saskatchewan	**337**	**0.2 %**	338	0.2 %
Alberta	**15,263**	**9.3 %**	15,132	9.2 %
British Columbia	**7,574**	**4.6 %**	8,978	5.4 %
Michigan (USA)	**–**	**–**	150	0.1 %
Total loans and investment outstanding	**164,032**	**100.0 %**	164,943	100.0 %

7 > Subordinate Financing Loans and Investments (continued)

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

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.

	2009	2008
Current assets	**3,402**	14,843
Subordinate financing investments	**151,731**	145,907
Current liabilities	**325**	255
Net interest income	**17,743**	15,655
Realized (losses) gains on investments and other income	**(1,192)**	1,823
Change in unrealized depreciation of investments	**(3,165)**	(53)
Operating and administrative expenses	**95**	85
Income from subordinate financing investments	**13,291**	17,340
Cash flows provided by (used in):		
Operating activities	**16,509**	15,926
Investing activities	**(15,614)**	(27,379)
Financing activities	**(12,357)**	20,811

8 > VENTURE CAPITAL INVESTMENTS

BDC maintains a high-risk 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 2.2% of total venture capital investments at cost (2.0% in 2008).

		2009		2008
Industry Sector	**Fair value**	**Cost**	Fair value	Cost
Biotechnology, medical and health	**117,807**	**195,890**	145,281	184,376
Information technology	**102,697**	**135,702**	101,710	121,733
Electronics	**94,410**	**98,716**	70,144	86,246
Communications	**56,657**	**85,052**	91,124	108,902
Industrial	**17,246**	**20,914**	17,176	21,185
Other	**583**	**1,155**	5,772	2,200
Total direct investments	**389,400**	**537,429**	431,207	524,642
Funds	**52,231**	**71,230**	44,778	76,793
Venture Capital Investments	**441,631**	**608,659**	475,985	601,435

The following table presents a summary of the venture capital portfolio by type of investment.

		2009		2008
Investment Type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**38,340**	**91,377**	57,964	92,134
Preferred shares	**311,016**	**382,942**	322,978	375,497
Debentures	**40,044**	**63,110**	50,265	57,011
Funds	**52,231**	**71,230**	44,778	76,793
Venture Capital Investments	**441,631**	**608,659**	475,985	601,435

9 > FIXED ASSETS

	Cost	Accumulated amortization	Carrying value
Computer and telecommunication equipment	**35,729**	**31,957**	**3,772**
Furniture, fixtures and equipment	**44,315**	**40,157**	**4,158**
Leasehold improvements	**49,095**	**41,646**	**7,449**
Systems development costs	**41,419**	**32,606**	**8,813**
Total 2009	**170,558**	**146,366**	**24,192**
Total 2008	164,181	135,910	28,271

10 > OTHER ASSETS

	2009	2008
Accrued benefit asset (Note 21)	**136,119**	115,844
Future margin receivable(1)	**54,381**	111,831
Other	**23,587**	30,560
	214,087	258,235

(1) Represents contractual cash flows to be received on the termination date of certain derivative financial instruments.

11 > BORROWINGS

Short-term notes other than cash collateral received from counterparties, are measured at amortized cost. 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, designated as held-for-trading and measured at fair value with unrealized gains and losses recorded in Net unrealized gains (losses) on financial instruments. The table below presents the outstanding notes as at March 31.

				2009		2008
Maturity Date	Effective rate	Currency	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Short-Term Notes/Amortized Cost						
2009	1.53 % – 4.73 %	USD	–	–	682,205	697,306
		CAD	–	–	4,486,704	4,469,923
2010	0.28 % – 0.86 %	CAD	**1,915,000**	**1,914,621**	–	–
				1,914,621		5,167,229
Short-Term Notes/Held-for-Trading						
2009	2.39 %	USD	–	–	29,600	30,362
2010	0.04 %	USD	**51,550**	**65,030**	–	–
	0.52 %	CAD	**4,350**	**4,350**	–	–
				69,380		30,362
Total Short-Term Notes				**1,984,001**		5,197,591

11 > Borrowings (continued)

Unstructured long-term notes are recorded at amortized cost. Structured notes have been designated as held-for-trading as they are associated with derivatives classified as held-for-trading. They are recorded at fair value with unrealized gains or losses recorded in Net unrealized gains (losses) on financial instruments. There is no liquid market for these structured notes and their fair values are determined using current market data sourced from leading inter-dealer brokers, together with industry standard mathematical models for estimating the fair value.

				2009		2008	
Maturity Date	**2009 Effective rate***	2008 Effective rate*	Currency	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Long-Term Notes/Amortized Cost							
2010	**0.28 % – 4.75 %**	4.75 %	CAD	**1,588,000**	**1,587,981**	100,000	100,000
2011	**0.26 % – 4.75 %**	4.75 %	CAD	**2,284,000**	**2,283,845**	100,000	100,000
2012	**0.31 % – 4.75 %**	4.75 %	CAD	**705,000**	**705,000**	100,000	100,000
2013	**0.28 % – 3.43 %**		CAD	**717,000**	**717,000**	–	–
2014	**0.31 % – 3.51 %**		CAD	**310,000**	**310,000**	–	–
2015	**3.52 % – 3.54 %**		CAD	**20,000**	**20,000**	–	–
2016	**3.38 % – 3.47 %**		CAD	**45,000**	**45,000**	–	–
					5,668,826		300,000
Long-Term Notes/Held-for-Trading							
2009		3.51 %	USD	**–**	**–**	43,000	42,950
		3.16 % – 4.26 %	CAD	**–**	**–**	479,896	513,893
2010	**0.42 %**	3.34 % – 3.39 %	USD	**15,000**	**18,853**	20,000	20,071
	0.20 % – 0.58 %	3.31 % – 4.17 %	CAD	**178,178**	**201,871**	177,822	224,342
2011	**0.37 %**	3.21 % – 3.33 %	USD	**10,000**	**12,440**	17,000	17,687
	0.20 % – 0.55 %	3.16 % – 3.57 %	CAD	**135,203**	**137,225**	248,155	252,639
2012		3.33 %	JPY	**–**	**–**	500,000	5,146
	0.20 % – 0.26 %	3.16 % – 3.41 %	CAD	**115,820**	**142,703**	181,832	215,400
2013	**0.38 %**	3.34 % – 3.37 %	CAD	**5,000**	**6,126**	15,000	18,053
2014		3.37 %	JPY	**–**	**–**	1,000,000	10,159
	0.41 %	3.33 % – 3.51 %	USD	**5,800**	**7,302**	37,600	37,871
	0.36 % – 0.55 %	3.31 % – 3.56 %	CAD	**99,748**	**99,663**	105,890	110,327
2015	**0.38 %**	3.33 % – 3.56 %	JPY	**500,000**	**8,598**	3,000,000	31,511
		3.37 % – 3.53 %	USD	**–**	**–**	30,000	30,893
	0.36 % – 0.55 %	3.31 % – 3.56 %	CAD	**126,528**	**116,652**	127,255	119,021
2016	**0.38 % – 0.41 %**	3.33 % – 3.39 %	JPY	**2,000,000**	**25,299**	7,500,000	76,509
		3.38 %	USD	**–**	**–**	30,000	30,878
	0.35 %	3.31 %	CAD	**20,387**	**22,464**	20,982	22,005
2017	**0.38 % – 0.41 %**	3.33 % – 3.39 %	JPY	**3,700,000**	**43,855**	3,700,000	36,140
	0.34 % – 0.43 %	3.30 % – 3.38 %	USD	**43,000**	**52,967**	43,000	43,314
2018	**0.41 % – 0.52 %**	3.35 % – 3.59 %	JPY	**12,500,000**	**153,202**	31,200,000	311,644
2019	**0.36 % – 0.43 %**	3.32 % – 3.61 %	JPY	**13,800,000**	**169,150**	24,700,000	242,526
		3.38 %	USD	**–**	**–**	25,456	26,567
2020	**0.36 % – 0.51 %**	3.32 % – 3.63 %	JPY	**17,600,000**	**204,100**	19,600,000	187,697
2021	**0.35 % – 0.42 %**	3.30 % – 3.60 %	JPY	**11,560,000**	**135,779**	14,960,000	144,639
2022	**0.39 % – 0.42 %**	3.34 % – 3.63 %	JPY	**1,900,000**	**23,114**	2,400,000	23,823
	0.30 % – 4.31 %	3.26 % – 4.31 %	CAD	**292,601**	**317,906**	600,000	626,765
2023	**0.00 % – 0.44 %**	2.86 % – 3.63 %	JPY	**6,800,000**	**76,897**	6,800,000	65,588
					1,976,166		3,488,058
Total Long-Term Notes					**7,644,992**		3,788,058

* 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.

The preceding table includes $1,970,089 in 2009 ($3,482,058 in 2008) 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.

11 > Borrowings (continued)

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.

	2009	2008
Interest-bearing notes	**6,067,862**	1,206,853
Fixed and inverse floating rate notes	**330,751**	708,717
Managed futures	**280,109**	540,573
Notes linked to equity indices	**186,964**	320,493
Notes linked to currency rates	**293,583**	259,364
Notes linked to swap rates	**108,858**	120,142
Notes extendible beyond maturity	**11,501**	129,852
Other structured notes	**365,364**	502,064
	7,644,992	3,788,058

Long-term notes of $904,705 are redeemable prior to maturity ($1,648,278 as at March 31, 2008).

As at March 31, 2009, the payment requirements and maturities of long-term notes are as follows.

2010	**1,787,489**
2011	**2,433,963**
2012	**820,820**
2013	**722,000**
2014	**417,463**
2015 and later	**1,360,769**
	7,542,504

BDC has an available overdraft facility of $75 million. When the daily balance outstanding is in an overdraft position, interest charges are accumulated at prime. At March 31, 2009, BDC is not in an overdraft position.

12 > OTHER LIABILITIES

	2009	2008
Accrued benefit liability (Note 21)	**109,935**	107,932
Other	**31,021**	41,216
	140,956	149,148

13 > SHARE CAPITAL AND STATUTORY LIMITATIONS

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 (one hundred dollars) each.

Outstanding				2009			2008
		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	3.535 %
	– 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	4.130 %
	– Series 5	**400,000**	**40,000**	**3.230 %**	400,000	40,000	3.230 %
			230,000			230,000	
Common shares		**10,584,000**	**1,058,400**		8,084,000	808,400	
Total Outstanding Share Capital			**1,288,400**			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

As per the BDC Act, the debt-to-equity ratio of BDC may not exceed 12:1. This ratio is defined as the aggregate of borrowings (as shown in the Consolidated Balance Sheet) and contingent liabilities of BDC in the form of guarantees related to financial services over the total shareholder's equity, which excludes AOCI. BDC's ratio at March 31, 2009 was 4.4:1 (4.8:1 as at March 31, 2008).

In addition, the paid-in capital of BDC, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $3.0 billion. This maximum represents an increase of $1.5 billion compared to fiscal 2008, as a result of the 2009 federal budget. At March 31, 2009, these amounts totalled $1.316 billion ($1.066 billion as at March 31, 2008). This increase results from the issuance of 2.5 million additional common shares for a total amount received of $250 million.

13 > Share Capital and Statutory Limitations (continued)

CAPITAL ADEQUACY

Treasury Board of Canada, Secretariat provides BDC with capital adequacy ratios. BDC must maintain capital and loss provisions sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding. Adequate capital ratios reflect the relative risk of BDC's assets. The required capital is at least 10% of net value for term loans; 25% for quasi-equity loans (including subordinate financing); and 100% for venture capital investments. During the year, BDC operated in accordance with its capital adequacy guidelines. The following table presents the minimum capital required as at March 31.

			2009			2008
	Carrying value	**Minimum capital ratio**	**Minimum capital required**	Carrying value	Minimum capital ratio	Minimum capital required
Loans						
Term loans	**9,837,599**	**10 : 1**	**983,760**	8,938,783	10 : 1	893,878
Quasi-equity	**614,574**	**4 : 1**	**153,644**	542,666	4 : 1	135,667
Total loans, net of allowance for credit losses	**10,452,173**		**1,137,404**	9,481,449		1,029,545
Subordinate Financing	**155,070**	**4 : 1**	**38,768**	156,158	4 : 1	39,040
Venture Capital	**441,631**	**1 : 1**	**441,631**	475,985	1 : 1	475,985
Total	**11,048,874**		**1,617,803**	10,113,592		1,544,570
Actual Capital *			**2,194,285**			1,870,145

* The actual capital excludes AOCI (($4,721) in 2009 and($2,828) in 2008).

14 > INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENT OF INCOME

	2009	2008
Interest Income		
Financing	**743,384**	844,542
Subordinate financing	**18,760**	18,446
Venture capital	**473**	6,901
	762,617	869,889
Interest Expense		
Interest on notes	**135,614**	198,607
Interest on swaps	**70,722**	169,300
Other	**1,614**	2,235
	207,950	370,142
Net Realized Gains (Losses) on Financial Instruments		
Designated as held-for-trading	**(17,974)**	–
Classified as held-for-trading	**48,723**	–
Other	**(1,768)**	–
	28,981	–
Net Unrealized Gains (Losses) on Financial Instruments		
Designated as held-for-trading	**(24,056)**	–
Classified as held-for-trading	**83,824**	(5,302)
	59,768	(5,302)
Amortization of Premiums and Discounts on Borrowings	**18,977**	10,375
Amortization of Fixed Assets	**10,778**	13,169

15 > OPERATING AND ADMINISTRATIVE EXPENSES

	2009				2008			
	Financing	Subordinate Financing	Venture Capital	Consulting	Financing	Subordinate Financing	Venture Capital	Consulting
Salaries and benefits	**153,795**	**9,886**	**9,157**	**15,339**	156,231	10,511	8,945	14,964
Premises and equipment	**31,606**	**712**	**1,555**	**984**	33,075	687	1,482	987
Other expenses	**63,315**	**1,271**	**2,568**	**14,042**	55,546	1,241	2,364	13,372
	248,716	**11,869**	**13,280**	**30,365**	244,852	12,439	12,791	29,323

16 > FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of financial instruments held or issued by BDC using the valuation methods and assumptions as described further. 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 fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

	2009			2008		
	Fair value	Carrying value	Fair value over carrying value	Fair value	Carrying value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and cash equivalents	**552,373**	**552,373**	**–**	725,376	725,376	–
Securities	**51,897**	**51,897**	**–**	91,210	91,210	–
Loans, net of allowance for credit losses	**10,539,817**	**10,452,173**	**87,644**	9,488,625	9,481,449	7,176
Subordinate financing loans and investments	**155,070**	**155,070**	**–**	156,158	156,158	–
Venture capital investments	**441,631**	**441,631**	**–**	475,985	475,985	–
Derivative assets	**199,488**	**199,488**	**–**	206,882	206,882	–
Other assets	**77,430**	**77,430**	**–**	141,543	141,543	–
	12,017,706	**11,930,062**	**87,644**	11,285,779	11,278,603	7,176
Liabilities						
Accounts payable and accrued liabilities	**66,752**	**66,752**	**–**	65,503	65,503	–
Accrued interest on borrowings	**12,969**	**12,969**	**–**	34,144	34,144	–
Short-term notes	**1,984,001**	**1,984,001**	**–**	5,197,591	5,197,591	–
Long-term notes	**7,683,216**	**7,644,992**	**38,224**	3,797,143	3,788,058	9,085
Derivative liabilities	**51,677**	**51,677**	**–**	321,805	321,805	–
Other liabilities	**22,721**	**22,721**	**–**	31,329	31,329	–
	9,821,336	**9,783,112**	**38,224**	9,447,515	9,438,430	9,085
Total			**49,420**			(1,909)

16 > Fair Value of Financial Instruments (continued)

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, designated as held-for-trading;

> other assets, classified as loans and receivables;

> accounts payable and accrued liabilities, recorded at amortized cost;

> accrued interest on borrowings, recorded at amortized cost;

> short-term notes (refer to Note 11); and

> other liabilities, recorded at amortized cost.

Cash equivalents: The basis used to estimate the fair value of cash equivalents is provided in Note 4.

Securities: The basis used to estimate the fair value of securities is provided in Note 5.

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. 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 18.

17 > RISK MANAGEMENT

GOVERNANCE

Risk is an inherent feature of the financial sector. BDC uses an enterprise risk management (ERM) framework based on its financial autonomy and on its obligation to be commercially viable.

Under the ERM framework, credit, market and liquidity risks have been identified, defined and managed. The management of these risks is accomplished through the development and communication of policies, the establishment of formal risk reviews and approval processes and establishment of limits and delegation of authorities.

BDC's ERM policy codifies the integrated, enterprise-wide process by which BDC identifies, assesses, measures, manages and reports risk concerns, events, exposures and potential opportunities. ERM framework assists BDC to be methodical and consistent in its planning, decision-making and operations. It prevents the Bank from managing risk in an uncoordinated or piecemeal way.

ERM is surveyed by the board of directors or its committees. In each line of business, management ensures that governance activities, controls and management processes and procedures are consistent with BDC's ERM framework.

BDC's overall risk governance structure as well as roles and responsabilities of risk groups and committees are described in the Risk Management section of this annual report (p. 29).

17 > Risk Management (continued)

NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

BDC is exposed to the following risks: credit risk, market risk and liquidity risk. The following provides definitions of these risks and describes BDC's risk management policies and risk measurements.

Credit risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to BDC. For the purposes of credit risk activities, BDC distinguishes between credit risk arising from borrower or investee, from a counterparty with whom BDC does business or from an issuer of securities and bank notes.

The maximum exposure to credit risk from borrowers and investees is limited to the carrying amount of the loans and investments in debentures. BDC uses a number of principles to manage credit exposures from borrowers or investees, which include:

- the exposure to a single borrower or associated borrowers limited, unless approved by the board of directors, to not more than 10% of the shareholder's equity;
- a standardized credit risk rating classification that is established for all credits;
- concentration limits that are monitored to protect against being overly concentrated in any one province or industry sector;
- annual reviews of individual credit facilities;
- the pricing of credits commensurate with risk to ensure an appropriate financial return;
- credit policies, guidelines and directives, communicated to officers whose activities and responsibilities include credit granting and risk assessment, which ensures early recognition of problem accounts and immediate implementation of steps to protect BDC's assets;
- independent reviews of credit valuation, risk classification and credit management procedures performed by Internal Audit, which includes reporting the results to senior management, the president and chief executive officer and the Audit Committee;
- a watch list report, recording accounts with evidence of weakness as well as an impaired loan report covering loans that show impairment to the point where a loss is possible; and
- for larger transactions, the Credit Risk Committee makes recommendations to the Credit/Investment and Risk Committee of the board of directors for approval.

Refer to Note 6 *Loans*, Note 7 *Subordinate Financing Loans and Investments* and Note 8 *Venture Capital Investments* for additional information on loans and investments porfolios.

In order to mitigate the credit risk inherent in treasury activities, the Treasury Risk Management Unit identifies and measures BDC's credit risk exposure related to derivative counterparties and issuers of securities and bank notes.

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 does 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 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 quickly change substantially, since it is affected by each transaction subject to the arrangement.

17 > Risk Management (continued)

Counterparty Credit Risk Exposure	Counterparty ratings			
	AAA	AA – to AA+	A to A+	Total
Gross Positive Replacement Cost	**58**	**87,079**	**112,351**	**199,488**
Impact of Master Netting Agreements	**–**	**(17,320)**	**(25,332)**	**(42,652)**
Replacement Cost (After Master Netting Agreements) – 2009	**58**	**69,759**	**87,019**	**156,836**
Replacement cost (after master netting agreements) – 2008	–	28,085	55,030	83,115
Number of Counterparties				
March 31, 2009	**1**	**10**	**8**	**19**
March 31, 2008	–	10	3	13

Finally to manage the credit risk arising from an issuer of securities and bank notes, the Treasury Risk Management Unit ensures the liquidity portfolio is composed of securities issued or guaranteed by entities that have acceptable credit ratings.

Market Risk

Market risk for BDC is the impact on the fair value or future cash flows of a financial instrument that will fluctuate as a result of changes in financial market variables, such as foreign exchange rates and interest rates. Market risk for BDC also arises from unpredictable venture capital financial markets.

Interest rate risk

Interest rate risk is defined as the impact on Net interest income, both current and future, resulting from a change in market interest rates. As per the Treasury Board Guidelines, BDC can only be exposed to Canadian fixed and floating interest rates. BDC uses derivatives to eliminate exposure to interest rates in foreign markets and equity, commodity or indice fluctuations.

Therefore, the risk and potential variability in earnings arises primarily when cash flows associated with interest-sensitive assets and liabilities have different repricing dates. A positive interest rate gap exists when interest-sensitive assets exceed interest-sensitive liabilities for a specific maturity or repricing period. A positive gap will result in an increase in Net interest income when market interest rates rise since assets reprice earlier than liabilities. The opposite impact will occur when market interest rates fall.

To manage interest rate risk, BDC establishes policy guidelines for interest rate gap positions and meets regularly to monitor the Bank's situation and decide future strategies in light of changing market conditions. The objective is to manage the interest rate risk within sound and prudent guidelines. Interest rate risk policies are approved and reviewed at least annually by the board of directors, with quarterly reporting of the gap position to the Board.

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest-sensitive assets and interest-sensitive liabilities for future periods. Gap analysis is supplemented by computer simulation of the asset liability portfolio structure, duration analysis and dollar estimates of Net interest income sensitivity for periods of up to one year. The interest rate gap is measured daily. Note 19, *Interest rate sensitivity* shows the gap position as of March 31, 2009 (with comparatives for fiscal 2008) for select time intervals. The gap analysis in Note 19 is a static measurement of interest-rate sensitive gaps at a specific time. These gaps can change significantly in a short period of time. The impact of changes in market interest rates on earnings will depend upon the magnitude and rate of change in interest rates as well as the size and maturity structure of the cumulative interest rate gap position and management of that position over time.

Exposure to interest rate risk is monitored with a net interest income sensitivity stress test. A parallel and sustainable 200 basis points shock on the Canadian yield curve is simulated and the impact on net interest income has to be less than 10%. As at March 31, 2009, it is 4% (2% in 2008).

17 > Risk Management (continued)

Foreign exchange risk
Foreign exchange risk arises when there is a difference between assets and liabilities held in foreign currencies. The Treasury Board Guidelines directives require transactions in foreign currencies to be converted into Canadian dollars. Foreign exchange forward contracts are used to economically hedge foreign currency borrowings, loans and venture capital investments. Refer to Note 18 *Derivative Financial Instruments* for more information.

Venture capital market risk
The vagaries of financial markets, as well as the presence and appetite of buyers, dictate the timing of venture capital divestments. This timing, in turn, affects the value of BDC venture capital investments. To manage this risk, BDC uses a rigorous selection process of investments and works closely with its investee companies. Because market risk is due to external events beyond BDC's control, financial instruments are used to keep risk exposure within approved limits. BDC also lowers the risk of its venture capital investments by applying conservative company acquisition valuations, co-investing with other venture capital investors and monitoring investments regularly.

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

Liquidity risk
Liquidity risk is the risk that BDC will be unable to honour all its contractual cash outflows as they become due. Contractual payments for BDC represent: (i) repayment of debt; (ii) timely disbursement of committed loans; and (iii) payments of dividends and operating and administrative expenses.

A lack of marketability could make it expensive or even impossible to liquidate the securities held in the investment portfolios, which could also compromise the short-term continuity of normal business. To avoid any business disruptions, BDC ensures that cash is invested in highly liquid and high quality securities, with active secondary markets that can be sold to a wide range of counterparties without incurring a substantial discount.

BDC's liquidity risk management objective is to mitigate this risk by:

- providing for a minimum level of short-term assets over short-term liabilities to cover commitment risk;
- providing for a maximum level of short-term assets over short-term liabilities to cover market/systemic and operational risks;
- minimizing the unproductive cash balance in the cash account; and
- achieving a return in excess of cost.

The liquidity risk management policy is reviewed and approved annually by the Asset-Liability Committee (ALCO) and the board of directors. The policy establishes risk tolerance parameters and provides delegation of authority to the BDC's Treasury Department to transact in approved products and limits related to specific measures. The policy governs management, measurement, monitoring and reporting requirements and defines liquidity limits.

Paragraph 18(3) of the BDC Act restricts the BDC from investing in certain types of instruments. In addition, BDC can invest in other securities that are approved by the Minister of Finance.

17 > Risk Management (continued)

While aiming to minimize the unproductive cash balance and to achieve a return in excess of its cost, capital protection of liquid assets remains the priority. BDC's liquidity management practices and processes reinforce its risk mitigation strategies by assigning prudent liquidity levels, concentration requirements and maturity profile requirements.

> The minimum liquidity level, which is the value of short-term assets over the value of short-term liabilities, covers at least the net outflows scheduled for the next five working days (seven working days in fiscal 2008). The maximum liquidity level is not to exceed 15 days of net cash outflows.

> The maturity profile requires 75% of the total liquidity to be invested in securities maturing within 100 days.

> The concentration profile requires that no more than 50% of the portfolio be invested in securities issued or guaranteed by Canadian provinces (new in fiscal 2009).

The Treasury Risk Management Unit identifies, measures and monitors these liquidity limits daily. It reports any deviations from the Liquidity Risk Management Policy to the ALCO and the board of directors. The Treasury Risk Management Unit determines if they remain valid or changes to assumptions and limits are required in light of internal or external developments. This process ensures that a close link is maintained between liquidity, market and credit risk.

The cash or securities received from derivatives counterparties to cover credit risk exposure as per the *International Swap and Derivatives Association* agreements are not included in the liquidity level/limits. As of March 31, 2009, the carrying amount of these collaterals is $69,380 ($30,362 in 2008). Refer to Note 11 *Borrowings* for additionnal information on collaterals held by BDC.

Liquidity level ($ in millions)

	Minimum*	Actual	Maximum
As at March, 2009	**527**	**550**	**1,209**
As at March, 2008	323	807	1,455

Maturity and concentration limits	**2009**		2008	
	Limits	**Actual**	Limits	Actual
Investments with maturities < 100 days	**Min 75%**	**91%**	Min 75%	91%
Canadian provinces	**Max 50%**	**0%**	N/A	N/A

* Liquidity limits were revised in fiscal 2009 (7 to 5 working days from fiscal 2008 to fiscal 2009) to take into consideration the results of the Crown Borrowing Program (Note 22).

18 > DERIVATIVE FINANCIAL INSTRUMENTS

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.

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; 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.

In compliance with BDC's Treasury Risk Policy and the Treasury Board Guidelines, BDC transacts in derivative financial instruments to mitigate its foreign exchange and interest rate risk.

FOREIGN EXCHANGE RATE RISK

During the year, BDC managed the foreign exchange rate risk of its available-for-sale short-term borrowings through forward contracts. These foreign exchange forward agreements were designated as cash flow hedging instruments and were marked-to-market with changes in fair value in OCI.

In addition, BDC uses cross-currency swaps to economically hedge its long-term borrowings against foreign exchange rate risk. These swaps are classified as held-for-trading and changes in fair value are recorded in Net unrealized gains and losses on financial instruments.

BDC also uses foreign exchange forward contracts to have an economic hedge for its securities, loans and investments in foreign currencies. These contracts are classified as held-for-trading and are marked-to-market in net income.

INTEREST RATE RISK

BDC enters 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 designated 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.

BDC also uses derivative financial instruments that have an economic hedge for its structured notes. These instruments include interest rate, cross currency and equity-linked swaps. These instruments have been classified as held-for-trading and the changes in fair value of these transactions are recorded in Net unrealized gains and losses on financial instruments.

18 > Derivative Financial Instruments (continued)

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.

			2009			2008
	Gross assets	**Gross liabilities**	**Net amount**	Gross assets	Gross liabilities	Net amount
Hedging						
Interest rate swap contracts	**2,913**	**8,630**	**(5,717)**	415	4,066	(3,651)
Cross-currency interest rate swap contracts	**–**	**2,210**	**(2,210)**	5,665	423	5,242
Currency forward contracts	**–**	**–**	**–**	20,514	85	20,429
Total Hedging	**2,913**	**10,840**	**(7,927)**	26,594	4,574	22,020
Held-for-Trading						
Interest rate swap contracts	**66,083**	**17,976**	**48,107**	34,583	9,905	24,678
Equity-linked swap contracts	**61,002**	**7,692**	**53,310**	137,741	25,539	112,202
Cross-currency interest rate swap contracts and other	**68,455**	**14,563**	**53,892**	7,953	279,389	(271,436)
Currency forward contracts and Futures	**1,035**	**606**	**429**	11	2,398	(2,387)
Total Held-for-Trading	**196,575**	**40,837**	**155,738**	180,288	317,231	(136,943)
Total	**199,488**	**51,677**	**147,811**	206,882	321,805	(114,923)

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.

18 > Derivative Financial Instruments (continued)

The following table summarizes the notional amount, by term to maturity or repricing date, of derivative instruments. Notional amounts are not recorded as assets or liabilities on the balance sheet as they represent the face amount of the contract to which a rate or a price is applied to determine the amount of cash flows to be exchanged.

	Term to maturity or repricing				**2009**	2008
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	**Notional amount**	Notional amount
Hedging						
Interest Rate Swap Contracts						
$CDN payable-fixed	–	100,000	–	–	**100,000**	100,000
% payable-fixed		*4.50*				
$CDN receivable-fixed	–	–	40,000	–	**40,000**	125,000
% receivable-fixed			*3.14*			
	–	100,000	40,000	–	**140,000**	225,000
Cross-Currency Interest Rate Swap Contracts	49,760	–	–	–	**49,760**	71,260
Total	49,760	100,000	40,000	–	**189,760**	296,260
Currency Forward Contracts	–	–	–	–	**–**	680,284
Total Hedging	49,760	100,000	40,000	–	**189,760**	976,544
Held-for-Trading						
Interest Rate Swap Contracts						
$CDN payable-fixed	–	–	–	110,000	**110,000**	383,027
% payable-fixed				*4.23*		
$CDN receivable-fixed	10,000	–	27,748	333,867	**371,615**	1,044,686
% receivable-fixed	*4.76*		*3.98*	*4.58*		
Basis swap	–	–	–	–	**–**	3,507,000
Other swap contracts	–	–	7,714	3,999	**11,713**	78,663
Equity-Linked Swap Contracts	288,050	358,954	77,000	105,650	**829,654**	1,411,575
	298,050	358,954	112,462	553,516	**1,322,982**	6,424,951
Cross-Currency Interest Rate Swap Contracts	22,297	14,760	7,714	934,551	**979,322**	1,741,064
Total	320,347	373,714	120,176	1,488,067	**2,302,304**	8,166,015
Currency Forward Contracts	190,404	–	–	–	**190,404**	136,306
Total Held-for-Trading	510,751	373,714	120,176	1,488,067	**2,492,708**	8,302,321
Total	560,511	473,714	160,176	1,488,067	**2,682,468**	9,278,865

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.

19 > INTEREST RATE SENSITIVITY

The following tables summarize 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 dates. 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	(21,355)	507,460	–	–	–	–	–	486,105
Effective yield (%)		*0.56*						
Securities	–	–	–	–	–	–	–	–
Effective yield (%)								
Loans, net of allowance for credit losses	7,768,730	129,415	245,542	1,784,801	664,615	516,242	(664,372)	10,444,973
Effective yield (%)	*4.78*	*7.82*	*7.62*	*7.66*	*7.09*			
Subordinate financing loans and investments	7,374	2,748	8,340	110,890	7,818	26,489	(8,947)	154,712
Effective yield[(1)] (%)	*9.79*	*10.65*	*12.38*	*12.46*	*12.92*			
Venture capital investments	–	–	–	–	–	276,899	–	276,899
Derivative assets	–	113,138	13,943	2,913	–	–	–	129,994
Other	–	–	–	–	–	238,279	–	238,279
	7,754,749	752,761	267,825	1,898,604	672,433	1,057,909	(673,319)	11,730,962
Liabilities and Shareholder's equity								
Short-term notes	–	1,918,971	–	–	–	–	–	1,918,971
Effective yield (%)		*0.43*						
Long-term notes	–	4,946,482	38,000	666,706	428,175	634,072	–	6,713,435
Effective yield (%)		*0.44*	*2.71*	*3.36*	*1.95*	*0.34*		
Derivative liabilities	–	10,771	–	8,630	16,914	–	–	36,315
Other	–	–	–	–	–	220,677	–	220,677
Shareholder's equity	–	–	–	–	–	2,189,564	–	2,189,564
	–	6,876,224	38,000	675,336	445,089	3,044,313	–	11,078,962
Total Balance Sheet gap 2009	**7,754,749**	**(6,123,463)**	**229,825**	**1,223,268**	**227,344**	**(1,986,404)**	**(673,319)**	**652,000**
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 Derivative position	–	**(786,480)**	–	**(32,251)**	**223,866**	**594,865**	–	–
Total Gap position 2009	**7,754,749**	**(6,909,943)**	**229,825**	**1,191,017**	**451,210**	**(1,391,539)**	**(673,319)**	**652,000**
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

(1) Excludes non-interest return.

19 > 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	1,240	65,028	–	–	–	–	–	66,268
Effective yield (%)		*0.26*						
Securities	–	51,897	–	–	–	–	–	51,897
Effective yield (%)		*0.98*						
Loans, net of allowance for credit losses	7,873	–	–	–	–	–	(673)	7,200
Effective yield (%)	*3.73*							
Subordinate financing loans and investments	373	–	–	–	–	–	(15)	358
Effective yield[1] (%)	*4.60*							
Venture capital investments	–	–	–	–	–	164,732	–	164,732
Derivative assets	–	68,459	–	–	–	1,035	–	69,494
Other	–	–	–	–	–	–	–	–
	9,486	185,384	–	–	–	165,767	(688)	359,949
Liabilities and Shareholder's equity								
Short-term notes	–	65,030	–	–	–	–	–	65,030
Effective yield (%)		*0.15*						
Long-term notes	–	12,690	–	7,302	880,271	31,294	–	931,557
Effective yield (%)		*3.39*		*0.41*	*0.41*	*0.40*		
Derivative liabilities	–	14,755	–	–	–	607	–	15,362
Other	–	–	–	–	–	–	–	–
Shareholder's equity	–	–	–	–	–	–	–	–
	–	92,475	–	7,302	880,271	31,901	–	1,011,949
Total Balance Sheet gap 2009	**9,486**	**92,909**	**–**	**(7,302)**	**(880,271)**	**133,866**	**(688)**	**(652,000)**
Total Balance Sheet gap 2008	26,575	(1,025,781)	(808,205)	(10,300)	(104,123)	(160,191)	(1,165)	(2,083,190)
Total Derivative position	**–**	**(888,379)**	**–**	**7,714**	**843,607**	**37,058**	**–**	**–**
Total Gap position 2009	**9,486**	**(795,470)**	**–**	**412**	**(36,664)**	**170,924**	**(688)**	**(652,000)**
Total Gap position 2008	26,575	(2,213,053)	153,852	1,808	4,846	(56,053)	(1,165)	(2,083,190)

[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	7,754,749	(6,909,943)	229,825	1,191,017	451,210	(1,391,539)	(673,319)	652,000
Total Gap position for foreign currency transactions	9,486	(795,470)	–	412	(36,664)	170,924	(688)	(652,000)
Total Gap position 2009	**7,764,235**	**(7,705,413)**	**229,825**	**1,191,429**	**414,546**	**(1,220,615)**	**(674,007)**	**–**
Total Gap position 2008	6,646,883	(7,360,050)	339,502	1,604,954	541,903	(1,231,743)	(541,449)	–

20 > GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS

GUARANTEES

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 and there are no significant accruals for indemnities as of March 31, 2009.

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 $1,095,626 at March 31, 2009 ($103,203 fixed rate; $992,423 floating rate). The effective interest rates on these commitments vary from 2.50% to 16.50%. These commitments include BDC's share of undisbursed amounts of authorized joint venture financings, of $24,055. The following tables present commitments distribution by maturity date, geography and industry.

Commitments by Maturity Date	Within 1 year	1 to 5 years	Over 5 years	Total
As at March 31, 2009	12,061	86,173	997,392	1,095,626

Commitments by Geographic Distribution		2009
Newfoundland and Labrador	43,581	4.0%
Prince Edward Island	391	0.0%
Nova Scotia	26,350	2.4%
New Brunswick	26,522	2.4%
Quebec	216,526	19.7%
Ontario	364,705	33.3%
Manitoba	33,032	3.0%
Saskatchewan	33,637	3.1%
Alberta	210,174	19.2%
British Columbia	131,121	12.0%
Yukon	3,954	0.4%
Northwest Territories and Nunavut	5,633	0.5%
Total	1,095,626	100.0%

20 > Guarantees, Contingent Liabilities and Commitments (continued)

Commitments by Industry Sector		2009
Manufacturing	290,678	26.5%
Wholesale and retail trade	219,860	20.1%
Tourism	174,347	15.9%
Construction	131,580	12.0%
Transportation and storage	53,984	4.9%
Commercial properties	60,873	5.6%
Business services	55,426	5.1%
Other	108,878	9.9%
Total	1,095,626	100.0%

The undisbursed amounts of authorized venture capital investments were $196,006 at March 31, 2009, and are related to the following industry sectors.

Commitments by Industry Sector		2009
Biotechnology, medical and health	8,317	4.3%
Information technology	2,310	1.2%
Electronics	2,639	1.3%
Communications	961	0.5%
Industrial	50	–
Total direct investments	14,277	7.3%
Funds	181,729	92.7%
Total	196,006	100.0%

In addition, BDC future minimum lease commitments under operating leases related to the rental of premises are approximately as follows.

2010	23,144
2011	20,075
2012	16,817
2013	12,512
2014	11,186
2015 and later	52,102
	135,836

21 > PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

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.

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, 2007, for the registered pension plan and December 31, 2008, for the supplemental pension plans. The next funding valuations will be performed at December 31, 2008, for the registered pension plan and December 31, 2009, for the supplemental pension plans. Other benefit plans are unfunded.

For 2009, 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 $38 million ($34 million in 2008).

The following tables present, in aggregate, information concerning the employee future benefit plans.

	Registered pension plan		Supplemental pension plans		Other plans	
	2009	2008	**2009**	2008	**2009**	2008
Change in accrued benefit obligation						
Balance at beginning of year	**581,846**	582,960	**57,989**	55,193	**123,727**	113,423
Current service cost	**16,401**	18,299	**1,064**	949	**6,279**	6,800
Interest cost on benefit obligation	**32,367**	31,099	**3,189**	2,897	**6,662**	6,043
Employee contributions	**7,487**	6,593	**–**	–	**–**	–
Benefits paid	**(26,997)**	(24,375)	**(2,166)**	(1,889)	**(5,567)**	(7,003)
Actuarial loss (gain)	**(120,835)**	(32,730)	**(10,348)**	839	**(27,690)**	4,464
Balance at end of year [1]	**490,269**	581,846	**49,728**	57,989	**103,411**	123,727
Change in fair value of plan assets						
Balance at beginning of year	**606,849**	589,914	**22,271**	15,187	**–**	–
Employee contributions	**7,487**	6,593	**–**	–	**–**	–
Employer contributions	**20,302**	19,910	**10,114**	9,317	**–**	–
Actual return (loss) on plan assets during the year	**(120,829)**	14,807	**(1,184)**	(344)	**–**	–
Benefits paid	**(26,997)**	(24,375)	**(2,165)**	(1,889)	**–**	–
Balance at end of year [1]	**486,812**	606,849	**29,036**	22,271	**–**	–
Surplus (deficit) at end of year	**(3,457)**	25,003	**(20,692)**	(35,718)	**(103,411)**	(123,727)
Employer contributions after measurement date	**5,272**	3,108	**9,755**	10,114	**277**	108
Unamortized transitional obligation (asset)	**–**	(6,721)	**–**	449	**–**	–
Unamortized past service gain	**–**	–	**–**	–	**(3,777)**	(5,456)
Unamortized net actuarial loss (gain)	**134,304**	94,454	**9,376**	19,247	**(1,463)**	27,051
Accrued benefit asset (liability) at end of year [2]	**136,119**	115,844	**(1,561)**	(5,908)	**(108,374)**	(102,024)

(1) Supplemental pension plans and Other plans are not fully funded.
(2) Net amount recognized in the Consolidated Balance Sheet as "Other assets" or "Other liabilities," as appropriate.

21 > Pension and Other Employee Future Benefits (continued)

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	
	2009	2008	**2009**	2008	**2009**	2008
Defined benefit costs						
Current service cost	**16,401**	18,299	**1,064**	949	**6,279**	6,800
Interest cost on benefit obligation	**32,367**	31,099	**3,189**	2,897	**6,662**	6,043
Actual (return) loss on plan assets	**120,829**	(14,807)	**1,184**	344	**–**	–
Actuarial (gain) loss on benefit obligation	**(120,835)**	(32,730)	**(10,348)**	839	**(27,690)**	4,464
Costs arising in the period	**48,762**	1,861	**(4,911)**	5,029	**(14,749)**	17,307
Differences between costs arising in the period and costs recognized in the period in respect of:						
Loss on plan assets	**(164,854)**	(25,084)	**(2,229)**	(1,061)	**–**	–
Actuarial (gain) loss	**125,004**	38,802	**12,099**	918	**28,514**	(3,100)
Past service gain	**–**	–	**–**	–	**(1,679)**	(1,679)
Transitional obligation (asset)	**(6,721)**	(13,441)	**450**	900	**–**	–
Defined benefit cost for the year ended March 31	**2,191**	2,138	**5,409**	5,786	**12,086**	12,528

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

Investment type	**2009**		2008	
Cash and short-term investments	**12,685**	**2.5%**	12,285	2.0%
Bonds	**212,771**	**41.2%**	241,599	38.4%
Equity investments	**273,719**	**53.1%**	362,937	57.6%
Other assets less liabilities	**16,673**	**3.2%**	12,299	2.0%
Net assets available for benefits	**515,848**	**100.0%**	629,120	100.0%

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	
	2009	2008	**2009**	2008	**2009**	2008
Significant actuarial assumptions used to determine the accrued benefit obligations						
Discount rate at beginning of year	**5.50%**	5.25%	**5.50%**	5.25%	**5.25% – 5.50%**	5.25%
Discount rate at end of year	**7.25%**	5.50%	**7.25%**	5.50%	**7.25%**	5.25% – 5.50%
Significant actuarial assumptions used to determine the accrued benefit cost						
Discount rate at beginning of year	**5.50%**	5.25%	**5.50%**	5.25%	**5.25% – 5.50%**	5.25%
Expected long-term rate of return on plan assets[1]	**7.25%**	6.75%	**3.63%**	3.38%	**–**	–

The average rate of compensation increase is expected to be inflation, which is assumed to be 2.50% (in 2008, 2.50%) 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.

21 > Pension and Other Employee Future Benefits (continued)

For measurement purposes, cost trends were assumed to be:

Medical costs related to drugs:
> 10% in 2009 reducing by 0.67% each year to 6% in 2015 and subsequent years (10% in 2008 reducing by 0.67% each year to 6% in 2014 and subsequent years);

Other medical costs:
> 5% in 2009 reducing by 1% each year to 3% in 2011 and subsequent years (5% in 2008 reducing by 1% each year to 3% in 2010 and subsequent years); and

Dental costs:
> 6% in 2009 reducing by 1% each year to 4% in 2011 and subsequent years (6% in 2008 reducing by 1% each year to 4% in 2010 and subsequent years).

SENSITIVITY OF ASSUMPTIONS

The impact of changing the key weighted-average economic assumptions used in measuring the net periodic pension and other benefit costs 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	(6,072)	(144)	–
	1% decrease	6,072	144	–
Discount rate				
Impact of:	1% increase	(8,549)	(859)	(756)
	1% decrease	17,076	1,039	1,067
Rate of compensation increase				
Impact of:	0.25% increase	946	199	15
	0.25% decrease	(875)	(176)	(13)
Assumed overall health care cost trend rates				
Impact of:	1 % increase	–	–	2,022
	1 % decrease	–	–	(1,543)
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	–	–	12,029
	1% decrease	–	–	(9,671)
on the post-retirement benefits other than pension accrued benefit obligation at March 31, 2009				

22 > RELATED PARTY TRANSACTIONS

As at March 31, 2009, BDC has $1,915 million outstanding in short-term notes (carrying amount: $1,915 million) and $5,369 million in long-term notes with Her Majesty in Right of Canada acting through the Minister of Finance ($1,000 million of short-term notes outstanding at March 31, 2008 with a carrying value of $995 million).

This borrowing is in accordance with the FAA 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 Business Development Bank of Canada* dated February 14, 2008.

Accrued interest on borrowings includes $4 million payable to the Minister of Finance as at March 31, 2009 (nil at March 31, 2008). BDC also recorded $104 million of interest expenses for fiscal 2009 relating to the borrowing with the Minister of Finance ($2 million in 2008).

BDC is also 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.

23 > SUBSEQUENT EVENTS

As part of its 2008 Economic and Fiscal Statement issued last November, the federal government announced a $350 million capital investment in BDC to help address emerging financing gaps in Canada. BDC received $250 million in fiscal 2009 (Note 13) and an additional amount of $100 million (1 million common shares) in May 2009.

In its January 2009 budget, as part of Canada's Economic Action Plan, the federal government announced the creation of the Canadian Secured Credit Facility (CSCF), with an allocation of up to $12 billion, to purchase term asset-backed securities backed by loans and leases on vehicles and equipment. BDC has been assigned the responsibility for establishing and managing the CSCF on behalf of the federal government. In May 2009, BDC announced that over $10 billion of funding had been allocated in the Large Enterprise Tranche of the CSCF. Fifteen lenders from a cross-section of the vehicle and equipment financing industry have received the allocations. This new business initiative is expected to significantly affect BDC's Consolidated Financial Statements in fiscal 2010, but the financial impact cannot be estimated at this time.

24 > COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in 2009.

CORPORATE GOVERNANCE

COMMITTEES PAGE_88

BOARD & BOARD COMMITTEE MEETINGS & ATTENDANCE PAGE_90

BOARD OF DIRECTORS PAGE_91

BDC: Effective, responsible and efficient support for Canada's entrepreneurs, balancing a Crown corporation's need for the autonomy to succeed in the marketplace with Parliament's need to oversee what it is doing.

Remarks from the 2009 Conference Board of Canada/ Spencer Stuart National Awards in Governance on the qualities that placed BDC among the top three contenders in the public service category

THE BOARD OF DIRECTORS REPORTS

We oversee BDC to ensure that its activities are aligned with its statutory role and that it fulfills its mandate in an effective, responsible and efficient way.

Except for the president and chief executive officer, we are all independent of management. None, except the president, is a BDC employee. We have first-hand experience of finance, business management and entrepreneurship. Together, we have the required mix of skills and experience needed for our stewardship role.

Our central challenge is to manage a systemic tension. On one hand, there is BDC's public policy mandate to support entrepreneurs, which is inherently risky, as well as its mandate to support its shareholder by implementing new programs to help stimulate economic activity. On the other is BDC's 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 numerous regulations.

The auditor general of Canada, jointly with an external audit firm, audits BDC every year. At regular intervals, the auditor general also 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.

BDC's latest special examination began in January 2008 and ended recently. We were very pleased with its quite positive findings and welcomed its specific observations on ways BDC can improve. To see the full report, please visit www.bdc.ca.

Every year, Parliament receives BDC's annual report, as well as a summary of its annually updated five-year corporate plan.

GOVERNMENT AND INDUSTRY

We look to Treasury Board of Canada for guidance and expertise on public sector governance practices. BDC meets or exceeds all the governance standards that Treasury Board recommends.

We also look to private sector organizations for best practices to emulate. In 2009, we were pleased to have BDC selected as a top three contender in the public sector category for the 2009 Conference Board of Canada/Spencer Stuart National Awards in Governance. The judges noted BDC's innovative use of private sector recruitment methods to find high-quality candidates for senior management and the board.

THE BOARD OF DIRECTORS

Within the parameters set by Parliament and government, our duty is to

> approve BDC's strategic direction and corporate plan to meet its public policy mandate, and monitor progress;

> set performance targets and monitor progress;

> ensure that BDC is identifying and managing its risks;

> ensure the highest standards of corporate governance;

> establish compensation policies, and review and approve management's succession plan—a task that includes approving appointments as well as evaluating the performance of the president and chief executive officer;

> review BDC's internal controls and management information systems;

> oversee communications and public disclosure; and

> oversee BDC's pension plans, and establish its fund policies and practices.

We held BDC's second annual public meeting in August 2008 in Montréal. At this meeting, Chairman John A. MacNaughton and President and Chief Executive Officer Jean-René Halde presented BDC's mandate and strategy, reported on performance, and answered questions from attendees.

The Board Code of Conduct 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 also meet regularly in camera, without their presence.

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

All five committees are independent of management, with one exception: the president and chief executive officer is a member of the Credit/Investment and Risk Committee, which authorizes large transactions within certain limits. We have appropriately high levels of financial literacy as well as the broader skills and competencies required to oversee the management of a large financial organization. In fiscal 2009, new members, following our continuous training policy, attended detailed briefings on many of BDC's specialized activities.

COMMITTEES

THE AUDIT COMMITTEE

CHAIR Stan Bracken-Horrocks	MEMBERS Eric Boyko Brian Hayward Jean Martel Sarah Raiss
NUMBER OF MEETINGS 6	

The Audit Committee promotes an overall corporate culture of quality financial reporting and ethical behaviour. Our main duties are as follows:

> review and advise the board on all financial statements before they are disclosed to the public;

> review financial disclosure;

> review the adequacy and effectiveness of internal controls, including information technology security and controls, and, in particular, major accounting and financial reporting systems;

> oversee BDC's standards of integrity and conduct;

> review the terms of engagement—including compensation for private sector individuals—of auditors and special examiners who report directly to the committee and are accountable to the board;

> give advice and recommendations about the appointments and terms of auditors and special examiners;

> review and advise the board on the audit of the annual financial statements, the scope of the special examination, and the special examination report;

> consider the appointment and work of the internal auditor, who reports directly to the committee and administratively to the president and chief executive officer; and

> review directors' and officers' expenses.

This past year, among other tasks, the committee oversaw BDC's proposed conversion to International Financial Reporting Standards, scheduled for fiscal 2012. We also reviewed management's report on BDC's adoption of the internal control certification system.

THE CREDIT/INVESTMENT AND RISK COMMITTEE

CHAIR Thomas R. Spencer	MEMBERS Christiane Bergevin Eric Boyko Stan Bracken-Horrocks Jean-René Halde Prashant Pathak Rosemary Zigrossi
NUMBER OF MEETINGS 24	

The Credit/Investment and Risk Committee's main duties are as follows:

> identify and manage BDC's principal risks, including credit risk, market risk and operational risk;

> regularly review the enterprise risk management policy;

> review reports and indicators related to portfolio management, including indicators related to capital adequacy review and compliance, industry-specific studies and portfolio management strategies;

> approve loans and investments that exceed the delegated authorities of senior management; and

> review policies and guidelines related to the delegation of authority.

GOVERNANCE AND NOMINATING COMMITTEE

CHAIR
John A. MacNaughton

NUMBER OF MEETINGS
5

MEMBERS
Christiane Bergevin
Stan Bracken-Horrocks
Sarah Raiss
Thomas R. Spencer

The Governance and Nominating Committee helps the board fulfill its corporate governance responsibilities. Our responsibilities include the following:

> continually reviewing best practices and regulations related to governance in Canada and, if need be, recommending changes to BDC's approach;

> annually reviewing BDC's corporate governance policies, including the Board Code of Conduct and Employee Code of Conduct;

> annually assessing the board's compliance with these policies;

> regularly reviewing the mandates, structures, and memberships of the board and its committees;

> developing selection criteria for the president and chief executive officer position;

> reviewing and annually approving required board skills for directors;

> developing processes to assess the performance of the board, its committees and individual members; and

> ensuring that comprehensive director orientation and continual training programs are in place.

THE HUMAN RESOURCES COMMITTEE

CHAIR
Sarah Raiss

NUMBER OF MEETINGS
8 (plus joint committees)

MEMBERS
Sue Fawcett
Brian Hayward
Henry K.S. Lee
Jean Martel
Rick Perkins

The Human Resources Committee's main duties are as follows:

> oversee the human resources strategy to confirm its alignment with the corporate plan;

> review—and, if considered appropriate, recommend to the board for approval—the CEO's recommendations for appointments of senior management committee members, the treasurer, the vice-president internal audit and the ombudsman, as well as any CEO proposal for major organizational structure change;

> assess the CEO's objectives and performance;

> review performance and pay for senior executives;

> review and approve the design of compensation programs and payments—including, this year, the hiring of an independent human resources consulting firm to review BDC's compensation structure;

> approve performance measures and metrics; and

> oversee the succession plan.

THE PENSION FUNDS INVESTMENT COMMITTEE

CHAIR
Christiane Bergevin

NUMBER OF MEETINGS
4

MEMBERS
Sue Fawcett
Henry K.S. Lee
Prashant Pathak
Rick Perkins
Frank Watters (observer)

The Pension Funds Investment Committee's main duties are as follows:

> monitor, and advise the board on, all matters related to the investment of the funds' assets;

> oversee that investment is in accordance with established policies;

> recommend to the board the appointment, termination and replacement of external investment managers;

> monitor the performance of these managers; and

> receive and examine the actuarial evaluation reports and financial statements, and recommend policies and strategies based on them.

For the mandates of the board committees, please see www.bdc.ca.

EMPLOYEE CODE OF CONDUCT, ETHICS AND VALUES

The Employee Code of Conduct, Ethics and Values affirms BDC's fundamental tenets: ethical behaviour, 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 abreast of best practices and review the code regularly 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.

If a member of Parliament, senator or director were to exert undue pressure in making a referral to a BDC employee, the BDC referral policy requires the employee to report this situation to management, which in turn informs the board of directors.

BOARD & BOARD COMMITTEE MEETINGS & ATTENDANCE

	Board meetings	Audit	Credit/ Investment and Risk	Governance and Nominating	Human Resources	Pension Funds	Total meetings
Christiane Bergevin	13/15		19/24	3/5		4/4	39/48
Eric Boyko (1)	11/15	4/6	16/24				31/45
Stan Bracken-Horrocks	15/15	6/6	22/24	4/5			47/50
Cindy Chan	4/4				3/3	2/2	9/9
Sue Fawcett	14/15				7/7	4/4	25/26
Terry B. Grieve	3/3	2/2	4/4	2/5			11/14
Brian Hayward (2)	10/12	3/3			4/4		17/19
John Hyshka	3/3				2/2	2/3	7/8
Henry K.S. Lee (3)	9/11				3/4	1/3	13/18
John A. MacNaughton (4)	15/15			5/5			20/20
Jean Martel	10/15	5/6			5/7		20/28
Prashant Pathak	9/11		12/18			2/4	23/33
Rick Perkins	12/15				5/7	4/4	21/26
Sarah Raiss	15/15	6/6		5/5	7/7		33/33
Thomas R. Spencer	14/15	5/6	21/24	2/3			42/48
Rosemary Zigrossi (1)	13/15		18/22				31/37
Jean-René Halde	15/15		21/24				36/39

(1) Appointed to Credit/Investment and Risk Committee on April 22, 2008.

(2) As of August 7, 2008.

(3) As of September 10, 2008.

(4) Mr. MacNaughton also attends all board committee meetings as an ex-officio member.

BOARD OF DIRECTORS (at March 31, 2009)

CHRISTIANE BERGEVIN
Senior Vice President and General Manager
Corporate Projects
SNC-Lavalin Group 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. Since 1990, she has held various senior management positions in international finance with SNC-Lavalin Group subsidiaries, notably as president of SNC-Lavalin Capital from 2001 to 2008. She is recognized in Canada and internationally for her financing leadership, and has been involved in many acquisitions and arranged numerous major financings, particularly in energy and infrastructure.

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 Montréal 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.

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.

SUE FAWCETT
President
Fawcett Financial Inc.
Calgary, Alberta

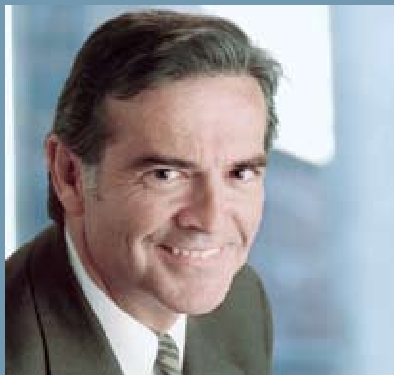
Sue Fawcett joined the BDC board of directors in April 2008. After serving as a vice president and investment advisor at a major financial institution, she became president of Fawcett Financial Inc., a private firm providing strategic advice to early-stage companies. Ms. Fawcett is a member of the Institute of Corporate Directors and the Chartered Financial Analyst Society in Calgary. She received her chartered financial analyst (CFA) designation in 2006 and holds a BComm degree from the University of Calgary. Ms. Fawcett previously served on the boards of the Ottawa-Carleton Economic Development Corporation, the Riverside Hospital Foundation and the Ottawa Ballet.

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 is vice chair of The Conference Board of Canada and sits on the board of 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.

BRIAN HAYWARD
President
Aldare Resources
Winnipeg, Manitoba

Brian Hayward joined the BDC board of directors in June 2008. He currently serves as president of Aldare Resources, a business consultancy that provides strategic advisory and governance services. From 1991 until 2007, he was CEO of Agricore United, the largest agribusiness in Western Canada. He also has provided leadership to many non-profit organizations, including the Royal Winnipeg Ballet, The Conference Board of Canada and the Arthritis Society. Mr. Hayward holds an MSc degree in agriculture economics from McGill University and is a graduate of the Director's College of McMaster University's DeGroote School of Business. Mr. Hayward serves on a number of public and private company boards, including Glacier Media Inc., Ridley Inc., Wellington West and the Intercontinental Commodity Exchange (Canada).



HENRY K.S. LEE
Chief Financial Officer and Vice Chairman
Tom Lee Group
Vancouver, British Columbia

Henry K.S. Lee joined the BDC board of directors in August 2008. He is the chief financial officer and vice chairman of the Tom Lee Group, a company active in real estate investments as well as in the retailing and distribution of musical instruments and equipment in Canada and China. Mr. Lee holds an MBA from the University of Toronto and a BASc in civil engineering from the University of British Columbia. He serves on several boards, is the president of the Museum of Making Music advisory board and has served as chairman of the Vancouver Board of Trade.

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 CNSX Markets 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, LLP
Montréal, Quebec

Jean Martel joined the BDC board of directors in September 2006. He is a partner at Lavery, a Quebec based law firm, where he has been practising securities, financial and regulatory law in Montreal since 1999. From 1995 to 1999, he was chairman of the Commission des valeurs mobilières du Québec and sat on the Technical Committee of IOSCO. From 1988 to 1994, as assistant deputy minister of finance, he had overall responsibility for financial sector policy in the province of Quebec. He serves on the boards of directors of TMX Group Inc., TSX Inc., the TSX Ventures Exchange and the Bourse de Montréal. He also chairs the Independent Review Committee of The Investment Funds of the Quebec Bar.

PRASHANT PATHAK
Managing Partner
ReichmannHauer Capital Partners
Toronto, Ontario

Prashant Pathak, who joined the BDC board of directors in July 2008, is a managing partner at ReichmannHauer Capital Partners. Previously, he was a partner at McKinsey & Company Inc., and held several management and field operations positions at Halliburton and Schlumberger. He has extensive international experience, having worked in Europe, the Middle East and Southeast Asia. Mr. Pathak holds an MBA with distinction degree from INSEAD and a BTech degree in electrical engineering from the Indian Institute of Technology (IIT). He also has a diploma in fuzzy logic from IIT and is a member of the Young Presidents' Organization.

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 was 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 and serves on two committees of the Retail Council of Canada. Mr. Perkins holds an MBA from the Sobey School of Business, Saint Mary's University, and has been inducted into the latter's Hall of Academic Excellence.

SARAH RAISS
Executive Vice President of Corporate Services
TransCanada Corporation
Calgary, Alberta

Sarah Raiss joined the BDC board of directors in April 2008. She is currently executive vice president of corporate services with TransCanada Corporation in Calgary. Before that, Ms. Raiss was president of S.E. Raiss Group Inc., a consulting firm specializing in strategy, culture change and merger integration. She has a bachelor of science in applied mathematics and an MBA from the University of Michigan, and sits on the board of governors of the Calgary Petroleum Club, the Treasury Board advisory committee on senior level retention and compensation, and the Harvard Kennedy School's women's leadership board. In 2007, Ms. Raiss was inducted into Canada's Most Powerful Women Top 100 Hall of Fame.

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 and Kruger Inc. He is also a member of the TD private equity investors advisory committee. He holds an MBA and a BA in economics from York University.

ROSEMARY ZIGROSSI
Vice President, Asset Mix and Risk
Ontario Teachers' Pension Plan
Toronto, Ontario

Rosemary Zigrossi joined the BDC board of directors in April 2008. Ms. Zigrossi is vice president, asset mix and risk, with the Ontario Teachers' Pension Plan, where she has also served as vice president of venture capital and as controller. Previously, she was assistant vice president at J.P. Morgan Bank of Canada and a senior auditor with KPMG. Ms. Zigrossi is a chartered accountant and a member of the Chartered Financial Analyst Institute. She has held directorship roles in a number of start-up companies. She holds a BCom in finance from the University of Toronto, has completed Harvard Business School's management development program and is a graduate of the Institute of Corporate Directors.

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 is vice chair of The Conference Board of Canada and sits on the board of 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 & FINANCIAL SUMMARY

for the years ended March 31 ($ in thousands)

Operational Statistics	**2009**	2008	2007	2006	2005
BDC Financing					
Committed to clients as at March 31					
Amount	**12,176,290**	10,951,760	10,115,995	9,515,927	8,852,856
Number of clients	**27,617**	27,418	26,643	25,497	24,048
Authorizations					
Amount	**2,917,537**	2,814,349	2,586,489	2,462,032	2,230,194
Number	**7,783**	8,921	9,079	8,402	7,457
Acceptances*					
Amount	**2,831,534**	2,906,667	2,691,571	–	–
Number	**7,749**	9,143	9,394	–	–
BDC Subordinate Financing					
Committed to clients as at March 31					
Amount	**176,568**	171,991	168,725	160,246	161,290
Number of clients	**351**	341	316	305	321
Authorizations					
Amount	**45,419**	47,410	53,572	47,126	36,394
Number	**94**	103	112	104	66
Acceptances*					
Amount	**46,344**	48,660	58,407	–	–
Number	**92**	107	130	–	–
BDC Venture Capital					
Committed to clients as at March 31					
Amount	**804,665**	749,107	747,857	654,876	604,389
Number of clients	**159**	173	192	193	202
Authorizations					
Amount	**137,385**	130,484	150,733	140,016	143,119
Number	**55**	87	71	83	80
Performance Indicators					
Client satisfaction level	**92%**	93%	93%	92%	93%
Employee engagement level	**75%**	76%	80%	78%	74%
Efficiency ratio**	**41.6%**	48.0%	50.2%	48.9%	48.5%
BDC Financing portfolio	**11,117,218**	10,014,114	9,128,145	8,627,199	7,917,828
Return on common equity	**4.7%**	4.7%	8.5%	9.2%	9.7%
BDC Consulting revenue	**27,435**	24,802	23,523	21,570	18,924

* 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, and the fiscal 2008 figure has been restated to exclude net unrealized gains or losses on financial instruments.

($ in thousands)

Financial Information	**2009**	2008	2007	2006	2005
Statement of Income and Comprehensive Income for the years ended March 31					
Net income (loss)					
BDC Financing	**193,028**	160,878	167,992	141,060	163,700
BDC Subordinate Financing	**6,760**	11,007	7,945	13,682	8,818
BDC Venture Capital	**(106,291)**	(82,801)	(33,604)	(12,779)	(56,143)
BDC Consulting	**(2,930)**	(4,521)	(4,326)	(3,782)	(2,887)
Net income	**90,567**	84,563	138,007	138,181	113,488
Other comprehensive income (loss)*	**(2,249)**	(301)	–	–	–
Comprehensive income*	**88,318**	84,262	138,007	138,181	113,488
Balance Sheet as at March 31					
Loans, net of allowance for credit losses	**10,452,173**	9,481,449	8,622,646	8,129,880	7,445,861
Subordinate financing loans and investments	**155,070**	156,158	148,290	143,901	136,977
Venture capital investments	**441,631**	475,985	505,118	431,379	383,649
Total assets	**12,090,911**	11,423,566	10,804,081	10,311,423	9,445,161
Total shareholder's equity	**2,189,564**	1,867,317	1,807,718	1,691,277	1,569,569
Total liabilities	**9,901,347**	9,556,249	8,996,363	8,620,146	7,875,592

* Related to changes in accounting policies applied by BDC, starting in 2008.

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 accumulated other comprehensive income or loss. 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. Other income includes fee income and realized gains or losses on financial instruments from financing, and realized gains or losses on investments and other income from subordinate financing. 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.

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 write-off 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 loss, and accumulated other comprehensive income or loss.

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.

OFFICES

ALBERTA

Calgary
110 Barclay Centre
444 7th Avenue SW
Suite 110
Calgary, Alberta T2P 0X8
Phone: 403 292-5000
Fax: 403 292-6616

Calgary North
1935 32nd Avenue NE
Suite 100
Calgary, Alberta T2E 7C8
Phone: 403 292-5333
Fax: 403 292-6651

Calgary South
Sovereign Building
6700 MacLeod Trail SE
Suite 200
Calgary, Alberta T2H 0L3
Phone: 403 292-8882
Fax: 403 292-4345

Edmonton
First Edmonton Place
10665 Jasper Avenue
Suite 200
Edmonton, Alberta T5J 3S9
Phone: 780 495-2277
Fax: 780 495-6616

Edmonton South
Huntington Galleria
4628 Calgary Trail NW
Suite 201
Edmonton, Alberta T6H 6A1
Phone: 780 495-7200
Fax: 780 495-7198

Edmonton West
236 Mayfield Common
Edmonton, Alberta T5P 4B3
Phone: 780 442-7312
Fax: 780 495-3102

Grande Prairie
10625 West Side Drive
Suite 203
Grande Prairie, Alberta T8V 8E6
Phone: 780 532-8875
Fax: 780 539-5130

Lethbridge
520 5th Avenue South
Lethbridge, Alberta T1J 0T8
Phone: 403 382-3000
Fax: 403 382-3162

Medicine Hat
(By appointment)
2248 13th Avenue SE
Suite 101
Medicine Hat, Alberta
T1A 8G6
Phone: 403 527-2669
Fax: 403 528-6899

Red Deer
4815 50th Avenue
Suite 107
Red Deer, Alberta T4N 4A5
Phone: 403 340-4203
Fax: 403 340-4243

BRITISH COLUMBIA

Cranbrook
205B Cranbrook Street North
Cranbrook, British Columbia
V1C 3R1
Phone: 250 417-2200
Fax: 250 417-2213

Fort St. John
10230 100th Street
Suite 7
Fort St. John, British Columbia
V1J 3Y9
Phone: 250 787-0622
Fax: 250 787-9423

Kamloops
205 Victoria Street
Kamloops, British Columbia
V2C 2A1
Phone: 250 851-4900
Fax: 250 851-4925

Kelowna
313 Bernard Avenue
Kelowna, British Columbia
V1Y 6N6
Phone: 250 470-4802
Fax: 250 470-4832

Langley
6424 200th Street
Suite 101B
Langley, British Columbia
V2Y 2T3
Phone: 604 532-5150
Fax: 604 532-5166

Nanaimo
6581 Aulds Road
Suite 500
Nanaimo, British Columbia
V9T 6J6
Phone: 250 390-5757
Fax: 250 390-5753

Nelson
(By appointment)
619B Front Street
Suite 1
Nelson, British Columbia
V1L 4B6
Phone: 250 352-3837
Fax: 250 352-3809

North Vancouver
221 West Esplanade
Suite 6
North Vancouver
British Columbia V7M 3J3
Phone: 604 666-7703
Fax: 604 666-1957

Prince George
177 Victoria Street
Suite 150
Prince George, British Columbia
V2L 5R8
Phone: 250 561-5323
Fax: 250 561-5512

Surrey
London Station
10362 King George Highway
Suite 160
Surrey, British Columbia
V3T 2W5
Phone: 604 586-2400
Fax: 604 586-2430

Terrace
3233 Emerson Street
Terrace, British Columbia
V8G 5L2
Phone: 250 615-5300
Fax: 250 615-5320

Tri-Cities
2755 Lougheed Highway
Suite 370
Port Coquitlam
British Columbia V3B 5Y9
Phone: 604 927-1400
Fax: 604 927-1415

Vancouver
BDC Tower
One Bentall Centre
505 Burrard Street
P.O. Box 6
Suite 2100
Vancouver, British Columbia
V7X 1M6
Phone: 604 666-7850
Fax: 604 666-1068

Vernon
(By appointment)
Watson House
701 Highway 97
Vernon, British Columbia
V1B 3W4
Phone: 250 260-5061
Fax: 250 260-5011

Victoria
990 Fort Street
Victoria, British Columbia
V8V 3K2
Phone: 250 363-0161
Fax: 250 363-8029

MANITOBA

Brandon
940 Princess Avenue
Unit 10
Brandon, Manitoba R7A 0P6
Phone: 204 726-7570
Fax: 204 726-7555

Winnipeg
155 Carlton Street
Suite 1100
Winnipeg, Manitoba R3C 3H8
Phone: 204 983-7900
Fax: 204 983-0870

Winnipeg West
1655 Kenaston Blvd.
Suite 200
Winnipeg, Manitoba R3P 2M4
Phone: 204 983-6530
Fax: 204 983-6531

NEW BRUNSWICK

Bathurst
Harbourview Place
275 Main Street
Suite 205
Bathurst, New Brunswick
E2A 4W1
Phone: 506 548-7360
Fax: 506 548-7381

Edmundston
Carrefour Assomption
121 de l'Église Street
Suite 405
Edmundston, New Brunswick
E3V 1J9
Phone: 506 739-8311
Fax: 506 735-0019

Fredericton
The Barker House
570 Queen Street
Suite 504
P.O. Box 754
Fredericton, New Brunswick
E3B 5B4
Phone: 506 452-3030
Fax: 506 452-2416

Moncton
766 Main Street
Moncton, New Brunswick
E1C 1E6
Phone: 506 851-6120
Fax: 506 851-6033

Saint John
53 King Street
Saint John, New Brunswick
E2L 1G5
Phone: 506 636-4751
Fax: 506 636-3892

NEWFOUNDLAND AND LABRADOR

Corner Brook
Fortis Tower
4 Herald Avenue, 1st Floor
Corner Brook
Newfoundland and Labrador
A2H 4B4
Phone: 709 637-4515
Fax: 709 637-4522

Grand Falls–Windsor
42 High Street
P.O. Box 744
Grand Falls–Windsor
Newfoundland and Labrador
A2A 2M4
Phone: 709 489-2181
Fax: 709 489-6569

St. John's
Atlantic Place
215 Water Street
Ground Floor
P.O. Box 520
St. John's
Newfoundland and Labrador
A1C 5K4
Phone: 709 772-5505
Fax: 709 772-2516

NORTHWEST TERRITORIES

Yellowknife
4912 49th Street
Yellowknife
Northwest Territories X1A 1P3
Phone: 867 873-3565
Fax: 867 873-3501

NOVA SCOTIA

Halifax
Cogswell Tower
Scotia Square
2000 Barrington Street
Suite 1400
Halifax, Nova Scotia B3J 2Z7
Phone: 902 426-7850
Fax: 902 426-6783

Sydney
275 Charlotte Street
Suite 117
Sydney, Nova Scotia B1P 1C6
Phone: 902 564-7700
Fax: 902 564-3975

Truro
622 Prince Street
P.O. Box 1378
Truro, Nova Scotia B2N 5N2
Phone: 902 895-6377
Fax: 902 893-7957

Yarmouth
103 Water Street
P.O. Box 98
Yarmouth, Nova Scotia
B5A 4B1
Phone: 902 742-7119
Fax: 902 742-8180

ONTARIO

Barrie
151 Ferris Lane
Suite 301
P.O. Box 876
Barrie, Ontario L4M 4Y6
Phone: 705 725-2533
Fax: 705 739-0467

Belleville
(By appointment)
284B Wallbridge-Loyalist Road
Belleville, Ontario
K8N 5B3
Phone: 613 969-4009
Fax: 613 969-4018

Brampton
24 Queen Street East
Suite 100
Brampton, Ontario L6V 1A3
Phone: 905 450-9845
Fax: 905 450-7514

Brantford
(By appointment)
330 West Street
Suite 10
Brantford, Ontario
N3R 7V5
Phone: 519 751-3005
Fax: 519 751-3006

Durham
400 Dundas Street West
Whitby, Ontario L1N 2M7
Phone: 905 666-6694
Fax: 905 666-1059

Etobicoke
1243 Islington Avenue
Suite 1001
Toronto, Ontario M8X 1Y9
Phone: 416 954-2604
Fax: 416 954-2631

Guelph
(By appointment)
120 Research Lane
Suite 100
Guelph, Ontario
N1G 0B5
Phone: 519 826-2663
Fax: 519 826-2662

Halton
4145 North Service Road
Suite 401
Burlington, Ontario L7L 6A3
Phone: 905 315-9590
Fax: 905 315-9243

Hamilton
25 Main Street West
Suite 101
Hamilton, Ontario L8P 1H1
Phone: 905 572-2954
Fax: 905 572-4282

Kenora
227 2nd Street South
Kenora, Ontario P9N 1G1
Phone: 807 467-3535
Fax: 807 467-3533

Kingston
Plaza 16
16 Bath Road
P.O. Box 265
Kingston, Ontario K7L 4V8
Phone: 613 545-8636
Fax: 613 545-3529

Kitchener–Waterloo
Commerce House Building
50 Queen Street North
Suite 110
Kitchener, Ontario N2H 6P4
Phone: 519 571-6676
Fax: 519 571-6685

London
380 Wellington Street
London, Ontario N6A 5B5
Phone: 519 675-3101
Fax: 519 645-5450

Markham
3130 Highway 7 East
Markham, Ontario L3R 5A1
Phone: 905 305-6867
Fax: 905 305-1969

Mississauga
4310 Sherwoodtowne Blvd.
Suite 100
Mississauga, Ontario L4Z 4C4
Phone: 905 566-6417
Fax: 905 566-6425

Mississauga North
1450 Meyerside Drive
Suite 600
Mississauga, Ontario L5T 2N5
Phone: 905 565-9740
Fax: 905 565-1312

Newmarket
(By appointment)
71 Main Street South
Newmarket, Ontario
L3Y 3Y5
Phone: 905 954-1615
Fax: 905 954-1694

North Bay
222 McIntyre Street West
North Bay, Ontario P1B 2Y8
Phone: 705 495-5700
Fax: 705 495-5707

North York
1120 Finch Avenue West
Suite 502
North York, Ontario M3J 3H7
Phone: 416 736-3420
Fax: 416 736-3425

Ottawa
Manulife Place
55 Metcalfe Street
Ground Floor
Ottawa, Ontario K1P 6L5
Phone: 613 995-0234
Fax: 613 995-9045

Ottawa West
700 Silver Seven Road
Suite 100
Kanata, Ontario K2V 1C3
Phone: 613 592-5592
Fax: 613 592-5053

Owen Sound
(By appointment)
c/o The Business
Enterprise Centre
173 8th Street East
Owen Sound, Ontario
N4K 5N3
Phone: 519 371-5666
Fax: 519 371-1707

Peterborough
Peterborough Square Tower
340 George Street North
4th Floor
P.O. Box 1419
Peterborough, Ontario K9J 7H6
Phone: 705 750-4800
Fax: 705 750-4808

St. Catharines
39 Queen Street
Suite 100
P.O. Box 1193
St. Catharines, Ontario L2R 7A7
Phone: 905 988-2874
Fax: 905 988-2890

Sault Ste. Marie
153 Great Northern Road
Sault Ste. Marie, Ontario
P6B 4Y9
Phone: 705 941-3030
Fax: 705 941-3040

Scarborough
Metro East Corporate Centre
305 Milner Avenue
Suite 112
Toronto, Ontario M1B 3V4
Phone: 416 954-0709
Fax: 416 954-0716

Stratford
516 Huron Street
Stratford, Ontario N5A 5T7
Phone: 519 271-5650
Fax: 519 271-8472

Sudbury
Brady Square
233 Brady Street
Unit 10
Sudbury, Ontario P3B 4H5
Phone: 705 670-6482
Fax: 705 670-6387

Thunder Bay
1136 Alloy Drive
Suite 102
Thunder Bay, Ontario P7B 6M9
Phone: 807 346-1780
Fax: 807 346-1790

Timmins
119 Pine Street South
Suite 214
Timmins, Ontario P4N 2K3
Phone: 705 267-6416
Fax: 705 268-5437

Toronto
150 King Street West
Suite 100
Toronto, Ontario M5H 1J9
Phone: 416 973-0341
Fax: 416 954-5009

Vaughan
3901 Highway 7 West
Suite 600
Vaughan, Ontario L4L 8L5
Phone: 905 264-2100
Fax: 905 264-2122

Windsor
500 Ouellette Avenue
6th Floor
Windsor, Ontario N9A 1B3
Phone: 519 257-6808
Fax: 519 257-6811

PRINCE EDWARD ISLAND

Charlottetown
BDC Place
119 Kent Street
Suite 230
P.O. Box 488
Charlottetown
Prince Edward Island C1A 7L1
Phone: 902 566-7454
Fax: 902 566-7459

QUEBEC

Montréal
(Head Office)
BDC Building
5 Place Ville Marie
Suite 400
Montréal, Quebec H3B 5E7
Phone: 514 283-5904

Brossard
4255 Lapinière Blvd.
Suite 200
Brossard, Quebec J4Z 0C7
Phone: 450 926-7220
Fax: 450 926-7221

Chaudière–Appalaches
1175 de la Rive-Sud Blvd.
Suite 100
Saint-Romuald, Quebec
G6W 5M6
Phone: 418 834-5144
Fax: 418 834-1855

Des Moulins / Lanaudière
2785 des Plateaux Blvd.
Terrebonne, Quebec J6X 4J9
Phone: 450 964-8778
Fax: 450 964-8773

Drummondville
1010 René-Lévesque Blvd.
Drummondville, Quebec
J2C 5W4
Phone: 819 478-4951
Fax: 819 478-5864

Gatineau
259 Saint-Joseph Blvd.
Suite 104
Gatineau, Quebec J8Y 6T1
Phone: 819 997-4434
Fax: 819 997-4435

Granby
(By appointment)
155 Saint-Jacques Street
Suite 302
Granby, Quebec
J2G 9A7
Phone: 450 372-5202
Fax: 450 372-2423

Laval
2525 Daniel-Johnson Blvd.
Suite 100
Laval, Quebec H7T 1S9
Phone: 450 973-6868
Fax: 450 973-6860

Longueuil
550 Chemin Chambly Road
Suite 100
Longueuil, Quebec J4H 3L8
Phone: 450 928-4120
Fax: 450 928-4127

Montréal
(Place Ville-Marie Branch)
BDC Building
5 Place Ville Marie
Suite 12525, Plaza Level
Montréal, Quebec H3B 2G2
Phone: 514 496-7966
Fax: 514 496-7974

Pointe-Claire
755 Saint-Jean Blvd.
Suite 110
Pointe-Claire, Quebec H9R 5M9
Phone: 514 697-8014
Fax: 514 697-3160

Québec
1134 Grande Allée West
Ground Floor
Québec, Quebec G1S 1E5
Phone: 418 648-3972
Fax: 418 648-5525

Québec North-West
1165 Lebourgneuf Blvd.
Suite 310
Québec, Quebec G2K 2C9
Phone: 418 648-4740
Fax: 418 648-4745

Rimouski
391 Jessop Blvd.
Ground Floor
Rimouski, Quebec G5L 1M9
Phone: 418 722-3304
Fax: 418 722-3362

Rouyn-Noranda
139 Québec Blvd.
Suite 301
Rouyn–Noranda, Quebec
J9X 6M8
Phone: 819 764-6701
Fax: 819 764-5472

Saguenay-Lac-Saint-Jean
345 des Saguenéens Street
Suite 210
Chicoutimi, Quebec G7H 6K9
Phone: 418 698-5599
Fax: 418 698-5678

Saint-Jérôme
55 Castonguay Street
Suite 102
Saint-Jérôme, Quebec J7Y 2H9
Phone: 450 432-7111
Fax: 450 432-8366

Saint-Laurent
3100 Côte-Vertu Blvd.
Suite 160
Saint-Laurent, Quebec H4R 2J8
Phone: 514 496-7500
Fax: 514 496-7510

Saint-Léonard
6347 Jean-Talon Street East
Saint-Léonard, Quebec H1S 3E7
Phone: 514 251-2818
Fax: 514 251-2758

Sherbrooke
2532 King Street West
Sherbrooke, Quebec J1J 2E8
Phone: 819 564-5700
Fax: 819 564-4276

Thérèse-de-Blainville
3000 Cours Le Corbusier
Boisbriand, Quebec J7G 3E8
Phone: 450 420-4900
Fax: 450 420-4904

Trois-Rivières
1500 Royale Street
Suite 150
Trois-Rivières, Quebec G9A 6E6
Phone: 819 371-5215
Fax: 819 371-5220

SASKATCHEWAN

Prince Albert
(By appointment)
1499 10th Avenue East
Suite 1
Prince Albert, Saskatchewan
S6V 7S6
Phone: 306 953-8599
Fax: 306 953-1343

Regina
Bank of Canada Building
2220 12th Avenue
Suite 320
Regina, Saskatchewan S4P 0M8
Phone: 306 780-6478
Fax: 306 780-7516

Saskatoon
135 21st Street East
Main Floor
Saskatoon, Saskatchewan
S7K 0B4
Phone: 306 975-4822
Fax: 306 975-5955

YUKON

Whitehorse
204 Lambert Street
Suite 202
Whitehorse, Yukon Y1A 1Z4
Phone: 867 633-7510
Fax: 867 667-4058

CG3 inc. | Communications | Graphisme

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www.bdc.ca