BDC Corporate Plan Summary

2013-14 to 2017-18

OPERATING BUDGET | CAPITAL BUDGET

BDC
Entrepreneurs first

Canada

The Corporate Plan Summary is based on the 2013-2014 to 2017-2018 Corporate Plan, as approved by the Governor in Council on the recommendation of the Minister of Industry.

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executive summary

In a climate of global economic uncertainty, Canada has fared well. After emerging from recession, the domestic economy has grown modestly, grounded by a sound banking system.

However, against the backdrop of a world economy in transition, Canada's competitive position is vulnerable. Canada's record on productivity is not improving and Canadian businesses are relatively slow to invest in innovation and technology. The ability of domestic companies to become global players needs to be strengthened.

For small and medium-size enterprises (SMEs) in Canada, there are reasons for optimism. Investment conditions are favourable amid low interest rates and a strong Canadian dollar. But while some SMEs plan to proceed with projects previously put on hold, many lack the management skills and financing they need.

As economic conditions evolve, so, too, does the role of the Business Development Bank of Canada (BDC). After helping to stabilize credit markets during a time of crisis, BDC has the opportunity to take a more strategic, proactive approach to SME needs.

With its financing, investment and advisory services, it continues to play an important role in catalyzing the entrepreneurial ecosystem. It strives to inspire potential entrepreneurs by offering educational resources, partnering with mentorship-oriented organizations such as C100, and by celebrating entrepreneurial achievements. It offers investments and initiatives to help start-ups and small businesses improve their operation. And it remains responsive to the needs of SMEs that traditionally have difficulty accessing financing, whether due to location, sector or demographic.

At the same time, BDC is actively identifying evolving market needs in critical areas such as competitiveness, innovation, productivity and growth. It invests in emerging concepts and technologies, while also encouraging and helping SMEs to apply innovation to their business. It offers financing and advisory services that enable SMEs to improve their competitiveness through productivity gains. And it is identifying and assisting SMEs with the potential to make significant contributions to the economy, such as high-growth firms and SMEs in specific sectors, including aerospace. In these ways, BDC supports Government priorities such as the digital economy and innovation agenda.

To accomplish this multi-faceted mandate, BDC is leveraging its existing resources to have maximum impact on entrepreneurs. It applies innovation to its own processes to better reach out to SMEs through new channels with a range of flexible products and services. As a long-term partner, it assists entrepreneurs in their journey from start-up and growth, to expansion and succession.

In many cases, BDC works with private-sector partners. They enable BDC to help SMEs, whether as co-investors in innovation and growth projects, in infrastructure contracts, or in the securitization market, where BDC's involvement has benefited more than 2,500 SMEs. To better help clients explore and seize opportunities in foreign markets, BDC is expanding its global knowledge and outreach by working with various partners. These include development banks around the world, international organizations focused on entrepreneurship, and other Crown corporations.

BDC's role in supporting credit markets during the recent global financial crisis is an excellent example of how BDC can respond quickly and ably to Government priorities. With Canadian credit markets now stabilized, the Government has turned again to BDC for help in strengthening the entrepreneurial ecosystem.

In Budget 2012, the Government indicated that it would invest $400 million to increase private-sector venture capital (VC) financing for high-potential, innovative Canadian businesses. In January 2013, the Prime Minister announced the Venture Capital Action Plan (VCAP), a comprehensive strategy for deploying the new capital over the next seven to 10 years. The Government has indicated that it wishes to lever the expertise and resources of BDC in the investment of funds under VCAP.

BDC also has been asked to build on its activities in support of the VC ecosystem. In Budget 2013, BDC was tasked with investing $100 million in strategic partnerships with business accelerators and co-investments in graduate firms through a new program BDC is calling the Venture Capital Strategic Investment Plan (VCSIP). Budget 2013 also recognized BDC's experience in celebrating entrepreneurial achievements. Subsequently, the Government has asked BDC to create and administer a new awards program for Canadian entrepreneurs.

Finally, BDC will continue to work with the Government to ensure the successful evolution of the 10-year legislative review, and remains mindful of the spirit and intent of the Government's Strategic Review.

Financial Performance

Business investment in Canada has recovered quickly from the recession, supported by low interest rates and a strong Canadian dollar and driven by significant demand as businesses proceed with projects put on hold during the crisis. With chartered banks active in the market but foreign banks largely absent, BDC is working to support the competitiveness of Canadian SMEs, while continuing to focus on its complementary role.

In BDC Financing, net acceptances are forecast at $4.15 billion for fiscal 2013 and will remain stable in fiscal 2014. As a result, in fiscal 2013 BDC's Financing portfolio is expected to grow by 7.1%, 3.3% more than previously planned, reflecting the impact of higher acceptances.

BDC Subordinate Financing's ability to offer flexible solutions to support the growth of SMEs has resulted in a strong level of activity that is forecast to continue in fiscal 2014, when acceptances are forecast to reach $195 million. The portfolio at fair value is planned to grow to $617 million in fiscal 2014.

BDC Consulting plans to increase its investment in value-added, affordable advisory services to ensure maximum impact on clients, particularly smaller businesses. From fiscal 2013 through 2014, Consulting revenues are expected to remain stable as BDC works on refining its Consulting model. Investments in the revised model will increase net losses in fiscal 2014.

In fiscal 2013, BDC Venture Capital expects to authorize $145 million, including $28 million in Strategic Initiatives and Investments (SII) to help revitalize the VC ecosystem. In fiscal 2014, BDC VC plans to authorize $155 million, including $20 million in VCSIP.

BDC will continue its role in the securitization market to help SMEs access financing for the vehicles and equipment needed to realize productivity gains. In this portfolio, net income is planned to decrease from $12 million in fiscal 2013 to $10 million in fiscal 2014.

BDC consolidated net income is forecast to reach $475 million in fiscal 2013. Due to actuarial losses on post-employment benefits, BDC expects to post a consolidated comprehensive income of $370 million. BDC expects to make dividend payments of $69 million in fiscal 2013.

BDC's capital is expected to reach $3.798 billion by the end of fiscal 2013. After deducting the capital required for BDC's activities per Treasury Board guidelines, capital will stand at $1.472 billion.

BDC profile: For 68 years, a steadfast supporter of Canadian entrepreneurs

MISSION
Help create and develop Canadian business through financing, venture capital and consulting services, with a focus on SMEs

1,990 employees

$16.9B assets

$234.5M dividends paid since 1997

	BC & Yukon	Prairies & Northern	Ontario	Quebec	Atlantic	Total
Business centres and offices	16	18	32	23	14	103
Clients[1]	3,248	4,083	7,294	9,640	3,738	28,003
Loans/Investments[2]	$2.1B	$2.9B	$5.1B	$6.1B	$1.7B	$18.1B

BDC Clients

Generate more than **$176B** in annual revenue

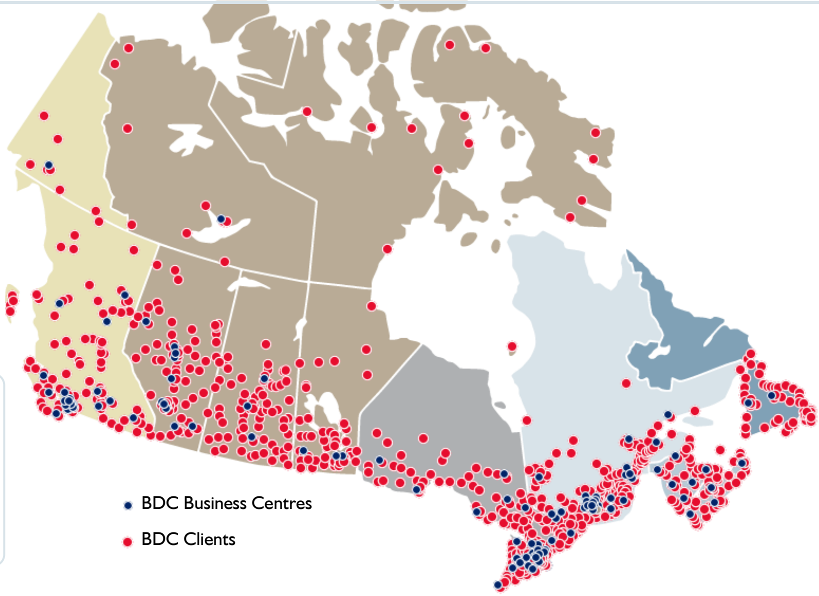
$23B in export revenue

employ more than **719,000** people

75% have fewer than 20 employees

86% of clients agree that BDC contributes to the economic development of Canada[3]

37 of Profit Magazine's 2012 200 fastest growing companies received BDC support



BDC Business Lines

Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Term loans with flexible repayment schedules	Hybrid instrument combining debt and equity financing without ownership dilution	Direct and indirect equity investments in multiple technology sectors	Customized and affordable business consulting, planning and management solutions	Debt financing that relies on the pooling of illiquid assets
$17B committed	**$354M** committed	**$735M** committed ($354M direct, $381M indirect) **14%** of reported VC transactions (#) in Canada[4]	**2,236** mandates in 2012	**$756M** ABS outstanding under CSCF and MSPSO[5] **$440M** authorized under MSPSO[5]

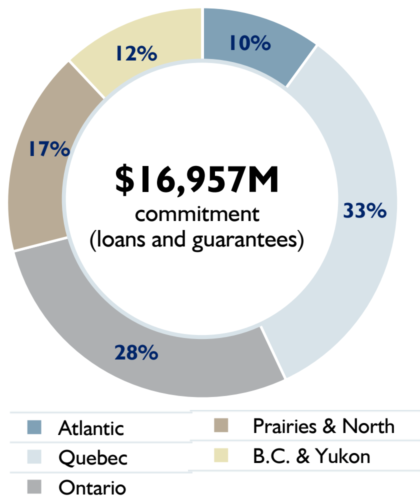
DATA ARE AS AT MARCH 31, 2012, UNLESS OTHERWISE NOTED

[1] # of Financing, Subordinate Financing and VC clients and funds
[2] $ committed for Financing, Subordinate Financing and VC clients and funds, excluding inactive companies
[3] For BDC Financing clients, BDC Client Value Survey, September 2012
[4] Based on BDC authorizations (direct investments only) versus total industry authorizations taken from Thomson Reuters
[5] CSCF = Canadian Secured Credit Facility; MSPSO = Multi-Seller Platform for Small Originators

Financing

Realty	Working Capital	Other	
> Purchase > Construction > Expansion	> Growth > Innovation > Market expansion	> New or used long-term assets > Equipment > ICT > Business transition > Investment in global opportunities	> Restructuring > Infrastructure (SME support) > Lending in partnership with other financial institutions (FIs)

Commitment by Industry Sector	
Manufacturing	25%
Wholesale & Retail	21%
Tourism	12%
Construction	8%
Transport & storage	6%
Commercial properties	10%
Business services	4%
Other	14%



Impact

$45.7B
contribution to GDP[6]

570,590
jobs sustained in 2012[6]

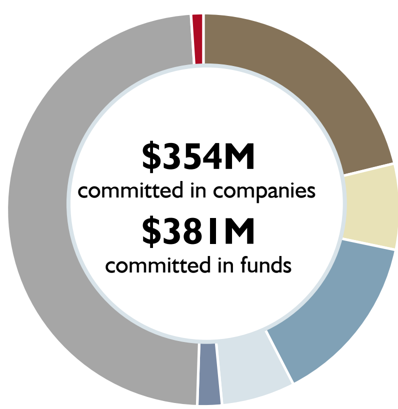
12% are start-ups (<2 years)

61% of BDC-financed start-ups survive more than 5 years, vs. 51% of all start-ups in Canada[7]

Venture Capital

Commitment

Direct investments:	$	%
Diversified (including FedDev)	$156.6M	21%
Energy/ Clean Tech	$50.1M	7%
Health	$101.6M	14%
Information technology	$45.3M	6%
Indirect investments:		
GO Capital funds[8]	$20.2M	3%
Private independent funds	$355.0M	48%
Strategic Initiatives	$6.6M	1%



Impact

each
$1.00
invested by BDC
leveraged
$7.96
from external investors

87% of BDC VC's investments were in early stage firms

[6] Based on Statistics Canada input/output model results of direct and indirect economic activity generated by clients who were financed by BDC in fiscal 2012
[7] Industry Canada, The State of Entrepreneurship, February 2010
[8] As at April 2011, GO Capital 100% consolidated in BDC, previously not reported

governance

Within the context of its incorporating and governing legislation, its approved Corporate Plans and specific instructions that it may be given by the Government of Canada from time to time, BDC operates at arm's length from the Government with ultimate accountability to Parliament through the Minister of Industry.

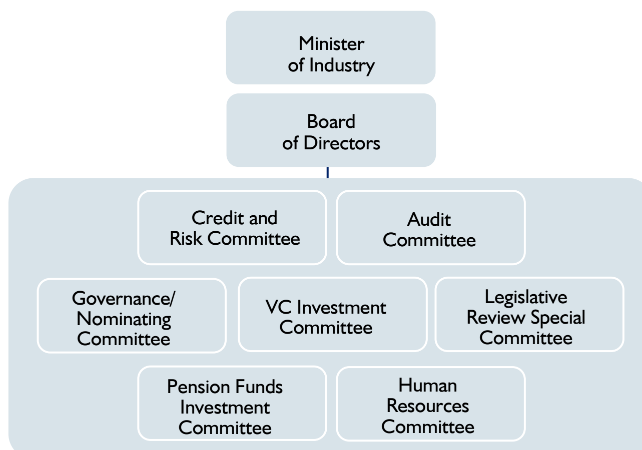
An independent Board of Directors, supported by various committees, ensures a high standard of corporate governance. BDC's President and CEO sits on and reports to the Board. BDC's internal structure includes the Senior Management Committee (SMC), which is responsible for:

- vision, corporate strategy, objectives, priorities;
- allocation of enterprise resources;
- disclosure, enterprise risk management and recommendations from committees; and,
- Board preparation and follow-ups.

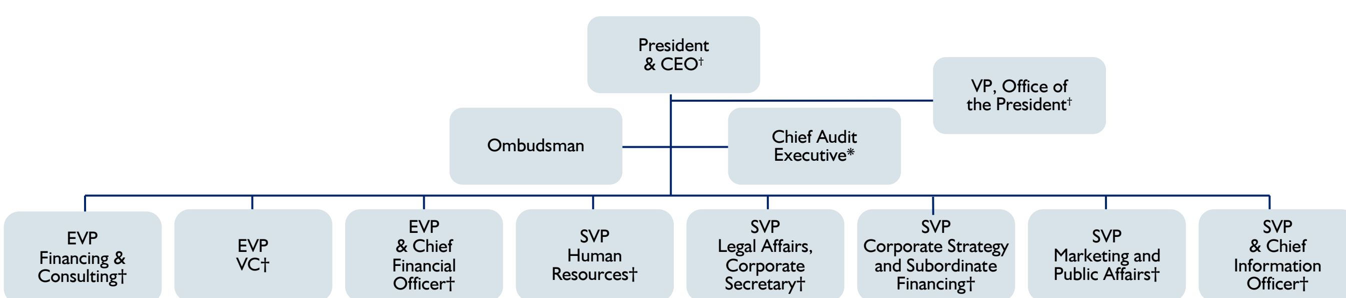
BDC was recognized for the excellence of its governance model in a 2009 World Bank study by Heinz P. Rudolph, *State Financial Institutions: Mandates, Governance, and Beyond*.

In the spirit of continuous improvement, BDC recently re-evaluated the effectiveness of its internal governance committees from a structural and governance perspective, as well as with a view to their contribution to strategic and operational issues. Two main decisions resulted: a) the number of committees was reduced; and b) membership changed, both to broaden the input base and to increase representation from all business units, providing for a greater mix of management levels.

BDC Board Structure



BDC Management Structure



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

Senior Management Committee

risk management

BDC assumes risk while remaining financially sustainable. A strong risk management culture enables BDC to take appropriate risks while offering relevant services to entrepreneurs. BDC manages risk through formal risk review processes, which include developing risk policies and setting delegated authorities and limits.

Effective risk management through an enterprise risk management framework helps protect BDC by managing risk exposure, resolving uncertainty and building reputational equity. It ensures that BDC is methodical and consistent in its decision-making processes and operations.

The Internal Audit Department promotes sound risk management practices as outlined in BDC's corporate risk management policies. Through a risk-based annual audit plan, it seeks assurance that sound risk and management practices are present, appropriate and adhered to.

compliance

The Treasury Board document, *Review of the Governance Framework for Canada's Crown Corporations: Meeting the Expectations of Canadians,* lists 31 measures for effective governance. BDC meets or exceeds all of these measures.

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

BDC continues to comply with the spirit and intent of the Government's Strategic Review.

operating environment

Early action taken by the Government through the Economic Action Plan helped Canada emerge from the financial crisis in relatively good condition, supported by a sound regulatory environment and financial system.

However, Canada's strong performance during the crisis masked some issues in the economy, such as:

> lagging productivity;

> challenges with regard to innovation; and,

> reduced export and foreign investment activity, according to the International Monetary Fund.

While some Canadian SMEs are optimistic about their businesses, the external environment continues to cause uncertainty.

To remain competitive and able to contribute to the success of the Canadian economy, SMEs need to improve their performance in innovation, productivity and growth.

Global outlook: Downside risks remain

Several factors caused global growth prospects to weaken in 2012. These include uncertainty about the ability of European countries to manage their sovereign and banking debt, and concern about the capacity of U.S. policy-makers to raise the debt ceiling and put a credible fiscal plan in place.

In Europe, some countries are in recession and the risk remains that sovereign debt and banking problems could create another global financial crisis. However, decisions among Eurozone countries have led to a greater sharing

Global and selected regional growth forecasts

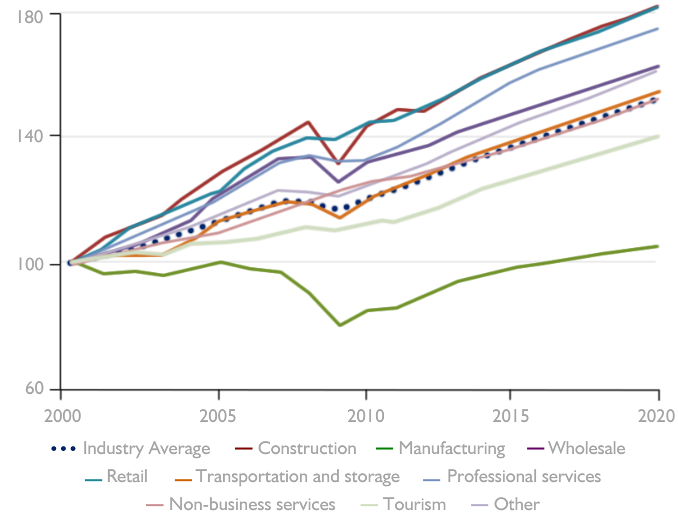
	Share of global GDP (%)	Real GDP growth (%)			
		2010	2011	2012f	2013f
World	100.0	5.1	3.8	3.3	3.6
United States	19.1	2.4	1.8	2.2	2.1
Eurozone	14.3	2.0	1.4	-0.4	0.2
China	14.3	10.4	9.2	7.8	8.2
Canada	1.8	3.2	2.4	1.9	2.0

Source: International Monetary Fund, *World Economic Outlook*, October 2012 of risk and increased the likelihood that the situation will improve. Nonetheless, austerity measures, restrictive financial conditions and low confidence will likely result in poor growth prospects in this region.

In the U.S., a modest economic recovery has been characterized by uncertainty, weak job creation and moderate private consumption. The housing market is stabilizing, but business investment has lost momentum. While the U.S. administration avoided the "fiscal cliff" (the simultaneous expiry of tax breaks and introduction of tax increases and spending cuts at the end of 2012) by passing the *American Taxpayer Relief Act*, there is still uncertainty surrounding its debt ceiling.

The situations in Europe and the U.S. have weakened the demand for imports, causing the rate of growth for emerging market economies to slow. In China, tighter monetary policy has led to reduced domestic demand and a fall in housing prices. The slowdown in emerging countries has reduced global commodity prices and impacted global manufacturing.

Industrial trend and forecast 2000 to 2020
Real GDP by industry, 2000 = 100



Source: Conference Board of Canada

Canadian economy: Continues to expand, limited by external risks

Canada's global economic and financial links, particularly with the U.S., have constrained economic growth; modest demand for exports and a strong dollar have kept the current account balance negative. Statistics Canada reported in December 2012 that growth in the domestic economy slowed markedly in the third quarter, partly due to a drop in exports.

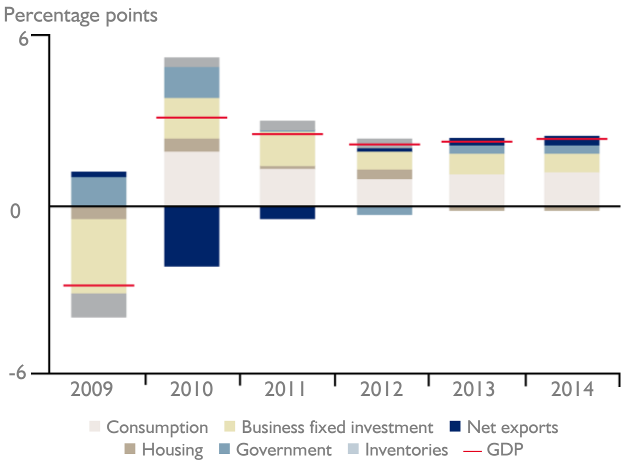
At the same time, favourable financing conditions have supported private consumption and business investment, both of which will continue to be drivers of the economy, although the level of household debt has become worrisome. Recent tightening of mortgage insurance standards, while a prudent measure, could slow the housing market.

According to data from Statistics Canada and The Conference Board of Canada, the retail, construction, professional services and wholesale sectors have experienced faster growth than average over the past decade. At the same time, the manufacturing and tourism sectors have experienced slower growth, a trend that is likely to persist to 2020, as these sectors continue to feel the effects of foreign competition and a strong Canadian dollar. Research from McKinsey & Co., *Manufacturing the Future: The Next Era of Global Growth and Innovation*, points to a potentially promising future for manufacturing as emerging economies create increased global demand. The caveat is that manufacturers must apply innovation to their operations and achieve productivity gains.

In its November 2012 economic forecast for Canada, the Organization for Economic Cooperation and Development (OECD) predicts growth of 1.8% in 2013, followed by 2.4% in 2014. Canada's growth rates are higher than the average for the 34 nations in the OECD and are stronger than that of Europe, which the OECD says will remain in recession through most of 2013.

According to The Conference Board of Canada's *Canadian Outlook – Autumn 2012*, Canada's domestic economy has softened and its major trading partners are not able to offset this weakening, limiting growth in real GDP to less than 2% this year.

Main contributors to GDP growth



Source: Bank of Canada, October 2012

In a September 2012 speech, the president of the Canadian Chamber of Commerce suggested that 2013 would look much like 2012 for Canada's economy: slow growth well below what the emerging economies will experience, but better than most developed countries.

For growth to continue, Canada needs to avoid a series of risks, many of them external, but also those lurking within its own borders.

Research by McKinsey and Co. sounds several alarm bells. For example, it shows that Canada's national productivity has fallen by 15% versus the U.S. over the past 10 years. In terms of innovation, Canadian businesses spend proportionately less on R&D (1.8% of GDP) than their peers in developed countries; this is particularly true for the manufacturing sector.

Canada has experienced a declining share of inward foreign direct investment, while exports as a percentage of GDP have fallen by 4.7%, even as U.S. and European exports have increased. Canadian manufacturers must find their place in global supply chains and Canada needs to capture its share of high-growth markets. To address these issues, the Government has taken action to open foreign markets to Canadian business through its Global Commerce Strategy. The Government has negotiated several trade agreements and is pursuing trade agreements with economies in fast-growing markets, including Europe and the Asia-Pacific region.

Credit conditions: Favourable, SMEs still facing challenges

In a November 2012 speech, the Governor of the Bank of Canada stated that the G-20's financial sector reforms are creating a more open, resilient global financial system. All major Canadian banks are expected to meet the 2019 Basel III requirements by January 2013.

Financing conditions for Canadian firms are currently favourable, with exceptionally low borrowing costs. Combined with sound company balance sheets characterized by substantial amounts of liquidity and low levels of debt, the environment for business investment is expected to remain conducive.

For the third quarter of 2012, the Bank of Canada's *Senior Loan Officer Survey* and *Business Outlook Survey* reported an easing in credit conditions. However, the *Business Outlook Survey* suggested that this easing was experienced mainly by medium-sized and large businesses, making it difficult to judge how smaller businesses are affected.

While Canadian chartered banks are more active, foreign banks continue to reduce their activity in Canada as a result of ongoing challenges in Europe. The following table compares business credit granted by chartered banks to the growth in BDC's outstanding portfolio. The increase in BDC's activity is below that of the chartered banks as a result of BDC's continued focus on complementarity.

Government spending is projected to contribute modestly to growth in coming years, as federal and provincial administrations work to balance their budgets. However, if the economic situation worsens, governments may take additional stimulus measures.

Business credit granted by chartered banks

	Outstanding (C$B)	12-month % change	3-month % change
Total business credit	1,377	6.3	9.5
Short-term business credit	380	10.2	12.7
Long-term business credit	997	4.9	7.3
BDC outstandings	16	6.7	1.5

Source: Bank of Canada, Weekly Statistics, October 2012

SMEs: Increased confidence, despite barriers and limitations

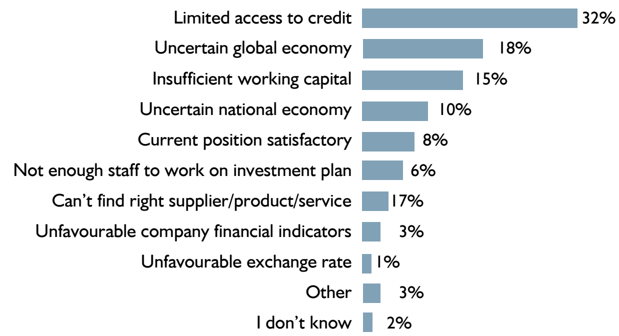
With a fairly stable domestic economy surrounded by global concerns, Canadian SME owners are reasonably positive. According to the Canadian Federation of Independent Business, optimism among Canada's SMEs was higher at the end of 2012 that it was during the summer months, but below levels seen during the rest of the year.

BDC data also suggest some confidence on the part of SMEs, but highlight several constraints to investment. A BDC survey conducted in August 2012 indicated that 55% of small business owners are planning new investments for the coming year. Their projects include acquiring new machinery and equipment (56%), hiring or training employees (56%), doing more marketing (54%), and investing in information and communication technologies (46%).

Of those who intend to invest, 63% said they would like to invest more but are constrained by limited access to credit (32%), uncertainty related to the global economy (18%) and insufficient working capital (15%).

Those who did not plan to invest at all said their main obstacles are insufficient working capital (50%), limited access to credit (30%), and uncertainty regarding the national (29%) and global (28%) economies.

Key factors limiting additional business investments



Source: BDC ViewPoints Study, October 2012

CFIB research, and BDC's own perception from speaking with clients, suggests that a shortage of skilled labour continues to constrain SMEs, which can have difficulty attracting and retaining talent. The Canadian Chamber of Commerce has identified skills shortages as the number-one barrier to the success of its members. Aging demographics are also affecting entrepreneurs, not only in terms of hiring, but also in that many "baby boomer" SME owners will retire in the next few years.

Conclusion: Key challenges ahead to maintain growth

To maintain its relatively strong economic position, Canada must improve its record on innovation, productivity and growth, and SMEs will play a crucial role. To enable them to contribute fully to economic prosperity, they need financing to pursue investments in commercialization, efficiency and expansion, as well as advisory services to guide them in these projects.

strategy map

The strategy map is the foundation of BDC's Corporate Plan and flows from BDC's mission and vision. The map is built around two key objectives:

1. **Catalyze the entrepreneurial ecosystem**: With an aging demographic, it is more important than ever for a new generation of Canadians to pursue entrepreneurship and for the ecosystem to have the resources it requires to support economic growth and prosperity.
2. **Support competitiveness of Canadian SMEs**: In order for Canadian SMEs to be competitive and contribute to Canada's economic prosperity, they must improve their productivity, incorporate innovation into their business, grow and achieve scale, and be sensitive to global opportunities and threats.

To achieve the two key objectives, BDC has identified five strategic actions:

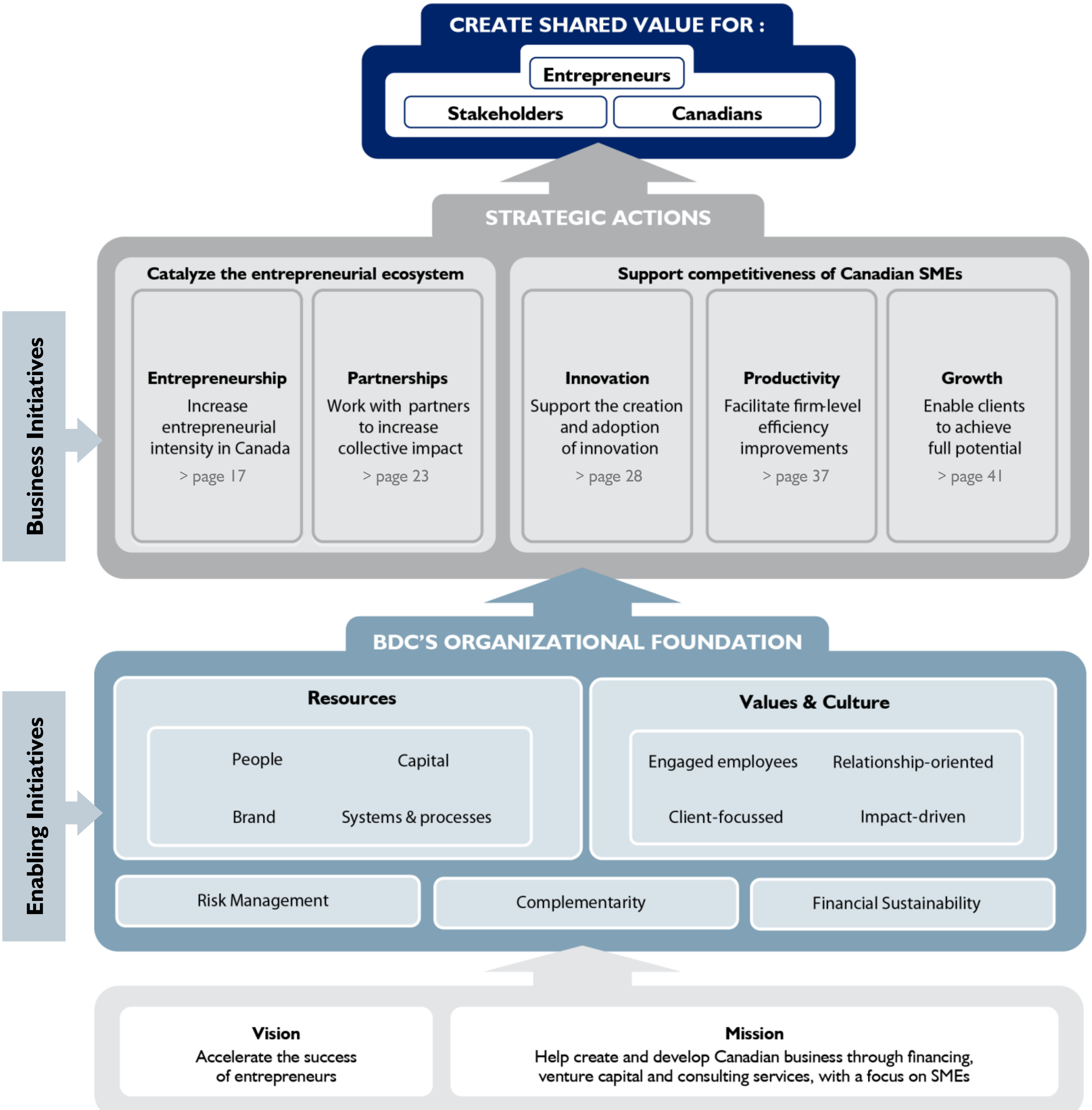
- **Entrepreneurship**: Increase entrepreneurial intensity in Canada
- **Partnerships**: Work with partners to increase collective impact
- **Innovation**: Support the creation and adoption of innovation
- **Productivity**: Facilitate firm-level efficiency improvements
- **Growth**: Enable clients to achieve full potential

The Corporate Plan describes the business initiatives that BDC is undertaking and planning to undertake in support of each of the strategic actions.

The strategic actions are also supported by BDC's Organizational Foundation, which comprises Resources and Values & Culture, both of which are broken down into their essential components. BDC's Organizational Foundation includes Risk Management, Complementarity, and Financial Sustainability as ways in which BDC approaches all of its operations. BDC supports the Organizational Foundation with enabling initiatives, such as its Agility & Efficiency program, the goal of which is to transform BDC into a more efficient, flexible and resourceful development bank able to focus on client-facing initiatives and have a greater impact on entrepreneurs.

The ultimate outcome of the strategic actions and key objectives is to create shared value for Entrepreneurs, Stakeholders, and Canadians.

The performance measures on page 16 allow BDC to assess progress towards achieving its strategic actions and key objectives.


CREATE SHARED VALUE FOR :
Entrepreneurs
Stakeholders
Canadians
STRATEGIC ACTIONS
Business Initiatives
Catalyze the entrepreneurial ecosystem
Support competitiveness of Canadian SMEs
Entrepreneurship
Increase entrepreneurial intensity in Canada
> page 17
Partnerships
Work with partners to increase collective impact
> page 23
Innovation
Support the creation and adoption of innovation
> page 28
Productivity
Facilitate firm-level efficiency improvements
> page 37
Growth
Enable clients to achieve full potential
> page 41
BDC'S ORGANIZATIONAL FOUNDATION
Enabling Initiatives
Resources
People
Capital
Brand
Systems & processes
Values & Culture
Engaged employees
Relationship-oriented
Client-focussed
Impact-driven
Risk Management
Complementarity
Financial Sustainability
Vision
Accelerate the success of entrepreneurs
Mission
Help create and develop Canadian business through financing, venture capital and consulting services, with a focus on SMEs

Performance Measures

Entrepreneurship >page 17 Increase entrepreneurial intensity in Canada	TARGET F2013	F2013 YTD[1]	TARGET F2014
> # of loans ≤$500,000 for Financing and Subordinate Financing based on commitment size of ≤$750,000	5,400	4,641	6,500
> # of authorizations to new businesses (≤2 years) (Financing and Subordinate Financing)	1,100	1,047	1,400
> % of BDC-financed start-ups that survive five years	65%	61%[2]	65%
> Client Value Index (Financing and Consulting)	96	104	100

Partnerships > page 23 Work with partners to increase collective impact	TARGET F2013	F2013 YTD[1]	TARGET F2014
> # of transactions authorized with and from partners (syndications, pari passu, loan referrals and alliances)	1,650	1,309	2,000

Innovation > page 28 Support the creation and adoption of innovation	TARGET F2013	F2013 YTD[1]	TARGET F2014
> # of ICT interventions (online web & ICT assessments, Consulting mandates, Financing and Subordinate Financing authorizations, downloads of e-Books and other informational materials from BDC.ca and attendance at BDC-hosted ICT events)[3]	21,000	32,253	35,000
> Venture Capital return of capital (ROC)	1.00	0.95	1.00

Productivity > page 37 Facilitate firm-level efficiency improvements	TARGET F2013	F2013 YTD[1]	TARGET F2014
> # of loans authorized for equipment purchase (Equipment Line and loans with "equipment purchase" as purpose)	new	1,029	2,000

Growth > page 41 Enable clients to achieve full potential	TARGET F2013	F2013 YTD[1]	TARGET F2014
> % of high-growth firms in BDC Subordinate Financing portfolio (high-growth firm defined as having annualized sales growth greater than 20% per year over a three-year period)	new	24%	30%

BDC Efficiency	TARGET F2013	F2013 YTD[1]	TARGET F2014
> BDC's reported efficiency ratio	41.5%	39.9%	42.5%

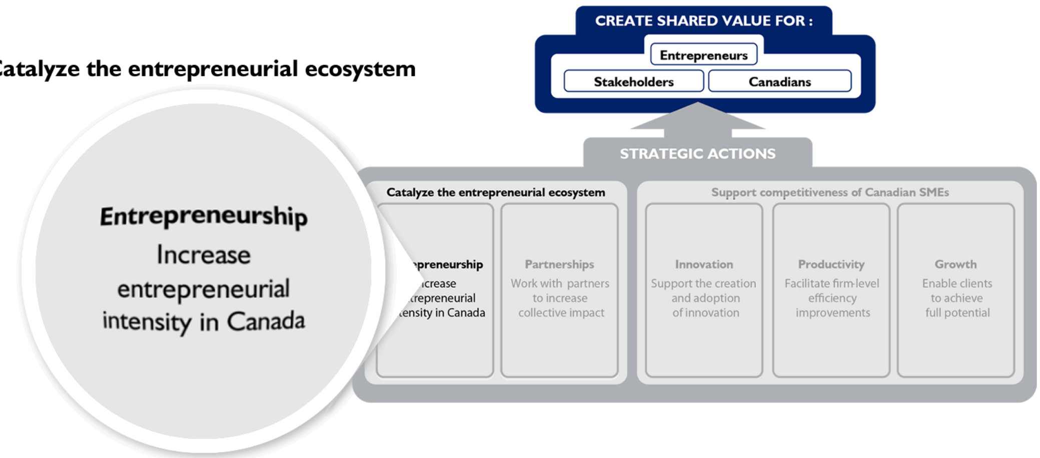
BDC strives to measure its impact on Canadian entrepreneurs. As a result, its performance measures continue to evolve to properly capture public policy impacts.

[1] Unless otherwise noted, 2013 YTD numbers are as at December 31, 2012

[2] Fiscal 2012

[3] Note that the definition of ICT interventions has been expanded for fiscal 2014. The YTD figure is based on last year's definition: online web & ICT assessments, Consulting mandates, Financing and Subordinate Financing authorizations.

Catalyze the entrepreneurial ecosystem



entrepreneurship

Canada's economy owes much to its entrepreneurs and will continue to rely on hardworking Canadians with the spirit and ability to forge their own path. BDC's role is to support today's entrepreneurs with the advice and resources they need to grow and succeed, and to enable the next generation of Canadian business owners and inspire them to start on their entrepreneurial journey.

The need to encourage a healthy entrepreneurial ecosystem has rarely been so pressing. BDC's Index of New Entrepreneurial Activity, released in October 2012, indicated that Canada has not recovered from the impact of the recession. Only 0.23% of the Canadian workforce started a new business that hired employees in 2011, far less than before the recession and the second-lowest rate in 12 years.

According to the Legatum Institute's October 2012 *Prosperity Index*, entrepreneurship drives innovation and generates economic growth. While Canada ranked 6th out of 142 countries on the index, its worst score was in "entrepreneurship & opportunity".

A good example of how BDC nurtures the entrepreneurial ecosystem is the work being done by its Strategic Initiatives and Investments (SII) team. This group brings together a variety of partners and players within the venture capital and technology ecosystem to catalyze financial and non-financial support for Canadian entrepreneurs. The group is focusing on investments, fostering entrepreneur development, global connectivity and acting as a facilitator in the venture capital industry. For more information on SII, see page 34.

Renewed focus on small loans, rural regions

An important role for BDC within the ecosystem is to ensure that Canadian SMEs – regardless of location, sector, size or demographic – have access to the financial and advisory services they need. This is why BDC pays special attention to start-ups and smaller businesses and loans; rural and remote SMEs; sectors facing slow market growth and those that are cyclical or seasonal; and to specific demographics such as youth, Aboriginal and, increasingly, new Canadians. As a complementary lender, BDC works with the private sector to ensure these SMEs have the opportunity to grow and succeed.

This is especially important since the recent recession made small business owners wary of investing in new projects. With the soft economic recovery, some SMEs are proceeding with plans they had put on hold. But entrepreneurs seeking small loans often have trouble accessing financing.

BDC has put a renewed emphasis on the number of small loans it authorizes (defined as $500,000 or less with a total commitment of $750,000 or less). It has also begun an initiative to streamline the process for small loans. This initiative is being enabled in part by BDC's Agility & Efficiency (A&E) program (see page 22).

To increase the number of small loans and refocus on rural markets, BDC's regions have developed tailored strategies targeted at specific market needs.

BDC also continues to work with Community Futures Development Corporations (CFDCs), among other partners (for more information on partnerships, see the Partnerships section starting page 23.)

Out of 268 CFDCs across the country, BDC has 229 partnership agreements. Over the past five years, $405.6 million in loans has been authorized under the CFDC alliance. While BDC has business centres in Whitehorse and Yellowknife, the partnership it has with CFDCs also contributes to its reach in Canada's North, where BDC has agreements with 14 CFDCs servicing Yukon, Nunavut and NWT.

BDC support for small business (as at March 31, 2012)

# of start-ups[1] served over past 10 years	13,819
$ authorized for start-ups over past 10 years	$3.7B
Entrepreneurship Centres serving very small clients	21
$ authorized for small businesses[2] over past 10 years	$24.8B
% of small businesses[2] served, as a % of total Financing and Subordinate Financing clients in the portfolio	96%

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

Tailored solutions for Aboriginal entrepreneurs

Canada has more than 27,000 Aboriginal entrepreneurs who make a significant contribution to the economy. They often want to grow their operations and are emerging as successful exporters. However, they have difficulty accessing capital and management support, in part because of location but also because they require tailored solutions.

On March 30, 2012, BDC renewed its partnership with Aboriginal Affairs and Northern Development Canada

CASE STUDY: ABORIGINAL BUSINESS
Nemetau/Mishkau

Nemetau, a subsidiary of holding company Mishkau, is a residential and commercial construction company created in 2007 near Sept-Îles, Québec.

To deal with its constant growth, Nemetau needed a new building to consolidate its inventory and equipment and house its operations properly. Through its Growth Capital for Aboriginal Business, BDC granted Nemetau/Mishkau the long-term financing that the company was having trouble obtaining and designed repayment terms to maintain the working capital necessary to sustain growth.

The new building is in a well-located business centre, which has allowed the company to bring together all its inventory and equipment and provides excellent visibility.

(AANDC) to continue providing debt financing to First Nations businesses across Canada with assets on a reserve. This helps reduce the impact of one of the main impediments to First Nation business development: Section 89 of the Indian Act that prohibits use of personal or real property on reserve land as collateral.

Other BDC services include:

- Growth Capital for Aboriginal Business – flexible term loans of up to $100,000 for existing businesses and $25,000 for start-ups, which BDC further supports with customized management assistance. BDC refunds a portion of the interest paid on a loan to the community organization or charity chosen by the borrower.
- Aboriginal Business Development Fund – combines financing with management training and ongoing mentorship. Funds up to $20,000 are directed to local Aboriginal organizations, allowing them to allocate the money to local entrepreneurs. BDC has agreements with four ABDFs across Canada and has committed $1 million to them.
- Peer lending – based on the principle of group borrowing, peer lending encourages community initiatives and shared responsibility.
- Consulting – Aboriginal entrepreneurs have identified mentoring and improved management skills as priorities. BDC Consulting draws on experienced Aboriginal consultants across Canada to help deliver this support.
- Financing – to purchase real estate or expand facilities, buy new or used equipment, and long-term working capital for growth.
- E-Spirit – an online national Aboriginal youth business plan competition for students in grades 10-12, designed to help them learn about entrepreneurship, e-commerce and business planning. Since 1999, more than 5,900 students have participated.

Inspiring tomorrow's entrepreneurs

The health of Canada's entrepreneurial ecosystem depends on young people with the interest, skills and resources to pursue business ownership. BDC provides financing and consulting services to young entrepreneurs, recognizing that many of them have difficulty accessing traditional financing due to a lack of experience and collateral.

BDC will maintain its partnership with the Canadian Youth Business Foundation (CYBF), a national organization dedicated to championing tomorrow's entrepreneurs.

In this successful alliance, BDC offers financing of up to $30,000, twice the funding provided by CYBF. Recipients do not make payments of capital for the duration of the BDC loan; instead, a balloon payment is made upon loan maturity. CYBF provides mentoring and receives and manages the financing requests under this partnership. As at March 31, 2012, BDC's commitment under CYBF was for $13 million to about 635 young entrepreneurs.

BDC will maintain other programs to support young entrepreneurs:

- Junior Achievement (JA) – BDC supports JA financially to develop the "Be Entrepreneurial" program, and in kind with BDC employees who deliver the program to high school students.
- Vanier College BDC Business Case Challenge – A business case competition for pre-university students.
- ACE (Advancing Canadian Entrepreneurship) – BDC has pledged $150,000 over three years to support Students in Free Enterprise (SIFE), a program operated by ACE. The BDC SIFE Entrepreneurs First! Project fund recently awarded grants of $2,500 each to six SIFE teams to develop and implement projects in their communities that accelerate the success of Canadian entrepreneurs.

Advisory services to help SMEs at all stages of development

Another important way in which BDC is strengthening the entrepreneurial ecosystem is by providing small business owners with advisory services. The managers behind these businesses often cannot keep up with or access the wide range of management skills needed to innovate, increase productivity and be competitive, especially in a fast-paced, technology-driven, globally focused world.

BDC has found that small businesses have unmet needs for a broad range of basic advisory services offered in a holistic manner, unlike larger businesses that generally require and can pay for specific and advanced services. Entrepreneurs themselves tend to be unaware of how to identify and address their own skill gaps and challenges, often not realizing that their limitations can become the limitations of the business.

As a federal development bank, BDC is well-placed to address the market need for a range of affordable advisory services tailored to SMEs, particularly small firms. In 2011, BDC undertook a review of its Consulting group. The review determined that BDC could have a greater impact on SMEs at various stages of development through flexible financing and effective advisory services.

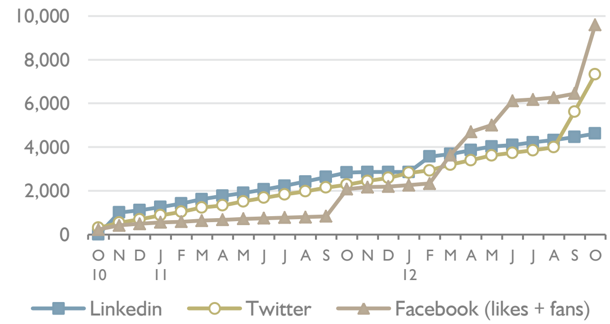
BDC Consulting will continue to be complementary in its approach and will support SME productivity, competitiveness and innovation by increasing the knowledge and skill levels of entrepreneurs. It also will improve the survival rate of SMEs, help transform more small businesses into mid-size firms, and assist SMEs in exploring new markets.

Finally, BDC Consulting will be an effective tool in supporting the priorities and initiatives of the Government, for example, the digital economy.

Entrepreneurship goes viral

The power of the Internet to share information, spark discussion and prompt people to action has been demonstrated around the globe. BDC sees the potential of an online presence to catalyze the entrepreneurial ecosystem by educating Canadians about entrepreneurship and offering practical assistance. To help today's entrepreneurs access the tools and advice they need and to reach out to a new generation that is growing up online, BDC continues to refine its main website, BDC.ca, and has embarked on a robust social media strategy.

Growth in BDC social media subscribers



Social media has a massive and growing reach, with 845 million users of Facebook, 4 billion videos viewed daily on YouTube, and 175 million "tweets" per day through Twitter. Entrepreneurs are active on social networks and financial organizations are growing their presence through these channels. BDC sees opportunities to promote entrepreneurship and strengthen BDC's impact by reaching out through social media to a wide audience of Canadians, including a significant youth demographic.

BDC has had a Twitter account since 2009 and currently has about 8,600 followers, mostly entrepreneurs, professionals, organizations and employees. BDC has been on Facebook since 2010 and uses it to launch and promote campaigns related to entrepreneurship; it currently has about 2,800 fans. On YouTube, BDC posts videos featuring testimonials and tips from entrepreneurs, advertising and speeches from BDC senior executives; to date, there have been about 20,000 views. BDC also makes use of LinkedIn to attract talent and encourage networking, with about 1,500 BDC employees featured on the site and about 3,700 followers.

While social media offers many benefits, it also requires careful oversight. BDC has developed a social media management program that ensures appropriate internal resources, education for employees on procedures and policies, and monitoring capabilities, including a formal response strategy.

One goal of BDC's social media strategy is to drive traffic to BDC.ca and to BDC micro-sites. For example, the 33rd edition of BDC Small Business Week in October 2012 featured a new micro-site highlighting small business news, a national calendar of events (including appearances by BDC senior executives), research, fact sheets and articles. BDC is also using social media to create online "buzz" around its ICT strategy and how ICT has helped Canadian SMEs take their business to the next level.

Over the planning period, BDC's social media strategy will evolve to attract and assist more entrepreneurs. Online relationships will be strengthened through greater interactivity and additional free tools and advice for entrepreneurs, while also increasing the potential for content sharing and improving the visibility of BDC products and services.

BDC's Young Entrepreneur Awards (YEA) for 2012 harnessed the power of social media and are one way that BDC inspires and supports young people in business. Since the creation of the contest in 1988, more than 2,000 businesses have applied for an award, and 275 entrepreneurs ages 18-35 have received a trophy during the past 23 YEA galas. However, with the arrival of social media, BDC felt that the current YEA concept had become outdated.

For the 2012 awards, BDC made the move to a digital platform to better reflect the mindset of today's young entrepreneurs; centralize program activities on a digital hub; and leverage social media tools. A micro-site was created to feature YEA and showcase the array of resources available through BDC and BDC.ca.

Recognizing the importance of innovation in today's economy, BDC asked contestants to share an innovative idea for their business and offered $100,000 to help implement it. Young entrepreneurs submitted a short video as their "elevator pitch." A committee reviewed all submissions and selected 11 finalists (one per province/territory). The 11 finalists invited their social network to vote for them. The finalist receiving the most votes was declared the national winner. The recipient of the 2012 BDC YEA Innovation Award was Zane Kelsall, founder of Two If By Sea Café in Nova Scotia, who submitted an innovative approach to creating a roastery and coffee lab at his business.

The online format attracted 137,000 visits to the YEA micro-site, 23,000 visits to BDC's Facebook page and 5,000 new "fans", and 50,000 votes online. BDC enjoyed record media coverage for the awards, further spreading the news about entrepreneurship and innovation.

For the 2013 awards, BDC will challenge participants to demonstrate how they plan to grow and bring their business to the next level.

Budget 2013 recognized BDC's experience and success in offering a variety of innovative awards programs. Subsequently, the Government asked BDC to draw on this expertise to create and administer a new awards program recognizing the achievements, mentorship, risk-taking and resilience of Canadian entrepreneurs.

Maximizing BDC's impact on the entrepreneurial ecosystem

Improving the client experience

Entrepreneurs are pressed for time and resources and require services that are quick and easy to use from providers they trust. The Government recognized this by tackling the issue of paper burden, or "red tape", to decrease the amount of time entrepreneurs spend filling out forms. For SMEs, time spent on paperwork is time not spent growing the business.

Recognizing these challenges, BDC created a Client Experience Committee in 2012 as part of its new internal governance structure. The committee is revisiting initiatives at BDC designed to improve client experience, with a view to developing a comprehensive strategy touching on the many ways in which clients, and prospective clients, interact with BDC.

BDC's client experience strategy will ensure that the entrepreneur is aware of the range of solutions offered by BDC, from financing to consulting, and from subordinate financing to VC. Initiatives underway as part of the client experience strategy include:

- identifying "pain points" during the loan application process, with a view to using more pre-approved solutions and ensuring existing clients do not have to duplicate tasks;

> improving navigation on BDC.ca, based on client feedback that suggested the website is not sufficiently intuitive and does not tell entrepreneurs enough about BDC and the values it supports; and,

> developing a new advertising campaign using fewer "corporate" images and employing an approach to better identify with small businesses.

Agility and Efficiency

BDC's Agility and Efficiency (A&E) program is designed to transform BDC into a more efficient, flexible and resourceful development bank able to focus on client-facing initiatives and have a greater impact on entrepreneurs.

Launched a few years ago, the program started with exploring how BDC staff could be more task-efficient, spend more time with clients, conduct better due diligence and spend less time on process. The results highlighted opportunities that would allow BDC to dedicate more time to relationship-building and business development.

A&E is allowing BDC to improve the processes that enable it to:

> provide a more consistent client experience;

> build more ability for business development and deliver more value for clients;

> have more flexibility to innovate, bring new financial offerings to market;

> prepare for a web-based channel, what the next generation of entrepreneurs demands;

> spend more time at a client's place of business;

> simplify business processes so it is easier for clients to do business with BDC; and,

> increase speed of execution within a balanced risk framework.

In fiscal 2012, several new tools were delivered to business units across BDC to provide the immediate benefits of new technology before the adoption of a more fully integrated solution.

ENTREPRENEURSHIP
Over the planning period, BDC will:

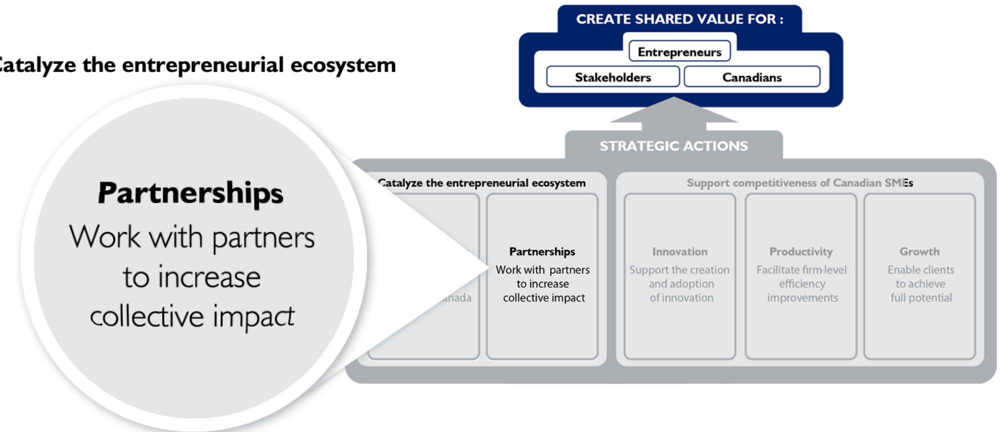
> Work to catalyze the entrepreneurial ecosystem by encouraging a new generation of Canadians to consider entrepreneurship, enabling today's entrepreneurs to succeed in their business, and celebrating the achievements of a variety of Canadians involved in entrepreneurship.

> Continuously improve the client experience, in part by applying innovation and productivity enhancements to internal processes, assisted by the A&E program.

> Build on the Consulting review to provide value-added advisory services to SMEs for maximum impact.

> Continue to support start-ups and small businesses and meet the market needs of SMEs in specific sectors, regions and demographics.

Catalyze the entrepreneurial ecosystem



partnerships

To play an effective role in the entrepreneurial ecosystem, BDC looks to the expertise and cooperation of a variety of partners. From the public to private sectors, from manufacturing to agri-business, and from Canada to countries around the world, partners add to BDC's understanding and appreciation of entrepreneurs and provide a gateway to supporting SME needs.

A highlight of BDC's partnership outreach took place in September 2012, when The Montreal Group, a global forum of state-supported financial development institutions, gathered at BDC head office in Montreal for its first general assembly and board of directors meeting. The forum was initiated by BDC to encourage an exchange of ideas and best practices with the aim of assisting micro, small and medium-sized enterprises (MSMEs) with their business challenges.

A Memorandum of Understanding (MOU) was signed at the forum, bringing together the seven founding members: BDC (Canada), BNDES (Brazil), China Development Bank, Nafinsa (Mexico), OSEO (France), SIDBI (India) and Vnesheconombank (Russia). MSMEs represent a significant part of the economic activity of each of these nations.

Representatives of the seven founding members of The Montreal Group gathered at BDC's head office for the group's first general assembly and board of directors meeting.

In addition to the formal meetings, participants broke out into working groups for discussions on intangible asset financing, debt guarantees and key performance indicators. These issues were seen as important for all the founding members and the most relevant to today's global economic realities.

To facilitate an ongoing exchange of expertise, The Montreal Group is setting up an online platform to enable participants to share information and further discuss the three topic areas. Going forward, The Montreal Group will encourage other global development financial development institutions to become members and will organize annual formal meetings.

Crown corporations

BDC's activities in support of Canadian SMEs are enhanced by its relationships with other Crown corporations. BDC and Export Development Canada (EDC) share a particularly important relationship, including a two-way referral system that ensures Canadian companies can access the services of the organization whose competencies best meet their needs. An MOU between BDC and EDC was finalized in late 2011. Since then, there have been more than 100 cross-referrals and over 730 BDC employees have benefited from training to facilitate a greater understanding of the BDC-EDC partnership.

BDC also works with Farm Credit Canada (FCC) to increase the availability of financing to agri-businesses and agri-food businesses.

	Solutions for Canadian non-exporters and investors		Solutions within Canada for exporters or investors in Canada and abroad		Solutions outside Canada for foreign buyers of Canadian goods and services	
	BDC	EDC	BDC	EDC	BDC	EDC
Insurance and Bonding						
Contract Insurance				✓		
Foreign Accounts Receivable Insurance				✓		
Performance Guarantees and Surety Bond Reinsurance				✓		
Political Risk Insurance				✓		
Financing						
Summary of Services	✓		✓	✓		✓
Foreign Buyer Financing						✓
Guarantee Bank Facilities				✓		✓
Supplier Financing				✓		✓
Working Capital Financing	✓		✓	✓		✓
Commercial Real Estate Financing	✓		✓			
Machinery & Equipment Financing	✓		✓	✓		✓
Other Capital Assets Financing	✓		✓	✓		✓
Subordinate Financing	✓		✓			
Financing to purchase or upgrade ICT	✓		✓			
Equity / Venture Capital						
Direct Investment and via Equity Funds	✓		✓	✓		
Consulting / Advisory Services						
Consulting (fee for service)	✓		✓			
Economic Intelligence	✓	✓	✓	✓		
ICT Diagnostics & Consulting	✓		✓			
Trade Advisory Service; Supply chain analyses & best practices (non-fee)		✓		✓*		

*For existing EDC customers only

Federal and provincial governments

BDC partners with a variety of government departments and organizations. For example, BDC works with the Department of Foreign Affairs and International Trade (DFAIT) to help provide Canadian entrepreneurs with access to foreign networks. In 2011, BDC signed an MOU with DFAIT to share business intelligence about global markets and encourage closer collaboration on joint marketing initiatives. The MOU increases cooperation in fields such as training and staff development, as well as co-location opportunities. It supplements an existing agreement between BDC and the International Business Opportunities Centre (IBOC), part of DFAIT that helps Canadian companies identify international business opportunities.

To support entrepreneurs in Canada's North, BDC works with federal and provincial government partners, including Aboriginal Affairs and Northern Development Canada (AANDC, formerly INAC). These partnerships help BDC extend its reach into remote regions of Canada and support BDC's Aboriginal entrepreneur strategy by, for example, encouraging Aboriginal youth to participate in BDC's E-Spirit Business Plan Competition.

BDC collaborates with the National Research Council of Canada (NRC) and the Natural Sciences and Engineering Research Council of Canada (NSERC), with the objective of strengthening commercialization by leveraging the strengths and roles of each organization. The partnership continues to work on:

> increasing opportunities for joint funding by the partners;

> improving access to complementary federal funding programs that address different aspects, stages, or scales of research and/or technology development;

> improving access to investment capital; and,

> increasing awareness of partnership opportunities and available funding programs.

Private-sector financial institutions

BDC enjoys strong working relationships with a variety of private-sector financial institutions, which proved especially important during the financial crisis when collaboration was key to preventing a credit crunch.

To strengthen these relationships, BDC senior executives participate in the Lending Practitioners Forum, an initiative spearheaded by the Canadian Bankers Association that involves the major chartered banks and EDC. Designed to promote understanding and cooperation between participants, the forum meets three times a year and focuses on the credit needs of Canadian businesses by discussing experiences, observations and trends. It also allows private-sector officials to bring forward any concerns and have them discussed at a high-level forum.

BDC participates on the board and committees of the Canadian Venture Capital Association, and works closely with Credit Union Central of Canada as a participant in its liaison committee, which seeks to improve awareness and collaboration between credit unions and other financial sector participants.

International organizations

BDC partners with groups and associations around the world to gain insight into foreign markets and assist Canadian businesses with their global expansion plans. For example, BDC has strong relationships with other global development banks to share best practices.

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

Sector associations

BDC gains a greater understanding of SMEs by working with non-government organizations, including sector-specific associations such as the Canadian Manufacturers and Exporters (CME). BDC and CME are building on a pilot project that took place in Quebec in 2009 called Export Experts, a series of on-site workshops that highlight best practices in international trade. The program currently holds about six workshops annually, targeting BDC clients who are interested in expanding abroad. Based on positive results in Quebec, BDC and CME in British Columbia are collaborating on additional sessions focussing on various target trade markets.

BDC also collaborates with the Conference Board of Canada. BDC is an active member of the Conference Board's Global Commerce Centre, which examines issues related to trade and international business. BDC also supports the Conference Board's Centre for Business Innovation, which is conducting research into how Canadian companies incorporate innovation into their operations.

Recognizing the value of mentorship, BDC is a founding member of QG100, a private group of chief executive officers from Quebec that supports the development of global leaders; promotes the sustainability of their positions in the context of international competition; and benefits from the global business expansion of its members. BDC is looking at ways to replicate this successful model elsewhere in Canada.

BDC Corporate Financing: Partners with the private sector

BDC's Corporate Financing group works closely with private-sector financial institutions on larger transactions with the potential to benefit SMEs, particularly mid-sized companies. For example, BDC participates in pari passu transactions (where financing partners share rights and privileges) and as part of banking syndicates. With European banks largely absent from the market due to difficult economic conditions abroad, BDC is increasingly being approached by commercial banks as a valued partner.

BDC Corporate Financing also works with private- and public-sector partners ("P3 partnerships") to help finance infrastructure projects in Canada. By collaborating on these types of projects, BDC not only helps support the Canadian economy, but also ensures that SMEs benefit from these contracts.

In late 2011, Stonebridge Development Corporation and PPP Canada (a Crown corporation managing a $1.2- billion program to support Canadian infrastructure projects) approached BDC for help in developing an infrastructure debt fund to bring new lenders into the P3 debt market for small projects.

Stonebridge subsequently announced that it would raise a fund and BDC participated in the first close on April 5, 2012. The initial capital commitment for the first close was $147 million, of which Canadian pension funds invested $117.5 million. BDC committed $29 million, or roughly 20% of the funds committed at the first closing. BDC has authorized a commitment of up to $50 million, to a maximum of 20% of the fund.

BDC played a significant role in developing this new fund, the first of its kind in Canada, by:

> helping to establish the governance structure;

> negotiating, on behalf of potential limited partners, the Limited Partnership Agreement and the Management Agreement with Stonebridge; and,

> agreeing to participate in the advisory committee of the fund.

The fund addresses the shortage of private-sector financing available for smaller infrastructure projects, which in turn create opportunities for smaller businesses and contractors, and will help improve credit availability for independent contractors in the Canadian infrastructure market.

Corporate Financing remains a small percentage of BDC's overall Financing portfolio, particularly in terms of number of transactions.

Partnering to support the securitization market

BDC played an important role during the economic crisis at the request of the Government by working with the private sector to offer the Canadian Secured Credit Facility (CSCF), which had the broad goal of increasing liquidity in the securitization market and augmenting investor confidence in asset-backed securities. This program is now over; no new authorizations have been made since spring 2010 and repayments are expected to be complete by late 2013. Unused capital under this program has been returned to the Government.

As a result of its work on CSCF, BDC identified an ongoing market deficiency for smaller players in the domestic independent financing and leasing market for vehicles and equipment. To address this gap, a partnership was announced between BDC and TAO Asset Management in April 2010. The Multi-Seller Platform for Small Originators (MSPSO) was created to ensure that smaller companies would be able to provide the financing needed for the vehicle and equipment needs of businesses and consumers.

In an October 2011 letter to the Minister of Finance, the Canadian Finance and Leasing Association (CFLA) supported the continuation of the MSPSO to enable the acquisition of equipment, machinery and vehicles by businesses and consumers.

Recently, BDC changed the name of MSPSO to the Funding Platform for Independent Lenders, F-PIL, to reflect the fact that the program may need to be a longer-term initiative given ongoing constraints in the Canadian market.

The F-PIL's approach is built on:

> using private-sector securitization techniques and funding creditworthy companies;

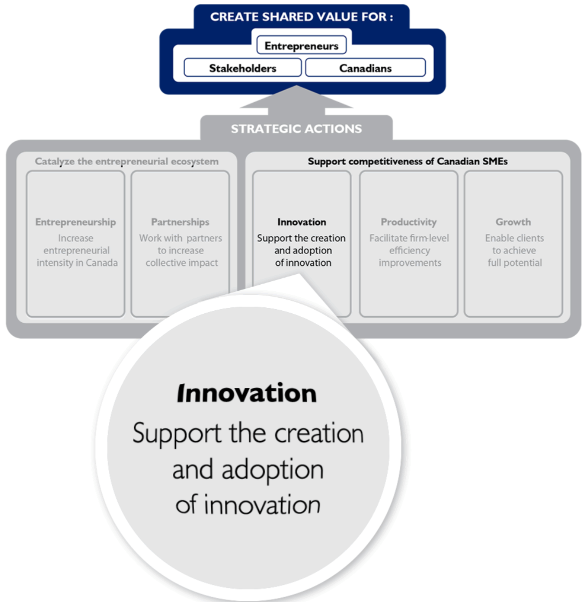
- deploying best practices around legal documentation, due diligence and transaction structures to increase confidence and improve private-sector funding;
- the requirement for a true risk-sharing arrangement between BDC, the company benefiting from the financing, and the private-sector partner, TAO; and,
- a commitment to participate in this market for a sustained period of time.

As at September 30, 2012, cumulative total F-PIL authorizations were $505 million, with several transactions in the pipeline, and $170.9 million of authorizations were disbursed and outstanding.

BDC estimates that about 2,500 SMEs benefit from this program. BDC will continue to manage the F-PIL over the planning period and will modify its parameters to address market gaps as they evolve By leveraging the private sector, BDC's involvement in this market helps ensure that SMEs have the liquidity they need to purchase vehicles and equipment, thereby helping to boost Canadian productivity.

PARTNERSHIPS
Over the planning period, BDC will:

- Strengthen existing partnerships and seek new partnerships with the potential to increase BDC's impact on the entrepreneurial ecosystem and further benefit SMEs.
- Continue to work with private-sector partners in Corporate Finance and through the securitization market.
- Identify unique initiatives such as The Montreal Group where BDC can have a significant impact on improving the ways it addresses SME development.



Support competitiveness of Canadian SMEs

innovation

Innovation is key to the success of any business. It gives a competitive edge, increases productivity and helps a firm to grow. However, Canada lags behind when it comes to innovation. On the World Economic Forum *Global Competitiveness Index*, Canada's overall ranking declined from 12th in 2011 to 14th in 2012. In the sub-area of innovation and business sophistication, Canada fell from 15th to 21st, the largest drop for any top-ranked country.

BDC believes that innovation is something all firms can do. Innovation can be radical, which generally involves the creation of something that did not exist before, often fuelled by R&D breakthroughs and venture capital investments. But it can also be incremental, for example: improvements to existing products, and different ways of marketing and new business processes. While incremental innovation involves thinking "outside the box", it also means having the tools to implement a new approach. This is where ICT often comes in.

Despite the growing prevalence of ICT in everyday life, too few entrepreneurs use it effectively in their business. BDC research shows that only 17% use the Internet to sell and only 25% use software for enterprise resource planning or customer relationship management. The smaller the firm, the less likely it is to use ICT.

For SMEs with limited money, expertise and time, innovation can be a challenge. They need financing and specialized consultants, but they also require a basic understanding of ICT and how other entrepreneurs have used it to advantage.

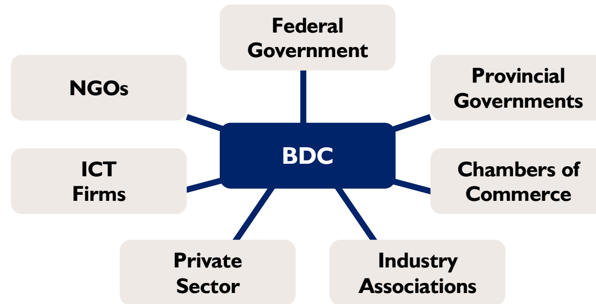
Applying innovation to daily business

BDC's ICT strategy recognizes that entrepreneurs need educational tools and resources before they can make the leap to integrating ICT into their business. One year after the strategy's official launch in October 2011, BDC is meeting its corporate performance expectations in terms of visits to its Smart Tech micro-site, uptake of free resources and numbers of loan authorizations and consulting mandates for ICT.

An important aspect of the initiative is specialized consulting services to help SMEs evaluate their use of ICT and plan for next steps. BDC also provides the capital needed to make these plans happen, supporting firms that create ICT and firms wishing to integrate ICT into the business. BDC has made financing for these types of activities affordable and accessible (see page 38 for more information on ICT financing).

In the first two quarters of fiscal 2012, BDC authorized almost $104 million in ICT financing to more than 700 SMEs. It also undertook 85 ICT consulting mandates, mostly for Internet consulting services.

BDC's ICT partnerships



BDC supports its ICT strategy with marketing and partnership initiatives and internal employee training. Marketing activities have included a letter campaign and follow-up calls, printed materials and videos, and online cross-promotion. BDC has increased its strategic use of social media to promote the benefits of ICT, creating significant online "buzz" that has resulted in more uptake of tools such as its free e-Books.

In terms of partnerships, BDC has reached out to provincial governments, chambers of commerce and to the private sector to help spread the word about the advantages of ICT.

Over the planning period, BDC will continue to measure performance and gather feedback to tweak its ICT

BDC's ICT strategy
Background and overview

In support of Canada's digital economy, BDC developed an ICT strategy that focuses on:

- building general awareness of the benefits of ICT;
- raising ICT considerations when reviewing financing requests;
- helping entrepreneurs evaluate their level of ICT integration;
- providing access to consulting services; and,
- providing financing for ICT.

❶ Awareness

BDC's Smart Tech site includes tools such as:

- e-Books – highlight how businesses can benefit from ICT.
- Ask a Pro – how-to articles and Q&As on ICT solutions related to sales and customer management, accounting and finance, and human resources.
- one-pagers – demonstrate how incorporating technology does not have to be complicated or costly.
- free online website assessments – gauge the effectiveness of an entrepreneur's website.
- free online ICT assessments – generate a report on the firm's use of ICT, based on responses to a survey.

❷ Consideration

BDC offers consulting services that include:

- Website diagnostic – an in-depth professional evaluation of the usability of the SME's current site.
- ICT diagnostic – a professional evaluation of the current level of ICT adoption highlighting areas for improvement.
- ICT essentials – explores, in a group setting, how SMEs can make strategic decisions about technology.

❸ Adoption

Once entrepreneurs have learned about ICT and considered their options, BDC is ready to help put their plans into action.

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

In October 2011, BDC announced that it would offer financing to help entrepreneurs with ICT projects and purchases including hardware, software and consulting services.

products and services or develop new ones, pursue additional marketing and partnership activities, and build on the expertise of internal consultants and expand its network of qualified external consultants.

Applying innovation to BDC processes

Through A&E (see page 22), BDC is "walking the talk" by applying innovation it to its own processes to increase efficiency and effectiveness, to the benefit of clients and employees.

BDC is also pursuing a project that will incorporate sophisticated audio and video conferencing abilities to allow employees to communicate with colleagues, clients and stakeholders, regardless of location. One benefit will be reduced travel costs for BDC.

Venture capital: Investing to support innovation

Innovation also means creating the disruptive technologies and business models that lead to new products and services. Much of this work is pursued by smaller firms that take concepts based on R&D and turn them into commercially viable products. Despite the importance of their work, many of these firms struggle to find financing.

Venture capital (VC) investors take the high risks necessary to finance these firms and expect high returns. However, in recent years, VC investors have not been able to realize the returns they require.

Recognizing the importance of VC to innovation and seeing that the market had ceased to function, BDC has taken an active role. Over the past year, BDC Venture Capital has continued to implement its strategy of direct and indirect investing, complemented by strategic investments and initiatives.

The strategy is based on an extensive review of the industry and BDC VC's role (see page 33 for background to the strategy). Its objective is to help return the VC industry to health, where all aspects function and the potential for profitability attracts domestic and international private-sector investors. To achieve this,

CASE STUDY: ICT CONSULTING
Timberlane Lodge

Timberlane Lodge Ltd. is a tourist camp near Ear Falls, Ontario. It was relying on costly, time-consuming marketing strategies such as trade shows to reach U.S. and Canadian anglers and hunters. BDC Consulting proposed an Internet strategy as an effective alternative to trade shows.

Now Timberlane Lodge will not be investing solely in costly trade shows, but will allocate a portion of this budget to tap into the online community to help build its client base. As well, it has a strategic plan to market its unique selling points in a highly competitive environment. BDC Consulting also provided a revamped website framework which enables the company to manage its site independently.

CVCA Deal of the Year

Along with its co-investor, New Brunswick Investment Management Corporation (NBIMC), BDC VC received the CVCA Deal of the Year award for its investment in Q1 Labs Inc., a New Brunswick-based provider of high-value, cost-effective security intelligence software that was acquired by IBM in late 2011. BDC was the first institutional investor in the company in the first round of financing in 2003, together with NBIMC, and the largest Canadian investor at exit, which generated one of the highest capital returns ever obtained by BDC VC.

This is the second consecutive year that BDC VC has been recognized for a successful investment; in 2011, it shared Deal of the Year honours for its role in building Radian6 Technologies Inc., a social media monitoring and analysis company, also based in New Brunswick.

This year's award marks the third time in four years that BDC VC has won Deal of the Year, having secured the honour in 2009 for its successful exit from ViroChem Pharma.

BDC VC is investing in innovative, technology-driven Canadian companies directly, indirectly through external private-sector venture funds, and by undertaking strategic initiatives and making targeted investments.

BDC VC is one of the most active investors in Canada, particularly at the early stage, and is making progress in executing its strategy. In September 2012, BDC VC won the Canadian Venture Capital Association's Deal of the Year award for the third time in four years.

VC market: Signs of improvement

VC Fundraising

Canadian VC investment activity continues to improve and the VC fundraising logjam has eased in the short-term.

According to Thomson Reuters, in the first half of 2012, Canadian VC fundraising activity actually outpaced that of the U.S. Canadian general partner (GP) funds raised $1.4 billion, more than during the previous six years, led by multiple funds attaining first or final closings. None-theless, the pool of capital available for investment remains limited.

While the difference between venture funds' "asks" and the capital available remains daunting, recent trends and government funding commitments are helping to address the issue.

VC Investment

In the first six months of 2012, $438 million was invested across Canada, a 17% increase over the year before.

With a general increase in VC investment activity, more Canadian firms are receiving venture funding; 444 in 2011, a six-year high. At the same time, Canadian VC deal sizes continue to decline, despite major financings. Canadian tech firms receive roughly one-third the amount of venture funding relative to their U.S. counterparts, often putting them at a competitive disadvantage. Adding to the problem is the fact that, in 2012, foreign investment declined to levels well below the historic norm.

The ratio of new to follow-on investments has increased, indicating that Canadian venture funds are able to shift from focusing on their existing portfolios to seeking out new investments.

Exits of Canadian-based portfolio businesses in the first half of 2012 have been driven by strategic acquisitions. This differs from the U.S., which has seen a comeback in the initial public offering (IPO) market for tech companies, with 19 venture-backed companies going public in the first quarter of 2012, raising $1.5 billion.

Recent improvements in VC investment and fundraising, combined with potential new federal funding and support for VC fundraising, contribute to cautious optimism over the mid- to long-term for the Canadian VC ecosystem.

BDC VC's strategy making progress

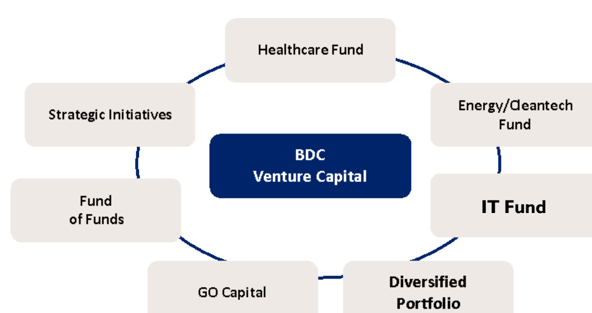
BDC VC's direct investing

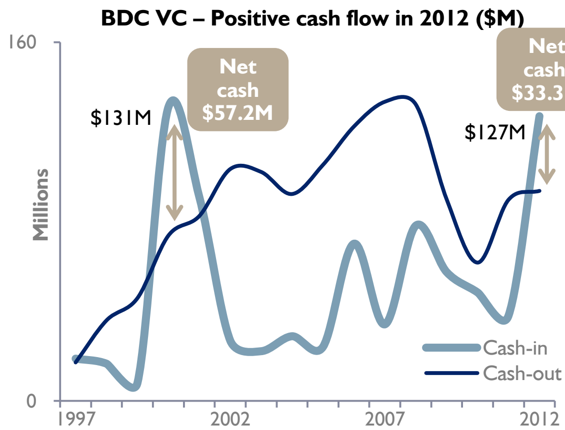
BDC VC's direct investment activities are conducted through three "internal GPs", or funds, addressing the IT, energy/cleantech, and health-care sectors, in addition to its Diversified Portfolio. Generally, the three GPs focus on early stage investing and operate on a partnership basis. Each has been "seeded" with portfolio companies from BDC VC's legacy portfolio and provided with funding for new investments. It is important to note that BDC reinvests proceeds from exiting its investments into Canadian companies.

BDC VC IT Fund

The BDC VC IT Fund has identified three investment sectors as the most promising:

> *Enterprise* – cloud computing
  – existing and new applications delivered as a service
  – new infrastructure required
  – explosion of unstructured "big data"





> *Internet* – engaged users growing exponentially
  – massive web adoption changing existing businesses and creating new ones
  – opportunities in advertising, e-commerce, gaming, digital media, social media, etc.

> *Mobile* – proliferation of devices, always connected
  – all applications and infrastructure need to support mobile
  – innovation in location tech, mobile apps, social media, payments, etc.

BDC VC Energy/Cleantech Fund

The BDC VC Energy/Cleantech Venture Fund proposes to narrow its investment scope to electronics, materials and IT that enable cleantech and energy technology companies, including software and big data and hardware and electronics.

The fund determined that its initial target sectors of investment could include:

> *Energy efficiency* – consumer and business consciousness of energy usage continues to increase, driving solutions that are good for the environment and save money.

> *Energy infrastructure* – with widespread deployment of renewable sources of energy, growth in developing nations, advances in ICT and aging infrastructure in developed countries, this segment is poised for double-digit growth rates.

> *Water and air quality* – increasing regulatory requirements and public awareness have increased the number of solutions being developed to monitor, manage, clean and recycle these resources.

> *Transportation* – this sector will see massive changes in the vehicles Canadians drive, as well as the transportation networks required to support advances in transportation efficiency.

BDC VC Healthcare Fund

Aging populations combined with weak infrastructure are overwhelming the health-care system and proving costly to both individuals and countries. BDC VC believes there is no better driver of health-care productivity and financial sustainability than to focus on developing novel diagnostics, preventions and treatments for disease and to enhance access to medical care.

Recent BDC VC Exits

Blaze Software acquired by Akamai February 2012 **ROC of 2.8X**

BelAir Networks acquired by Ericsson February 2012 **ROC of 1.9X**

Q1 Labs acquired by IBM October 2011 **ROC of 6.7X**

Radian6 acquired by Salesforce May 2011 **ROC of 17X**

OncogeneX divested through Nasdaq December 2010 **ROC of 1.8X**

Bycast acquired by NetApp May 2010 **ROC of 4.3X**

Opalis acquired by Microsoft December 2009 **ROC of 1.9X**

Virochem acquired by Vertex March 2009 **ROC of 5.4X**

BDC VC reinvests proceeds in the VC ecosystem

From an investment perspective, the field of health care is projected to experience a compound annual growth rate of 8% from 2010 to 2019, doubling industry revenues from $4 trillion to $8 trillion.

The proposed mission of the BDC VC Healthcare Fund is to "invest in innovation and entrepreneurs that improve patient outcomes and reduce the overall cost of care." The fund proposes to invest in:

> *Therapeutics* – small molecules as well as biologics with strong intellectual property and barriers to entry, with a capital-efficient model, clear visibility on capital requirements and a syndicate capable of financing to exit.

> *MedTech* – including invasive and non-invasive technologies, imaging devices and technology that will enhance workflow or productivity.

> *Diagnostics* – that will have an impact on the treatment and management of the patient before, during and/or after onset of illness.

> *Connected Health* – including software and hardware enabling patients and caregivers to be better informed and connected with health-care professionals or products that increase productivity and workflow of the health-care professional so that the patient is better served.

Diversified Portfolio

The Diversified Portfolio has a mandate to maximize the value of BDC's "legacy" portfolio. Created in 2011 as a portfolio of 50 active operating companies, its focus is to:

> maximize value creation through interventions and active, value-added file management;

> crystallize value in positive exits; and,

> implement the FedDev program, initiated in 2009 to support early stage firms and VC funds in Ontario.

The Diversified Portfolio includes companies from all sectors and has late-stage, early stage and pre-revenue companies.

Since January 2011, the number of actively managed files has been reduced from 50 to 33. The majority of the better opportunity companies has been reviewed and funded and plans put in place for greater value creation.

BDC VC's indirect investing

Fund of funds

As one of the few LPs in Canada with a national focus, BDC VC's strategic goal in indirect, or fund, investing is to attract more institutional LPs back to the market while also increasing the number of quality, at-scale GPs.

BDC is currently invested in 26 active funds and experienced four successful fund closings in 2012 (Rho Canada II, Celtic House IV, Lumira II and TVM Capital VII).

BDC VC's indirect investment team uses the following guidelines when selecting funds:

> the fund structure must be a Canadian limited partnership with industry-standard terms and conditions;

BDC VC strategy
Background and overview

In 2010, BDC completed a review of the national VC industry and its own VC operations. Based on the review, BDC VC established a new approach, taking into account industry challenges, to build on its existing role and better align it with the private sector.

BDC VC's strategic objectives are to:

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

> maximize the exit value of BDC VC's existing VC portfolio and remain responsive to specific Government requests;

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

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

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

- an established fund management team with at least two senior principals with operational experience in relevant technology companies;
- a team committed to the fund as their primary business activity;
- no less than five years successful technology investing experience with several exits each, demonstrating a superior personal track record in the VC industry;
- a team networked with international industrial players and international VC funds;
- with substantial operations in Canada and completely independent of other organizations;
- a significant contribution by the management team to the fund, typically ≥1% of total committed capital;
- a detailed business plan setting out their strategy and competitive advantage; and,
- BDC to play a significant role within the investor group and receive co-investment rights.

BDC VC will identify and support fund management teams with the ability to produce consistent, substantial, venture-level returns for investors. BDC VC will engage actively with these fund managers, providing a range of resources to meet mutual investment return goals.

In parallel, BDC VC plans to create a global network of institutional LPs, who will be provided with information on the Canadian VC market and the fund managers BDC VC supports. As positive returns appear, BDC VC will invite these investors to participate in backing successful fund managers. This will expand the supply of VC and enable the continuing expansion of the ecosystem.

GO Capital

The GO Capital fund supports the creation of companies in all sectors of science and technology in Quebec, including natural sciences, life sciences and information technology. This seed stage fund invests in companies launched as a result of R&D undertaken in universities, public-sector laboratories and by private-sector initiatives.

The GO Capital Fund is a partnership between five organizations: FIER Partners; BDC; Caisse de dépôt et placement du Québec; Solidarity Fund QFL; and Fondaction CSN.

BDC VC is both an LP in the fund and the GP of the fund. This means BDC VC is an investor in the fund, but was also chosen by the partnership to manage the fund on its behalf. With the investment period for the fund now over, BDC is concentrating on supporting the portfolio's active companies. As at September 2012, BDC had about $41 million committed or disbursed.

Strategic Initiatives and Investments

BDC VC is addressing specific weaknesses in the VC ecosystem through its Strategic Initiatives and Investments (SII) team, which works alongside BDC VC's direct and indirect investment teams.

SII's strategic *initiatives* address the following:

- Entrepreneur development
  - maintain activities through strategic partnerships with accelerators.
  - support national and regional initiatives that "build out" entrepreneurial culture in Canada.
- Angel development
  - establish effective working relationships with key national and regional angel groups.
  - support the National Angel Capital Organization to finalize angel group standards and best practices framework.
- Global connectivity
  - leverage strategic partnership programs.
  - develop relationships with key corporate/strategic partners.
  - support the creation of world-class network for BDC VC.
- Industry and ecosystem facilitator
  - leverage strategic/national partnerships.
  - be a strategic thought leader.
  - be at the forefront of the industry.
  - support events and activities of strategic/national importance.

Through SII, BDC VC has made significant progress, for example, by becoming a founding partner of C100, a non-profit, member-driven organization dedicated to supporting Canadian technology entrepreneurship and investment. C100 is comprised of Canadians based primarily in Silicon Valley, including executives of leading technology companies, experienced start-up entrepreneurs and VC investors.

C100 members leverage their experience, expertise and relationships to mentor and grow a new generation of Canadian-led technology companies. C100 Charter Members include executives of companies such as Apple, Cisco, EA, eBay, Facebook, Google, Microsoft and Oracle, as well as venture investors, collectively representing more than $8 billion in capital.

Through its SII team, BDC VC is also developing relationships with several Canadian trade commissions in the U.S. BDC VC is working on a framework agreement with Canada's Department of Foreign Affairs and International Trade to provide enhanced support to select Canadian technology accelerators (CTAs), and to enable the expansion of the CTA program.

The goals of the CTA program are to:

- accelerate start-up growth;
- provide access to the supply chains of global industry leaders; and,
- catalyze emerging sectors and market trends for the Canadian industry.

SII investments and authorizations

Accelerators	❶	GrowLab (Vancouver)	$3.5M over two years
Accelerators	❷	Extreme Startups (Toronto)	Up to $5M over three years
Accelerators	❸	Execution Labs (Montreal)	Up to $1M
Accelerators	❹	Real Ventures (Montreal)	$5M
Accelerators	❺	FounderFuel (Montreal)	Up to $5M over three years
Strategic funds & emerging models	❻	McRock Capital (Toronto)	$10M
Strategic funds & emerging models	❼	Atlantic Canada Regional Venture Fund (Halifax)	$10M
Strategic funds & emerging models	❽	Version One Ventures (Vancouver)	$2.5M

What is an accelerator program?
An accelerator program works with pre-seed stage companies, usually small teams of first-time founders, who are selected through an application process. The program often has an intense period of support for about three months, during which time the program puts teams in cohorts to create peer support. There is a heavy focus on mentoring by bringing in people from the local tech and business communities to help the companies. The aim is to secure further funding for companies. Accelerators are often described as "on ramps" to the investment world.

What is an angel investor?
An angel investor is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors organize themselves into angel groups or angel networks to share research and pool their investment capital.

CTAs are currently located in Silicon Valley and New York City. Additional CTAs are planned for New York City, Boston and Philadelphia.

In addition, SII supports StartUp Weekend, 54-hour events where developers, designers, marketers, product managers and start-up enthusiasts share ideas, form teams, build products and launch start-ups. SII is also involved as a sponsor and financial backer of Notman House in Montreal, which supports start-ups and early stage investing. In the Kitchener-Waterloo area, SII is partnering with Communitech to help fund its accelerator program and is evaluating other ways in which BDC can work more closely with the group to connect with growth companies in the region.

SII's *investments* are intended to bridge the gap between early stage (angels, accelerators) and traditional VC, mostly through indirect investing. SII has co-invested with the private sector in five private accelerators across Canada, and has authorized $22.5 million.

SII also has developed an innovative convertible note, a short-term loan that can be converted into shares later in the company's life. This product helps bridge the gap between financing from "family and friends", to when a new company can access VC and angel financing.

As at September 2012, 20 companies had been financed with the convertible note, six of which then received follow-on financing from the private sector worth a total $5 million.

Venture Capital Strategic Investment Plan

Budget 2013 announced $100 million for investments in strategic partnerships with business accelerators and co-investments in graduate firms. To fulfill this Government priority, BDC has been tasked with creating and implementing a program, which it has called the Venture Capital Strategic Investment Plan (VCSIP).

VCSIP will focus on expanding and strengthening existing accelerators and supporting emerging models, including any funds or other investment vehicles that embody the principles of business acceleration. VCSIP will also result in more capital being available for the SII team to invest in its convertible note program.

The Venture Capital Action Plan

In Budget 2012, the Government indicated that it would invest $400 million to increase private-sector VC financing for high-potential, innovative Canadian businesses.

In January 2013, after consultations with industry players, the Prime Minister announced the Venture Capital Action Plan (VCAP), a comprehensive strategy for deploying the new capital over the next seven to 10 years, with a goal of attracting close to $1 billion in new private-sector investments. VCAP will make available:

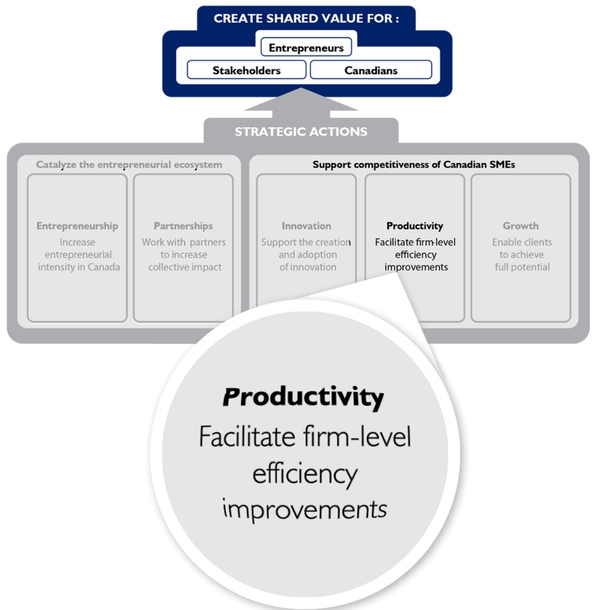
- $250 million to establish two or more new, large national funds of funds led by the private sector in partnership with institutional and corporate strategic investors, as well as interested provinces;
- up to $100 million to recapitalize existing, large private-sector funds of funds, in partnership with willing provinces; and,
- an aggregate investment of up to $50 million in existing high-performing VC funds in Canada.

The Government has indicated that it wishes to lever the expertise and resources of BDC in the investment of VC funds under VCAP.

More detail on VCAP can be found in the Financial Plan on page 55.

INNOVATION:
Over the planning period, BDC will:

- Continue to implement its VC strategy designed to return the ecosystem to health and support innovative Canadian technology companies, particularly at the early and seed stages.
- Support the Government under the Venture Capital Action Plan (VCAP) and work to implement the Venture Capital Strategic Investment Plan (VCSIP), to the benefit of the Canadian VC ecosystem.
- Further roll out and refine its ICT strategy to help SMEs apply innovation to their business, increase productivity and set the stage for growth.
- Apply innovation to internal processes to the benefit of clients and employees, and continue to identify and explore emerging technologies for potential benefits and synergies.



Support competitiveness of Canadian SMEs

productivity

Canada lags on the world stage when it comes to productivity. In its June 2012 *Economic Survey of Canada*, the OECD stated that Canadian productivity has stagnated for decades and even declined since 2002, despite the fact that per capita incomes have risen. Canada now stands 17th among 24 OECD countries – about 70% of the U.S. level – on productivity. According to the Conference Board of Canada's 2012 *Report on Productivity*, this represents about $300 billion in lost output each year in Canada.

In the most basic sense, productivity means getting the most output from the least input. Poor productivity detracts from competitiveness and can lead to a lower standard of living. Canadian economist Don Drummond points out that, with an aging population and declining labour force, productivity is becoming an increasingly important source of economic growth.

In Canada, weak productivity can be traced, in part, to the fact that businesses do not invest enough in machinery and equipment (M&E) and do not apply innovation often enough to their business. A 2012 report from the Certified General Accountants of Canada stressed that there is a fundamental relationship between M&E and productivity and Canada must encourage businesses to invest.

BDC believes it can have an impact by encouraging clients to improve their productivity, particularly in an environment of low interest rates, a strong dollar and a recent trend away from off-shoring, so that collectively they can make a difference in the Canadian economy. From purchasing new equipment to upgrading employee skills, there are numerous steps SMEs can take to improve productivity at the firm level. However, they often need a long-term partner and the financing and advisory services to make it happen.

Flexible financing for equipment

Recognizing the need for businesses to invest in M&E to increase productivity, BDC launched a pre-approved Equipment Line initiative in June 2012 that allows entrepreneurs to make equipment purchases over a 12-month period with guaranteed terms and conditions. Financing covers new or used equipment, including: production line M&E; specialized technology such as lab equipment; and commercial vehicles.

The flexibility of this financing frees up cash flow for entrepreneurs, allowing them to grow their business and pursue other projects. The fact that it is pre-approved saves time and reduces red tape and allows clients to act quickly when a good opportunity arises.

BDC's Equipment Line responds to a market need – and an overall economic priority. BDC is willing to finance 100% or more of an SME's equipment purchase, including training or other related costs.

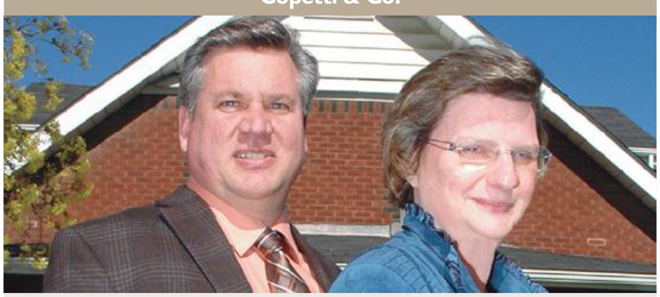
BDC is also helping SMEs purchase equipment and vehicles through its participation in the securitization market (see page 26).

CASE STUDY: EQUIPMENT LINE
Enviro Trace Ltd.

Enviro Trace Ltd. is a St. Albert, Alberta-based company providing precision, non-intrusive leak detection services to the upstream, midstream and downstream petroleum industry. Enviro Trace wanted to purchase two mobile units capable of quickly testing and verifying soil vapour samples so that information could be provided immediately to its clients.

BDC Financing provided 100% financing for the new equipment and supplied Enviro Trace with working capital to support anticipated growth. As a result, Enviro Trace anticipates a 30-day reduction in its billing time and collection process.

CASE STUDY: ICT LOANS
Copetti & Co.



Copetti & Co. has been providing accounting, bookkeeping and tax guidance for over 17 years in the Whitby, Ontario area, helping entrepreneurs meet their personal and business financial goals.

A long-time client of BDC, Copetti & Co. turned to BDC for an ICT loan to help finance the company's investment in technology and software. As a result, the company's productivity increased by 15% in the first six months.

Investing in ICT

According to Statistics Canada, Canadian businesses invest significantly less in digital technologies than their U.S. counterparts. In 2010, Canadian business sector investment in ICT per worker was only 59% of U.S. levels. This under-investment in ICT is linked to Canada's slow productivity growth.

In support of the digital economy, BDC launched its ICT initiative in October 2011 (see page 29 to read more about the program). BDC offers free online resources and tailored consulting services, as well as affordable financing, so that business owners can invest in ICT.

To make BDC's ICT financing accessible to as many SMEs as possible, loans for less than $50,000 can be applied for online. Existing BDC clients can save time and money with pre-qualified loans that do not require a personal guarantee.

To help entrepreneurs invest in the ICT needed to increase productivity, BDC's financing helps with the purchase of products and services such as:

> hardware (servers, network, telephony, computers and accessories);

- software (enterprise resource planning, client relationship management, human resources, supply chain, finance and accounting); and,
- consulting services (information technology planning, strategy, security, online sales, Internet marketing and social media).

BDC data as at September 2012 show that the majority of BDC's ICT financing is going to firms operating in the business services sector, followed by manufacturing and wholesale.

Over the first two quarters of fiscal 2013, BDC authorized 575 ICT loans for $61.7 million to help SMEs incorporate ICT into their daily operations, boost productivity and improve their ability to innovate and remain competitive. From the launch of the ICT strategy in November 2011 to December 2012, BDC authorized 1,293 loans for a total of $117 million to help SMEs apply innovation to their operations. BDC Financing and Subordinate Financing also support firms in the ICT sector, as does BDC VC through its direct and indirect investments.

Working capital for productivity

As Canadian businesses continue to recover from the recent recession, many lack the working capital required to improve their operations. Without working capital, SMEs cannot purchase equipment, train staff, pursue product or market developments, boost inventory for increased sales, or attain quality management standards such as ISO.

In an August 2012 survey of more than 500 entrepreneurs conducted by BDC, about 56% of respondents said they would invest in their businesses in the next 12 months. These entrepreneurs said they planned to increase their productivity by investing in M&E, human resources, market development and ICT. They also planned to invest to create new products, develop new markets and increase production capacity.

CASE STUDY: WORKING CAPITAL
Bake Sale Inc.

Bake Sale Inc. opened its doors in 2004 and the Etobicoke, Ontario company quickly became a neighbourhood favourite. Faced with a rapidly growing client base, management approached BDC Financing for working capital assistance.

BDC provided a long-term working capital loan that allowed Bake Sale to pay for leasehold improvements in its new location and create a company website. By moving to a larger, improved location, the company is better able to serve more customers and expand into other markets such as weddings and corporate events. The new website showcases the company's goods and services, reaching a wider range of customers.

Of those who said they would not invest in the next year, about 50% cited a lack of working capital, while 30% pointed to tight credit conditions and 29% to uncertain economic conditions.

BDC provides medium-term working capital to complement an SME's existing line of credit with another financial institution. BDC offers amortization periods tailored to the needs of the project, seasonal or progressive repayment schedules, and deferred initial principal payments to help entrepreneurs get their projects off the ground.

Consulting for operational efficiency

BDC Consulting helps SMEs optimize productivity, or operational efficiency, by:

- isolating the main causes of waste in the business;
- implementing best practices to improve performance;
- training and motivating employees around lean concepts;
- mapping and re-engineering processes;
- reconfiguring plant and office layouts for maximum efficiency;
- identifying strategies to free up cash by reducing inventory; and,
- probing opportunities to reduce purchasing costs.

The end result is that businesses are able to increase profitability by taking advantage of freed-up capacity and can more easily grow and remain competitive.

BDC Consulting, as well as its financing and subordinate financing solutions, help SMEs invest in the fixed assets and technology needed for operational efficiency, whether it be state-of-the-art equipment, new facilities to increase production capacity, or employee training.

The goal is to help SMEs boost productivity at the firm level. Collectively, these improvements can have a significant impact on the Canadian economy.

CASE STUDY: OPERATIONAL EFFICIENCY
Active Fire and Safety Services Ltd.

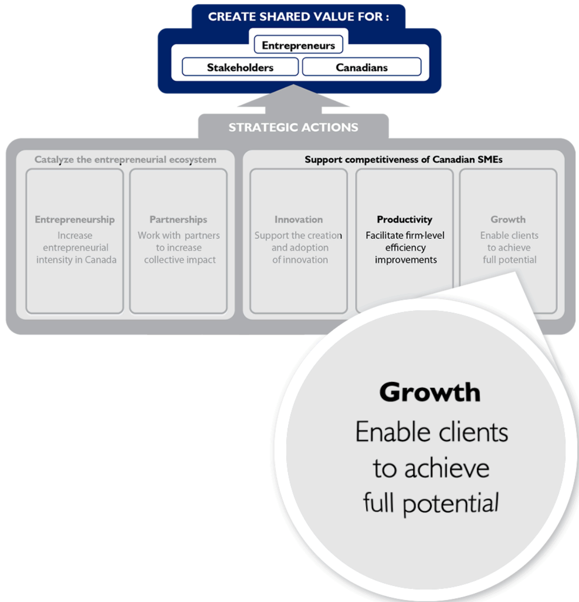
Based in Surrey, B.C., Active Fire and Safety Services Ltd. (AFS) is a full-service fire protection contractor providing installation and maintenance services for building fire prevention systems.

Because AFS had grown organically, there was frustration within the company as to the accumulation of costs and wasted time. BDC Consulting led an operational review with a cross-sectional team from AFS to design a streamlined workflow process that reduced waste and fostered a well-tuned business geared towards customer responsiveness.

With BDC's help, AFS identified and removed time-consuming non-value-added activities, improved employee morale and identified process improvements, allowing the company to capitalize on approximately $500,000 in incremental revenue through improved processing times.

PRODUCTIVITY
Over the planning period, BDC will:

- Promote the Equipment Line, ICT financing and working capital solutions to SMEs to help improve productivity at the firm level, while also exploring and developing other financing products.
- Continue to offer and build capabilities in advisory services that help SMEs improve operational efficiency.



Support competitiveness of Canadian SMEs

growth

The issue of growth is complex, since much depends on the type of firm, the market in which it operates, and the personality of the entrepreneur. For many SME owners, success does not necessarily mean growth; they are happy to run a stable company that treats customers well and specializes in a particular product, service or market. For other owners, constant growth, whether organic or by acquisition, is an imperative that drives every business decision.

The need to grow can also be driven by external factors such as industry consolidation, where scale is crucial to survival. Other SMEs must grow to retain their position in a global supply chain, and some must pursue vertical integration to access different skills and services essential to their core business.

To create jobs and prosperity in Canada, it is important to have Canadian SMEs with the desire and ability to take their business to the next level. For this reason, BDC is exploring the issue of SME growth, particularly as it relates to high-growth firms and medium-size companies, and ensuring it has the products and services these firms need.

The importance of mid-sized firms

While medium-sized firms account for less than 1% of Canadian businesses, they have significant economic impact: their contribution to GDP is roughly 12%, they represent 10.6% of exporters and they are responsible for sustaining about 16% of jobs. More mid-sized firms than large firms (90% versus 77%) have their head office in Canada.

However, BDC research shows a steady decline in the number of mid-sized firms in Canada since 2007.

Ontario saw the biggest drop in the number of medium-sized firms; while 40.7% had their head office in Ontario in 2006, this declined to 36.6% by 2010. The shift in distribution of mid-sized firms has been away from manufacturing and toward retail, accommodation and food services, business services, and construction, as well as finance and real estate sectors.

BDC research found that the main challenges facing these firms are finding and keeping employees and fierce competition. For mid-sized firms that wish to grow, availability of financing is a key constraint.

These trends are worrisome given mid-sized firms' contribution to the economy. Over the planning period, BDC will conduct additional research, including with Statistics Canada, to learn more about the challenges and needs of mid-sized firms.

Helping high-growth firms

Canadian firms with the desire and potential to grow rapidly are also important in today's economy. Research shows that these types of firms:

> contribute disproportionately to employment growth;

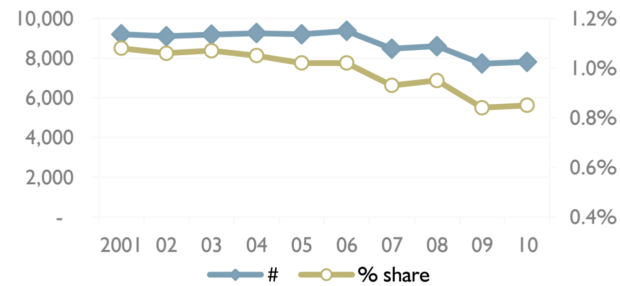
> are present in every economic sector, not just in knowledge-based industries;

> are of various sizes and ages; and,

> are more innovative, productive, responsive and agile and, as a result, less affected by economic downturns.

Recognizing this, BDC is developing a strategy to support high-growth firms (HGFs). Part of the challenge is to define HGFs and to identify potential HGFs. The most common definition is from the OECD: annualized growth greater than 20% per annum (sales or employees) over a three- to five-year period, with 10 or more employees at the beginning of the period.

Evolution in the number and share of mid-sized firms



Source: Statistics Canada's Economic Analysis Division, Longitudinal Employment Analysis Program database, 2001 to 2010.

BDC's Financing and Consulting already support about 600 HGFs. BDC Subordinate Financing has identified 24% of its clients as high growth, with annualized sales growth greater than 20% per year over a three-year period. By definition, venture capital aims to create HGFs. BDC Consulting currently has about 100 mandates with HGFs.

BDC believes it can better assist HGFs by focusing its existing products and services on the needs of these firms. Through its HGF strategy, BDC will work to increase the number and performance of sustainable Canadian HGFs, with the ultimate goal of creating globally competitive champions.

Pursuing growth in new markets

Many Canadian companies look to new markets for growth opportunities. This is particularly important as demand for consumer goods grows in developing nations and as Canada diversifies its trading relationships with countries around the world. BDC's Market Xpansion program can help SMEs explore expansion and export projects in large foreign markets and take advantage of global supply chains.

An important aspect of BDC's Market Xpansion program is its consulting services, which help educate and prepare entrepreneurs to enter new markets, thereby reducing inherent risks. Research shows that SMEs need to understand the culture and business practices of a country and to have a local partner when expanding globally.

BDC helps entrepreneurs find promising opportunities in markets such as China, India and Vietnam.

BDC's Market Xpansion program can also offer up to $100,000 in long-term financing to:

> participate in prospecting and business development initiatives like trade shows;

> develop contacts and distribution networks;

> develop export plans;

> develop e-commerce;

> produce and implement a marketing plan;

> conduct product development and R&D;

> purchase additional inventory.

BDC will proactively provide business services that allow firms in a high-growth phase to:

- maintain a sustainable high-growth rate, organically or via acquisition; and,
- experience a soft landing after a high-growth phase.

BDC will also assist firms in a post-high-growth phase to:

- identify, evaluate and select opportunities for new high growth, organically or via acquisition; and,
- reinitiate a high-growth cycle.

Helping SMEs take advantage of sectoral growth opportunities

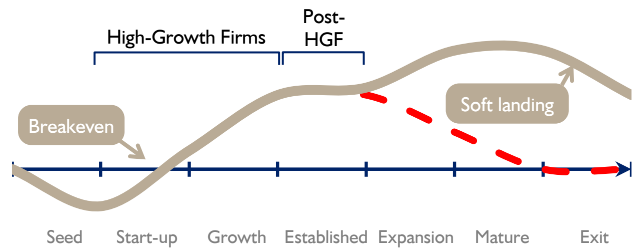
In addition to identifying and supporting firms at various stages of growth, BDC seeks to enhance its knowledge in specific sectors to better help clients. For example, BDC supports sectors that are facing challenges; about 25% of BDC Financing commitments (just over $4 billion to almost 6,000 clients) are in the manufacturing sector, which has been hit hard by low-cost foreign competition, a shift to the services sector and a strong Canadian dollar. BDC also assists sectors that are seasonal or cyclical; about 25% of BDC Financing commitments are in the tourism and retail sectors, representing over $4 billion to 7,000 clients.

Supporting the services sector

As the economy evolves, BDC is identifying sectors with the potential to contribute significantly to economic growth and where BDC can have a positive impact on SMEs in that sector. One example is Canada's services sector, which is growing in size and importance. While manufacturing remains BDC's most active sector for Financing, the percentage of dollars committed has decreased from more than 35% 10 years ago to about 25% today as the "mix" changes from goods to services. As mentioned, BDC is active in the retail and tourism sectors. And, as the energy and natural resources industries thrive in Canada, BDC is helping many of the small service firms that support those sectors.

Service sector firms also benefit from BDC's ICT initiative. As at September 30, 2012, more than 60% of the dollar value of BDC Financing committed for ICT purposes, about $38 million, was to the business services sector.

Assisting HGFs through different stages of growth



Understanding the aerospace sector

Aerospace is another industry where BDC believes it can have a significant impact. While the domestic aerospace industry has strong foundations, Canadian firms, including SMEs, need to adjust to survive in a highly competitive global aerospace sector.

Demand for aerospace products is forecast to increase significantly, fuelled by changing demographics, environmental pressures and the evolving needs of airline companies. In spite of recent growth, commercial airlines' profitability has been weak, putting price pressures on aircraft producers. As a consequence, supply chains are transforming and becoming more complex, with original equipment manufacturers (OEMs) transferring market risks and development costs to their global suppliers. This is resulting in serious challenges for SMEs that support the sector.

In November 2012, the Government released a report on the industry that explored how governments, industry and other stakeholders could work together to address issues facing the aerospace and space sectors, such as innovation, market access and development, skills development, procurement, and supplier development. BDC took the opportunity to conduct its own review to:

- better understand aerospace sector opportunities and challenges;
- determine the financial and advisory needs of Canadian aerospace SMEs and identify needs; and,
- define potential strategic options for BDC.

In Canada, the aerospace industry depends on exports, but the challenge will be benefiting from the growth in global demand. At the same time, it is a significant domestic employer; 17% of Canadian aerospace firms employ more than 100 employees, compared to 2% of all Canadian firms. Bombardier has long been the foundation of the Canadian aerospace industry and many Canadian SMEs are dependent on its success. However, it is facing strong competition in the global commercial aircraft category.

BDC's offering to these clients is typically term loans to purchase fixed assets or for working capital.

Financing and advisory needs

In the aerospace industry, the product lifecycle can last up to 50 years. It is a cash flow issue: firms need a lot of funds to secure their place on an aircraft program and survive throughout the production period. Patient and flexible capital is a critical success factor for aerospace manufacturing firms as large upfront investments for long-term cash flows are needed. Not surprisingly, with the specific challenges facing the industry, aerospace firms require management advisory services tailored to their needs.

To position themselves in the global market, Canadian aerospace SMEs need to:

> increase their scale, notably through mergers and acquisitions and additional equity investments;

> diversify their customer and program base to decrease dependency and risk;

> increase their presence in major supply chains;

> develop product niches/core competencies;

> improve productivity and cost performance through automation, having a presence in emerging markets through low-cost facilities, and with vertical integration; and,

> gain access to patient, flexible financing to support long commercialization, development and production cycles.

Aerospace supply chain

Original Equipment Manufacturers (OEM)

> Sell, assemble and support complete aircraft

> Sourcing increasingly from large Tier 1s / global integrators

Tier 1 Suppliers/ Integrators

> Designers & manufacturers of complete sections of an aircraft

> Program & supply chain management and aftermarket

Tier 2 Suppliers

> Manufacture parts & components

> Assemble small, non-complex assemblies

> Build-to-print principally

> Mainly SMEs

Tier 3 Suppliers

> Manufacture parts & components

> Build-to-print

> Mainly SMEs

CASE STUDY: EXPANSION
RackForce Networks Inc.

RackForce Networks Inc. in Kelowna, B.C. was established in 2001 to provide web hosting services to SMEs. Recently, it embarked on the expansion of its data centre with the construction of a state-of-the-art "green" data centre. Such projects are highly capital intensive. As a result, RackForce attracted a corporate equity partner and BDC Subordinate Financing to help fund construction.

BDC Subordinate Financing provided subordinated debt with flexible repayment terms tied to company performance. RackForce was able to complete the construction of its new data centre and IBM has committed to being an anchor tenant and is actively bringing its clients into the data centre.

While financing options exist, access varies along the product lifecycle. Patient and flexible capital is crucial, but is difficult to find, and there appears to be a gap in low-market private equity deals – although this is not specific to the aerospace sector. Aerospace firms in Quebec can rely on institutional lenders to ease access to equity financing, however, no similar players exist in the rest of Canada. Affordable advisory services tailored to SMEs and particularly experts with deep aerospace industry knowledge are lacking.

BDC's internal review found that its financial and advisory services cover most market gaps, but could require adjustments and better positioning. BDC will explore how it can best meet the evolving needs of Canadian aerospace SMEs and position them to successfully support this important sector of the economy.

BDC Subordinate Financing: Charting a path for growth

Subordinate financing combines the advantages of a term loan and of equity and appeals to business owners as a flexible financing solution that does not dilute their stake in the company. Subordinate financing is particularly helpful for Canadian firms in growth mode.

By assisting firms to grow, compete and transition to new domestic owners, BDC Subordinate Financing helps to ensure significant economic benefits for Canada.

Working with private-sector lenders, BDC supports projects such as:

> business acquisitions
> management buyouts
> business ownership transitions
> expansion, commercialization programs
> intangible asset financing
> working capital for growth

As a result, BDC Subordinate Financing will continue to play an important and complementary role.

CASE STUDY: TRANSITION
Blaze King Industries

Blaze King Industries of Penticton, B.C. offers efficient, long-lasting and eco-friendly hearth products throughout Canada and the U.S. The owners of the company decided it was time to retire after years of work. BDC was able to provide unsecured mezzanine financing that enabled the vendors to sell to their management team.

Under new ownership, Blaze King's value has increased significantly through a combination of geographical expansion, improvements in the manufacturing process and continuing R&D, which has resulted in the launch of several new and innovative products.

GROWTH
Over the planning period, BDC will:

> Continue to determine the best solutions for high-growth firms.
> Complete further research into medium-sized firms and their challenges in order to better support these firms.
> Support SMEs in sectors facing challenges and in sectors with significant growth potential.
> Continue to support entrepreneurs' projects through BDC Subordinate Financing

financial plan

Assumptions

The Financial Plan is based on the following assumptions regarding economic conditions:

> external factors, including the situations in the Eurozone and the U.S., are creating short-term uncertainty;

> Canada's economic fundamentals are relatively stable but uncertainty has resulted in consensus forecasts of growth at around 2%;

> business investment is strong in Canada, as firms proceed with projects they put on hold during the recession and take advantage of historically low interest rates and a strong Canadian dollar;

> BDC is actively addressing market needs and continues to focus on its complementary role;

> credit availability has improved as Canadian chartered banks are active, although foreign banks continue to be absent from the Canadian financial market;

> SMEs in Canada are cautiously optimistic and are looking to invest, although access to credit remains a challenge for certain types of businesses; and,

> the venture capital environment remains difficult but is showing signs of improvement.

Accounting Policies and Changes

The accounting policies used in the preparation of this Financial Plan are in accordance with International Financial Reporting Standards (IFRS).

The International Accounting Standards Board (IASB) has issued an amended version of International Accounting Standard 19, *Employee Benefits,* that will be effective April 1, 2013 and will affect BDC financial results from fiscal 2014 onward (refer to Appendix B on page 64). This amendment requires that comparative financial results be reported for fiscal 2013.

Therefore, this Financial Plan presents, where required, two estimates of financial results for fiscal 2013. The first is based on the current IAS 19, and the second, identified with an "R", is the restated fiscal 2013 results applying the revised IAS 19 standards. References in BDC's Corporate Plan to fiscal 2013 results use estimates based on the current IAS standard.

The Financial Plan also reflects that BDC:

> will carry out certain duties and functions to support the Government under the Venture Capital Action Plan (VCAP);

> will implement, through its Venture Capital Strategic Investment Plan (VCSIP), the Budget 2013 initiative of $100 million for Canadian business accelerators;

> continues to operate in the spirit and intent of the Government's Strategic Review; and,

> is not pre-supposing any potential outcomes of the 10-year legislative review of the BDC Act.

BDC Financing

Business investment in Canada should continue to be robust, driven by significant demand in the market as businesses proceed with projects put on hold during the recent recession, and supported by low interest rates and a strong Canadian dollar. According to the C.D. Howe Institute, business investment in plant and equipment per worker by Canadian businesses is strengthening relative to counterparts after years of underperformance.

While foreign banks remain largely absent from the market, Canadian chartered banks are increasingly active, although their approach is being tempered as they evaluate the impact of new requirements such as Basel III on their operations and capital requirements.

In this environment, BDC is working to address market needs while focusing on its complementary role. It is encouraging SMEs to improve their competitiveness by taking advantage of excellent investment conditions to improve their levels of productivity and innovation. Initiatives such as BDC's loans to help SMEs apply information and communication technologies (ICT) to their operations have been well received. From the launch of BDC's ICT strategy in November 2011 to December 2012, BDC has authorized 1,293 loans for a total of $117 million to help SMEs apply innovation to their operations.

Net acceptances are forecast at $4.15 billion for fiscal 2013 and are expected to remain stable in fiscal 2014, in part due to BDC's focus on small loans.

BDC's Financing portfolio is expected to grow by 7.1% in fiscal 2013, 3.3% more than previously planned, mainly driven by higher acceptances that have resulted in $590 million in additional disbursements.

As BDC clients continue to outperform expectations despite economic uncertainty, BDC Financing has recorded far lower impairment losses on loans in fiscal 2013 than forecast. In addition, an impairment reversal of $50 million was recorded due to lower downgrades resulting from the positive performance of BDC clients. As a result, BDC Financing net income is forecast at $449 million for fiscal 2013, a significant increase from previous forecasts.

In fiscal 2014, BDC Financing net income is expected to decrease to $342 million due to impairment losses returning to more typical levels. Over the planning period, BDC will continue its focus on financing solutions such as ICT loans and the BDC Equipment Line, aimed at improving the productivity of Canadian SMEs.

Figure 1 | Activity Acceptances Forecast ($M)

	Actual 2012	Estimate 2013	Proposed 2014
Total BDC Financing acceptances ($M)	3,623	4,150	4,150
Growth (%)	11.7	14.5	0.0

Figure 2 | Financing – Financial Forecasts ($M)

	Actual 2012	Estimate 2013	Estimate R 2013	Proposed 2014
Net interest income	**765**	**786**	**786**	**823**
Fee and other income	15	16	16	17
Net realized gains (losses) on other financial instruments	–	1	1	–
Net revenue	**780**	**803**	**803**	**840**
Impairment reversal (losses) on loans	38	(22)	(22)	(139)
Net unrealized gains (losses) on other financial instruments	1	1	1	(2)
Income before operating and administrative expenses	**819**	**782**	**782**	**699**
Operating and Administrative Expenses	314	333	342	357
Net income	**505**	**449**	**440**	**342**
As a % of average outstanding				
Net interest income	**5.1**	**4.9**	**4.9**	**4.8**
Fee and other income	0.1	0.1	0.1	0.1
Net realized gains (losses) on other financial instruments	0.0	0.0	0.0	0.0
Net revenue	**5.2**	**5.0**	**5.0**	**4.9**
Impairment reversal (losses) on loans	0.3	(0.1)	(0.1)	(0.8)
Net unrealized gains (losses) on other financial instruments	0.0	0.0	0.0	0.0
Income before operating and administrative expenses	**5.5**	**4.9**	**4.9**	**4.1**
Operating and Administrative Expenses	2.1	2.1	2.2	2.1
Net income[1]	**3.4**	**2.8**	**2.7**	**2.0**
Average Portfolio outstanding ($M)	**14,902**	**15,909**	**15,909**	**17,001**

[1]Net income before OCI; refer to Figure 13 for details

Subordinate Financing

BDC Subordinate Financing's ability to support the competitiveness and growth of Canadian SMEs through flexible financing solutions and a diverse product offering led to a strong level of activity in fiscal 2012 that is forecast to continue through fiscal 2014. The volume of acceptances is expected to reach $195 million in fiscal 2014.

Operating and administrative expenses will increase in fiscal 2014 due to the additional resources required to support the significant growth of the portfolio.

Net income is forecast at $41 million for fiscal 2013, decreasing to $40 million in fiscal 2014.

Figure 3 | Subordinate Financing – Activity & Financial Forecasts ($M)

	Actual 2012	Estimate 2013	Estimate R 2013	Proposed 2014
Acceptances (#)	137	113	113	128
Acceptances ($)	164	185	185	195
Growth (%)		13	13	5
Portfolio ($) at fair value				
O/S portfolio	457	534	534	617
Net interest income	**41**	**48**	**48**	**54**
Net realized gains (losses) on investments	(1)	(8)	(8)	(5)
Fee and other income	15	21	21	19
Net revenue	**55**	**61**	**61**	**68**
Net change in unrealized appreciation (depreciation) of investments	4	2	2	(3)
Income before operating and administrative expenses	**59**	**63**	**63**	**65**
Operating and administrative expenses	23	22	23	25
Net income[1]	**36**	**41**	**40**	**40**
Net income attributable to:				
BDC's shareholder	21	35	34	36
Non-controlling interests[2]	15	6	6	4
Net income[1]	**36**	**41**	**40**	**40**
As a % of average outstanding				
Net interest income	**9.5**	**9.5**	**9.5**	**9.3**
Net realized gains (losses) on investments	(0.2)	(1.6)	(1.6)	(0.9)
Fee and other income	3.5	4.2	4.2	3.3
Net revenue	**12.7**	**12.1**	**12.1**	**11.7**
Net change in unrealized appreciation (depreciation) of investments	0.9	0.4	0.4	(0.5)
Income before operating and administrative expenses	**13.6**	**12.5**	**12.5**	**11.1**
Operating and administrative expenses	5.3	4.4	4.5	4.3
Net income[1]	**8.3**	**8.1**	**8.0**	**6.9**

[1] Net income before OCI; refer to Figure 13 for details

[2] Non-controlling interests are in AlterInvest Inc., AlterInvest L.P. and AlterInvest II L.P.

Consulting

In fiscal 2013, BDC undertook a review of its Consulting group that resulted in the decision to refine its approach to providing value-added advisory services to entrepreneurs, particularly small businesses. BDC plans to increase its investment in affordable advisory services, both in terms of people and solutions, to ensure a greater impact on clients, regardless of location.

From fiscal 2013 through 2014, Consulting revenues are expected to remain stable as BDC lays the foundation for its refined approach. This includes identifying the Consulting solutions and methodologies that will have the most positive impact on clients and ensure BDC's complementary approach to the market.

Figure 4 | Consulting – Financial Forecasts ($M)

	Actual 2012	Estimate 2013	Estimate R 2013	Proposed 2014
Revenue from activities	22	24	24	24
Operating and administrative expenses	33	35	36	38
Net loss before transition costs	**(11)**	**(11)**	**(12)**	**(14)**
Transition costs	–	1	1	4
Net Loss[1]	**(11)**	**(12)**	**(13)**	**(18)**

[1]Net income (loss) before OCI; refer to Figure 13 for details

Venture Capital

Through its strategy of direct and indirect investing and its role in supporting the VC ecosystem, BDC VC is working to improve the health of the VC market, where the potential for profitability will attract private-sector investors. In a challenging environment, BDC VC is one of the most active investors in Canada, participating in more than 14% of deals annually.

BDC VC's three internal direct investment funds emulate the best practices of the private sector and are focused on building leading Canadian technology businesses. Each has been "seeded" with promising companies from the legacy portfolio that meet the objectives of the respective fund strategies. The remaining direct legacy investments are being managed within BDC VC's Diversified Portfolio, which strives to maximize growth and exit value through follow-on investments. It's important to note that BDC reinvests any proceeds from exiting its investments into the VC ecosystem.

BDC VC's indirect, or fund of funds, approach is focused on building and supporting at-scale, world-class Canadian VC funds. This is being done with larger commitments by BDC VC to private-sector funds that have a clear sector focus and recognized expertise in their field. BDC VC is also invested in GO Capital, a fund designed to support the creation of companies in all sectors of science and technology in Quebec. GO Capital's investment period is now complete and it will only invest further as needed to support its existing portfolio of companies.

To help rebuild and re-energize the VC ecosystem, BDC VC also has created a Strategic Initiatives and Investments (SII) team. It is developing innovative initiatives to reinforce key areas in the VC investment community and is making investments in specialized funds that fill financing gaps, focusing on early stage investments, angels and accelerators. Since the SII team's inception, demand for its support – both financial and non-financial – has been strong.

In Budget 2013, the Government announced $100 million for investments in strategic partnerships with business accelerators and co-investments in graduate firms. To fulfill this Government priority, BDC has been tasked with creating and implementing a program, which it has called the Venture Capital Strategic Investment Plan (VCSIP).

Through VCSIP, BDC will deploy $100 million of its own capital, in addition to that already allocated to its VC activities. BDC continues to work with Government officials to fully define the parameters and goals of this program, and to determine its effect on BDC's financial results.

The sustained poor performance of the Canadian VC industry for more than a decade has had a significant impact on BDC VC results. In addition, it is difficult to forecast the timing and value of exits and the amount and timing of fair value changes. While BDC is optimistic about the direction of its strategy, these factors may cause significant variation from plan.

BDC VC estimates that, in fiscal 2013, it will authorize $145 million, which includes $75 million in direct investments, $2 million in GO Capital and $40 million in indirect investments. In addition, $28 million will be authorized for SII to enable BDC VC to fully play its role in revitalizing the VC ecosystem and encourage seed-stage investing. In fiscal 2014, BDC VC expects to authorize $155 million, which includes $20 million in VCSIP.

The fair value of BDC VC's portfolio is expected to reach $415 million by the end of fiscal 2013 and increase to $471 million in fiscal 2014.

Overall net losses for BDC VC are estimated at $15 million in fiscal 2013, better than planned due to a profitable exit that is expected from one of the internal funds.

Figure 5 | Venture Capital – Authorizations Forecasts ($M)

	Actual 2012	Estimate 2013	Proposed 2014
Direct investments	**40**	**75**	**59**
Indirect Investments			
Private sector funds[1]	82	40	60
GO Capital L.P.	3	2	—
Total Indirect Investments	**85**	**42**	**60**
Strategic Initiatives & Investments[2]	2	28	16
VCSIP[3]	—	—	20
Total authorizations	**127**	**145**	**155**

[1] The Venture Capital Action Plan (VCAP) may have a limiting effect on the authorizations BDC VC expects to make in Canadian private-sector funds
[2] Includes direct convertible notes
[3] BDC continues to work with Government officials to fully define the parameters and goals of the Venture Capital Strategic Investment Plan (VCSIP)

Figure 6 | Venture Capital – Disbursements and Proceeds ($M)

	Actual 2012	Estimate 2013	Proposed 2014
Proceeds	127	62	65
Disbursements[1]	(94)	(120)	(121)
	33	**(58)**	**(56)**

[1] Excludes operating and administrative expenses

Figure 7 | Venture Capital – Financial Forecasts ($M)

	Estimate 2013	Proposed 2014
Net Income (Loss) by funds		
IT	13	(4)
Healthcare	2	13
Energy/Cleantech	(11)	(3)
Go Capital	(2)	(3)
Diversified	(14)	(8)
Total Direct Investments	**(12)**	**(5)**
GO Cap L.P.	(3)	(3)
Funds	3	(4)
Total indirect investments	**–**	**(7)**
Strategic Initiatives & Investments	(3)	(8)
Total	**(15)**	**(20)**

Figure 8 | Venture Capital – Financial Forecasts ($M)

	Actual 2012	Estimate 2013	Estimate R 2013	Proposed 2014
Net interest income (expense)	(1)	–	–	–
Net realized gains (losses) on investments	8	3	3	–
Fee and other income	3	5	5	4
Net realized gains (losses) on other financial instruments	(2)	2	2	–
Net revenue (loss)	**8**	**10**	**10**	**4**
Net change in unrealized appreciation (depreciation) of instruments	(36)	(3)	(3)	(1)
Net unrealized foreign exchange gains (losses) of investments	5	(2)	(2)	–
Net unrealized gains (losses) on financial instruments	(1)	–	–	–
Income before operating and administrative expenses	**(24)**	**5**	**5**	**3**
Operating and administrative expenses	19	20	20	23
Net income (loss)[1]	**(43)**	**(15)**	**(15)**	**(20)**
Net income (loss) attributable to:				
BDC's shareholder	(41)	(12)	(12)	(17)
Non-controlling interests[2]	(2)	(3)	(3)	(3)
Net income (loss)[1]	**(43)**	**(15)**	**(15)**	**(20)**

[1] Net income before OCI; refer to Figure 13 for details
[2] Non-controlling interests represent 80% of Go Capital net income

Canadian Secured Credit Facility

In Budget 2009, the Government mandated BDC to develop and offer the Canadian Secured Credit Facility (CSCF) as part of Canada's Economic Action Plan. The objective was to help restart the securitization market in Canada, a critical financing tool for the Canadian vehicle and equipment industry. BDC played an important role by working with private-sector partners to offer the CSCF, with the goal of increasing liquidity in the market and augmenting investor confidence in asset-backed securities (ABS). Under the CSCF, BDC purchased $3.654 billion of ABS, representing five transactions in total.

The CSCF is now over. No new authorizations are being done and the portfolio is decreasing as repayments are being made as expected. The portfolio is forecast to reach maturity in fiscal 2014. Unused capital that the Government provided for this program was returned on March 30, 2012.

Funding Platform for Independent Lenders (F-PIL)

While the CSCF helped to resolve some of the challenges experienced by the securitization market, other deficiencies remained, especially for smaller players in the independent financing and leasing market for vehicles and equipment. To address this, BDC partnered with the private sector to create the Multi-Seller Platform for Small Originators (MSPSO), now known as the Funding Platform for Independent Lenders (F-PIL).

The objective of F-PIL is to ensure that financing for vehicles, machinery and equipment is accessible to smaller companies, which tend to under-invest in these areas, leading to poor productivity at the firm level. F-PIL leverages existing private-sector financing structures and is an efficient and effective way to complement BDC's direct financing of these assets.

BDC expects F-PIL acceptances to reach $300 million in fiscal 2013 and $545 million in fiscal 2014.

Figure 9 | Securitization – Financial Forecasts ($M)

	Actual 2012	Estimate 2013	Estimate R 2013	Proposed 2014
Acceptances	**255**	**300**	**300**	**545**
Disbursements	**95**	**200**	**200**	**557**
Portfolio at nominal value	756	441	441	624
Fair Value allowance	7	2	2	1
Portfolio at Fair Value	**763**	**443**	**443**	**625**
Net interest income	47	14	14	12
Fee and other income	1	–	–	–
Net revenue	**48**	**14**	**14**	**12**
Operating and administrative expenses	2	2	2	2
Net Income[1]	**46**	**12**	**12**	**10**

[1] Net income before OCI; refer to Figure 13 for details

Venture Capital Action Plan

Recognizing the importance of the VC industry to Canada's economic prosperity, in Budget 2012 the Government announced $400 million to help increase private-sector investment in early stage risk capital and to support the creation of large-scale VC funds led by the private sector.

The Government conducted extensive consultations with key stakeholders on how to structure this support and on how to ensure that it contributes to the creation of a sustainable VC sector in Canada, led by the private sector. More than 250 stakeholders were consulted in Canada and the U.S. and about 80 submissions were received through an online portal. The consultations revealed that a long-term, market-oriented approach is required to address the issues facing Canada's VC sector.

In January 2013, the Prime Minister announced the Venture Capital Action Plan (VCAP). With the view that private-sector investment and decision-making are central to long-term success, VCAP will make available:

> $250 million to establish two or more new, large national funds of funds led by the private sector in partnership with institutional and corporate strategic investors, as well as interested provinces;

> up to $100 million to recapitalize existing, large private-sector funds of funds, in partnership with willing provinces; and,

> an aggregate investment of up to $50 million in existing high-performing VC funds in Canada.

BDC has been asked to carry out certain duties and functions to support this initiative. In this role, BDC will:

> Support VCAP in an advisory capacity by leveraging its internal expertise and resources and working alongside the Department of Finance, Industry Canada and the Government-appointed advisory panel, while also providing advice on specific VCAP elements, such as selecting GPs and funds; and,

> Undertake administrative duties, including placing investments on behalf of the Government and monitoring and reporting on the ongoing success of VCAP.

Through the issuance of common shares that will not be included in the calculation of dividends, BDC expects to receive a capital injection of $225 million from the Government in fiscal 2014. With this capital, BDC plans to authorize $50 million in existing, high-performing VC funds in Canada; $50 million in one existing, large private-sector fund of funds, in partnership with willing provinces; and $125 million in a new, large national fund of funds led by the private sector.

BDC is basing its forecasts for operating and administrative expenses under VCAP on its experience with its current VC investments.

At this time, it is too early to forecast the overall financial performance of VCAP. This is partly because the incentives and other conditions that will be attached to VCAP are yet to be finalized. It is important to note that the financial performance of VCAP will depend on these incentives and conditions, as well as on the investment decisions made by the private-sector players.

BDC recognizes that VCAP is not a profit-maximizing initiative; instead, its goal is to further encourage private-sector involvement in the VC asset class through a new source of funds. BDC is committed to working with all the players involved to ensure VCAP is a success.

BDC continues to work with officials from Industry Canada and Finance Canada on the operational details of VCAP. It is important to note that the terms of the program are not finalized, no formal agreements have been reached, and funds have not yet been identified.

Figure 10 | VCAP – Financial Forecasts ($M)*

	Proposed 2014
Authorizations	225
Disbursements	25
Portfolio at fair value	20
Fees and other income	1
Net change in unrealized appreciation (depreciation) of investments	(5)
Operating and Administrative Expenses	2
Net loss[1]	**(6)**

* Results may vary depending on the performance of private-sector funds
[1] Net loss before OCI; refer to Figure 13 for details

BDC Consolidated Portfolio and Net Income

Figure 11 shows the composition and growth of BDC's consolidated outstanding portfolio from fiscal 2012 through fiscal 2014.

BDC projected consolidated net income is expected to reach $475 million in fiscal 2013, $472 million attributable to BDC. However, because of significant actuarial losses on post-employment benefits, BDC will post a consolidated comprehensive income of $370 million, $367 million attributable to BDC and the remainder to non-controlling interests (Caisse de dépôt et placement du Québec and GO Capital partners). The actuarial losses on post-employment benefits are mainly caused by the lower interest rates used to discount the benefit obligation.

Figure 11 | Consolidated BDC Outstanding Portfolio ($M)
as at March 31

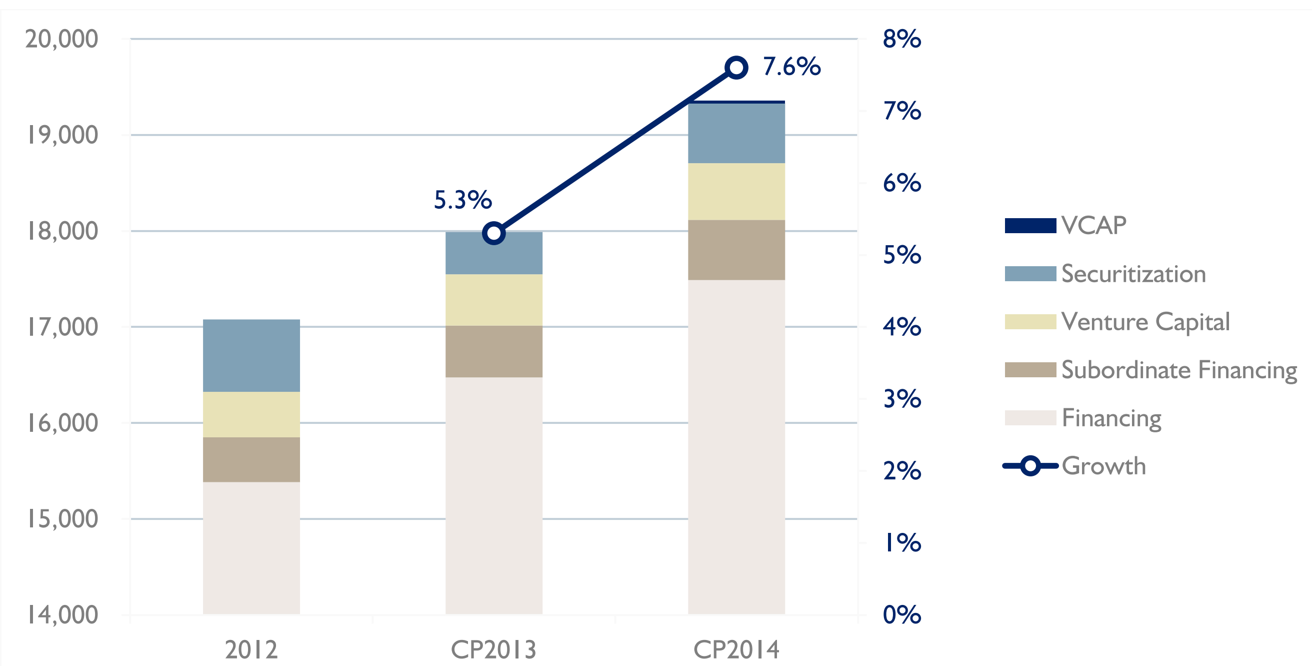


Figure 12 | Consolidated Net Income ($M)

	Actual 2012	Estimate 2013	Estimate R 2013	Proposed 2014
Financing	505	449	440	342
Subordinate Financing	36	41	40	40
Venture Capital	(43)	(15)	(15)	(20)
Consulting	(11)	(12)	(13)	(18)
Securitization	46	12	12	10
Venture Capital Action Plan (VCAP)	–	–	–	(6)
Net income	**533**	**475**	**464**	**348**
Net income (loss) attributable to:				
BDC's shareholder	520	472	461	347
Non-controlling interests	13	3	3	1
Net income	**533**	**475**	**464**	**348**

Figure 13 | Consolidated Comprehensive Income ($M)

	Actual 2012	Estimate 2013	Estimate R 2013	Proposed 2014
Net income	**533**	**475**	**464**	**348**
Other comprehensive income (loss)				
Items that may be reclassified subsequently to profit or loss				
Net change in unrealized gains (losses) on available-for-sale assets	(20)	(4)	(4)	(1)
Net change in unrealized gains (losses) on cash flow hedges	11	1	1	–
Total that may be reclassified subsequently to profit or loss	**(9)**	**(3)**	**(3)**	**(1)**
Items that will not be reclassified to profit or loss				
Actuarial gains (losses) on post-employment benefits	(143)	(102)	(91)	–
Total that will not be reclassified to profit or loss	**(143)**	**(102)**	**(91)**	**–**
Other comprehensive income (loss)	(152)	(105)	(94)	(1)
Comprehensive income	**381**	**370**	**370**	**347**
Comprehensive income attributable to:				
BDC's shareholder	368	367	367	346
Non-controlling interests	13	3	3	1
Comprehensive income	**381**	**370**	**370**	**347**

Cost Containment and Efficiency Measures

In Budget 2010, the Government announced cost containment measures to improve efficiency and reduce the rate of growth in operating expenditures in 2010-11 and the following two years. Budget 2011 initiated a Strategic Review.

In the same spirit, BDC created a task force to explore how it could:

> continue to lower its efficiency ratio (where a decrease in the ratio reflects improved efficiency);

> decrease operating expenses, with a focus on discretionary spending; and,

> identify and gain efficiencies in business processes and service delivery.

BDC also set reduction targets in discretionary spending to be implemented in fiscal 2013:

> 8% reduction in meals, travel and accommodation expenses;

> 15% reduction in advertising and promotional expenses; and,

> 21% reduction in consulting-related expenses.

BDC expects to achieve its targeted reduction in meals, travel and accommodation, but will not meet the targets for advertising and promotional expenses or for consulting-related expenses. This is due to significant costs associated with promoting BDC's information and communication technologies (ICT) strategy to encourage SMEs to apply innovation to their businesses and support the digital economy, and to costs related to BDC's Agility & Efficiency (A&E) program that seeks to streamline internal operations, create additional efficiencies and enable employees to spend more value-added time with clients, while also reducing paper burden for SMEs.

BDC expects to achieve or surpass forecasts for its reported efficiency ratio for fiscal 2013 and its adjusted efficiency ratio, which excludes the impact of pension costs and Quebec tax harmonization.

Figure 14 | Financing Operating and Administrative Expenses – Financial Forecasts ($M)

	Actual 2012	Estimate 2013	Estimate R 2013	Proposed 2014
Total operating expenses	**315**	**333**	**342**	**357**
Less:				
Pension	28	33	42	49
Quebec Tax Harmonization	–	1	1	4
Adjusted operating expenses[1]	**286**	**299**	**299**	**303**
Reported efficiency ratio (%)	40.3	41.5	42.6	42.5
Adjusted efficiency ratio[1] (%)	36.7	37.2	37.2	36.1

[1] Excluding pension and Quebec tax harmonization

Figure 15 | Capital Budget ($M)

	Actual 2012	Estimate 2013	Proposed CP 2014-2018					Total 2014-2018
			2014	2015	2016	2017	2018	
Facilities	9	4	5	5	6	6	6	28
Information technology	15	11	11	11	12	12	12	58
Agility & efficiency (A&E)	3	11	23	1	–	–	–	24
Total	**27**	**26**	**39**	**17**	**18**	**18**	**18**	**110**

Capital Budget

In an effort to remain efficient and responsive to client needs, BDC invests in information technology and in its business facilities across Canada. It also continues to invest in its A&E program, designed to enhance BDC's value proposition to customers and improve operating efficiencies. During the period, the total estimated capital budget is $110 million.

Projected Return on Common Equity

BDC is required to achieve a return on equity (ROE) at least equal to the Government's long-term cost of capital. To ensure it meets this requirement, BDC follows the 10-year moving average returns for Government of Canada three-year bonds. The 10-year moving average cost of capital is currently 2.4% for three-year bonds.

For fiscal 2013, BDC expects its 10-year moving average ROE to be 8.6% due to positive returns in its portfolio. For fiscal 2014, BDC projects that its 10-year moving average ROE will be 8.6%.

Dividend Policy, Statutory Limitations and Capital Adequacy

Dividend Policy

Common dividends are payable annually and fluctuate based on BDC performance. BDC is forecasting dividend payments of $69 million in fiscal 2013.

The dividend "payout ratio" is a percentage of actual BDC earnings (15%). The dividend is payable only on the "new" common shares.[1]

As part of an agreement with the Government of Canada in 2012, BDC returned $656 million of capital received under the Economic Action Plan, which included repurchasing all of its preferred shares outstanding.

Statutory Limitations

The *BDC Act* requires that the aggregate of borrowings and contingent liabilities in the form of guarantees provided by BDC not exceed 12 times its equity. The debt-to-equity ratio is projected at 3.7:1 in fiscal 2013.

BDC's paid-in capital limit was raised by the *Budget 2009 Implementation Act* to $3.0 billion from $1.5 billion as originally set out in the *BDC Act*.[1] BDC's paid-in capital is currently at $2.116 billion.

Capital

In a decision dated May 14, 2009, Treasury Board reconfirmed BDC's capital adequacy ratios (percentage of net portfolio assets) of at least:

- 10% for term loans;
- 25% for quasi-equity loans (defined as "venture loans, patient capital, working capital support program");
- 100% for venture capital investments (including VCAP);
- 5% of the fair value of CSCF assets; and,
- 10% of the fair value of F-PIL assets.

BDC's capital (comprised of its paid-in capital, retained earnings and other comprehensive income that is available for sale) is expected to reach $3.798 billion by the end of fiscal 2013. After deducting the capital required for BDC's activities per Treasury Board guidelines, capital will stand at $1.472 billion.

It is important to note that a portion of this amount must be reserved for loans and investments already committed but not yet disbursed. These undisbursed amounts will represent $572 million of capital by the end of fiscal 2013.

In line with its requirement of financial sustainability, BDC provides for an additional capital safeguard to help Canadian entrepreneurs withstand difficult economic conditions without requiring further investment by the Government of Canada.

This approach observes Treasury Board guidelines dated March 28, 1996, which state that, "the Bank maintain capital and loss provisions sufficient to ensure

[1] Section 23(1) of the BDC Act: The authorized capital of the Bank consists of an unlimited number of common shares with a par value of $100 each and an unlimited number of preferred shares without par value, but the paid-in capital of the Bank, together with any contributed surplus relating to it and any proceeds referred to in paragraph 30(2)(d) that have been prescribed as equity, must not at any time exceed $3.0 billion.

that BDC can withstand unfavourable economic circumstances without requiring additional government funding."

In keeping with best practices and the core tenets of sound financial management, particularly during times of uncertainty, BDC conducts stress tests on its portfolio to determine an adequate level of capital to withstand a sustained economic downturn. A 6% default rate over two years would bring BDC to a capital position of $172 million.

Appendix A to the Financial Plan

The following table presents BDC's financial highlights. In fiscal 2014, BDC expects total revenues of $949 million and a net income of $348 million, of which $347 million is attributable to BDC's Shareholder.

Figure 16 | Consolidated Statement of Income ($M)

	Actual 2012	Estimate 2013	Estimate R 2013	Proposed 2014
Interest income	974	974	974	1,053
Interest expense	122	126	126	164
Net interest income (expense)	**852**	**848**	**848**	**889**
Net realized gains (losses) on investments	6	(5)	(5)	(5)
Consulting revenue	22	24	24	24
Fees and other income	34	42	42	41
Net realized gains (losses) on other financial instruments	(2)	3	3	–
Net revenue (loss)	**912**	**912**	**912**	**949**
Impairment reversal (losses) on loans	38	(22)	(22)	(139)
Net change in unrealized appreciation (depreciation) of investments	(31)	(1)	(1)	(9)
Net unrealized foreign exchange gains (losses) on investments	5	(2)	(2)	–
Net unrealized gains (losses) on other financial instruments	–	1	1	(2)
Income (loss) before operating and administrative expenses	**924**	**888**	**888**	**799**
Operating and administrative expenses	391	413	424	451
Net income (loss)[1]	**533**	**475**	**464**	**348**
Net income (loss) attributable to:				
BDC's shareholder	520	472	461	347
Non-controlling interests	13	3	3	1
Net income (loss)[1]	**533**	**475**	**464**	**348**
Dividends[2]	50	69	69	59
Capital budget	27	26	26	39
Business segment portfolio (as at the end of the period)	16,318	17,315	17,315	18,636

[1] Net income (loss) before OCI; refer to Figure 13 for details.

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

Figure 17 | Total Revenues by Business Line ($M)

	Actual 2012	Estimate 2013	Proposed 2014
Financing[1]	779	803	840
Subordinate Financing	55	61	68
Venture Capital[1]	8	10	4
Consulting	22	24	24
Securitization	48	14	12
Venture Capital Action Plan (VCAP)	–	–	1
Net Revenues	**912**	**912**	**949**

[1] Excluding net unrealized gains (losses) on other financial instruments

Figure 18 | Operating Budget – Expenses ($M)

	Actual 2012	Estimate 2013	Estimate R 2013	Proposed 2014
Financing	314	333	342	357
Subordinate Financing	23	22	23	25
Venture Capital	19	20	20	23
Consulting	33	36	37	42
Securitization	2	2	2	2
Venture Capital Action Plan (VCAP)	–	–	–	2
Total Operating Budget	**391**	**413**	**424**	**451**

Figure 19 | BDC Employees (#)

	Actual 2012	Estimate 2013	Proposed 2014
Employees (person year equivalent – as at March 31)			
Permanent	1,830	1,869	1,891
Temporary	84	64	65
Workforce	**1,914**	**1,933**	**1,957**
Leave of absence	77	66	62
Total	**1,991**	**1,999**	**2,019**

Figure 20 | Consolidated Statement of Financial Position ($M)

	Actual 2012	Estimate 2013	Estimate R 2013	Proposed 2014
ASSETS				
Cash and cash equivalents	741	785	785	957
Loans and investments				
Asset-backed securities	763	443	443	625
Loan portfolio	15,349	16,440	16,440	17,457
Allowance for credit losses	(610)	(550)	(550)	(586)
Loan portfolio (net)	14,739	15,890	15,890	16,871
Subordinate financing investments	457	534	534	617
Venture capital investments	359	415	415	471
Venture Capital Action Plan	–	–	–	20
	16,318	17,282	17,282	18,604
Post-employment benefit assets	–	–	–	–
Other assets	160	177	177	176
Total assets	**17,219**	**18,244**	**18,244**	**19,737**
LIABILITIES AND EQUITY				
Liabilities				
Accounts payable and accrued liabilities	89	94	94	98
Borrowings				
Short-term notes	11,215	12,540	12,540	13,360
Long-term notes	2,009	1,367	1,367	1,580
	13,224	13,907	13,907	14,940
Post-employment benefit liability	220	277	277	238
Other liabilities	62	73	73	81
Total liabilities	**13,595**	**14,351**	**14,351**	**15,357**
Equity				
Share capital	2,088	2,088	2,088	2,313
Contributed surplus	28	28	28	28
Retained earnings at beginning of year[1]	1,046	1,379	1,487	1,879
Net income	520	472	461	347
Actuarial gains (losses) on post employment benefits[1]	(143)	(102)	–	–
Dividends on common shares	(45)	(69)	(69)	(59)
Retained earnings	1,379	1,680	1,879	2,167
Actuarial gains (losses) on post employment benefits[1]	–	–	(199)	(199)
Other accumulated comprehensive income	15	12	12	11
Accumulated other comprehensive income (loss)	15	12	(187)	(188)
Equity attributable to BDC's shareholder	3,510	3,808	3,808	4,320
Non-controlling interests	115	85	85	60
Total equity	**3,625**	**3,893**	**3,893**	**4,380**
Total liabilities and equity	**17,219**	**18,244**	**18,244**	**19,737**
Debt/equity ratio	3.8	3.7	3.7	3.5

[1] Beginning fiscal 2013 R, actuarial gains (losses) on post-employment benefits are no longer transferred into retained earnings and remain in accumulated OCI

Figure 21 | Projected Statement of Cash Flows ($M)

	Actual 2012	Estimate 2013	Estimate R 2013	Proposed 2014
Net cash flows provided by operating activities	(463)	(693)	(693)	(645)
Net cash flows used in investing activities	2,226	147	147	(366)
Net cash flows provided by financing activities	(1,675)	590	590	1,183
Net increase (decrease) in cash & cash equivalents	**88**	**44**	**44**	**172**
Cash & cash equivalents at beginning of year	653	741	741	785
Cash & cash equivalents at end of year	**741**	**785**	**785**	**957**

Appendix B to the Financial Plan

Future accounting changes

Information on new standards, amendments and interpretations that are not yet effective but are expected to impact BDC's financial results is provided below. These pronouncements are being assessed to determine their impact on BDC's consolidated financial statements. Certain other new standards, amendments and interpretations have been issued but are not yet effective and are not expected to have a significant impact on BDC's financial results.

Financial instruments

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

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

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

Employee Benefits

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

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

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

Presentation of Financial Statements

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. IAS 1 was amended to require entities to group items presented in OCI in two categories. Items will be grouped based on whether those items will or will not be reclassified to net income in the future.

In May 2011, the IASB released a new suite of consolidation standards: IFRS 10 – *Consolidated financial statements,* IFRS 11 – *Joint arrangements,* and IFRS 12 – *Disclosure of interest in other entities.*

IFRS 10 – *Consolidated financial statements* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in a company's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess.

IFRS 11 – *Joint arrangements* focuses on the rights and obligations of the arrangement, rather than its legal form, as is currently the case. The new standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities, thus eliminating the choice between proportionate consolidation and the equity method.

IFRS 12 – *Disclosure of interest in other entities* is a new and comprehensive standard that centralizes all disclosure requirements of the consolidation standards, with some new additional requirements. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

The new suite of consolidation standards will be effective for BDC's fiscal years beginning on April 1, 2013.