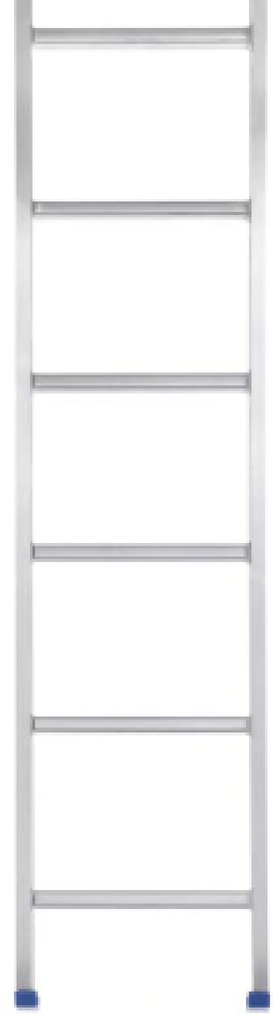
Leading

Annual Report 2007

Canada



as a
development
bank

means...

Who we are

The Business Development Bank of Canada (BDC) is a Crown corporation wholly owned by the Government of Canada. We are accountable to Parliament through the Minister of Industry.

What we do

We promote entrepreneurship by providing financing, consulting and venture capital services to Canadians who are creating and growing small and medium-sized enterprises (SMEs). These services complement those of private sector financial institutions.

Why we do it

When they succed, entrepreneurs make an irreplaceable contribution to Canada's economy. Supporting them is in our national interest.

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Highlights

Fiscal 2007

- Total number of entrepreneurs supported: 27,000
- Total authorizations in support of these entrepreneurs: $2.8 billion
- Total portfolio: $9.8 billion
- Client satisfaction rating: 93%

February – BDC creates a new development fund for Aboriginal businesses.

September – BDC launches the Transition Program, a targeted financing and consulting service to help retiring entrepreneurs manage the ownership transition of their businesses.

October – BDC celebrates the Young Entrepreneurs Award at its Small Business Week® gala in Greater Moncton.

A year of renewal and continued excellence

October – BDC ranks among Canada's Top 100 Employers.

November – BDC creates GO Capital, a $100-million co-investment fund managed by BDC for business creation and start-up in Quebec's high-tech sector.

December – BDC creates a second AlterInvest fund in partnership with the Caisse de dépôt et placement du Québec, with $330 million in capital for Canadian SMEs. BDC is the fund manager.

BDC services benefit clients
who are just starting out.

daring

to take the road
less travelled

When BDC Venture Capital invests in a firm, other venture capital investors become interested.

having
a leveraging effect

BDC works with entrepreneurs
even when the going gets tough.

being
there when it counts

BDC clients have faith in the future.
Most see themselves as experiencing rapid growth.

believing in the future

Chairman's Message

Terry B. Grieve
Interim Chairman

I am pleased to report that BDC has had another very successful year.

This past year, 27,000 Canadian entrepreneurs benefited from BDC's support.

In 1995, Parliament identified gaps in the market's provision of services to small and medium-sized enterprises (SMEs). To support entrepreneurs hindered by these gaps, it passed the *Business Development Bank of Canada Act*.

BDC is the only financial institution in Canada that is exclusively dedicated to promoting entrepreneurship.

We directors are stewards. We ensure that BDC does what it was created to do. We are vigilant in ensuring that it does so, and that it does not step outside the boundaries of its mandate. We are accountable to Parliament through the Minister of Industry.

We oversee BDC to ensure that it delivers results in a way that is effective, ethical and efficient.

We:

- approve BDC's strategic direction, corporate plan and priorities;
- ensure that BDC is identifying and managing its risks;
- review and approve management's succession plan;
- ensure the highest standards of corporate governance;
- review BDC's internal controls and management information systems;
- oversee communications and public disclosure; and
- monitor BDC's pension plans, and establish its fund policies and practices.

We seek assurance that BDC anticipates and meets the needs of Canada's SMEs – which, of course, are constantly changing. The most powerful force pushing SMEs to evolve is globalization.

Globalization is throwing up both challenges and opportunities, obliging SMEs to move up the value chain. This is why we were very pleased to endorse BDC's new Manufacturers Plus strategy. The strategy will provide tailored support to Canada's SME manufacturers, who are facing a range of challenges posed by globalization.

Canada's SMEs must learn and strive to be globally competitive. BDC is here to support them.

The past year also saw significant changes to BDC's senior management team. We Board members were actively involved with the CEO in that process. Our goal is to ensure BDC has the right people to give it continuous, high-quality management, now and in the future.

For more information on our decisions of the past year, please see page 83.

I join my colleagues in thanking Cedric Ritchie, who left our Board in January 2007 after six years as Chairman. We were fortunate to have enjoyed the privilege and pleasure of working with Cedric; we learned much under his guidance and wish him well. Thank you as well to Louis Duhamel for his three years of service on BDC's Board.

Finally, on behalf of my colleagues, I want to thank Parliament for the privilege of sitting on BDC's Board of Directors. Being part of BDC's contribution to Canadian society is an honour as well as a responsibility.

Terry B. Grieve
Interim Chairman

President's Message

Jean-René Halde
President and Chief Executive Officer

When Parliament created BDC, it created an autonomous, flexible instrument of public policy to promote entrepreneurship by supporting Canadians who are starting and growing their own businesses. I trust you will find this report answers your questions about how we are doing so effectively, ethically and efficiently.

We provide loans, investment and consulting services to Canadian entrepreneurs. These services *complement* those of private sector financial institutions; they support entrepreneurs who are hindered by gaps in the market's provision of financial services. We are commercially viable and do not receive an annual subsidy from Parliament.

This past year was very successful. From 94 locations across Canada, 1,700 BDC employees supported 27,000 entrepreneurs.

Management Results

Our clients were pleased with our services: their satisfaction rate, measured by a survey done by a third party, was 93%. We have a total portfolio of $9.8 billion. Most of this, $9.1 billion, is in loans; it also includes $148 million in subordinate financing and $505 million in equity investments in venture capital. Our consulting revenues reached a new high of $23.5 million this year.

Our return on common equity was 8.5%. This result will enable a dividend payment of $21.5 million to our sole shareholder, the Government of Canada. Since 1997, we have also paid $118.7 million in dividends.

In sum, BDC had a very solid year. We had quite good results in our financing, subordinate financing and consulting portfolios, and this profitability easily offset the unrealized losses registered in our venture capital portfolio.

BDC has only one client: SMEs. We focus exclusively on their needs. We have ongoing business relationships with more than 27,000 of them and do research into their market. We possess a wealth of information about SMEs and their competitive environment.

Competitiveness

To survive and prosper, our SMEs must rise to the challenge of becoming as competitive as their counterparts in the United States, Canada's biggest trading partner and market.

They must also rise to meet the growing economic clout of countries such as China and India. They must adapt to the challenge posed by the large, productive workforces of these places. Equally important, they must take hold of the opportunities provided by the purchasing power of these countries' large, growing middle classes. Finally, they must harness the productivity increases offered by global production chains, as well as take greater advantage of technology, as costs continue to fall and more people gain access to telecommunications and the Internet.

Globalization is proving to be a bracing challenge for Canada's manufacturers, especially in the context of a rising Canadian dollar. Our approach is to help them become more innovative and competitive. Our new Manufacturers Plus strategy offers tailored financing and consulting services to SME manufacturers to help them identify the sources of their difficulties and to mobilize them, in a variety of ways, to take competitive action.

Another way we help SMEs is by supporting their investments in research and development, management training and process re-engineering. Unlike machinery or equipment, these assets are intangible. However, they are crucial to business success.

> Globalization is thrusting SMEs into a knowledge-based, innovation-driven world economy. BDC is here to help them move up the value chain.

An Important Breed of SME: Venture Capital Entrepreneurs

We pay particular attention to entrepreneurs who are working to commercialize the fruits of research and development – university or lab discoveries – to create attractive products and globally successful companies. These entrepreneurs, a relatively small group, are the ones who think in global terms from day one and plan accordingly. They are our venture capital clients.

Canada needs globally successful SMEs that specialize in sectors such as life sciences and information technology. However, commercializing innovative ideas is complex, difficult and risky; success takes time, money and a sequenced range of separate, sophisticated skills. Entrepreneurs must determine a commercial application for their innovation, create and manage a company well, do market research, build a prototype, produce, distribute and sell. Last but not least, they must attract venture capital to finance the solutions to these challenges. Hence our support.

BDC helps them meet many of these challenges. In an effort to fill an important gap in the market, we do business that accounts for an important part of all seed investments across the country. We also collaborate with other venture capital firms, Canadian and foreign, to leverage more support for our clients.

At the request of our Minister, we commissioned an external expert to assess our venture capital activities and performance. This assessment found that BDC has a very positive and growing impact on the size of venture capital financings in Canada, as well as on the presence of foreign investors in these financings. Please read more on page 29.

The BDC Team

This past year saw the retirement of two colleagues, André Bourdeau and Alan Marquis. André held several roles over his three-decade career – including acting president prior to my arrival – and was a much-loved mentor to countless colleagues. Alan, our chief financial officer, was known for his knowledge and wit. Although both gentlemen have left, BDC continues to benefit from the contributions they made during their tenure here. We wish them well.

Since my arrival at BDC almost two years ago, I have been constantly impressed by the talent, professionalism and dedication of its employees. Parliament can count on their effective, efficient and reliable support of Canada's entrepreneurs.

Jean-René Halde
President and Chief Executive Officer

Key Performance Indicators & Objectives

BDC's approach to business is founded on:

- clients
- employees
- efficiency
- financial sustainability

We turn our strategies into balanced performance measurements.

Corporate Objectives

Clients: To create a unique and valued relationship with Canadian entrepreneurs, to support the creation of their businesses and accompany their growth (measured by client satisfaction).

Employees: To foster a culture of engagement, learning and growth (measured by employee engagement).

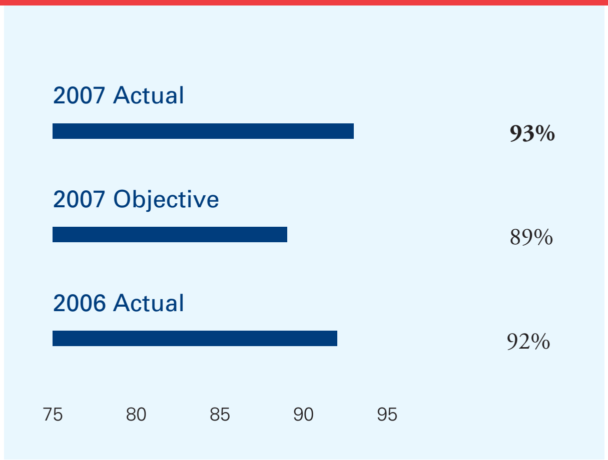
Efficiency: To establish effective and efficient operating and administrative expenses as a percentage of net interest and other income (measured by the efficiency ratio).

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

Performance

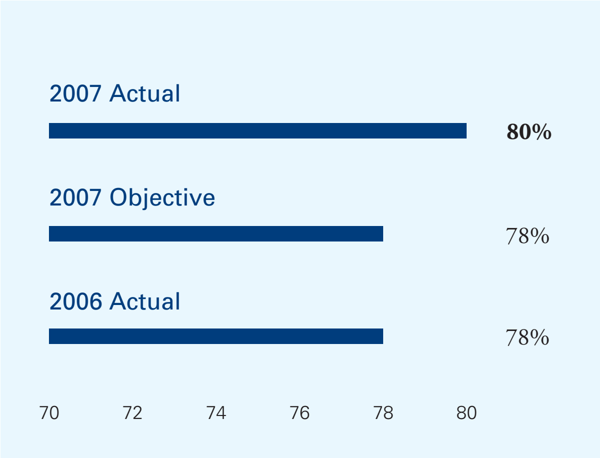
Client Satisfaction

- We offer our clients valuable information, advice and services. We are also systematic about contacting them frequently. Overall client satisfaction rating: 93%.



Employee Engagement

- Leaders throughout BDC focus on engaging employees, using valuable employee feedback to do so. Employee engagement rose 2 points from last year to 80%.

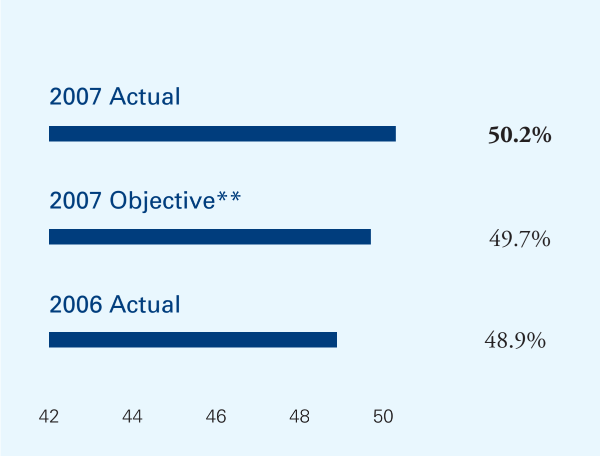


Efficiency Ratio*

- At 50.2%, we met our Corporate Plan target (51%) but not our revised internal target (49.7%). This is mostly because of a higher number of branches and employees to support a greater amount of business activity.

* The lower the ratio, the higher the efficiency achieved.

** Represents new internal objective. Corporate Plan: 51%.



2008 Objectives

90%

- 2008 objective: 90%, an increase of 1% from last year's objective

78%

- 2008 objective: maintain a rating of at least 78%.
  - attract, develop and retain talented people
  - develop high-calibre leaders
  - foster learning and professional development.

51%

- 2008 objective: 51.0%. We are investing in people, processes and technology. In the short term, these investments will negatively affect the efficiency ratio. In the long term, they will produce efficiency benefits.

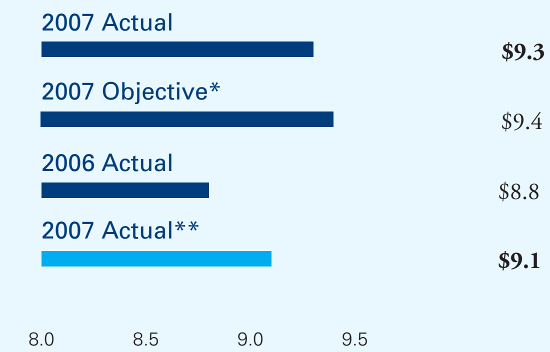
Performance / Financial Sustainability

Outstanding Portfolio
$ in billions

- Financing and Subordinate Financing authorizations topped $2.6 billion.
- The Financing and Subordinate Financing portfolio stood at $9.3 billion. This is the driving force of BDC's financial sustainability.

* Represents new internal objective. Corporate Plan: $9.0 billion.

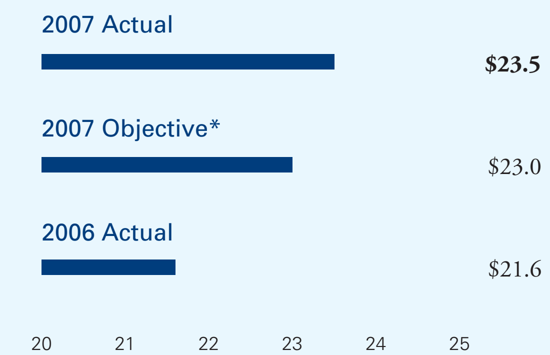
** Excludes BDC Subordinate Financing.



BDC Consulting Revenue
$ in millions

- At $23.5 million, this is 9% higher than last year and above our objective.

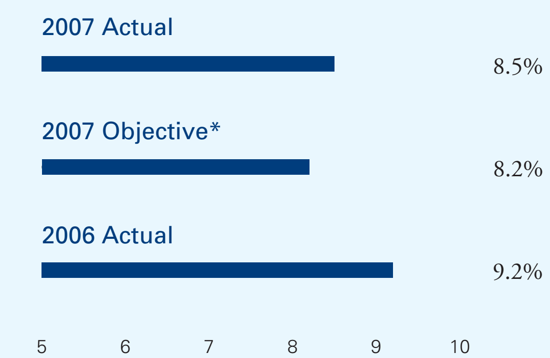
* Represents new internal objective. Corporate Plan: $22.0 million.



Return on Common Equity (ROE)

- 8.5%, which exceeds both our objective of 8.2% and the government's average long-term cost of capital of 4.1%.

* Represents new internal objective. Corporate Plan: 7.5%

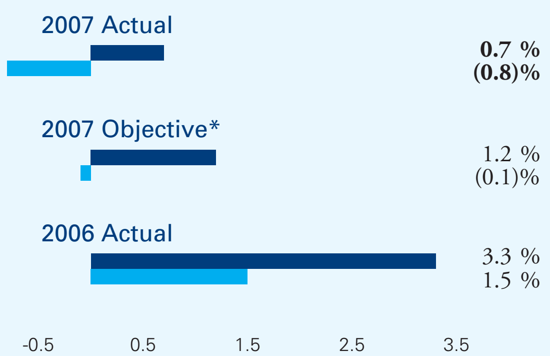


BDC Venture Capital 10-year Internal Rate of Return (IRR)

- The lower fair value of the portfolio, plus limited opportunities for divestitures, affected the IRR for direct and total investments.

■ Direct investments
■ Total investments

* Represents new internal objective. Corporate Plan: 3.1% – direct and 2.0% – total.



2008 Objectives

$9.7 B

- 2008 objective: $9.7 billion. Excludes the BDC Subordinate Financing portfolio.

$26 M

- 2008 objective: $26.0 million. A key part of our strategic plan is a greater volume of more diversified consulting services.

7.1%

- 2008 objective: 7.1%, to exceed the government's estimated average long-term cost of capital of 4.4%.

- We will remove this indicator beginning next year because of its questionable relevance as an indicator of our portfolio's performance. BDC has investments in a disproportionately high percentage of young companies. This meant that the IRR was being applied to companies that were too young to generate returns. We are developing a new indicator.

There are more than one million employer businesses in Canada:

97.5%
are small

2.2%
are medium-sized

0.3%
are large

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

China is surpassing Canada as the U.S.'s biggest supplier of imports. In 2006, Canadian exports to the U.S. dipped 2% to $358.7 billion.

However, our trade with the rest of the world rose 15% to $80.8 billion. This is the first time in over 10 years that a decline in exports to the U.S. has been more than offset by an increase in exports to the rest of the world.

In general, and compared with most G8 countries, Canada is a healthy place to create and grow a business. Canada continues to enjoy one of the fastest growth rates and highest living standards among industrialized countries. It is the only industrialized country with a fiscal surplus, a declining public debt, and historically low inflation and interest rates.

It is in this relatively positive context that our SMEs are being pushed to adjust to powerful global forces, notably the rising influence of developing nations such as China, India and Russia. The slower U.S. economy and the rising value of the Canadian dollar also affect our SMEs. SME manufacturers, in particular, are starting to move up the value chain and seek global opportunities.

Powerful global forces are obliging Canada's SMEs to become more innovative and more productive.

A resilient economy: Last year, Canada's economy showed resilience in the face of the slowing American economy. In 2006, it grew by 2.7%, helped by a 4.5% rise in consumer spending and a 5.4% growth in the global economy.

Low interest rates: Entrepreneurs continued to benefit from the low cost of borrowing. Short-term interest rates have been at historically low levels for several years and, after rising in early 2006, ended the year at a level slightly below long-term rates. Fixed-term rates remained unchanged from last year.

Profitability: The growth rate of corporate profits slowed to 6.7% after double-digit growth in 2004 and 2005.

A strong Canadian dollar: The value of the Canadian dollar surpassed US$0.90 in 2006 but ended the year at US$0.86, similar to the previous year. However, it is still 40% higher than the 2002 low of US$0.62. A strong dollar makes our manufactured goods more expensive for foreigners to buy but reduces the cost of importing machinery and equipment that enhance productivity. A strong dollar also poses a challenge for Canada's tourism sector.

Business costs: Commodity prices rose again in 2006; crude oil prices ended the year at US$60 a barrel, triple the 2001 low of US$20 a barrel. The cost of industrial materials rose by almost 25%, the largest increase in over 10 years.

These developments increase the costs of producing and transporting goods. It is increasingly hard to pass these costs on to consumers. And global competition makes it impossible for our entrepreneurs to compete on price alone.

One trend does not bode well for Canadian businesses: their weaker productivity.

When we compare ourselves with our biggest, closest market and competitor, the United States, the numbers are clear: our GDP per capita is $42,400, while theirs is $51,600. The difference is $9,200.[1]

This difference means that we are less successful than Americans in adding value to our human, physical and natural resources. According to research, this gap has grown in the last 10 years, despite our economy's relatively strong performance of the past decade.

This relatively low productivity is a weakness of Canada's economic environment. SMEs created and grown in this environment face a higher hill in becoming globally competitive than do SMEs from other, more competitive countries.

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1 Roger Martin, *Agenda for Canada's Prosperity: Report on Canada 2007* (Toronto: Institute for Competitiveness and Prosperity, 2007).

leading...

with leaders

- 1,700 employees
- 27,000 clients
- Everywhere in Canada

"BDC has financed just about every aircraft acquisition we've made over the past years. When our business had to go through a change of hands, naturally we went to BDC for business transition financing. With their help, we were able to close the deal quickly."

Hugh Kitchen
President
Alkan Air Ltd.
Whitehorse, Yukon

"Thanks to BDC's financing, we launched our lifestyles product line, giving us even more leverage for growth. Evolving from shoes to lifestyle products made us Canada's fastest-growing company last year. We now sell worldwide in more than 35 countries."

Joyce Groote
CEO
Holey Soles Holdings Limited
Vancouver, B.C.

"As a start-up, we were looking for a lender who had real faith in our potential. BDC was the right fit. We offer consulting and operations management services to the sulphur industry. BDC's working capital enabled us to do some rigorous international marketing to expand our business."

John MacDonald
President and CEO
The Brimrock Group Inc.
Calgary, Alberta

"BDC helped us finance plastic manufacturing facilities in Saskatoon, which will ensure we can meet new demand in the U.S. market. We also went to BDC Consulting to implement lean manufacturing practices, and we're definitely seeing results on our production line."

Craig McIntosh
President and CEO
Acrylon Plastics
Winnipeg, Manitoba

"We offer visitors to Yellowknife the best facility in the world to see the magnificent Aurora Borealis. BDC recognized early on that we had found an exciting niche in the tourism industry. Their financing has been key for our company and enabled us to develop this burgeoning market."

Don Morin
Owner-operator
Aurora Village
Yellowknife, Northwest Territories

"As one of the largest fish processing companies in Atlantic Canada, continued expansion is on the top of our agenda. BDC's subordinate financing enabled us to secure working capital and make the vital acquisitions we needed to grow. BDC has always been there for us."

Bill Barry
President
The Barry Group of Companies
Corner Brook, Newfoundland and Labrador

"As a young, custom millwork company, we went to BDC to finance equipment and property. BDC recognized that we had a strong business plan and gave us the flexibility we needed to take our business to the next level. When your lender shows confidence, it gives you confidence, too."

Rob Roy
Co-owner
Wood Millers Inc.
Charlottetown, Prince Edward Island

"Human resources management training from BDC Consulting enabled us to better recruit, retain and develop our people. We also got sound advice on implementing lean manufacturing in our business, which ensures we're maximizing all of our production efforts."

Alex MacLellan
President and CEO
Atlantic Neon and Plastic Signs
Saint John, New Brunswick

“When you’re expanding like we are, you need organizations like BDC to help.

We started out growing herbs and manufacturing products in my kitchen.

Now we are a fully ISO-certified manufacturer of organic herbal health products. BDC helped us finance a new manufacturing facility, equipment and a high-pressure processor, which set trends in our industry and improve the quality of our products.”

Nancy Smithers
CEO
NATURALLY NOVA SCOTIA
Dartmouth, Nova Scotia

and

Ed Handler
Senior Manager, Loans
BDC
Halifax, Nova Scotia

“I started this business alone in my basement. Within two years, we were more than 50 people behind the world’s first X-ray checkpoint technology that detects potentially threatening objects and liquids. Simply put, we would not be here today if not for BDC’s first round of venture capital funding. The market doesn’t make it easy for start-ups like us to raise money.

But BDC recognized our potential and gave us their vote of confidence **and support.**

Thanks to BDC, we also attracted the interest of other investors.”

Eric Bergeron
President and CEO
OPTOSECURITY INC.
Quebec City, Quebec

and

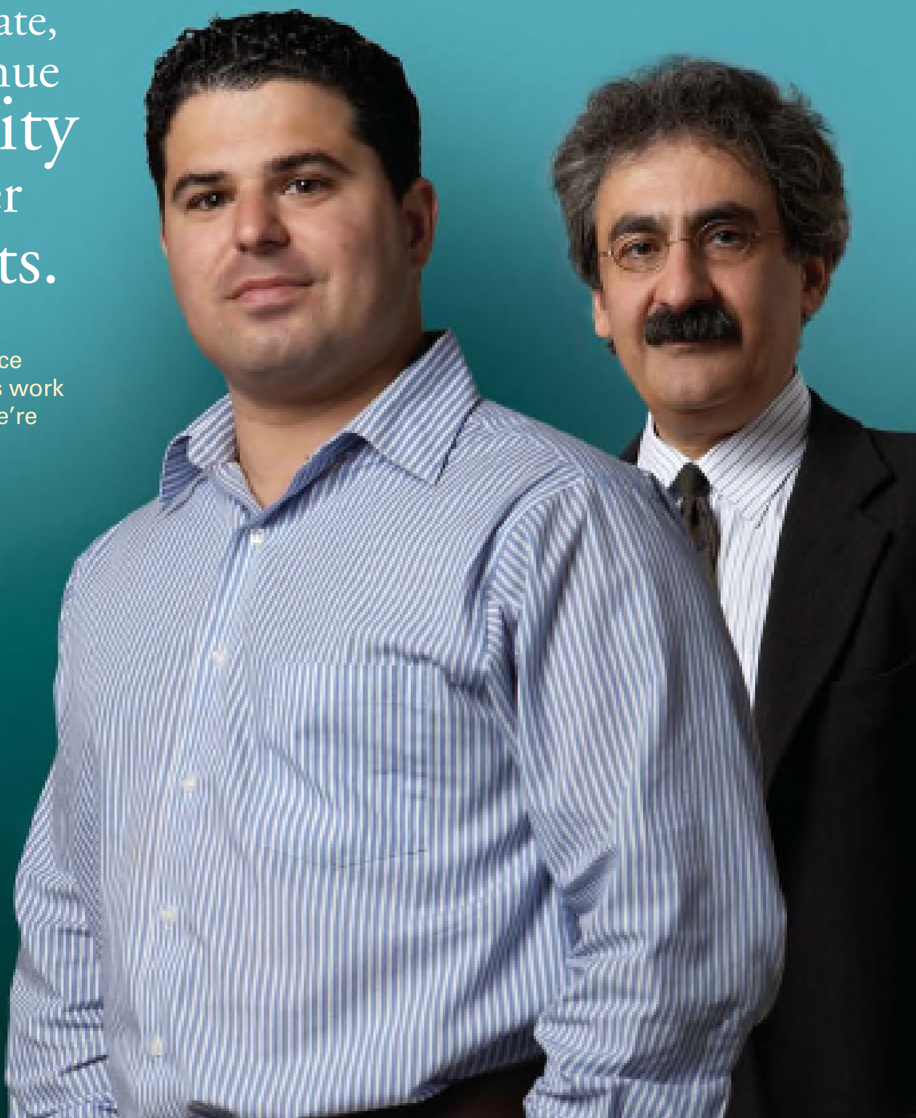
Jacques Dénommée
Director, Venture Capital
BDC Venture Capital
– Advanced Technologies
Quebec

“ We are a company that bundles, converts and repackages quality industrial paper for customized needs. Our success depends on being able to move fast to meet our clients’ needs.

BDC helped us finance equipment and real estate, so that we can continue to grow capacity and quickly deliver quality products.

We’ve also relied on BDC’s sound advice on lean manufacturing, which helps us work smarter and more efficiently. Today, we’re pleased with our healthy growth.

Our future looks bright.”



Steve Massis
CEO
GLOBOPRO PAPER INC.
Beamsville, Ontario

and

Francis Sajed
Manager, Major Accounts
BDC
Toronto, Ontario

"It's not just about loans for us. It's about building a long-term relationship, and that's where BDC shines.

BDC created a financial framework for many of our key capital purchases, such as new equipment and buildings for our trailer manufacturing facilities. We deal with BDC because they really understand what it means to go through both good and challenging times. They've always been there for us, and today our investments continue to make our company more efficient and responsive to our customers' needs."

Gurcan Kocdag
President
DOEPKER INDUSTRIES LTD.
Annaheim, Saskatchewan

and

James Limin
Senior Manager, Loans
BDC
Saskatoon, Saskatchewan

Forward-Looking Statements

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

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

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– 1 –
Role, Strategy & Activities

BDC has one client: Canadian entrepreneurs.

We have 1,700 employees serving 27,000 SMEs at 94 branches across the country.

Role

When they succeed, entrepreneurs make an irreplaceable contribution to Canada's economy. Supporting them is in our national interest.

In 1995, Parliament identified gaps in the market's provision of services to small and medium-sized enterprises (SMEs). To support entrepreneurs hindered by these gaps, it passed the *Business Development Bank of Canada Act*. The Act created BDC to promote entrepreneurship by providing complementary financing, consulting and venture capital services to SMEs.

In its financing activities, BDC is a complementary lender in the marketplace. We operate where there are market deficiencies to complete the services made available by commercial lenders. And we collaborate with other financial institutions and partners to serve entrepreneurs.

How We Fulfill Our Role

We fulfill our mandate by providing financial and consulting services to entrepreneurs. These services are commercially viable and efficient.

We design and tailor our services to meet SME needs. Our organizational structure mirrors these services: BDC Financing, BDC Subordinate Financing, BDC Consulting and BDC Venture Capital.

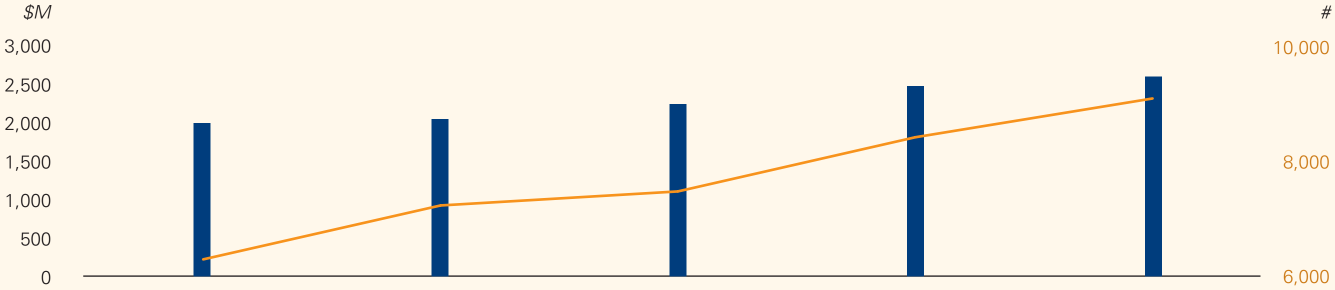
BDC is environmentally responsible. Since 1991, we have used an Environmental Risk Policy to guide our decisions. And since June 2006, we have also complied with the *Canadian Environmental Assessment Act*. Our goal is to ensure that we do not fund projects that might cause significant adverse impact on the environment.

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

BDC Financing* Authorized

for the years ended March 31 ($ in millions)

There is a steadily growing demand for BDC's financing services.



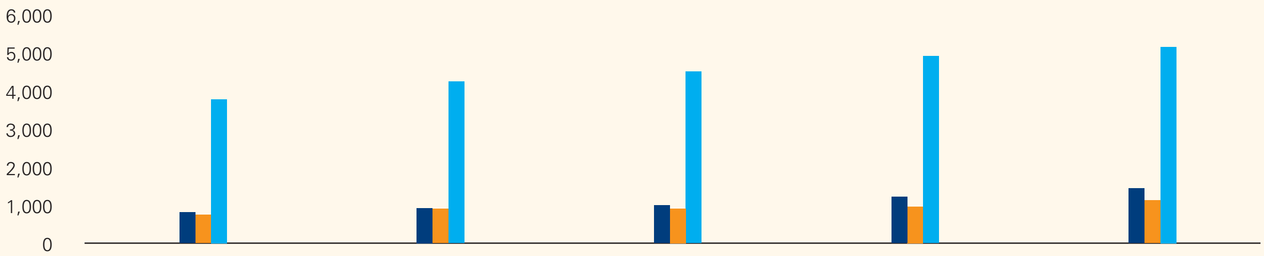
	2003	2004	2005	2006	**2007**
Amount authorized	1,982	2,034	2,230	2,462	**2,586**
Number authorized	6,271	7,212	7,457	8,402	**9,079**

* *Excludes subordinate financing loans and investments.*

BDC Financing Support to Start-Up, Development and Expansion Stage Firms

for the years ended March 31 (number authorized)

Our clients seek financing for business start-up, development and, significantly, expansion.

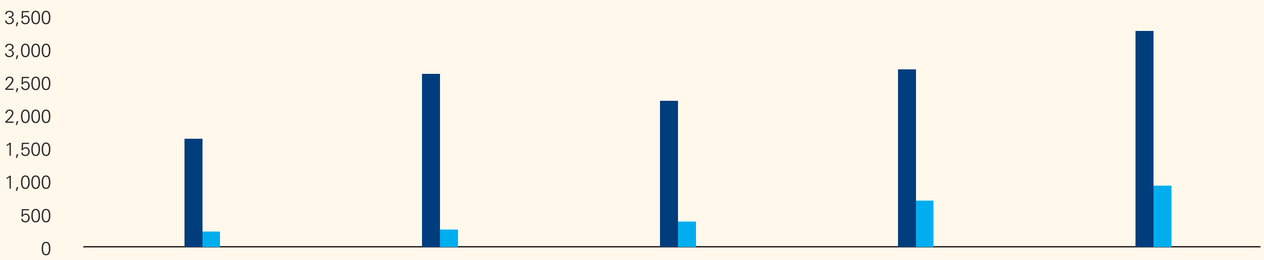


	2003	2004	2005	2006	**2007**
Start-up	809	917	993	1,217	**1,438**
Development	744	901	905	959	**1,123**
Expansion	3,770	4,238	4,501	4,907	**5,145**

BDC Financing Authorized by Primary Loan Purpose

for the years ended March 31 (number)

A growing number of our clients seek working capital to finance growth projects. They are also seeking support for the change in ownership of their firms.



	2003	2004	2005	2006	**2007**
Working capital	1,641	2,618	2,208	2,686	**3,270**
Change of business ownership	228	258	381	698	**923**

We Offer Support For Business Expansion

For businesses that need working capital for fast growth and that do not have the tangible security that conventional lenders require, or for those whose owners are reluctant to dilute ownership in the firm, we offer a hybrid financial instrument that incorporates elements of debt and equity: subordinate financing.

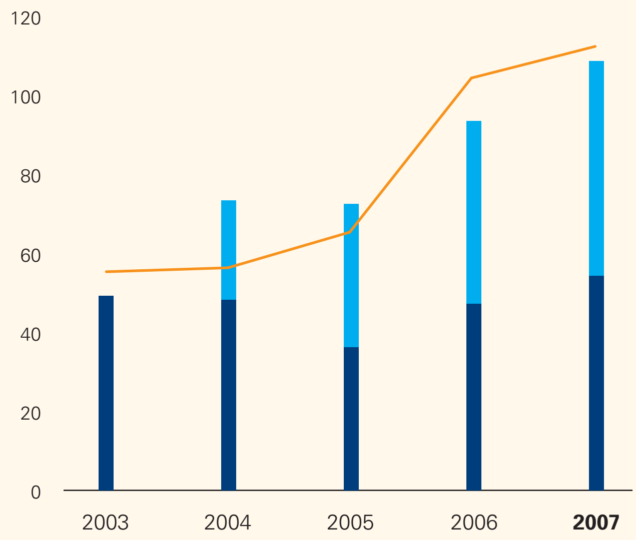
BDC is a national leader in subordinate financing. This position is anchored by our partnership with Caisse de dépôt et placement du Québec (the Caisse), which we renewed this year. This year, BDC Subordinate Financing authorized $108 million (this includes the Caisse portion).

We Offer Support For More Skillful Businesses

Canadian businesses face challenges that range from strategic to operational. BDC Consulting offers affordable, high quality consulting services to help them meet these challenges. These services are an integral part of the value we bring to each client. In fiscal 2007, we started 2,451 consulting mandates. This is a 20% increase from last year.

BDC Subordinate Financing Authorized

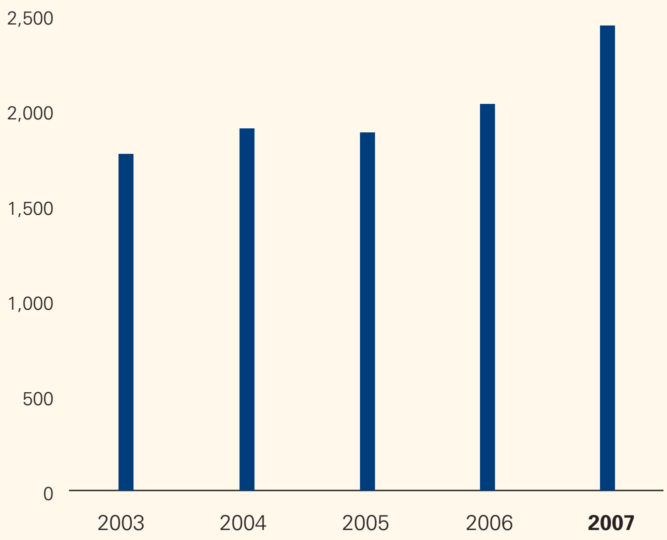
for the years ended March 31



	2003	2004	2005	2006	**2007**
Amount – BDC portion *($ in millions)*	49	48	36	47	**54**
Amount – Caisse portion *($ in millions)*	–	25	36	46	**54**
Number authorized	55	56	66	104	**112**

BDC Consulting Mandates

for the years ended March 31 (number)



2003	2004	2005	2006	**2007**
1,774	1,909	1,886	2,037	**2,451**

We Offer Support to Commercialize Innovation

BDC Venture Capital supports entrepreneurs who are turning ideas and new technology into attractive products and globally successful companies. We are a Canadian leader in the critically important early stage (including seed) investment phase. In fiscal 2007, 81% of the dollar amount of our direct investments was in early stage firms. This compares with the industry average of 42%.

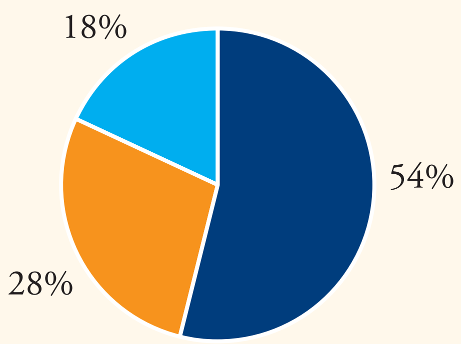
This past year, total seed investments in Canada were $64.3 million. BDC authorized $6.6 million of this total in eight seed ventures.

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

In fiscal 2007, BDC Venture Capital authorized 68 direct investments totalling $106 million. We also authorized three investment funds for a total of $45 million. We estimate that this $151 million investment leveraged $690 million from other investors.

Number of BDC Venture Capital Direct Investments Authorized Classification by Stage of Development

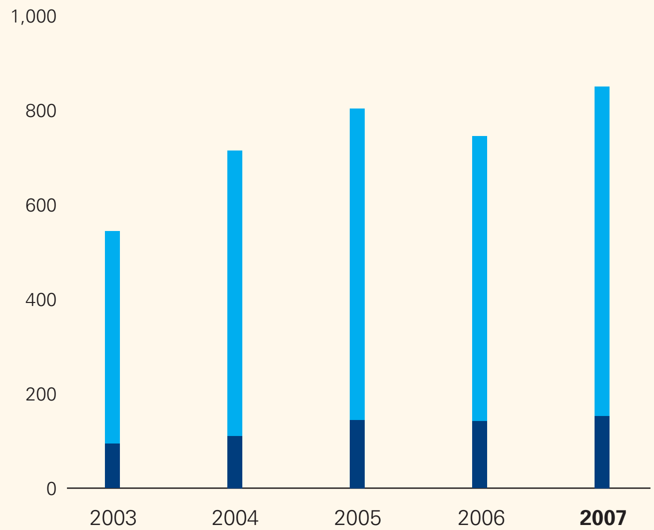
for the year ended March 31, 2007



- Start-up / seed
- Development
- Expansion

Total Value of BDC Venture Capital Projects Financed

for the years ended March 31 ($ in millions)



	2003	2004	2005	2006	2007
BDC Venture Capital authorized	93	109	143	140	**151**
Other sources of investment (estimated)	446	598	652	598	**690**
Total	539	707	795	738	**841**

We Reach and Respond to Entrepreneurs in all Parts of Canadian Society

For BDC, diversity means ensuring that our workforce reflects society and that our outreach to clients is as broad and inclusive as possible. This enables us to target services to meet SME needs that vary from community to community, as well as to stimulate would-be entrepreneurs who have come to Canada from all parts of the world. Our reach into ethnically diverse communities is proactive. We use a grass-roots approach, collaborating with local business associations.

Women entrepreneurs lead businesses of all sizes in all sectors. They also enter the SME marketplace at twice the rate of men. Over the past two decades, their number has grown by over 200%. The most important indicator of BDC's support for women entrepreneurs is the fact that they represent about one quarter of BDC's clients. This portfolio is $1.8 billion in committed and outstanding financing and subordinate financing.We have more than 6,600 women clients, twice as many as a decade ago.

At 21 Entrepreneurship Centers across Canada, we offer specialized lending, consulting and resources dedicated to meeting the needs of younger, smaller businesses. In fiscal 2007, the Centers authorized $208 million in loans.

We have formal partnerships with more than 200 Community Futures Development Corporations, a cross-country network of contact points located mostly in rural areas. These partnerships enable us to reach entrepreneurs who live near these centres. Using this network, we supported close to 500 entrepreneurs.

Young entrepreneurs lead about 9% of Canadian SMEs. Many of them find it hard to secure financing because they are in a start-up position, have little or no managerial experience and have no proven track record. Over the past five years, we have authorized over $715 million in financing to young entrepreneurs across the country.

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

We are particularly proud of the success of BDC Enterprize 2007. In this national business plan competition, university students from across the country submitted business plans to compete in regional and national finals. BDC credit and risk experts evaluated and judged the plans. The top three national winners were from Dalhousie University, Simon Fraser University and the University of Manitoba.

We also help create economic development in Aboriginal communities through a grassroots approach called the Circle of Entrepreneurial Success. This strategy delivers loans of $5,000 to $20,000, with terms that vary depending on the cash flow expectations for the project, management training and ongoing mentorship. And to stimulate awareness of entrepreneurship among Aboriginal youth, we offer E-Spirit, an Internet-based Aboriginal youth business plan competition. To date, more than 3,500 students in more than 600 schools have participated in the competition, and some competitors have since graduated and are running businesses based on those plans. We held the E-Spirit 2006 awards ceremony in Quebec City.

BDC's Support for Commercialization: Assessing Our Performance

BDC is active in Canada's venture capital market because entrepreneurs who commercialize ideas into products and services that they sell around the world will, when they succeed, generate an important part of Canada's future prosperity.

The commercialization of research is complex and risky. To turn a discovery into a globally successful company, entrepreneurs must meet a series of challenges, each of which requires financing: determine a commercial application, do market research, build a prototype, produce, distribute and sell. In short, they have to successfully create and manage a company. Success takes several years, millions of dollars and a sequenced range of separate, sophisticated skills. Hence our support.

Last year, the Minister of Industry asked us to commission an external evaluator to assess our venture capital activities and performance. The starting point for this assessment was BDC's 2001 strategy, which entailed a focus on knowledge-based industries, commercialization of research, and seed and early stage financing through direct and indirect investments. (Since 2001, this orientation has been intensified. It has also been backed by injections of capital.)

The assessors found that in terms of investments and efforts, BDC has strongly deployed the new strategy, as well as responded to some challenges the industry is facing:

- a strong contra-cyclical role during difficult times for the industry;
- concentration in provinces where the capital pool is smaller;
- concentration in knowledge-based industries, especially life sciences;
- concentration in early stages and newer leadership role seed and start-up stages;
- growing size of investments;
- a greater number of foreign investors with whom we have negociated large financings;
- larger commitments to private investment funds mainly dedicated to seed and early stages; and,
- efforts to attract directors with more technical and industry experience.

In sum, the assessor found that BDC has a very positive and growing impact on the size of venture capital financings in Canada, as well as on the sought-after presence of foreign investors in these financings. The results are tangible in terms of establishing partnerships, providing leverage, attracting foreign investors and participating in large financings. However, they are not yet tangible in terms of exits and returns. It is still too early to tell.

BDC's Support for Retiring Entrepreneurs

In last year's annual report, we raised the issue of how, as Canada's population ages, many of our small business owners are reaching retirement age without having planned for the change in the ownership and management of their companies. Managed well, business ownership transitions can ensure the company continues to prosper. Unplanned or poorly managed, however, they can cause the company to falter. This imperils the entrepreneur's main retirement asset.

In September 2006, we unveiled our new Business Ownership Transition service. This service provides financing and consulting expertise to help retiring entrepreneurs plan and manage their exits from their businesses.

Our Long-term Public Policy Role: Assessing Our Performance

In last year's annual report, we reported that, in response to the government's stated desire to assert the public policy role of Crown corporations, we are developing performance indicators to assess the long-term fulfillment of our public policy mandate. We plan to use these indicators to track and communicate our public policy accomplishments, as well as to align future strategies with government policies.

The proposed indicators are:

Business Creation

This represents BDC's contribution to the creation of Canadian businesses, as compared to the market benchmarks.

- Over the past five years, about 13% of BDC authorizations went to clients in the start-up phase. Market data shows that approximately 5% of Canadian businesses are start-ups. This suggests that BDC is supporting more than twice as many start-ups as is the market.

Market Leverage

Each dollar lent or invested by BDC leverages private sector sources of financing. Monitoring that activity provides the total value of SME projects backed by BDC.

- At present, our operational data indicates that BDC Venture Capital leverages more than $4 from other venture capitalists for every dollar BDC invests.

Business Survival

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

- Two-Year Survival Threshold: After the second year of receiving BDC support, only 9% of BDC loans authorized to start-ups were written off and liquidated. According to Statistics Canada research, 25% of firms cease operation before their second birthday.
- Five-Year Survival Threshold: After five years, 67% of BDC start-ups survive, compared to the Statistics Canada industry benchmark of 36%.

Business Growth

One can track the growth of BDC clients, as compared to the SME market at large

- Based on a comparison of internal and external surveys, BDC appears to have twice as many clients who perceive themselves to be in the fast-growth stage than is the case generally for the SME market (28% vs. 13%).

Please note that these indicators are a work in progress and that there are significant limitations to the data available. We are working to develop a measurement system that accurately measures our long-term impacts in the market, and are collaborating with other SME experts to do so. Should we determine that the indicators are less helpful than they might be, we will amend or dispose of them. If we succeed in crafting other indicators of greater usefulness or validity, we will add them.

– 2 –
Key Performance Indicators

We measure our performance against the 2007–2011 Corporate Plan (CP) and internal objectives.

Clients

The first of BDC's key desired outcomes is unique and valued relationships with Canadian entrepreneurs. It is through these relationships that we help them create their businesses and accompany their growth. We use a client satisfaction rating to measure our success.

Every year, we have an external third party do a Client Satisfaction Survey to rate the performance of our client-centred approach.

Client Satisfaction

F2006 Actual	F2007 Objective	F2007 Actual	F2008 Objective
92%	89%	93%	90%

Performance in Fiscal 2007

Overall client satisfaction in fiscal 2007 was 93%. This figure is 1% higher than in fiscal 2006 and 4% above the 2007 objective. This rise was largely due to a 5% increase in the satisfaction rate of BDC Consulting clients and a 1% increase in the satisfaction rate of BDC Financing clients.

Of BDC's new clients, 94% said they were "satisfied" with our service. This percentage has been stable for the last two years. However, new clients' satisfaction rate regarding interest rates has dropped 8% since fiscal 2006. We attribute this decrease to the large availability of capital in the market.

Objective for Fiscal 2008

The objective for client satisfaction in fiscal 2008 is 90%, an increase of 1% from last year's objective. We anticipate a slight decrease when compared to this year's results due to a necessary realignment of our administration fees, which have not changed in many years, to a level that is more in line with current market dynamics.

As a Crown corporation, BDC is obliged to submit its Corporate Plan months prior to the beginning of the fiscal year. Since results can vary in the last few months of the previous year, we sometimes, with Board approval, adjust our performance goals to keep them appropriately challenging. These revised goals become internal objectives that we strive to achieve.

Employees

We seek employees whose energy, dedication to our mandate and professional effectiveness will ensure that our clients are well served. We call this trio of characteristics "employee engagement" and foster it by creating a corporate culture characterized by learning and growth.

Employee Engagement

F2006 Actual	F2007 Objective	F2007 Actual	F2008 Objective
78%	78%	80%	78%

Performance in Fiscal 2007

In fiscal 2007, the employee engagement rating rose by 2 points over fiscal 2006. It now stands at 80%. The 2007 figure compares favourably to the objective of 78%. It is a direct result of the efforts of leaders throughout BDC to put valuable feedback from employees to good use. Across the country, focusing on engagement continues to be one of the most effective ways to create and sustain a dialogue that creates a collaborative work environment for all.

In 2007, MediaCorp Canada Inc. included BDC in its prestigious book, *Canada's Top 100 Employers*, which recognizes employers with outstanding workplace environments. To compile this list, the MediaCorp editorial team invited more than 10,000 organizations to apply. More than 1,500 employers provided detailed information about their operations, human resources practices, charitable efforts and community involvement. From these, MediaCorp chose 100 organizations – including BDC – as the best.

Objective for Fiscal 2008

The objective for fiscal 2008 is to maintain at least a 78% rating for employee engagement. To do so, BDC will continue to:

] Attract, develop and retain engaged employees: BDC must attract and retain talented people in a highly competitive labour market. Our talent management strategy and human resources management practices aim to build the capabilities of a diverse workforce, as well as continue expanding the professional and cultural diversity of our employees.

] Develop effective leadership: Good leaders hire, train and coach their employees and foster an inspiring work environment where employees can grow. We will continue to develop high-calibre leaders through our leadership programs.

] Foster learning and development: We support self-motivated learning and development through a series of educational and technical programs.

Efficiency

BDC seeks to be as efficient as possible. To measure our efficiency, we use a ratio of operating and administrative expenses as a percentage of net interest and other income (includes realized gains or losses on disposals of subordinate financing investments). The lower the ratio, the greater the efficiency achieved.

Efficiency Ratio

F2006 Actual	F2007 Objective	F2007 Actual	F2008 Objective
48.9%	49.7%	50.2%	51.0%

Performance in Fiscal 2007

The efficiency ratio in fiscal 2007 was 50.2%, compared to the new internal objective of 49.7% (the CP objective was 51%). Net interest and other income exceeded the internal objective of $504.0 million by $0.5 million, but expenses were higher than the objective by $2.9 million.

Two important factors affected the fiscal 2007 efficiency ratio compared to fiscal 2006: a $31.9-million increase in net interest and other income, due to growth in the Financing and Subordinate Financing portfolio; and an increase of $22.2 million in operating and administrative expenses, mostly due to:

] a $16.2 million rise in salaries and benefits other than pension to support the increased volume of activity. During the year, staffing in the Financing and Subordinate Financing group increased by 120 employees. This increase comes from our objective of spending more time with clients, the opening of six new branches and our increased support to smaller businesses via small dollar size loans;

] a $3.3 million increase in pension costs due to a reduction in the discount rate applied to the pension obligation;

] a net increase of close to $2.7 million in other expenses, for marketing, training and various other expenses.

Objective for Fiscal 2008

The efficiency ratio target for 2008 is 51.0%. Although we expect a number of initiatives will improve BDC's efficiency over time, current investments in the areas of people, processes and technology will negatively affect the ratio in the short term.

In fiscal 2007, we launched the Financing Value Project to enhance BDC's value to its clients by eliminating non-value activities and leveraging the use of technology to improve efficiency. This strategy emphasizes the client relationship. Value Project efforts and technology investments will increase efficiency in the long term but will negatively affect it in the short term.

Financial Sustainability:

Outstanding BDC Financing and Subordinate Financing Portfolio

BDC must be profitable to grow as it fulfills its public policy mandate. BDC's principal revenue-generating asset is its Financing and Subordinate Financing portfolio. The portfolio must yield a sufficient rate of return, net of credit losses, that covers operating expenses and generate sufficient earnings and capital to support future growth of all BDC activities.

Outstanding Portfolio *($ in billions)*

This includes BDC Subordinate Financing			This excludes Sub Fin	
F2006 Actual	F2007 Objective	F2007 Actual	F2007 Actual	F2008 Objective
$8.8	$9.4	$9.3	$9.1	$9.7

Performance in Fiscal 2007
The gross closing portfolio rose from $8.8 billion to $9.3 billion. This is an increase of more than $500 million, or 5.7%. At $9.3 billion, the gross Financing and Subordinate Financing portfolio was the driving force of BDC's financial sustainability. It was slightly below the internal objective of $9.4 billion, due mostly to lower disbursements than anticipated, but was significantly better than the CP objective of $9.0 billion.

Objective for Fiscal 2008
As of fiscal 2008, this indicator will exclude the BDC Subordinate Financing portfolio. For fiscal 2008, BDC's objective for the Financing portfolio is $9.7 billion, 6% higher than the $9.1 billion in fiscal 2007.

BDC Consulting Revenues

BDC Consulting is one of our market differentiators. It offers customized consulting solutions for the complex challenges faced everyday by Canadian entrepreneurs. Consulting activities are an integral part of BDC's value proposition to the client.

Consulting Revenue *($ in millions)*

F2006 Actual	F2007 Objective	F2007 Actual	F2008 Objective
$21.6	$23.0	$23.5	$26.0

Performance in Fiscal 2007
Consulting revenues rose 9% in 2007 to reach $23.5 million. This figure is slightly higher than the internal objective of $23.0 million. The CP objective was $22.0 million.

Objective for Fiscal 2008
The 2008 revenue objective for BDC Consulting is $26.0 million, an increase of 11% from 2007. A key part of our strategic plan is to diversify our consulting services across six major service offerings. We offer Canadian SMEs services in business planning and management, innovation, human resources, market development, operating efficiency and transition.

BDC Venture Capital 10-Year Internal Rate of Return (IRR)

BDC plans to remain a major player in the Canadian venture capital industry. The venture capital industry uses the IRR to measure the success of funds or vintages of investments. IRR is the annual discount rate at which the values of cash flows from the portfolio yield the original investment. Targets for fiscal 2007 included BDC Venture Capital 10-year IRR for direct investments, as well as for total investments.

BDC Venture Capital 10-Year IRR

	F2006 Actual	F2007 Objective	F2007 Actual
Direct investments	3.3%	1.2%	0.7%
Total investments	1.5%	(0.1)%	(0.8)%

Performance in Fiscal 2007
In fiscal 2007, the lower fair value of the portfolio, plus the limited opportunities for divestitures, affected the IRR for direct and total investments.

Objective for Fiscal 2008
Measuring the performance of BDC Venture Capital is difficult because of the long-term and high-risk nature of such transactions. The IRR is an industry standard used for comparative purposes. However, the nature of BDC's early-stage and patient capital role means that comparing our IRR to the industry's is not an appropriate or useful key performance indicator. For this reason, BDC has removed the BDC Venture Capital IRR from its list of key corporate performance indicators for future years.

Return on Common Equity (ROE)

BDC does not provide grants or contributions, nor does it receive annual appropriations from Parliament. To remain sufficiently profitable to sustain growth, our objective is to generate a return on common equity at least equal to the government's average long-term cost of capital.

Return on Common Equity

	F2006 Actual	F2007 Objective	F2007 Actual	F2008 Objective
Total BDC	9.2%	8.2%	8.5%	7.1%

Performance in Fiscal 2007
BDC's total ROE was 8.5%. This ROE was better than our new internal objective of 8.2%, and the CP objective of 7.5%. The $26.0-million depreciation in the fair value of the Venture Capital portfolio decreased the ROE downward.

The 8.5% ROE exceeded the government's average long-term cost of capital of 4.1% for the year.

Objective for Fiscal 2008
The ROE objective is 7.1%. This is higher than the government's average long-term cost of capital for 2008 estimated to be 4.4%. It assumes a net income of $123.0 million.

– 3 –
Risk Management

In fulfilling our mandate, we underwrite risks by offering solutions that are not commonly available in the market place.

Introduction

Risk is an inherent feature of the financial sector. BDC focuses on meeting entrepreneur needs that the market is not readily serving, and meeting those needs usually requires higher-risk loans or investments.

As required by our Shareholder, we are commercially viable. Commercial viability enables us to deliver our mandate, grow and invest in the services we offer to entrepreneurs. It also enables us to avoid asking Parliament for support during slow economic times. Specifically, we are required to generate a long-term return on common equity that is at least equal to the government's average long-term cost of capital.

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

Like other banks, BDC must maintain a solid capital base. We currently hold capital that exceeds regulatory obligations. This money we have in equity dictates the amount of money we can use to support our clients. In general, $1 in equity permits us to lend $10 to an entrepreneur. That is traditional lending. Alternatively, $1 would permit us to support an entrepreneur who has a higher-risk proposition with $4. Finally, $1 in equity would permit us to support an entrepreneur who needs venture capital with a $1 investment in his or her initiative. Treasury Board sets these standard asset-to-equity ratios (10:1, 4:1 and 1:1) at levels designed to provide adequate cover for losses.

Our mandate points us toward higher-risk projects. We provide our clients with as much support as we can within our given capital requirements.

– Financial Risk –

Loan Credit Risk

Loan Portfolio Concentration Risk

Market Risk – Venture Capital Portfolio

Treasury Risk

[Risk Model]

– Operational Risk –

Human Resources

Process Management

System Management

Legal

Compliance

How We Manage Risk: Enterprise Risk Management (ERM)

Enterprise Risk Management (ERM) is a framework policy we use to ensure that we manage risk methodically and consistently in all of our planning, decision-making and operational activities. ERM precludes us from doing this in an uncoordinated or piecemeal fashion.

The first step is to detect and identify risk. BDC does constant, radar sweep-like scans of its risks.

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

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

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

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

BDC has an internal ERM Committee to identify, assess and quantify ongoing risks and opportunities in our day-to-day operations. ERM Committee members come from a cross-section of disciplines and BDC departments. Their mandate is to develop and implement action plans that span various business units.

Credit Risk in the Loan Portfolio

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

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

The benefit of this system is that it puts information into the hands of the unit managers who are responsible for monitoring risk, while keeping senior managers abreast of all developments.

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

There are two benefits of this constant flow of precise information. One is information for greater responsiveness at the local business unit level. The second is sharpened managerial oversight. The two allow BDC to confidently take greater risks to support entrepreneurs.

BDC has a committee of senior employees who scrutinize higher-risk credit decisions. The Credit Risk Committee (CRC) comprises senior employees appointed by the President and has a quorum of three members. Their role is to ensure that these higher-risk decisions benefit from the knowledge, skills and experience of senior lenders. The CRC's principal responsibility is to adjudicate credit within prescribed limits.

For larger transactions, it makes recommendations to the CIRC for approval. It also reviews any transactions involving parties related to or referred by members of Parliament, senators or fellow board members.

Two teams, the Internal Audit Team and the Portfolio Risk Management Team, do monthly reviews of loan quality. Each review examines a sample of loans to ensure that the employees who approved them respected BDC's policies, performed due diligence and did proper risk assessments. We use the results of these reviews to train employees, to continually improve their performance.

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

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

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

Loans Portfolio Concentration Risk is the risk that BDC will lose money when several borrowers in the same industry or area default at the same time. We diversify our loan portfolio by industry sector and geographic region, as well as by stage of development. When appropriate, we set portfolio limits to manage the associated credit risk on an aggregate basis. This way, we manage the impact of correlations between exposures and protect BDC against the potential negative impact of events that can have economic consequences, such as pandemics or international trade disputes. The portfolio risk management team proposes limits to the Senior Management Committee, which approves them or recommends them to the Board for its approval.

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

The Portfolio Outlook Committee analyzes the portfolio performance indicators and recommends strategies, as required. This committee comprises representatives from different parts of BDC, including field operations, market development, portfolio risk management and credit risk management. Their breadth of expertise ensures we have a balanced, integrated view of market and risk strategies.

Market Risk in the Venture Capital Portfolio

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

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

The profit we make on our venture capital investments is affected by the timing of our divestments. This timing is dictated by the trends and vagaries of the financial markets, as well as the presence and appetite of buyers.

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

We also lower the risk of our venture capital investments by applying conservative valuations, co-investing with other venture capital investors and regular monitoring. We divest our successful venture capital interests when the investee companies are taken over by other companies, or when they go public through an initial public offering. We study market conditions and sell our shares in phases in order to avoid distorting the market.

We use a rigorous process to authorize our venture capital investments. The Internal Venture Capital Committee, composed of senior managers, reviews all investment transactions and approves those within the committee's delegated limits. For larger transactions, the Committee makes recommendations to the CIRC for approval.

Operational Risk

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

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

BDC has a comprehensive business recovery planning process to ensure continuity of its key business functions in case of disaster, and regularly reviews and tests its contingency planning. In 2007, we developed a detailed plan to prepare for and respond to a flu pandemic crisis.

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

Credit Risk is the risk that BDC will lose money when a client defaults on a loan. This kind of risk is inherent in new loan authorizations, as well as in our large portfolio of already-approved loans. It is also inherent in our treasury operations. When we expect payment from a party with whom we have entered into a financial transaction, there is a risk that he or she will not be able to make this payment. To manage this risk, we diversify our exposure and set limits on our transactions.

Market Risk is the risk that BDC will lose money when the value of assets, liabilities or other financial instruments – such as interest rate derivatives or currency hedges – varies because of changes in market conditions. To manage this risk in venture capital, we use a rigorous selection process and work closely with our investee companies. Because market risks in Treasury are due to external events beyond our control, we use sophisticated financial instruments to keep risk exposure within approved limits.

Operational Risk is the risk of potential losses arising from day-to-day errors caused by people, breakdowns in processes or systems, or external market events beyond our control. To mitigate this risk, we use internal control systems, policies and procedures. We monitor these at various levels in our organization and verify them by internal audit.

Environmental Risk is the risk that BDC will lose money due to an environmental hazard, including hazards that were not foreseen or properly managed. We have a well-defined process to identify and evaluate environmental risk at the time we authorize a loan. We also have a monitoring process to ensure that we continue to identify and appropriately manage these potential risks.

Treasury Risk Management

The risks inherent in BDC treasury operations are monitored daily at several levels within BDC, in compliance with established policies. The Asset and Liability Committee meets quarterly to review treasury operations and to ensure that we are responsibly managing our financial risks. It also reports quarterly to the Board of Directors.

Treasury Risks are risks that arise as a result of BDC issuing debt in the market to fund its lending operations. BDC uses its treasury risk framework to identify, measure, control and mitigate treasury risks, which include liquidity risk, market risk, counterparty credit risk, operational risk, and legal and regulatory risk.

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

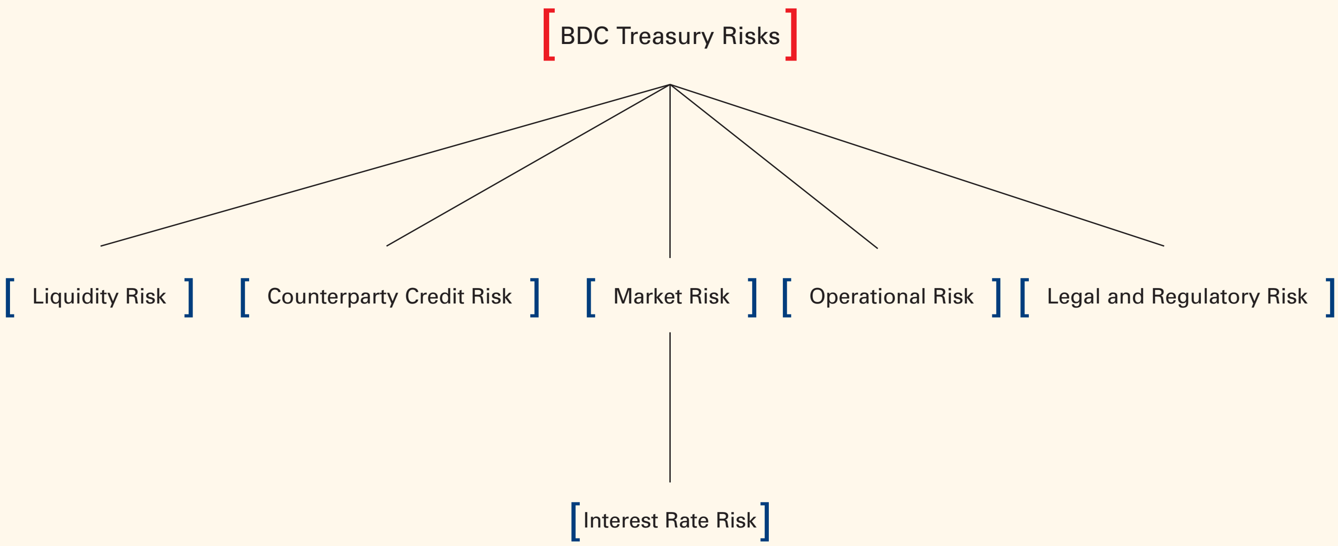
The primary responsibility of BDC's treasury operations regarding liquidity management is to ensure that BDC is able to meet its payment obligations in a timely, cost-effective way. We have a well-defined liquidity and investment management policy, which includes liquidity limits that the Treasury Risk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

Market Risk is the risk that BDC will lose money if the value of its assets, liabilities or other financial instruments varies because of changes in market conditions.

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

Interest Rate Risk is the risk that market interest rate fluctuations will lead to a loss in the value of financial instruments. We make loans with both floating and fixed interest rates, try to ensure that our borrowing strategies match these types of loans wherever possible, and use derivative instruments to manage any gaps. The graph on the following page shows BDC's asset and liability position as of March 31, 2007, after taking into account derivative transactions.

The Treasury Risk Policy guides the proactive management of market risk exposure arising from potential adverse movements in interest rates. The purpose of the policy is to minimize the impact of these variations on net interest income and BDC's economic value. Parameters have been set on the sensitivity of the net interest income projected over the next 12 months when subject to a parallel movement of the Canadian yield curve of 200 basis points.



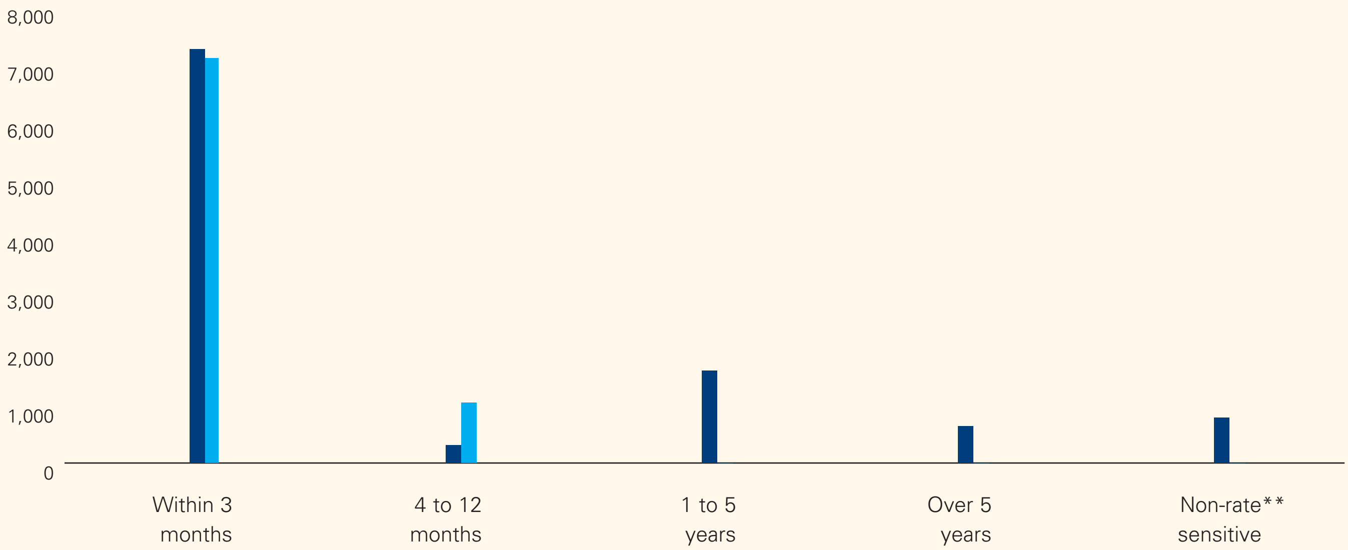
Issuer/Counterparty Risk is the risk that a counterparty's credit rating will be downgraded or that the counterparty will default, resulting in a loss in the value of outstanding financial instruments or a potential financial loss, if the counterparty cannot meet its contractual obligations.

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

Legal and Regulatory Risk arises when BDC transacts with a counterparty that lacks the legal or regulatory authority to engage in the transaction, when changes to laws or regulations adversely affect the value of a set of transactions, or when derivatives documentation – such as an ISDA master agreement – is missing or inappropriate.

Treasury Interest Rate Sensitivity Asset & Liability Gap

as at March 31, 2007 ($ in millions)



	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-rate** sensitive
Assets*	7,280	313	1,630	654	835
Liabilities	7,158	1,070	0	0	0

* *Before allowance for credit losses.*

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

– 4 –
Accounting & Control Matters

Critical Accounting Policies & Estimates

BDC's significant accounting policies are summarized in Note 2 to the Consolidated Financial Statements. These policies are considered critical because they require significant estimates in applying such policies. BDC has established control procedures, including formal representations and certification by senior officers, to ensure that accounting policies and estimates are reviewed and that they are applied consistently from period to period. Critical accounting policies include those related to the allowance for credit losses, the fair value of investments, and pension and other employee future benefits.

Allowance for Credit Losses

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

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

BDC maintains its allowance for credit losses at an adequate level, taking into consideration the relatively high-risk profile of its financing activities.

Note 2 to the Consolidated Financial Statements details the methods used to calculate the allowance for credit losses.

Fair Value of Investments

In accordance with generally accepted accounting principles (GAAP), investments held by investment companies within the consolidated group are stated at fair value. Fair value is the price an unrelated knowledgeable party would pay for the investment. BDC derives its approach to fair value measurement from investment industry guidelines.

To determine fair value, BDC uses the following approaches: (i) market-based methodologies, such as the quoted share price or the price of recent investments; (ii) discounted earnings or cash flow approaches, when the company has maintainable profits or maintainable positive cash flows; or (iii) a liquidation- or asset-based method, when the company is in financial distress.

Fair value is management's best estimate and involves significant assumptions, such as the capitalization rate or the discount rate. It may not reflect the ultimate realizable value of the investment.

Note 2 to the Consolidated Financial Statements details the methods BDC uses to estimate the fair value of its investments.

Pension and Other Employee Future Benefits

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

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

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

Future Changes in Accounting Policies

Financial Instruments

In 2005, the Canadian Institute of Chartered Accountants (CICA) published three new accounting standards: *Comprehensive Income; Financial Instruments: Recognition and Measurement;* and *Hedges*. These standards, which BDC will apply starting April 1, 2007, are summarized below.

Comprehensive Income

Section 1530 of the CICA Handbook, *Comprehensive Income*, introduces a new statement that will be added to BDC's Consolidated Financial Statements entitled "Statement of Comprehensive Income." Comprehensive income consists of net income plus "Other comprehensive income." "Other comprehensive income" includes fair value changes on financial instruments classified as available-for-sale, and changes in the fair value of the effective portion of cash flow hedging instruments. "Accumulated other comprehensive income" will be presented separately in shareholder's equity.

Financial Instruments – Recognition and Measurement

Section 3855, *Financial Instruments: Recognition and Measurement*, gives guidance on recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The new standard requires that all financial assets be classified as either held for trading, held-to-maturity, available-for-sale, or as loans and receivables. Financial liabilities must be classified as held for trading or not held for trading.

Hedges

Section 3865, *Hedges*, establishes stringent accounting requirements for hedges. Using this guideline, BDC will recognize any hedge ineffectiveness immediately in income.

Transition

On April 1, 2007, BDC will recognize changes in the carrying value of financial instruments and related deferred balances arising from BDC's adoption of these new standards in its opening retained earnings balance and opening "accumulated other comprehensive income." BDC is determining the impact of adopting these standards will have on its Consolidated Financial Statements, based on recently issued transitional guidance. The transition amounts that will be recorded in the opening balances on April 1, 2007, are not expected to be material.

Pension and Other Employee Future Benefits

In March 2007, the Accounting Standards Board published an exposure draft of proposed revisions to section 3461 of the CICA Handbook, *Employee Future Benefits*. Under the proposed revisions, an entity would recognize the funded status (difference between plan assets and obligations) of all its defined benefit plans on its balance sheet. It would also measure the plan assets and obligations at the balance sheet date, and recognize changes in the funded status in comprehensive income in the year in which the changes occur. The recognition and related disclosure provisions would be effective for BDC in fiscal 2008. The measurement date provisions would be effective for fiscal 2009.

As per the new rules, all overfunded plans would be aggregated and recognized as an asset, while all underfunded (and unfunded) plans would be separately aggregated and recognized as a liability on the Consolidated Balance Sheet, with the net amount recorded as an opening adjustment to "Accumulated other comprehensive income". As of March 31, 2007, BDC estimates the net underfunded amounts related to the registered pension plan, the supplemental pension plans and other plans to be $146 million.

Controls & Procedures

To be proactive and to abide by best corporate governance practices, BDC launched its Internal Control Certification (ICC) Project in fiscal 2006. The ICC Project objectives are to enhance financial and anti-fraud controls, and to ensure readiness to meet a control certification regime. The definition, planning and scoping phases are complete.

BDC expects to complete the next phase of the ICC Project, focusing on disclosure controls and procedures, in early fiscal 2008. This phase entails establishing a disclosure policy and a disclosure committee; reviewing the existing certification process; doing an inventory of disclosure items; and documenting key disclosure processes and controls. Disclosure controls and procedures are designed to provide reasonable assurance that BDC has gathered all relevant information and reported it to management so as to allow timely decisions on disclosures.

BDC expects to complete the final phase of the ICC Project, focusing on internal control over financial reporting, at the end of fiscal 2009. This phase includes three types of controls: entity-level controls, process-level controls and information technology general controls. Internal control over financial reporting is designed to provide BDC with reasonable assurance that its financial reporting is reliable and that it has prepared its financial statements in accordance with Canadian GAAP.

– 5 –
Analysis of Financial Results

We compare our financial performance to last year's, and measure it against the 2007–2011 Corporate Plan (CP) objectives and internal objectives.

Lines of Business

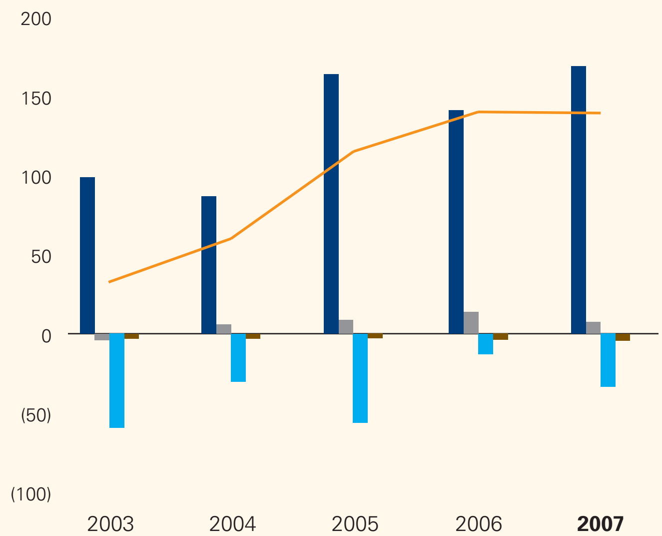
In 2006, BDC reported on three business lines: Financing, Venture Capital and Consulting. Starting in 2007, to enhance the clarity of financial analysis, the Financing business line was broken into two groups: Financing, which includes loans, and Subordinate Financing, which includes mostly investment-type financing.

Consolidated Net Income

Consolidated net income for fiscal 2007 was $138.0 million, almost the same as the $138.2 million recorded last year. The gross Financing portfolio grew by 5.8%, from $8.6 billion to $9.1 billion. Given the overall quality of the portfolio, the provision for credit losses amounted to only $67.9 million, compared to $88.1 million in fiscal 2006. That explains most of the increase in Financing income, from $141.1 million last year to $168.0 million this year.

BDC Net Income

for the years ended March 31 ($ in millions)



	2003	2004	2005	2006	2007
BDC Financing*	98.6	86.7	163.7	141.1	**168.0**
BDC Subordinate Financing	(4.1)	5.8	8.8	13.7	**7.9**
BDC Venture Capital	(59.5)	(30.3)	(56.1)	(12.8)	**(33.6)**
BDC Consulting	(3.1)	(3.1)	(2.9)	(3.8)	**(4.3)**
Total net income	31.9	59.1	113.5	138.2	**138.0**

* *Excludes BDC Subordinate Financing.*

Income from Subordinate Financing was $7.9 million, lower than the $13.7 million recorded in fiscal 2006, mainly due to $7.3 million in unrealized fair value depreciation, versus an appreciation of $1.5 million in fiscal 2006.

Despite an increase in its portfolio, Venture Capital recorded a loss of $33.6 million, compared to a $12.8-million loss in fiscal 2006. Although the $26.0-million change in unrealized depreciation of investments was comparable to last year, dispositions of investments did not trigger any net gains in fiscal 2007.

Dividends

BDC declared dividends of $21.6 million in fiscal 2007, $12.1 million related to fiscal 2006 results, the remainder on preferred shares. During fiscal 2007, BDC paid dividends of $20.8 million to the Government of Canada.

Performance Against Objective

Consolidated net income for fiscal 2007 reached $138.0 million. That compares well to the CP objective of $123.0 million and internal objective of $134.0 million. Venture Capital results were about $38 million below objective, the difference being offset by the better-than-planned performance of Financing, Subordinate Financing and Consulting.

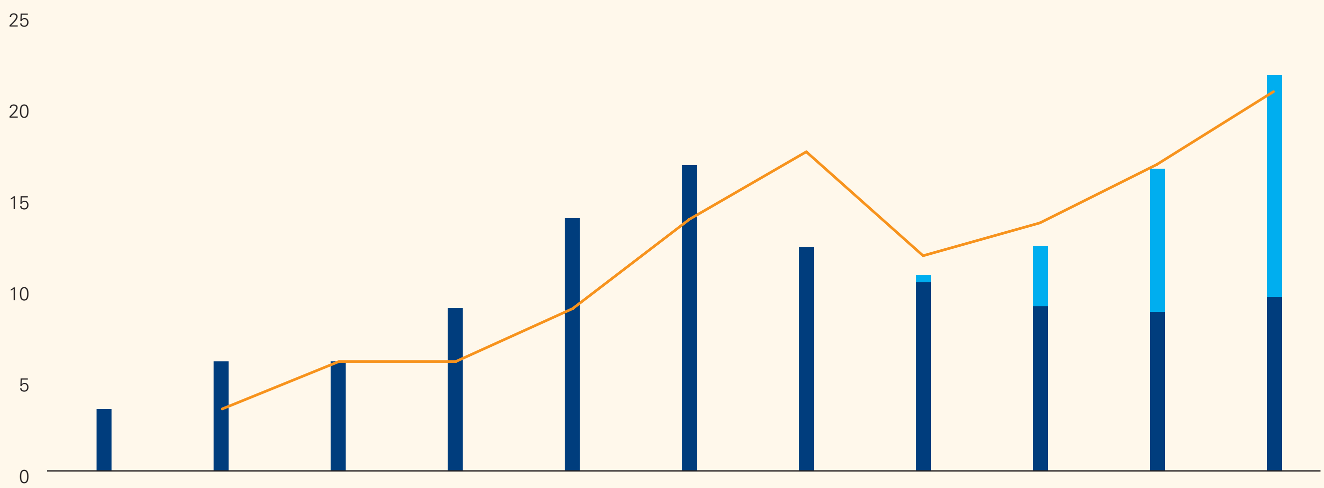
Outlook for 2008

We anticipate a consolidated net income of $123.0 million. Based on our actual financial performance in fiscal 2007, we declared, after year-end, a dividend on common shares of $12.0 million. This we will record and pay in fiscal 2008.

In addition, we project a $9 million dividend on preferred shares. This we will declare in fiscal 2008.

Dividends

for the years ended March 31 ($ in millions)



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

* *In addition, based on BDC's fiscal 2007 performance, common dividends of $12.0 million were declared after March 31, 2007 and will be paid and recorded in fiscal 2008.*

BDC Financing

During fiscal 2007, BDC started analyzing results for BDC Financing separately from those for BDC Subordinate Financing. This approach was warranted by the increasing size of the portfolio and income, as well as the variability of Subordinate Financing ventures.

Financing Portfolio

Driven by demand for BDC's specialized loan solutions, the closing portfolio for BDC Financing before allowance for credit losses went from $8.6 billion to $9.1 billion, an increase of over $500 million or 5.8%. The average portfolio for the year increased by 7.6%. The largest contributing factor to this growth was disbursements of $2.4 billion. The payment and prepayment rate was 21.7% of opening outstanding portfolio, 0.5% higher than last year.

Clients can choose either a floating or a fixed rate for their loans. BDC borrows the funds on the Canadian and global money markets, which determine its cost of funds. This cost, in turn, becomes the foundation of the rate BDC charges its clients, along with factors to cover its operating expenses and the risk of each individual loan. As shown in the graph at lower left, 72% of the performing portfolio is composed of floating rate loans.

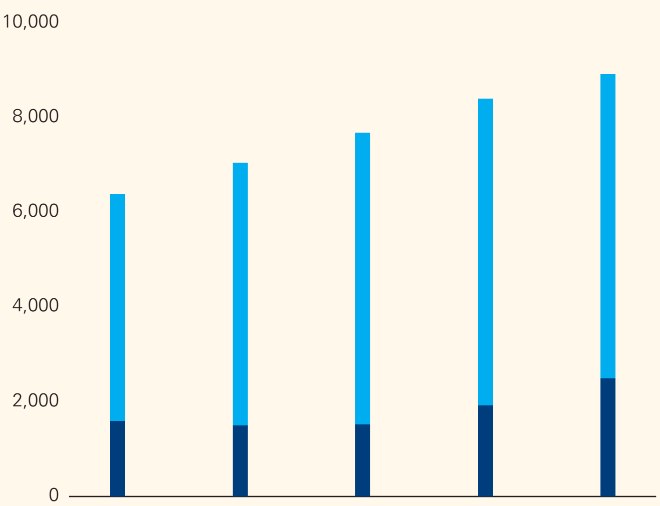
Net Interest and Other Income

Net interest income of $448.5 million reflected interest income less interest expense on borrowings. It also included $41.4 million of interest earned on short-term investments and securities. Other income of $28.5 million mainly comprised fees charged to borrowers. Net interest and other income totalled $477.0 million, which was $27.4 million or 6.1% higher than last year.

This $27.4 million increase was the net result of an increase of $34.1 million due to portfolio growth and a decrease of $6.7 million due to a decrease in margin since fiscal 2006. Net interest and other income margin expressed as a percentage of the average portfolio was 5.36%, compared to 5.43% in fiscal 2006.

Performing Portfolio

as at March 31 ($ in millions)

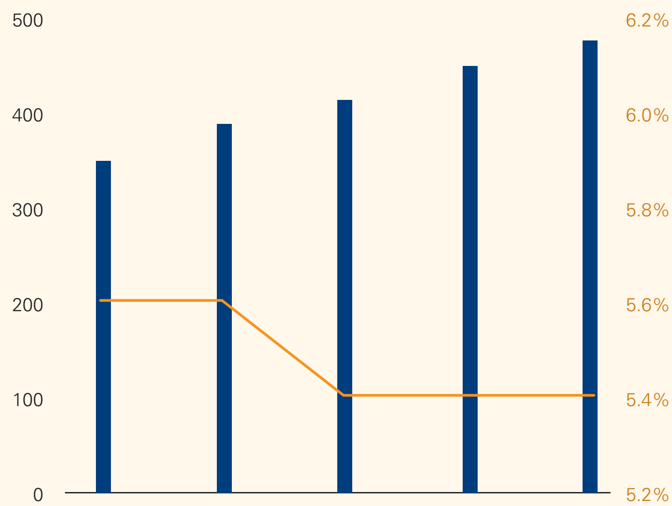


	2003	2004	2005	2006	**2007**
Fixed rate portfolio	1,580	1,478	1,500	1,902	**2,464**
Floating rate portfolio	4,741	5,508	6,117	6,426	**6,378**
Total performing portfolio	6,321	6,986	7,617	8,328	**8,842**

Excludes subordinate financing loans and investments.

BDC Financing Net Interest & Other Income

for the years ended March 31 ($ in millions)



	2003	2004	2005	2006	**2007**
Net interest and other income	349.9	389.0	413.5	449.6	**477.0**
As a % of average loan portfolio	5.59%	5.58%	5.45%	5.43%	**5.36%**

Excludes subordinate financing loans and investments.

Provision for Credit Losses

Credit conditions remained favourable in fiscal 2007. BDC recorded a specific provision for credit losses of $67.9 million and no general provision. This expense represented 0.8% of the average loans portfolio, compared to 1.1% last year. In fiscal 2006, the specific provision was $61.4 million and the general provision $26.7 million, for a total provision for credit losses of $88.1 million.

The most significant factor influencing the provision for credit losses is the level of impaired loans. When loans default, they are classified as impaired, and an amount equal to the net exposure is recorded as a specific provision and added to the specific allowance. Loans write-offs reduce the specific allowance, once it is determined that all possible recoveries have been made from the distressed debtor. Impaired loans as a percentage of the portfolio declined from 3.5% to 3.1% between fiscal 2006 and fiscal 2007. Write-offs and other adjustments totalled $60.1 million, versus $65.1 million last year.

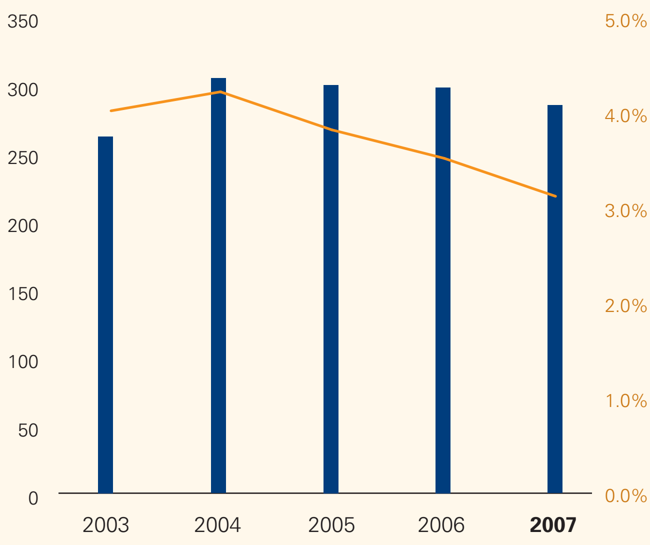
BDC maintains the cumulative allowance for credit losses at a level that reflects its long-term loss experience. The allowance totalled $505.5 million, versus $497.3 million a year ago. It represented 5.5% of the loan portfolio outstanding at year-end, compared to 5.8% in fiscal 2006. This decline was due mainly to improved credit quality in the performing loan portfolio and lower levels of impaired loans. The general allowance remained adequate at $399.2 million, the same amount as last year.

Operating and Administrative Expenses

Operating and administrative expenses totalled $241.1 million, compared to $220.4 million last year, a 9.4% increase. Salary costs rose by close to $14.8 million, or 12.5%, mainly because BDC hired new employees to support growth. In particular, BDC opened six new branches during the year to reach under-served communities. Pension costs increased by $3.2 million, or 23.8%, due to a reduction in the discount rate applied to the pension obligation. Remaining expenses increased by only $2.7 million, or 3.1%.

Impaired Portfolio

as at March 31 ($ in millions)

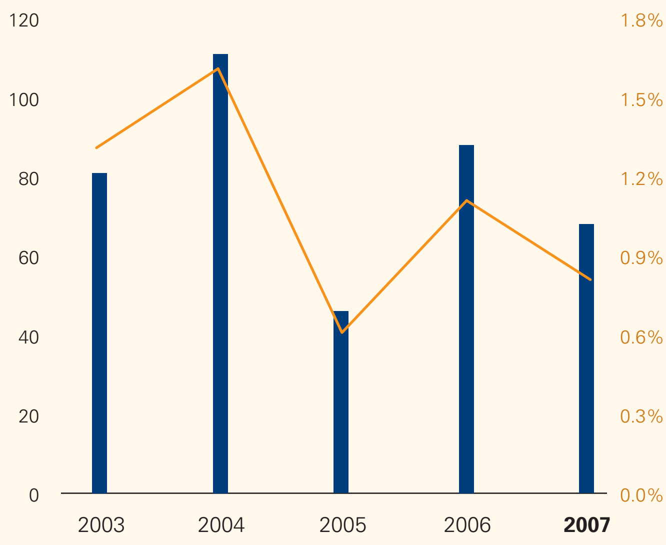


	2003	2004	2005	2006	2007
Impaired portfolio	263	306	301	299	**286**
Impaired portfolio as a % of loan portfolio	4.0%	4.2%	3.8%	3.5%	**3.1%**

Excludes subordinate financing loans and investments.

Provision for Credit Losses

for the years ended March 31 ($ in millions)



	2003	2004	2005	2006	2007
Provision for credit losses	80.6	111.4	46.4	88.1	**67.9**
As a % of average loan portfolio	1.3%	1.6%	0.6%	1.1%	**0.8%**

Excludes subordinate financing loans and investments.

Income from Financing

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

Income from Financing reached $168.0 million in fiscal 2007, $26.9 million higher than the $141.1 million recorded in fiscal 2006. This increase was essentially due to lower provision for credit losses in fiscal 2007.

Performance Against Objective

The $9.1 billion portfolio was slightly below the internal objective of $9.2 billion, due to lower disbursements, but above the initial CP objective of $8.9 billion. The actual provision expense of $67.9 million was much lower than both the internal and CP objectives of $112 million.

Total operating and administrative expenses were $2.0 million higher than the internal objective, mainly due to the net effect of a higher number of employees and lower pension costs. Pension costs dropped compared to objectives due to higher-than-expected returns on pension plan assets.

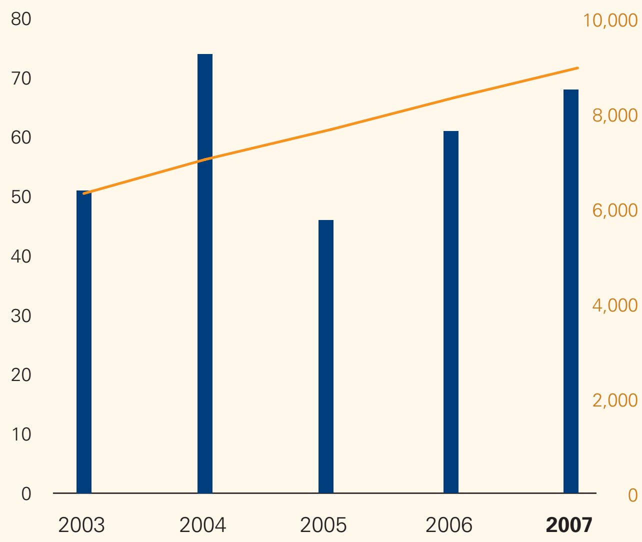
Financing income of $168.0 million in fiscal 2007 was above both the internal objective of $133.1 million and the CP objective of $117.0 million.

Outlook for 2008

We project continuing favourable economic conditions and steady demand for BDC services in fiscal 2008. The gross Financing portfolio is expected to grow by 6% to reach $9.7 billion in 2008. This growth should push net interest and other income to $503.0 million, an increase of 5.5% in fiscal 2008.

Specific Provision for Credit Losses

for the years ended March 31 ($ in millions)

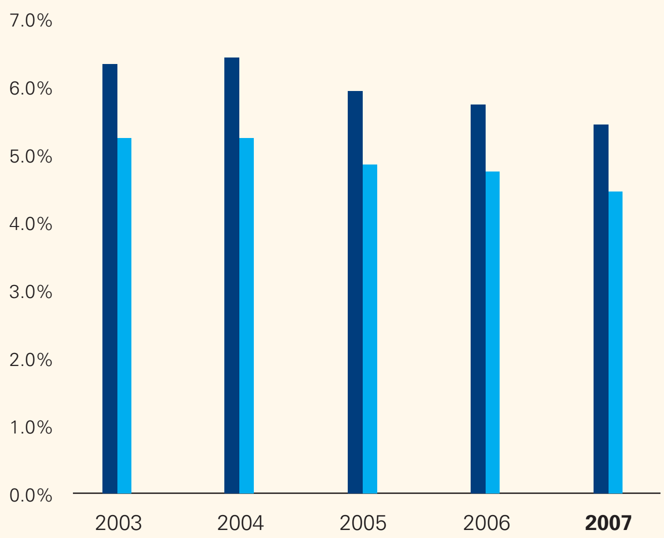


	2003	2004	2005	2006	2007
Specific provision for credit losses	50.9	74.4	46.4	61.4	**67.9**
Average loan portfolio	6,258	6,976	7,595	8,275	**8,902**

Excludes subordinate financing loans and investments.

Allowance for Credit Losses

as at March 31 (percentage)



	2003	2004	2005	2006	2007
Total allowance as a % of loan portfolio	6.4	6.5	6.0	5.8	**5.5**
General allowance as a % of performing portfolio	5.3	5.3	4.9	4.8	**4.5**

Excludes subordinate financing loans and investments.

We expect the credit environment to remain stable in 2008. Accordingly, we project the 2008 provision for credit losses will be $124.0 million. This figure would be a significant increase from actual results in fiscal 2007 but would be more in line with historical loan loss experience.

Operating expenses will increase by 6.6% to $257.0 million, due to higher compensation expenses and higher premises costs, mainly due to investments made in new branches in 2007 and higher pension costs. Income from Financing is therefore expected to be $122.0 million.

BDC Subordinate Financing

The Subordinate Financing portfolio is growing. However, it includes a declining portfolio that was underwritten prior to the 2003 agreement with the Caisse de dépôt et placement du Québec (the Caisse).

Subordinate financing investments are hybrid instruments that combine elements of both debt and equity financing. They go to mature businesses to support specific growth projects. The Canadian subordinate financing market is a niche market in which BDC is active. In fiscal 2004, the Caisse and BDC each agreed to invest $150 million over three years in a joint partnership fund called AlterInvest Fund L.P. This fund has been fully committed. In November 2006, the Caisse and BDC set up a second fund, AlterInvest Fund II L.P., to invest an additional $330 million.

Since 2003, BDC's activity in subordinate financing has taken place via these funds. BDC acts as the general partner. In fiscal 2006, BDC started reporting subordinate financing investments at fair value.

Subordinate Financing Portfolio

Consolidated Subordinate Financing net portfolio assets grew 3.1% in fiscal 2007, from $143.9 million to $148.3 million. Net portfolio assets under management went from $226.7 million to $255.8 million.

Income from Subordinate Financing

At $13.8 million, net interest income from Subordinate Financing in fiscal 2007 surpassed last year's results by $3.0 million, mostly due to variable interest premiums. Realized net gains on disposition of investments and other income totalled $13.7 million. They included gains and losses on divestitures, fee income and management fees.

Change in unrealized depreciation or appreciation shows net fair value changes in subordinate financing investments. In fiscal 2007, a $7.3 million depreciation of investments was recorded, compared to an appreciation of $1.5 million last year.

Performance Against Objective

Income from Subordinate Financing of $7.9 million in 2007 was much higher than the $2.4 million objective. The difference was mostly due to higher-than-expected interest income as a result of variable interest premiums.

Outlook for 2008

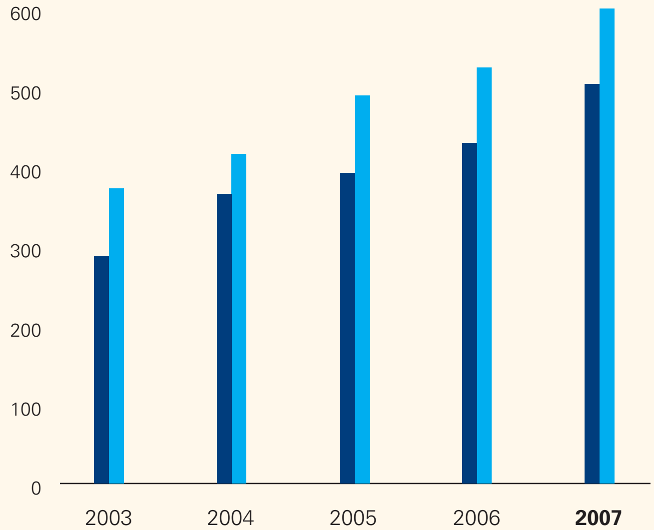
This type of financing will remain enticing for clients who wish to support growth, invest in intangible assets or complete successful business ownership transitions. BDC's share in the portfolio is expected to grow by 6% to $157 million in 2008, generating an income of $5 million.

BDC Venture Capital

BDC Venture Capital addresses market gaps that hinder the creation and development of groundbreaking, technology-based businesses. BDC invests in companies directly or via investment funds. In line with its mandate, BDC invests in enterprises that may reasonably be expected to prove successful. Venture capital assets are held through BDC Capital Inc. and have been measured at fair value since 2006.

Valuation of BDC Venture Capital Total Investments

as at March 31 ($ in millions)



	2003	2004	2005	2006	2007
Fair value	287.6	366.0	393.2	431.4	**505.1**
Cost	373.3	416.6	491.5	525.6	**601.2**

Venture Capital Portfolio

The fair value of the portfolio grew from $431.4 million in fiscal 2006 to $505.1 million in fiscal 2007. The growth came from disbursements of $133.4 million, net of dispositions and fair value movements of $59.7 million. Of the total portfolio, BDC has invested $40.5 million through 14 investment funds, and $464.6 million directly in businesses.

Loss from Venture Capital

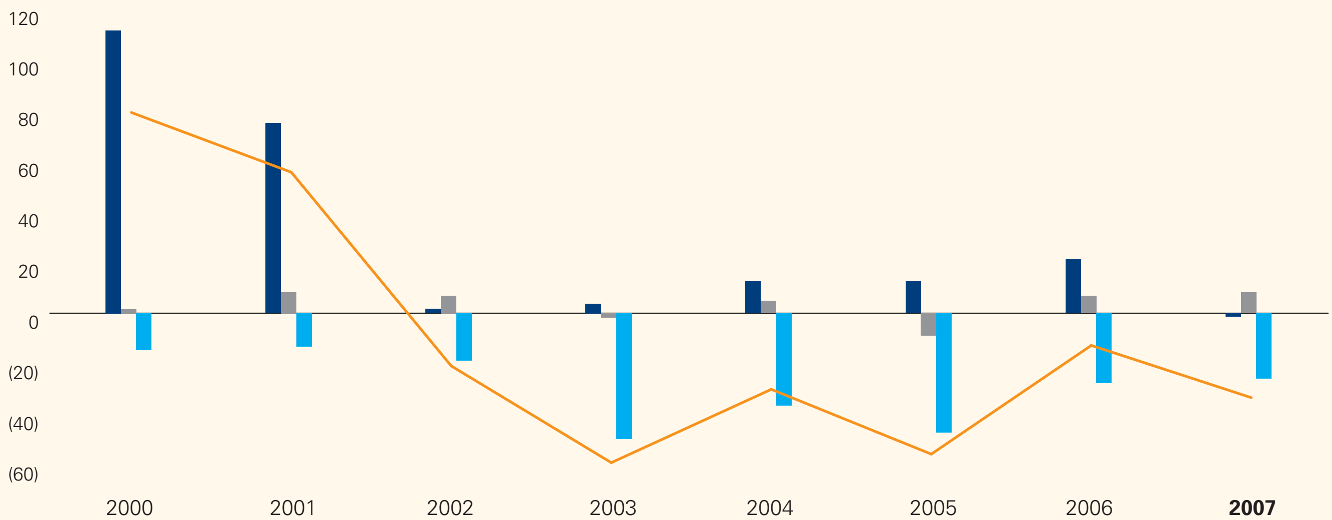
Venture Capital's success depends on gainful divestitures of individual investments, which are subject to prevailing market conditions and the fair value measurement of its investments. Accordingly, financial results may be volatile and will vary from year to year. Management believes that the investments will, in aggregate, succeed in the long term. However, the Canadian venture capital industry has been less stable than its U.S. counterpart since 2001, in terms of investment activities and delays in showing good returns.

The BDC Venture Capital portfolio has grown in the last seven years. The portfolio (at cost) has almost doubled since 2003. BDC Venture Capital has been growing its portfolio in accordance with a strategy in the areas of knowledge-based industries and commercialization of research. This strategy implies focusing on seed and early-stage companies and was underscored by capital injections from the Shareholder. Due to the relative youth of recent investments and unfavourable market conditions, BDC Venture Capital has suffered losses in the last six years.

In fiscal 2007, BDC Venture Capital recorded a loss of $33.6 million, versus a loss of $12.8 million last year. In fiscal 2007, divestitures were again low, both in number and in value, due to limited exit opportunities in the market. Net losses on disposal of investments included $13.8 million in gains and $15.0 million in losses, consisting of sales or write-offs. In fiscal 2006, one account generated a gain on sale of

BDC Venture Capital Operations

for the years ended March 31 ($ in millions)



	2000	2001	2002	2003	2004	2005	2006	**2007**
Realized net gains (losses) on disposals of investments	112.7	75.8	1.7	3.8	12.7	12.7	21.6	**(1.2)**
Other*	1.6	8.4	7.0	(1.7)	4.9	(8.0)	6.9	**8.3**
Write-down of investments / unrealized depreciation (2006-2007)	(14.7)	(13.3)	(18.9)	(50.0)	(36.8)	(47.4)	(27.7)	**(26.0)**
Venture Capital operating profit (loss)	80.0	56.2	(21.0)	(59.5)	(30.3)	(56.1)	(12.8)	**(33.6)**

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

close to $16 million, making it a large contributor to the total net gains of close to $21.6 million that year. Interest, dividends and other income in fiscal 2007 totalled $8.3 million, which included $4.3 million in interest earned on liquidities.

Change in unrealized depreciation of $26.0 million comprised net depreciation in fair value of $32.9 million since March 2006 and net reversals of fair value following dispositions of investments of $5.5 million. It also included an appreciation of $1.4 million on forward contracts. This $1.4 million reflected the unrealized gain on foreign exchange contracts that BDC entered into to hedge foreign exchange risk in the U.S. dollar portfolio.

Performance Against Objective

The loss from Venture Capital of $33.6 million was significantly higher than the CP objective income of $6 million and the internal objective income of $4 million. The loss was higher for two reasons: realized income was lower, due to limited exit opportunities; and reductions in fair values were greater, due to the large proportion of investments from more recent years. Finally, fair value of such investments is volatile, difficult to measure and difficult to predict.

Outlook for 2008

This type of investing requires a long-term commitment, particularly as BDC invests in seed and early-stage enterprises. BDC is a patient shareholder and believes that the future holds positive prospects.

BDC is committed to supporting its successful clients. In fiscal 2008, we expect activity to continue at a good pace, as thriving investments invariably need additional rounds of investment for expansion or commercialization. We regularly review the status of the portfolio to concentrate efforts on potential winners, so that we can add value to investee companies and attract additional investments from other investors to support their growth. The fair value of investments should reach $559 million in fiscal 2008, with more successful exits helping generate a break-even income.

BDC Consulting

BDC Consulting offers managerial support to SMEs and entrepreneurs at a price they can afford. As such, rather than pursue profitability, it seeks to bring value to its clients. BDC started 2,451 Consulting mandates in fiscal 2007, an increase of 20.3% over last year. BDC Consulting helps SMEs address a wide range of challenges, including growth, operations management and strategic business planning. In fiscal 2007, the average mandate size of $10,000 was below the fiscal 2006 average of $10,800, due to changes in product mix, especially in the Quebec and Atlantic regions. There were more innovation mandates and fewer operational efficiency mandates.

Loss from Consulting

The two primary financial indicators for BDC Consulting, mandates and revenues, were ahead of fiscal 2006 results. Consulting revenues are generated as mandates are performed. Consulting revenues reached $23.5 million in fiscal 2007, 9% ahead of fiscal 2006.

At $4.3 million, the loss from Consulting was $0.5 million higher than the loss in fiscal 2006. After completing the CP objective, management – with the concurrence of the Board of Directors – approved a $3.0 million investment to support a Consulting growth strategy. Of the $3.0 million, $1.4 million was incurred during 2007. As a result, operating and administrative expenses increased from $25.4 million in fiscal 2006 to $27.8 million in fiscal 2007. Key components of this strategy include improving business processes and roster management, hiring and training employees, and developing consulting solutions.

BDC chooses to keep access to its consulting services affordable for SMEs because of the value these services bring to the entrepreneur managing his or her business.

Performance Against Objective

Revenues of $23.5 million were 2.3% ahead of the internal objective. At $4.3 million, the loss from Consulting was $1.7 million better than the internal objective of a loss of $6.0 million. The CP showed a loss of $3.0 million.

Outlook for 2008

BDC will continue to implement its strategic four-year plan, launched in fiscal 2006, to extend its reach into more Canadian markets and diversify its service offerings. We are entering fiscal 2008 with a very encouraging sales pipeline, higher than it was at the same time last year. Our revenue target is $26 million, for a net expected loss of $4 million.

Balance Sheet

In fiscal 2007, total assets increased by $492.7 million, or 4.8%, from fiscal 2006, mainly in the loans portfolio.

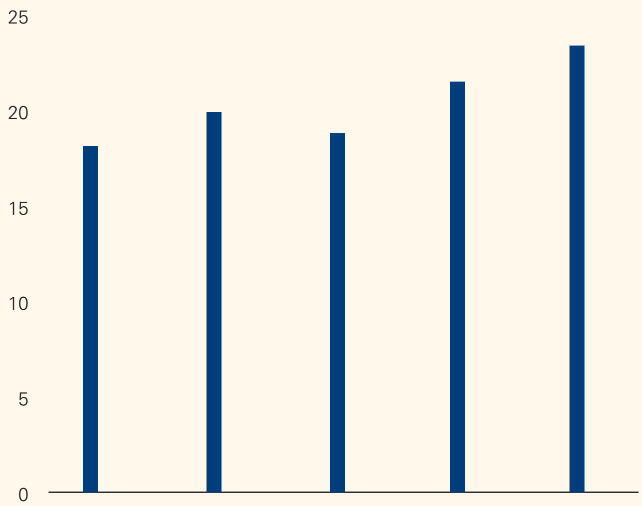
BDC holds cash, cash equivalents and securities in accordance with its liquidity and investment management policy. These liquidities ensure funds are available to meet client needs. They totalled $929.1 million in fiscal 2007.

Loans, net of allowance for credit losses, were the largest asset on the balance sheet. This portfolio increased by $492.8 million, or 6%, from fiscal 2006. Disbursements were less than expected, but the allowance for credit losses increased by only $8.2 million, due to favourable economic conditions.

Subordinate financing loans and investments increased by $4.4 million, or 3%. The fair value of venture capital investments grew by $73.7 million, or 17%.

BDC Consulting Revenue

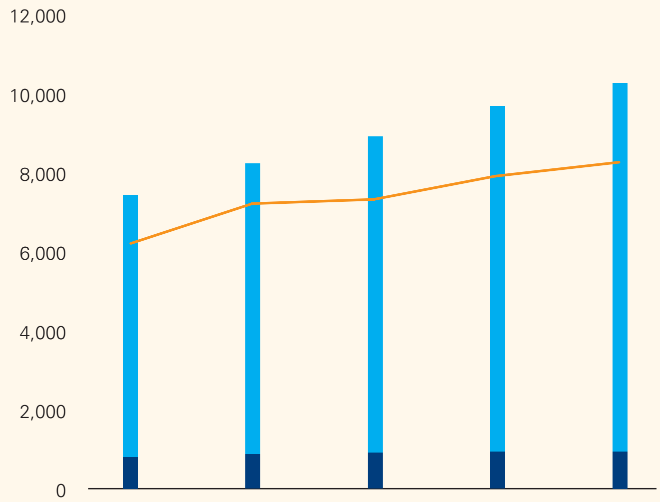
for the years ended March 31 ($ in millions)



2003	2004	2005	2006	**2007**
18.2	20.0	18.9	21.6	**23.5**

Borrowings

as at March 31 ($ in millions)



	2003	2004	2005	2006	**2007**
Liquid assets	794	865	903	930	**929**
Portfolios*	6,591	7,323	7,966	8,705	**9,276**
Borrowings	6,174	7,181	7,288	7,876	**8,228**

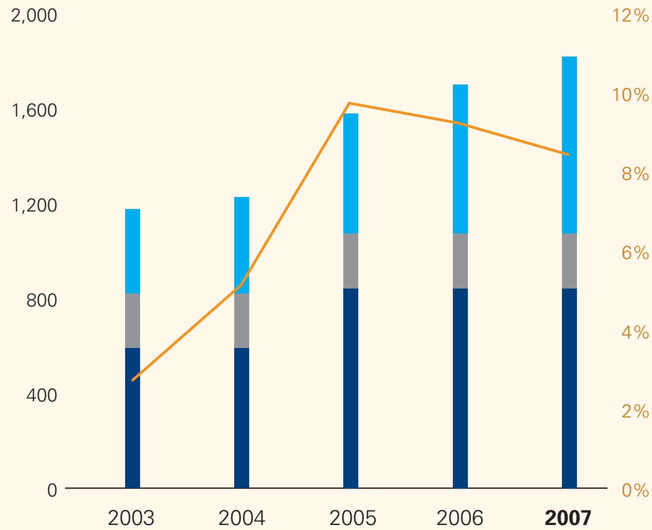
* *Includes net loan portfolio and investments.*

Derivative-related assets of $442.4 million and derivative-related liabilities of $530.3 million largely offset each other. They generally reflected interest accrued, either receivable or payable, and unrealized gains and losses on derivative instruments. Other assets of $122.7 million included an accrued benefit pension asset of $100.7 million, while other liabilities of $142.8 million included an accrued benefit pension liability of $106.7 million.

At March 31, 2007, portfolios and liquidities of $10.2 billion were funded by borrowings of $8.2 billion and total equity of $1.8 billion. Borrowings in short-term and long-term notes increased by 4.5% in relation to the overall growth in portfolio assets of 6.6%, the remainder being financed mostly by higher equity. Equity consisted of $1.1 billion in paid-up capital and $0.7 billion in retained earnings.

Total Shareholder's Equity

as at March 31 ($ in millions)



	2003	2004	2005	2006	2007
Common shares*	586.2	586.2	836.2	836.2	**836.2**
Preferred shares	230.0	230.0	230.0	230.0	**230.0**
Retained earnings	353.8	402.3	503.4	625.1	**741.5**
Total shareholder's equity	1,170.0	1,218.5	1,569.6	1,691.3	**1,807.7**
Return on common equity	2.7%	5.1%	9.7%	9.2%	**8.5%**

* *Includes $27.8 million of contributed surplus.*

Total Shareholder's equity grew by $116.4 million to $1.8 billion, with a consolidated net income of $138.0 million and declared dividends of $21.6 million.

Return on common equity was 8.5%, below the 9.2% of last year, but above both the CP and internal objectives.

Pension & Other Employee Future Benefits

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

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

As of December 2006, the registered pension plan enjoyed a funding surplus on a going-concern basis and a funding deficit on a hypothetical-solvency basis. BDC's employer contributions totalled $27.5 million in fiscal 2007, compared with $20.5 million in fiscal 2006. In the past, the supplemental plans were mostly unfunded, but BDC chose to contribute $14.6 million in fiscal 2006 and $9.3 million in fiscal 2007 to reduce the unfunded liability. Other employee future benefits remain unfunded.

As of March 31, 2007, the net underfunded amounts related to the registered pension plan, the supplemental pension plans and other plans totalled $146 million.

During the year, we announced changes to the post-retirement benefit program that will affect employees who retire after January 1, 2012. The new post-retirement benefits program will provide different life insurance, health and dental coverage. These changes generated a gain of $9.7 million on July 1, 2006.

Capital Management

Statutory Limitations

As provided for in the BDC Act, BDC's debt-to-equity ratio cannot exceed 12:1. At March 31, 2007, it was steady at 4.6:1, compared with 4.7:1 as at March 31, 2006. Moreover, BDC's paid-in capital must not exceed $1.5 billion. Paid-in capital amounted to $1.1 billion in fiscal 2007, unchanged from fiscal 2006, since no additional capital was received.

Capital Adequacy

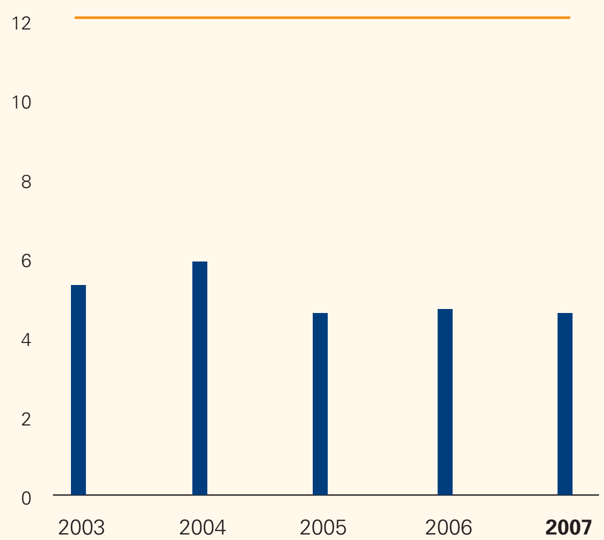
Treasury Board of Canada Secretariat provides BDC with guidelines for establishing capital adequacy ratios. We must maintain capital and loss provisions sufficient to ensure BDC can withstand unfavourable economic circumstances without requiring additional government funding.

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

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

Debt : Equity

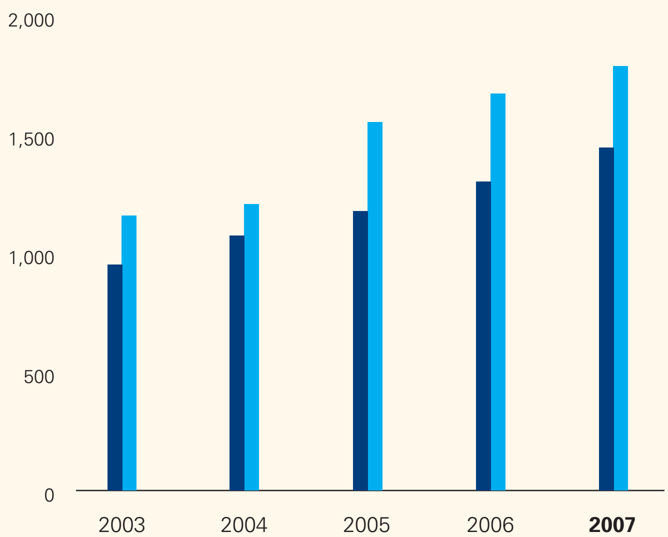
as at March 31



	2003	2004	2005	2006	**2007**
Actual	5.3	5.9	4.6	4.7	**4.6**
Statutory limit	12.0	12.0	12.0	12.0	**12.0**

Capital Adequacy

as at March 31 ($ in millions)



	2003	2004	2005	2006	**2007**
Regulatory	962	1,086	1,189	1,316	**1,460**
Actual	1,170	1,219	1,570	1,691	**1,808**

Consolidated Financial Statements

Management's Responsibility for Financial Information

The consolidated financial statements of the Business Development Bank of Canada were prepared and presented by Management in accordance with Canadian generally accepted accounting principles on a basis consistent with that of the preceding year. The information contained therein normally includes amounts requiring estimations which have been made based upon informed judgment as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the consolidated financial statements.

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

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

Jean-René Halde
President and Chief Executive Officer

Paul Buron, CA
Executive Vice President and Chief Financial Officer

Montreal, Canada
May 18, 2007

Auditors' Report

To the Minister of Industry

We have audited the consolidated balance sheet of the Business Development Bank of Canada as at March 31, 2007 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

Sheila Fraser, FCA
Auditor General of Canada

Raymond Chabot Grant Thornton LLP
Chartered Accountants

Montreal, Canada
May 18, 2007

Consolidated Balance Sheet

as at March 31 ($ in thousands)

	2007	2006
Assets		
Cash and cash equivalents (Note 4)	**$ 764,803**	$ 752,730
Securities (Note 5)	**164,266**	177,555
	929,069	930,285
Loans, net of allowance for credit losses (Note 6)	**8,622,646**	8,129,880
Subordinate financing loans and investments (Note 7)	**148,290**	143,901
Venture capital investments (Note 8)	**505,118**	431,379
	9,276,054	8,705,160
Fixed assets, net of accumulated amortization (Note 9)	**33,882**	37,661
Derivative-related assets (Note 17)	**442,368**	545,711
Other assets (Note 10)	**122,708**	92,606
	598,958	675,978
Total Assets	**$10,804,081**	$10,311,423
Liabilities and Shareholder's Equity		
Accounts payable and accrued liabilities	**$ 67,013**	$ 77,624
Accrued interest on borrowings	**28,408**	21,206
	95,421	98,830
Borrowings (Note 11)		
Short-term notes	**3,974,496**	4,199,347
Long-term notes	**4,253,371**	3,676,821
	8,227,867	7,876,168
Derivative-related liabilities (Note 17)	**530,302**	511,606
Other liabilities (Note 12)	**142,773**	133,542
Shareholder's Equity		
Share capital (Note 13)	**1,038,400**	1,038,400
Contributed surplus	**27,778**	27,778
Retained earnings	**741,540**	625,099
	1,807,718	1,691,277
Guarantees, contingent liabilities and commitments (Note 19)		
Total Liabilities and Shareholder's Equity	**$10,804,081**	$10,311,423

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

Approved by the Board:

Stan Bracken-Horrocks
Director
Chairperson Audit Committee

Jean-René Halde
Director
President and Chief Executive Officer

Consolidated Statement of Income and Retained Earnings

For the years ended March 31 ($ in thousands)

	2007	2006
Financing		
Interest income		
Loans	**$ 737,634**	$ 605,460
Short-term investments and securities	**41,360**	26,251
	778,994	631,711
Interest expense	**330,538**	209,236
Net interest income	**448,456**	422,475
Other income	**28,548**	27,157
Provision for credit losses (Note 6)	**67,890**	88,148
Income before operating and administrative expenses	**409,114**	361,484
Operating and administrative expenses (Note 15)	**241,122**	220,424
Income from Financing	**167,992**	141,060
Subordinate Financing		
Interest income	**17,876**	15,423
Interest expense	**4,098**	4,635
Net interest income	**13,778**	10,788
Realized gains on disposals of investments and other income	**13,755**	12,218
Change in unrealized (depreciation) appreciation of investments	**(7,253)**	1,506
Income before operating and administrative expenses	**20,280**	24,512
Operating and administrative expenses (Note 15)	**12,335**	10,830
Income from Subordinate Financing	**7,945**	13,682
Venture Capital		
Realized (losses) gains on disposals of investments	**(1,153)**	21,571
Interest, dividends and other	**8,275**	6,958
Change in unrealized depreciation of investments	**(26,026)**	(27,695)
(Loss) income before operating and administrative expenses	**(18,904)**	834
Operating and administrative expenses (Note 15)	**14,700**	13,613
Loss from Venture Capital	**(33,604)**	(12,779)
Consulting		
Revenue	**23,523**	21,570
Operating and administrative expenses (Note 15)	**27,849**	25,352
Loss from Consulting	**(4,326)**	(3,782)
Net Income	**$ 138,007**	$ 138,181
Retained earnings, beginning of year	**625,099**	503,391
Dividends on common shares	**(12,131)**	(7,757)
Dividends on preferred shares	**(9,435)**	(8,716)
Retained earnings, end of year	**$ 741,540**	$ 625,099

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

Consolidated Statement of Cash Flows

For the years ended March 31 ($ in thousands)

	2007	2006
Cash Flows Provided by Operating Activities		
Net income	**$ 138,007**	$ 138,181
Adjustments to determine net cash flows:		
Realized losses (gains) on disposals of investments	**4,034**	(21,571)
Change in unrealized depreciation on investments	**32,121**	26,736
Provision for credit losses and write-down	**68,980**	89,853
Amortization of fixed assets	**13,162**	14,934
Changes in operating assets and liabilities:		
Change in accrued interest receivable on financing	**(6,585)**	(4,742)
Change in accrued interest on borrowings	**7,202**	597
Translation adjustment on borrowings and securities	**(86,588)**	(10,396)
Change in derivative-related assets	**103,343**	(100,391)
Change in derivative-related liabilities	**18,696**	159,079
Net change in other assets and other liabilities	**(30,729)**	(6,313)
Net Cash Flows Provided by Operating Activities	**261,643**	285,967
Cash Flows Used in Investing Activities		
Purchases of securities	**(75,018)**	(56,972)
Maturities of securities	**98,814**	15,037
Disbursements for loans and subordinate financing	**(2,484,922)**	(2,495,777)
Repayments of loans and subordinate financing	**1,916,326**	1,721,171
Disbursements for venture capital investments	**(133,364)**	(123,651)
Proceeds on sales of venture capital investments	**31,044**	69,797
Acquisition of fixed assets	**(9,383)**	(11,448)
Net Cash Flows Used in Investing Activities	**(656,503)**	(881,843)
Cash Flows Provided by Financing Activities		
Net change in short-term notes	**(190,799)**	719,182
Issue of long-term notes	**1,113,479**	689,602
Repayment of long-term notes	**(494,900)**	(799,746)
Dividends paid on common and preferred shares	**(20,847)**	(16,787)
Net Cash Flows Provided by Financing Activities	**406,933**	592,251
Net increase (decrease) in cash and cash equivalents	**12,073**	(3,625)
Cash and cash equivalents at beginning of year	**752,730**	756,355
Cash and cash equivalents at end of year (Note 4)	**$ 764,803**	$ 752,730
Supplemental Disclosure of Cash Flow Information		
Amount of interest paid in the year	**$ 327,433**	$ 213,274

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

Notes to Consolidated Financial Statements

($ in thousands except as otherwise indicated)

– 1 –

Act of Incorporation, Objectives and Operations of the Corporation

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

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

To finance these objectives, BDC issues debt instruments which are secured by the Government of Canada. *The Business Development Bank of Canada Act (BDC Act)* also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments, of which none were outstanding as at March 31, 2007.

BDC is for all purposes an agent of Her Majesty in right of Canada. BDC is also named in Part I of Schedule III to the *Financial Administration Act*.

– 2 –

Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. As such, the preparation of financial statements requires that Management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ significantly from those estimates. Significant estimates include allowances for losses on loans, actuarial estimates of employee future benefits and consideration of fair values of investments. A variation in the quality of the portfolio or economic conditions under which these estimates are made could result in significant changes in these Management judgments. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

Basis of consolidation

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

Securities

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

Debt securities are purchased with the intention of being held to maturity and are carried at amortized cost with premiums and discounts amortized over the period to maturity. Where there has been a decline in value of a security that is other than temporary, the carrying value of the security is appropriately reduced. Interest revenue, gains and losses on disposal and adjustments to record any impairment in value that is other than temporary are included in income.

Loans

Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired.

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

– 2 –

Significant Accounting Policies (continued)

For impaired loans measured on the basis of expected future cash flows, the increase in present value attributable to the passage of time is recorded as interest income.

Allowance for credit losses

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

The allowance for credit losses is comprised of specific and general allowances.

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

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

Investments

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

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

Gains and losses on disposals of investments are recognized at the time of disposal. Interest and dividends are recognized in income when reasonable assurance of realization is achieved. Changes in unrealized appreciation and depreciation of investments, including those related to foreign exchange, are measured and recognized in income at the balance sheet date.

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

Fixed assets and amortization

Fixed assets are recorded at cost and amortized over their estimated useful lives, using the straight-line method as follows:

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

Derivative-related assets

Derivative-related assets include unrealized gains and amounts receivable on derivative financial instruments that are receivable from counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings and investments at March 31.

Derivative-related liabilities

Derivative-related liabilities include unrealized losses on derivative financial instruments and amounts payable to counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings and investments at March 31.

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Significant Accounting Policies (continued)

Premiums, discounts and debt issue expenses

Premiums, discounts and expenses related to the issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and are charged to interest expense.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year. All exchange gains and losses are included in net income for the year.

Derivative financial instruments

BDC enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. BDC's policy is not to use derivative financial instruments for trading or speculative purposes. BDC formally documents all relationships between hedging instruments and hedged items. This process includes linking all derivatives to specific assets and liabilities on the balance sheet. BDC also formally assesses the effectiveness of the hedging relationship at the hedges' inception as well as on a quarterly basis.

Derivative financial instruments such as interest rate swaps and forward rate agreements are used to manage exposure to interest rate risk resulting from the repricing of assets and liabilities. Derivative financial instruments such as cross-currency interest rate swaps, equity-linked swaps, and forward foreign exchange contracts are used as hedges for foreign currency and equity market risk resulting from foreign currency denominated or equity-linked borrowings. BDC designates its interest rate hedge agreements as hedges of underlying borrowings. Highly effective derivatives used for hedging interest rate risk are accounted for on an accrual basis with the related interest revenue or expense recognized over the life of the hedged position as an adjustment to interest expense and are presented in derivative- related assets or in derivative-related liabilities.

Unrealized foreign exchange and equity translation gains and losses on highly effective cross-currency or equity-linked derivative financial instruments are respectively accrued in derivative-related assets or derivative-related liabilities on the balance sheet and are recognized in income, offsetting the respective translation gains and losses on the underlying foreign currency or equity-linked borrowings. Highly effective derivatives accomplish the objectives of offsetting changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. Derivative financial instruments not associated with effective hedging relationships are carried at fair value on the balance sheet, with any change in the fair value charged or credited to the income statement. Deferred gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any previously deferred gain or loss on such derivative instrument is immediately recognized in income under interest expense.

The forward premium or discount on forward foreign exchange contracts is amortized as an adjustment of interest expense over the term of the forward contract.

Pension and other employee future benefits

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

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

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

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

– 2 –

Significant Accounting Policies (continued)

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

] the registered and supplemental pension plans is 8.2 years (8.1 years in 2006);

] the post-retirement benefits plan other than pension is 8.0 years (8.0 years in 2006).

Amortization of transitional assets and obligations relates to a change in an accounting policy that came into effect on April 1, 2000. At that date, BDC had transitional assets and obligations that are being amortized to expense on a straight-line basis over the average remaining service period of BDC's active employees expected to receive benefits under the benefit plans as of April 1, 2000. This period ranged from 8.5 years for the registered pension plan to 13 years for the supplemental pension plans and the other benefit plans. As mentioned in note 20, the unamortized transitional obligation with respect to post-retirement benefits other than pension was fully recognized on July 1, 2006.

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

– 3 –

Future Accounting Changes

Financial instruments, hedges and comprehensive income

In 2005, the Canadian Institute of Chartered Accountants (CICA) issued three new accounting standards: Section 1530, *Comprehensive Income*, Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3865, *Hedges*. These new standards are effective for BDC on April 1, 2007.

Comprehensive Income

Section 1530 introduces Comprehensive Income which is comprised of net income and other comprehensive income. Other Comprehensive Income (OCI) includes unrealized gains and losses on financial instruments classified as available-for-sale and changes in the fair value of the effective portion of cash flow hedging instruments. BDC's Consolidated Financial Statements will include a Consolidated Statement of Comprehensive Income while the cumulative amount, accumulated other comprehensive income (AOCI), will be presented as a new category of Shareholder's equity in the Consolidated Balance Sheet.

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial instruments. It requires that all financial assets and financial liabilities including derivatives be recognized on the balance sheet when BDC becomes a party to the contract of the financial instrument or derivative. Financial instruments should be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available-for-sale, held-to-maturity, loans and receivable, or other liabilities.

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Future Accounting Changes (continued)

Financial assets and financial liabilities held for trading will be measured at fair value with gains and losses recognized in net income. Loans, receivables and other liabilities will be measured at amortized cost. Available-for-sale financial instruments will be measured at fair value with unrealized gains and losses being recognized in OCI.

Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in financial instruments or other contracts if they are not closely related to such financial instruments or contracts. Changes in fair values of derivative instruments will be recognized in net income, except for derivatives which are designated as cash flow hedge, the fair value change of which will be recognized in OCI.

Hedges

Section 3865 specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for fair value hedges and cash flow hedges.

In a fair value hedge, the changes in the fair value of the hedged item will be offset by changes in the fair value of the hedging derivative in net income, to the extent the hedge is effective.

In a cash flow hedge, the change in the fair value of the hedging derivative will be recognized in OCI, except for the ineffective portion which will be recognized in net income. The amounts recognized in AOCI will be transferred to net income when the variability of the hedged items will affect net income.

Impact of adopting Sections 1530, 3855 and 3865

The transition adjustment attributable to the following will be recognized in the opening balance of retained earnings as at April 1, 2007: (i) financial assets and liabilities that will be classified as held for trading and that were not previously recognized at fair value and (ii) the ineffective portion of cash flow hedges.

Adjustments arising due to remeasuring financial assets and liabilities classified as available-for-sale and hedging instruments designated as cash flow hedges will be recognized on the opening balance of AOCI.

These changes will be applied prospectively and opening balances will be adjusted.

Amendments to AcG-18 Investment Companies

In fiscal 2006, BDC adopted the CICA accounting guideline AcG-18 *Investment Companies*. In April 2007, the CICA amended AcG-18, stating that an investment company should measure all of its investments at fair value and present them on this basis in its financial statements. This includes investments that meet the definition of a joint venture.

BDC, through its investment company subsidiary, holds investments in other investment companies that are accounted for using proportionate consolidation. BDC will apply AcG-18 changes to its fiscal 2008 year-end. Overall financial impact on net income has not yet been determined.

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Cash and Cash Equivalents

	2007	2006
Bank account balances, net of cheques outstanding	**$ (4,984)**	$ 1,094
Short-term bank notes	**769,787**	751,636
	$ 764,803	$ 752,730

Short-term bank notes have maturities at the original acquisition date of less than 90 days.

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Securities

	Term to maturity			2007	2006
	Within 1 year	1 to 3 years	Over 3 years	**Total**	Total
Financial institutions					
Carrying value	$ 73,666	$ 90,600	$ –	**$ 164,266**	$ 177,555
Yield	4.70%	4.41%	–	**4.54%**	3.74%
Fair value	$ 73,680	$ 90,276	$ –	**$ 163,956**	$ 177,790
Swap contracts					
Notional amount	$ 78,000	$ 96,260	$ –	**$ 174,260**	$ 191,207
Adjusted yield*	4.42%	4.51%	–	**4.47%**	3.97%

Amounts denominated in foreign currencies included in the carrying value of securities

US dollars – 2006	US	$ 51,050		
Euros – 2006		€ 53,500		$ 135,342
US dollars – 2007	**US**	**$ 35,900**		
Euros – 2007		**€ 31,000**	**$ 89,249**	

* *After adjusting for the effect of related derivatives (see Note 17)*

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

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Loans

The following table summarizes the repricing or maturity dates, whichever is earlier, of loans outstanding as at March 31.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	General allowance	Specific allowance	Total allowance	Total net amount
Performing	**$ 419,313**	**$ 2,501,047**	**$ 5,921,285**	**$ 8,841,645**	**$ (399,158)**	**$ –**	**$ (399,158)**	**$ 8,442,487**
Impaired	**4,207**	**112,096**	**170,197**	**286,500**	**–**	**(106,341)**	**(106,341)**	**180,159**
Loans as at March 31, 2007	**$ 423,520**	**$ 2,613,143**	**$ 6,091,482**	**$ 9,128,145**	**$ (399,158)**	**$ (106,341)**	**$ (505,499)**	**$ 8,622,646**
Loans as at March 31, 2006 *	$ 410,339	$ 2,396,395	$ 5,820,465	$ 8,627,199	$ (399,158)	$ (98,161)	$ (497,319)	$ 8,129,880

* *Include $299,421 of impaired loans.*

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Loans (continued)

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

Geographic Distribution		**2007**		2006
Newfoundland and Labrador	**$ 364,160**	**4.0%**	$ 354,295	4.1%
Prince Edward Island	**51,041**	**0.6%**	43,133	0.5%
Nova Scotia	**227,840**	**2.5%**	216,672	2.5%
New Brunswick	**361,661**	**4.0%**	338,823	3.9%
Quebec	**3,479,332**	**38.1%**	3,369,382	39.1%
Ontario	**2,893,821**	**31.7%**	2,745,706	31.8%
Manitoba	**212,889**	**2.3%**	166,192	1.9%
Saskatchewan	**136,565**	**1.5%**	116,579	1.4%
Alberta	**592,646**	**6.5%**	540,056	6.3%
British Columbia	**750,963**	**8.2%**	680,229	7.9%
Yukon	**31,080**	**0.3%**	26,145	0.3%
Northwest Territories and Nunavut	**26,147**	**0.3%**	29,987	0.3%
Total loans outstanding	**$ 9,128,145**	**100.0%**	$ 8,627,199	100.0%

Industry Sector		**2007**		2006*
Manufacturing	**$ 3,182,055**	**34.9%**	$ 3,034,131	35.2%
Wholesale and retail trade	**1,956,433**	**21.4%**	1,796,365	20.8%
Tourism	**1,052,529**	**11.5%**	1,056,859	12.3%
Construction	**533,698**	**5.8%**	452,970	5.3%
Transportation & storage	**480,664**	**5.3%**	413,259	4.8%
Commercial properties	**418,532**	**4.6%**	510,549	5.9%
Business services	**361,039**	**4.0%**	287,347	3.3%
Other	**1,143,195**	**12.5%**	1,075,719	12.4%
Total loans outstanding	**$ 9,128,145**	**100.0%**	$ 8,627,199	100.0%

* *New grouping based on North American Industry Classification System (NAICS) codes.*

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

Allowance for Credit Losses

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

	2007	2006
Balance at beginning of year	**$ 497,319**	$ 471,967
Write-offs and other	**(60,057)**	(65,119)
Interest income due to accretion	**(4,303)**	(3,623)
Recoveries	**4,650**	5,946
	$ 437,609	$ 409,171
Provision for credit losses	**67,890**	88,148
Balance at end of year	**$ 505,499**	$ 497,319

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Subordinate Financing Loans and Investments

The following table summarizes the repricing or maturity dates, whichever is earlier, of subordinate financing loans and investments outstanding as at March 31.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Cumulative fair value depreciation and other	Total net amount
As at March 31, 2007						
Loans	**$ 7,985**	**$ 21,615**	**$ –**	**$ 29,600**	**$ (3,150)**	**$ 26,450**
Investments	**4,480**	**101,809**	**14,083**	**120,372**	**1,468**	**121,840**
Total	**$ 12,465**	**$ 123,424**	**$ 14,083**	**$ 149,972**	**$(1,682)**	**$ 148,290**
As at March 31, 2006						
Loans	$ 7,524	$ 45,397	$ 452	$ 53,373	$ (4,677)	$ 48,696
Investments	–	95,205	–	95,205	–	95,205
Total	$ 7,524	$ 140,602	$ 452	$ 148,578	$ (4,677)	$ 143,901

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

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

	2007	2006
Current assets	**$ 7,671**	$ 1,338
Subordinate financing investments	**121,840**	95,205
Current liabilities	**347**	575
Net interest income	**$ 12,200**	$ 7,257
Realized gains on disposals of investments and other income	**9,885**	7,356
Change in unrealized (depreciation) appreciation	**(6,095)**	959
Operating and administrative expenses	**53**	50
Income from subordinate financing investments	**$ 15,937**	$ 15,522
Cash flows from (used in):		
Operating activities	**$ 10,190**	$ 9,219
Investing activities	**(30,723)**	(52,903)
Financing activities	**27,729**	45,996

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Venture Capital Investments

BDC maintains a portfolio of venture capital investments which is focused on early-stage and fast-growing companies having promising positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The largest single investment within these sectors is 3.3% of total venture capital investments (3.9% in 2006).

		2007		2006
Industry Sector	**Fair value**	**Cost**	Fair value	Cost
Biotechnology/Medical/Health	**$ 143,451**	**$ 171,792**	$ 132,082	$ 158,098
Information Technology	**102,330**	**135,674**	77,933	107,277
Electronics	**93,032**	**103,524**	83,501	102,590
Communications	**94,566**	**89,052**	73,964	73,578
Industrial	**22,019**	**24,688**	18,991	19,456
Consumer-related	**1,000**	**2,000**	2,000	2,000
Energy	**3,193**	**5,500**	500	5,000
Other	**5,000**	**750**	7,000	750
Total direct investments	**464,591**	**532,980**	395,971	468,749
Seed funds	**$ 3,874**	**$ 22,580**	$ 6,725	$ 22,598
Specialized funds	**36,475**	**45,299**	28,683	34,265
Seed and commercialization funds	**178**	**300**	–	–
Venture capital investments	**$ 505,118**	**$ 601,159**	$ 431,379	$ 525,612

Investments are generally held for periods longer than five years. Divestitures are made through listings of investee shares on public markets or the sale of BDC's shares to other existing shareholders or to third parties. Investment yields vary from year to year, as the fair value changes of the investments are brought into income. The following table presents a summary of the venture capital portfolio by type of investment.

		2007		2006
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**$ 80,367**	**$ 93,811**	$ 30,080	$ 62,673
Preferred shares	**331,218**	**374,374**	293,705	328,101
Debentures	**53,006**	**64,795**	72,186	77,975
Funds	**40,527**	**68,179**	35,408	56,863
Venture capital investments	**$ 505,118**	**$ 601,159**	$ 431,379	$ 525,612

In fiscal 2006, BDC adopted the accounting guideline AcG-15 *Consolidation of Variable Interest Entities (VIEs)*. On March 1, 2007, the Accounting Standards Board (AcSB) of the CICA approved amendments to AcG-15, stating that AcG-15 does not apply to investments accounted for at fair value in accordance with the specialized accounting guidance found in accounting guideline AcG-18 *Investment Companies*. BDC adopted these changes to AcG-15.

BDC has invested in seed funds over which it has joint control. The following table summarizes BDC's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

	2007	2006
Current assets	**$ 669**	$ 1,441
Venture capital investments	**2,558**	4,716
Other assets	**3**	2
Current liabilities	**28**	79
Realized gains (losses) on disposal of investments, interest, dividends and other	**666**	(294)
Change in unrealized depreciation	**2,708**	1,602
Operating and administrative expenses	**265**	398
Loss from Venture capital	**$ (2,307)**	$ (2,294)
Cash flows from (used in):		
Operating activities	**$ (271)**	$ (277)
Investing activities	**(52)**	167
Financing activities	**(446)**	(150)

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Fixed Assets

	Cost	Accumulated amortization	Carrying value
Computer equipment and telecommunication	**$ 30,765**	**$ 27,132**	**$ 3,633**
Furniture, fixtures and equipment	**41,959**	**36,387**	**5,572**
Leasehold improvements	**47,326**	**33,209**	**14,117**
Systems development costs	**36,573**	**26,013**	**10,560**
Total 2007	**$ 156,623**	**$ 122,741**	**$ 33,882**
Total 2006	$ 147,240	$ 109,579	$ 37,661

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Other Assets

	2007	2006
Accrued benefit asset (Note 20)	**$ 100,672**	$ 78,641
Unamortized debt issue expenses on long-term notes	**7,845**	1,147
Other	**14,191**	12,818
	$ 122,708	$ 92,606

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Borrowings

BDC issues debt instruments in capital markets to fund its loan portfolio, which are measured at amortized cost. Foreign currency and equity market risk is hedged through the use of derivatives, such that essentially all of BDC's borrowings are effectively denominated in Canadian dollars and bear interest at Canadian fixed or floating rates. In addition, where appropriate, BDC enters into interest rate and cross-currency interest rate swap contracts to hedge the related interest rate risks. The table below presents the outstanding notes as at March 31.

				2007		2006
Maturity date	**Effective rate**	**Currency**	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Short-term notes						
2007	2.95%-4.88%	USD			$ 1,638,725	$ 1,900,282
		CDN			2,312,246	2,299,065
2008	4.00%-5.18%	USD	**$ 1,132,765**	**$ 1,297,586**		
		CDN	**2,696,680**	**2,676,910**		
Total short-term notes				**$ 3,974,496**		$ 4,199,347

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Borrowings (continued)

Maturity date	2007 Effective rate*	2006 Effective rate*	Currency	2007 Principal amount	2007 Carrying value	2006 Principal amount	2006 Carrying value
Long-term notes							
2007		3.14%-4.98%	CDN	$ –	$ –	$ 286,102	$ 288,137
2008	3.85%-4.26%	3.49%-3.61%	CDN	350,940	350,940	267,940	267,940
2009	4.00%	3.51%	USD	43,000	49,641	43,000	50,215
	3.89%-4.13%	3.40%-3.65%	CDN	398,311	402,545	226,965	231,647
2010	4.04%-4.10%	3.49%-3.56%	USD	40,000	46,178	40,000	46,712
	3.90%-4.09%	3.41%-3.68%	CDN	224,217	231,288	239,731	248,576
2011	3.94%-4.05%	3.41%-3.55%	USD	17,000	20,054	17,000	20,023
	3.89%-4.24%	3.36%-3.75%	CDN	351,811	340,896	424,585	415,570
2012	4.04%-4.08%		Yen	2,250,000	22,044	–	–
	4.07%	3.52%	USD	10,000	11,544	10,000	11,678
	3.89%-4.08%	3.36%-3.44%	CDN	302,636	345,872	324,786	395,001
2013	4.08%-4.09%	3.55%-3.60%	USD	16,000	18,471	16,000	18,685
	4.06%-4.07%	3.51%-3.58%	CDN	15,000	15,000	15,000	15,000
2014	4.07%-4.09%	3.52%-3.57%	Yen	5,100,000	49,965	1,500,000	14,884
	4.04%-4.11%	3.48%-3.62%	USD	93,200	107,595	93,200	108,839
	3.96%-4.07%	3.51%-3.59%	CDN	77,000	78,734	77,000	77,000
2015	4.05%-4.08%	3.53%-3.59%	Yen	3,000,000	29,392	3,000,000	29,768
	4.05%-4.09%	3.50%-3.60%	USD	45,000	51,950	45,000	52,551
	3.98%-4.07%		CDN	97,150	98,469	–	–
2016	4.05%-4.09%	3.50%-3.59%	Yen	11,000,000	107,769	11,000,000	109,150
	4.11%	3.57%-3.58%	USD	40,000	46,178	40,000	46,712
2017	4.06%-4.10%	3.53%-3.54%	Yen	5,700,000	55,844	3,700,000	36,713
	4.03%-4.11%	3.54%	USD	43,000	49,641	3,000	3,504
2018	4.05%-4.15%	3.47%-3.64%	Yen	34,200,000	335,063	35,800,000	355,232
2019	4.04%-4.12%	3.49%-3.62%	Yen	28,900,000	283,138	30,000,000	297,680
	4.11%	3.58%	USD	24,112	27,836	22,838	26,671
2020	3.36%-4.11%	3.36%-3.63%	Yen	25,400,000	248,848	25,900,000	256,997
2021	4.03%-4.09%	3.50%-3.60%	Yen	18,560,000	181,836	21,560,000	213,933
	4.09%	3.54%	USD	34,554	39,890	32,542	38,003
2022	4.07%-4.11%		Yen	3,700,000	36,250	–	–
	3.99%-4.09%		CDN	570,500	570,500	–	–
Total long-term notes					$ 4,253,371		$ 3,676,821

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

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Borrowings (continued)

The preceding table includes $4,248,621 in 2007 and $3,672,071 in 2006 of long-term notes payable which have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of BDC's floating interest rate loan portfolio and bear interest at effective rates that are reset monthly or quarterly. The remaining long-term notes payable bear interest at fixed rates.

The maturity dates for extendable notes are presented based on their first option date.

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

	2007	2006
Interest-bearing notes	**$ 838,976**	$ 137,854
Fixed and inverse floating rate notes	**948,508**	929,179
Managed futures	**761,910**	925,052
Notes linked to equity indices	**539,257**	709,198
Notes linked to currency rates	**311,681**	280,812
Notes linked to swap rates	**164,380**	122,812
Notes extendible beyond maturity	**128,000**	73,000
Other structured notes	**560,659**	498,914
	$ 4,253,371	$ 3,676,821

Long-term notes of $2,301,371 are redeemable prior to maturity ($2,351,896 as at March 31, 2006).

As at March 31, 2007, the payment requirements and maturities of long-term notes are as follows:

2008	**$ 350,940**
2009	**452,186**
2010	**277,466**
2011	**360,950**
2012	**379,460**
2013 and later	**2,432,369**
	$ 4,253,371

BDC has an available overdraft facility of $75 million, for BDC's cash accounts totalled together. When the daily balance outstanding is in an overdraft position, interest charges are accumulated at prime. At March 31, 2007, BDC was not in an overdraft position.

BDC also has a line of credit for $50 million which was not used throughout fiscal 2007.

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Other Liabilities

	2007	2006
Deferred income	**$ 984**	$ 1,648
Accrued benefit liability (Note 20)	**106,710**	105,964
Other	**35,079**	25,930
	$ 142,773	$ 133,542

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Share Capital and Statutory Limitations

Share capital

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series;

(b) An unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding				**2007**			2006
		Number of shares	**Amount**	**Dividend rate**	Number of shares	Amount	Dividend rate
Preferred shares							
Class A	– Series 1	**500,000**	**$ 50,000**	**3.865%**	500,000	$ 50,000	3.865%
	– Series 2	**500,000**	**50,000**	**4.455%**	500,000	50,000	4.365%
	– Series 3	**500,000**	**50,000**	**3.965%**	500,000	50,000	3.965%
	– Series 4	**400,000**	**40,000**	**3.970%**	400,000	40,000	3.970%
	– Series 5	**400,000**	**40,000**	**4.260%**	400,000	40,000	4.260%
			230,000			230,000	
Common shares		**8,084,000**	**808,400**		8,084,000	808,400	
Total Outstanding Share Capital			**$ 1,038,400**			$ 1,038,400	

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

Statutory limitations

The aggregate of borrowings and contingent liabilities of BDC in the form of guarantees given by it may not exceed twelve times the shareholder's equity of BDC. BDC's ratio at March 31, 2007 was 4.6:1 (4.7:1 as at March 31, 2006).

The paid-in capital of BDC, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $1.5 billion. At March 31, 2007, these amounts totalled $1.1 billion ($1.1 billion as at March 31, 2006).

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

	2007	2006
Regulatory capital	**$ 1,459,980**	$ 1,315,614
Actual capital	**$ 1,807,718**	$ 1,691,277

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Information Included in the Consolidated Statements of Income and Retained Earnings

	2007	2006
Interest income		
Financing	**$ 778,994**	$ 631,711
Subordinate financing	**17,876**	15,423
Venture capital	**7,014**	6,811
	$ 803,884	$ 653,945
Interest expense		
Interest on notes	**$ 180,397**	$ 111,693
Interest on swaps	**152,329**	101,644
Other	**1,910**	534
	$ 334,636	$ 213,871
Amortization of fixed assets	**$ 13,162**	$ 14,934
Currency translation adjustment	**$ (66)**	$ 88

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Operating and Administrative Expenses

	2007				2006			
	Financing	**Subordinate Financing**	**Venture Capital**	**Consulting**	Financing	Subordinate Financing	Venture Capital	Consulting
Salaries and benefits	**$ 149,164**	**$ 10,696**	**$ 9,894**	**$ 13,915**	$ 131,212	$ 9,176	$ 9,390	$ 11,761
Premises and equipment	**32,422**	**590**	**1,474**	**946**	33,497	590	1,460	990
Other expenses	**59,536**	**1,049**	**3,332**	**12,988**	55,715	1,064	2,763	12,601
	$ 241,122	**$ 12,335**	**$ 14,700**	**$ 27,849**	$ 220,424	$ 10,830	$ 13,613	$ 25,352

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Fair Value of Financial Instruments

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

The carrying values of on-balance sheet financial instruments (except for investments carried at fair value) are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as generally it is BDC's intention to realize the value of these financial instruments over time by holding them to maturity.

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Fair Value of Financial Instruments (continued)

	2007			2006		
	Fair value	**Carrying value**	**Fair value over (under) carrying value**	Fair value	Carrying value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and cash equivalents	**$ 764,803**	**$ 764,803**	**$ –**	$ 752,730	$ 752,730	$ –
Securities	**163,956**	**164,266**	**(310)**	177,790	177,555	235
Loans, net of allowance for credit losses	**8,627,490**	**8,622,646**	**4,844**	8,101,985	8,129,880	(27,895)
Subordinate financing loans and investments	**148,290**	**148,290**	**–**	143,901	143,901	–
Venture capital investments	**505,118**	**505,118**	**–**	431,379	431,379	–
Other	**14,669**	**14,669**	**–**	13,007	13,007	–
	$10,224,326	**$10,219,792**	**$ 4,534**	$ 9,620,792	$ 9,648,452	$ (27,660)
Liabilities						
Accounts payable and accrued liabilities	**$ 67,013**	**$ 67,013**	**$ –**	$ 77,624	$ 77,624	$ –
Accrued interest on borrowings	**28,408**	**28,408**	**–**	21,206	21,206	–
Short-term notes	**3,974,496**	**3,974,496**	**–**	4,199,044	4,199,347	(303)
Long-term notes	**4,304,186**	**4,253,371**	**50,815**	3,548,101	3,676,821	(128,720)
Other	**12,229**	**12,229**	**–**	10,032	10,032	–
	$ 8,386,332	**$ 8,335,517**	**$ 50,815**	$ 7,856,007	$ 7,985,030	$ (129,023)
			$ (46,281)			$ 101,363
Derivative financial instruments						
Derivative-related assets	**$ 411,883**	**$ 442,368**	**$ (30,485)**	$ 380,243	$ 545,711	$ (165,468)
Derivative-related liabilities	**449,739**	**530,302**	**(80,563)**	477,726	511,606	(33,880)
	$ (37,856)	**$ (87,934)**	**$ 50,078**	$ (97,483)	$ 34,105	$ (131,588)
Total			**$ 3,797**			$ (30,225)

Fair values are based on a range of valuation methods and assumptions which are as follows:

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

] Cash and cash equivalents
] Other assets and liabilities
] Accounts payable and accrued liabilities
] Accrued interest on borrowings
] Short-term notes

Securities – The basis used to estimate the fair value of securities is provided in Note 5 to the consolidated financial statements.

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

Investments – Note 2 describes the fair value methods used by BDC.

Long-term notes – The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to BDC for notes of the same remaining maturity.

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

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Derivative Financial Instruments

As described in Note 2, BDC uses derivative financial instruments to manage the financial risk of certain on-balance sheet positions. These instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity investment or index and depending on the circumstances, may include the following:

Swaps

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

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

The main risk associated with these instruments is related to BDC's exposure to counterparties' credit risk.

Forwards and futures

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

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

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

			2007			2006
	Gross assets	**Gross liabilities**	**Net amount**	Gross assets	Gross liabilities	Net amount
Derivative financial instruments						
Interest rate swap contracts	**$ 10,311**	**$ 13,049**	**$ (2,738)**	$ 1,068	$ 13,753	$ (12,685)
Equity-linked swap contracts	**385,667**	**21,847**	**363,820**	335,537	47,820	287,717
Cross-currency interest rate swap contracts	**11,467**	**399,808**	**(388,341)**	21,856	415,161	(393,305)
Currency forward contracts	**4,409**	**14,948**	**(10,539)**	21,762	922	20,840
Total fair value – hedging derivatives[1]	**$411,854**	**$ 449,652**	**$ (37,798)**	$ 380,223	$ 477,656	$ (97,433)
Total book value – hedging derivatives	**$442,339**	**$ 530,215**	**$ (87,876)**	$ 545,691	$ 511,536	$ 34,155
Ineffective hedges						
Interest rate swap contracts	**$ 3**	**$ –**	**$ 3**	$ 1	$ 66	$ (65)
Forward rate agreements	**26**	**87**	**(61)**	19	4	15
Total fair value – ineffective derivatives	**$ 29**	**$ 87**	**$ (58)**	$ 20	$ 70	$ (50)
Total book value – ineffective derivatives	**$ 29**	**$ 87**	**$ (58)**	$ 20	$ 70	$ (50)

(1) *The fair value of hedging derivatives wholly or partially offsets the changes in fair values of the related on-balance sheet financial instruments.*

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Derivative Financial Instruments (continued)

Assets are shown net of liabilities to counterparties where BDC has an enforceable right to offset amounts and intends to settle contracts on a net basis.

Derivative financial instruments recorded on the consolidated balance sheet are as follows:

	Assets		Liabilities	
	2007	2006	**2007**	2006
Book value of hedging derivatives	**$ 442,339**	$ 545,691	**$ 530,215**	$ 511,536
Fair value of ineffective derivatives	**29**	20	**87**	70
Total	**$ 442,368**	$ 545,711	**$ 530,302**	$ 511,606

The fair value of derivatives is determined using various methods including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methods as appropriate.

The following table summarizes the notional amount by terms to maturity or repricing dates and replacement costs on derivative financial instruments:

	Term to maturity or repricing								**2007**		2006	
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	**Notional amount**	**Replacement cost**	Notional amount	Replacement cost
Hedging												
Interest rate contracts												
$CDN payable-fixed	$ 186,504	3.93	$ –	–	$ –	–	$ –	–	**$ 186,504**	**$ 243**	$ 142,956	$ 147
$CDN receivable-fixed	153,000	3.88	267,901	3.80	–	–	570,500	4.55	**991,401**	**10,060**	268,000	172
$US receivable-fixed	–	–	–	–	–	–	–	–	**–**	**–**	2,431	–
Basis Swap	130,000	4.23	–	–	–	–	–	–	**130,000**	**–**	170,000	–
Other swap contracts	50,000	n.a.	46,500	n.a.	12,431	n.a.	38,360	n.a.	**147,291**	**8**	94,472	749
Equity linked swap contracts	286,125	n.a.	700,414	n.a.	987,554	n.a.	189,150	n.a.	**2,163,243**	**385,667**	2,529,988	335,537
	805,629		1,014,815		999,985		798,010		**3,618,439**	**395,978**	3,207,847	336,605
Cross-currency interest rate swap contracts	39,460	n.a.	192,811	n.a.	57,652	n.a.	2,074,143	n.a.	**2,364,066**	**11,467**	2,346,862	21,856
Total	845,089		1,207,626		1,057,637		2,872,153		**5,982,505**	**407,445**	5,554,709	358,461
Foreign exchange contracts												
Currency forward contracts	1,403,975	n.a.	–	–	–	–	–	–	**1,403,975**	**4,409**	1,864,574	21,762
Total	1,403,975		–		–		–		**1,403,975**	**4,409**	1,864,574	21,762
Total hedging	$2,249,064		$1,207,626		$ 1,057,637		$ 2,872,153		**$ 7,386,480**	**$ 411,854**	$7,419,283	$ 380,223
Ineffective hedging												
Basis swaps	$ 17,500	n.a.	$ –	–	$ –	–	$ –	–	**$ 17,500**	**$ 3**	$ 170,800	$ –
Forward rate agreements	666,000	–	–	–	–	–	–	–	**666,000**	**26**	70,500	19
Other swap contracts	–	n.a.	–	n.a.	–	n.a.	–	n.a.	**–**	**–**	19,547	1
Total ineffective hedging	$ 683,500		$ –		$ –		$ –		**$ 683,500**	**$ 29**	$ 260,847	$ 20
Total	$2,932,564		$1,207,626		$ 1,057,637		$ 2,872,153		**$ 8,069,980**	**$ 411,883**	$7,680,130	$ 380,243

n.a. – not applicable or weighted rates are not significant.

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Derivative Financial Instruments (continued)

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

Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

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

Credit risk

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

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

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

Counterparty credit risk exposure	**Counterparty ratings**		
	AA- to AA+	**A to A+**	**Total**
Gross positive replacement cost	**$ 326,393**	**$ 85,490**	**$ 411,883**
Impact of master netting agreements	**(145,873)**	**(29,112)**	**(174,985)**
Replacement cost (after master netting agreements)	**180,520**	**56,378**	**236,898**
Replacement cost (after master netting agreements) – 2006	$ 185,491	$ 51,125	$ 236,616
Number of counterparties			
March 31, 2007	**5**	**2**	
March 31, 2006	7	3	

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Interest Rate Sensitivity

Interest rate risk occurs when a liability is settled or re-priced at a time in the future that does not offset the asset that it is funding. These differences in duration cover both on- and off-balance sheet financial instruments. BDC uses borrowing strategies and derivative instruments to continuously manage this risk with the objective of minimizing such differences.

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

	Floating rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non rate sensitive	Allowance and fair value adjustment	2007
Assets								
Cash and cash equivalents	$ –	$ 733,696	$ –	$ –	$ –	$ 31,107	$ –	$ 764,803
Effective yield		4.29%						
Securities	–	–	50,000	25,018	–	89,248	–	164,266
Effective yield			4.34%	4.34%				
Loans, net of allowance for credit losses	6,377,800	119,654	266,167	1,436,865	641,159	286,500	(505,499)	8,622,646
Effective yield	8.54%	7.61%	7.76%	7.53%	7.20%			
Subordinate financing loans and investments	12,678	2,112	7,170	103,013	12,445	12,554	(1,682)	148,290
Effective yield	13.29%	15.05%	12.32%	12.46%	12.33%			
Venture capital investments	–	–	–	–	–	505,118	–	505,118
Derivative-related assets	–	–	–	–	–	442,368	–	442,368
Other assets	–	–	–	–	–	156,590	–	156,590
	$ 6,390,478	$ 855,462	$ 323,337	$ 1,564,896	$ 653,604	$ 1,523,485	$ (507,181)	$ 10,804,081
Liabilities and Shareholder's equity								
Short-term notes	$ –	$ 2,070,344	$ 606,566	$ –	$ –	$ 1,297,586	–	$ 3,974,496
Effective yield		4.19%	4.19%					
Long-term notes	–	–	–	189,824	554,509	3,509,038	–	4,253,371
Effective yield				3.87%	4.47%			
Derivative-related liabilities	–	–	–	–	–	530,302	–	530,302
Other liabilities	–	–	–	–	–	238,194	–	238,194
Shareholder's equity	–	–	–	–	–	1,807,718	–	1,807,718
	$ –	$ 2,070,344	$ 606,566	$ 189,824	$ 554,509	$ 7,382,838	$ –	$ 10,804,081
On-balance sheet gap 2007	$ 6,390,478	$ (1,214,882)	$ (283,229)	$ 1,375,072	$ 99,095	$ (5,859,353)	$ (507,181)	$ –
Off-balance sheet derivative instruments								
Position in Canadian dollars								
Receive side derivative financial instruments	$ –	$ 75,018	$ 40,000	$ 279,824	$ 554,509	$ 1,689,911	$ –	$ 2,639,262
Pay side derivative financial instruments	(130,000)	(2,328,223)	(156,021)	(25,018)	–	–	–	(2,639,262)
Total	$ (130,000)	$ (2,253,205)	$ (116,021)	$ 254,806	$ 554,509	$ 1,689,911	$ –	$ –
Foreign currency								
Receive side derivative financial instruments	–	89,248	–	–	–	3,116,712	–	3,205,960
Pay side derivative financial instruments	–	(2,759,420)	(357,292)	–	–	(89,248)	–	(3,205,960)
Total	$ –	$ (2,670,172)	$ (357,292)	$ –	$ –	$ 3,027,464	–	$ –
Total gap position 2007	$ 6,260,478	$ (6,138,259)	$ (756,542)	$ 1,629,878	$ 653,604	$ (1,141,978)	$ (507,181)	$ –
Total gap position 2006	$ 6,266,720	$ (5,876,224)	$ (633,985)	$ 1,029,035	$ 474,154	$ (757,704)	$ (501,996)	$ –

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Guarantees, Contingent Liabilities and Commitments

Guarantees

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

Derivative instruments

As part of its financing operations, BDC has entered into a written credit derivative contract under which a counterparty is compensated for losses on a specified portfolio of loans, if a default or other defined triggering event occurs. Typically, a corporate or government entity is the counterparty to the written credit derivative contract that meets the characteristics of guarantees described above. The maximum potential amount of future payments on this written credit default swap is $12,206 and is included in the consolidated balance sheet under derivative-related liabilities.

Indemnifications

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

Contingent liabilities

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

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

Commitments

Undisbursed amounts of authorized loans and subordinate financing are approximately $1,020,702 at March 31, 2007. These commitments are for an average period of 3 months ($164,023 fixed rate; $856,679 floating rate). The effective interest rates on these commitments vary from 5.7% to 16.9%. These include BDC's share of undisbursed amounts of authorized joint venture financings which is approximately $18,296 at March 31, 2007. The undisbursed amounts of authorized venture capital investments approximated $146,698 at March 31, 2007.

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

2008	**$ 22,044**
2009	**21,478**
2010	**19,654**
2011	**16,072**
2012	**13,328**
2013 and later	**69,153**
	$ 161,729

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Pension and Other Employee Future Benefits

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

During the year, BDC announced changes to the post-retirement benefit program which will be effective for eligible employees who retire on or after January 1, 2012. The new post-retirement benefits program provides for different provisions for health, dental and life-insurance coverage. The gain of $9.7 million generated by this modification was first used to eliminate the unamortized transitional obligation in effect at July 1, 2006. The excess of the gain is being amortized over the expected average remaining service period up to the full eligibility date of the active members, which was estimated as 5 years from July 1, 2006.

BDC funds the registered pension plan in accordance with actuarially determined amounts required to satisfy employee benefit entitlements, and has begun funding the supplemental pension plans in 2006. Benefits accruing to members of the contributory component of the registered pension plan are also funded by employee contributions. The most recent actuarial valuation for funding purposes was performed at December 31, 2005 for the registered pension plan and December 31, 2006 for the supplemental pension plans. The next funding valuations will be performed at December 31, 2006 for the registered pension plan and December 31, 2007 for the supplemental pension plans. Other benefit plans are unfunded.

For 2007, total contributions to pension and other employee future benefits, consisting of cash contributed by BDC to its funded pension plans and cash payments made directly to beneficiaries for its unfunded other plans was $42 million ($41 million in 2006).

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

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

	Registered pension plan		Supplemental pension plans		Other plans	
	2007	2006	**2007**	2006	**2007**	2006
Change in accrued benefit obligation						
Balance at beginning of year	**$ 549,087**	$ 457,473	**$ 47,300**	$ 38,587	**$ 121,420**	$ 100,205
Current service cost	**18,469**	16,981	**886**	745	**4,711**	4,514
Interest cost on benefit obligation	**29,279**	27,940	**2,484**	2,326	**6,049**	6,013
Employee contributions	**3,842**	1,889	**–**	–	**–**	–
Benefits paid	**(23,548)**	(21,365)	**(1,738)**	(1,128)	**(5,395)**	(5,496)
Past service gain	**–**	–	**–**	–	**(9,726)**	–
Actuarial loss (gain)	**5,831**	66,169	**6,261**	6,770	**(3,636)**	16,184
Balance at end of year	**582,960**	549,087	**55,193**	47,300	**113,423**	121,420
Change in fair value of plan assets						
Balance at beginning of year	**$ 531,714**	$ 481,233	**$ 2,744**	$ 2,995	**$ –**	$ –
Employee contributions	**3,842**	1,889	**–**	–	**–**	–
Employer contributions	**25,980**	16,356	**13,985**	853	**1,562**	–
Actual return on plan assets during the year	**51,926**	53,601	**196**	24	**–**	–
Benefits paid	**(23,548)**	(21,365)	**(1,738)**	(1,128)	**(1,562)**	–
Balance at end of year	**589,914**	531,714	**15,187**	2,744	**–**	–
Surplus (deficit) at end of year	**$ 6,954**	$ (17,373)	**$ (40,006)**	$ (44,556)	**$ (113,423)**	$ (121,420)
Employer contributions after measurement date	**5,708**	4,190	**9,317**	13,985	**133**	622
Unamortized transitional obligation (asset)	**(20,162)**	(33,603)	**1,349**	1,316	**–**	1,381
Unamortized past service gain	**–**	–	**–**	–	**(7,135)**	–
Unamortized net actuarial loss	**108,172**	125,427	**19,104**	13,799	**23,951**	28,909
Accrued benefit asset (liability) at end of year(1)	**$ 100,672**	$ 78,641	**$ (10,236)**	$ (15,456)	**$ (96,474)**	$ (90,508)

(1) *Net amount recognized in the consolidated balance sheet as "Other assets" or "Other liabilities", as appropriate.*

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Pension and Other Employee Future Benefits (continued)

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

	Supplemental pension plans		Other plans	
	2007	2006	**2007**	2006
Fair value of plan assets	**$ 15,187**	$ 2,744	**$ –**	$ –
Accrued benefit obligation	**55,193**	47,300	**113,423**	121,420

Pension and other post-retirement costs are included in Salaries and Benefits in Note 15 – Operating and Administrative Expenses and are as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2007	2006	**2007**	2006	**2007**	2006
Defined benefit cost						
Current service cost	**$ 18,469**	$ 16,981	**$ 886**	$ 745	**$ 4,711**	$ 4,514
Interest cost on benefit obligation	**29,279**	27,940	**2,484**	2,326	**6,049**	6,013
Actual return on plan assets	**(51,926)**	(53,601)	**(196)**	(24)	**–**	–
Past service gain	**–**	–	**–**	–	**(9,726)**	–
Actuarial loss (gain) on benefit obligation	**5,831**	66,169	**6,261**	6,770	**(3,636)**	16,233
Costs arising in the period	**1,653**	57,489	**9,435**	9,817	**(2,602)**	26,760
Differences between costs arising in the period and costs recognized in the period in respect of:						
Return on plan assets	**14,486**	20,350	**(237)**	(76)	**–**	–
Actuarial (gain) loss	**2,769**	(61,797)	**(5,068)**	(6,194)	**4,958**	(15,856)
Difference between amortization of past service gain and past service cost	**–**	–	**–**	–	**7,135**	–
Transitional obligation (asset)	**(13,441)**	(13,441)	**(33)**	(267)	**1,381**	197
Defined benefit cost for the year ended March 31	**$ 5,467**	$ 2,601	**$ 4,097**	$ 3,280	**$ 10,872**	$ 11,101

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

Investment type	**2007**		2006	
Cash and short-term investments	**$ 5,345**	**0.9%**	$ 7,438	1.4%
Bonds	**218,318**	**36.1%**	204,310	38.2%
Common and preferred shares	**373,128**	**61.6%**	320,962	60.1%
Other assets less liabilities	**8,310**	**1.4%**	1,748	0.3%
Net assets available for benefits	**$ 605,101**	**100.0%**	$ 534,458	100.0%

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Pension And Other Employee Future Benefits (continued)

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

	Registered pension plan		Supplemental pension plans		Other plans	
	2007	2006	**2007**	2006	**2007**	2006
Significant actuarial assumptions used to determine the accrued benefit obligations						
Discount rate at beginning of year	**5.25%**	6.00%	**5.25%**	6.00%	**5.25%**	6.00%
Discount rate at end of year	**5.25%**	5.25%	**5.25%**	5.25%	**5.25%**	5.25%
Significant actuarial assumptions used to determine the annual benefit cost						
Discount rate at beginning of year	**5.25%**	6.00%	**5.25%**	6.00%	**5.25%**	6.00%
Expected long-term rate of return on plan assets(1)	**7.00%**	7.00%	**3.50%**	3.50%	**–**	–

The average rate of compensation increase is expected to be inflation which is assumed to be 2.75% (in 2006, 2.75%) plus 0.5% for productivity gains plus an adjustment for merit and promotion.

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

For measurement purposes, costs trends were assumed to be:

- for medical costs related to drugs
  10% in 2007 reducing by 0.67% each year to 6% in 2013 and subsequent years
  (8% in 2006 reducing by 1% each year to 5% in 2009 and subsequent years);
- for other medical costs
  5% in 2007 reducing by 1% each year to 3% in 2009 and subsequent years
  (8% in 2006 reducing by 1% each year to 5% in 2009 and subsequent years); and
- for dental costs
  6% in 2007 reducing by 1% each year to 4% in 2009 and subsequent years
  (4% in 2006).

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Pension And Other Employee Future Benefits (continued)

Sensitivity of Assumptions

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

		Registered pension plan cost	Supplemental pension plans cost	Other plans cost
Increase (decrease) in				
Expected rate of return on assets				
Impact of:	1% increase	(5,349)	(62)	–
	1% decrease	5,349	62	–
Discount rate[1]				
Impact of:	1% increase	(12,736)	(739)	100
	1% decrease	16,311	865	14
Rate of compensation increase[1]				
Impact of:	0.25% increase	937	43	50
	0.25% decrease	(912)	(33)	(18)
Assumed overall health care cost trend rates				
Impact of:	1% increase	–	–	1,068
	1% decrease	–	–	(771)
on the aggregate of the service and interest cost components of the post-retirement benefits other than pension cost for the period				
Assumed overall health care cost trend rates				
Impact of:	1% increase	–	–	14,601
	1% decrease	–	–	(11,607)
on the post-retirement benefits (other than pension) accrued benefit obligation at March 31, 2007				

[1] *For other plans, excludes the impact on post-retirement benefits other than pension and post-employment benefits.*

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Related Party Transactions

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

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Comparative Financial Data

Certain comparative figures have been reclassified to conform to the presentation adopted in 2007.

The Board Reports on Corporate Governance

Our responsibility is stewardship. We ensure that BDC's activities are aligned with its statutory role, that it fulfills its public policy mandate in an ethical, efficient and effective way, and that it achieves its results within the boundaries of its mandate.

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

For us Board members, the central challenge is to manage the constant tension between BDC's mandate to support SMEs – an inherently high-risk endeavour – and its obligation to be commercially viable.

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

Like other Crown corporations, BDC is subject to other laws, such as the *Official Languages Act*, as well as regulations. BDC has always been subject to the *Access to Information Act*.

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

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

We also look to Treasury Board of Canada, Secretariat, for guidance and expertise on public sector governance practices. In 2005, the President of the Treasury Board released the *Review of the Governance Framework for Canada's Crown Corporations: Meeting the Expectations of Canadians*. The review is part of the government's stated desire to reassert the role of Crown corporations as instruments of public policy and to improve the effectiveness of their governance frameworks. It lists 31 measures to do the following:

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

BDC meets or exceeds virtually all of these measures. In fiscal 2007, we worked on the two outstanding measures for which we have the authority to act.

We have made progress on BDC's internal control certification initiative, the goal of which is to enhance controls to improve the quality of information reported in BDC's financial statements and related disclosures. The initiative is proceeding on schedule.

We have begun planning BDC's first annual public meeting. We plan to hold this meeting in the coming year.

The final outstanding measure, related to directors' compensation, will first require a regulatory change by government.

We continuously monitor and upgrade our governance practices, and this year we approved a mandate that codifies the Board's role and responsibilities. This mandate is in line with the best private sector governance practices.

Within the parameters set by Parliament and Treasury Board of Canada, Secretariat, our key tasks are:

] approve BDC's strategic direction, corporate plan and priorities;
] ensure the highest standards of corporate governance policy and practice;
] ensure BDC has identified its principal risks and adopted the right systems to manage these risks;
] review and approve management's succession plan (a task that includes appointing and evaluating the performance of senior management);
] set objectives for, and assess performance of, the CEO;
] examine the effectiveness of BDC's internal control processes and management information systems to ensure the integrity of these processes and systems;
] oversee communications and public disclosure; and
] monitor BDC's pension plans, and establish its fund policies and practices.

The Board has a Code of Conduct that incorporates the same basic principles as the Employee Code of Conduct, Ethics and Values. Every year, directors affirm that they have complied with the code. The segregated roles and responsibilities of the chairman and the president, already documented, are the subject of ongoing review to ensure they reflect current best practices. Possible conflicts of interest, if any, are disclosed through the Declaration of Conflict of Interest, which we accepted and implemented last year.

Much of the work that comes before us is initially examined by one of our five committees, all of which have defined mandates. We regularly review and revise the membership of these committees to ensure they reflect members' strengths and to create the most productive synergies.

All committees are independent of management, with one exception: the president, Mr. Halde, is a member of the Credit/Investment and Risk Committee. Members have appropriate levels of financial literacy. In fiscal 2007, the members of the Board, following the enhanced policy on orientation and continuous training, received detailed briefings on many of BDC's specialized activities.

If a member of Parliament, senator or director were to exert undue pressure in making a referral to a BDC employee, the BDC Referral Policy requires that this be reported to the Board of Directors. The person who made the referral is immediately informed in writing that client confidentiality supersedes all third-party involvement and that BDC retains sole authority for its decisions, based on objective criteria and its policies and practices.

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

BDC keeps current on best practices and reviews its code annually to improve its internal governance.
The code includes the following elements:

] compliance acknowledgement;
] the oath or solemn affirmation of office;
] the policy on personal trading for employees;
] the policy on disclosure of wrongdoing in the workplace; and
] the policy to promote a harassment-free workplace.

Overview of BDC Board Committees

Membership, meetings and a sample of important issues in fiscal 2007

Committee	Number of meetings	Members	Sample of Issues
Audit Committee	6	Chair: Stan Bracken-Horrocks Trevor Adey Christiane Bergevin Léandre Cormier Terry B. Grieve John Hyshka	reviewed quarterly audited financial statements and annual report, including management's discussion and analysis oversaw external auditors' independence, annual plan and report reviewed BDC Code of Conduct, Ethics and Values and issue reports oversaw internal audit team's annual plan and reports reviewed progress of Internal Controls Certification reviewed BDC's investment valuation policy
Credit/Investment and Risk Committee	29	Acting Chair: Terry B. Grieve Christiane Bergevin Stan Bracken-Horrocks Léandre Cormier Jean-René Halde Leo Ledohowski	reviewed limits in delegation of authorities revised signing authority resolutions for commercial transactions reviewed and recommended to the Board BDC's commitment to two investment funds: 1) AlterInvest II Fund L.P. ($165 million) and; 2) GO Capital SEC ($10 million) reviewed and approved 33 financing and venture capital investments reviewed performance and trends in the portfolios and discussed action plans quarterly, which included establishing principal risks and monitoring

Committee	Number of meetings	Members	Sample of Issues
Governance/ Nominating Committee	6	Chair: Vacant Cynthia Bertolin Stan Bracken-Horrocks Andrina Lever Jean Martel Kelvin Ng Valerie Payn	recommended Board mandate and reviewed the Terms of Reference of Board Committees reviewed selection criteria and job description for the role of Chairperson and President & CEO revised policy regarding the handling of referrals by members of Parliament, senators, ministerial staff and BDC directors
Human Resources Committee	5	Chair: Terry B. Grieve Trevor Adey Cindy Chan Léandre Cormier Leo Ledohowski Andrina Lever Kelvin Ng Valerie Payn	reviewed Human Resources Strategic Plan and oversaw significant changes in the composition of the senior management team reviewed compensation programs and payments reviewed appointment of Edmée Métivier as Executive Vice President responsible for BDC Financing and Consulting reviewed appointment of Paul Buron as Executive Vice President and Chief Financial Officer approved new post-retirement benefits structure to share costs with retirees
Pension Funds Investment Committee	4	Chair: Christiane Bergevin Cynthia Bertolin Cindy Chan John Hyshka Jean Martel Observer: Yves Millette	revised new investment policies for the supplementary retirement plans recommended pension description and trust agreement to reflect committee's new governance structure.

An ad hoc committee comprised of the chairs of these five committees has been formed to conduct a search for candidates for the position of Chairperson of the Board.

Board and Board Committee Meetings and Attendance

Director	Board Meetings	Audit	Credit/ Investment and Risk	Governance and Nominating	Human Resources	Pension Fund	Total Attendance	Percentage Attendance
Trevor Adey	5/9	2/6			2/5		9/20	45.00%
Christiane Bergevin	7/9	6/6	22/29			1/1	36/45	80.00%
Cynthia Bertolin	8/9			5/6		3/4	16/19	84.21%
Stan Bracken-Horrocks	8/9	5/6	26/29	5/6			44/50	88.00%
Cindy Chan	9/9				5/5	4/4	18/18	100.00%
Léandre Cormier	6/9	3/6	20/29		4/5		33/49	67.35%
Terry B. Grieve	9/9	6/6	28/29		5/5		48/49	97.96%
John Hyshka	7/9	4/6				2/4	13/19	68.42%
Leo Ledohowski	5/9	1/4	17/29			1/4	24/46	52.17%
Andrina Lever	9/9			6/6	4/5		19/20	95.00%
Jean Martel	5/5			1/2		1/1	7/8	87.50%
Kelvin Ng	9/9			4/6	5/5		18/20	90.00%
Valerie Payn	6/9			5/6	4/5		15/20	75.00%
Jean-René Halde	9/9		22/29				31/38	81.58%

Board of Directors

Trevor Adey
CEO, Consilient®
St. John's, Newfoundland and Labrador

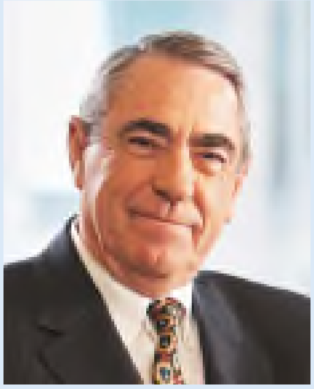
Trevor Adey, who became a BDC director in April 2005, is CEO of Consilient®, a leader in push e-mail solutions for mobile phones and devices. Previously, he was Vice President of Sales and Business Development with Stratos, and Director of Sales with Infosat Telecommunications. Mr. Adey was named one of Canada's Top 40 Under 40™ in 2005 and Emerging Entrepreneur of the Year by Ernst and Young in 2004. Mr. Adey is Chairman of the Advisory Committee for Memorial University of Newfoundland's Faculty of Engineering and Applied Science. He is also a board member of Newfoundland Power and Memorial's Genesis Centre.

Christiane Bergevin
President,
SNC-Lavalin Capital Inc.
Montréal, Quebec

Christiane Bergevin joined the BDC Board of Directors in June 2005. Ms. Bergevin is a seasoned executive with over 20 years of experience in domestic and international financing, acquisitions and partnerships. Since 2001, she has been President of SNC-Lavalin Capital Inc., a subsidiary of SNC-Lavalin, where she heads a team of finance professionals in Canada and Europe who have arranged over US$5 billion in financing in recent years. During her career, Ms. Bergevin has established strong ties with leading financial institutions and pension funds in Canada and abroad.

Cynthia Bertolin
President and owner,
Sunrope Consulting Services Ltd.
Edmonton, Alberta

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



Stan Bracken-Horrocks
President,
SE Bracken-Horrocks Investments Ltd.
Vancouver, British Columbia

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

Cindy Chan
CEO,
InfoSpec Systems Inc.
Richmond, British Columbia

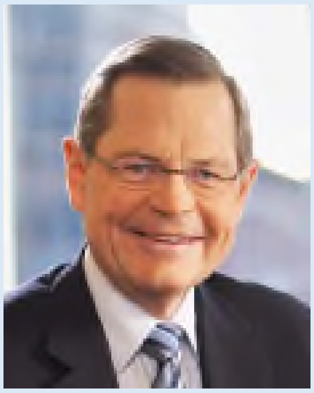
Cindy Chan joined the BDC Board of Directors in August 2005. Ms. Chan is the co-founder and CEO of InfoSpec Systems Inc., a software development company that has been ranked one of the top 100 technology companies in British Columbia. Ms. Chan was named the 2003 Ethel Tibbits Business Woman of the Year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

Léandre Cormier
President and owner,
West-Wood Industries Ltd.
Scoudouc, New Brunswick

Léandre Cormier became a director of BDC in August 2002. He is President and owner of West-Wood Industries Ltd., which produces high-end custom windows and doors, and other value-added wood products, for Canadian and U.S. markets. From 1987 to 2000, Mr. Cormier was the President and owner of Georgetown Timber Ltd., of Georgetown, Prince Edward Island.

Terry B. Grieve
Saskatoon, Saskatchewan

Terry B. Grieve was appointed Acting Chairman of the BDC Board of Directors in January 2007. A native of Saskatchewan, he joined the board in April 1996. Until December 2005, Mr. Grieve was a principal of Ventures West Management Inc., a private, professional venture capital management firm. He was also Executive Vice President of the Saskfund group of companies.



Jean-René Halde
President and Chief
Executive Officer,
BDC
Montréal, Quebec

Jean-René Halde joined BDC in June 2005. With over 35 years of management experience, he has held CEO positions since 1979 in leading companies, including Livingston Group Inc., Métro-Richelieu Inc. and Culinar Inc. He is a member of the board of the Conference Board of Canada and has been a board member of numerous companies, including CCL Industries Inc., Groupe Vidéotron Ltée, Gaz Métropolitain Inc., the Institute of Corporate Directors and the Montréal Heart Institute. He holds an MA in Economics from the University of Western Ontario and an MBA from Harvard Business School.

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

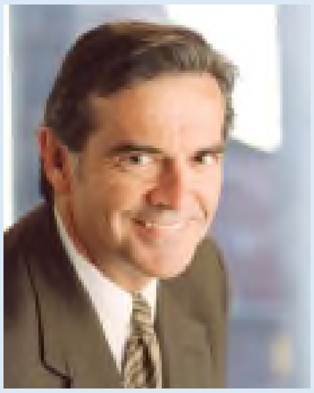
John Hyshka became a member of the BDC Board of Directors in May 2005. As CFO and COO of Phenomenome Discoveries Inc., a Canadian biotechnology firm he co-founded, he has raised over $20 million in equity and debt financing for a number of start-ups and small technology companies. Previously, he was Director of Economic Development for the Saskatoon Regional Economic Development Authority, responsible for the region's economic development programs and for promoting Saskatoon internationally.
Mr. Hyshka has been Chair of the Saskatchewan Government Growth Fund since 2003 and is an advisor to GrowthWorks on Saskatchewan deals.

Leo Ledohowski
President and CEO, Canad Inns
Winnipeg, Manitoba

Leo Ledohowski joined the BDC Board of Directors in March 2005. He is President and CEO of Canad Inns, which owns and operates hotels in Winnipeg, Portage la Prairie and Brandon, Manitoba, as well as a new hotel under construction in Grand Forks, North Dakota. Previously, Mr. Ledohowski was a professor in the Faculty of Commerce at Carleton University in Ottawa and at the University of Manitoba. He is a certified hotel administrator and he has received the Distinguished Service Award from the University of Manitoba, as well as the Fellow of the Society of Management Accountants designation recognizing outstanding contributions to the profession.

Andrina Lever
President and CEO, Lever Enterprises
Toronto, Ontario

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



Jean Martel
Lawyer, Lavery, de Billy
Montréal, Quebec

Jean Martel joined the BDC Board of Directors in September 2006. He is a lawyer at the firm of Lavery, de Billy, in Montréal, where he has been practising financial and securities law since 1999. Previously, Mr. Martel served as Quebec's Assistant Deputy Minister of Finance and, from 1995 to 1999, chaired the Quebec Securities Commission. Mr. Martel sits on the board of TSX Group Inc., the public corporation operating the Toronto Stock Exchange and the Calgary-based TSX Ventures Exchange.

Kelvin Ng
President,
Ng North Inc.
Edmonton, Alberta

Kelvin Ng, who joined the BDC Board of Directors in April 2005, is President of Ng North Inc., a management consulting firm. He was a member of the Nunavut Legislative Assembly and served as Deputy Premier, Minister of Finance and Chair of the Financial Management Board. Mr. Ng also served in the Legislative Assembly of N.W.T. and held numerous portfolios in the N.W.T. government. He has served in municipal politics, and held positions in the private sector in chambers of commerce and in non-profit organizations. He has also received the Queen's Golden Jubilee Award.

Valerie Payn
President,
Halifax Chamber of Commerce
Halifax, Nova Scotia

Valerie Payn, who joined the BDC Board of Directors in March 2005, is President of the Halifax Chamber of Commerce, a position she has held since the chamber was formed in January 1995. Previously, she was the General Manager of the Halifax Board of Trade, making her the first woman to hold that position since its establishment in 1750. Ms. Payn holds an MBA from St. Mary's University in Halifax.

Senior Management Team

Jean-René Halde	Edmée Métivier	Jacques Simoneau	Louise Paradis	Paul Buron	Michel Bergeron	Mary Karamanos	Jérôme Nycz

From left to right around the table

Jean-René Halde
President and Chief Executive Officer

Jean-René Halde joined BDC in June 2005. With more than 35 years of management experience, he has held CEO positions since 1979 in leading companies, including Livingston Group Inc., Métro-Richelieu Inc. and Culinar Inc. He is a member of the board of the Conference Board of Canada and has been a board member of numerous companies, including CCL Industries Inc., Groupe Vidéotron Ltée, Gaz Métropolitain Inc., the Institute of Corporate Directors and the Montréal Heart Institute. He holds an MA in Economics from the University of Western Ontario and an MBA from Harvard Business School.

Edmée Métivier
Executive Vice President, Financing and Consulting

Edmée Métivier joined BDC in 2000. She is responsible for strategies to sustain the growth of BDC Financing, BDC Consulting and Aboriginal banking, and oversees credit risk management. Previously, she was with the Royal Bank, where she held a number of operational positions, including Vice President, Small and Medium Enterprises. Ms. Métivier is Chair of the Board of Shad International, and a member of the Women's Y Foundation of Montréal and of the Desautels Faculty of Management Advisory Board at McGill University. She holds an MA in Practising Management from the University of Lancaster in England.

Jacques Simoneau
Executive Vice President, Investments

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

Louise Paradis
Senior Vice President, Legal Affairs and Corporate Secretary

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

Paul Buron
Executive Vice President and Chief Financial Officer

Paul Buron joined BDC in October 2006. He is responsible for finance, systems and technology, treasury and enterprise risk management. Mr. Buron has acquired broad experience through leadership roles in major corporations such as Société générale de financement du Québec, Donohue Inc. and the TVA Group Inc., where he was Senior Vice President and Chief Financial Officer. He holds a Bachelor's in Business Administration from HEC Montréal and is a member of the Ordre des comptables agréés du Québec.

Michel Bergeron
Vice President, Corporate Relations

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

Mary Karamanos
Senior Vice President, Human Resources

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

Jérôme Nycz
Vice President, Strategy and Planning

Jérôme Nycz joined BDC in 2002. He is responsible for BDC's strategic and public policy frameworks and its SME research agenda, as well as strategic corporate projects and the Research and Information Centre. Previously, he held various positions within the federal government, including Senior Economist and Policy Analyst for Finance Canada, Industry Canada and National Defence. He has also worked at Export Development Canada and for Foreign Affairs and International Trade Canada. M. Nycz is a member of the board of CIRANO and has an IMBA from Hartford University.

Five-Year Operational & Financial Summary

for the years ended March 31 ($ in thousands)

Operational Statistics	**2007**	2006	2005	2004	2003
BDC Financing*					
Committed to clients *as at March 31*					
Amount**	**$ 10,115,995**	$ 9,515,927	$ 8,852,856	$ 8,166,092	$ 7,426,324
Number of clients	**26,643**	25,497	24,048	22,423	21,353
Authorizations					
Net amount	**$ 2,586,489**	$ 2,462,032	$ 2,230,194	$ 2,034,452	$ 1,982,457
Number	**9,079**	8,402	7,457	7,212	6,271
BDC Subordinate Financing					
Committed to clients *as at March 31*					
Amount**	**$ 168,725**	$ 160,246	$ 161,290	$ 187,067	$ 168,455
Number of clients	**316**	305	321	373	380
Authorizations					
Net amount	**$ 53,572**	$ 47,126	$ 36,394	$ 48,195	$ 49,450
Number	**112**	104	66	56	55
BDC Venture Capital					
Committed to clients *as at March 31*					
Amount**	**$ 747,857**	$ 654,876	$ 604,389	$ 490,736	$ 429,755
Number of clients	**192**	193	202	170	164
Authorizations					
Net amount	**$ 150,733**	$ 140,016	$ 143,119	$ 108,812	$ 92,689
Number	**71**	83	80	70	61

Performance Indicators					
Client satisfaction level	**93%**	92%	93%	91%	91%
Employee engagement level	**80%**	78%	74%	77%	76%
Efficiency ratio***	**50.2%**	48.9%	48.5%	48.7%	47.8%
Financing and Subordinate Financing portfolio	**$ 9,279,586**	$ 8,775,777	$ 8,066,012	$ 7,465,194	$ 6,721,375
Return on common equity	**8.5%**	9.2%	9.7%	5.1%	2.7%
BDC Venture Capital 10-year IRR					
– Total investments	**(0.8)%**	1.5%	5.6%	13.1%	16.3%
BDC Consulting revenue	**$ 23,523**	$ 21,570	$ 18,924	$ 20,006	$ 18,221

* *Excludes BDC Subordinate Financing.*
** *Includes principal, protective disbursement and undisbursed outstanding.*
*** *Includes both BDC Financing and BDC Subordinate Financing.*

Five-Year Operational & Financial Summary

($ in thousands)

Financial Information	**2007**	2006	2005	2004	2003
Statement of Income					
for the years ended March 31					
Net income (loss)					
Financing*	**$ 167,992**	$ 141,060	$ 163,700	$ 86,805	$ 98,631
Subordinate Financing	**7,945**	13,682	8,818	5,750	(4,124)
Consulting	**(4,326)**	(3,782)	(2,887)	(3,135)	(3,142)
Venture Capital	**(33,604)**	(12,779)	(56,143)	(30,299)	(59,485)
Net income	**$ 138,007**	$ 138,181	$ 113,488	$ 59,121	$ 31,880
Balance Sheet					
as at March 31					
Loans, net of allowance for credit losses	**$ 8,622,646**	$ 8,129,880	$ 7,445,861	$ 6,813,344	$ 6,164,178
Subordinate financing loans and investments	**$ 148,290**	$ 143,901	$ 136,977	$ 164,200	$ 124,458
Venture capital investments	**$ 505,118**	$ 431,379	$ 383,649	$ 345,624	$ 301,945
Total assets	**$ 10,804,081**	$ 10,311,423	$ 9,445,161	$ 8,809,218	$ 7,791,359
Total Shareholder's equity	**$ 1,807,718**	$ 1,691,277	$ 1,569,569	$ 1,218,459	$ 1,170,017
Total liabilities	**$ 8,996,363**	$ 8,620,146	$ 7,875,592	$ 7,590,759	$ 6,621,342

* *Excludes BDC Subordinate Financing.*

Glossary

Allowance for Credit Losses

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

Change in Unrealized Appreciation and Depreciation of Investments

Amount included in income resulting from movements in the fair value of investments for the period.

Consulting Revenue

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

Cross-Currency Swaps

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

Debt-to-Equity Ratio

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

Derivative Financial Instruments

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

Direct Investments

Investments made by BDC directly in investee companies.

Efficiency Ratio

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

Fair Value

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

General Allowance

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

Hedging

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

Impaired Loans

Loans where, in management's opinion, there has been a deterioration of credit quality such that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

Interest Rate Swaps

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

Master Netting Agreement

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

Realized Net Gains on Disposals of Investments

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

Net Interest and Other Income

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

Net Margin

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

Performing Portfolio

Loans for which there is reasonable assurance of the timely collection of principal and interest.

Permanent Impairment

A situation in which, in management's opinion, one or more of the following conditions apply to an investment: (i) a prolonged period during which the quoted market value of the investment is less than carrying value; (ii) suspension of trading in the investee securities; (iii) continued and severe losses that were not planned for at time of investing; (iv) liquidity or going concern problems that cannot be resolved in the immediate future; or (v) material negative deviation from budget or plan. Permanent impairment reflects not only financial data, but also qualitative data about an investee and all aspects of its business, including its product, markets and technology.

Provision for Credit Losses

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

Return on Common Equity (ROE)

Net income, less preferred share dividends, expressed as a percentage of average common equity.

Specific Allowance

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

Subordinate Financing

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

Subordinate Financing Investments

BDC's portfolio of subordinate financing held through its joint ventures with the Caisse de dépôt et placement du Québec, AlterInvest L.P., AlterInvest Fund II L.P. and AlterInvest Inc.

Variable Interest Entity (VIE)

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

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