– 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.

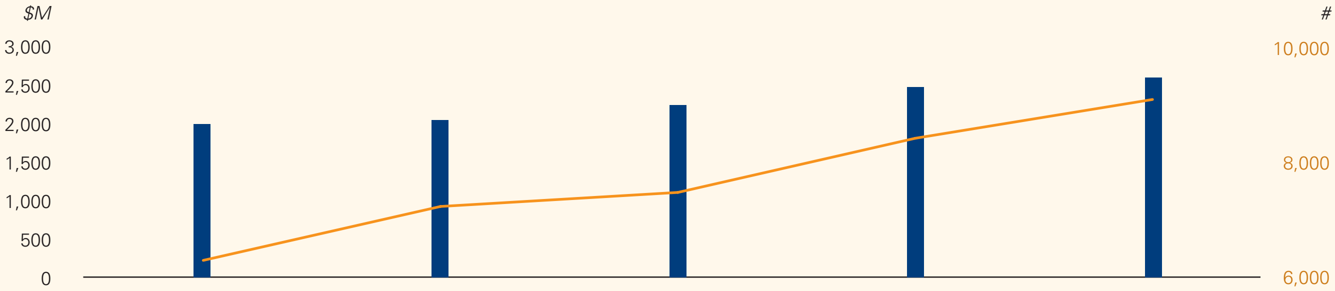
BDC is environmentally responsible. Since 1991, we have used an Environmental Risk Policy to guide our decisions. And since June 2006, we have also complied with the *Canadian Environmental Assessment Act*. Our goal is to ensure that we do not fund projects that might cause significant adverse impact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



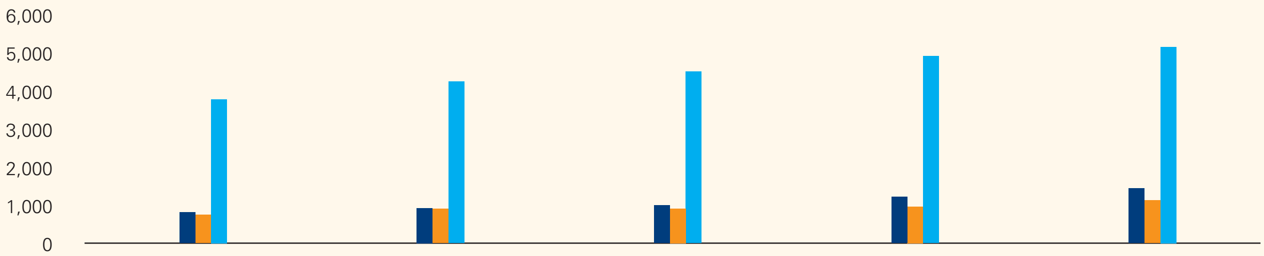
	2003	2004	2005	2006	**2007**
Amount authorized	1,982	2,034	2,230	2,462	**2,586**
Number authorized	6,271	7,212	7,457	8,402	**9,079**

* *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.

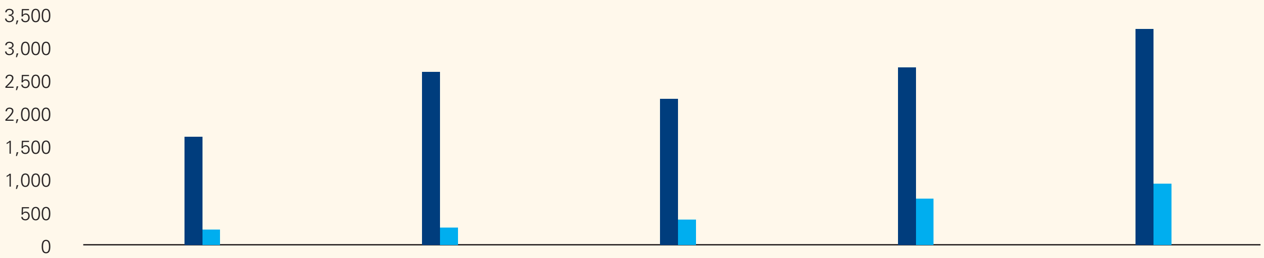


	2003	2004	2005	2006	**2007**
Start-up	809	917	993	1,217	**1,438**
Development	744	901	905	959	**1,123**
Expansion	3,770	4,238	4,501	4,907	**5,145**

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.

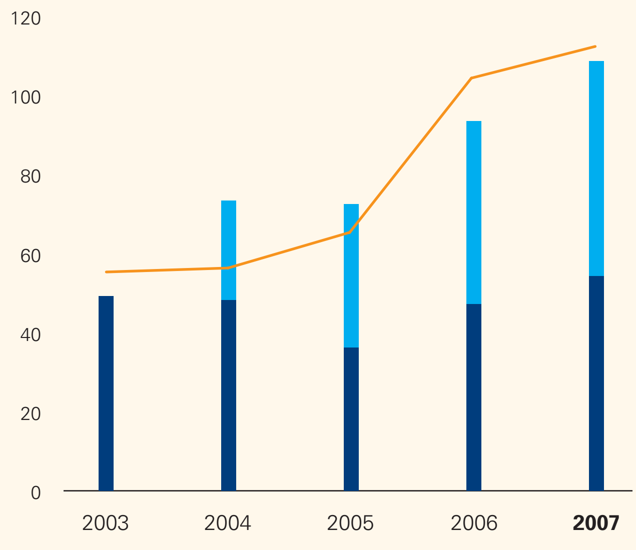
BDC is a national leader in subordinate financing. This position is anchored by our partnership with Caisse de dépôt et placement du Québec (the Caisse), which we renewed this year. This year, BDC Subordinate Financing authorized $108 million (this includes the Caisse portion).

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

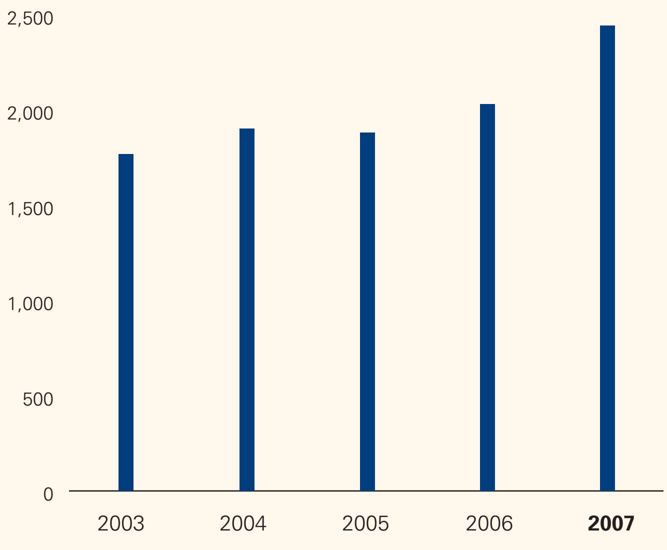
for the years ended March 31



	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%.

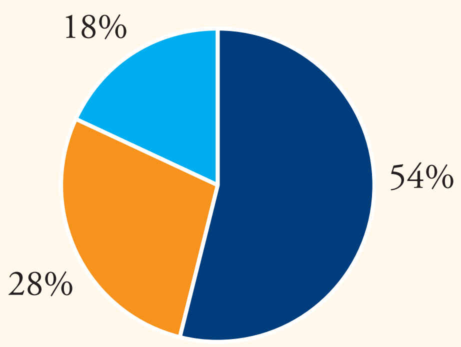
This past year, total seed investments in Canada were $64.3 million. BDC authorized $6.6 million of this total in eight seed ventures.

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

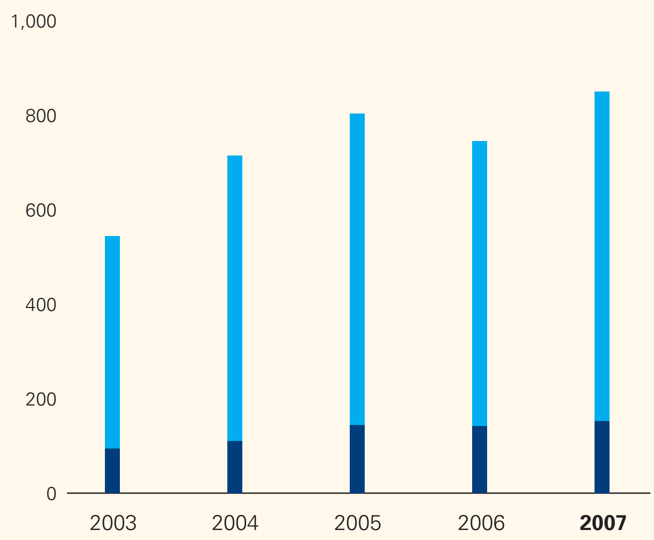
for the year ended March 31, 2007



- 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.

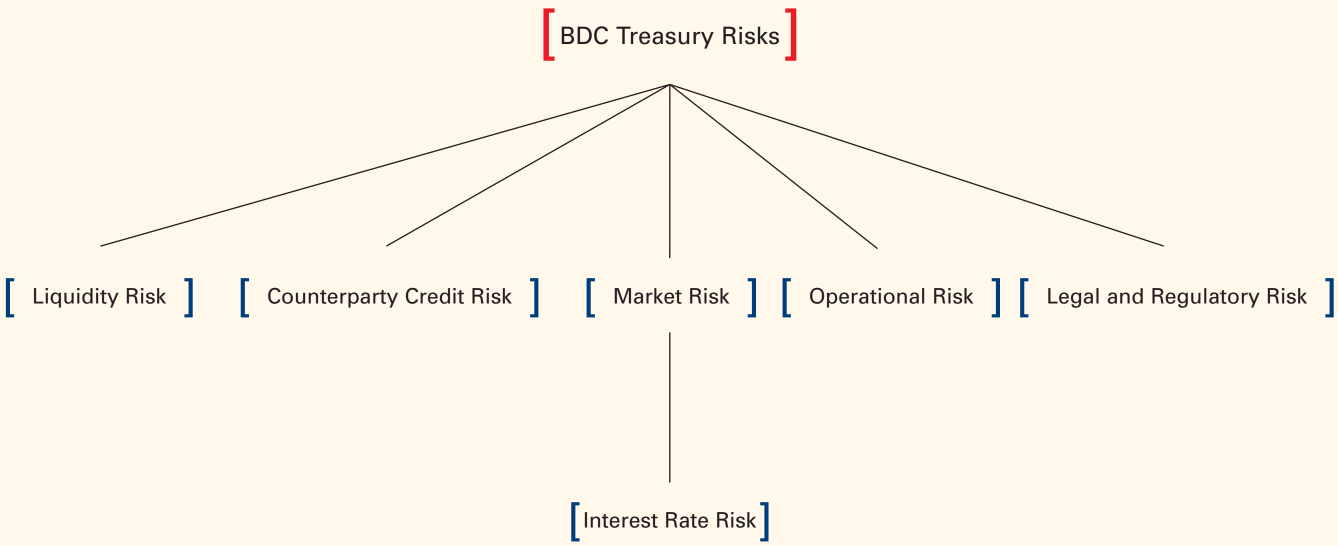
The primary responsibility of BDC's treasury operations regarding liquidity management is to ensure that BDC is able to meet its payment obligations in a timely, cost-effective way. We have a well-defined liquidity and investment management policy, which includes liquidity limits that the Treasury Risk 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.



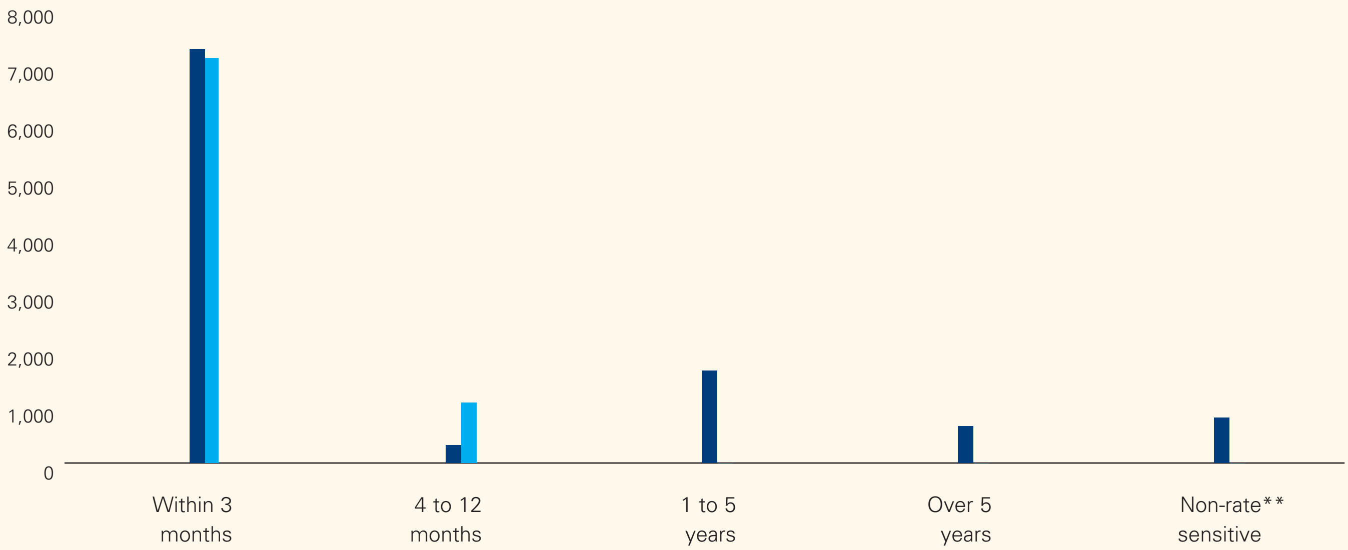
Issuer/Counterparty Risk is the risk that a counterparty's credit rating will be downgraded or that the counterparty will default, resulting in a loss in the value of outstanding financial instruments or a potential financial loss, if the counterparty cannot meet its contractual obligations.

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

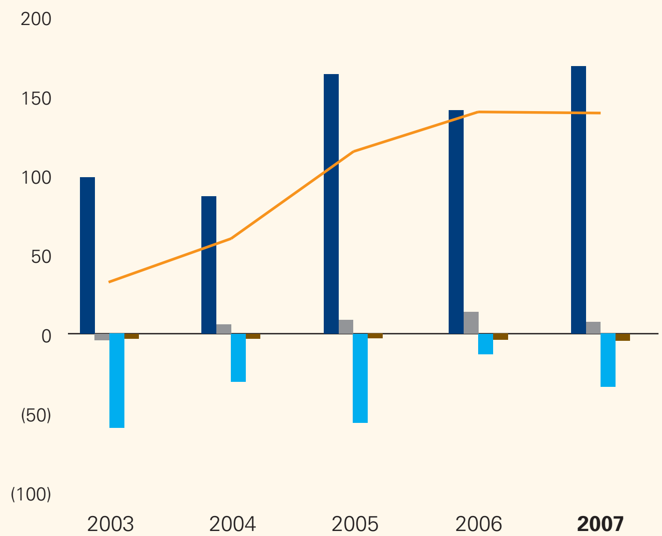
In 2006, BDC reported on three business lines: Financing, Venture Capital and Consulting. Starting in 2007, to enhance the clarity of financial analysis, the Financing business line was broken into two groups: Financing, which includes loans, and Subordinate Financing, which includes mostly investment-type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

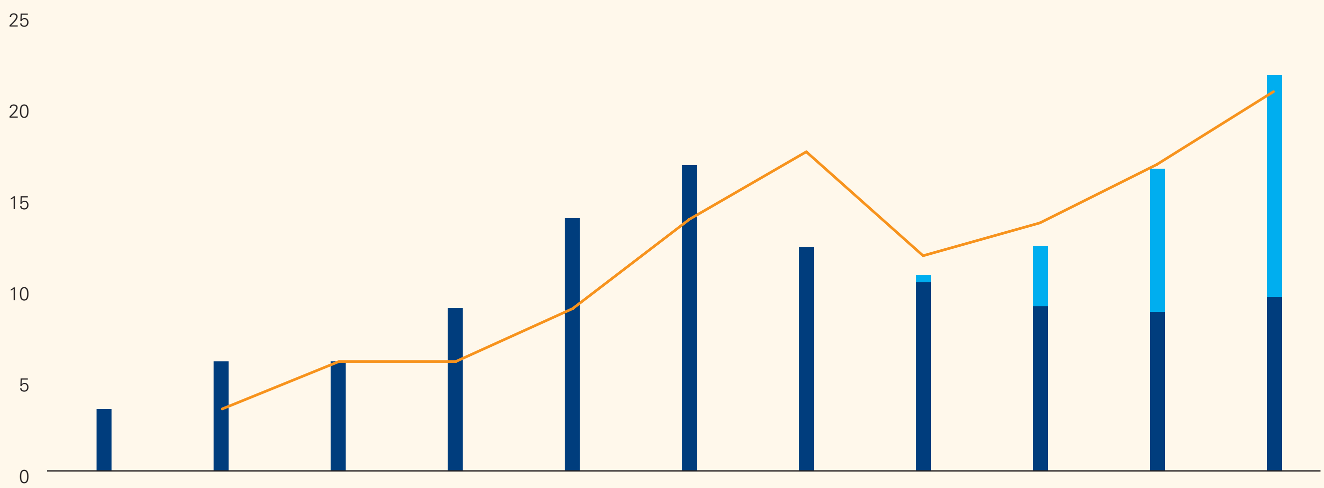
Outlook for 2008

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.

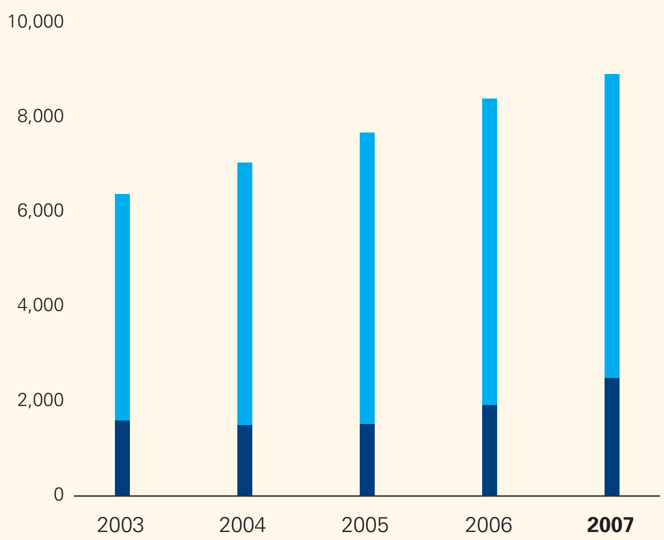
Net Interest and Other Income

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)

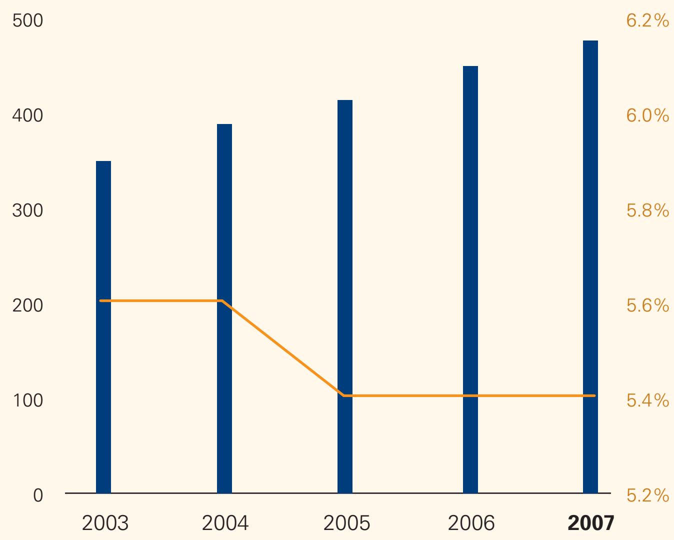


	2003	2004	2005	2006	**2007**
Fixed rate portfolio	1,580	1,478	1,500	1,902	**2,464**
Floating rate portfolio	4,741	5,508	6,117	6,426	**6,378**
Total performing portfolio	6,321	6,986	7,617	8,328	**8,842**

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.

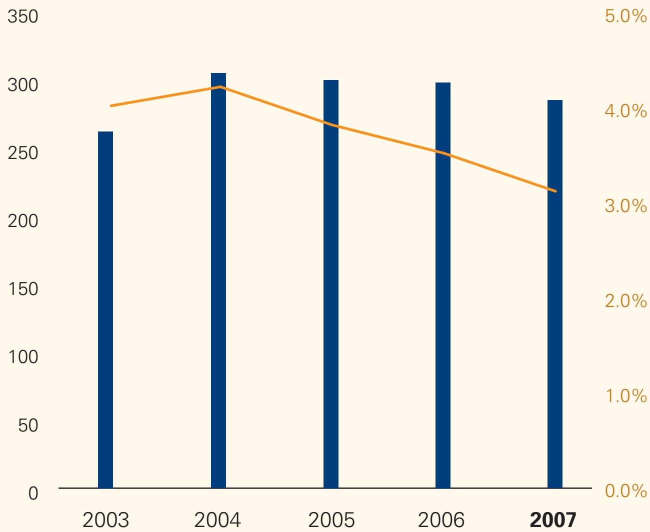
BDC maintains the cumulative allowance for credit losses at a level that reflects its long-term loss experience. The allowance totalled $505.5 million, versus $497.3 million a year ago. It represented 5.5% of the loan portfolio outstanding at year-end, compared to 5.8% in fiscal 2006. This decline was 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)

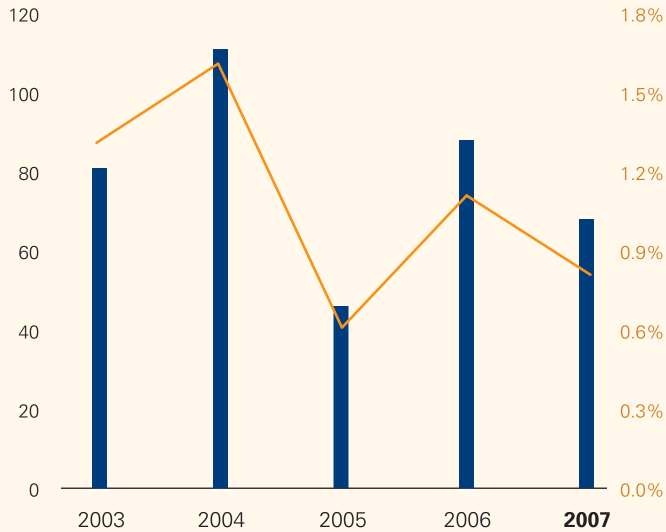


	2003	2004	2005	2006	**2007**
Impaired portfolio	263	306	301	299	**286**
Impaired portfolio as a % of loan portfolio	4.0%	4.2%	3.8%	3.5%	**3.1%**

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.

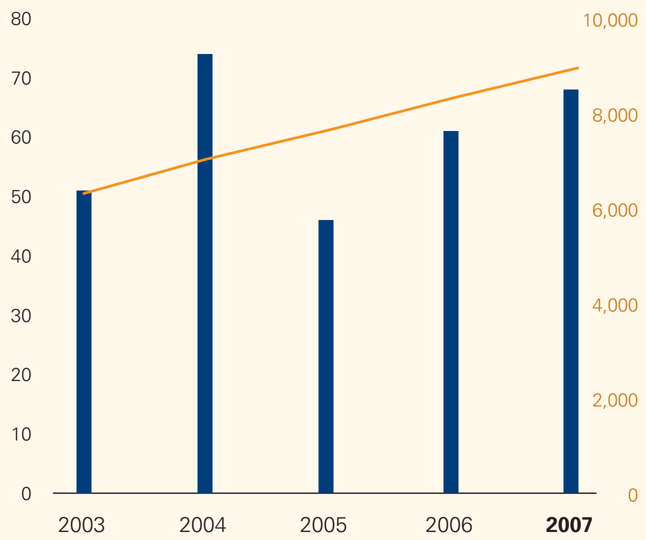
Financing income of $168.0 million in fiscal 2007 was above both the internal objective of $133.1 million and the CP objective of $117.0 million.

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)

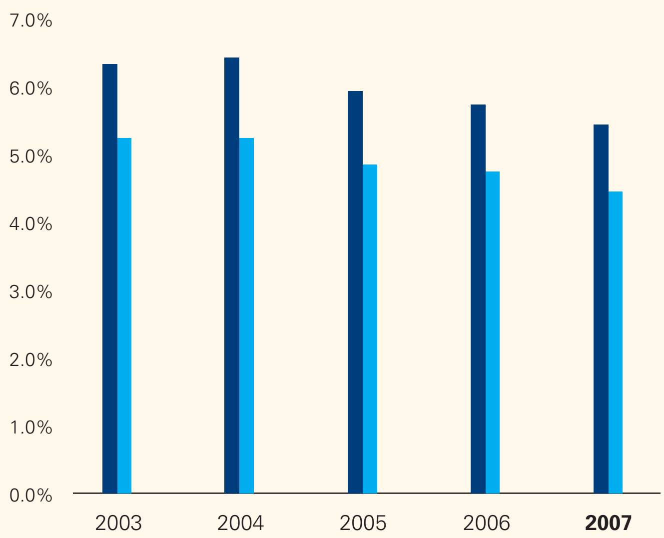


	2003	2004	2005	2006	2007
Specific provision for credit losses	50.9	74.4	46.4	61.4	**67.9**
Average loan portfolio	6,258	6,976	7,595	8,275	**8,902**

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

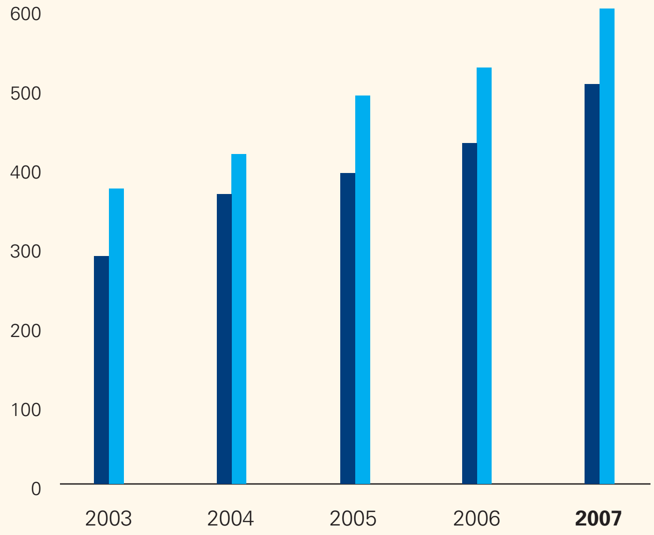
This type of financing will remain enticing for clients who wish to support growth, invest in intangible assets or complete successful business ownership transitions. BDC's share in the portfolio is expected to grow by 6% to $157 million in 2008, generating an income of $5 million.

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

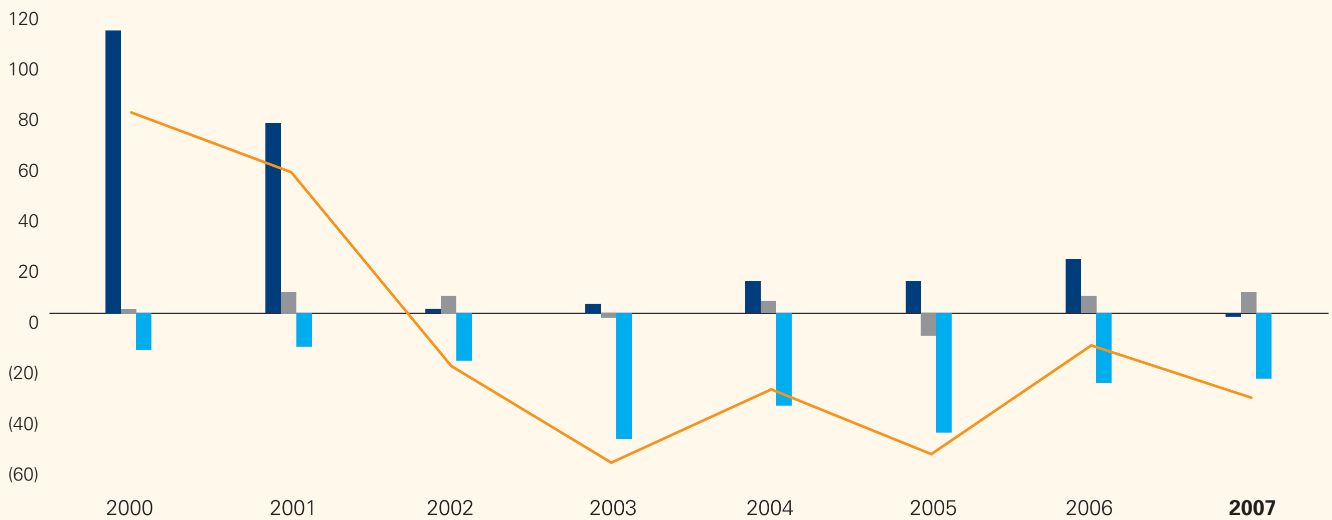
Venture Capital's success depends on gainful divestitures of individual investments, which are subject to prevailing market conditions and the fair value measurement of its investments. Accordingly, financial results may be volatile and will vary from year to year. Management believes that the investments 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.

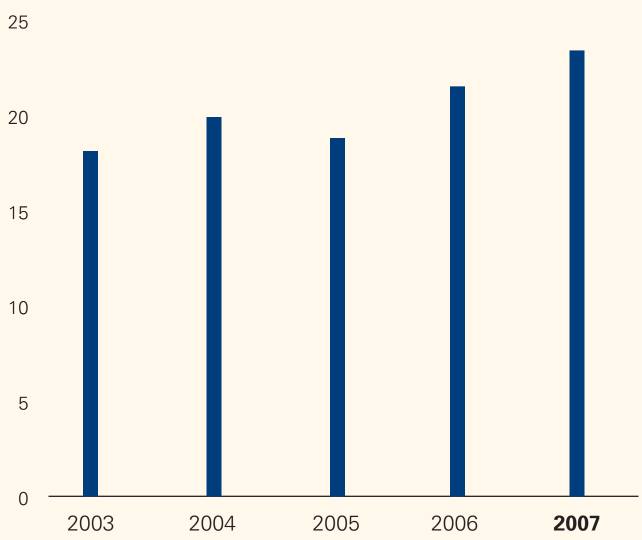
BDC holds cash, cash equivalents and securities in accordance with its liquidity and investment management policy. These liquidities ensure funds are available to meet client needs. They totalled $929.1 million in fiscal 2007.

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

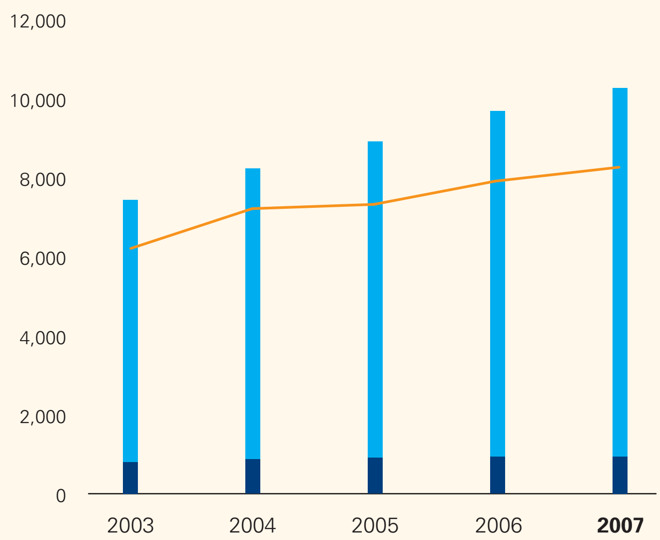
for the years ended March 31 ($ in millions)



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**

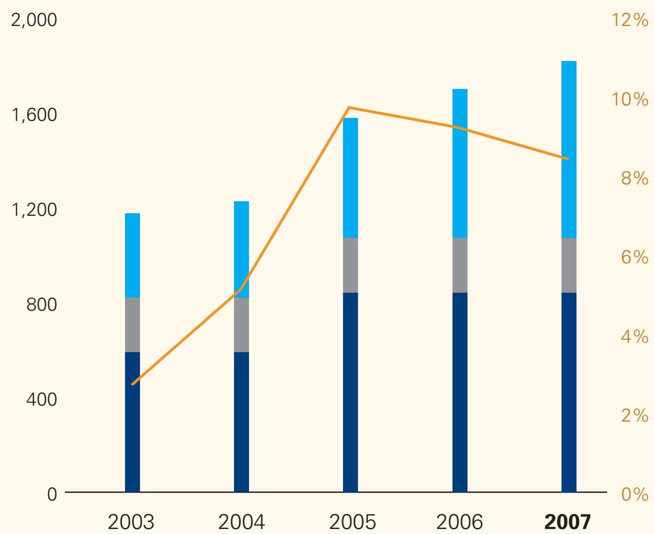
* *Includes net loan portfolio and investments.*

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

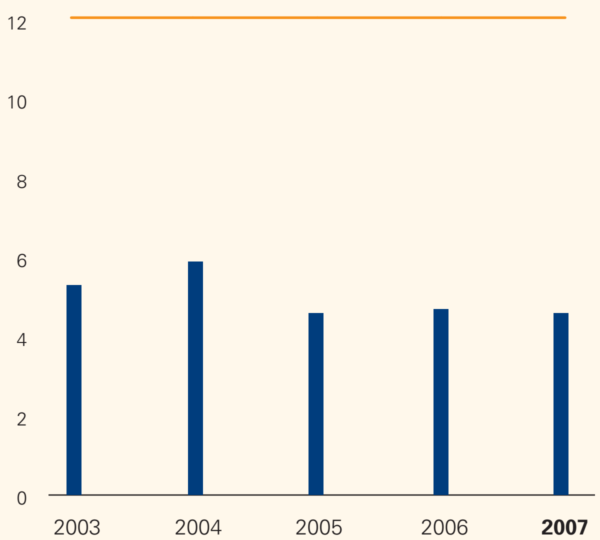
Treasury Board of Canada Secretariat provides BDC with guidelines for establishing capital adequacy ratios. We must maintain capital and loss provisions sufficient to ensure BDC can withstand unfavourable economic circumstances without requiring additional government funding.

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

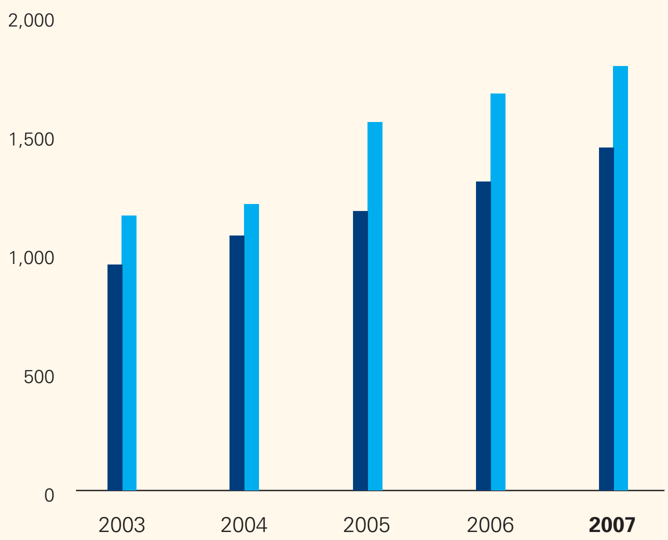
as at March 31



	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