



Investing Today for a Brighter Tomorrow



Cape Breton
Growth Fund
Corporation
ANNUAL REPORT 2002

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Mission & Mandate

Mission

The Cape Breton Growth Fund Corporation in partnership with other public sectors, the private sector and other community stakeholders will make investments that complement existing programs to foster sustainable economic growth and job creation on Cape Breton Island.

Mandate

The objects of the Corporation are to promote and assist, either alone or in conjunction with any person or the Government of Canada or of Nova Scotia or any agency of either of those governments, the financing and development of industry and other projects on Cape Breton Island to provide employment outside the coal producing industry and to broaden and strengthen the base of the economy of Cape Breton Island.

Background of Cape Breton Growth Fund

In January 1999, Cape Breton Island's economy changed forever. The decision by the Government of Canada to downsize and privatize the Cape Breton Development Corporation (DEVCO) and remove itself from the coal industry left Cape Bretoners with a sense of uncertainty about their future and the future of their children.

To offset the economic impact of the DEVCO decision, the Government of Canada announced that it would provide \$68 million to assist with the adjustment of the local economy through the promotion of sustainable, long-term economic development for Cape Breton Island. Shortly thereafter, the Province of Nova Scotia committed an additional \$12 million, bringing the total available for investment to \$80 million.

In October 1999, before policies and programs were designed, the governments requested that Cape Bretoners provide their input on how the resources provided could be best utilized. A panel comprised of three members of the community, three federal representatives and a provincial representative held nine days of sessions, heard over 214 presentations and received 210 written submissions from a broad spectrum of stakeholders across Cape Breton Island.

High unemployment rates, the outward-migration of youth and the fact that most exports were resource-based were reoccurring themes, as well as, the importance of preserving the environment and cleaning up existing contamination and the need for short-term solutions to survive the resource-based industrial decline.

The panel also reported on the views of the Cape Breton community as to the desired delivery model for the fund. Most participants stressed that the delivery model be locally managed and administered, that it be flexible in mandate and powers, and that it not duplicate or overlap existing organizations and programs.

On August 25, 2000, The Cape Breton Growth Fund (CBGF) was incorporated as the delivery model. Administrative costs are sourced from the interest generated by the investment of the fund until it is dispersed.

In May of 2001, the closure of the only remaining DEVCO mine, Prince Colliery, was announced. At that time, it was also announced that another \$18 million would be added to the amount allocated to the CBGF for economic development. As mentioned earlier, during the consultation process, the community expressed that measures needed to be taken immediately to help stabilize the economy. In particular, the need to create 2000 to 3000 jobs in the short term.

The magnitude of the challenge necessitated significant private sector investment to create a large number of jobs in a compressed time frame. Governments could clearly play a role in efforts to attract investment, but they would only be able to play a modest catalytic role in financing the creation of such a large number of jobs.

In March 2000, the Prime Minister of Canada came to Sydney to announce that EDS would establish a customer interaction centre. A loyal, well trained work force, competitive business costs, and catalytic incentive financing from the fund set aside for economic development would be among the many features that would draw this internationally successful company. As CBGF was not yet incorporated, ECBC, CBGF's parent corporation, would be the vehicle used to deliver this portion of the fund.

EDS planned to create 900 positions over a five-year period. This was a watershed announcement, which helped to instill hope in the community. The announcement offered a clear signal that governments had heard the requirements expressed by the community.

In February 2001, EDS announced a second large, state of the art customer interaction centre located in Port Hawkesbury. The Centre will bring at least 450 new knowledge-based industry jobs to this area, and help grow the local economy.

EDS was a major milestone in the transition to a new economy. After the Sydney centre opened, the interest in Cape Breton as a customer interaction centre location increased and thus, with assistance from the CBGF, Stream and Upsource also chose to open centres in Cape Breton.

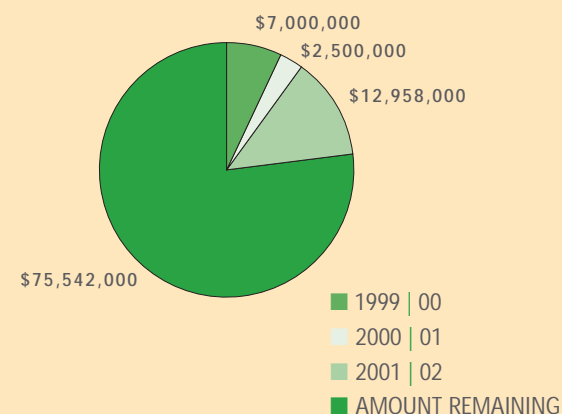
These initiatives mark the very positive beginning for a new and bright economic future for the people of Cape Breton Island.

At a Glance—Global Targets and Results

	Fiscal 2001/02	Results to Date	Target
Jobs Created*	1,092	1,542	2,700
New, Incremental Export Sales**	\$ 292,215,599	\$ 398,867,599	\$ 500,000,000
Incremental Direct Investment	\$ 154,423,000	\$ 212,298,000	\$ 350,000,000
New, Incremental R & D Expenditures	\$ 6,072,000	\$ 6,072,000	\$ 30,000,000
New Start-ups	2	3	15
New Export Oriented Businesses	2	3	10

Fund Snapshot

Initial Transition Fund	\$ 68,000,000	
Provincial Contribution	\$ 12,000,000	
Additional Allocation 2001/2002	\$ 18,000,000	
		<u>\$ 98,000,000</u>
Used for EDS Sydney by ECBC***	\$ 7,000,000	
2000/01 Commitments	\$ 2,500,000	
2001/02 Commitments	\$ 12,958,000	
Total Remaining for Investment	\$ 75,542,000	
		<u>\$ 98,000,000</u>



* Number includes both direct and potential jobs

** Based on five year projections

*** Before the incorporation of the CBGF, \$7 million was taken from the fund and invested into EDS Sydney. The CBGF does not report on EDS Sydney and does not include any of the jobs created in the results reported above. The CBGF also does not claim to report on the total \$98 million, but rather the amount remaining after the EDS Sydney project - \$91 million.

2001 | 2002 Events Highlights

- CBGF hosts luncheon announcing strategic direction
- Additional \$18 M from Government of Canada
- Study to Probe Potential Economic Benefits from Environmental Remediation
- Upsource Announcement of 71 jobs
- Stream Announcement of 900 jobs
- Co-op Atlantic Announcement of 60 jobs
- German Trade Mission to study Environmental Remediation
- CBGF sponsors the Baddeck International Media Festival
- CBGF Report Card released to public
- CBGF Presentation to Standing Committee for Economic Development (Province of NS)
- CBGF receives Board of Trade Award for Excellence and Innovation in Economic Development
- Tourism Road Map Request for Proposal
- Arts & Culture Request for Project Proposals
- EDS Port Hawkesbury Announcement of 450 jobs



John McLennan and Rick Beaton at CBGF luncheon

2001 | 2002 Investment Activity

Stream International

CBGF Funding—\$10,000,000
Projected Results: 900 jobs
\$140,900,000 Leverage
\$259,981,600 Export Sales

Upsource Inc.

CBGF Funding—\$475,000
Projected Results: 71 jobs
\$1,380,000 Leverage
\$32,233,999 Export Sales

Co-op Atlantic

CBGF Funding—\$800,000
Projected Results: 60 jobs
\$7,713,000 Leverage

La Co-operative Radio Cheticamp Itee.

CBGF Funding—\$43,000
Projected Results: 2 jobs

Industrial Outreach Initiative

CBGF Funding—\$1,642,000
Projected Results: 59 Potential Jobs
\$4,430,000 Leverage
\$6,072,000 R & D

AT A GLANCE

Message from the Chair



The Cape Breton Growth Fund, from its inception, has been focused on creating long-term sustainable growth and development for the people of Cape Breton. Through a unique model for delivery, the Government of Canada, represented by Enterprise Cape Breton Corporation (ECBC) and Human Resources Development Canada (HRDC), along with the Province of Nova Scotia have entrusted the CBGF with that important responsibility. It gives me great pleasure to report that this past year has seen incredible results in the areas of job creation and investment attraction.

Cape Breton communities are proud and enduring; they each have unique characteristics and strengths. Each has an important role to play in shaping the Island's economic future; a future based on sustainable development, long-term employment and initiatives that capitalize on our natural strengths.

From the consultation process that took place across the Island, the CBGF set forth a number of key objectives to be completed during the life of the fund. These included the generation of new incremental export sales and increased tourism receipts, maximizing the successful participation of Cape Breton businesses and labour in the emerging oil and gas, and environmental remediation industries, increasing support to research and innovation activities on the Island with a primary emphasis on technology commercialization. Also the ability to provide access to capital through loans, contributions and other funding instruments to assist businesses in obtaining the financing required for growth, attracting export-oriented companies to Cape Breton and leveraging new direct investment and carefully planned infrastructure investments that demonstrate private sector support were highlighted.

The most important and immediate goal set for the CBGF was to create jobs that would immediately impact the economy. We listened to the community's request for immediate action and answered the call by attracting investment and employment with customer interaction centres. It is anticipated that employment by these centres will reach over 3000 people. This will result in \$75 million a year in salaries and benefits to the residents of Cape Breton.



2001 was also a year to take a serious look at the options available within the five key sectors as identified during the public consultation process; Arts & Culture, Tourism, Oil & Gas, Environmental Remediation and Knowledge-based industries.

The CBGF also undertook a series of initiatives and investment opportunities that helped to diversify the economy and open up opportunity to youth on Cape Breton Island, such as the knowledge-based Industrial Outreach Initiative that will encourage our skilled youth to stay on the Island.

We have made great progress with many of our key objectives but much work remains. In 2002/03 we will focus our investments into those areas that have the greatest potential for success and we must pursue those opportunities with real energy.

We now look to the future and the potential that waits to be captured. The CBGF will continue to make sound investment decisions, ensuring that a legacy is left for future Cape Bretoners. We will make decisions based on strong business models and we will not be rushed into these decisions just to commit the money. The CBGF will, in future generations, be remembered as the beginning of a new day for Cape Breton.

John McLennan
Chair

MESSAGE
FROM THE
CHAIR

Message from the CEO

The Future is Now

This past year has been one of excitement, renewed confidence and a strong sense of community spirit for the people of Cape Breton. Never before has the Island experienced such rapid economic growth, the effects of which have impacted every aspect of our lives.

Significant progress has been achieved and our economic development initiatives are making a difference. Consider that employment levels on the Island are at their highest since 1988, our employment growth in 2001 was 4.12% over 2000. This is higher than the national average of 1.1% and the provincial average of 0.9%.

Cape Bretoners are once again seeing the telltale signs of economic vitality in the form of *Help Wanted* signs, full restaurants and busy downtown cores during work hours. All this is good news and proves that we have made a successful transition; a transition from a mining and milling economy to a diverse one that will carry us forward and allow us to continue to grow and prosper while ensuring a future on the Island for our children.

In 2001/02, the CBGF committed a total of \$13 million to projects that leveraged over \$154 million, bringing the total committed by CBGF to date to \$15.5 million. In 2001/02, the CBGF received an additional \$18 million from the Government of Canada to offset the closure of DEVCO, bringing the total contribution by the Federal and Provincial government to \$98 million. This is a significant contribution to our economy and we must ensure that we continue to invest it wisely.

All this progress does not mean that the work is over. The CBGF is now looking to the future, and establishing our mid to long-term vision for the Island. We realize that several challenges lie ahead including stemming the outward migration of our youth, creating higher paying, long-term employment opportunities and ensuring a positive economic legacy for Cape Bretoners.

For this to happen, it is essential that the focus be on those areas that have a natural reason for being on this Island as well as on areas that can grow as part of the newer global economy. Those natural reasons fall into a number of specific categories all related to either the physical nature of the island, and its offshore, or to the human resource of talent that lives here.





In 2001/02, the Industrial Cape Breton Board of Trade recognized the CBGF for excellence and innovation in economic development. This innovation is largely reflected in our recognition that for the fund to make the greatest impact, the community needed input in a new and proactive manner. We wanted to ensure that the private sector was involved with setting strategic direction, thus the CBGF formed two unique bodies; the Advisory Committee and the Sector Task Forces.

The Advisory Committee acts on behalf of the community to provide input on direction and offer the Board of Directors a local perspective.

The various Task Forces have played a significant role in building programs, undertaking studies and setting strategic directions that will ensure long-term sustainability.

My deepest appreciation and thanks to all the dedicated members of the various Task Forces, who volunteer their time and expertise to this process. You should take great pride in the work you have accomplished in such a short period of time.

To the Board of Directors and the management and staff of the CBGF, thank you for your continued hard work and your belief in what we are doing, and especially to the people of Cape Breton who continue to believe that investing today will create a brighter tomorrow.

Rick Beaton
Chief Executive Officer
Cape Breton Growth Fund

MESSAGE
FROM
THE CEO

Award for Excellence and Innovation in Economic Development



Honourable Gerry Byrne, Minister of State
(Atlantic Canada Opportunities Agency) accepts
Award of Excellence from the Board of Trade
President Alastair MacLeod

“*The Cape Breton Growth Fund has made significant progress this year in creating long-term, sustainable employment, attracting investment and ensuring a transition to a new economy that will ensure a prosperous future for the Island.*”

I am pleased with the proactive approach that the CBGF has taken to build a strong and bright economic future and I am confident that they will continue to be leaders in this area of economic development.”

Honourable Gerry Byrne,
Minister of State
(Atlantic Canada Opportunities Agency)

Dear Mr. Beaton,

It is widely accepted that the Cape Breton economy is in transition. As well, it is understood that if the economy is to be developed and positioned to capitalize on the opportunities of the future then strategies must be employed based on innovation. Usual remedies cannot prevail. Among other things, to be effective, economic development processes must challenge conventional thinking, avoid duplication of effort, facilitate local decision-making, ensure accountability and foster sustainability.

I am pleased to advise that the Board of Trade has selected the Cape Breton Growth Fund Corporation as the recipient of its first annual *Award for Excellence and Innovation in Economic Development*. It is apparent to the membership of the Board that the CBGF is employing a particularly innovative model in the delivery of its programs. With the input of the Advisory Committee, Sector Task Forces and a dynamic and learned Board of Directors, CBGF is distinguishing itself in the field of economic development.

Alastair MacLeod
Industrial Cape Breton
Board of Trade

Principles for the Fund

The CBGF Board of Directors has set the following main principles as a basis for analyzing the value and potential impact of all economic development initiatives that are put before them. These principles are:

1. Leverage - In order to maximize economic benefits, the fund is used to leverage other sources of funding, both private and public. The fund must be used in partnership with other government programs, community organizations and the private sector to maximize economic benefits.

2. Focus on Long-term Sustainable Growth - The fund is used as a catalyst to drive the economy forward. The fund must focus on long-term sustainable growth. These elements are key criteria for programming and project selection.

3. Incremental to Existing Programming - The fund is incremental to existing programming. Existing programs must continue to play a significant role in the economic renewal process. The fund cannot replace those programs.

4. Job Creation - The ability of the fund to facilitate long-term sustainable job creation is paramount. Programming and project selection is rigorous to ensure that all resources are used to create jobs. Infrastructure projects must demonstrate a clear and definitive link to future commercial activity, which can create sustainable jobs for residents.

“As a result of the establishment of customer Interaction Centres such as Stream International and EDS, the businesses at Mayflower Mall are becoming more innovative in their approach to recruiting employees...we held our first job fair last fall and are planning another soon. We are encouraged that we must become more competitive in the retail sector as this means there are more opportunities for employment on our island.”

Paul Carrigan
General Manager
Mayflower Mall



Client Profiles

Stream

Upsource

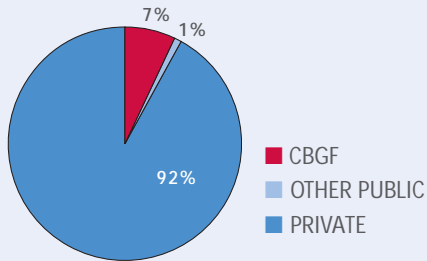
Co-op Atlantic

La Co-operative Radio
Cheticamp Ltee.

Industrial Outreach
Initiative

EDS

Stream



Top: Stream employees
 Bottom: Rick Beaton presents award for reaching 1,000 employees to Mike Robinson, Site Manager, Stream



In 2001, Stream International established an inbound customer interaction centre in the former General Mining Building, in downtown Glace Bay.

The Stream project included creating over 900 jobs that pay an average of \$24,000 plus benefits per year, better than average in Nova Scotia (\$22,000). The CBGF's commitment to the project leveraged an additional \$140,900,000 from various public and private funding partners.

Stream leased rental space of 100,000 square-feet including a parking area consisting of no less than seven acres. The building underwent extensive renovations to accommodate a sophisticated customer interaction centre. Improvements include major interior structural changes and an extensive electrical system to service over 700 workstations to house up to 1100 employees.

The economic impact of this project on the economy of Cape Breton is measured as follows:

- Direct employment income of \$140 million over 5 years
- Indirect economic impact of an additional \$36 million
- Significant shift to knowledge and service sector economy
- Direct infusion of foreign capital through investment and export sales

Based on 900 employees, the economic return on this project is significant with annual tax revenue of \$5.4 million, creating a return to the Government of Canada on its investment in just over two years.

The 900 jobs will result in \$28 million in direct wages and salaries annually. Spin-off jobs are expected to total 261, with spin off wages of \$7.2 million. Thus, the direct and indirect job creation totals 1,161 with a total annual wage and salary amount of \$35.2 million.

The company has already grown to over 1,000 employees surpassing the contracted amount of 900 employees. The growth took place within the first five months of operation. The Glace Bay centre has become Stream's third largest Canadian site and 22nd overall.



What a Difference a Year Makes!

Fall 2000–Fall 2001

Last year I was finishing a paralegal term position with a law firm and wondering what would be next for my family; husband John, who has a background in computers; the one time analyst programmer had spent the past few years in the publishing industry, and daughter Sarah.

Over the past number of years both John and I had held numerous positions including managing a children's bookstore, teaching and publishing poetry, but sometimes these jobs would require that we move to other cities. I had hoped that I would secure permanent full-time employment in Glace Bay.

I had attended a Stream International job fair/information session in Glace Bay in the fall of 2000. These sessions were held to gauge interest in a new customer interaction centre. The response was tremendous and I was very impressed by everything I heard about the company. I had high hopes for a bright future in Cape Breton and fortunately for us, on August 10th, 2001, Stream CEO Scott Murray announced that 900 jobs would be coming to Glace Bay.

To say that good things come to those who wait is an understatement. On October 1st, 2001 I started my new career as a customer interaction agent at Stream International Cape Breton. I was now on the path to a promising new future here at home.

Listening to my enthusiasm after returning from the information session and feeling positive things would happen for Glace Bay, John also applied. "I have a few computer courses and Stream seemed like a step in the right direction", John commented.

Since January 7th 2002, John's hire date, both he and I have what we have always wanted: permanent full-time careers, with medical/dental benefits (an added bonus when on March 28th we welcomed daughter, Ahna, into the family). We are confident that our future is here and that Sarah and Ahna will grow and thrive in the community we love.

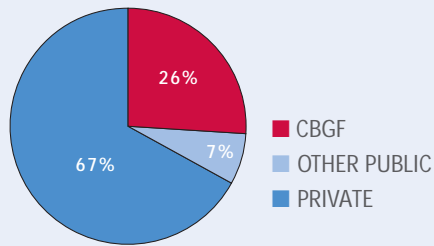
Natalie MacNeil

Stream

CLIENT
PROFILES
STREAM

Upsource

Contact Centre and
Technical Service Company



Top: Upsource employees
Bottom: Richard Scannell, President and COO of Upsource speaking with local community members.



Upsource Inc. opened a customer interaction centre in North Sydney, Nova Scotia. The centre will employ 71 individuals with the potential to grow to in excess of 400. Upsource is an inbound contact centre, providing customer service for various clients.

These jobs pay an average of \$24,000 plus benefits per year, better than average for Nova Scotia (\$22,000). The CBGF funding commitment leveraged an additional \$1,380,000 from both private and public sources.

Upsource is leasing rental space of 10,750 square-feet in the North Sydney Mall. The building underwent extensive renovations to accommodate the sophisticated customer interaction centre. Improvements included major interior structural changes and an extensive electrical system to service over 40 workstations to house up to 71 employees.

The impact on the economy of Cape Breton is measured as follows:

- Direct employment income of \$4.766 million over the first 2 years of operation
- Direct local expenditures of \$360,000 annually
- 20 spin-off jobs paying \$552,000 annually
- Direct infusion of foreign capital through investment and export sales
- A return on investment to the Government of Canada in just over 1.5 years through annual tax revenue of \$350,000

The direct and indirect job creation total is 91 with a total annual wage and salary amount of \$2.935 million.





Home Where We Belong

At the ripe young age of 20, my now husband and I packed everything we owned into one box and moved out west looking for opportunities that didn't exist here. Although exciting, it was also challenging leaving our families behind.

We relocated to Calgary, were married and had our children there. Alberta was a beautiful place with lots of opportunity, but after eight years we longed to be where our families and our hearts were, Cape Breton.

We never thought that we would have the opportunity to move back to Cape Breton—although we longed for it. We wanted our children to experience all that we had living in such a beautiful place. The scenery is second to none and the people are the friendliest you could ever meet.

Finally the opportunity arrived, my husband's company wanted to transfer him back to Cape Breton, but I would have to give up my job. That weekend, I purchased a Cape Breton paper and saw an employment ad for Upsource - A new Cape Breton call centre.

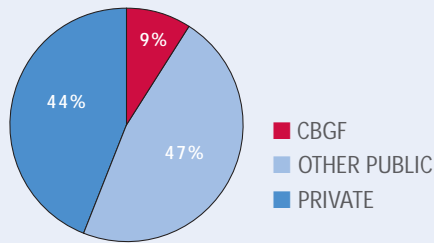
To make a long story short, having the opportunity to be employed with Upsource allowed my family to move back to the only place we ever called home. The children love having their grandparents in their daily lives, we're making an honest living, and we couldn't be happier.

We are so glad that the CBGF is investing in opportunities that allow families to come back to the Island and build a future for our children.

Sue MacAdam

Upsource
Contact Centre and
Technical Service Company

Co-op Atlantic



Co-op Atlantic is a strong, locally owned business with a long history of success in Atlantic Canada. While always cognizant of the need to maintain a profitable and efficient operation, the Co-op also takes its commitment to the communities in which it locates very seriously.

The three-phase Co-op Atlantic project includes adding a meat processing and distribution centre and expanding its state-of-the-art frozen food facility in Sydney, creating 60 full-time jobs.

The CBGF contribution allowed for the leveraging of an additional \$7,713,000 from various public and private partners.

The first two phases of the expansion of the 40,000 square-foot facility were completed in spring 2002. Phase one of the project increased the freezer capacity at the Sydney operation and allowed Co-op Atlantic to improve distribution for the growing frozen food market. During phase two, a meat aging, curing, and packaging facility was constructed. In phase three, the facility will add a state-of-the-art meat processing facility to service all of Atlantic Canada.

Construction costs will exceed \$4.0M, much of which will be spent locally. The short-term impact, in terms of employment and local purchases, will be significant.

The impact on the economy of Cape Breton is measured as follows:

- Short term employment of fifty-six jobs and a one time impact of \$1.8 million in household income during construction
- Creation of sixty new jobs, generating \$1.8 million in household income annually
- Creation of eight spin-off jobs generating \$250,000 in household income annually
- New, local investment of \$8.5 million
- Encourage Co-op management to consider other business opportunities, both alone and in partnership with existing operations
- Potential for enhanced economic benefit from realization of export potential



Top: Norma Tomiczek, Board Member, Co-op Atlantic

Bottom: Co-op distribution





Building my Future

In 2000, I found myself unemployed after working 16 years at Modern Co-op in Glace Bay. At the time, Eric Claus, CEO for Co-op Atlantic, told us he would do whatever he could to help us find employment within the Co-op system. He was true to his word.

After almost two years of uncertainty, I, and others, went to work with Co-op Atlantic to establish a new business, which would provide us with new opportunities. We considered a few options, but the idea of a meat distribution centre made the most sense. It took awhile, but we did it!

I've just finished my second week back at work and it feels great. I'm grateful to the Cape Breton Growth Fund for offering financial support to this worthwhile project. By doing so they are helping a co-operative invest in our community and has secured and created jobs for many of us in the area.

I'm just so glad I didn't have to move away from my home.

Pam Gouthro

Co-op
Atlantic

CLIENT
PROFILES
CO-OP ATLANTIC

La Co-operative Radio Cheticamp

La Co-operative Radio Cheticamp Ltee is a community organization dedicated to the preservation and promotion of the French and Acadian identity of the Acadian region of northern Inverness County. The organization operates a French language community radio station (CKJM) with a local listening audience of 2,500 people (90% of the total listening audience) located in the Cheticamp Acadian region.

La Co-operative Radio Cheticamp Ltee is positioned to take advantage of its existing networks and expressed interest for its product by expanding its broadcasting boundaries. The goal of this project is to increase the potential listening audience of locally produced shows on a regional, national and international level.



The successful implementation of this project will ensure the compatibility of CKJM's equipment and software with other stations and networks, allowing them to broadcast both taped and live shows on a cost efficient basis. With an expanded listening audience, the radio station will be able to attract artists to its facility to broadcast live performances.

This project includes the purchase of recording and digital sound processing equipment needed to broadcast programs at the national and international level. CKJM's existing equipment and software is not capable of producing the superior recordings and quality special effects needed for those markets.

The station will create two full-time positions as a result of this project. Once its shows are established throughout the various networks, advertising revenue and resulting broadcasting work should increase significantly and human resource requirements will have to be augmented.

Section 41 of the *Official Languages Act* provides for special incentives for minority language communities. The CBGF is pleased that it has the flexibility to help further the objectives of the Act through this project.

Financing Structure

Cape Breton Growth Fund	\$43,000
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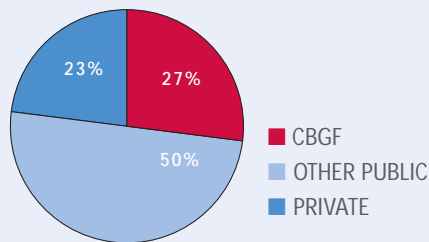


Industrial Outreach Initiative

The Industrial Outreach Initiative is designed to help retain youth on Cape Breton Island by developing a corps of interns who will undertake research and development work for local knowledge-based companies. The project will help stimulate research and development spending by strengthening the link between the research community and the private sector.

The initiative, undertaken in partnership with National Research Council (NRC) IRAP, University College of Cape Breton (UCCB) and the private sector, will create at least 59 positions in local firms over the next four years.

This investment of \$1,642,000 leveraged an additional \$4,430,000 and a commitment made last year by the Government of Canada, to establish a branch of the National Research Council's Institute for Information Technology in Cape Breton.



EDS updates

EDS Sydney

EDS Sydney was the first project funded from the original \$68 million. It was a catalyst in the migration towards the *new economy*.

In August 2000, EDS established a 900-person customer interaction centre in Sydney with funding assistance from both the Governments of Canada and Nova Scotia. EDS projected that, by the end of year two, it would create 400 jobs, with 900 jobs created by the end of year five. EDS has exceeded expectations to date.

EDS Port Hawkesbury

In February 2001, EDS announced a second large, state of the art customer interaction centre in Port Hawkesbury.

The new centre will bring at least 450 new knowledge-based industry jobs to this area, help stabilize the local economy, and act as a community catalyst as Port Hawkesbury moves towards a knowledge-based economy. The jobs are expected to pay between \$18,000 and \$25,000 annually including benefits.

This centre will bring the total EDS employee population on Cape Breton Island to over 1300, making it the single largest, private sector employer on the Island.



EDS employees



left to right
Pierre Fitzgerald, Vice President EDS Canada; Rick Beaton, CEO
CBGF; Jim Paris, Director, Canadian Customer Interaction Centres



Home is Where the Heart is

My story is not unlike many others that are being told in and around Cape Breton lately. You hear similar tales in coffee shops, restaurants and just about anywhere people gather.

I left home at a young age because there just weren't any jobs and there was little promise for the future. In the early 1990's I moved to Kitchener Ontario with my girlfriend Sheri, also a Glace Bay native, who is now my wife.

Like many others, I longed for the chance to move home. I'm a true Cape Bretoner and I never wanted to move away but I had no choice. Sheri and I were both working in the call centre industry in Ontario. Then one day I was reading an on-line article about the opening of an EDS site and it was almost too good to be true. My father had taken ill and I was missing home more than ever. I went on their Web site, e-mailed my resume and the rest is history.

Without EDS locating to Cape Breton, I would not be living in Cape Breton today. Things couldn't have worked out better. Sheri and I are both working at EDS and back where we are supposed to be.

It is hard to explain to anyone else what it means to be able to return to the place that you love, to work and be a productive member of this great community and to experience the growth and excitement surrounding the Cape Breton economy. I am so glad that the CBGF is taking a real interest in people, their futures and responding to what was asked for during the consultation process. They are making a difference for all of us.

Girard Breski



Break of Dawn

starting to make progress



Sunrise

some progress has been made



Full Sun

significant progress has been made



*Performance
Measures*



Performance Measures

A New Framework Established – Performance Management

The Board of Directors of the CBGF places a high value on performance management. Further, the Cape Breton community, through the report of the public consultation *Growing the New Economy*, highlighted results management as a key principle for the operation of the fund.

When the CBGF was established, the Corporation widely publicized its expected results to the community.

Those results included:

- 1,000 jobs
- \$50 million in new, incremental export sales/tourism receipts
- \$10 million in new, incremental sales by Cape Breton/Mulgrave businesses to the oil and gas and environmental remediation industries
- \$5 million in new, incremental expenditures in research & development
- 15 new start-ups in designated priority sectors
- 5 new export oriented businesses attracted to Cape Breton/Mulgrave
- \$50 million in new incremental direct investment

In the 2001/2002 Corporate Plan, the CBGF made a commitment to develop an Accountability and Evaluation Framework, which would serve to guide the Corporation's performance management activities. During this past year, because of this exercise, the CBGF has established new results targets for the organization. These targets are more aggressive than the original results expectations.

Two Types of Targets

To enhance transparency and accountability, the CBGF has broadened its system creating two sets of results targets; Global Project Targets and Attribution Targets. This ensures that management, the Board, central agencies, Parliament, and the public have a greater understanding of the results being achieved by the Cape Breton Growth Fund.

Global Project Targets

These targets reflect the total expected results of projects funded by the CBGF. They acknowledge the CBGF's role as a catalytic financing agent, and that, without CBGF funding, the project could not have gone forward.

Attribution Targets

These targets reflect an attribution of results to the CBGF by “pro-rating” among the CBGF partner organizations as per the methodologies in the CBGF’s performance management framework. These targets acknowledge that a number of organizations are involved in financing and share the results as per their level of financial contribution and partnership arrangements.

The following example illustrates the difference in the targets.

Company A

Project Financing:

CBGF	\$ 8,000,000
Other Partner	\$ 2,000,000
Company A	\$100,000,000

$$\begin{array}{l}
 \text{Jobs Created: 1,000} \\
 \text{Global Results Targets - 1,000} \\
 \text{Attribution Results Targets}
 \end{array}
 = \frac{1,000 \text{ (jobs)} \times 8,000,000 \text{ (CBGF)}}{10,000,000 \text{ (total partner funding)}}
 = \frac{800 \text{ attributed jobs (CBGF)} + 200 \text{ other partner jobs}}{1,000 \text{ global jobs}}$$

Results targets for the Corporation are for the life of the fund, and will only be partially realized in each fiscal year. Results targets and results to date are based on commitments. The results targets do not reflect EDS Sydney, a project which was partially funded from monies set aside in the original \$68 million adjustment fund, but which was committed by ECBC prior to the establishment of the CBGF. Based on these methodologies, CBGF’s development strategy, and notional budget allocations, the CBGF has developed the following targets for the life of the fund.

Attribution Targets

OBJECTIVE	ORIGINAL TARGETS	GLOBAL TARGETS	ATTRIBUTION TARGETS
NUMBER OF JOBS	1,000	2,700	1,800
NEW, INCREMENTAL EXPORT SALES/TOURISM RECEIPTS	\$50 MILLION	\$500 MILLION	\$350 MILLION
NEW, INCREMENTAL SALES BY CAPE BRETON/MULGRAVE BUSINESSES TO THE OIL AND GAS AND ENVIRONMENTAL REMEDIATION INDUSTRIES	\$10 MILLION	\$15 MILLION	\$10 MILLION
NEW, INCREMENTAL EXPENDITURES ON RESEARCH & DEVELOPMENT	\$5 MILLION	\$30 MILLION	\$10 MILLION
NEW START-UPS IN DESIGNATED PRIORITY SECTORS	15	15	15
NEW EXPORT ORIENTED BUSINESSES ATTRACTED TO CAPE BRETON/MULGRAVE	5	10	10
NEW, INCREMENTAL DIRECT INVESTMENT	\$50 MILLION	\$350 MILLION	\$200 MILLION

Global Targets & Results

OBJECTIVE	GLOBAL TARGETS	GLOBAL RESULTS TO DATE
NUMBER OF JOBS	2,700	1,542*
NEW, INCREMENTAL EXPORT SALES/TOURISM RECEIPTS	\$500 MILLION	\$398.9 MILLION
NEW, INCREMENTAL SALES BY CAPE BRETON/MULGRAVE BUSINESSES TO THE OIL AND GAS AND ENVIRONMENTAL REMEDIATION INDUSTRIES	\$15 MILLION	0
NEW, INCREMENTAL EXPENDITURES ON RESEARCH & DEVELOPMENT	\$30 MILLION	\$6.1 MILLION
NEW START-UPS IN DESIGNATED PRIORITY SECTORS	15	3
NEW EXPORT ORIENTED BUSINESSES ATTRACTED TO CAPE BRETON/MULGRAVE	10	3
NEW, INCREMENTAL DIRECT INVESTMENT	\$350 MILLION	\$212.3 MILLION

Attribution Targets & Results

OBJECTIVE	ATTRIBUTION TARGETS	ATTRIBUTION RESULTS TO DATE
NUMBER OF JOBS	1,800	1,002*
NEW, INCREMENTAL EXPORT SALES/TOURISM RECEIPTS	\$350 MILLION	\$277.1 MILLION**
NEW, INCREMENTAL SALES BY CAPE BRETON/MULGRAVE BUSINESSES TO THE OIL AND GAS AND ENVIRONMENTAL REMEDIATION INDUSTRIES	\$10 MILLION	0
NEW, INCREMENTAL EXPENDITURES ON RESEARCH & DEVELOPMENT	\$10 MILLION	\$5.1 MILLION
NEW START-UPS IN DESIGNATED PRIORITY SECTORS	15	3
NEW EXPORT ORIENTED BUSINESSES ATTRACTED TO CAPE BRETON/MULGRAVE	10	3
NEW, INCREMENTAL DIRECT INVESTMENT	\$200 MILLION	\$134.7 MILLION

* number includes direct and potential jobs
** based on 5 year projections



Results to Date—Development Direction

The CBGF's results to date are best understood in the context of the development strategy the organization is pursuing. During the consultation process, the community articulated its expectation that Governments must take quick action to stabilize the economy in the face of the restructuring in the coal industry. The response of the CBGF was to concentrate early efforts on investment attraction, particularly customer interaction centres. Through these firms, the Island could attract a relatively large number of jobs in a compressed time frame.

Governments delivered on that expectation. Since March of 2000, EDS Sydney and Port Hawkesbury, Stream International, and Upsource have announced their intention to create over 2300 jobs on Cape Breton Island. All of these developments have been made possible with resources allocated to economic adjustment because of the closure of DEVCO.

Having successfully delivered on the commitment to assist in stabilization, the Board of Directors of the CBGF have now turned their attention to medium and longer-term developments. In 2001/2002, the Board placed a moratorium on consideration of any new large-scale customer interaction centres, which would draw on the same labour pool as the existing centres. The Board of Directors felt it would be prudent to allow the existing centres to ramp up to capacity before providing assistance to additional competitors in the labour market. In 2002/2003, economic development partners on Cape Breton Island will undertake a study of the Cape Breton labour market to determine its ability to sustain additional customer interaction centres.

The Board turned their attention to longer-term development and empowered management to establish sector Task Forces for each of the priority sectors. These sector Task Forces would help to establish a strategic direction for the CBGF in each sector. This work would guide the Board's investment decisions in these sectors.

This context helps to understand the results. CBGF's successful efforts to date with customer interaction centres have produced excellent results. To that end, the projects financed to date have allowed the CBGF to make strong progress on a number of results indicators such as jobs, leverage and export sales.

Global Results Report

With 17% of the monies committed, the following results have been achieved.



Job Creation

The CBGF has reached 57% of its revised job creation goal. This reflects the success the CBGF has had using investment attraction to help stabilize the Cape Breton economy through the transition from traditional industries. Despite the excellent progress on this measure, the target remains realistic given that non-commercial projects will constitute a larger percentage of future investments than they have to date.



Export Sales

The CBGF has reached 80% of its revised export sales target. Similar to the progress made on the job creation target, this reflects the CBGF development strategy to date. The high level of export sales reflects the fact that the customer interaction centres recruited to Cape Breton focus exclusively on the United States market.



Leverage

The CBGF has reached 61% of its leverage goal. This reflects the strategy pursued by the Growth Fund with the customer interaction centres. Given that, over the next year, a larger percentage of the CBGF's projects may be non-commercial, the target remains realistic.



Start-ups

The CBGF has reached 20% of its target. The start-ups have all been from firms recruited to Cape Breton Island. The CBGF still has substantial progress to make on this target. The current programming focus of the Corporation will need to be examined in order to reach the target established. The work of the knowledge-based Task Force includes examining specific measures, which could be taken to facilitate increased business start-up activity.



Firms Attracted

The CBGF has reached 30% of its target. Much progress of this target mirrors the start-ups, and has resulted in significant progress on jobs, leverage, and exports. However, work remains in this area. Since September 11, 2001, there has been a noticeable decline in the number of firms exploring Cape Breton as an investment destination. The Corporation will need to intensify recruitment activities in the coming fiscal year.



Research and Development

The CBGF has reached 20% of the target. The results to date related primarily to the Industrial Outreach Initiative undertaken in partnership with the National Research Council and the University College of Cape Breton. It is likely that the CBGF's focus on research and development related initiatives will intensify in the next two fiscal years, particularly in the knowledge-based, oil and gas, and environment sectors. To that end, the target remains achievable.



Industrial Benefits

The CBGF has not undertaken any projects, which will result in progress against this target. However, the Task Force on Industrial Benefits from Environmental Remediation completed work on examining models for industrial benefits from environmental remediation in 2001/2002. This work, along with the soon to be completed Offshore Positioning Strategy, will provide a platform for the CBGF to undertake initiatives which will contribute to securing additional industrial benefits from the oil and gas and environment sectors.

While the Corporation is very pleased with the results achieved to date relative to the targets for the fund, caution must be exercised. It is highly likely, in 2002/2003 and beyond, that a larger proportion of the CBGF's investments may be non-commercial, longer-term investments, such as infrastructure to support the growth of priority sectors. This will not produce results that parallel those of customer interaction centres. These investments remain important to the fulfillment of the Corporation's mission and will contribute significantly to economic advancement. They must be understood and evaluated in that context.

PERFORMANCE
MEASURES

Priority Sectors

The strategic priorities have been defined to include five designated priority sectors and strategic initiatives. Each sector has its own plans and priorities and a number of strategic objectives have been established for the CBGF. Each of the priority sectors will contribute to achieving the objectives and the expected results outlined for the CBGF.

Task Forces

Each of the five priority sectors has its own Task Force. The Task Forces are generally comprised of private sector representatives, industry associations, community representatives, academics, and some government partners. The Task Forces provide advice to the CBGF regarding the development direction of the priority sectors.

A sunset scene over a body of water with a dark treeline in the distance. The sun is low on the horizon, creating a reflection on the water. A large yellow circular graphic is on the right side of the slide.

Priority Sectors

Knowledge-Based

Oil & Gas Development

Tourism Development

Environmental Remediation

Arts & Culture Industries

Knowledge-based Sector

Background

Cape Breton has had some exciting successes in its knowledge-based cluster and has gained momentum in this sector. In a short time, Cape Breton Island firms have developed expertise, built international markets and captured major industry awards for products. Software developed in Cape Breton is used in 160 countries worldwide and live action and animated film and television projects have been seen in 116 countries.

The development of Cape Breton's knowledge-based sector, like the rest of the country, has been on a roller coaster ride for the past decade. While the sector in Cape Breton has momentum and has celebrated numerous successes, the events of the past two years have not been without consequences.



2001/02 Initiatives

In order to build a greater shared understanding of the current state of affairs, the Task Force began the process of commissioning a situational analysis. This work is intended to better define how the sector is positioned to take advantage of impending opportunities and develop a plan for the appropriate interventions the Corporation might take to assist in its development.

In 2001/02, the Corporation worked with a number of stakeholders to explore interest in, and the feasibility of, establishing additional incubation capacity.

“The Knowledge-based Sector will play a key role in the enhancement of the Cape Breton economy in the next ten years. We anticipate sustained growth with an acceptance by residents and investors that we have the skills, desire and vision to become a key player in this worldwide segment.”

Wilf MacNeil & Bob MacEachern
Co-Chairs
Advisory Committee Members



Major findings of the knowledge-based study include:

- There does not appear to be sufficient demand to support the establishment of a new large-scale stand alone incubation centre
- There exists some capacity in the current centres, which should be better coordinated and harnessed to bring local centres in line with industry best practices
- Existing organizations should be encouraged to work more closely to coordinate service delivery and better serve emerging enterprises
- The report specifically identifies that the best option is to attempt to strengthen the Silicon Island development by encouraging a development focus and potentially adding additional space to help it conform to best practices for incubation facilities
- The apparent lack of start-ups in the knowledge-based sector over the past few years

A vibrant knowledge-based sector requires a healthy flow of new business starts. Further, the CBGF has identified the creation of 15 start-ups as an expected result from the fund, an important issue for successful development.

During 2002/03, the CBGF will attempt to define measures and interventions, which could be used to encourage start-ups.

Task Force Members

Ken MacLeod
Jim Paris
Joan Penney
Leo MacIntosh
Bob MacKay
Sean Coyle
Murray Heggie
John Malcolm
Alice Almond
Darlene Sponagle

PRIORITY
SECTORS

Oil and Gas Development

Background

Petroleum industries are viewed as a possible significant contributor to the new economy of Cape Breton Island. Some of the largest and most well known oil and gas reserves in North America lie just offshore and the Island is well situated to serve as a supply base and fabrication centre. There is a pool of over 2,500 skilled workers with experience in trades associated with this sector.

The development of this energy source is expected to make the Province, particularly those areas serviced by gas, a more viable alternative for investment and business development. It has also served to confirm the development potential of the region with respect to offshore oil and gas.

2001/02 Initiatives

The focus for the Task Force for 2001/02 was the commissioning of a study entitled the Strait of Canso & Sydney Harbour Regions Positioning Strategy and Development Plan/Visioning Document.

The principle objectives of the study were:

To clearly define a critical path for economic growth in the Cape Breton Regional Municipality and in the Strait of Canso regions and to review how oil and gas development in Nova Scotia has impacted the Cape Breton economy.





“ I would like to thank all the members of the Oil & Gas Task Force for their efforts in helping to better position Cape Breton Island in this growing sector.”

Paul R. Chrisman, Chair, Oil & Gas Task Force
Advisory Committee Member



The Task Force participated in a one day visioning workshop in early February hosted by Gardner Pinfold, the consultants for this project. The purpose was to formulate:

- a) a common understanding of the nature and quality of the opportunities,
- b) a common view on regional potential and infrastructure needs, and
- c) a common vision on strategy and critical path.

Task Force Members

Mayor Billy Joe MacLean

Mayor Leonard MacDonald

Bernie MacDonald

Donnie MacIsaac

Bob Pelley

Les MacIntyre

Richie Cotton

Gordon MacDonald

John Whalley

Gerald MacDonald

PRIORITY
SECTORS

Tourism Development

Background

Over the past three decades, the tourism industry on Cape Breton Island has matured significantly, and is recognized as one of the most viable sectors in the Cape Breton Island economy. Renowned for its scenery and friendly people, the Island has been growing in popularity as a destination that offers the visitor a wide variety of experiences such as scenic touring, hiking, boating, golf, culture, history and festivals and events.

For 2001, the tourism industry in Nova Scotia generated revenues of \$1.22 billion. Cape Breton Island has maintained 18.7% of provincial tourism revenues, at \$228.6 million in 2001. Revenues from tourism support 6,300 direct and indirect jobs on Cape Breton Island, generating \$89.6 million in payroll.





“The Cape Breton tourism industry is excited and challenged by the potential part it will play in improving the Cape Breton economy.”



Scott MacAulay, Chair
Advisory Committee Member

Initiatives 2001/02

The Task Force determined that, as a first step, it wanted to develop a long-term vision for the tourism sector on Cape Breton Island.

The Task Force decided a tourism “Road Map” was needed to provide insight on where the Cape Breton tourism industry currently stands, in what direction it should go to achieve its full potential, and how to get there by 2008.

The overall objective of the Road Map is to:

Provide a focused vision for the Cape Breton Island tourism industry. The Road Map will contain directions and actions, which will contribute, in part, to growing Cape Breton tourism revenues to \$400 million per year by 2008. The Road Map is scheduled for completion in November 2002.

Task Force Members

- Lou Leith
- Monique Aucoin
- Brenda Martell
- Bernd Christmas
- Dennis Doyon
- Tom Forsythe
- Don Mingo
- Michele McKenzie
- John Fraser

PRIORITY
SECTORS

Environmental Remediation

Background

Environmental industries are one of the fastest growing sectors of the Canadian economy. The scale of the remediation activities on Cape Breton Island represents an opportunity for the community to help foster the growth of local environmental industries. To that end, the Cape Breton Growth Fund Corporation has identified maximizing industrial and economic benefits from environmental remediation as a priority.



2001/02 Initiatives

The Task Force on Industrial Benefits from Environmental Remediation advised the CBGF to undertake a study regarding possible models for securing industrial benefits from environmental remediation.

Under that model there are two basic areas of focus for enhancing industrial benefits:

1. contracting for major projects
2. capacity building

Contracting for Major Projects

Mechanisms for Procurement
Cape Breton Content
Size of Contracts
Schedule

Capacity Building

Human Resources
Export Development
Research, Development and Commercialization





“The hard work and dedication of Task Force on Industrial Benefits from Environmental Remediation over the past year is beginning to bare fruit. The model for industrial benefits in the environment sector which has been developed provides a solid base for launching individual initiatives which can help to grow a vibrant and sustainable environmental industries sector on Cape Breton Island.”

Edwin MacLellan, Chair
Advisory Committee Member

Task Force Members

Robert McCharles
Craig MacMullin
Lorne Martin
Pat Bates
Barry McCallum
Carl Getto
Kim Paul
Dave Forrester
R.C. (Bob) Fowler
Sterling Feener
Slawa Lamont

In the fourth quarter of 2001/02, the Task Force held a series of meetings with various government agencies and Crown corporations involved in the three major projects; SYSCO, DEVCO and Muggah Creek. This provided an opportunity to brief these organizations about the work of the Task Force and open a dialogue about potential areas for co-operation and collective action. The Corporation also briefed MP's, MLA's and municipal councilors in the Cape Breton Regional Municipality (CBRM) about the elements of the model as part of a day-long symposium on the economy and the environment.

The Task Force has also started the process of preparing advice for the CBGF Board of Directors on actions it might take to assist in the process of enhancing local economic benefits. In 2002/03, this advice will be brought forward to the Board of Directors for their consideration, and will lead to action by the Corporation.

PRIORITY
SECTORS



“As an important component of the revitalization of the Cape Breton economy, the arts and culture sector is positioned to play a significant role. The Cape Breton Growth Fund provides the flexibility to design processes that will best meet the development needs of the Arts and Culture Industries to ensure the long term sustainable growth of this diverse sector.”

Carol Beaton, Chair
Advisory Committee Member

Arts and Culture Industries

Cultural activities now constitute a noteworthy segment of Cape Breton Island's economy and, as a result, culture and arts are being recognized as an engine for economic growth.

2001/02 Initiatives

In consideration of the wide range of sub-sectors within the arts and culture industry, and as an initial step in stimulating the development of this sector, the CBGF Board of Directors requested management, staff and the Task Force undertake a Request for Project Proposals (RFPP) process.

The proposals were to focus on the development of arts and culture initiatives that would create long-term sustainable jobs, encourage business start-ups, business expansions, access to capital, encouragement of greater participation, mentorship/skill development and supporting infrastructure.

This unique approach to stimulating the development of this sector is in response to the diverse nature of the arts and culture industry and the limitations of existing funding programs to accommodate long-term sustainable growth.

Following this first round of proposals for consideration by the Growth Fund Board, an evaluation will be undertaken to determine the success of this initiative.

Task Force Members

- Rodney Chaisson
- Joan Weeks
- Mathias Poirier
- Bill MacNeil
- Fred Lavery
- Ron Caplan
- Paula Davis

A background image showing a sunset or sunrise over a body of water. The sky is a mix of orange, pink, and blue. In the foreground, there is a dark silhouette of a lighthouse on a small island or headland. The water is calm and reflects the colors of the sky.

Corporate Profile

Organizational Structure

Governance

Organizational Structure

The Corporation is directed by a five person Board of Directors.



John McLennan
Chair



George MacDonald, Q.C.



John MacDonald



Margo Buchanan



Rick Beaton
Chief Executive Officer

The Board of Directors has established two committees to assist it with its functions, the Audit Committee and the Community Advisory Committee.

The Audit Committee:

assists the Board in fulfilling its oversight responsibilities with respect to the financial reports and other financial information provided by the Corporation, the Corporation's system of internal controls, and the Corporation's audit, accounting, and financial reporting processes generally.

Members:

Margo Buchanan, Chair
John McLennan
Rick Beaton

Community Advisory Committee:

provides feedback and advice to the Board about development strategy, policy, and program development respecting the use of the fund.

The Community Advisory Committee undertakes its function using a number of sector Task Forces.

Members:

Colleen Tobin	Bob MacEachern
Edwin MacLellan	Alastair MacLeod
Scott MacAulay	Mathias Poirier
Paul Crissman	Carol Beaton
Wilf MacNeil	



Position within the Government

The CBGF has been created as a subsidiary of ECBC, a federal Crown corporation with a mandate for economic development on Cape Breton Island and the Mulgrave area. The CBGF is a wholly owned subsidiary of ECBC. As such, it is vested with the same broad economic mandate and flexible powers. Although established as a wholly-owned subsidiary, the CBGF has been deemed to be a parent Crown corporation for the purposes of Part X of the *Financial Administration Act* and therefore has its own Board of Directors and reports separately to Parliament through its own corporate plan and annual report. This ensures that there will be no confusion between the strategy, planned activities and results of the CBGF and those of ECBC.

The Board of Directors for the CBGF is appointed by Governor-in-Council on the recommendation of the Minister of Industry. The Board has full authority over the acceptance or rejection of projects.

The CBGF reports to Parliament through the Minister of Industry, who is supported by a Minister of State.



Staff

Mark Frison *Director of Operations*
Eric Robichaud *Development Officer*
Colleen Wheeliker *Administrative Clerk*
Barbara Stead-Coyle *Communications Officer*
Cathy MacKenzie *Development Officer*
Mary MacMullin *Executive Assistant*
Rick Beaton *Chief Executive Officer*
Howard Lake *Development Officer*

Clockwise from bottom left



Message from Premier

“As Premier, I am proud to say that, through the Cape Breton Growth Fund and numerous other initiatives, we are keeping our word to Cape Bretoners.”

Our government's participation in the Cape Breton Growth Fund is a key tool towards building a brighter future for the people of Cape Breton. Already, we are starting to see some of the benefits of this new approach with reports that employment levels in Cape Breton are at their highest level in 15 years.”

The Honourable John F. Hamm

Contribution Agreement with Province of Nova Scotia

The Province has provided a contribution of \$12 million to the CBGF. A contribution agreement has been put in place that details the terms and conditions under which the Corporation will invest the \$12 million.

Operating Context

The administrative costs related to the operation of the CBGF will be sourced from the interest generated by the investment of the fund until it is dispersed. If the interest generated is insufficient to offset the administrative costs then ECBC will cover the costs through existing reference levels.

Memorandum of Understanding with ECBC

The CBGF has entered into a Memorandum of Understanding with ECBC to provide secretariat and operational support. This eliminates the potential for overlap and duplication between the two and minimizes administrative costs.

Timing

The Corporation will cease to exist once all monies (including monies provided by the Province of Nova Scotia) are committed. The Articles of Incorporation specifically provide that any assets or liabilities outstanding when the Corporation is wound up will fall under the responsibility of ECBC, the sole shareholder. This will include any surplus funds or receivables generated by the Corporation's investments. This ensures that these monies can be reinvested in the Cape Breton community, thus maximizing the potential impact of the Fund.



Memorandum of Understanding with HRDC

“Human Resources Development Canada (HRDC) is pleased to recognize the efforts of the Cape Breton Growth Fund, which supports HRDC's social and labour market efforts in Cape Breton. The CBGF offers a proactive approach to working with the citizens of Cape Breton to rebuild the economy.”

Howard Green
Regional Director General
Human Resources Development Canada



Financial Statements

Cape Breton Growth Fund Corporation

March 31, 2002

Management's Responsibility for Financial Reporting

The accompanying financial statements of Cape Breton Growth Fund Corporation and all information in this annual report have been prepared by the Corporation's management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements, where appropriate. Where there is more than one acceptable accounting alternative, management has chosen the one that is most appropriate to the circumstances of the Corporation.

Management is responsible for the integrity and objectivity of the information in the financial statements and annual report. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized and comply with relevant authorities, assets are safeguarded, and proper records are maintained to produce timely, reliable financial statements. In addition, the Audit Committee of the Board of Directors oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

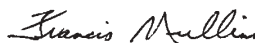
The Audit Committee of the Board of Directors has periodic meetings with management and the independent auditors to discuss the financial reporting process as well as accounting and reporting issues. The financial statements have been reviewed and approved by the Board of Directors upon the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the financial statements of the Corporation in order to express her opinion thereon.

May 17, 2002



Rick Beaton
Chief Executive Officer



Francis Mullins
Treasurer

Auditor's Report

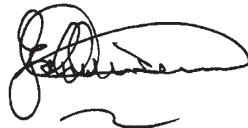
To the Minister for the purposes of the *Atlantic Canada Opportunities Agency Act*

I have audited the balance sheet of Cape Breton Growth Fund Corporation as at March 31, 2002 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2002 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*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding period.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Enterprise Cape Breton Corporation Act*, the *Canada Business Corporations Act* and the articles and the by-laws of the Corporation.



John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 17, 2002

Balance Sheet

as at March 31, 2002

	<u>2002</u>	<u>2001</u>
<u>ASSETS</u>		
Current assets:		
Cash (note 3)	\$ 40,731,679	\$ 18,033,961
Interest receivable	73,037	78,105
Accounts receivable	<u>14,659</u>	<u>15,000</u>
	40,819,375	18,127,066
Loans (note 4)	475,000	-
Capital assets (note 5)	<u>29,456</u>	<u>45,533</u>
	<u>\$ 41,323,831</u>	<u>\$ 18,172,599</u>

LIABILITIES

Accounts payable and accrued liabilities (note 6)	\$ 2,798,504	\$ 180,436
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SHAREHOLDER'S EQUITY

Share capital (note 7)	1	1
Retained earnings	<u>38,525,326</u>	<u>17,992,162</u>
	<u>\$ 41,323,831</u>	<u>\$ 18,172,599</u>

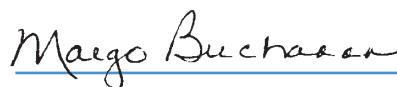
Commitment (note 8)

See accompanying notes to the financial statements.

Approved by the Board of Directors:



Director



Director

Statement of Operations and Retained Earnings

For the Year Ended March 31, 2002

	<u>2002</u>	<u>For the seven months ended 2001</u>
Program expenses (note 4)	\$ 7,642,949	\$ -
Program support and administrative expenses		
Salaries (note 9)	776,673	217,189
Other operating costs (note 9)	487,482	79,390
Amortization	<u>18,925</u>	<u>9,107</u>
	<u>1,283,080</u>	<u>305,686</u>
Total expenses	8,926,029	305,686
Interest income (note 3)	<u>1,359,193</u>	<u>257,920</u>
Net loss before government funding	<u>7,566,836</u>	<u>47,766</u>
Government funding		
Government of Canada contribution (note 9)	25,030,000	15,015,000
Province of Nova Scotia contribution	3,000,000	3,000,000
Service provided without charge (note 9)	<u>70,000</u>	<u>24,928</u>
	<u>28,100,000</u>	<u>18,039,928</u>
Net income after government funding	20,533,164	17,992,162
Retained earnings, beginning of period	<u>17,992,162</u>	-
Retained earnings, end of period	<u>\$ 38,525,326</u>	<u>\$ 17,992,162</u>

See accompanying notes to the financial statements.

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Statement of Cash Flows

For the Year Ended March 31, 2002

	<u>2002</u>	<u>For the seven months ended 2001</u>
Cash flows from (used in) operating activities		
Government of Canada contribution	\$ 25,045,000	\$ 15,000,000
Province of Nova Scotia contribution	3,000,000	3,000,000
Interest received	1,364,261	179,815
Payments made for program expenses	(5,183,118)	-
Payments made for administrative support	<u>(1,050,577)</u>	<u>(91,215)</u>
	<u>23,175,566</u>	<u>18,088,600</u>
Cash flows used in investing activities		
Purchase of capital assets	(2,848)	(54,640)
Loan disbursements	<u>(475,000)</u>	<u>-</u>
	<u>(477,848)</u>	<u>(54,640)</u>
Net increase in cash	22,697,718	18,033,960
Cash flow from financing activities		
Issue of share	-	1
Cash, beginning of period	<u>18,033,961</u>	<u>-</u>
Cash, end of period	<u>\$ 40,731,679</u>	<u>\$ 18,033,961</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

March 31, 2002

1. Authority and objectives

The Cape Breton Growth Fund Corporation was incorporated on August 25, 2000 under the *Canada Business Corporations Act* as a wholly owned subsidiary of Enterprise Cape Breton Corporation. The Corporation was created to administer federal and provincial funding designed to assist in the adjustment of the local economy as a result of the Government of Canada's decision to close or privatize its coal mines in Cape Breton. The Governor in Council has directed that Part X of the *Financial Administration Act* applies to the Cape Breton Growth Fund Corporation as if it is a parent Crown corporation.

The Corporation has the same mandate as Enterprise Cape Breton Corporation (ECBC):

The objects of the Corporation are to promote and assist, either alone or in conjunction with any person or the Government of Canada or of Nova Scotia or any agency of either of those governments, the financing and development of industry on Cape Breton Island to provide employment outside the coal producing industry and to broaden the base of the economy of Cape Breton Island.

The Corporation has entered into memoranda of understanding with Enterprise Cape Breton Corporation, the Province of Nova Scotia and Human Resources Development Canada (HRDC) that govern the amounts and uses of funding. The Governor in Council has directed that after the Corporation's funding is fully committed, the remaining assets and liabilities are to be transferred to Enterprise Cape Breton Corporation and the Corporation is to be dissolved.

2. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

a) Government funding

Contributions from the Government of Canada and the Province of Nova Scotia are recorded as funding in the Statement of Operations and Retained Earnings in the year approved. Treasury Board has granted the Corporation an exemption from the Drawdown Policy for Crown Corporation Funding permitting it to retain all funds advanced.

b) Loans

Loans are recorded at the lower of cost and estimated net realizable value. Loans initially granted at a zero interest rate are recorded at the nominal amount of the loan. This reflects a zero cost of capital for these loans because they are funded by appropriations provided by the Government of Canada.

Certain loans are conditionally repayable as stipulated in the loan contract. The amount of the conditional repayable loans and contributions is charged to operations when the loan is issued. If terms and conditions are not fulfilled, the conditional repayable amounts become receivable and any estimated recovery is reflected as a credit in the Statement of Operations and Retained Earnings.

Loans are written off after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is unlikely.

c) Allowance for impairment

Loans are classified as impaired when, in the opinion of management, there is reasonable doubt as to the timely collection of the full amount of principal and where applicable, interest. A specific allowance is established to reduce the recorded value of the loan to its estimated net realizable value if there is doubt as to the timely collection on a particular loan. Impaired loans are measured according to their estimated realizable amounts by discounting expected future cash flows at the effective interest rate inherent in the loans. For loans granted with a zero interest rate, impairment is calculated based on the expected future cash flows using the zero percent rate associated with the loan. When future cash flows cannot be estimated with reasonable reliability, the estimated realizable amounts are measured at the fair value of any security underlying the loans, net of any expected costs of realization.

Initial and subsequent changes in the amount of impairment are recorded as a charge or credit to the allowance for loan impairment.

d) Capital assets

Capital assets are recorded at cost and amortized on a straight-line basis over the lesser of the estimated useful life of the assets or the expected life of the Corporation.

e) Employee future benefits

Pursuant to the memoranda of understanding, all employees are seconded to the Cape Breton Growth Fund Corporation from other federal and provincial government organizations. The Cape Breton Growth Fund Corporation either reimburses these government organizations for the full cost of these services, including benefits, or the services provided without charge. Consequently, there is no liability for any expected employee future benefits.

f) Interest income

Interest income is recorded on the accrual basis, and represents a return on the bank account balance.

g) Services provided without charge

The Corporation receives without charge the services of an employee of Human Resources Development Canada. The estimated full cost of these services is recognized in salaries expense and government funding.

3. Cash

The Corporation maintains current account balances in a Canadian chartered bank at prevailing market rates.

4. Loans

As at March 31, 2002 the Corporation had one loan for \$475,000 (2001 – Nil) at 0% interest rate. This loan was issued in order to promote economic development to support the corporate mandate. The allowance for loan impairment is Nil (2001 – Nil).

The fair value of the loan is determined using expected future cash flows discounted at the Consolidated Revenue Fund lending rate to Crown corporations. The estimated fair value of the loan is \$380,000 (2001 – Nil).

Repayment dates of the loan are as follows:

Date Due	2002			2001
	Amount Due	Allowance	Carrying Value	Carrying Value
2003	\$ 71,253	-	\$ 71,253	-
2004	95,004	-	95,004	-
2005	95,004	-	95,004	-
2006	95,004	-	95,004	-
2007 & beyond	118,735	-	118,735	-
	<u>\$ 475,000</u>	<u>-</u>	<u>\$ 475,000</u>	<u>-</u>

Conditional repayable contributions totaling \$7.6 million (2001 – Nil) are included in program expenses on the statement of operations and retained earnings.

If the terms and conditions of the conditional repayable contributions are not met, the amounts will become due and payable. Any amounts that would be recorded at that time would be net of any required allowance for loan impairment.

5. Capital assets

	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment, furniture and leasehold	<u>\$ 57,488</u>	<u>\$ 28,032</u>	<u>\$ 29,456</u>	<u>\$ 45,533</u>

6. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of:

	2002	2001
Due to Enterprise Cape Breton Corporation	\$ 213,167	\$ 160,244
Due to Province of Nova Scotia	81,391	12,636
Program expenses payable	<u>2,503,946</u>	<u>7,556</u>
	<u>\$ 2,798,504</u>	<u>\$ 180,436</u>

The amounts due to Enterprise Cape Breton Corporation relate to services provided to the Cape Breton Growth Fund Corporation pursuant to the memorandum of understanding. Other payables and accrued liabilities are subject to normal commercial conditions.

7. Share capital

The Corporation is authorized to issue one common share without par value. This share was issued to Enterprise Cape Breton Corporation at a cost of \$1.

8. Commitment

As of March 31, 2002, the Corporation had outstanding commitments for development programs in the amount of \$5.7 million (2001 - \$2.5 million).

9. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

These financial statements reflect the following additional transactions with related parties:

a) Pursuant to a memorandum of understanding, the financial statements reflect the following transactions with ECBC:

- Included in program support and administrative expenses are services totaling \$762,935 provided by and reimbursable to ECBC.
- Included in government funding is a \$25 million contribution from ECBC.

b) Pursuant to a memorandum of understanding, the financial statements reflect the following transactions with HRDC:

- Included in government funding is a contribution from HRDC of \$30,000.
- Included in both salaries expense and government funding are the services provided without charge of an employee valued at \$70,000.