

INVESTING TODAY FOR A BRIGHTER TOMORROW



CAPE BRETON GROWTH FUND CORPORATION

ANNUAL REPORT

2002.03



FOCUS INVEST PROSPER



Cape Breton Growth Fund Corporation
Corporation fonds d'investissement du Cap-Breton

Canada 

 NOVA SCOTIA

INVESTING TODAY FOR A BRIGHTER TOMORROW

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The Government of Canada is extremely pleased with the accomplishments of the Cape Breton Growth Fund Corporation. Its results to date demonstrate that this innovative and focused approach to economic development, coupled with the incredible spirit and resourcefulness of Cape Bretoners, will lead to prosperity throughout the Island for generations to come.

The Honourable Gerry Byrne, P.C., M.P.
Minister of State
Responsible for the
Cape Breton Growth Fund Corporation



The Government of Nova Scotia is proud to be a continuing part of the Cape Breton Growth Fund.

Over the past year we have made many investments in the future of Cape Breton Island. Our growth strategy recognizes the challenges and opportunities of the Island economy. We believe in long-term solutions, including prosperity, and creating more jobs right here at home.

Nova Scotia is growing, and with the help of the Cape Breton Growth Fund, Cape Breton is an essential part of that growth.

The Honourable John F. Hamm
Premier of Nova Scotia

The Honourable Gerry Byrne, P.C., M.P.
Minister of State
Responsible for the Cape Breton Growth Fund Corporation
House of Commons
Ottawa, Ontario K1A 0A6

Dear Minister:

On behalf of the Board of Directors, I am pleased to present the annual report for the Cape Breton Growth Fund Corporation for the fiscal year ending March 31, 2003.

This annual report is submitted in accordance with the provisions of the *Financial Administration Act* and the *Government Organization Act, Atlantic Canada, 1987*. It contains the annual financial statements together with the auditor's report thereon.

Yours sincerely,

John McLennan
Chair

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

MANDATE

The objectives 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.

MESSAGE FROM THE CHAIR



We must remain focused on our goals.

As Chair of the Board of Directors, I am proud to deliver the 2002/03 Cape Breton Growth Fund Corporation's (CBGF) annual report, which highlights our activities and progress during the last year.

With the support of the Government of Canada and the Province of Nova Scotia, we have been able to make a significant contribution to the economic transition taking place in Cape Breton.

The theme of this year's report is *Focus, Invest and Prosper* as we feel it best represents our raison d'être. From the beginning of incorporation, the CBGF has remained focused on its short-, medium- and long-term objectives, which includes creating employment, increasing trade and export activity, ensuring benefits from oil and gas development and environmental remediation, helping local companies with access to the capital required to grow, attracting new investment into Cape Breton, and investing in infrastructure.

Throughout 2002/03 we have continued to invest in five priority sectors: arts and culture, environmental remediation, knowledge-based industries, oil and gas development, and tourism development, with the vision of creating prosperity for all Cape Bretoners.

In 2002/03, the CBGF committed \$23.8 million to 15 projects bringing the total invested to date to \$46.2 million. These projects leveraged an additional \$48 million and created 297 jobs, bringing the total number of jobs created to date to 2,815. This year's projects all demonstrated their ability to be a significant contributor to the economy of Cape Breton.

In 2002/03, we also saw proof that some of our previous investments are truly making an impact on the economy. Our investments in EDS Sydney and Port Hawkesbury, Stream International and Upsource customer interaction centres were not widely accepted at first, but in 2002/03, a study titled *Socio-Economic Impact Analysis of the Tele-Service Industry on Cape Breton* brought forward some interesting statistics. Today these companies are responsible for 3,466 full-time equivalent positions and have paid out \$84.9 million in operational expenditures in 2002 alone. In 2002, these centres contributed \$11.9 million in federal fiscal benefits and \$9.4 million in

provincial benefits. This is further proof that our focused approach to attracting these centres as a first step was indeed an important stabilizing factor for the Cape Breton economy.

Cape Breton's economic picture is brighter today than it has been in a very long time. Employment numbers are up; unemployment is at an all time low, and people who had given up hope of finding a job are re-entering the job market. These are all signs that we are heading in the right direction.

STRATEGIC OBJECTIVES

TRADE
RESEARCH & DEVELOPMENT
COMMERCIALIZATION
ACCESS TO CAPITAL
DIRECT INVESTMENT
INFRASTRUCTURE DEVELOPMENT
INDUSTRIAL BENEFITS

The CBGF takes its role as an economic developer very seriously, and although we are pleased with what we have been able to accomplish to date, we recognize that we have much more work ahead of us.

As 2003 moves along, the CBGF will continue with its mission and work in partnership with public and private stakeholders to seek out investment opportunities that will ultimately result in prosperity for the Island for many years to come.

On behalf of the Board of Directors, I would like to extend our gratitude to the people of Cape Breton, who remain the Island's greatest resource. You have continued to demonstrate your determination, loyalty and love of life, and this will serve you well as Cape Breton repositions itself for a bright and prosperous future.



JOHN MCLENNAN
Chair

MESSAGE FROM THE CEO



With a new energy and spirit of optimism, we move into 2003/04 with the vision of attracting new investment that will secure higher-paying positions, create more opportunities for our youth, and foster new growth and development in our local companies.

2002/03 was an extremely exciting year for those of us who live in Cape Breton. New businesses opened, new groups formed and new investment-attraction activities all helped to bring unemployment to its lowest recorded level in history. This gives me great confidence that we are well on our way to economic prosperity.

With \$46.2 million of the \$98 million economic adjustment fund committed, we have reached the half way point in our mandate.

As many of you know, once this money is fully committed the CBGF will cease to exist and, hopefully, we will have created a legacy for generations to come. This is why the Board and management are not rushing to commit the funds, but rather we are focusing on choosing those projects that will ensure long-term sustainability and job-creation.

In 2002/03, we invested in projects that address the outward migration of youth, offer support to young, technology-based companies, and offer solutions to capacity building and skills upgrading for locally based employers. Youth-based programs such as the Industrial Outreach Initiative and the Environmental Skills Internship offer youth interesting and challenging career choices.

The CBGF committed \$4.6 million to four locally owned and operated companies, 4eversports, Crossoff, Techlink Entertainment, and Virtual Media Productions. These four companies have demonstrated entrepreneurial spirit and dedication to making their success happen here and are fine examples of what can be achieved. Our equity investment will help these companies achieve their growth targets and create job opportunities for Cape Bretoners in key sectors.

The CBGF demonstrated its ongoing support for the arts and culture sector by committing \$6.5 million to four projects. Projects such as the Glace Bay Miners' Museum and the Port Hawkesbury Trade and Exhibition Centre will ensure a showcase for our rich heritage. We also took steps to find innovative ways to provide support to smaller arts and culture operators. The Professional Development Program (PDP) will provide artists with access to a wide range of services that will help them to strengthen their businesses.

The CBGF also announced \$1.25 million for the Strait of Canso Superport Corporation Limited, a project that will provide the infrastructure necessary to serve the supply-base needs of Nova Scotia's offshore oil and gas industry. We believe that this investment will better position Cape Breton to benefit from future exploration activities.

Tourism development continues to attract interest from people all over the Island. Cape Breton has a number of world-class assets including the Cabot Trail, the Bras d'Or Lakes and the Fab Four golf courses. To ensure that the CBGF makes the best investments, in 2002, we undertook the development of a Tourism Road Map, which is an aggressive development strategy that will seek to double tourism

PRINCIPLES FOR THE FUND

LEVERAGE

FOCUS ON LONG-TERM SUSTAINABLE GROWTH

INCREMENTAL TO EXISTING PROGRAMMING

JOB CREATION

RESULTS MANAGEMENT

revenues to \$400 million in four years. This project includes insight on where the Cape Breton tourism industry currently stands, what direction it should go to achieve its full potential, and how to get there by 2008.

The CBGF is about more than projects; we believe we have a responsibility to help develop a positive atmosphere and outlook that will instill a sense of confidence and pride. Initiatives such as the 2002 Cape Breton International Business Summit held in Baddeck in October, and the Power of Cape Breton dinner held in Halifax in February, have generated significant positive momentum.

To further support these efforts, the CBGF partnered with Enterprise Cape Breton Corporation (ECBC) and the Sydney and Area and Strait Area chambers of commerce to create a streamlined approach to marketing and investment-attraction efforts. A branding exercise saw the creation of The Power of Cape Breton. This new brand now adorns high-quality marketing and investment materials that will be used by all economic development agencies in Cape Breton and will create a unified approach to investment attraction.

So with a new energy and spirit of optimism, we move into 2003/04 with the vision of attracting new investment that will secure higher-paying positions, create more opportunities for our youth, and foster new growth and development in our local companies.

I would like to extend my deepest gratitude to the volunteers of the five sector task forces. Their support and guidance has allowed us to focus our efforts into those areas that offer the most promise for investment and, ultimately, prosperity.

And finally, I wish to thank the citizens of Cape Breton who have remained here through the rough times and will benefit from the prosperity ahead. The CBGF will continue investing to ensure a brighter tomorrow.



RICK BEATON
Chief Executive Officer

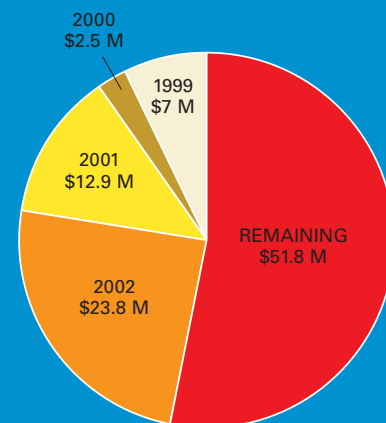
FOCUSED ON results

GLOBAL TARGETS AND RESULTS

	FISCAL 2000/01	FISCAL 2001/02	FISCAL 2002/03	RESULTS TO DATE*	TARGET*
Estimated Jobs Created **	450	1,092	297	1,839	2,700
New, Incremental Export Sales ***	107 M	292 M	313 M	712 M	500 M
Incremental Direct Investment	57.9 M	154.4 M	48.5 M	260.8 M	350 M
New, Incremental R&D Expenditures	—	6.0 M	1.4 M	7.4 M	30 M
New Sales to Target Industries	—	—	4.5 M	4.5 M	15 M
New Start-ups	1	2	1	4	15
New Export- Oriented Businesses	1	2	1	4	10

CBGF FUND SNAPSHOT

		TOTAL JOBS CREATED
Transition Fund	\$86,000,000	
Provincial Contribution	\$12,000,000	
	<u>\$98,000,000</u>	
Used for EDS Sydney	\$ 7,000,000	1,166
2000/01 Commitments	\$ 2,500,000	282
2001/02 Commitments	\$12,960,000	1,070
2002/03 Commitments	\$23,802,000	297
Total Remaining for Investment	\$51,738,000	
	<u>\$98,000,000</u>	<u>2,815 ****</u>



* Targets and Results are forecasted based on \$91 million. 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.

** Numbers include both direct and potential jobs

*** Based on five-year projections

**** Total jobs created. Includes estimated and actual jobs created, and EDS Sydney

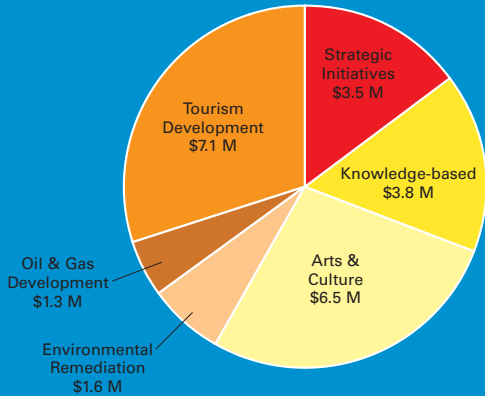
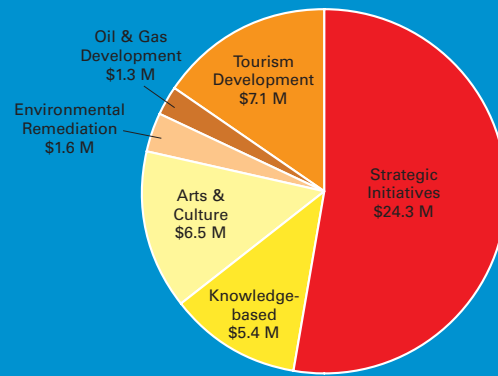
INVESTMENT BY SECTOR

\$23.8 MILLION

2002 – 2003

(includes announced and unannounced)

- Strategic Initiatives \$3.5 M
- Knowledge-based \$3.8 M
- Arts & Culture \$6.5 M
- Environmental Remediation \$1.6 M
- Oil & Gas Development \$1.3 M
- Tourism Development \$7.1 M



INVESTMENTS TO DATE

\$46.2 MILLION

(includes announced and unannounced)

- Strategic Initiatives \$24.3 M
- Knowledge-based \$5.4 M
- Arts & Culture \$6.5 M
- Environmental Remediation \$1.6 M
- Oil & Gas Development \$1.3 M
- Tourism Development \$7.1 M

2002/03 RESULTS

PROJECT	ASSISTANCE	JOBS	NEW EXPORT SALES	NEW SALES TO TARGET INDUSTRIES	NEW DIRECT INVESTMENT	NEW EXPENDITURES ON R&D	NEW START-UPS	NEW EXPORTERS
Glance Bay Miners' Museum	\$2.5 M	6	\$644,000		\$5.9 M			
Port Hawkesbury Trade and Exhibition Centre	\$2.5 M	4			\$9.9 M			
Professional Development Program	\$750,000				\$250,000			
Virtual Media Productions	\$750,000	25	\$2.6 M		\$185,000	\$187,000		
Environmental Skills Internship	\$1.6 M	30		\$4.5 M	\$2.8 M			
4eversports	\$2.0 M	43	\$26.4 M			\$1.2 M		
CrossOff Incorporated	\$1.1 M	10			\$2.9 M			
Techlink Entertainment	\$706,000	50	\$103 M		\$2.3 M			
Superport Corporation	\$1.25 M	2			\$3.7 M			
Belle Côte Resort	\$2.0 M	78	\$3.1 M		\$3.7 M		1	1
Links of Inverness	\$40,000				\$40,000			
Membertou Trade and Commerce Centre	\$2.1 M	17	\$2.4 M		\$4.1 M			
Sydney Marine Terminal	\$3.0 M		\$5.0 M		\$3.4 M			
Ocean Nutrition Canada	\$2.0 M	20	\$169.2 M		\$6.0 M			
Scotsburn Dairy Group	\$1.5 M	12			\$3.0 M			

PROJECTS BY COMMUNITY

The CBGF is focused on ensuring that all communities in Cape Breton and Mulgrave benefit from the funds available.

To date, we have invested (or conditionally committed) in projects that directly impact seven communities; three projects are considered Island-wide.

In 2003/04, we will continue to look for projects that will create employment for all areas of Cape Breton.

SYDNEY

4EverSports
Co-op Atlantic
Cross Off Inc.
EDS Sydney
Techlink International Entertainment
Scotsburn Cooperative
Sydney Marine Terminal Redevelopment
Virtual Media Production

MEMBERTOU

Membertou Trade and Commerce Centre

GLACE BAY

Stream International
Glace Bay Miners' Museum

CHETICAMP

La Co-operative Radio Cheticamp Lte

NORTH SYDNEY

Upsource

INVERNESS

Links of Inverness
Belle Cote Resort

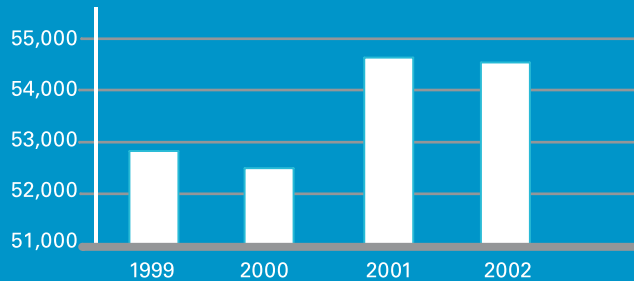
PORT HAWKESBURY | MULGRAVE

EDS Port Hawkesbury
Trade and Exposition Centre
Strait of Canso Superport
Ocean Nutrition Canada

ISLAND WIDE

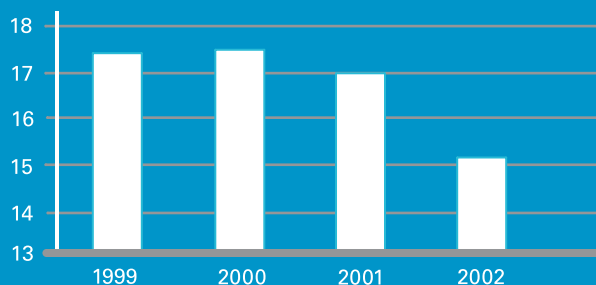
Industrial Outreach Initiative
Environmental Skills Initiative
Arts and Culture Professional Development

EMPLOYMENT
steadily growing



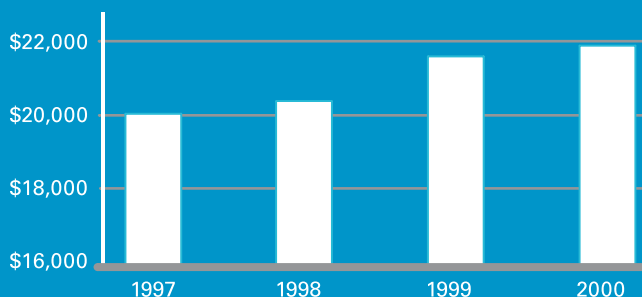
The CBGF's investments are having a positive impact on Cape Breton.

UNEMPLOYMENT RATE
steadily decreasing

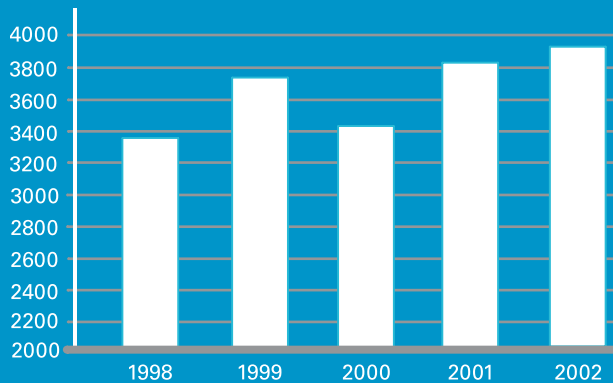


We are clearly on the path to a brighter, stronger and more diversified economy, and all economic indicators point to a prosperous future.

INCOME PER WAGE EARNER
steadily increasing



GROSS DOMESTIC PRODUCT
(in millions of dollars)
steadily increasing



performance

a new

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 and development
- 15 new start-ups in designated priority sectors
- five new export-oriented businesses attracted to Cape Breton/Mulgrave
- \$50 million in new, incremental, direct investment

The CBGF made a commitment to develop an accountability and evaluation framework, which would serve to guide the Corporation's performance-management activities. 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 our results.

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 this 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 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
Total Jobs Created	1,000

$$\text{Attribution Results Targets} = \frac{1,000 \text{ (Jobs)} \times \$8,000,000 \text{ (CBGF)}}{\$100,000,000 \text{ (Total Partner Funding)}} = 800 \text{ Attributed Jobs (CBGF)}$$

$$\text{Global Results Targets} = 800 \text{ Attributed Jobs (CBGF)} + 200 \text{ Other Partner Jobs} = 1,000 \text{ Global Jobs}$$

framework established

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.

DEVELOPMENT DIRECTION

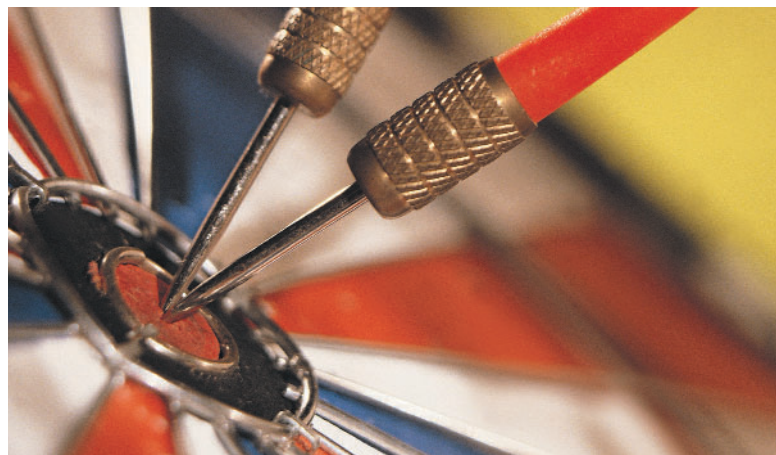
The CBGF results to date are consistent with the development strategy that was envisioned by the organization. The creation of new jobs, mostly at customer interaction centres, has stabilized the economy and has allowed the organization to focus on other sectors and areas of interest.

The past years have been witness to the successful ramp up and expansion of two international customer interaction centres. Stream International and EDS Canada have fulfilled and exceed their commitment to create jobs in Cape Breton. Combined, they employ over 2,400 individuals who enjoy full-time work with a full benefit package. Retail businesses, restaurants and car dealerships have reported increased sales and local dentists and pharmacists have seen a dramatic uptake of their services. These types of spin-off economic activities are difficult to predict but demonstrate additional support for these projects.

The past year has seen some investment in local companies. Four local companies received assistance from the CBGF in 2002/03. These companies are involved in research and development and have demonstrated promising growth. Support of companies at home is important to the public as it shows commitment to local talent and instills confidence in other potential stakeholders.

Other projects include important infrastructure projects identified as strategic in the tourism road map report commissioned by the CBGF. The task forces for the priority sectors have presented their findings and priorities to the Board. The Board is now committed to focusing its efforts and decision-making with these priorities foremost in mind.

The progress of the CBGF towards achieving its targets is well under way, but by no means complete. The next year promises to offer an interesting array of projects for both commercial and non-commercial companies. There is a heightened interest in the CBGF by companies looking to locate in an area with a dedicated and skilled workforce.



TARGET COMPARISONS

OBJECTIVE	ORIGINAL TARGETS	NEW GLOBAL TARGETS	NEW ATTRIBUTION TARGETS
NUMBER OF JOBS	1,000	2,700	1,800
NEW, INCREMENTAL EXPORT SALES/TOURISM RECEIPTS	\$50 M	\$500 M	\$350 M
NEW, INCREMENTAL SALES TO TARGET INDUSTRIES	\$10 M	\$15 M	\$10 M
NEW, INCREMENTAL EXPENDITURES ON R&D	\$5 M	\$30 M	\$10 M
NEW, INCREMENTAL DIRECT INVESTMENT	\$50 M	\$350 M	\$200 M
NEW START-UPS IN DESIGNATED PRIORITY SECTORS	15	15	15
NEW EXPORT-ORIENTED BUSINESSES ATTRACTED TO CAPE BRETON/MULGRAVE	5	10	10

GLOBAL TARGETS & RESULTS

OBJECTIVE	TARGETS	RESULTS TO DATE
NUMBER OF JOBS	2,700	1,839*
NEW, INCREMENTAL EXPORT SALES/TOURISM RECEIPTS	\$500 M	\$712 M**
NEW, INCREMENTAL SALES TO TARGET INDUSTRIES	\$15 M	\$4.5 M
NEW, INCREMENTAL EXPENDITURES ON R&D	\$30 M	\$7.4 M
NEW, INCREMENTAL DIRECT INVESTMENT	\$350 M	\$260.8 M
NEW START-UPS IN DESIGNATED PRIORITY SECTORS	15	4
NEW EXPORT-ORIENTED BUSINESSES ATTRACTED TO CAPE BRETON/MULGRAVE	10	4

ATTRIBUTION TARGETS & RESULTS

OBJECTIVE	TARGETS	RESULTS TO DATE
NUMBER OF JOBS	1,800	1,251 *
NEW, INCREMENTAL EXPORT SALES/TOURISM RECEIPTS	\$350 M	\$534.6 M**
NEW, INCREMENTAL SALES TO TARGET INDUSTRIES	\$10 M	\$4.5 M
NEW, INCREMENTAL EXPENDITURES ON R&D	\$10 M	\$6.5 M
NEW, INCREMENTAL DIRECT INVESTMENT	\$200 M	\$163 M
NEW START-UPS IN DESIGNATED PRIORITY SECTORS	15	4
NEW EXPORT-ORIENTED BUSINESSES ATTRACTED TO CAPE BRETON/MULGRAVE	10	4

* number includes direct and potential jobs

** based on five-year projections

GLOBAL RESULTS REPORT

With 47% of the monies committed, the following results have been achieved.

ICONS



BREAK OF DAWN

starting to make progress



SUNRISE

some progress has been made



FULL SUN

significant progress has been made



JOB CREATION

The CBGF, in year three of its mandate, has reached 68% of its job-creation target. The results to date are in large part due to the successful growth of the customer interaction centres. Future investments will yield fewer jobs for each dollar invested; however, they will provide a diversity of growth in both commercial and non-commercial developments.



EXPORT SALES

The CBGF has exceeded its revised export sales target by 42%. Again, the results are in large part due to the positive results of the customer interaction centres. The export of services to United States firms has proven to be a highly successful and productive business. Other investments in the past year have yielded export sales much less significant; however, these companies are in the early stages of their life cycle and offer promising growth in export sales.



INCREMENTAL DIRECT INVESTMENT

The CBGF has reached 74% of its leverage goal. Ongoing activity and potential prospects are promising, and with over 50% of the funds yet to be committed, the target is realistic.



START-UPS & NEW EXPORTERS

The CBGF has reached 27% of its target for start-ups and 40% of its target for firms attracted. Although there has been limited progress in these areas in the current fiscal year, activity late in the year will see an increased number of start-ups and new firms attracted to the Cape Breton and Mulgrave areas. Prospecting activities during the year will yield results in 2003/2004, and therefore, the targets for both start-ups and new firms attracted appear realistic.



RESEARCH AND DEVELOPMENT

The CBGF has reached 25% of its target. The past year four approved projects have a research and development component and are contributing to the progress on this target. With current potential activity and past project approvals, the target for research and development expenditures will likely be exceeded.



NEW SALES TO TARGET INDUSTRIES

The CBGF has reached 30% of its target. 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 *Offshore Positioning Strategy*, will provide a platform for the CBGF to undertake initiatives that will contribute to securing additional industrial benefits from the oil and gas and environment sectors.

FOCUSED ON

arts & culture



Imagine a Cape Breton that had no fiddles or singing, no storytelling or dancing, no expression of who we are.

This is impossible because arts and culture are embedded in our lives; it is what we are known for and why people come to visit and experience our “living culture”.

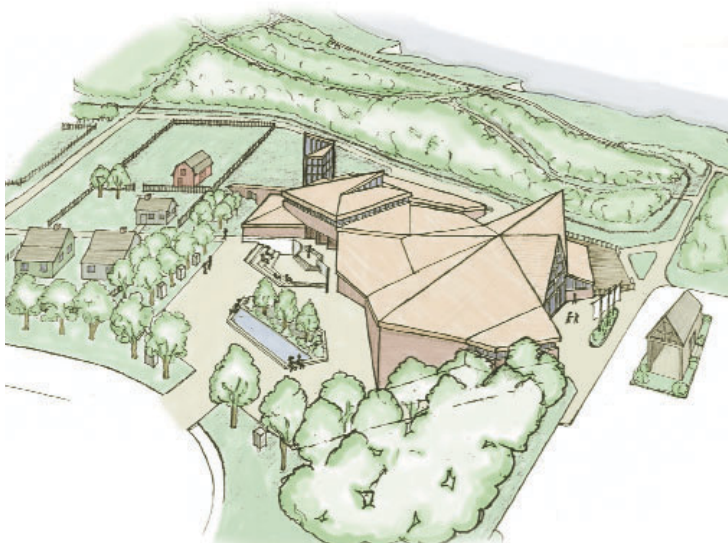
TASK FORCE MEMBERS

Carol Beaton • Rodney Chaisson • Joan Weeks • Mathias Poirier • Bill MacNeil • Fred Lavery

Ron Caplan • Paula Davis • Dianne Coish

“The Task Force is committed to contributing to the development of strategies that will positively impact the growth of the arts and culture sector within our Cape Breton communities. Initiatives designed to build a strong foundation for cultural industries will generate economic benefits across all sectors well into the future.”

CAROL BEATON,
CHAIR



Glace Bay Miners' Museum

Total Cost \$8,400,000

CBGF Conditional Commitment* \$2,500,000

Estimated Job Creation 6

The Glace Bay Miners' Museum is located on the shores of the Atlantic Ocean, just one mile from downtown Glace Bay, and is a visitor's portal into the area's rich and colorful coal-mining history.

The Miners' Museum Board of Directors has undertaken a redevelopment plan that will help preserve and share the history of coal mining in Cape Breton. The plan for renovation and expansion of the structural site, the addition of revenue-generating activities, as well as genealogy and research services, will undoubtedly strengthen Cape Breton's coal connection with the world and solidify the museum's place as a tourism and educational destination.

Highlights of the redevelopment include an expanded gift shop; an enlarged exhibition gallery; an upgraded library; an enhanced Ocean Deeps Colliery; an animated Company House; an enhanced Company Store, and a new village restaurant that will overlook the ocean.

The project will also develop the shoreline (boardwalks, fossil hunts) adding an interpretation of natural history through outside display panels. The Board also hopes to undertake a major upgrade of the interpretation and educational programming offered.

Port Hawkesbury Trade and Exhibition Centre

Total Cost \$12,400,000

CBGF Conditional Commitment* \$ 2,500,000

Estimated Job Creation 4

Strategically located on the Strait of Canso, Port Hawkesbury has seen a recent surge in activity related to the oil and gas, forestry, transportation and call centre industries. As the town is facing significant growth prospects and a diversification of its economy, it is critical that a vision is created that can be used to pursue the development and economic promotion of the community. This vision includes the development of a multipurpose complex, which will become a key piece of infrastructure for the town.

The Port Hawkesbury Trade and Exhibition Centre brings together culture, health and fitness, theatre, arts, crafts, civic administration, and recreation under one roof. Designed to fulfill the needs and aspirations of today's community, this centre encompasses a flexibility that will meet the needs of a growing community for generations to come.

*Contract is not issued and is contingent on the applicant meeting specific conditions.



Professional Development Program

Total Cost \$750,000

CBGF Contribution \$750,000

Over a three-year period, \$750,000 will be committed to a Professional Development Program designed to strengthen the economic viability of Cape Breton Island's arts and culture community. The program will provide individuals, groups and organizations in the arts and culture sector access to an extensive network of professional consulting services related to business and career development that will better prepare them for success in competitive markets. The types of services available to artists include business-expansion potential, new product line development, new market opportunities, business-skills improvements, and product efficiencies and cost-reduction techniques.



Virtual Media Productions

Total Cost \$935,000

CBGF Contribution \$750,000

Estimated Job Creation 25

Virtual Media Productions Ltd. (VMP), currently in its eighth year of operation, is an award-winning media management and production facility. Founded by three Sydney-based entrepreneurs, the company now employs 15 full-time staff in three divisions: television production, interactive media, and marketing services including graphic design, video production, animation and effects, editing and post production, and interactive media production.

VMP's television-production division continues to focus on original films, television shows, and videos/DVDs. VMP has produced two original animated television specials and three animated short films and several more are in development.

In 2002, VMP expanded its service base to include marketing and communications, media planning and buying, marketing and media management, and print and commercial production.

The CBGF investment is part of a third round of equity financing and will be used to further VMP's penetration into new markets, and to increase the technical and management capacity of VMP's team.

FOCUSED ON environment

Cape Breton faces a number of unique environmental challenges, which are a concern to both governments and citizens.

With these challenges comes great opportunity to build environmental-remediation expertise. This is a skill that is being developed with the vision of future export potential to other areas that face similar challenges.



TASK FORCE MEMBERS

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

“The Task Force on Industrial Benefits from Environmental Remediation continues to be focused on identifying initiatives that will help to maximize the local industrial and economic benefits from the three major environmental remediation projects. As noted in the *Environmental Design and Management Study*, these types of initiatives are needed to grow a sustainable environmental-industries sector in Cape Breton.”

EDWIN MACLELLAN,
CHAIR



Environmental Skills Internship

Total Cost \$4,452,000

CBGF Contribution \$1,606,000

Estimated Job Creation 30

Skill Enhancements 20

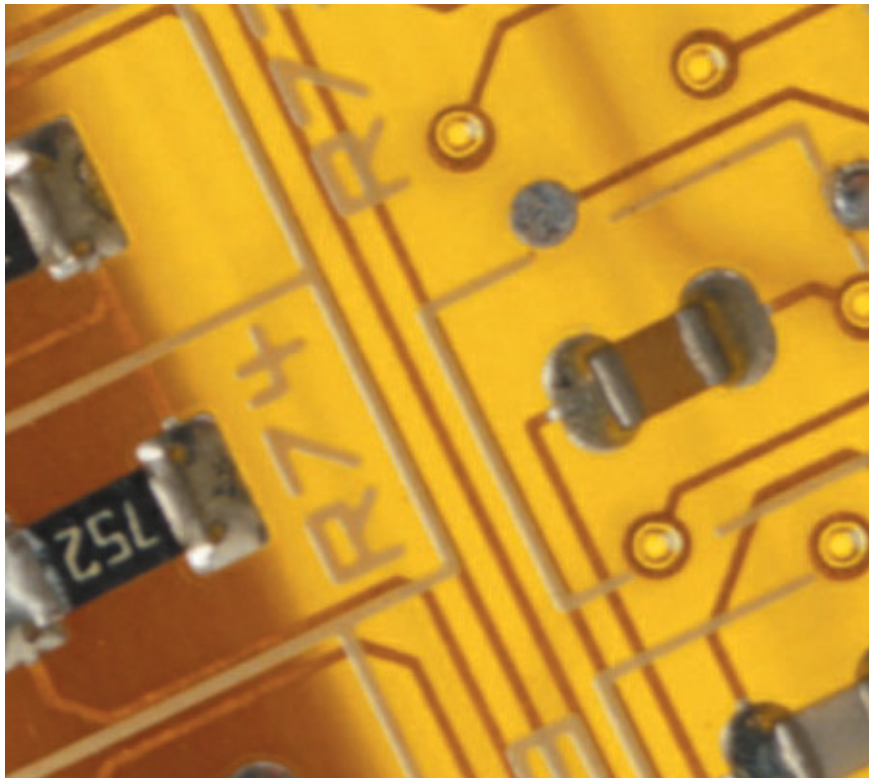
The Environmental Skills Internship (ESI) program will help create employment opportunities and upgrade skill levels to develop a critical mass of environmental-remediation expertise in Cape Breton. This will allow the local firms to prepare for the anticipated work associated with the major remediation projects in Cape Breton.

The program has two areas of concentration. This first is focused on establishing 30 new employment opportunities for recent graduates and displaced workers. It is expected that of these 30 interns, 20 will be retained upon completion of this program. The second is designed to assist 20 existing environmental workers in upgrading their skills and help build the management capacity required for future remediation projects. This will be achieved through a customized professional development and training plan.

The CBGF partnered with the Canadian Council for Human Resources in the Environmental Industry (CCHREI) to administer this initiative. CCHREI has established an Atlantic Canada Regional Office in Sydney.

FOCUSED ON knowledge

The history of the knowledge-based sector and, in particular, information technology in Cape Breton is very recent. There have been a number of start-ups in this cluster, and it is continuing to grow. Along with having the potential to create jobs, it also represents a pathway to new wealth through exports and offers exciting opportunities for youth, providing them the opportunity to live and work in Cape Breton.



TASK FORCE MEMBERS

Wilf MacNeil • Bob MacEachern • Jim Paris • Joan Penney • Leo MacIntosh • Bob MacKay • Shawn Green
Murray Heggie • John Malcom • Alice Almond • Ken MacLeod

“IT transcends all the economic sectors that have been identified for potential growth. We began by tapping into a skilled labour force with the arrival of well-positioned customer interactive centres. Now our focus is helping to bring technology to communities, helping Cape Bretoners develop opportunities where they live in tourism, culture and the energy sector among others.”

WILF MACNEIL,
BOB MACEACHERN,
CO-CHAIRS



4eversports

Total Cost \$2,000,000

CBGF Contribution \$2,000,000

Estimated Job Creation 43

4eversports has developed customized, real-time golf services and Internet-based information systems that consolidate golf activities, such as scoring, tee-time bookings, and on-course food and beverage ordering, into a single, economical system that is easily accessible to golfers.

The TeePod Information System can keep track of the number of putts, number of fairways missed, number of sand shots and other statistics that help golfers analyze their rounds. By studying the stats, golfers will more easily determine what aspects of their game need work.

The system also provides information on each hole, including lengths to dog legs along with tips on how to play the hole. If the golfer is playing in a tournament, the system provides scores of the players in real time, either from the course or from the clubhouse.

The CBGF's equity investment provides the required capital to build a marketing team and provides additional funding to implement a marketing strategy and a U.S. launch.

CrossOff Incorporated

Total Cost \$4,067,000

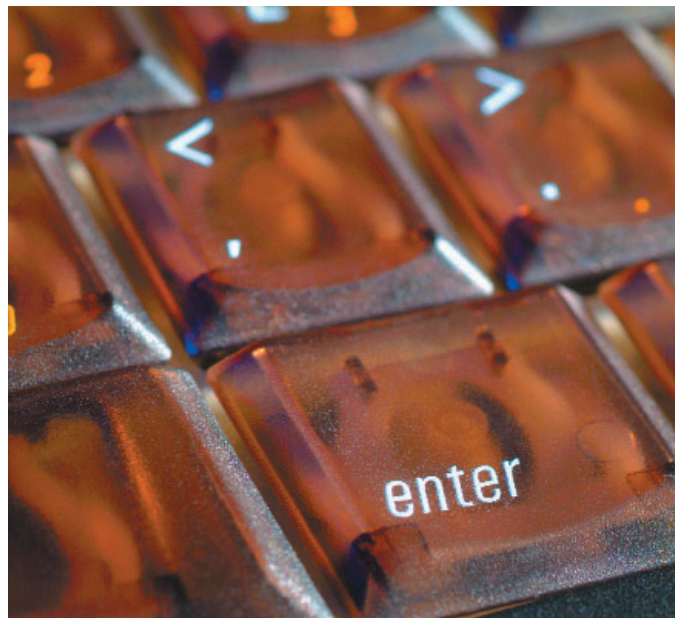
CBGF Contribution \$1,100,000

Estimated Job Creation 10

CrossOff Incorporated is a diversified company with operating units focused in the areas of anti-counterfeiting and brand protection, technology training and consulting, and property management with sales offices across Canada and the United States.

The CBGF investment will help to establish a Technical Operations Support Centre in Sydney. This knowledge-based operations centre will support CrossOff's corporate activities in the areas of information technology, accounts administration, product development, sales, and customer service.

The \$1.1 million in financing, which was secured for the purpose of covering a portion of the cost of the acquisition of Remcorp Inc., has been provided in the form of a convertible loan. Subject to meeting certain conditions relating to employment in Cape Breton, the loan is convertible into equity by CrossOff in five annual installments commencing December 31, 2003, at the market price at the time of conversion.



Techlink Entertainment

Total Cost \$3,000,000

CBGF Contribution \$706,000

Estimated Job Creation 50

Techlink Entertainment develops a line of innovative gaming solutions consisting of video lottery, central system, and Internet products, all built around a responsible-gaming philosophy.

Targeting jurisdictions with regulated gambling programs the company uses industry-standard technologies to produce several graphically appealing traditional and signature games for use on the Company's Performer I™ video lottery terminal, its Hotel Room Entertainment™ (HRE) mobile gaming system, and on its Dataceptor™ Internet gaming solution.

Founded by President and Chief Executive Officer John Xidos, Techlink Entertainment intends to re-establish gaming as a source of quality entertainment by becoming a responsible leading authority and supplier of innovative gaming solutions.

With assistance from the CBGF, Techlink is working towards product commercialization, including a beta test, of the Performer I and ISAC™ central computer system. The ISAC manages gaming communication between the individual gaming machines and the jurisdictions.

Knowledge-Based Economy and Situational Analysis

In May 2002, the CBGF engaged a consulting firm to prepare a situational analysis as well as a strategy for the knowledge-based sector. The main focus of the Cape Breton Growth Fund strategy for the knowledge-based sector is to create an environment that encourages and enables entrepreneurial behaviour and commercial growth by building on existing or planned public sector research, strengthening industry-research linkages, expanding the existing educational base, fostering coordination and programming mechanisms within government, and improving the innovation infrastructure. Increasing collaboration between firms, research institutions, educational institutions, and government, and the formation of clusters and international alliances are paramount to the strategy. The strategy also attempts to address the challenges to rural areas of Cape Breton participating in the knowledge economy.

The strategy has been presented as three key action plans that are titled:

- Invest in Infrastructure*
- Enable Sector Growth*
- Build a Culture of Innovation*

The complete study is available at www.cbGF.ca under the heading "Publications".

FOCUSED ON oil & gas



The \$3 billion Sable Offshore Energy Project has stimulated Nova Scotia's economy and brought investment to parts of Cape Breton Island. 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.

TASK FORCE MEMBERS

Paul Crissman • Mayor Billy Joe MacLean • Mayor Leonard MacDonald • Bernie MacDonald • Donnie MacIsaac
Bob Pelley • Les MacIntyre • Richie Cotton • Gordon MacDonald • Gerald MacDonald

" The *Strait of Canso & Sydney Harbour Offshore Positioning Strategy* confirmed many assumptions concerning our future role in the oil and gas industry. This has provided the reference needed for Cape Breton to work towards its goals. The task force has been encouraged to see that the Cape Breton Growth Fund Corporation is following up on the recommendations by investing in our future and ensuring that we will have a in the stake oil and gas economy."

PAUL CRISSMAN
CHAIR



Strait of Canso & Sydney Harbour Offshore Positioning Strategy

In June 2002, Gardner Pinfold Consulting Economists completed a study that clearly defined a critical path for economic growth in the Cape Breton Regional Municipality and in the Strait of Canso regions with regard to oil and gas development.

The study's findings included low-, medium- and high-case prospects and recommendations on opportunities for a supply base in the Strait of Canso area, a fabrication yard in the Sydney Harbour area, educational programs, and potential downstream industries. The study also highlighted the importance of cooperation and joint strategic planning for both areas.

A complete version of the study is available at www.cbgef.ca under "Publications".

Strait of Canso Superport Corporation Limited

Total Cost \$5,000,000

CBGF Contribution \$1,250,000

Estimated Job Creation 2

(with an additional 75 indirect jobs)

The Strait of Canso Superport Corporation Limited (SCSCL) owns and operates the marine terminals in Port Hawkesbury and Mulgrave. The SCSCL is responsible for the operation, development and upgrading of the marine facilities, as well as marketing and promotion of the port facilities with the goal of increasing cargo and vessel traffic in the Strait of Canso.

This CBGF investment will help SCSCL improve the infrastructure necessary to serve the supply base needs of Nova Scotia's offshore oil and gas industry from the Mulgrave Marine Terminal.

FOCUSED ON tourism



Voted as the most beautiful Island by *Condé Naste Magazine* and one of the top three vacation spots by *Victoria Magazine*, Cape Breton's unsurpassed scenery and rich culture continue to draw visitors from all over the world.

In recent years, tourism revenues have reached \$230 million. The CBGF believes that more visitors can be attracted to Cape Breton Island and the duration of their visits can be expanded in the long-term interests of prosperity.

TASK FORCE MEMBERS

Scott MacAulay • Monique Aucoin • Brenda Martell • Bernd Christmas • Dennis Doyon • Tom Forsythe
Don Mingo • Michele McKenzie • John Fraser

"The Tourism Task force was committed to having a working document produced, which was focused on growing tourism revenues by 100% in four years. This sector can experience this growth by expanding the season, developing new products and experiences, and ensuring we are maximizing the value of our products."
SCOTT MACAULAY,
CHAIR

TOURISM ROAD MAP

The CBGF has set a goal for tourism revenues to reach \$400 million by 2008. The *Tourism Road Map* is a vision document that includes a comprehensive action plan, a detailed market analysis, a product situational analysis involving the assessment of the existing tourism infrastructure, and an assessment of the product base.

With this document now in place, stakeholders in the tourism industry can begin to move towards the common goal of building a strong and more vibrant, sustainable industry for Cape Breton. The document can be found at www.cbGF.ca under "Publications".



Belle Côte Resort

Total Costs \$5,747,000

CBGF Contribution \$2,000,000

Estimated Job Creation 78

The Belle Côte Resort is a five-star resort facility that will provide full, four-season resort services. Slated for operation in 2004, the facility will include 32 hotel rooms, 16 housekeeping cottages, and 32 recreational vehicle sites. Services and amenities will include fine dining and lounge facilities, meeting rooms and convention hall, a spa (including salt water pool), two tennis courts, and retail outlets.

As part of the resort's recreation and leisure focus, tours will be available for boating, fishing and golf enthusiasts. In the winter, the facility will offer a number of winter sports and recreational activities including snowmobiling.

The 16-acre facility will be situated on the picturesque Belle Côte on the west coast of Cape Breton. The site overlooks Margaree Harbour and the Gulf of St. Lawrence, making the views some of the most breathtaking in Cape Breton.

This project satisfies the demand for high-end accommodations, and the resort will attract additional visitors while, at the same time, creating significant employment opportunities in rural Cape Breton.

Links of Inverness

Total Cost \$80,000

CBGF Contribution \$40,000

With the promotion of the Fabulous Foursome – Highlands Links, Bell Bay Golf Club, Le Portage Golf Club, and Dundee Resort & Golf Club – Cape Breton has already established itself as a first-rate destination for golfers. Highlands Links was recently recognized as the number one course in Canada by *Score Golf* magazine. Both Highlands and Bell Bay made *Golf Digest's* esteemed list of the top 201 places to play in North America, with each course receiving 4 1/2 stars out of 5. Bell Bay, designed by Thomas McBroom, was acclaimed as the "Best New Course in Canada" in 1998 by *Golf Digest*.

Should the proposed project move forward, the Links of Inverness will be a traditional Scottish links-style golf course and resort village reminiscent of the Highlands of Great Britain.

The resort village will enhance the European flair that already exists in Inverness and will be home to luxurious accommodations, charming shops and cafés, and other attractions.



Membertou Trade and Commerce Centre

Total Cost \$6,236,000

CBGF Conditional Commitment* \$2,100,000

Estimated Job Creation 17

The Membertou Trade and Commerce Centre (MTCC), is designed to celebrate Membertou’s rich cultural past as well as educate visitors. It will offer a wide array of services to both Membertou and the Cape Breton Regional Municipality (CBRM) including a world-class convention centre designed and equipped to host a number of key economic development conferences for both First Nations and the CBRM.

The venue will include a 10,000 square foot Great Hall that will be equipped for utilization as a performance venue and concert hall, or for large conferences and trade shows.

The MTCC will also house Membertou’s Fisheries Science Centre, which will include a progressive GIS Mapping Centre of Excellence as well as marine labs and classroom facilities.

Sydney Marine Terminal

Total Cost \$6,446,000

CBGF Conditional Commitment* \$3,000,000

Many in the cruise ship industry consider the Port of Sydney an excellent location because of its fine harbour and its distance from other ports of call. However, Sydney offers very little to passengers with the exception of pre-booked shore excursions and, as a result, a number of ships cruising in the region do not call here.

With the Sydney port now under local ownership, the Sydney Ports Corporation Inc. intends to benefit from this new economic opportunity by redeveloping the port to draw in more cruise ships passing through the area and to induce more of the passengers to disembark and experience Cape Breton.

This project will create a modern port that welcomes and meets the needs of cruise ship passengers and encourages their exploration of Cape Breton Island. The establishment of a cultural and mixed-use waterfront venue for both indoor and outdoor events, trade shows, conventions, displays, and other community activities will lead to the extension of the length of tourist stays for visitors who travel to the area by other means outside of the cruise ships that dock at the port.

*Contract is not issued and is contingent on the applicant meeting specific conditions.

FOCUSED ON

strategic initiatives



Ocean Nutrition Canada

Total Cost \$8,000,000

CBGF Contribution \$2,000,000

Estimated Job Creation 20

Ocean Nutrition Canada (ONC) is a rapidly expanding life science company built on a foundation of science and proprietary technologies creating wellness through innovation.

The CBGF is providing a \$2 million loan to assist with the expansion of the fish-oil plant, allowing ONC to double its production capacity. This multi-staged project is expected to create 100 new full-time positions in Mulgrave over the next several years; 20 by the end of 2003.

The new expanded omega-3 fish oil plant will have four times the present production and make it the world's largest omega-3 concentrate processing facility.

ONC is the world's leading innovator, researcher, and provider of quality marine-based nutraceuticals targeting specific disease conditions including heart disease, obesity, arthritis, diabetes, and immune modulation.

As of December 31, 2002, ONC employed a total of 198 people, of which 129 were employed in its Mulgrave plant.

Scotsburn Dairy Group

Total Cost \$4,480,000

CBGF Contribution \$1,500,000

Estimated Job Creation 12

The Scotsburn Dairy Group is the largest dairy in Atlantic Canada processing products in nine locations and employing 600 full-time and nearly 200 part-time employees. Scotsburn also provides markets for local farm milk producers, all of this providing a positive economic benefit to the region.

The Sydney plant, constructed in 1988, employs 90 full-time and 35 part-time workers with total wages in excess of \$5,100,000 per year. The state-of-the-art facility produces a variety of dairy products including milk products, jug products, bag products and soft-serve ice cream mix.

With assistance from the CBGF, Scotsburn will construct a high density polyethylene (HDPE) plastic bottle blow-moulding facility adjacent to its current processing plant in Sydney. The existing facility will require an expansion of approximately 15,000 square feet and will include a manufacturing and storage warehouse.

The addition of the blow-moulding capability will help the plant maintain its competitiveness and will provide a more stable work environment for existing employment levels.

FOCUSED ON governance



Margo Buchanan
Senior Account Manager
Western NB Business Markets
Royal Bank of Canada



John McLennan
Vice Chairman & CEO
ATT Canada



Rick Beaton
Vice President & COO
Enterprise Cape Breton
Corporation



George MacDonald, QC
Partner, McInnes Cooper



John MacDonald
President & COO
ATT Canada

CORPORATE GOVERNANCE

The governance model for the CBGF was specifically designed to address the recommendations put forward during the community consultation process that led to the establishment of the CBGF, as well as the concerns of the Governments of Canada and Nova Scotia. In light of the fact that the CBGF is a transitional organization – it is expected to commence winding up its operations during the 2004/05 fiscal year – the Board has been asked to focus less on developing long-term strategies and more on lending their wealth of experience to the project-approval process.

Accordingly, the CBGF Board of Directors is a transactional Board responsible for approving and rejecting all projects. In light of the business experience that the Directors bring to the table, they provide leadership to CBGF officials in determining the structure of a transaction and identifying and quantifying risk.

Given the short time frame during which the CBGF is expected to be operational, the Board has not focused on structural items such as Board renewal and remuneration. Instead, the focus has been on implementing the recommendations contained in the consultation panel's report – *Growing a New Economy* – developing the corporate plan, incorporating the work of the task forces into the corporate plan, and trying to find the best possible projects for investment. Performance evaluation and communication with stakeholders are priorities of the Board and this annual report is reflective of the emphasis that is put on performance evaluation at the project level.

It is felt that how the approved projects contribute to the economy is the primary yardstick by which the success of the CBGF will be judged by Cape Bretoners and other stakeholders. To further the objective of transparency and communication with stakeholders, the CBGF regularly reports to the community on its progress against its targets through the use of a report card that is published in concert with the local newspaper periodically throughout the year.

In addition to the planning and stakeholder reporting, the Board has put in place other systems reflective of the principles of corporate governance. The CBGF has an audit committee that is responsible for ensuring that the internal systems of the CBGF are functioning properly and that resources are being spent prudently. The Board is provided with regular updates on the status of the projects that it has approved as well as the financial position of the Corporation.

The CBGF's corporate governance model meets the majority of all 10 of the Treasury Board's *Guidelines for Corporate Governance in Crown Corporations and Other Public Enterprises*; the CBGF believes that its transactional model is more than adequate to meet the needs of the organization as well as the expectations of the community and the Governments of Canada and Nova Scotia.

In 2002/03, the Board met six times and was polled twice on individual resolutions. Three meetings were held on Cape Breton Island, with one meeting in Halifax and the rest by way of conference call.

The CBGF's audit committee is comprised of two outside directors, Margo Buchanan, Chair, and John McLennan, with the CEO, Rick Beaton, as the third member. The Director, Internal Audit, attends the meetings and representatives of the Office of the Auditor General of Canada also attend, as required. Over this past year, the audit committee met twice. It has instituted a practice of having time set aside on the agenda at each meeting for outside directors only to meet in-camera.

This year saw the resignation of John MacDonald from the Board due to issues of availability as he accepted the position of President and Chief Operating Officer at AT&T Canada. The CBGF is working with the Minister responsible for the CBGF, the Honourable Gerry Byrne, to find a replacement and expects to do so within the next year.

In addition, the Board decided to increase its size from five directors to seven. The Board determined that adding two new positions would augment the Board's ability to meet more frequently and to assist the CBGF in its prospecting role. The two new positions have not yet been filled but are expected to be over the next year.

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

AUDIT COMMITTEE:

Assists the Board in fulfilling its responsibilities with respect to overseeing 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
Edwin MacLellan
Scott MacAulay
Paul Crissman
Wilf MacNeil
Bob MacEachern
Alastair MacLeod
Mathias Poirier
Carol Beaton

FOCUSED ON innovation

BACKGROUND TO THE CBGF

In January 1999, the Government of Canada announced it was downsizing and privatizing the Cape Breton Development Corporation (DEVCO). To offset this significant economic change, the Government of Canada committed \$86 million for economic development and to assist in the transition. The Province of Nova Scotia made an additional contribution of \$12 million; bringing the total to \$98 million.

The governments felt it was important to give Cape Bretoners an opportunity to participate in the creation of a new economy, and therefore, in November of 1999, a community-consultation panel was assembled to travel throughout the Island and gathered feedback and suggestions on economic renewal.

The panel heard 210 oral presentations and received 214 written submissions over a two-month period. In May 2000, based on this information, a report *Growing the New Economy* was filed with the Governments of Canada and Nova Scotia outlining the key goals and objectives that should be considered for the economic-adjustment fund.

The report detailed a number of expectations and challenges raised by the community:

- governments should work in a collaborative manner;
- the fund should be incremental to existing programs;
- there should be an ongoing community dialogue about the use of the fund;
- the fund should not be used to pay for administrative costs; and

- while a distinct entity should have responsibility for the fund, it should not duplicate any existing administrative structures and should be administered and managed locally.

The community also detailed specific goals and objectives that the fund should accomplish. These included creating immediate employment; stemming the outward migration of youth; expanding exports beyond those that are resource-based; and building solutions from within communities.

The report also detailed the importance of investment criteria that would maximize the fund by using it to leverage other sources of public and private investments; focus on long-term sustainable growth; ensure incrementality; create employment; and build on existing strengths.

In addition, the Government of Canada wanted to see a delivery mechanism that would be accountable (measurable results communicated to stakeholders), incur minimal administrative costs, and be non-permanent in nature.

In the end, it was decided that a new Crown corporation, the Cape Breton Growth Fund Corporation, would be created and would cease to exist once the fund was fully committed.

MEMORANDUM OF UNDERSTANDING

In order to avoid duplicating administrative structures, the CBGF is staffed under the provisions of a Memorandum of Understanding (MOU) between Enterprise Cape Breton Corporation (ECBC) and the Province of Nova Scotia. In addition, ECBC acts as the CBGF's secretariat providing administrative support. Through these mechanisms, duplication of administrative structures is minimized, thus reducing administrative costs to the taxpayers.

Through the MOU with ECBC, administrative costs are minimized by eliminating the potential for overlap and duplication between the two organizations. As required, ECBC will assign staff to support the operations of the subsidiary. These functions may include:

- Assessment of projects;
- Payments and compliance;
- Ongoing monitoring, both risk and benefit;
- Performance monitoring and evaluation;
- Finance and administration;
- Human resources; and
- Legal.

OPERATING CONTEXTS

Treasury Board has granted the Corporation an exemption from the Drawdown Policy for Crown Corporation Funding permitting it to retain all funds advanced. The funds are banked until they are spent, and this allows the CBGF to earn interest. This interest is used to offset the costs of its operations; thus the principal of the fund is not used to pay for administrative costs.

CBGF TEAM

CLOCKWISE FROM BOTTOM LEFT

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



FOCUSED ON

management discussion & analysis



CASH

The Corporation maintains cash in a Canadian chartered bank and receives interest on a monthly basis. Interest is calculated on the average monthly balance at prime rate minus 1.75%. At March 31, 2003 the cash balance was \$58,073,663 and the interest rate paid by the bank was 2.97%.

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Cash	<u>\$ 18,033,961</u>	<u>\$ 40,731,679</u>	<u>\$ 58,073,663</u>

INTEREST INCOME

The intent at inception of the CBGF was to use interest earned on the CBGF funds to cover the program support and administrative expenses over the life of the Corporation.

At March 31, 2003, as displayed in the table, interest earned since inception totalled \$2,971,666 and program support and administrative costs totalled \$2,858,618 leaving excess interest earned of \$113,048 at March 31, 2003.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Total to Date</u>	<u>Budget to Date</u>
Interest earned	\$ 47,766	\$ 1,359,193	\$ 1,564,707	\$ 2,971,666	\$ 3,460,000
Administrative expenses	296,579	1,264,155	1,297,884	2,858,618	2,940,000
Interest earned in excess of administrative expenses				<u>\$ 113,048</u>	<u>\$ 520,000</u>

Interest rates have actually been lower than anticipated resulting in interest earned to date being \$488,334 less than budgeted.

In the event the cumulative interest earned at the time of wind-up of the Corporation is insufficient to cover the program support and administrative costs, Enterprise Cape Breton Corporation is responsible for any deficiency.

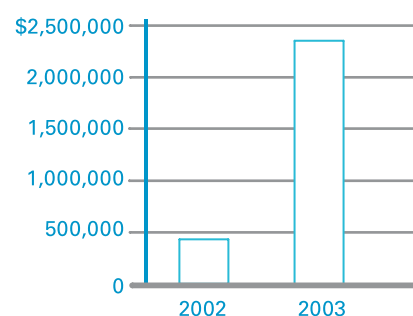
LOANS

Several types of loan instruments are available for use by the Corporation including forgivable loans, interest bearing loans, non-interest bearing loans, as well as conditionally repayable contributions.

The amount of conditionally repayable contributions are charged to operations when the loan is issued. If terms and conditions of the loan contract are not fulfilled, the conditionally repayable amounts are reversed and the balance becomes receivable.

During the year, the Corporation disbursed \$nil (2002; \$475,000) in loans to clients in addition to grants and contributions under the various programs administered by the CBGF. The total loan balance outstanding at March 31, 2003 is \$403,747 and consisted of one account. In addition, \$71,253 (2002; \$nil) was collected during the year which represents 15% of the previous years closing net balance.

LOAN RECEIVABLE & INVESTMENTS



	<u>2002</u>	<u>2003</u>
Purchase of investments	\$ -	\$ 2,203,000
Loans collected	-	71,253
Loans disbursed	475,000	-
Conditionally repayable contributions	7.6 M	4.0 M

As part of the due diligence process conducted by program officers, the Corporation mitigates the risk of loss by obtaining security from clients. The Corporation holds security on the loan outstanding at March 31, 2003. Security is obtained to protect the Corporation in the event of loan default.

Security may include any one or a combination of the following: 1st and 2nd position mortgages on land and building; chattel mortgages; personal and corporate guarantees; general security agreements; first and floating debentures or promissory notes.

EQUITY INVESTMENTS

The Corporation invested \$2,203,000 in preferred shares and other interests in 2002/2003.

The Corporation has recorded an allowance for investment impairment of \$275,000 at March 31, 2003. The allowance for investment impairment has been determined on an individual client basis based on current information at year end and Management's knowledge of the entity's circumstances. If it is felt the investment may be impaired, a provision for investment impairment is recorded in the financial statements.

OPERATING AND DEVELOPMENT ACTIVITIES

CBGF's government funding consisted of \$23 (2002; \$25.03) million from the Government of Canada and \$3 million from the Province of Nova Scotia in 2002 & 2003.

Development expenses incurred totalled \$4.2 million compared to the Corporate Plan budget of \$25 million. The Corporation provided \$4.1 million in direct access to capital and \$.1 million in research development and commercialization in relation to the Corporate Plan objectives. Categorized by strategic priority, as displayed in the table, \$3.5 million related to the strategic priority of knowledge based industries and \$.7 million of strategic initiatives in 2002/03.

PROGRAM EXPENDITURES

Comparison of Actual to Corporate Plan

Strategic Priorities	<u>Actual 2001/02</u>	<u>Actual 2002/03</u>	<u>Corporate Plan 2002/03</u>
Knowledge-based industries	\$ 7,599,949	\$ 3,482,945	\$ 4,500,000
Oil & Gas development	-	-	3,000,000
Tourism development	-	-	4,000,000
Strategic initiatives	-	699,167	7,500,000
Environmental remediation	-	-	4,000,000
Arts & Culture development	43,000	-	2,000,000
	<u>\$ 7,642,949</u>	<u>\$ 4,182,112</u>	<u>\$25,000,000</u>

In the 2002/03 Corporate Plan, the Corporation planned to disburse \$25 million in program funding. However, the actual amounts disbursed totalled \$6.4 million which is \$19 million short of the target due to the following factors. A number of studies were commissioned by the CBGF related to the priority sectors of oil & gas, tourism, knowledge-based, environmental remediation, and arts & culture. It has taken more time than expected to complete the various studies overseen by the CBGF Task Forces, therefore the related projects will come to fruition later than originally anticipated. The direction and requirements for program spending evolving from the studies and Task Forces will be implemented over the next two and one-half years.

In addition, the Board of Directors approved commitments for additional projects totalling \$13,170,000 yet conditions were included by the Board which had to be met by the applicant prior to the letter of offer or contract being issued by the Corporation. The total funds committed to March 31, 2003 is \$39.3 million, leaving \$51.7 million uncommitted.

SUMMARY OF DEVELOPMENT EXPENSES

Since Inception

Projects	2002	2003	Total To Date
Development expenses	\$ 7,642,949	\$ 4,182,112	\$ 11,825,061
Loans	475,000	-	475,000
Investments	-	2,203,000	2,203,000
			14,503,061
Outstanding commitments:			
• Letters of offer issued March 31, 2003		\$ 11,589,794	
• Board approved commitments – letters of offer to be issued after certain conditions are met		13,170,000	24,759,794
			39,262,855
Uncommitted – March 31, 2003			51,737,145
Total funding envelope			<u>\$ 91,000,000</u>

The 2003/04 CBGF Corporate Plan projects program funding to be spent in 2003/04 of \$30 million and \$34 million in 2004/05. This reflects the reduced program spending which occurred in 2002/03.

PROGRAM SUPPORT

The Corporation employs six individuals delivering programs, development work and various other functions. In addition, pursuant to the MOU with Enterprise Cape Breton Corporation, ECBC provided project assessment support, payment and collection, accounting and other administrative functions, the cost of which was \$943,786 (2002; \$762,935) in the year.

The actual administrative costs are reasonable in relation to budget and the prior year as detailed below.

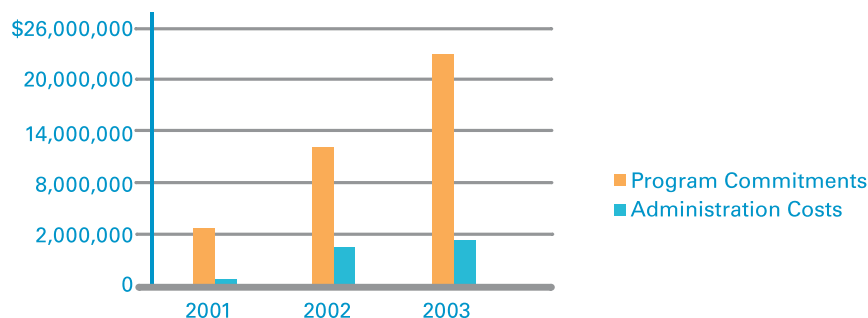
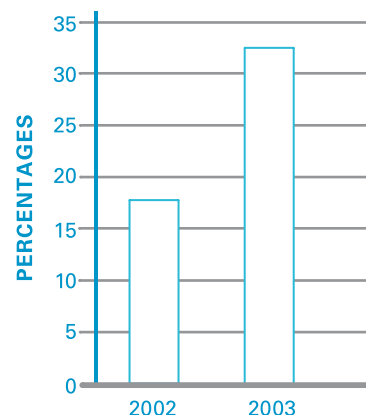
	(000's)		
	Actual 2001/02	Actual 2002/03	Corporate Plan 2002/03
Salaries	\$ 777	\$ 830	\$ 820
Other operating costs	487	467	480
	<u>\$ 1,264</u>	<u>\$ 1,297</u>	<u>\$ 1,300</u>

OVERHEAD AS A PERCENTAGE OF DEVELOPMENT EXPENSES

As displayed in the graph, the percentage of overhead (administrative & program support) to development expenses is 31.0% for 2002/03 (2002 is 16.5%).

It is important to note the cost of efforts required to deliver and collect loans and investments are included in the above overhead costs, however since loans and investments are not included in development expenses, they are not captured in the above graph.

If the amount of loans and investments disbursed were factored in the above, the percentage for 2003 would decrease to 20.3% (2002; 15.6%) which is reasonable in relation to the level of programming administered.

PROGRAM COMMITMENTS & ADMINISTRATION COSTS**OVERHEAD AS A PERCENTAGE OF DEVELOPMENT EXPENSES**

FOCUSED ON

financials



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. Management is also responsible for ensuring assets are safeguarded, proper records are maintained to produce timely, reliable financial statements and overseeing a comprehensive internal audit program. 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 Corporation has an Internal Audit Unit, whose functions include reviewing internal controls and their application on an ongoing basis.

The Audit Committee of the Board of Directors has periodic meetings with management, the independent auditors and the internal auditor 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. The independent auditor has full and unrestricted access to the Audit Committee to discuss her audit and related findings.



Rick Beaton
Chief Executive Officer


Frances L. Marenick, CA
Treasurer

Sydney, Nova Scotia
May 16, 2003

AUDITOR'S REPORT

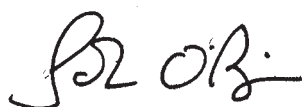
To the Minister for the purposes of the *Atlantic Canada Opportunities Agency Act*

I have audited the balance sheet of Cape Breton Growth Fund Corporation as at March 31, 2003 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, 2003, 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 year.

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 O'Brien, CA
Principal
for the Auditor General of Canada

Halifax, Canada
May 16, 2003

BALANCE SHEET


As at March 31, 2003


	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets:		
Cash (note 3)	\$ 58,073,663	\$ 40,731,679
Interest receivable	146,447	73,037
Accounts receivable	<u>34,169</u>	<u>14,659</u>
	58,254,279	40,819,375
Loans (note 4)	403,747	475,000
Investments, net (note 5)	1,928,000	-
Capital assets (note 6)	<u>9,819</u>	<u>29,456</u>
	<u>\$ 60,595,845</u>	<u>\$ 41,323,831</u>
LIABILITIES		
Accounts payable and accrued liabilities (note 7)	\$ 280,444	\$ 2,798,504
SHAREHOLDER'S EQUITY		
Share capital (note 8)	1	1
Retained earnings	<u>60,315,400</u>	<u>38,525,326</u>
	<u>60,315,401</u>	<u>38,525,327</u>
	<u>\$ 60,595,845</u>	<u>\$ 41,323,831</u>

Commitments (note 9)

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, 2003

	<u>2003</u>	<u>2002</u>
Program expenses		
Development expenses (note 10)	\$ 4,182,112	\$ 7,642,949
Provision for impairment	275,000	-
	<u>4,457,112</u>	<u>7,642,949</u>
Program support and administrative expenses		
Salaries (note 11)	830,744	776,673
Other operating costs (note 11)	467,140	487,482
Amortization	19,637	18,925
	<u>1,317,521</u>	<u>1,283,080</u>
Total expenses	5,774,633	8,926,029
Interest income	<u>1,564,707</u>	<u>1,359,193</u>
Net cost before government funding	<u>(4,209,926)</u>	<u>(7,566,836)</u>
Government funding		
Government of Canada contribution (note 11)	23,000,000	25,030,000
Province of Nova Scotia contribution	3,000,000	3,000,000
Service provided without charge	-	70,000
	<u>26,000,000</u>	<u>28,100,000</u>
Net income after government funding	21,790,074	20,533,164
Retained earnings, beginning of year	<u>38,525,326</u>	<u>17,992,162</u>
Retained earnings, end of year	<u>\$ 60,315,400</u>	<u>\$ 38,525,326</u>

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2003

	<u>2003</u>	<u>2002</u>
Cash flows from (used for) operating activities		
Government of Canada contribution	\$ 23,000,000	\$ 25,045,000
Province of Nova Scotia contribution	3,000,000	3,000,000
Interest received	1,491,297	1,364,261
Payments made for program expenses	(6,603,324)	(5,183,118)
Payments made for administrative support	<u>(1,414,242)</u>	<u>(1,050,577)</u>
	<u>19,473,731</u>	<u>23,175,566</u>
Cash flows from (used for) investing activities		
Loan repayments	71,253	-
Loan disbursements	-	(475,000)
Purchase of investments	(2,203,000)	-
Purchase of capital assets	-	(2,848)
	<u>(2,131,747)</u>	<u>(477,848)</u>
Net increase in cash	17,341,984	22,697,718
Cash, beginning of year	<u>40,731,679</u>	<u>18,033,961</u>
Cash, end of year	<u>\$ 58,073,663</u>	<u>\$ 40,731,679</u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2003

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 and contributions are conditionally repayable as stipulated in the contracts. The amount of the conditional repayable loan or contribution 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) Investments

The Corporation has invested in preferred equity holdings and other interests. These are recorded at the lower of cost and estimated net realizable value. Estimated net realizable value is measured by discounting expected future cash flows. The discount rate is based on the Consolidated Revenue Fund lending rate to Crown corporations. Investment income is recorded on an accrual basis. The Corporation records an allowance for doubtful investments for the amount by which the value of the investment has been impaired.

e) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the lesser of the estimated useful life of the assets or the expected life of the Corporation.

f) 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 are provided without charge. Consequently, there is no liability for any expected employee future benefits.

g) Interest income

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

h) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of commitments at the date of the financial statements. Despite the use of the Corporation's best estimates, it is reasonably possible that the estimates for loans and investments could change materially in the near term.

3. CASH

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

4. LOANS

At March 31, 2003 the Corporation had one loan for \$403,747 (2002 – \$475,000) at 0% interest rate. The loan was issued in order to promote economic development to support the corporate mandate. The allowance for loan impairment is nil (2002 – nil).

The estimated fair value of the loan is \$.4 million (2002 – \$.4 million).

Repayment dates of the loan are as follows:

Date Due	2003 Carrying Value	2002 Carrying Value
2003	\$ -	\$ 71,253
2004	95,004	95,004
2005	95,004	95,004
2006	95,004	95,004
2007	95,004	95,004
2008 & beyond	<u>23,731</u>	<u>23,731</u>
	<u>\$ 403,747</u>	<u>\$ 475,000</u>

Conditional repayable contributions totaling \$11.6 million (2002 – \$7.6 million) are not included in the loan portfolio. The Statement of Operations and Retained Earnings includes a charge of \$4.0 million (2002 – \$7.6 million) to development expenses for the disbursement of conditional repayable contributions during the year.

5. INVESTMENTS

The Corporation has made investments to promote economic development in Cape Breton. The balance consists of:

	2003			2002
	Cost	Allowance	Carrying Value	Carrying Value
Shares	\$ 1,103,000	\$ -	\$ 1,103,000	\$ -
Other interest	<u>1,100,000</u>	<u>(275,000)</u>	<u>825,000</u>	<u>-</u>
	<u>\$ 2,203,000</u>	<u>\$ (275,000)</u>	<u>\$ 1,928,000</u>	<u>\$ -</u>

The shares consist of non-voting redeemable, retractable, convertible, 8% cumulative preferred shares in private sector entities. No dividends were received or declared during the year (2002 – nil). The interest consists of an investment in an entity with the intent of conversion to common shares over a five year period provided certain contractual conditions are met.

The fair values of investments, determined using discounted expected future cash flows, are in excess of the carrying value.

6. CAPITAL ASSETS

	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment, furniture and leasehold	<u>\$ 57,488</u>	<u>\$ 47,669</u>	<u>\$ 9,819</u>	<u>\$ 29,456</u>

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2003	2002
Due to Enterprise Cape Breton Corporation	\$ 142,998	\$ 213,167
Due to Province of Nova Scotia	56,751	81,391
Other payables	<u>80,695</u>	<u>2,503,946</u>
	<u>\$ 280,444</u>	<u>\$ 2,798,504</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.

8. 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.

9. COMMITMENTS

As of March 31, 2003, the Corporation had outstanding commitments for development activities as follows:

2004	\$ 10,870,651
2005	655,613
2006	<u>63,530</u>
	<u>\$ 11,589,794</u>

10. DEVELOPMENT EXPENSES

	<u>2003</u>	<u>2002</u>
Research development and commercialization	\$ 135,754	\$ -
Access to capital	<u>4,046,358</u>	<u>7,642,949</u>
	<u>\$ 4,182,112</u>	<u>\$ 7,642,949</u>

11. 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 transactions with ECBC pursuant to a memorandum of understanding.

- Included in program support and administrative expenses are services totaling \$943,786 (2002 – \$762,935) provided by and reimbursable to ECBC.
- Included in government funding is a \$23 million (2002 – \$25 million) contribution from ECBC.