

IMPACT

2000/2001 - 2004/2005



KEY INDICATORS

Indicator	5-year Target	2001	2002	2003	2004	2005	% of 5-year	
							Total	Target Achieved
Support to Business								
Number of jobs created*	600	413	68	124	404	65	1,074	179%
Leveraged funds	\$35.0 M	\$43.1 M	\$2.9 M	\$5.7 M	\$3.3 M	\$14.9 M	\$69.9 M	200%
New export sales	\$10.0 M	\$55.7 M	\$2.9 M	\$81.1 M	\$0.5 M	\$20.4 M	\$160.6 M	1,606%
Support to Communities								
Leveraged investment	\$5.0 M	\$0.9 M	\$5.0 M	\$6.9 M	\$1.7 M	\$4.1 M	\$18.6 M	372%
Investment								
New investment on Cape Breton Island	\$10.0 M	\$42.2 M	-	\$3.5 M	\$16.0 M	\$14.1 M	\$75.8 M	758%
Policy & Research								
Number of research projects completed	40	8	8	9	7	3	35	88%
Advocacy								
Operational cost-efficiencies (2-year target)	\$0.3 M	-	-	-	\$0.152 M	\$0.098 M	\$0.25 M	83%

* This includes FTEs created as a result of ECBC activities under Support to Business and Support to Communities.

ECONOMIC IMPACT ANALYSIS

In 2004, Enterprise Cape Breton Corporation (ECBC) commissioned the services of Canmac Economics Limited and Dan White & Associates Limited to undertake an examination of the economic impact of federal development assistance on Cape Breton Island between 1999 to 2004. The study contains programs delivered by ECBC including those of the Atlantic Canada Opportunities Agency (ACOA) and the Cape Breton Growth Fund Corporation (CBGF).

The total assistance of \$181.6 million generated the following results.

By the 2003/2004 fiscal period, ECBC's overall annual employment creation had grown to 9,383 full-time equivalents (FTEs). This total employment comprises:

- 6,339 (FTEs) direct employment from sustainable activity;
- 1,235 (FTEs) direct employment from short-term job creation (primary construction);
- 1,809 positions through indirect and induced spin-off employment;
- A total of \$667.1 million of labour income provided to Cape Breton households or \$133.4 million/year, on average;
- Total GDP creation of \$1.2 billion or \$240 million/year, on average.

The consultants conducted a benefits cost analysis of the programming delivered by ECBC. The analysis concluded that for every dollar committed by ECBC in the Cape Breton economy, an extra \$5 in household income was generated.

* This annual report was compiled, written, designed and laid-out by ECBC staff.

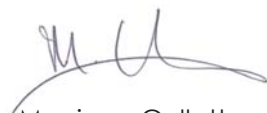
The Honourable Joseph McGuire, P.C., M.P
Minister for Enterprise Cape Breton Corporation
and the Atlantic Canada Opportunities Agency
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Minister:

On behalf of the Board of Directors, I am pleased to present the Annual Report of Enterprise Cape Breton Corporation for the fiscal year ended March 31, 2005.

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,

A handwritten signature in blue ink, appearing to read 'M Collette', with a large, sweeping flourish underneath.

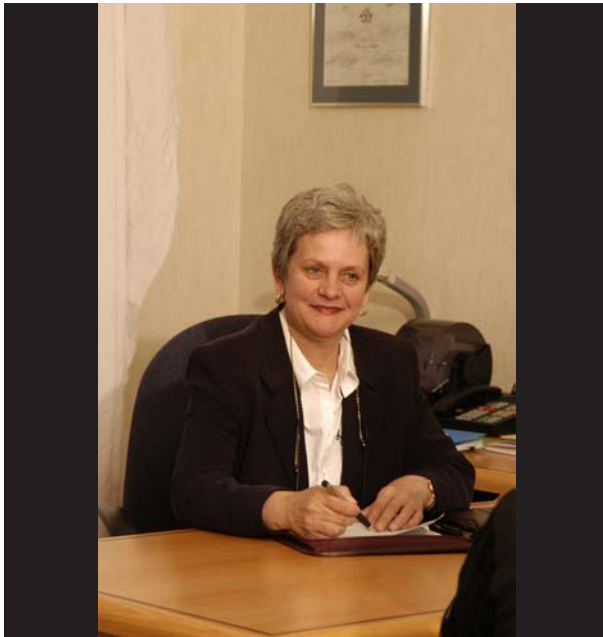
Monique Collette
Chair and CEO
Enterprise Cape Breton Corporation

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MESSAGE MONIQUE COLLETTE

CHAIR AND CEO



Five years in the life of an economy is not a long time. Economies evolve with time, shaped by people and events, men and women who work hard to build better lives and better communities. Economic development is also a timely process. With a view to the longer term, the Board of Directors of ECBC set out to make a positive impact on the Cape Breton and Mulgrave area by formulating a five-year economic plan in 2000/2001.

Through careful planning and consultation, the Board of Directors formulated an ambitious five-year plan that focused on developing clear goals for a number of key sectors. Acting as the Government of Canada's principal delivery agent for economic development funding in Cape Breton, the Corporation established five-year targets for a number of indicators including job creation, leveraged investment and exports.

The plan was supported by a performance management framework that evaluated results against objectives on a quarterly basis. To account for changing economic conditions and new programs, the plan was amended as necessary.

This fiscal year (2004/2005) marked the end of the original five-year planning period and ECBC, its Board members, management and staff have been very pleased with the results of this exercise. As this annual report will demonstrate, a great deal has been accomplished. ECBC programs and activities have had a dramatic positive impact on the local economy. Most targets have been met or exceeded. Working closely with the people of the area and other levels of government, significant investments have been made in businesses, community infrastructure and human resource capital. While much work remains to be done, Cape Bretoners can look back with a sense of pride and accomplishment as they reflect on the positive changes that have occurred over the past five years.

On behalf of the Board of Directors and the staff of ECBC, it is my pleasure to present this annual report. The success that has been achieved over the past five years is attributable to the vision of a very dedicated Board and the dedication of staff. As residents of Cape Breton and Mulgrave, they have a vested interest in the success of ECBC's mission and they are to be commended for their commitment.

MESSAGE RICK BEATON

COO



The preparation of this annual report affords an opportunity not only to reflect on the year that has just ended, but also to look back over the last five years and the significant economic development progress that has been made. Since 2000, ECBC has been focused on the implementation of its five-year strategic plan. This year marks the end of the original planning period and it is most gratifying to look at the positive impact that has been achieved.

When I assumed my position in November 1999, the local economy was at a critical juncture due to the closure of Sydney Steel and DEVCO. Many feared that the Island's already weak economic base would crumble. This did not happen. Drawing on the indomitable Cape Breton spirit, the economy persevered. The business base expanded, new infrastructure was built, new investments were made and jobs have been created.

From the new Membertou Trade and Convention Centre to the Sydney Marine Terminal and the Port Hawkesbury Civic Centre, there have been major infrastructure improvements across the Island. In terms of business investment, the area is now home to new customer care centres as well as auto parts and pharmaceutical manufacturers, to name only a few.

Clearly there have been many improvements over the last five years and I believe that ECBC has been a catalyst of positive change. Using the various programs at our disposal and working with the private sector and community-minded individuals, we are addressing economic development needs and making a significant impact.

When viewed over the long-term, the Cape Breton economy is showing steady improvement. Economic indicators have improved as evidenced by increasing retail and housing sales, growing income from employment sources and a decreasing economic dependency ratio. In the past five years, ECBC and the Cape Breton Growth Fund (CBGF) have partnered with the private sector and others to create over 9,000 full-time job equivalents. Through programs administered by ECBC and the CBGF, over \$181 million has been invested in the Island's economy in the same time period. Over the last 10 years, the unemployment rate has declined by over 8%.

Although much work remains to be done, the indicators are encouraging. I believe that Cape Breton is moving forward. ECBC's success belongs to the entire community. It belongs to the staff who work tirelessly toward the achievement of the Corporation's goals and to all the local volunteers and businesspeople who are possessed of a determination to make this Island's economy stronger. I would like to take this opportunity to thank the ECBC Board of Directors, management and staff for their hard work and determination over the past number of years.

Rick Beaton

SENIOR MANAGEMENT TEAM

MARLENE USHER

DIRECTOR GENERAL OF COMMERCIAL PROGRAMS

RICK BEATON

VICE PRESIDENT AND CHIEF OPERATING OFFICER

JOE CASHIN

DIRECTOR OF INTERNAL AUDIT

D.A. LANDRY

DIRECTOR OF COMMUNICATIONS

KEN MONTGOMERY

DIRECTOR GENERAL OF DEVELOPMENT

LORI MARENICK

DIRECTOR GENERAL OF CORPORATE SERVICES



Francis Mullins - Retired July 31, 2004

WHO WE ARE

As a Crown corporation, ECBC is a distinct entity which reports to Parliament through the Minister of the Atlantic Canada Opportunities Agency (ACOA), who is also responsible for ECBC and the CBGF.

In addition to its own programs, ECBC is responsible for the delivery of ACOA's programs on Cape Breton Island. In 1995, ECBC and ACOA signed a Memorandum of Understanding (MOU) allowing

MANDATE

The Enterprise Cape Breton Corporation Act provides the Corporation with a broad legislative mandate which reads:

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.*

*This definition of Cape Breton includes the Mulgrave area.

MISSION

The mission statement focuses the Corporation on the major issues affecting the economy of Cape Breton Island and the Mulgrave area. ECBC's mission statement reads:

Enterprise Cape Breton Corporation (ECBC) is the principal federal government organization for economic development in Cape Breton. ECBC, in partnership with all levels of government, the private sector and other community stakeholders, will use its broad and flexible powers to assist, promote and co-ordinate efforts that foster an environment supportive of the generation of wealth to effect sustainable job creation throughout Cape Breton Island and Mulgrave.

ECBC to design its programming and economic development strategies to complement ACOA programming. The MOU was renegotiated with ACOA for an additional five-year term effective April 1, 2000.

In August 2000, the CBGF was incorporated as a wholly-owned subsidiary of ECBC with its own board of directors. The Governor in Council declared that part X of the *Financial Administration Act* (FAA) applies to the CBGF as if it were a parent Crown corporation. This means that the CBGF reports separately to Parliament through its own corporate plan and annual report. ECBC, through a MOU with the CBGF, provides program and operational support, thereby minimizing administrative expenses.

In addition to its relationship with the CBGF and ACOA, the Corporation is a member of the Industry Portfolio. ECBC has a history of working in partnership with the federal Department of Human Resources and Skills Development, the Nova Scotia Department of Economic Development, regional development authorities, Nova Scotia Business Inc., the Nova Scotia Department of Tourism, the Nova Scotia Department of Energy, DEVCO, Destination Cape Breton, the Community Business Development Corporations (CBDC), not-for-profit organizations, municipalities and the private sector on a number of economic development initiatives.

ECBC has and will continue to encourage working relationships with all levels of government.

BOARD OF DIRECTORS

2004/2005

MONIQUE COLLETTE

Chair and CEO and is President of the Atlantic Canada Opportunities Agency. Prior to this appointment, she was Assistant Deputy Minister, Corporate Services, with the Department of Justice.

RICK BEATON

Vice President and COO, formerly Director, Corporate Affairs and Programs with ACOA in PEI and Departmental Liaison to the Minister's Office, ACOA – Ottawa.

BETTY ANN AUCOIN

Chéticamp, Nova Scotia.
Administrator, Hôpital Sacré-Coeur and Foyer Père Fiset.

ROBERT MCFADGEN

Marion Bridge, Nova Scotia.
Small business owner, president of McFadgen's Bakery.

FERNE MACLENNAN

River Denys, Nova Scotia.
Educator (Nova Scotia Community College, Strait Campus) and community economic development activist.

SONNY MACDOUGALL

Glace Bay, Nova Scotia.
Chartered Accountant with KPMG Chartered Accountants.

GARY CORSANO

Sydney, Nova Scotia.
A partner in the law firm of Sampson McDougall.



Left to right: Ferne MacLennan, Betty Ann AuCoin, Gary Corsano, Rick Beaton, Monique Collette, Sonny MacDougall and Robert McFadgen

THE ECONOMIC CONTEXT

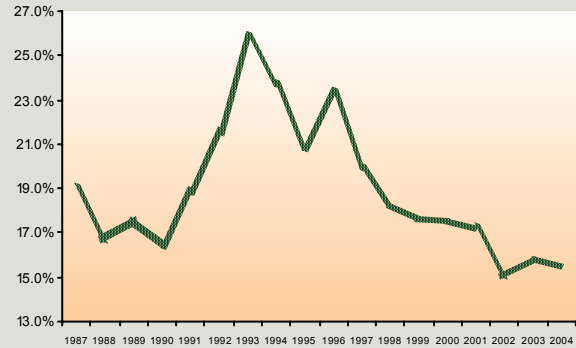
The past five years have been a particularly important time for the Cape Breton economy. The loss of the two largest industries on the Island, the coal industry and the steel industry, created an almost insurmountable situation. At that time, the unemployment rate on the Island was already too high and incomes were well below both the provincial and national averages.

A study conducted by Gardner Pinfold Consulting Economists Ltd. in September of 1999, predicted that the DEVCO closure would, "...paint a bleak picture of economic life in Cape Breton at the turn of the 21st century."¹

While economic indicators on Cape Breton are below provincial and national averages, the last five years have not proved as difficult as some had predicted. Investments in other industries have helped to breathe life into the economy. The emergence of the tele-service sector provided entry level positions for many of the Island's unemployed. The large pool of labour made the Island an ideal match for this labour intensive industry, allowing it to establish and expand relatively quickly. Though the tele-service jobs are not as high paying as those that were lost in the coal and steel industries, they do provide possibilities for skill upgrades to those without extensive employment experience.

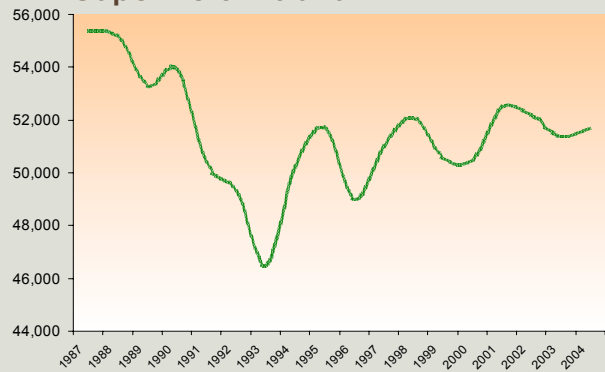
¹ Gardner Pinfold Consulting Economists Ltd, "Economic Impact of the DEVCO Closure", September 1999, p. 31

ANNUAL UNEMPLOYMENT RATE Cape Breton Island



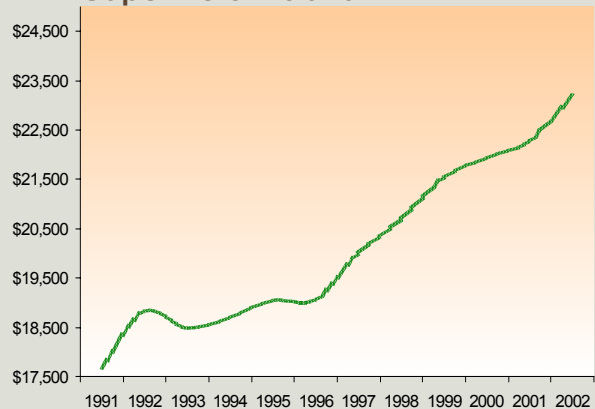
Historical Labour Force Data 2004, Statistics Canada

ANNUAL EMPLOYMENT Cape Breton Island



Historical Labour Force Data 2004, Statistics Canada

EMPLOYMENT INCOME PER EARNER Cape Breton Island



Neighbourhood Income & Demographics, Statistics Canada

While the tele-service industry provided entry level employment, it is also recognized that industries requiring more specific skill sets would be needed. Such industries would provide further strength to the economic base by employing higher-wage labour and by diversifying the Island's productive capacities into more specialized areas. These types of 'knowledge intensive' investments usually take longer to realize as they require larger investments and greater risk. The auto parts manufacturing sector has experienced success on the Island and continues to expand and upgrade. The addition of a pharmaceutical manufacturing plant along with planned investments related to the oil and gas sector will also provide high-wage employment for specialized labour, further diversifying the economic base of the Island.

These investments manifested themselves in the available economic indicators for the Island over the past five years. Labour force estimates of employment have shown signs of growth. Employment incomes are also showing evidence of growth. As of 2002, the most recent year for which this data is available, employment income per earner grew by over 4% on the Island. Comparable provincial and national numbers show only a 3% and 2% increase respectively.

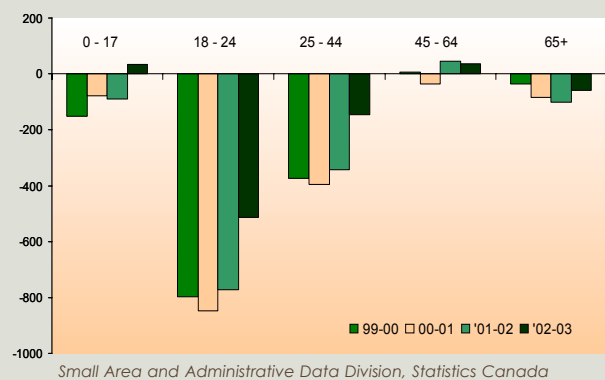
Concurrent with rising incomes is an apparent slowing of out-migration. During the time leading up to the closure of DEVCO and SYSCO, the Island experienced a relatively large amount of net out-migration. The outflow reached a high of just over 2,000 people, or about 1.3% of the population, in 1997. In 2003, the most recent year for which data is available, net out-migration fell to just under 650, or less than half a percentage point.

Of particular note is the reduced net out-migration of the 25-44 age cohort. At its worst point in 1997, almost 700 net migrants in this age range left the Island, or about 1.4% of that age group, compared to 147 in 2003, which makes up approximately 0.4% of the group in that year.

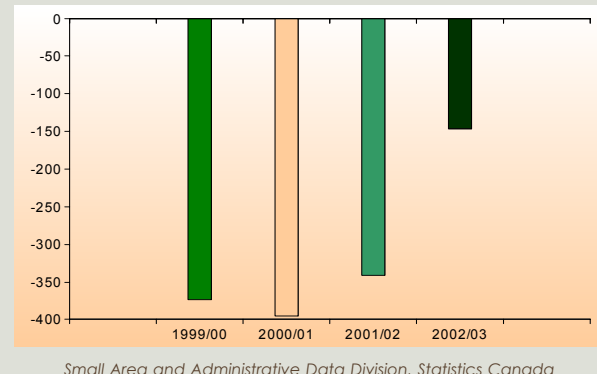
Also of note is an observed increase in total births in Cape Breton rising approximately 4% between 2000/2001 and 2003/2004.

As other investments such as the pharmaceutical manufacturing plant become a reality and provide increased opportunities and disposable incomes, out-migration should be further reduced, and eventually reversed.

NET ISLAND MIGRATION BY AGE between Cape Breton Island and the Rest of World



NET ISLAND MIGRATION (25-44 AGE GROUP) between Cape Breton Island and the Rest of World



PERFORMANCE AGAINST OBJECTIVES

It has been five years since ECBC implemented its performance management framework. The primary focus of the framework is to produce meaningful measures that facilitate management's ability to establish the Corporation's goals, meet these goals and to determine whether the goals are being achieved.

For the most part, performance measurements focus on measuring the **impact** of short- and medium-term outcomes, which provide immediate feedback on programs and activities, allowing the Corporation to assess their effectiveness and to ultimately make better decisions. The key outcome for ECBC is the long-term economic development of Cape Breton.

There are many factors that can **impact** the economic development of a region. When trying to measure performance, we are faced with the difficulty of determining just what contribution the specific program in question made to the outcome.

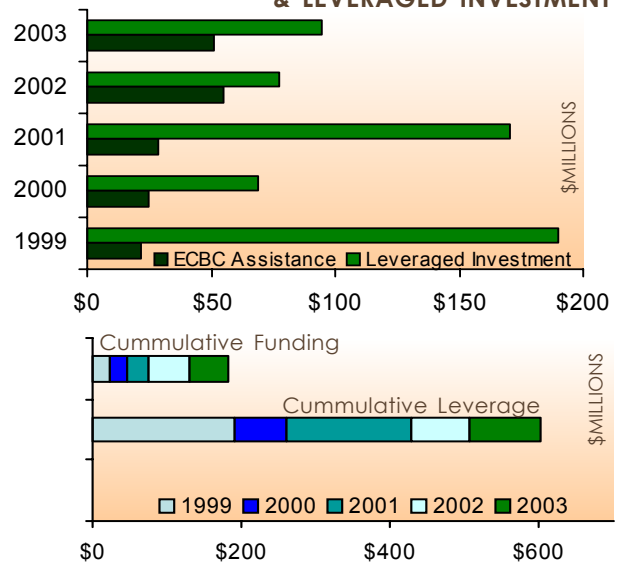
Performance measurement is, therefore, about increasing the level of understanding of how a program is impacting on a certain outcome and reducing the degree of uncertainty about its contribution. In a discussion paper from the Office of the Auditor General of Canada, John Mayne states "...we can always measure things and, in particular, the contribution a program is making. That is, we can almost always gather additional data and information that will increase our understanding about a program and its impacts, even if we cannot 'prove' things in an absolute sense." (*Addressing attribution through contribution Analysis: Using Performance Measures Sensibly*, John Mayne, 1999).

Recognizing the limits of measurement in this circumstance, ECBC commissioned the services of Canmac Economics Limited and Dan White & Associates Limited to undertake an examination of the Economic Impact of Federal Development Assistance on Cape Breton Island over the past five years. The study identifies the substantial role that ECBC plays in the Cape Breton economy.

The 1997 Report of the Auditor General of Canada, Reporting Performance in the Expenditure Management System, states:

"We realize that determining the contribution made to an outcome can be a challenging task. Nevertheless, reporting on the performance of key outcomes ought to recognize the other factors that may be influencing an outcome, describe how the program's activities are intended to influence the outcome sought and highlight any available evidence supporting the contention that the program is having an impact."

**ANNUAL FUNDING LEVELS
& LEVERAGED INVESTMENT**



Source: Canmac Economics/ Dan White & Associates

It was determined that over the last five years, ECBC and its subsidiary corporation, the CBGF, have invested over \$181.6 million. This assistance leveraged additional project expenditures so that total expenditures over the period amounted to \$783.1 million. Some of the major economic impacts associated with these expenditures are as follows;

By the 2003/2004 fiscal period, ECBC's overall annual employment creation had grown to 9,383 full-time equivalents (FTEs). This total employment is comprised of

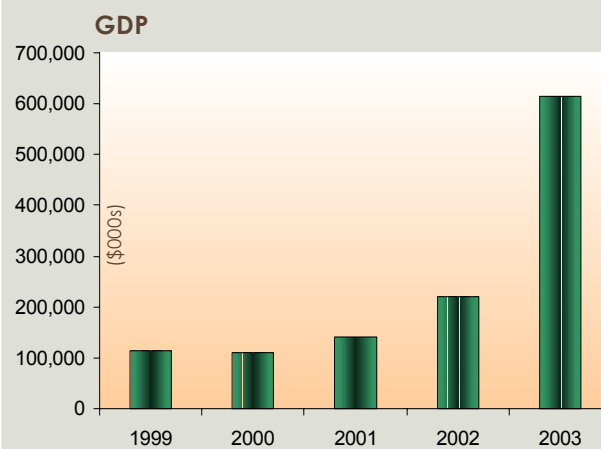
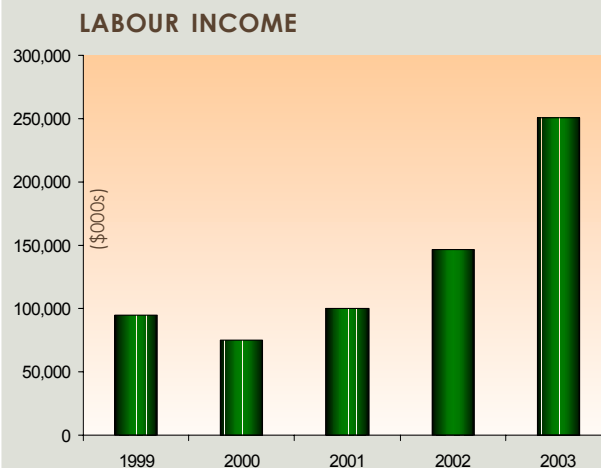
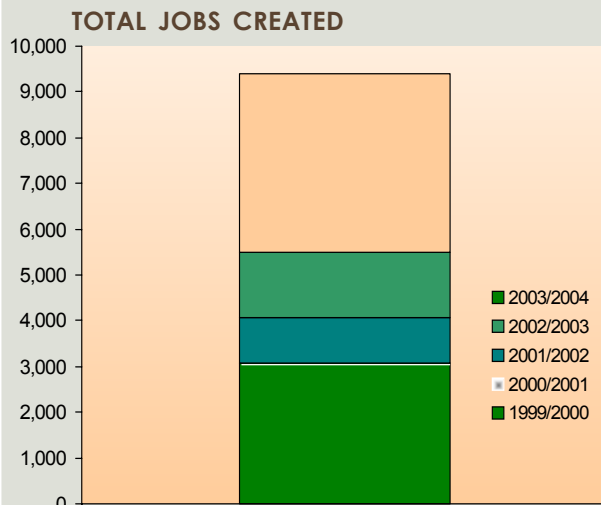
- 6,339 (FTEs) direct employment from sustainable activity;
- 1,235 (FTEs) direct employment from short-term job creation (primary construction); and
- 1,809 indirect and induced spin-off employment positions.

A total of \$667.1 million of labour income was provided to Cape Breton households or \$133.4 million/year, on average.

Total GDP creation of \$1.2 billion or \$240 million/year, on average.

Some of the major fiscal impacts are:

- An increase of \$84.0 million in provincial revenues or \$16.8 million/year, on average;
- An increase of \$91.2 million in federal revenues or \$18.2 million/year
- An estimated employment insurance savings of \$30.6 million/year, on average; and
- An increased \$10.8 million in municipal revenues or \$2.2 million/year, on average.



The consultants conducted a benefits cost analysis of the programming delivered by ECBC. It concluded that for every dollar committed by ECBC in the Cape Breton economy, an extra \$5 in household income was generated.

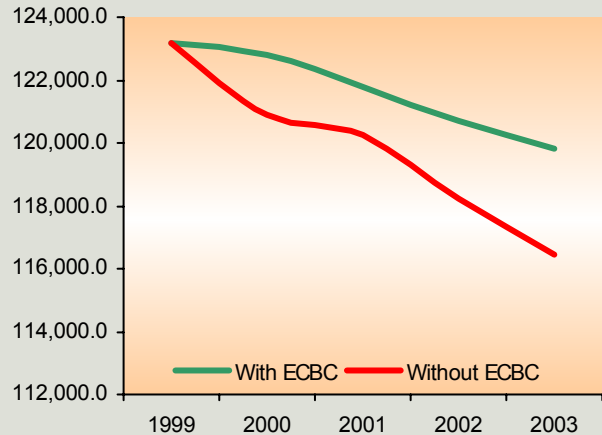
The consultants also looked at some interesting scenarios, particularly how the economy would look without the existence of ECBC. To do this, they examined the macro-economic effects of ECBC's activity on demographics, migration and unemployment. Macro impacts were measured by simulating the economy under the assumption that ECBC did not exist and hence the incremental employment and income creation did not take place. The elimination of ECBC results in several reactions as follows:

- the number of unemployed persons increased;
- the increase in unemployed results in increased out-migration; and
- the increased out-migration results in a decrease in population growth.

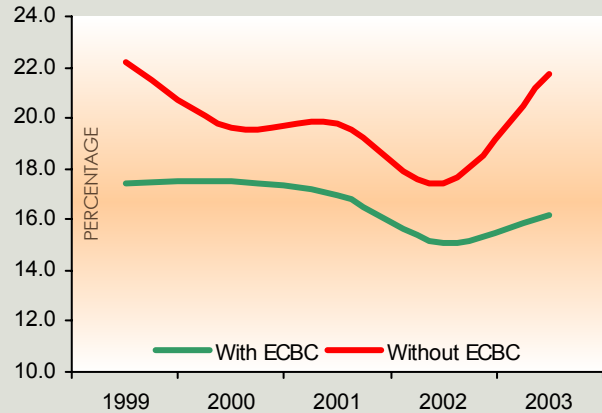
The loss of ECBC-created jobs triggers a negative cycle of economic decline. The model's simulation of the economy without ECBC estimates a reduction in population of 12,691 by 2004. This represents 10.6% of the actual population in 2003. Over the period 1999 to 2003, the labour force is estimated to decrease by 8,509 (a 13.3% reduction) and the number of employed persons is estimated to drop by 9,383 (a 17.8% reduction). The study estimates that these changes would have resulted in an unemployment rate of 21.7% as opposed to the actual unemployment rate for 2003 of 16.2%.

Based upon the results of the economic impact analysis, it is apparent that the key outcome is economic growth and that ECBC programs are positively impacting the economy of Cape Breton.

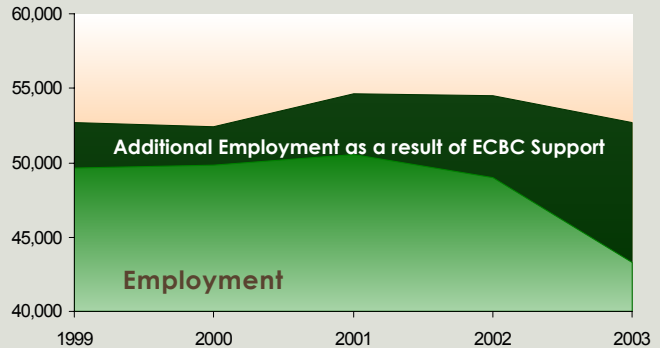
POPULATION



UNEMPLOYMENT RATE



EMPLOYMENT



PERFORMANCE AGAINST OBJECTIVES

STRATEGIC PRIORITY – SUPPORT TO BUSINESS

OBJECTIVE

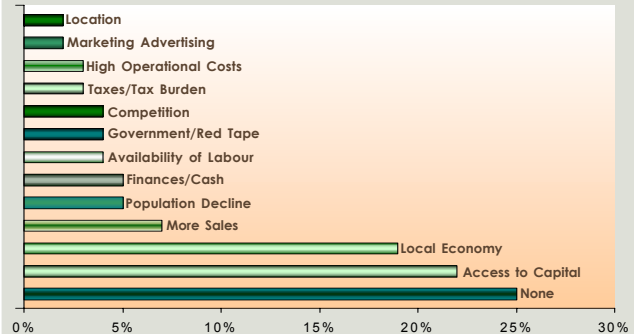
To grow the economy by encouraging private sector investment in projects that enhance the competitiveness of commercial enterprises and increase trade opportunities to produce long-term, sustainable jobs.

In 2004, ECBC commissioned the services of Intelligence Consulting Group Inc. to carry out the Cape Breton Island Business Survey. As part of the survey, a comprehensive listing of businesses and organizations on Cape Breton Island was developed. Based on the information gathered, there is an estimated total of 5,426 business establishments on Cape Breton. Interviews were conducted with 2,169 of the businesses and when questioned on the greatest barrier to expanding their business operation, two in ten (22%) indicated that access to capital was their top concern.

ECBC assists in business development by helping commercial enterprises overcome barriers to growth, particularly access to capital. The Corporation can provide access to capital in the form of secured, unsecured or interest free loans, equity or non-repayable assistance. During 2004/2005, ECBC committed to over \$6 million in assistance as part of its support to business activities.

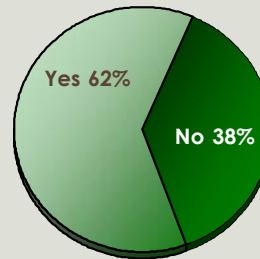
During 2004/2005, ECBC also assisted a number of businesses to upgrade and enhance their websites to include e-commerce capabilities. The websites will allow businesses to do more sophisticated marketing and merchandising, ultimately resulting in more revenues and jobs.

BARRIERS TO EXPANSION



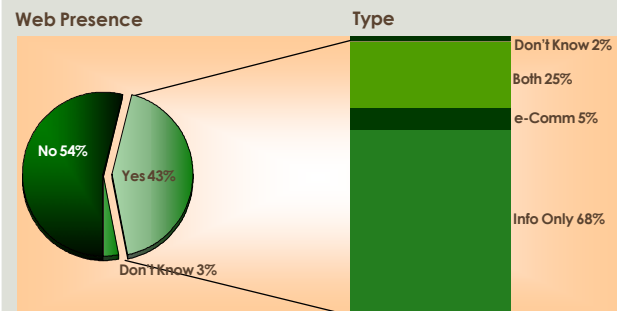
Source: Cape Breton Island Business Survey for Enterprise Cape Breton Corporation, Intelligence Consulting Group Inc., November 2004

OFF-ISLAND EXPORTING



According to the Cape Breton Island Business Survey, three in five (62%) organizations on Cape Breton Island are involved in some form of exporting. That is to say, they sell goods and/or services in off-Island markets or to off-Island visitors. Essentially, 62% of the Island's companies receive some sort of cash injection from an off-Island source.

WEB CAPABILITY



Four in ten (43%) respondents reported some type of web presence for their respective organizations. Of those with a website, two-thirds (68%) report that their sites are for information only. Five percent indicated that their sites are e-commerce sites, specifically designed to transact business on-line. One-quarter suggested that their sites were for both information and e-commerce.

SUPPORT TO BUSINESS - RESULTS ACHIEVED

Measures	Targets Annual	Performance Against Targets					Total	Targets 5-Year	% of Targets Achieved
		2001	2002	2003	2004	2005			
Estimated Number of Jobs Created**	50	413	68	124	404***	65	1,074	600	179% ■
Dollar Value of Leveraged Funds	\$3.0 M	\$43.1 M*	\$2.9 M	\$5.7 M	\$3.3 M	\$14.9 M	\$69.9 M	\$35.0 M	200% ■
Dollar Value of New Export Sales	\$2.0 M	\$55.7 M	\$2.9 M	\$81.1 M	\$0.5 M	\$20.4 M	\$160.6 M	\$10.0 M	1,606% ■

● Stopped and/or has fallen short of target ▲ Not on target/experiencing some slippage ■ On schedule or exceeds target

* Based on total project cost.

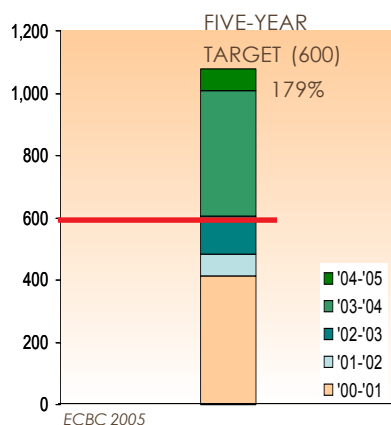
** Also includes jobs created as a result of ECBC's activities under Support to Communities and the Community Adjustment Fund (CAF).

***This number includes jobs created as a result of combining a CAF project for an incubator building and the Spiegel Tele-service project as both were contingent upon each other.

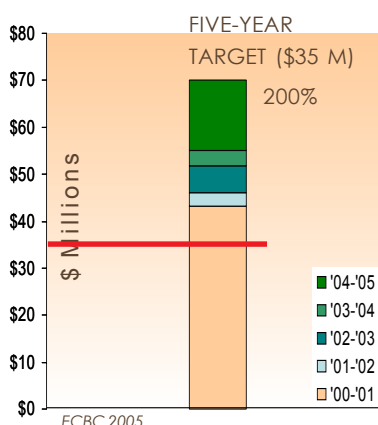
ECBC's support to business has helped business to increase employment, increase the level of export sales, as well as leverage other sources of investment.

Between April 1, 2000 and March 31, 2005, ECBC assisted in the direct creation of an estimated 1,074 jobs. During 2004/2005, the Corporation exceeded both its annual and five-year targets for new job creation, new export sales and leveraged investment. Over the last five years, the Corporation has helped to leverage \$70 million in new investment and to generate \$160.6 million in new export sales.

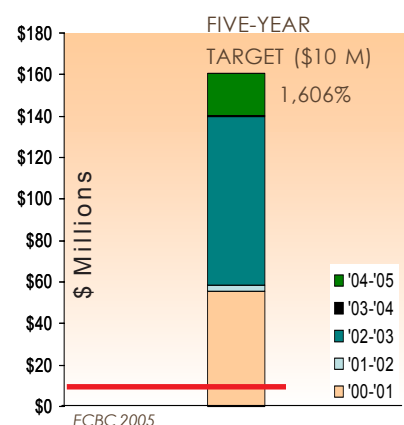
ESTIMATED JOBS CREATED



LEVERAGED FUNDS



NEW EXPORT SALES



STRATEGIC PRIORITY – SUPPORT TO COMMUNITIES

OBJECTIVE

To help communities plan and implement community development projects that have a direct link to long-term, self-sustaining economic activity.

During 2004/2005, the Corporation continued to work closely with a number of community economic development organizations to achieve the specific goals identified and spearheaded by communities.

Community development took many forms throughout the year. Projects included innovation workshops in rural communities, management training for entrepreneurs at the local YMCA, the establishment of an environmental data management facility at Cape Breton University (CBU), upgrades to the Farmer's Exhibition Centre, as well as many other community infrastructure projects.



In the past five years, ECBC has provided substantial funding to tourism infrastructure projects, including the Sydney Marine Terminal, the Port Hawkesbury Civic Centre and the Membertou Trade & Convention Centre. These projects, shown above, were all completed in this fiscal year.

The Corporation also continued its support for the Festival and Events program, providing over \$174,800 to 65 festivals and events across the Island.



The Corporation exceeded both its annual and five-year targets for leveraged investment. During 2004/2005, the Corporation leveraged \$4.1 million under its Support to Community activities. Over the past five years, the Corporation has leveraged \$18.6 million through these activities.

In 2002/2003, the Corporation set a target for the number of infrastructure improvement projects. That target currently stands at six per year and 13 projects over five years. Since that time, the Corporation has assisted 22 infrastructure projects, exceeding the five-year target.

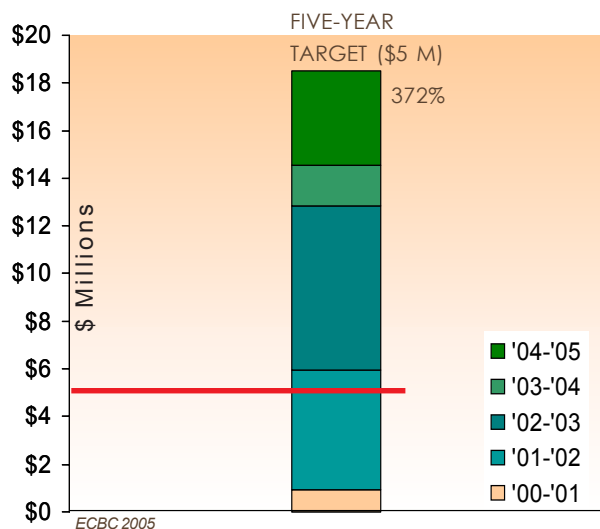
ECBC continues to support convention and sporting events initiatives. In 2004/2005, it was a major sponsor of the East Coast Music Awards (ECMAs) that took place in Sydney in February. The impact of such an event during the off-season provided a tremendous boost to the Cape Breton economy. Increased direct and indirect expenditures from the event and from visiting tourists was estimated to have exceeded \$5 million.

SUPPORT TO COMMUNITIES - RESULTS ACHIEVED

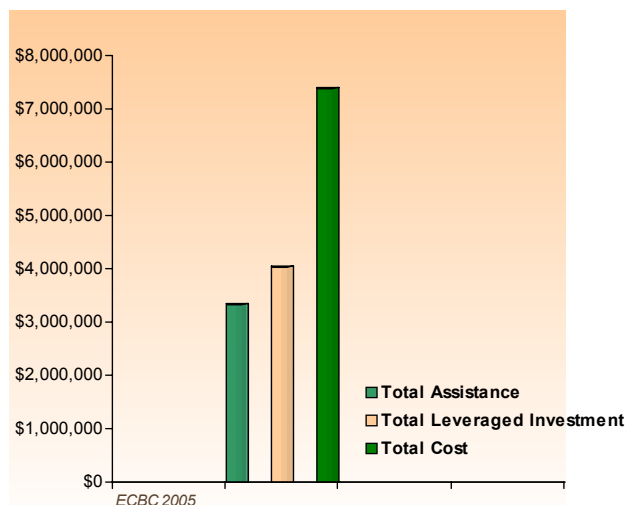
Measure	Target Annual	Performance Against Target					Total	Target 5-Year	% of Target Achieved
		2001	2002	2003	2004	2005			
Dollar Value of Leveraged Funds	\$1.0 M	\$0.9 M	\$5.0 M	\$6.9 M	\$1.7 M	\$4.1 M	\$18.6 M	\$5.0 M	372% ■

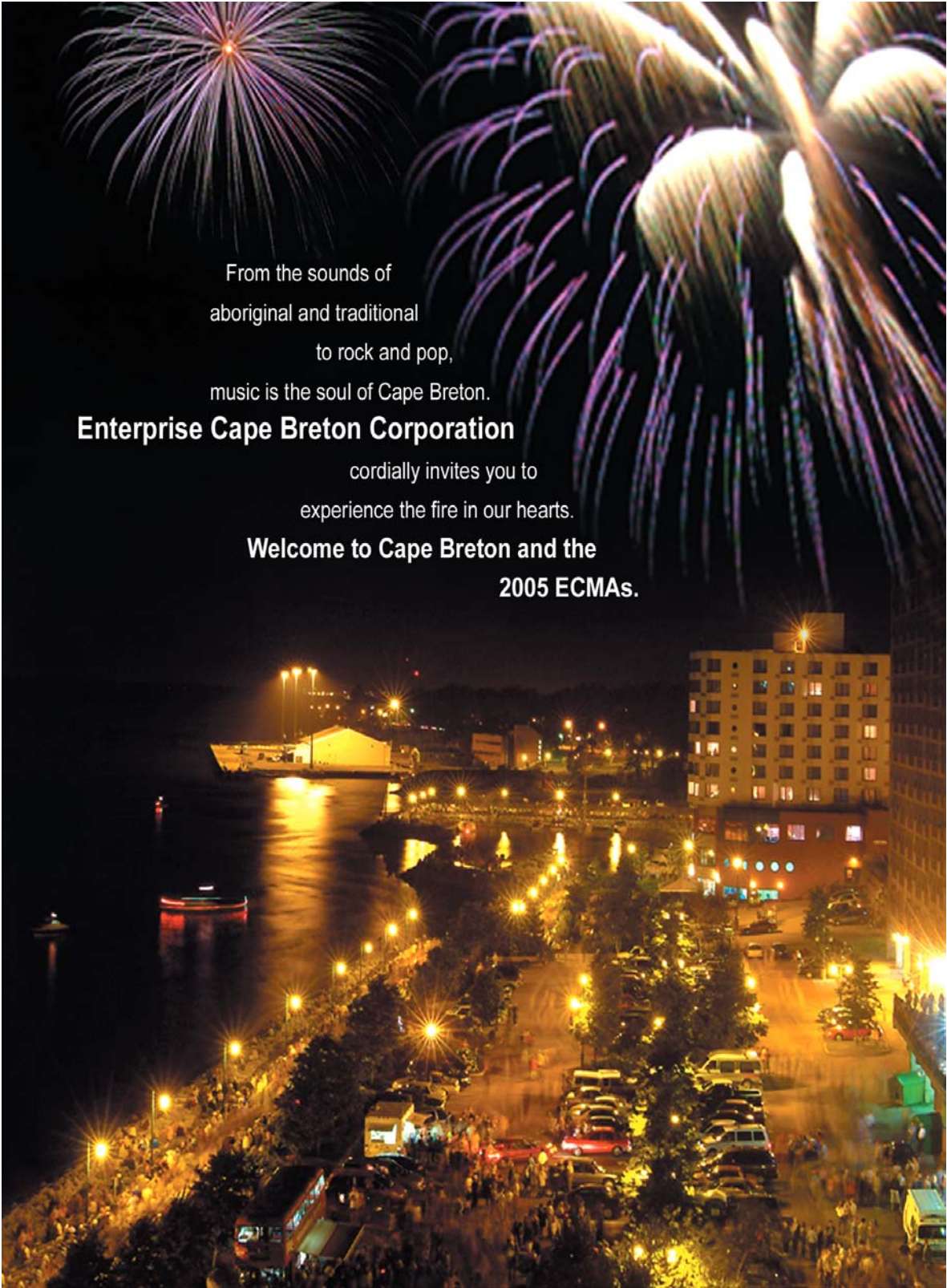
● Stopped and/or has fallen short of target ▲ Not on target/experiencing some slippage ■ On schedule or exceeds target

LEVERAGED INVESTMENT



SUPPORT TO COMMUNITIES 2004/05





From the sounds of
aboriginal and traditional
to rock and pop,
music is the soul of Cape Breton.

Enterprise Cape Breton Corporation

cordially invites you to
experience the fire in our hearts.

**Welcome to Cape Breton and the
2005 ECMAs.**

STRATEGIC PRIORITY – INVESTMENT

OBJECTIVE

To attract new business investment to Cape Breton Island.

A competitive alternatives study by the international accounting and consulting firm KPMG found that Cape Breton offers significant business-cost advantages over other cities located in G-7 countries. The report contains a cost-comparison index for a sample of Canadian and international cities. The index uses the United States national average for a base of 100. All cities are ranked on a scale relative to this base. In the rankings for all 121 cities studied (98 main centres and 23 additional Canadian cities, of which Sydney is one), Sydney, Cape Breton tied for 6th for its low business costs.

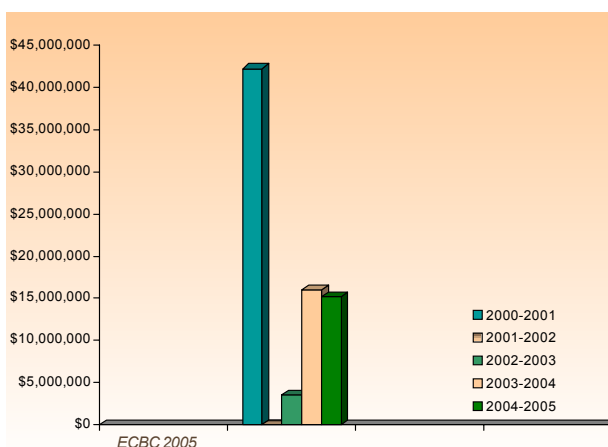
RANK	CITY	Index Value (U.S. National Average=100)
1	Pictou, Nova Scotia	85.0
2	Alma, Quebec	85.3
3	Sherbrooke, Quebec	86.5
4	Truro, Nova Scotia	86.6
5	Prince Albert, Saskatchewan	87.6
6	Sydney, Nova Scotia	87.7
6	Red Deer, Alberta	87.7

KPMG Competitive Alternatives 2004

Only five regions have a lower cost index than Sydney, Nova Scotia, whether comparing just Canadian cities or all cities in the KPMG report. The result obtained for Sydney (87.7) means that, overall, businesses can expect their costs to be 12.3% cheaper than the overall rating for the United States.

ECBC remains committed to growing investment on Cape Breton Island attracting much needed economic benefits and skills to the area. The Corporation established a five-year target for new investment that included annual targets. ECBC captures new investment by identifying foreign direct investment from outside Canada, as well as off-Island investment from within Canada. Exceeding its annual and five-year targets for investment, ECBC attracted an estimated \$14.1 million in new investment to Cape Breton during 2004/2005. Over the last five years, ECBC attracted an estimated \$75.8 million in new investment.

FOREIGN & CANADIAN INVESTMENT



INVESTMENT - RESULTS ACHIEVED

Measure	Target Annual	Performance Against Target					Total	Target 5-Year	% of Target Achieved
		2001	2002	2003	2004	2005			
Dollar Value of New Investments	\$2.0 M						\$75.8 M	\$10.0 M	768% ■
Canadian Investment		\$42.2 M	\$ -	\$3.5 M	\$ -	\$12.7 M	\$58.4 M		
Foreign Investment		\$ -	\$ -	\$ -	\$16.0 M	\$1.4 M	\$17.4 M		

● Stopped and/or has fallen short of target ▲ Not on target/experiencing some slippage ■ On schedule or exceeds target

During 2004/2005, ECBC, in partnership with the CBGF and ACOA, was successful in attracting Keata Pharma Inc. (Keata), a contract pharmaceutical manufacturing company. This project is anticipated to create up to 165 new jobs over three years. In a related project, CBU, in partnership with Keata, will launch a new Biotechnology and Pharmaceutical Technology Certificate Program to train potential employees. Funding for the certificate program was provided by ECBC. PharmEng Technology Inc. (PharmEng), the parent company of Keata, will also establish a pharmaceutical consulting office in Cape Breton, creating employment for an additional 12 professional staff.



STRATEGIC PRIORITY – ADVOCACY

OBJECTIVE

To advocate for Cape Breton Island's interests, priorities and concerns in government decisions.

The advocacy activities of ECBC are aimed at increasing Cape Breton Island's presence at inter- and intra-governmental meetings. It ensures that the particular needs of this region are forefront in the minds of officials when looking at province-wide or region-wide programs.

During 2004/2005, the Advocacy Office was involved in a number of committees and working groups where Cape Breton's perspectives, issues and opportunities were highlighted. The various committees include:

- Federal Council and Federal Council Sub-Committees
- Life Sciences Economy Initiative
- Federal Economic Development Coordinating Committees & Provincial Deputy Ministers
- The Aboriginal Economic Development Advisory Committee
- Nova Scotia Innovation Team
- Advocacy Working Group
- "Marshall" Economic Advisory Committee
- Chair, Strengthening Communities Initiative (NS Innovation Team)
- Climate Change Working Group
- ACOA Working Group on Aboriginal Communities
- ACOA Immigration Working Group
- ECBC/ACOA Linkages
- Life Sciences Development Association
- Federal Council Policy Committee

During 2004/2005, the Advocacy Office pursued the following priorities:

Bilateral Relationships

The Advocacy Office continued to identify areas of commonality between ECBC and other government departments, with an emphasis on horizontal relationships and working smarter. ECBC also examined areas where the Corporation can be involved as a third-party delivery agent.

Immigration

The ACOA/ECBC Immigration Working Group prepared recommendations with regard to the role that immigration can play in the economic development of the region. The approach will focus on attraction, awareness, welcoming, integration and retention of immigrants. The development of the strategy is being done in consultation with other federal partners to address Atlantic Canada's challenges with respect to immigration.

Nova Scotia Innovation Team

This year, the priorities of the Innovation Team were in the commercialization and regional innovation development sectors.

Aboriginal Communities

ECBC works in partnership with a number of First Nation communities on Cape Breton toward the achievement of economic development goals.

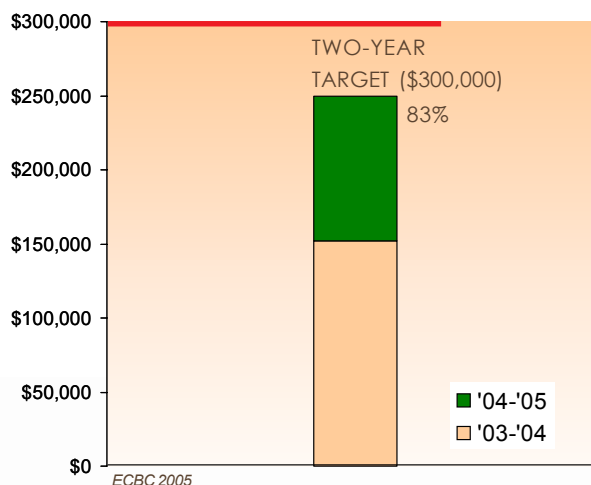
The Corporation is a member of the Tripartite Economic Development Committee (TEDC), a partnership between the federal and provincial governments and First Nation communities of Nova Scotia. The committee encourages employment and other economic opportunities that will enhance the living conditions of Aboriginal peoples.

ECBC is also a member of the Economic Development Officers Network (EDON), a voluntary group that meets on a regular basis to address issues relating to Aboriginal peoples. This group has been actively involved in local projects as well as initiatives at a provincial and national level that impact the development of the Mi'kmaq in Nova Scotia. The economic development officers volunteer to provide input and feedback and work on proposals that are endorsed by the TEDC.

Operational Cost-Efficiencies

During 2004/2005, ECBC achieved 65% of its annual target for operational cost-efficiencies and 83% of its two-year target. It was decided in January 2005 that the majority of the advocacy function would be carried out through ECBC's Sydney office. This, of course, had an impact on the target for 2004/2005.

OPERATIONAL COST-EFFICIENCIES



ADVOCACY - RESULTS ACHIEVED

Measure	Target Annual	Performance Against Target					Total	Target 5-Year	% of Target Achieved	
		2001	2002	2003	2004	2005				
Dollar Value of Operational Cost-Efficiencies for ECBC*	\$150,000	N/A	N/A	N/A	\$152,100	\$97,700	\$249,800	\$300,000	83%	▲

● Stopped and/or has fallen short of target ▲ Not on target/experiencing some slippage ■ On schedule or exceeds target

*Operational cost-efficiencies are calculated using a methodology that assumes the average cost of travel from Sydney to Halifax return is \$950. Travel savings are estimated by multiplying this cost by the number of days on which there were meetings that ECBC staff would have normally been required to attend. This does not attempt to assign any "travel savings" to meetings, events, or sessions that the Director of Advocacy attended, but that ECBC normally would not have attended.

STRATEGIC PRIORITY – POLICY AND RESEARCH

OBJECTIVE

To help provide a sound basis for the Corporation's policy priorities and programs.

Policy development requires sound research and analysis. ECBC research reflects and supports:

- emerging local economic issues;
- structural challenges and opportunities;
- sector specific considerations;
- Government of Canada policies;
- ECBC's program and development initiatives; and
- the need for ongoing performance management and evaluation.

During 2004/2005, the ECBC policy unit carried out three research studies.

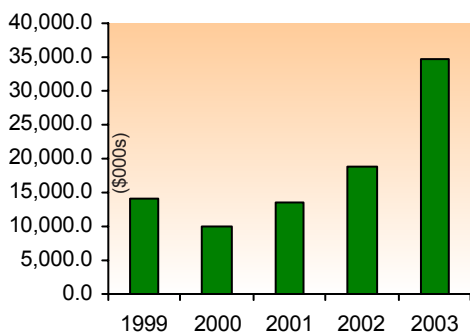
Economic Impact of Federal Development Assistance on Cape Breton Island

This report provides a comprehensive assessment of the impact of ECBC's federal development programs over the five-year fiscal period 1999/2000 to 2003/2004. The impact assessment includes, by year, an economic impact (employment, income and GDP), a fiscal impact (revenue as cost savings by level of government) and a review of the changing structure of the Cape Breton economy.

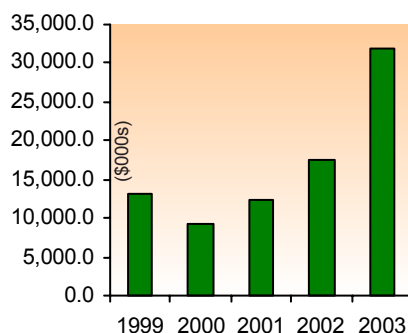
FISCAL IMPACTS

The study finds that investments made to date by ECBC will create future revenue streams for the various levels of government at a benefit-to-cost ratio of 2.77.

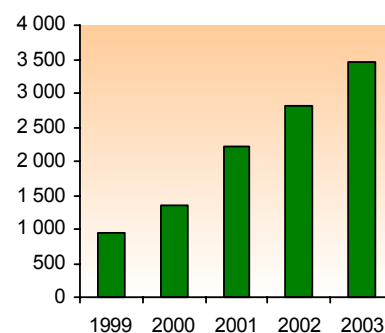
FEDERAL REVENUES



PROVINCIAL REVENUES



MUNICIPAL REVENUES

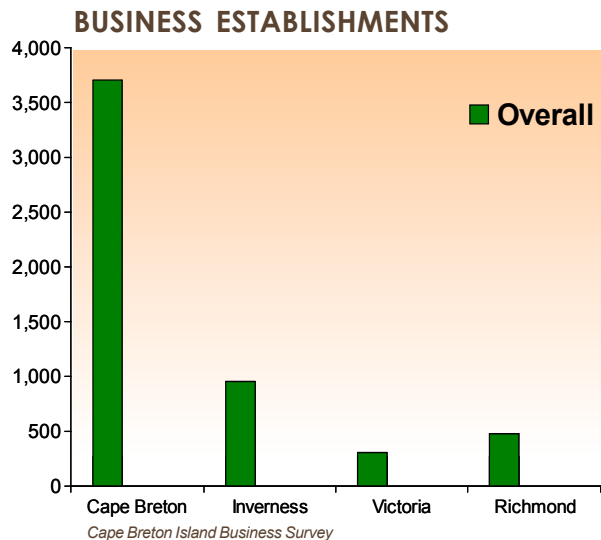


Source: Canmac Economics/ Dan White & Associates

Cape Breton Island Business Survey

Development efforts on Cape Breton Island and Mulgrave require the best possible information about the state of the business environment and the overall economy.

Increasing the quality of economic data for Cape Breton will enable decision makers to make more informed, timely decisions. To that end, ECBC commissioned the services of a consultant to undertake a survey of Cape Breton businesses that would gather relevant data for analysis. This report examines the results of the Cape Breton Island Business Survey and uses the results to make estimates concerning the Island's overall business sector.



An Assessment of Economic Development Opportunities for the Prince Mine Site and the Victoria Junction Coal Preparation Plant Site

In 2002/2003, the Corporation entered into an MOU with DEVCO. The overall purpose of the MOU was, "to enable the development of a decision-making and management framework for the identification, environmental assessment and remediation and the potential transfer of properties with economic development potential from DEVCO to ECBC in a timely and efficient manner." This study assesses two DEVCO properties, the Prince Mine Site and the Victoria Junction Coal Preparation Plant Site, to determine if there is potential for accommodating sustainable, long-term, economic development opportunities.

Over the past five years, the Corporation has carried out 35 research projects, achieving 87.5% of its five-year target. ECBC carried out three research studies during 2004/2005. A number of other studies were initiated; however, due to time constraints, they have been carried over into fiscal 2005/2006.

POLICY AND RESEARCH - RESULTS ACHIEVED

Measure	Target Annual	Performance Against Target					Total	Target 5-Year	% of Target Achieved
		2001	2002	2003	2004	2005			
Research studies that provide a sound basis for the Corporation's policies and programs	8	8	8	9	7	3	35	40	88% ▲

● Stopped and/or has fallen short of target ▲ Not on target/experiencing some slippage ■ On schedule or exceeds target

STRATEGIC PRIORITY – PROVISION OF SERVICES FOR THE GOVERNMENT OF CANADA

OBJECTIVE

To deliver programs and services for the Government of Canada, including ACOA, to foster economic development on Cape Breton Island and, specifically, to enhance the growth of earned incomes and employment opportunities in the region.

ECBC delivers the following programs on behalf of ACOA

BUSINESS DEVELOPMENT PROGRAM (BDP) The intention of this program is to help small and medium-sized enterprises (SMEs) establish, expand and modernize. It offers capital in the form of interest-free, unsecured loans. These loans are either repayable or non-repayable. The BDP also provides support to non-profit organizations that service Atlantic Canada businesses.

CONSULTANT ADVISORY SERVICES (CAS) This program provides business clients with expert consulting to help them take advantage of business opportunities and solve problems.

INFRASTRUCTURE CANADA This program (a six-year partnership agreement signed by the federal and provincial governments) is designed to accelerate economic recovery. Through investing in the local community, short and long-term employment is created while renewing and enhancing physical infrastructure.

COMMUNITY FUTURES PROGRAM This program supports independent, not-for-profit CBDCs. The CBDCs provide rural entrepreneurs with access to the information, advice and capital required to be successful.

ATLANTIC INVESTMENT PARTNERSHIP (AIP) The AIP is a \$700-million initiative that makes investments in four major areas: innovation, community economic development, trade and investment and entrepreneurship and skills development.

ACOA PROGRAMS 2004/2005 (COMMITMENTS)	NUMBER OF PROJECTS	ASSISTANCE
Business Development Program	103	\$14,853,325
Consulting Advisory Services	25	\$130,422
Infrastructure Canada*	16	\$15,831,984
Atlantic Investment Partnership:		
- Strategic Community Investment Fund (SCIF)	30	\$8,539,876
- Atlantic Innovation Fund (AIF)	0	\$ 0
- Entrepreneurship/Skills Development	11	\$ 556,127
- Trade and Investment	3	\$ 40,049

* Reflects assistance from 2001 to March 2005

THE CAPE BRETON GROWTH FUND CORPORATION (CBGF)

Incorporated in August 2000, the CBGF has its own Board of Directors and reports separately to Parliament through its corporate plan and annual report. ECBC entered into an MOU with the CBGF to provide administrative and operational support. Staff was assigned by ECBC to support the Board of Directors and operations. Results and annual reports for the CBGF can be found on the website at www.cbGF.ca.

PROVISION OF SERVICES: ACTIVITIES 2004/2005



In 2004/2005, the CBGF provided funding to three manufacturing facilities. Techlink International, Copol International Ltd. and Tesma International are part of the local business community, helping the Island to prosper. These facilities serve to broaden the base of the Island economy and provide more than 400 jobs.



OPERATIONS

DARR (Cape Breton) Limited is a subsidiary of ECBC and acts as a real estate holding and development company. One of its main objectives is the acquisition and disposition of properties that financially benefit Canada and encourage private sector investment. DARR manages the Corporation's four operations: the Point Edward Resource Centre, the Port Hawkesbury Business Facility, Silicon Island Art and Innovation Centre and MacDonald House.

The Corporation made a number of capital improvements to Silicon Island in preparation for the Corporation's relocation during fiscal 2005/2006. It is expected that this move will result in annual savings of \$300,000.

During 2004/2005, the Corporation listed a portion of the Point Edward facility for sale. Although there has been interest expressed in the property, it has not yet been sold. A new tenant was secured for an unoccupied portion of the Port Hawkesbury Business Facility. MacDonald House remains fully occupied.

In 2002/2003, the Corporation entered into an MOU with DEVCO to potentially transfer properties with economic development potential from DEVCO to ECBC. In 2004/2005, the Corporation assessed two DEVCO properties, the Prince Mine Site and the Victoria Junction Coal Preparation Plant Site. The Victoria Junction site has now been identified as having potential for further development.

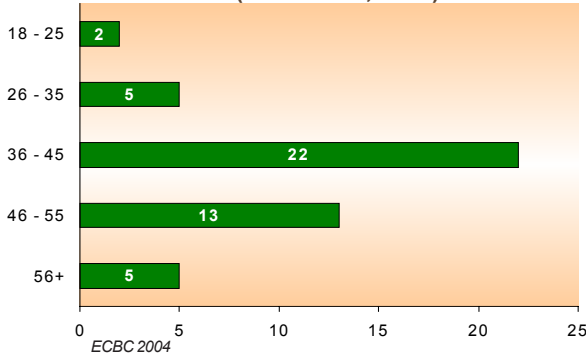
HUMAN RESOURCES

The main office of ECBC is located in Sydney, Nova Scotia, with a satellite office in Port Hawkesbury. Internally, ECBC is divided into a number of administrative units that report to the Vice-President, who also serves as the COO. The operational units consist of:

- commercial programs;
- development;
- internal audit;
- corporate services;
- advocacy;
- operations; and
- communications.

ECBC currently employs a total of 47 individuals. The organization is relatively young, with the staff averaging 44 years of age. The relative youth of the organization is also visible in the management team, with an average age of 48 years. A full 61.7% of staff are 45 years of age or younger, with 46.8% of the Corporation's employees falling within the 36-45 year-old range.

EMPLOYEE DEMOGRAPHICS BY AGE GROUP (MARCH 31, 2005)



AVERAGE AGE

All Staff	44
Senior Management	48

YEARS OF SERVICE

Less than 10 years	29
10 - 29 years	17
30 year +	1

TOTAL STAFF COMPLEMENT	47
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ECBC promotes education, and this is evident through the diverse educational backgrounds of its employees. Many have significant private sector experience that has contributed to the success of the Corporation. Over 17% of the staff hold professional designations and 8.5% hold master degrees. Approximately 15% of the staff are bilingual.

In accordance with the Corporation's commitment to lifelong learning, employees are also asked to prepare individualized training plans on a yearly basis.

In the past year, all of the Corporation's employees had the opportunity to attend a range of training programs. Some of the sessions offered to employees were: French language aptitude testing, leadership training, corporate governance training, life planning and retirement seminars, and workplace health and safety symposiums. Through both training programs and staff education, ECBC invested approximately \$36,000.

The Corporation acknowledges the importance of its employees with an attractive pay and benefits package. Benefits include health care, dental and access to an employee assistance program.

ECBC's social committee organizes a number of social events and activities throughout the year and ensures that important staff milestones are appropriately recognized.

ECBC human resource development initiatives address both current and long-term needs of the organization. The Board of Directors regularly reviews human resource policies. It has adopted a management succession plan, and through a combination of recruitment, work place training and special assignments it provides an orderly transition of vital responsibilities within the organization should current staff move on or retire.



ECBC employees are an integral part of the community. They are Cape Bretoners and have a vested interest in the success of ECBC's mission.

Helping the local community is a top priority at the office and at home. This past year, with generous contributions of their time and money, employees were able to make a positive impact on the local community through various fundraising efforts.

Their generosity was evident in the month of April when the first signs of spring were in the air. Employees participated in the Canadian Cancer Society's Daffodil Day for Cancer Research Campaign, raising funds to support cancer research.

Big Brothers/Big Sisters Bowl for Kids' Sake was a success again this year with employees hitting the lanes to show their skills and support.

Once again, The United Way Campaign proved to be a positive experience. The generous donations of employees also resulted in their receiving the Gold Employee Group Contribution level.

Employees also found a way to support the local community by taking a break from regular business attire and sporting their denims every Friday. All funds raised from "Casual Fridays" went to support the Every Woman's Centre which helps needy families.



Here is just one example of how ECBC employees are having a positive **impact** on their community.

Friends inside and outside of the office, ECBC employees Shaun Bond, Jim Lewis, Ken Martell, and Gerard Mcphee put their after-hours hobby to good use, raising funds for the Multiple Sclerosis Society of Canada. "The Cape Breton Two-Wheelers", as they called themselves, biked a total of 200 kilometers on the return trip from Musquodobit Harbour to Truro, while participating in the RONA MS Bike Tour last August. The crew was able to raise in excess of \$3,500 which contributed to the record-breaking success of the race, taking in \$5.1 million nation-wide for MS research. Jim was also recognized by the MS Society of Canada for having personally raised over \$2,000.

Collectively, the group has been working at ECBC for 30 years, and throughout the years these individuals have been recognized as advocates for community involvement. They are now able to add the bike tour to their impressive roster of volunteer work that includes: coaching minor hockey and soccer, fundraising for the Terry Fox Run, Big Brothers/Big Sisters, the Children's Wish Foundation and volunteering at local schools.

"The Cape Breton Two-Wheelers" have nothing but fond memories of the bike tour, calling it the perfect mix of a good cause and good company.

CORPORATE SOCIAL RESPONSIBILITY

YOUTH & EDUCATION: OUR FUTURE

The Corporation once again awarded scholarships to graduating high school students across the Island. One \$4,000 post-secondary education scholarship was awarded to a graduating high school student from each county of Cape Breton Island.

The Corporation also made a non-repayable contribution to CBU of \$375,000 to help establish the Biotechnology and Pharmaceutical Technology Certificate program, in conjunction with PharmEng. PharmEng, Cape Breton's new pharmaceutical company, will be providing employment to future graduates of this certificate program.

Seven university students had the opportunity to gain practical employment and experience at ECBC during the summer of 2004/2005. The Corporation also provided an opportunity for Bachelor of Public Relations students to gain workplace experience throughout the year.

ETHICS AND VALUES

Employees and representatives of ECBC should always act in a manner that is representative of the Corporation's best interests. ECBC employees and representatives should have no conflict of interests arising from business dealings, social ties, or other considerations.

The Code of Conduct at ECBC states that employees and representatives conform to the highest standards of conduct with regard to conflict of interest. These standards can be followed through avoidance, disclosure, discontinuance or divestment. Employees also have to respect the privacy rights of corporate clients, including their right to security of information. ECBC has adopted a privacy policy that outlines obligations governing the collection, use and disclosure of personal information, and that recognizes an individual's right of privacy.

PROTECTING THE ENVIRONMENT

ECBC does not take our Island's natural beauty and its environment for granted. In the interest of sustainable economic development, the Corporation examines its projects and operations from an environmental perspective.

When evaluating potential projects, ECBC considers environmental risks. Although not required to adhere to the *Canadian Environmental Assessment Act*, ECBC nevertheless, follows the process established by the Act. All projects are assessed for environmental impact through Public Works and Government Services Canada. Where necessary, mitigation measures are put in place and become part of the contract between ECBC and the client.

Internally, the Corporation has taken many steps to ensure that it is an environmentally friendly organization. A recycling program is in place and steps are taken to reduce paper and energy waste.

HUMAN RIGHTS

ECBC creates and keeps a workplace environment that is free of harassment and discrimination on prohibited grounds such as age, race, colour, religion, creed, sex, nationality, ethnic or place of origin, citizenship, language, political belief, marital or family status, sexual orientation and disability. ECBC regularly reviews its human resource policies to ensure that the atmosphere of the workplace is of the utmost quality.

ECBC has an official harassment policy. Non-management employees who have completed a harassment training course are available to deal with any potential problem.

OFFICIAL LANGUAGES/COMMUNICATION & GOVERNMENT ON-LINE

OFFICIAL LANGUAGES

ECBC complies with the *Official Languages Act* (OLA) in all facets of its operations. The Corporation has close working relationships with the minority language communities on Cape Breton Island and the Conseil de développement économique de la Nouvelle-Écosse. A full-time bilingual development officer is assigned to liaise specifically with francophone community groups and businesses.

Hosting the Congrès Mondial Acadien in Nova Scotia attracted international attention to Acadian communities throughout the province, including those in Cape Breton. ECBC worked with these communities during the years of preparation leading up to the event. In co-operation with municipal governments and local community groups, ECBC invested in infrastructure to help communities accommodate visitors and showcase Acadian hospitality and culture.

As a Crown corporation, it is not mandatory for ECBC to participate in the co-ordination activities of the Department of Canadian Heritage in accordance with section 42 of the OLA. Given the Corporation's economic mandate, however, and its importance to the minority language communities, ECBC works with ACOA in the formulation of its action plans.

Operationally, ECBC maintains a core bilingual staff able to provide the Corporation's various programs and services in both official languages. Steps were taken in 2004/2005 to provide full-time French language training to two members of the management team. Courses are scheduled to start in 2005/2006. The Corporation also has appointed an official languages champion who liaises with the Treasury Board and other Crown corporations for the promotion of official languages, both within the Corporation and within its mandate area.

COMMUNICATION

The Corporation is involved in almost every facet of the local economy and provides a wide array of programs and activities in support of communities and businesses. ECBC projects, both big and small, touch almost every community in the Corporation's mandate area. In its communication activities, the Corporation strives to acknowledge the importance of these investments to the communities involved. The overarching message is one of hope, that the Cape Breton economy is on the move, and that significant progress has been made. From a community centre in Christmas Island or Loch Lomand to a manufacturing facility in the Cape Breton Regional Municipality (CBRM), ECBC's diverse programming has had an impact across the Island.

ECBC's communications are diverse. The Corporation works closely with ACOA to assist in and promote a number of initiatives related to entrepreneurship, innovation, trade and women in business. ECBC works with the CBGF to promote Cape Breton as an excellent business location. Due to its ongoing policy and research activities, ECBC officials are often called upon to comment on and analyze economic conditions.

In the fall of 2004, ECBC representatives met with a delegation of senior officials from Vietnam to discuss regional economic development.



In the past year, the Corporation issued 39 news releases, on projects ranging from enhancements to the Mi-Carême Centre in St. Joseph du Moine to the establishment of an internationally certified natural science and food laboratory at the Eskasoni First Nation. ECBC representatives organized and attended 20 special events on the Island and in Mulgrave. The Corporation has in-house graphic design capabilities which produced over 30 ads placed in newspapers and magazines throughout the year dealing with both operational issues and economic development promotion. ECBC also produces and prints its own annual report using in-house resources and expertise.

Numerous (21) presentations were made to community organizations, business groups and representatives from all levels of government on the challenges of economic development in Cape Breton and ECBC's various programs. In conjunction with the CBGF, ECBC co-sponsored a 13-episode half-hour cable television series to highlight business and community leaders in Cape Breton. The series was designed to foster a sense of pride in the community by highlighting positive stories from the local community and the people who made them happen. ECBC also developed and placed ads in major newspapers in eastern Canada highlighting its tourism investments.

GOVERNMENT ON-LINE

In an increasingly connected world, the Government of Canada is striving to bring information and services to Canadians in an on-line, user-friendly and secure format. Government On-Line (GOL) is an ambitious government-wide initiative to use information and communications technology to provide Canadians with enhanced access to improved citizen-centred, integrated services, anytime, anywhere and in the official language of their choice, by the end of 2005.

ECBC is participating in the federal GOL initiative and has a GOL working group consisting of internal representatives from various units of the Corporation.

ECBC's 2003/2004 Annual Report was recognized as one of the finalists for the Auditor General of Canada Award for Excellence in Annual Reporting, in the smaller Crown corporations category.

"This award recognizes the best reporting practices in Crown corporations' annual reports," said Ms. Sheila Fraser, Auditor General of Canada.

The working group liaises with the Industry Canada Regional Development Agency (RDA) Government On-Line Committee. The ECBC working group has been kept apprised of the Government of Canada Secure Channel development. ECBC has also participated with RDA members in workshops on managing the information requirements of key business processes. The information is used to develop process applications.

The Corporation has actively worked with ACOA to implement the Secure Channel on-line services for ACOA clients. In addition, the Corporation, in conjunction with ACOA and Public Works and Government Services Canada, has developed the infrastructure necessary to enable the implementation of Secure Channel process and on-line services for ECBC clients. The foundation now has been laid to provide on-line services in early 2005/2006. This will allow for secure on-line claims submission and project status inquiry. Further enhancement, to this service may include secure on-line application submission.

Through its involvement with the RDA group and its close working relationship with ACOA, the Corporation has been able to absorb GOL-related costs in its normal operational and capital budgets.

SPECIAL EXAMINATION

On October 25, 2004, the Board of Directors passed a resolution approving the Special Examination Report completed by the Office of the Auditor General and reported to the Audit Committee on September 13, 2004. The Report covered the period from November 20, 2003 to June 30, 2004.

A special examination is a key component of the control and accountability framework for Crown corporations as set out in Part X of the *Financial Administration Act (FAA)*. It is a form of value-for-money auditing that considers issues of asset management, efficiency, economy and effectiveness including environmental issues where appropriate. The *FAA* requires the Board of Directors of all Crown corporations to cause a special examination to be carried out at least once every five years.

The *FAA* requires ECBC to maintain systems and practices in such a manner as to provide reasonable assurance that:

- assets are safeguarded and controlled;
- financial, human and physical resources are managed economically and efficiently; and
- operations are carried out effectively.

These requirements are referred to as statutory control objectives and are general statements of ECBC's responsibilities. The purpose of the special examination is to provide the Board of Directors of ECBC with an independent and objective assessment of the adequacy of the Corporation's systems and practices.

The examination was focused on what ECBC must do well to be successful, on the risks to the achievement of those results and on the related systems and practices. These systems and practices were assessed against criteria selected for the examination. Deviations from examination criteria that would put the achievement of a statutory control objective at material risk are reported as a significant deficiency.

In its report to the ECBC Board of Directors the Auditor General of Canada made the following conclusion with respect to the results of its Special Examination:

"In our opinion, based on the criteria established for the special examination, there is reasonable assurance that there were no significant deficiencies in the systems and practices we examined...."

The Special Examination Report is available on the Corporation's Web site at <http://www.ecbc.ca> under (publications).

CORPORATE GOVERNANCE

Good public governance is understood to be about relationships, based on shared values and principles, between citizens, the government, and entities that exercise state-delegated power for the management of public policies, resources and services. The sound management of resources and the implementation of policies and programs that respond to the expectations of the citizenry largely depend on the government's ability to establish good governance arrangements with and within these entities. Crown corporations — as public institutions — created, mandated and entrusted by Parliament to serve Canadians, are an integral part of this new dynamic.

Review of the Governance Framework for Canada's Crown Corporations - Meeting the Expectations of Canadians (Treasury Board of Canada Secretariat)

Corporate governance is an ongoing priority for the ECBC Board of Directors. In 2001, working in conjunction with the Conference Board of Canada, the Corporation conducted an assessment of its compliance with Guidelines for Corporate Governance in Crown Corporations, produced by the Department of Finance and the Treasury Board of Canada. For benchmarking purposes, the Corporation's rating was compared to an aggregate rating of several other Crown corporations (peer benchmark).

A follow-up survey of the Board was conducted in 2002 by the Conference Board of Canada. The results of the corporate governance assessments are found below.

BOARD GOVERNANCE CAPABILITY AREA	ECBC's 2002 rating*	ECBC's 2000 rating	PEER Benchmark
ECBC's Board exhibits the most strength in these five capabilities:			
✓ ability to conduct business ethically and professionally	4.50/5	4.11/5	4.26
✓ ability to articulate right roles and responsibilities	4.33/5	3.36/5	3.87
✓ ability of board to function effectively and make decisions wisely	4.27/5	3.82/5	4.04
✓ ability to collect information with integrity	4.15/5	3.77/5	4.02
✓ ability to effectively report: transparency, clarity and accountability	4.05/5	3.20/5	3.91
ECBC's Board rates moderately well in these five capabilities:			
✓ ability to establish a clear sense of purpose and direction	3.93/5	3.23/5	3.88
✓ ability to oversee management and control of resources	3.92/5	3.16/5	3.96
✓ ability to excel in human resource development	3.92/5	2.89/5	3.29
✓ ability to promote innovation	3.92/5	3.48/5	3.61
✓ ability to effectively measure performance	3.85/5	3.52/5	3.62
ECBC's Board would benefit from improvements in these two capabilities:			
✓ ability to accomplish strategic objectives and mission	3.75/5	3.27/5	3.82
✓ ability to ensure best mix of Board members	3.65/5	2.63/5	3.47
ECBC's overall Board rating	80.4%**	67.4%	76.3%

*On a scale of 0 (not at all) to 5 (outstanding), this is the average of all responses from Board/Senior Management members.

**The 12 capability ratings have been aggregated and are reported on a percentage scale.

ECBC's overall Board rating went from 67.4% in 2000 to 80.4% in 2002, placing it among some of the highest ranked Crown corporations in the country.

In all, the Board met eight times in 2004/2005. There were no vacancies or new appointments during the year. Three directors participated in a specialized financial training session. A nomination/selection committee was struck to provide input to the Governor in Council on potential new appointments.

Specific policy issues addressed in 2004/2005 include an update of the loan impairment policy and the equity policy. The Board also reviewed the policy regarding the engagement of professional expertise and services. The bereavement policy was also modified.

The ECBC Board of Directors has also examined the Corporation's policies regarding risk management. ECBC issued a request for proposals to develop a risk management framework that incorporates the practices currently in place, as well as identifying additional risk management strategies. The results of this exercise will form the basis of a comprehensive risk management strategy.

In an ongoing effort to increase the Board's ability to "effectively measure performance", the Board established an accountability structure against which to measure, both qualitatively and quantitatively, the Chair's and COO's performances. The Chairperson once again provided the Board with a list of key activities and objectives, based on her roles and responsibilities as defined by the Responsibility Mandate (adopted as part of the corporate governance framework) and ECBC's corporate plan. The Chairperson then incorporated the framework into her performance letter to the Clerk. A similar accountability accord was developed between the COO and the Board.

The Audit Committee is chaired by Sonny MacDougall, CA. Other members of the committee include Robert McFadgen, Ferne MacLennan and Betty Ann Aucoin.

The committee is assisted in its duties by the Internal Audit Unit as well as the Director General, Corporate Services. The Office of the Auditor General of Canada also participates in many of the committee's meetings.


The Audit Committee convened five times during the fiscal year ended March 31, 2005 in the course of performing its duties and functions, which include reviewing (and advising the Board of Directors in respect to) the financial statements and related auditor's report that are included in this annual report. The Audit Committee also takes an active role in recommending approval of loan impairments, forgiveness and write-offs.




During the past fiscal year, the Office of the Auditor General of Canada conducted its five-year Special Examination of ECBC. This review is a legislated requirement and a key component of the accountability framework for Crown corporations. It is a comprehensive audit that considers issues of asset management, efficiency, economy and effectiveness conducted pursuant to the FAA. The period under review was November 20, 2003 to June 30, 2004. The Special Examination was completed by the Office of the Auditor General of Canada and the report was issued in October 2004. The Audit Committee reviewed and advised the Board of Directors with respect to the Special Examination plan and the resulting report. The opinion was positive and indicated there were no significant deficiencies.

BOARD ATTENDANCE AND REMUNERATION				
MEMBERS	BOARD MEETINGS	AUDIT COMMITTEE	RETAINER	PER DIEM
Monique Collette	7	NA	NA	NA
Rick Beaton	7	NA	NA	NA
Ferne MacLennan	7	5	\$2,500.00	\$2,750.00
Betty Ann Aucoin	5	2	\$2,500.00	\$1,500.00
Gary Corsano	6	NA	\$2,500.00	\$1,500.00
Sonny MacDougall	7	5	\$2,500.00	\$2,750.00
Robert McFadgen	8	5	\$2,500.00	\$3,000.00

SELF-ASSESSMENT

The following pages contain a self-assessment of ECBC's corporate governance practices against the *Guidelines for Corporate Governance in Crown Corporations*, produced by the Department of Finance and the Treasury Board of Canada. The guidelines are meant to be tailored to meet the specific context and corporate governance needs of each Crown corporation. Management's comments, analysis and rationale behind the assessment of each of the guidelines are also included.

BOARD RESPONSIBILITIES	COMMENTS	STATUS 
1. The Board of Directors of every Crown corporation should explicitly assume responsibility for the stewardship of the Corporation.		
a. Approve the strategic direction and corporate plan.	<ul style="list-style-type: none"> The Board remained committed to overseeing the strategic direction of the Corporation. Consultations were held between management and Board members during the development of the corporate plan. January 2005 - The Board met to approve the priorities and overall direction of the corporate plan and budgets. 	
b. Identify principal risks and ensure adequate management systems have been implemented.	<ul style="list-style-type: none"> A system of risk management at the project level has been in place for a number of years. The Board has taken responsibility for managing risk at a corporate level primarily by approving policies that provide guidelines to management as to the type of projects and assistance levels that can be approved without having to seek the Board's specific approval. Management provides regular reports to the Board on the status of the loan/equity portfolio, as well as progress against performance targets. ECBC issued a request for proposals to develop a risk management framework for the Corporation that incorporates the risk management practices currently in place, as well as identifying additional risk management strategies. 	

-  Not fully compliant, no action initiated or planned
-  Not fully compliant, action initiated
-  Compliant with guidelines

BOARD RESPONSIBILITIES	COMMENTS	STATUS ■
c. Approve management's succession plan.	<ul style="list-style-type: none"> • The Board endorsed a succession plan in 2001/2002 and several staff have undertaken new assignments in an effort to become acquainted with the duties associated with these management positions. • Management provided the Board with information on the training needs identified by staff. 	
d. Ensure that the information systems and management practices have integrity and meet the needs of the Board.	<ul style="list-style-type: none"> • Through the 2002/2003 benchmarking exercise, the Board rated ECBC's ability to collect information with integrity as 4.15 out of 5 an improvement from the 2000/2001 rating of 3.77. • Management continues to solicit informal feedback from the Board on the quantity and quality of information provided. • The Board approved the work plan of the Audit Committee. It outlines the various areas that will be reviewed during the year, including the system of internal controls. • The Board approved an information management framework which, among other things, established a privacy policy designed to effectively and efficiently manage the information resource. • The Board is taking steps to ready the Corporation for the eventual inclusion under the <i>Access to Information Act</i>. 	

PUBLIC POLICY OBJECTIVES	COMMENTS	STATUS ■
2. The Board of Directors of every Crown corporation should examine its public policy objectives and periodically the legislated mandate to ensure their continuing relevance.		
a. Document the current public policy objectives of the Corporation.	<ul style="list-style-type: none"> • The Board reviewed the mandate and mission statement of ECBC as part of the corporate planning process. • Through stakeholder meetings held by management, the Board was informed of community input as to the relevance of ECBC's objectives and priorities. 	

- Not fully compliant, no action initiated or planned
- ▲ Not fully compliant, action initiated
- Compliant with guidelines

PUBLIC POLICY OBJECTIVES	COMMENTS	STATUS ■
b. Appreciate the contemporary trade-offs between competing public policy and commercial objectives of the Corporation.	<ul style="list-style-type: none"> • ECBC is dependent upon its Parliamentary appropriation as its primary source of funds. • ECBC has a clear public policy objective, i.e. economic development. • Commercial initiatives are generally operated on a cost-neutral basis in support of the mandate. 	
c. Assess the relevance of the Crown corporation's mandate and, if appropriate, propose changes for the consideration of the appropriate Minister.	<ul style="list-style-type: none"> • As part of the corporate planning process, the relevance of the mandate, mission and priorities are reviewed. • It is ECBC's view that it is the role and decision of the shareholder to perform or request a formal, in-depth review of the legislative mandate. 	

COMMUNICATION	COMMENTS	STATUS ■
3. The Board of Directors of every Crown corporation should ensure that the Corporation communicates effectively, with the Crown, other stakeholders and the public.		
a. Communication responsibilities (shareholder and stakeholder).	<ul style="list-style-type: none"> • The Board participated in community/stakeholder consultations as part of the corporate planning process and in its ongoing operations. • The Chair and COO have the primary responsibility for communicating with the shareholder on behalf of the Board. • The COO has the primary responsibility for communication with stakeholders. • The Corporation oversaw a communications strategy that involved numerous activities targeting the general public. 	
b. Reporting responsibilities.	<ul style="list-style-type: none"> • ECBC's performance measurement framework continues to be refined. • The primary vehicles for reporting are the annual report and the corporate plan. • Through the 2002/2003 benchmarking exercise, the Board rated ECBC's ability to effectively report, on the basis of transparency, clarity and accountability, 4.05 out of 5. • The 2002/2003 and the 2003/2004 Annual Reports were recognized by the Office of the Auditor General of Canada for Excellence in Annual Reporting. 	

- Not fully compliant, no action initiated or planned
- ▲ Not fully compliant, action initiated
- Compliant with guidelines

BOARD MANAGEMENT RELATIONS	COMMENTS	STATUS ■
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4. Boards of Directors and management should develop an effective working relationship.

- | | | |
|---------------------------------|---|--|
| a. Allocating responsibilities. | <ul style="list-style-type: none"> The Board believes that it has an effective ability to articulate roles and responsibilities (4.33 out of 5). This rating was improved over the 2000/2001 rating of 3.36 and significantly higher than the average for Crown corporations of 3.87. ECBC has developed responsibility mandates for the Board, Chair, COO, Audit Committee and management. These mandates form the cornerstone of ECBC's governance structure. The mandates clearly assign responsibility for consulting, developing, verifying, reviewing, recommending and approval of various matters. | |
| b. Building a relationship. | <ul style="list-style-type: none"> In 2002/2003, the Board gave its ability to function effectively with management a 4.27 out of 5. This was higher than the 2000/2001 rating of 3.82 and slightly higher than the Crown corporation average of 4.04. | |
| c. Establishing accountability. | <ul style="list-style-type: none"> The Board has implemented accountability accords and performance measurement systems with the Chair and COO, which are reviewed annually. The Board has delegated project approval authority to management for projects under \$1 million that are within the normal bounds of risk and policy. | |

BOARD INDEPENDENCE	COMMENTS	STATUS ■
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5. The Board of Directors should ensure that the Board can function independently.


- | | | |
|--|---|--|
| a. The roles of the Chair (guidelines suggest that the roles of the Chair and CEO should be separate). | <ul style="list-style-type: none"> Pursuant to the <i>ECBC Act</i>, the Chair is the CEO and it is a part-time position. This is a clear reflection of the intention of the shareholder. ECBC complies with the spirit of the guideline as the COO performs the duties and responsibilities typical of CEOs in other Crown corporations in addition to having day-to-day operational control. | |
|--|---|--|


- Not fully compliant, no action initiated or planned
- ▲ Not fully compliant, action initiated
- Compliant with guidelines




BOARD INDEPENDENCE	COMMENTS	STATUS ■
b. Meeting as Board.	<ul style="list-style-type: none"> The Board meets in-camera as required. 	
c. Public servants as directors.	<ul style="list-style-type: none"> Five of the seven directors are not public servants. The COO is a Governor in Council appointee, who is currently a public servant, but the position does not have to be filled by a public servant. Under the <i>ECBC Act</i>, the Chair is the President of ACOA, thus a public servant. 	
d. The use of committees.	<ul style="list-style-type: none"> The Board has only one committee, the Audit Committee. The four voting members of the Audit Committee, including the Chair of the committee, are independent Directors. Given the relatively small size of the Board, seven voting members, it has chosen not to create additional committees. 	
e. Independent advice.	<ul style="list-style-type: none"> The Board has adopted, through its by-laws, a procedure whereby Directors may avail themselves of independent advice. 	
f. Conflict of interest.	<ul style="list-style-type: none"> The Board, through its by-laws, has adopted a code of conduct, which outlines the procedure for declaring conflicts of interest in compliance with the <i>Financial Administration Act</i> and the applicable portions of the Conflict of Interest and Post-Employment Code for Public Office Holders. 	

THE POSITION OF THE CEO	COMMENTS	STATUS ●
<p>6. In recognition of the importance of the position of the CEO, the Board of Directors of every Crown corporation should periodically assess the CEO's position and evaluate the CEO's performance.</p>	<p>Under ECBC's governance model and in accordance with the <i>ECBC Act</i>, the CEO is a part-time position held by the President of ACOA. The COO has a managerial responsibility to the Board for the operations of ECBC.</p> <p>An evaluation of the CEO's performance was conducted in May 2004.</p>	

- Not fully compliant, no action initiated or planned
- ▲ Not fully compliant, action initiated
- Compliant with guidelines

THE POSITION OF THE CEO	COMMENTS	STATUS 
a. Assessing the CEO's position (the Guidelines suggest that the Minister should consult with the Board on the appointment of the CEO).	<ul style="list-style-type: none"> The President of ACOA serves as the ex-officio Chair and CEO of ECBC, in accordance with the <i>ECBC Act</i>. The Board has no involvement in the appointment of the Chair and CEO in light of this model. The COO acts as the CEO under ECBC's governance model. 	
b. Evaluating performance.	<ul style="list-style-type: none"> The Board and Chair developed an annual accountability accord. This performance measurement framework for the Chair has been incorporated into the Chair's framework with the Clerk of the Privy Council Office. Thus, the Board's views on the Chair's performance are required before the Clerk can finalize his assessment of the Chair's performance. The Board has an annual accountability accord in place with the COO, the results of which are communicated to the Chair, Minister and the Clerk of the Privy Council Office. The Board's views on the performance of the COO and Chair are communicated to the Minister and the Privy Council Office. Performance evaluations of the Chair and COO were completed in 2004/2005. 	

RENEWAL OF THE BOARD	COMMENTS	STATUS 
7. The Board of Directors of every Crown corporation should assess its effectiveness and indicate renewal of the Board.	<p>a. Assessing the Board.</p> <ul style="list-style-type: none"> In 2000/2001, the Board participated in a benchmarking exercise of its corporate governance practices with the Conference Board of Canada. As planned, the Board worked with the Conference Board of Canada to once again benchmark its corporate governance practices during 2002/2003. The results showed dramatic improvement with an overall rating of 80.4% compared with the 2000/2001 rating of 67.4% and the Crown corporation average of 76.3%. 	

-  Not fully compliant, no action initiated or planned
-  Not fully compliant, action initiated
-  Compliant with guidelines

RENEWAL OF THE BOARD	COMMENTS	STATUS
b. Renewal of the Board.	<ul style="list-style-type: none"> The Board's views on appointments are communicated to the Minister. The Board has adopted a skills profile, which has been sent to the Privy Council Office and the Minister. Management engages the Board as soon as practicable to ascertain the Board's views on the skill set required for new candidates, as well as their views on the renewal of existing members. 	■

EDUCATION OF DIRECTORS	COMMENTS	STATUS
8. Directors of Crown corporations should receive orientation and education appropriate to their needs.		
a. New Directors.	<ul style="list-style-type: none"> ECBC has developed an orientation package and program for new Directors. 	
b. Ongoing education.	<ul style="list-style-type: none"> The Board adopted a policy on training that entitles Directors to at least one conference or seminar on either economic or governance issues. 	

COMPENSATION	COMMENTS	STATUS
9. The Board of Directors should review the adequacy and form of compensation for Directors.	<ul style="list-style-type: none"> When requested, the Board reviews compensation and provides its views to the Minister and Privy Council Office. 	■

RESPONSIBILITY FOR CORPORATE GOVERNANCE	COMMENTS	STATUS
10. The Board of Directors should assume responsibility for developing the Crown corporation's approach to governance issues.	<ul style="list-style-type: none"> The Board developed a governance framework for ECBC with the assistance of the Conference Board of Canada. The Board has met with various stakeholders to review its approach to corporate governance. The Board participated in a benchmarking exercise to review and compare its corporate governance practices with those of other Crown corporations. Corporate governance is a regular topic of discussion at Board meetings. 	■

- Not fully compliant, no action initiated or planned
- ▲ Not fully compliant, action initiated
- Compliant with guidelines

RISK MANAGEMENT

As the principal federal government organization for economic development on Cape Breton, ECBC is susceptible to risk as part of the activities and processes it undertakes. In the last quarter of 2004/2005, ECBC commissioned the services of Deloitte & Touche to undertake the development of a risk management framework. It is anticipated that the framework will be completed in June 2005. A risk framework forms the basis of a structured, systematic, disciplined approach to comprehensive risk management. The purpose of the framework is to:

- " Confirm the significant risks impacting ECBC;
- " Provide a common means of classifying and communicating risk across the Corporation;
- " Provide a structure for the assessment, reporting and monitoring of risks by various groups; and,
- " Ensure due consideration is given to all risks in a day-to-day environment.

The methodology to develop the risk management framework involves a six step process:

1. Educate: As part of this process, an enterprise risk management education session was conducted with senior management. Key risk management concepts and enterprise risk management principles were reviewed to ensure a common and consistent understanding of risk management.
2. Identify Risks: During this step, all relevant documentation and information pertaining to ECBC's strategic objectives, risks and opportunities, contributing factors and existing risk mitigation strategies and policies were collected.

3. Develop a Risk Framework: At this stage, the findings from the risk identification step were integrated into a risk assessment questionnaire to gather additional quantitative and qualitative information from ECBC management.
4. Assess Risks: During this step, risks identified in the previous steps were evaluated. ECBC management reviewed the risk elements and analyzed their potential impact and likelihood of occurrence. Senior management at ECBC assessed and selected which risks and types should be addressed. They assessed the degree of exposure and likelihood of the selected risks and determined the risks that may have business impact.
5. Develop a Risk Management Plan: The risk management plan is the most important step in establishing the risk management initiative. The focus of this step is to take the high priority risks and allocate responsibility, establish mitigating steps to deal with the risks, and to determine the timeline/milestones that will be used to measure enterprise risk management performance.
6. Develop Report : The final report will be compiled from the deliverable components outlined in the previous five steps.

The Corporation has been managing risk for many years. The final report from Deloitte & Touche will provide formal guidelines on how the Corporation will address risk and risk mitigation in the future.

MANAGEMENT DISCUSSION AND 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, 2005, the cash balance was \$10,353,737 and the interest rate paid by the bank was 2.261%.

LOANS

Several types of loan instruments are used by the Corporation including forgivable loans, interest bearing loans, non-interest bearing loans and conditionally repayable contributions.

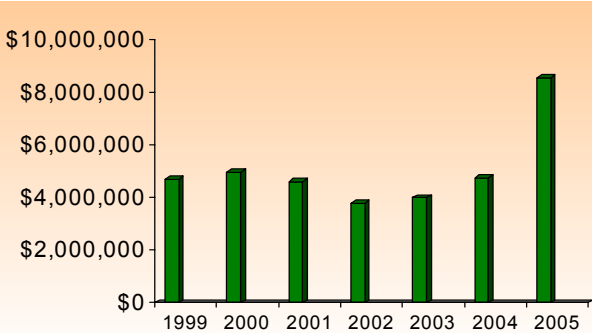
The amount of forgiveness and all conditionally repayable contributions are charged to operations when the loan is issued. If terms and conditions of the loan contract are not fulfilled, the forgiveness or conditionally repayable amounts are reversed and the balance becomes receivable.

The Corporation has focused on providing a mix of investment vehicles to clients including loans, grants and conditionally repayable contributions in order to achieve the appropriate balance required by clients to grow and expand their business yet maximize the return on capital to the Corporation. By increasing the loan portfolio, all payments collected can again be loaned to clients in subsequent years.

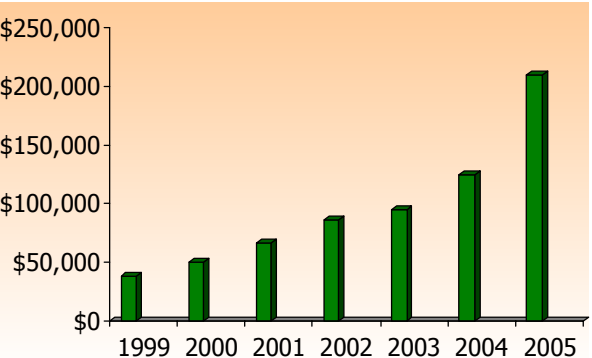
During the year, the Corporation disbursed \$4.9 million in loans to clients, in addition to grants and contributions under the various programs administered by ECBC. The total loans and repayable contributions outstanding at March 31, 2005 are \$8,578,156 and consist of 41 accounts. The average loan and repayable contribution balance is \$209,223 in 2005, compared to \$38,555 in 1999.

Collections on loans totalled \$1,004,289 (2004 - \$551,099) during the year, which represents 27% (2004 - 17%) of the previous year's closing net balance and is \$754,000 in excess of the Corporate Plan budget.

LOANS RECEIVABLE AND REPAYABLE CONTRIBUTIONS



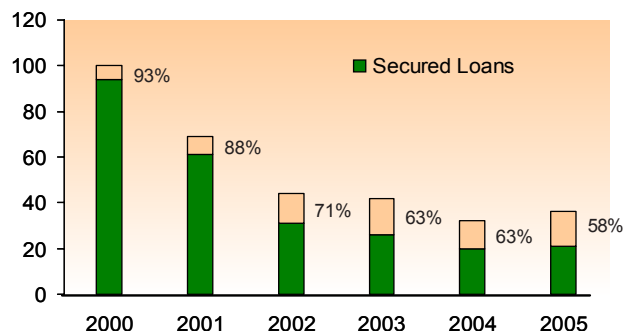
AVERAGE LOAN AND REPAYABLE CONTRIBUTION BALANCE



	1999	2000	2001	2002	2003	2004	2005
Forgivable loans issued	\$ 283,036	\$ 282,938	\$ 52,065	\$ (374,111)	\$ -	\$ -	\$ -
Loan repayments	434,277	388,609	351,829	585,064	604,373	551,099	1,004,289
Loans disbursed	371,116	820,142	229,668	806,077	1,330,099	1,408,314	4,893,861
Conditionally repayable contributions issued	-	3.1 M	9.0 M	3.7 M	1.7 M	3.7 M	.02 M

As part of the due diligence process conducted by program officers, the Corporation mitigates the risk of loss by obtaining security, where appropriate, from the majority of clients. The Corporation holds security on 58% (2004 - 63%) of the loans outstanding at March 31, 2005. Security is obtained to protect the Corporation in the event of loan default. Security includes any one or a combination of the following: 1st and 2nd position mortgages on land and buildings; chattel mortgages; personal and corporate guarantees; general security agreements; first and floating debentures or promissory notes.

SECURITY PORTFOLIO

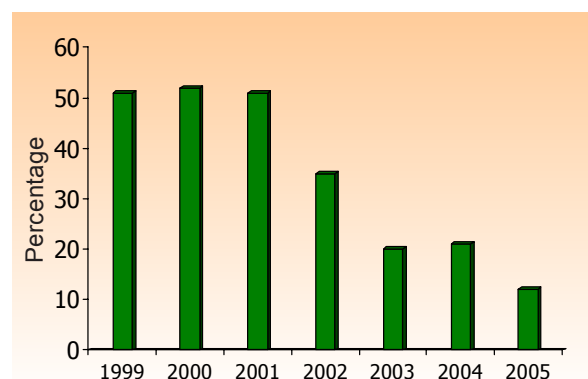


ALLOWANCE FOR LOAN IMPAIRMENT

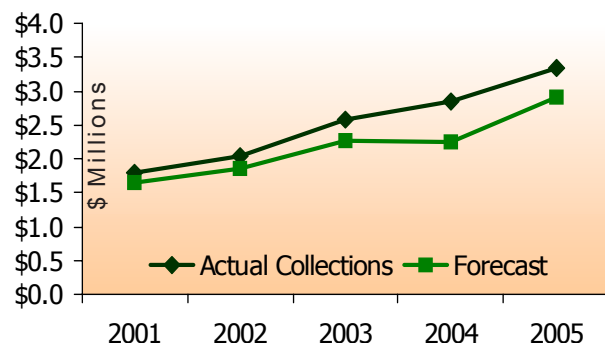
The allowance for loan impairment as a percentage of the loan balance outstanding has decreased significantly from 1999 to the current year percentage of 12.

The allowance for loan impairment has been determined on an individual loan basis based on current information at year end and management's knowledge of the entity's circumstances. If it is determined that the collection may not be received on a timely basis, a provision for loan impairment is recorded in the financial statements.

PROVISION FOR LOAN IMPAIRMENT AS % OF LOAN RECEIVABLE



ACOA RECEIVABLES PORTFOLIO



ACOA

Collections on the ACOA portfolio managed by ECBC for the 2005 fiscal year totalled \$3,521,000 (2004 - \$2,840,000), which is 110% (2004 - 126%) of the established target amount.

The Corporation has not only met ACOA's collection targets for the past five years, it has exceeded the target as displayed in the accompanying chart.

The collection efforts of the Corporation have also resulted in the arrears rate of ACOA receivables being 0% (2004 - 0%). The results have been achieved due to the concerted efforts of both collection staff and program officers.

EQUITY INVESTMENTS

There were no new equity investments made during the 2005 fiscal year. The total number of equity investments stands at five. Redemption of preferred shares totalled \$4,444 (2004 - nil).

The Corporation has recorded an allowance for valuation adjustment of \$217,687 to reduce the carrying value of the investments to the amount estimated using discounted expected future cash flows, in accordance with the Corporation's accounting policy.

INVESTMENT IN SUBSIDIARIES

CAPE BRETON GROWTH FUND CORPORATION

The Corporation has recorded the investment of \$1 in the CBGF on the cost basis as the Governor in Council has instructed the CBGF to act as a parent. Therefore, control or significant influence does not exist and the investment is accounted for on a cost basis.

The wind-up of the CBGF will commence when the last dollar of the \$91 million fund is committed. It is anticipated that the fund will be fully committed by the end of fiscal 2005/2006. The remaining assets and liabilities of the CBGF would be transferred to the Corporation in April 2006.

DARR (CAPE BRETON) LIMITED

To consolidate real property management, the Corporation reactivated its subsidiary DARR (Cape Breton) Limited as a real estate holding and development company. DARR will acquire, manage and retain real property to support the delivery of economic development programs administered by ECBC. DARR's financial statements are presented on a consolidated basis with ECBC.

PROPERTY AND EQUIPMENT

Property and equipment acquisitions were \$1,026,955 which is less than the Corporate Plan budget amount of \$2,400,000. Planned acquisitions of equipment and renovations to existing property did occur but the construction of an office building, budgeted at \$1,200,000, did not. During the final quarter of 2005, extensive renovations were carried out at Silicon Island, on Crescent Street in Sydney, in anticipation of the Corporation relocating to this space early in the new fiscal period.

PROVISION OF SERVICES - ACOA

The Corporation administered \$34,311,451 (2004 - \$24,828,162) of various ACOA programs during 2005 and recovered \$2.7 million (2004 - \$2.9 million) for salaries, professional fees and other operating costs related to delivering services pursuant to the ECBC/ ACOA MOU.

OPERATING AND DEVELOPMENT ACTIVITIES

ECBC's total parliamentary appropriation was \$12.650 million in 2005, including \$2 million directed to the subsidiary, Cape Breton Growth Fund Corporation.

Development expenses in the form of non-repayable assistance totalled \$3.5 million. Of this amount, the Corporation provided \$.38 million in direct support to business and \$2.95 million in support to communities. In addition, other areas of focus included in the Corporate Plan, such as investment, policy and advocacy, totalled \$.2 million.

(\$000s)	ACTUAL	CORPORATE
	2004/05	PLAN 2004/05
Support to Business	\$ 379	\$ 1,425
Support to Communities	2,950	4,135
Investment	-	500
Policy & Advocacy	<u>219</u>	<u>400</u>
	<u>\$ 3,548</u>	<u>\$ 6,460</u>

In addition to the above-noted non-repayable assistance, the Corporation also provided repayable loans to businesses totalling \$4.9 million (2004 - \$1.4 million), which is not reflected in the above expenditures. The combined repayable and non-repayable assistance in 2005 totalled \$8.4 million, which is \$2 million greater than budget. Additional funds were made available to applicants by way of development assistance as a result of recoveries being \$.8 million in excess of budget, combined with the savings in general and administrative expenses of \$.8 million. The excess revenues relate to additional loans and repayable contribution collections, bad debt recoveries and other income. Therefore, it is felt the Corporation did indeed exceed its planned mandate.

PROGRAM SUPPORT

The Corporation employs 47 individuals delivering programs, administering payments, collections, trade and development work and various other functions. These individuals are located in offices in both Sydney and Port Hawkesbury to ensure that access to our programs and services is available locally to all clients within our mandate area.

Staff deliver ECBC, ACOA and CBGF programming. In order to better capture time spent in each area, the Corporation uses an electronic time-keeping system. All employees enter their time electronically and allocate the time to ECBC, ACOA and CBGF on a daily basis. The time system assists in providing a reasonably accurate reflection of time spent and costs recoverable for the program areas.

Administrative costs incurred in 2005 are reasonable in relation to budget and the prior year as detailed below.

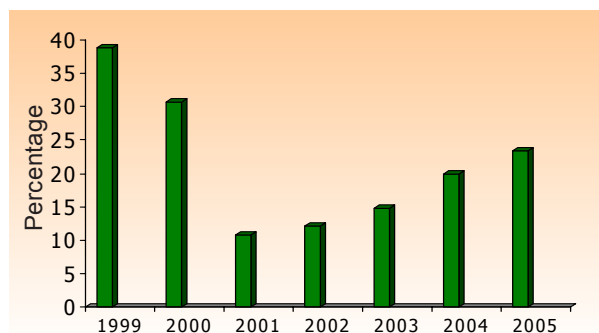
(\$000s)	ACTUAL	ACTUAL	CORPORATE
	2004	2005	PLAN 2005
General Administration	\$ 1,636	\$ 1,301	\$ 1,300
Program Support	777	679	1,450
	<u>\$ 2,413</u>	<u>\$ 1,980</u>	<u>\$ 2,750</u>

Program support costs are \$97,212 less than the prior year and \$770,679 less than budget due to a number of factors. Cost savings were realized as a result of staff departures and secondment arrangements in addition to an increased focus on cost containment given the Government of Canada's measures of expenditure review.

As well, the ACOA funding allocation for 2005 increased due to the Strategic Community Investment Fund, the Atlantic Innovation Fund and trade projects. Therefore, more time has been spent by ECBC staff in evaluating and processing ACOA files this fiscal year.

Overall, administrative and program support costs were \$770,129 under budget, which translated into more monies being available to fund development projects in our mandate area.

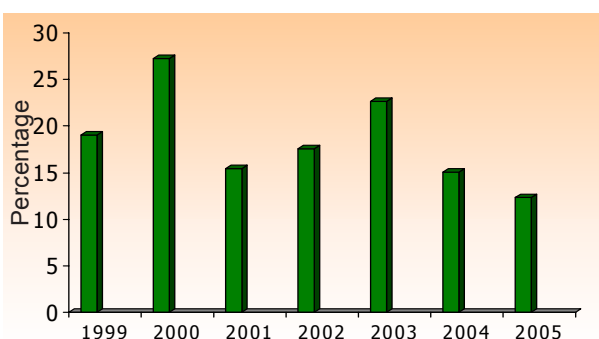
OVERHEAD AS A % OF DEVELOPMENT EXPENSES AND LOAN DISBURSEMENTS



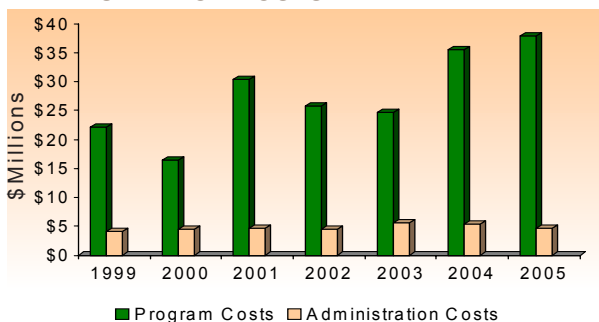
The percentage of overhead (administrative and program support) to development expenses and loan disbursements has decreased significantly from 1999. The percentage for 2005 is reported at 23.4% compared with 38.7% in 1999.

The combined ECBC/ACOA program support costs are 12.3% (2004 - 15.1%) of the total programs delivered for ECBC and ACOA, which is reasonable in relation to the rates for the previous six years (as displayed in the graph).

% OF PROGRAM SUPPORT COSTS



ECBC/ACOA PROGRAM AND ADMINISTRATION COSTS



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Enterprise Cape Breton Corporation and all information in this annual report have been prepared by the Corporation's management. The consolidated 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 consolidated financial statements and annual report. Financial information presented elsewhere in the annual report is consistent with that contained in the consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated 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 that assets are safeguarded; proper records are maintained to produce timely, reliable financial statements and for 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 auditors to discuss the financial reporting process as well as accounting and reporting issues. The consolidated financial statements are 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 consolidated 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
Vice President and
Chief Operating Officer



Joe Cashin, CA
Acting Director General, Corporate Services

Sydney, Nova Scotia
May 20, 2005

AUDITOR'S REPORT

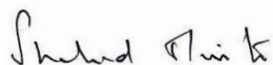
To the Minister for the purposes of the *Atlantic Canada Opportunities Agency Act*

I have audited the consolidated balance sheet of Enterprise Cape Breton Corporation as at March 31, 2005 and the consolidated statements of operations and equity 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 consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 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 and of its wholly-owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Enterprise Cape Breton Corporation Act* and the by-laws of the Corporation and the articles of incorporation and the by-laws of its wholly-owned subsidiary.



Shahid Minto, CA
Assistant Auditor General
for the Auditor General of Canada

Halifax, Canada
May 20, 2005

CONSOLIDATED BALANCE SHEET

as at March 31, 2005

	ASSETS	
	<u>2005</u>	<u>2004</u>
Current assets		
Cash	\$ 10,353,737	\$ 6,653,082
Accounts receivable (note 3)	7,480,048	6,310,926
Prepaid expenses	<u>55,231</u>	<u>66,323</u>
	17,889,016	13,030,331
Loans, net (note 4)	7,540,835	3,748,286
Investments, net (note 5)	477,869	482,313
Investment in subsidiary (note 6)	1	1
Property and equipment, net (note 7)	<u>2,155,152</u>	<u>1,441,801</u>
	<u>\$ 28,062,873</u>	<u>\$ 18,702,732</u>
	LIABILITIES	
Current liabilities		
Accounts payable and accrued liabilities (note 8)	\$ 16,449,489	\$ 11,944,392
Long-term		
Accrued obligation for employee severance benefits (note 9)	<u>511,993</u>	<u>555,321</u>
	16,961,482	12,499,713
	EQUITY	
Equity of Canada	<u>11,101,391</u>	<u>6,203,019</u>
	<u>\$ 28,062,873</u>	<u>\$ 18,702,732</u>

Commitments (note 11)

Subsequent event (note 14)

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:



Director



Director

CONSOLIDATED STATEMENT OF OPERATIONS AND EQUITY

for the year ended March 31, 2005

	<u>2005</u>	<u>2004</u>
Program expenses		
Development expenses (note 10)	\$ 3,547,578	\$ 10,710,837
Contribution to the Cape Breton Growth Fund Corporation (note 6)	2,000,000	14,000,000
Program support and administrative expenses (note 10)	1,979,871	2,412,961
Rental and development facilities	466,902	592,960
Provision for loan impairment and investment valuation (notes 4 and 5)	97,020	314,357
Amortization	<u>313,604</u>	<u>226,915</u>
Total expenses	<u>8,404,975</u>	<u>28,258,030</u>
Revenue		
Rental facilities	391,920	417,500
Interest, investments and other	200,927	285,646
Gain on disposal of property and equipment	<u>60,500</u>	<u>7,223</u>
	<u>653,347</u>	<u>710,369</u>
Activities on behalf of the Atlantic Canada Opportunities Agency (ACOA) (note 12)		
Program expenses	34,311,451	24,828,162
Salaries, professional and other	<u>2,698,347</u>	<u>2,950,072</u>
	37,009,798	27,778,234
Less: Costs recovered from ACOA	<u>(37,009,798)</u>	<u>(27,778,234)</u>
Net cost of operations before parliamentary appropriation	7,751,628	27,547,661
Parliamentary appropriation	<u>12,650,000</u>	<u>28,295,000</u>
Net income	4,898,372	747,339
Equity, beginning of year	<u>6,203,019</u>	<u>5,455,680</u>
Equity, end of year	<u>\$ 11,101,391</u>	<u>\$ 6,203,019</u>

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended March 31, 2005

	<u>2005</u>	<u>2004</u>
Cash flows from (used for) operating activities		
Parliamentary appropriation received	\$ 12,645,000	\$ 30,812,000
Cash received from ACOA	36,862,634	27,237,106
Cash received from the Cape Breton Growth Fund Corporation for services performed	680,814	880,403
Cash received from investments and bank account	198,872	285,910
Cash received from rental activities and other parties	321,004	385,373
Payments made for program and administrative expenditures	(9,443,119)	(26,708,797)
Payments made on behalf of ACOA	(32,033,725)	(28,441,439)
Payments made on behalf of the Cape Breton Growth Fund Corporation	(597,261)	(831,921)
Payments made for employee severance benefits	<u>(81,981)</u>	<u>(226,099)</u>
	8,552,238	3,392,536
Cash flows from (used for) investing activities		
Loan repayments	1,004,289	551,099
Loan disbursements	(4,893,861)	(1,408,314)
Equity investment repayments	4,444	-
Purchase of property and equipment	(1,026,955)	(407,193)
Proceeds on disposal of property and equipment	<u>60,500</u>	<u>51,431</u>
	(4,851,583)	(1,212,977)
Net increase in cash	3,700,655	2,179,559
Cash, beginning of year	<u>6,653,082</u>	<u>4,473,523</u>
Cash, end of year	<u>\$ 10,353,737</u>	<u>\$ 6,653,082</u>

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

1. THE CORPORATION

Authority and objectives

Enterprise Cape Breton Corporation was established pursuant to the *Enterprise Cape Breton Corporation Act* (Part II of the *Government Organization Act, Atlantic Canada, 1987*) which was proclaimed on December 1, 1988. The Corporation is an agent Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. Its objects, as stated in its enabling legislation, 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 the Island of Cape Breton to provide employment outside the coal producing industry and to broaden the base of the economy of the Island.

The Corporation has entered into a memorandum of understanding with the Atlantic Canada Opportunities Agency establishing the arrangements for the Corporation to deliver the Agency's programs on the Island of Cape Breton.

On August 25, 2000, the Cape Breton Growth Fund Corporation (Growth Fund) was incorporated under the *Canada Business Corporations Act* as a wholly-owned subsidiary of Enterprise Cape Breton Corporation. The Growth Fund 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 the Growth Fund to act as a parent Crown corporation for the purposes of Part X of the *Financial Administration Act*. The Growth Fund has the same mandate as the Corporation. The Governor in Council has also directed that when the Growth Fund's funding is fully committed the remaining assets and liabilities are to be transferred to the Corporation and the Growth Fund will be dissolved.

In 2004, the Corporation re-activated DARR (Cape Breton) Limited, a wholly-owned subsidiary incorporated under Nova Scotia's *Companies Act*. During 2004/2005, the Corporation transferred all of its real property holdings to DARR.

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, DARR (Cape Breton) Limited.

b) Parliamentary appropriations

Parliamentary appropriations are recorded as funding in the consolidated statement of operations and equity in the year approved. The drawdowns against these appropriations are based upon cash requirements.

c) Loans

Loans are recorded at the lower of cost and estimated net realizable value. Loans initially granted at a zero percent interest rate are recorded at the nominal amount of the loan.

Certain loans are subject to terms of forgiveness or are conditionally repayable as stipulated in the loan contract. The amount of forgiveness and all amounts conditionally repayable are charged to operations when the loan is issued. If terms and conditions are not fulfilled, the forgiveness or conditional repayable amounts are reversed and the balance becomes due and receivable by the Corporation.

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

d) Allowance for loan 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 on an individual loan basis to reduce the recorded value of the loan to its estimated net realizable value if there is doubt as to its timely collection. 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 percent interest rate, impairment is calculated based on the expected future cash flows using the zero percent rates associated with the loan. This reflects a zero cost of capital for these loans because they are funded by appropriations provided by the Government of Canada. 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.

e) Revenue recognition

- (i) Rental income
Rental income includes revenues from the leasing of space, facilities and related services. Revenue from rent is recorded when the rendering of the service is complete.
- (ii) Interest income
Interest income is recorded on the accrual basis. Interest income from cash deposits represents a return on the bank account balance. Interest income is earned from loans. When a loan becomes impaired, interest income ceases to be recognized. Recognition of interest income recommences when specific allowance for loan impairment is reversed.

f) Investments

The Corporation has invested in preferred equity holdings. 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 used 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 and an allowance for valuation adjustment to reflect the lower of fair value and carrying value.

- g) Investment in a subsidiary
 The Corporation accounts for its investment in the Cape Breton Growth Fund Corporation on a cost basis because the Governor in Council has instructed the Growth Fund to act as a parent Crown corporation for purposes of Part X of the *Financial Administration Act*. Therefore, the Corporation does not control or have significant influence over the Growth Fund.
- h) Property and equipment
 Property and equipment are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the capital assets using the straight-line method at the rates indicated below:
- | | |
|---------------------------------|----------------|
| Buildings | up to 20 years |
| Equipment and furniture | 5 years |
| Computer equipment and software | 2 to 3 years |
| Leasehold improvements | up to 20 years |
| Vehicles | 5 years |
- i) Pension plan
 All eligible employees are covered by the Public Service Pension Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Corporation. The Corporation's contribution to the Plan reflects the full cost of the employer contributions. This amount is based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the Plan. These contributions represent the total pension obligations of the Corporation. Contributions with respect to current service are expensed in the current period (see note 13). Contributions with respect to past service benefits are expensed when paid. The Corporation is not required to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.
- j) Employee severance benefits
 Employees are entitled to specified benefits on termination as provided for under conditions of employment. The Corporation recognizes the cost of the future severance benefits over the periods in which the employees render services to the entity and the liability for these benefits is recorded in the accounts as the benefits accrue to employees. Management determined the accrued obligation for severance benefits using a method based upon assumptions and its best estimates. The accrued obligation is based on the assumption that all employees will complete ten years or more of service. Changes to these estimates are charged or credited to the program support and administrative expenses on the consolidated statement of operations and equity in the period they are reassessed.
- k) 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 possible that the estimates for loans and investments could change materially in the near term.

3. ACCOUNTS RECEIVABLE

	<u>2005</u>	<u>2004</u>
Due from the Atlantic Canada Opportunities Agency (note 12)	\$ 7,253,791	\$ 6,050,378
Parliamentary appropriation	5,000	-
Due from the Cape Breton Growth Fund Corporation	-	98,318
Harmonized Sales Tax rebate	35,033	48,975
Other receivables	<u>186,224</u>	<u>113,255</u>
	<u>\$ 7,480,048</u>	<u>\$ 6,310,926</u>

The amount from the Atlantic Canada Opportunities Agency relates to expenditures made on behalf of the Agency pursuant to a memorandum of understanding. The amount due from the Cape Breton Growth Fund Corporation is for services performed on its behalf. Other receivables are incurred in the normal course of business with no significant concentration of debtors.

Accounts receivable are due on demand, are non-interest bearing and the carrying amounts approximate fair values because of their short term to maturity.

4. LOANS

At March 31, 2005 the Corporation had a portfolio of 41 loan accounts (2004 - 38). These loans are issued to promote economic development in support of the corporate mandate. The total portfolio consists of:

Annual Interest Rate	<u>2005</u>		<u>2004</u>	
	Amount Due	Allowance	Carrying Value	Carrying Value
0%	\$ 7,438,978	\$ (1,037,321)	\$ 6,401,657	\$ 3,254,531
Less than 10%	<u>1,136,581</u>	<u>-</u>	<u>1,136,581</u>	<u>492,021</u>
	8,575,559	(1,037,321)	7,538,238	3,746,552
Interest receivable	<u>2,597</u>	<u>-</u>	<u>2,597</u>	<u>1,734</u>
	<u>\$ 8,578,156</u>	<u>\$ (1,037,321)</u>	<u>\$ 7,540,835</u>	<u>\$ 3,748,286</u>

The Corporation has 8 debtors (2004 - 8) representing 70% of the amount due (2004 - 66%).

Included in the loan balance is a mortgage of \$428,000 (2004 - \$472,000) on property which the Corporation sold in 2002/2003.

The allowance for loan impairment consists of:

<u>2005</u>				<u>2004</u>
Beginning Balance	Write-offs	Annual Provision	Ending Balance	Ending Balance
<u>\$ 993,961</u>	<u>\$ (78,067)</u>	<u>\$ 121,427</u>	<u>\$ 1,037,321</u>	<u>\$ 993,961</u>

The investment in individual loans identified as impaired totalled \$1.5 million (2004 - \$1.1 million).

The fair value of loans, determined using discounted expected future cash flows, approximates \$6.0 million (2004 - \$3.1 million). The difference between the fair value and the carrying value results from 85% (2004 - 86%) of the loan portfolio having a zero percent interest rate.

Repayment dates of the loans are as follows:

Date Due	2005		Carrying Value	2004
	Amount Due	Allowance		Carrying Value
Past Due	\$ 133,494	\$ (113,550)	\$ 19,944	\$ 26,843
2005	-	-	-	906,620
2006	619,693	(102,537)	517,156	526,117
2007	1,081,227	(144,964)	936,263	603,497
2008	1,917,088	(256,625)	1,660,463	791,227
2009	1,582,073	(194,673)	1,387,400	354,623
2010 and beyond	3,241,984	(224,972)	3,017,012	537,625
	8,575,559	(1,037,321)	7,538,238	3,746,552
Interest receivable	2,597	-	2,597	1,734
	<u>\$ 8,578,156</u>	<u>\$ (1,037,321)</u>	<u>\$ 7,540,835</u>	<u>\$ 3,748,286</u>

Forgivable loans totalling \$144,540 (2004 – \$169,784) are not included in the loan portfolio. The consolidated statement of operations and equity includes a recovery of \$16,185 (2004 – nil) for forgivable loans.

Conditional repayable contributions totalling \$19.3 million (2004 – \$21.2 million) are not included in the loan portfolio. The consolidated statement of operations and equity includes a charge of \$24,610 (2004 – \$3.7 million) to development expenses for the disbursement of conditional repayable contributions during the year. There were no conditional repayable contributions that became due and receivable by the Corporation during the year (2004 – nil).

5. INVESTMENTS

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

	2005		Carrying Value	2004
	Cost	Allowances		Carrying Value
Shares	<u>\$ 2,095,556</u>	<u>\$(1,617,687)</u>	<u>\$ 477,869</u>	<u>\$ 482,313</u>

The shares consist of non-voting, redeemable, and retractable preferred shares in private sector entities. No dividends were received or declared during the year (2004 - nil). Redemption of preferred shares totalled \$4,444 (2004 - nil).

Management has recorded these investments net of an allowance for impairment of \$1.4 million and an allowance for valuation adjustment of \$217,687 (2004 - \$1.4 million and \$217,687 respectively). The fair values of investments, determined using discounted expected future cash flows, approximate their recorded carrying value.

6. INVESTMENT IN A SUBSIDIARY

A summary of the audited financial position and results for the fiscal year of operation of the Cape Breton Growth Fund Corporation are:

Balance Sheet	As at March 31, 2005	As at March 31, 2004
Assets	\$ 69,126,193	\$ 73,033,509
Liabilities	\$ 1,610,646	\$ 978,584
Shareholder's equity	\$ 67,515,547	\$ 72,054,925
Statement of Operations	Year ended March 31, 2005	Year ended March 31, 2004
Program expenses	\$ (6,960,541)	\$ (6,329,893)
Program support and administrative expenses	(1,002,336)	(1,015,129)
Interest income	1,423,499	2,084,546
Funding from Enterprise Cape Breton Corporation	2,000,000	14,000,000
Other government funding	-	3,000,000
Net (cost) income after government funding	<u>\$ (4,539,378)</u>	<u>\$ 11,739,524</u>

The Growth Fund has issued one \$1 share. This share represents the Corporation's investment in the Growth Fund and is accounted for using the cost basis of accounting. Therefore, the results of the Growth Fund are not reflected in these consolidated financial statements.

The windup of the Growth Fund will commence when its \$91 million fund is fully committed. It is anticipated that the funds will be fully committed by March 31, 2006. The remaining assets and liabilities of the Growth Fund will then be transferred to the Corporation and the Growth Fund will be dissolved.

7. PROPERTY AND EQUIPMENT

	2005			2004
	Cost	Accumulated Amortization & Write Down	Net Book Value	Net Book Value
Land for development	\$ 506,680	\$ 341,596	\$ 165,084	\$ 165,084
Equipment, furniture and leasehold improvements	2,165,734	1,874,752	290,982	347,839
Rental facilities	4,020,888	2,321,802	1,699,086	928,878
	\$ 6,693,302	\$ 4,538,150	\$ 2,155,152	\$ 1,441,801

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2005	2004
Payable on behalf of the Atlantic Canada Opportunities Agency	\$ 11,988,484	\$ 7,012,411
Due to the Atlantic Canada Opportunities Agency (note 12)	1,063,903	7,654
Harmonized Sales Tax payable	84,221	171,498
Due to the Cape Breton Growth Fund Corporation	15,300	-
Other payables	3,297,581	4,752,829
	\$ 16,449,489	\$ 11,944,392

The amounts due to and payable on behalf of the Atlantic Canada Opportunities Agency relate to activities on behalf of the Agency pursuant to the memorandum of understanding. Other payables are subject to normal commercial conditions and relate to development and administrative expenses.

9. EMPLOYEE SEVERANCE BENEFITS

The Corporation provides severance benefits to its employees based on years of service and final salary. This benefit plan is unfunded and thus has no assets, resulting in a plan deficit equal to the accrued obligation. Information about the plan, measured at March 31, is as follows:

	2005	2004
Accrued obligation for employee severance benefits, beginning of year	\$ 582,108	\$ 500,978
Cost for the year	92,796	307,229
Benefits paid during the year	(81,981)	(226,099)
Accrued obligation for employee severance benefits, end of year	\$ 592,923	\$ 582,108
Current portion	\$ 80,930	\$ 26,787
Long-term portion	511,993	555,321
	\$ 592,923	\$ 582,108

10. PROGRAM EXPENSES

Development and other program expenses consist of:

	<u>2005</u>	<u>2004</u>
Development expenses		
Support to communities	\$ 2,949,637	\$ 9,413,551
Support to business	378,766	986,285
Policy and advocacy	219,175	311,001
	<u>\$ 3,547,578</u>	<u>\$ 10,710,837</u>
Program support and administrative expenses		
Program support	\$ 679,321	\$ 776,533
Administration	1,300,550	1,636,428
	<u>\$ 1,979,871</u>	<u>\$ 2,412,961</u>

11. COMMITMENTS

As at March 31, 2005 the Corporation had outstanding commitments for development programs totalling \$2,691,319 (2004 - \$1,259,549).

12. RELATED PARTY TRANSACTIONS

In addition to those related party transactions disclosed elsewhere in these financial statements, the cost of services provided by other federal government departments, agencies, and Crown corporations is reflected in the consolidated statement of operations and equity and totalled \$76,937 (2004 - \$118,818). These transactions are in the normal course of operations and are recorded at the exchange amount.

The Corporation has entered into a memorandum of understanding with the Cape Breton Growth Fund Corporation that governs the amount of the contribution to the Growth Fund and the provision of program support and administrative services. In addition, the Corporation provided and recovered program and administrative support of \$582,496 (2004 - \$835,723).

13. PENSION PLAN

Contributions to the Public Service Pension Plan consisted of:

	<u>2005</u>	<u>2004</u>
Contributions by the Corporation	\$ 390,762	\$ 433,740
Contributions by the employees	\$ 189,832	\$ 199,615

14. SUBSEQUENT EVENT

In 1999, the Corporation transferred ownership of the Sydport Industrial Park to a private sector group. The original sale price for the transaction was \$3.1 million. The mortgage balance outstanding at March 31, 2005 is \$3.1 million (2004 - \$3.1 million). The intent of the agreement is that credit for the mortgage and interest will be earned by the private sector group through creation of jobs and investments in the Park.

If the purchaser significantly violates the terms of the agreement, the Corporation has the right to retake possession of the property. The agreement ended September 16, 2004 and it was determined that the terms of the agreement were significantly violated.

Negotiations ensued to determine the most feasible means of transferring the assets back to ECBC or to reach alternative arrangements to satisfy the outstanding mortgage. An agreement in principle was reached May 13, 2005 to resolve the mortgage.

The estimated financial effect will be the recognition of a gain of \$1.3 million.

15. COMPARATIVE FIGURES

Certain of the 2004 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2005.

GLOSSARY OF TERMS

ACOA – Atlantic Canada Opportunities Agency is a federal government agency, headquartered in Moncton, New Brunswick. ACOA's goal is to improve the economy of Atlantic Canadian communities through the successful development of business and job opportunities. (Fr: APECA)

AIF – The Atlantic Innovation Fund, a component of the AIP, is a \$300-million, 5-year program designed to strengthen the economy of Atlantic Canada by accelerating the development of knowledge-based industry. (Fr: FIA)

AIP – Atlantic Investment Partnership. A \$700-million ACOA initiative making investments in four major areas: innovation, community economic development, trade and investment, and entrepreneurship and skills development. (Fr: PICA)

BDP – Business Development Program (Fr: PDE)

CA – Chartered Accountant (Fr: CA)

CAF – The Community Adjustment Fund was established to provide support through quality infrastructure that will facilitate the long-term, sustained growth of the affected communities. After the closure of the Prince Mine site, \$10 million in funding was allocated to ECBC to set up the Community Adjustment Fund (Fr: FAC)

CAS – Consulting Advisory Services. (Fr: PSC)

CBDCs – Community Business Development Corporations are autonomous, not-for-profit corporations, which serve rural Atlantic Canada supported by ACOA. They assist in the creation of small businesses, and in the expansion modernization and stabilization of existing businesses. CBDCs offer both technical and financial services for entrepreneurs in their respective regions. (Fr: CBDC)

CBGF – The Cape Breton Growth Fund Corporation was incorporated in August 2000 and is responsible for the delivery of economic adjustment funding made available by the Government of Canada and the Province of Nova Scotia following the closure of the Cape Breton Development Corporation. (Fr: FICB)

CBU – Cape Breton University (Fr: Université du Cap-Breton)

CBRM – Cape Breton Regional Municipality (Fr: Municipalité régionale du Cap-Breton)

Commercial – An individual, sole proprietorship, partnership, cooperative, a body corporate (including Crown corporations), or any trustee or legal representative who carries on, or is about to carry on, legitimate profit driven business activities on Cape Breton Island, but does not include a government or municipality. (Fr: Entité commerciale)

DARR – DARR (Cape Breton) Limited is a subsidiary of ECBC and acts as a real estate holding and development company. (Fr: DARR Cape Breton Limitée)

DEVCO – The Cape Breton Development Corporation was formed by an Act of Parliament in 1967 and is wholly-owned by the Government of Canada. The Corporation, which is located on Cape Breton Island, Nova Scotia, closed its last remaining coal mine in the fall of 2001. (Fr: DEVCO)

ECMAs – East Coast Music Awards. (Fr: AMCE)

Exports – Includes sales to destinations outside of Canada, tourism receipts from outside Canada and import substitution of goods and services from outside Canada. (Fr: Exportations)

FAA – Financial Administration Act (Fr: LGFP)

Full-time Equivalent Jobs (FTEs) – Permanent, direct, seasonal, or part-time jobs converted to the equivalent of full-time jobs at the approved conversion rates. (Fr: ETP)

GDP- The total market value of all the goods and services produced within the borders of a nation during a specified period. (Fr: PIB)

GOL – Government On-Line is a strategy to provide key government services electronically by 2004 through common government-wide infrastructure. (Fr: GED)

Investment – Refers to Foreign Direct Investment (FDI) meaning investment in Canada that originated outside of the country as well as Canadian investment from outside Cape Breton Island. (Fr: Investissement)

Job Created – *Direct FTE jobs created in the operation, as a result of the eligible project, prior to the project completion date, and which are expected to last at least five years. Jobs are pro-rated among funding from a number of sources administered by ECBC based on the proportionate amount of the aggregate project investment contributed by each. (Fr: Emplois créés)

Leverage – Is calculated by subtracting the total amount of assistance from the total project cost. Leverage includes the applicant's equity, private investors/lenders and other sources of government financing. Funding from a number of sources administered by ECBC (for the same project) is not counted as leverage. (Fr: Effet de levier)

MOU – Memorandum of Understanding (Fr: PE)

OLA – The *Official Languages Act* is an Act respecting the status and use of the Official Languages of Canada. (Fr: LLO)

Priority Sectors – ECBC has established four strategic sectors for assistance: knowledge-based, tourism, manufacturing and processing and resource-based. (Fr: Secteurs prioritaires)

Project – An initiative undertaken by ECBC either by itself or in conjunction with one or more third parties. Projects are recorded in the month an applicant's application is approved. (Fr: Projet)

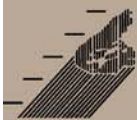
RDA – Regional Development Agency (Fr: ODR)

SCIF – The Strategic Community Investment Fund provides \$135 million over five years to help communities in Atlantic Canada create an environment that encourages and enhances economic development. (Fr: FISC)

Strategic Priorities – ECBC has defined strategic priorities in the case of the following: support to business, support top communities, investment, advocacy and policy and research. (Fr: Priorités stratégiques)

SYSCO – Sydney Steel Corporation, once an active steel plant, now operates as a provincial Crown corporation with key activities including demolition, site clean up and redevelopment of the property as an industrial park. (Fr: SYSCO)

YMCA – Young Men's Christian Association (Fr: YMCA)



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