

Enterprise Cape Breton Corporation (ECBC)

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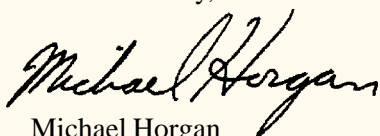
The Honourable Brian Tobin
Minister of Industry, Minister for the Atlantic Canada Opportunities Agency
House of Commons
Ottawa, Ontario K1A 0A6

Dear Mr. 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, 2001.

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 black ink, appearing to read "Michael Horgan". The signature is written in a cursive style with a large initial "M".

Michael Horgan
Chairman of the Board of Directors
Enterprise Cape Breton Corporation

Chairman's Message

Chairman's Message

The 2000/2001 fiscal year started on a high note. At the very end of the previous fiscal year (March 30), the Prime Minister of Canada was in Cape Breton to announce the establishment of a new EDS customer interaction centre in Sydney. This state-of-the-art facility was to create 900 jobs over five years. The facility was operational by July 2000, and by the fall of the same year, EDS announced that it anticipated meeting its target of 900 employees by year two, three years ahead of schedule.

In February 2001, the Honourable Robert Thibault, Minister of State for Enterprise Cape Breton Corporation (ECBC) announced ECBC's assistance for a second EDS centre to be established in Port Hawkesbury and employing 450 people.

These jobs are a welcomed addition to the Cape Breton economy where the unemployment rate stands at 19.5%. This compares to 10.7% for the Province of Nova Scotia and 7.6% nationally.

The Cape Breton Island economy is undergoing drastic changes as we witness the decline of a number of the Island's predominant industries. With the closure of the groundfishery, an estimated 2,300 jobs have been lost. Another 6,900 jobs in coal and steel have been lost over the last 20 years. The number will increase by an additional 500 further to a recent decision of the Government of Canada to close the Prince mine.

Recognizing Cape Breton Island's economic circumstances, the Government of Canada has provided additional economic development funding to assist the community in its efforts to adjust to the closure of the coal industry.

After an extensive community consultation to canvas public opinion as to potential areas for economic growth, a subsidiary corporation has been established pursuant to the ECBC legislation. This new entity, the Cape Breton Growth Fund (CBGF), is responsible for delivery of the incremental economic adjustment funding provided by the Government of Canada and the Province of Nova Scotia.

Although a subsidiary of ECBC, the CBGF functions with its own board of directors and reports directly to the Minister of Industry. It produces its own corporate plan and annual report. While the CBGF has a small staff, ECBC provides a full array of administrative support to the CBGF.



While the CBGF focuses on larger projects and strategic infrastructure, its overall development focus is complementary to that of ECBC.

Through its own programs and as a delivery agent for other Government of Canada initiatives, ECBC is working closely with the community to assist in the diversification of the local economy.

In 2000/2001 considerable progress has been made toward the strategic objectives outlined in the Corporation's Corporate Plan. ECBC continues to deliver programs for the Atlantic Canada Opportunities Agency (ACOA) on Cape Breton Island. The level of activity for these programs remained high in 2000/2001 and it is interesting to note that there has been a marked increase in the number of commercial applications. This bodes well for the future as it indicates that the private sector is prepared to invest in the local economy. Through various programs, ECBC approved 165 projects resulting in over \$22 million in commitments and leveraging over \$44 million in other investments. As a result, an estimated 674 jobs have been created.

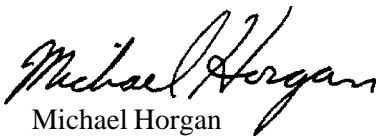
In other priority sectors identified in the Corporate Plan, tourism continues to be a vibrant sector of the Cape Breton economy. The Corporation continues to focus on trade and investment, working with a number of local businesses to grow through exports. To ensure that the particular needs of the Cape Breton Island economy are addressed, the Corporation has developed a centralized advocacy function in Halifax to promote the interests, priorities and concerns of the Island in government decision making. ECBC also maintains a research agenda which reflects and supports various economic issues and sector-specific considerations. Efforts are ongoing to attract new investment.

Internally, the Corporation has made progress in the development of a performance management framework which has been approved by Treasury Board. The Board of Directors has engaged in a benchmarking exercise with regard to strengthening its current corporate governance practices. The Corporation has also instituted a new Internal Audit Unit.

The challenges may be great, but ECBC is well positioned to work with the local community and other levels of government to provide long-term sustainable employment and to broaden the economic base.

The Corporation's staff is committed to the future of the Island. The Board of Directors is providing strong leadership. The private sector has demonstrated its willingness to invest and community-based economic development is ongoing across the Island.

I am confident that ECBC is making a significant contribution to the economic well-being of the community it serves.



Michael Horgan

Chairman of the Board of Directors
Enterprise Cape Breton Corporation

Corporate Profile

ECBC is a Crown corporation established pursuant to Part II of the *Government Organization Act, Atlantic Canada, 1987* (also known as the *Enterprise Cape Breton Corporation Act*). It is a continuation of the Industrial Development Division of the Cape Breton Development Corporation (DEVCO), which was established as a Crown corporation in 1967 to manage the downsizing of the Cape Breton coal fields and to assist in the diversification of the local economy.

The *Enterprise Cape Breton Corporation Act* provides the Corporation with a broad legislative mandate for economic development for Cape Breton Island and the Mulgrave area:

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

ECBC has the legislative powers to develop any area or sector of the economy with the exception of coal production.

The creation and maintenance of ECBC by the federal government is a recognition that the needs of Cape Breton Island require a flexible approach to economic development. The broad powers vested in the Corporation provide it with important tools, not available to other departments and agencies, to meet the challenge of its mandate and mission.

ECBC's small geographic focus, local control and flexible mandate enables it to devise initiatives that are very specific to local needs and priorities. It also enables the Corporation to take a multi-faceted or holistic approach to any problem, allowing it to bring together and involve all partners in the local economy for direction and input.

The mission statement of the Corporation helps to focus the organization on the major issues affecting the economy of Cape Breton Island and the Mulgrave area.

Recognizing the importance of the world economy to the future, ECBC will pursue measures to foster sustainable job development and economic growth on Cape Breton Island and the Mulgrave area, taking a major role in partnership with private and public sectors and other relevant organizations.

The Corporation is directed by a Board of Directors comprised of the President of ACOA, the Vice-President of ECBC and five Directors. The President of ACOA is *ex officio*, the Chairman and Chief Executive Officer (CEO) of ECBC. The Corporation operates from its head office in Sydney, Nova Scotia with a satellite office in Port Hawkesbury, Nova Scotia. Internally, ECBC is organized into a number of administrative units reporting to the Vice-President and Chief Operating Officer (COO) including: programs, development, audit, corporate services, legal, advocacy and communications.

Position Within the Government

While ECBC and ACOA have a close working relationship and many ACOA programs are delivered in Cape Breton through the Corporation, ECBC is a distinct entity and reports separately to Parliament through the Minister of Industry, who is supported by a Minister of State.

Since 1995, ECBC and ACOA have in place a Memorandum of Understanding under which ECBC delivers ACOA's programming for Cape Breton Island and the Mulgrave area. This has allowed ECBC to design its programming and intervention strategies to complement the existing programming of ACOA.

Governance

Over the past year, ACOA programs delivered by ECBC have included:

Business Development Program (BDP) - designed to help small-and medium-sized businesses (SMEs) to expand and modernize by offering access to capital in the form of interest-free, unsecured loans. It also supports non-profit organizations providing services to business.

Consultant Advisory Services (CAS) - provides business clients with access to consulting expertise to pursue business opportunities and solve problems.

*COOPERATION Program** - Cooperation agreements are comprehensive, federal-provincial, cost-shared initiatives designed to improve the environment for economic growth.

*Canadian Fisheries Adjustment and Restructuring (CFAR)** - introduced as FRAM in 1998, this program is designed to assist individuals and coastal communities affected by the downsizing of the Atlantic groundfishery.

Canada/Nova Scotia Infrastructure Works Program (CIWP) - a program intended to accelerate economic recovery by creating short-and long-term employment through investment in local communities, while renewing and enhancing the physical infrastructure of Canada's local communities.

Community Business Development Corporations (CBDCs) - ACOA supports these autonomous, not-for-profit corporations, which work to assist in the creation of small business or the expansion or modernization of existing businesses. There are three CBDCs on Cape Breton Island.

In addition to its relationship with ACOA, ECBC maintains a good working relationship with the Industry portfolio and other government departments at all levels, especially those working in the area of economic development.

* represented on the federal-provincial management committee

Corporate governance describes the process and structure that enables the Board of Directors to oversee the direction and management of ECBC to aid in the Corporation's effectiveness in carrying out its mission and mandate. Corporate governance defines who is responsible for what and how to ensure accountability and accomplishment. It involves both structural and relational aspects of the board's working relationship with management and the shareholder. It is structural in the sense that it institutionalizes relationships by leaving a legacy of structures that ensure that the process of governance operates independent of individual personality. It is relational in the sense that the relationship between the Chair, COO, Board and Senior Management influences how well the system of governance operates.

Given the clear importance of corporate governance to the effective operation of ECBC, the Board of Directors decided to engage the Conference Board of Canada to assist in reviewing its current corporate governance practices and to develop a set of best practices. With the help of the Conference Board of Canada, ECBC was able to benchmark its current practices against those of other Crown corporations to explore what it is doing well and the areas where improvement may be warranted. Around this same time, the Office of the Auditor General of Canada released its December 2000 report on the *Governance of Crown Corporations*. These reports have helped the Corporation to focus on certain aspects of its governance system.

In response to this exercise, the Board and management are working together on concrete measures to include corporate governance as an on-going activity of the Corporation which will help re-define an approach focussed on enterprise-wide risk management. The overall redefining of the current governance system is anticipated to take one to two years.

An example of improvements introduced during this past year is the introduction of a process of involving the Board in its own renewal and composition. Management has committed to the Board that it will, prior to an appointment expiring, seek the views of

the current Board members on the skills and experiences the new appointee should possess as well as invite the Board to suggest any possible candidates. The proposed skills profile along with suggested candidates are then forwarded to the responsible Minister for consideration. The appointment of Board members remains the prerogative of the Governor-in-Council.

Started last year, the process of performance evaluation for the CEO and COO will be formalized over the coming year. The COO has an accountability accord with the Board against which the Board analyzes his performance and provides a letter detailing their views to the responsible Minister and Privy Council Office who are ultimately responsible.

Over the coming year, management has committed to work with the Board in developing a succession plan for the senior management tier at the Corporation, to review the current roles and responsibilities of the Board and management, to continue to work towards finding better ways to involve the Board in strategic and corporate planning, and to continue the focus on improving the system of performance and risk reporting.

The Board and management of ECBC are confident that the continued focus on improving the governance system and practices will aid the Corporation in effectively delivering on its objectives, mission and mandate over the coming year.

Board of Directors



Members of the ECBC Board of Directors, seated from left to right, Michael Horgan, Chairman; Rick Beaton,** Vice-President and COO; Joe Wild, Corporate Secretary; standing, Spyro Trifos; Ferne MacLennan; Gregory MacKenzie*; Betty Anne AuCoin, and Curdis Karrel**.

* Chairperson - Audit Committee

** Member - Audit Committee

The members of the Board of Directors are:

Michael Horgan - ex-officio, Chairman and CEO, currently President of ACOA headquartered in Moncton and formerly Deputy Secretary to the Cabinet (Inter-governmental Policy and Communications), Privy Council Office

Rick Beaton - Vice-President and COO, formerly Director General of Programs with ACOA - Prince Edward Island and Departmental Liaison to the Minister's Office, ACOA - Ottawa

Ferne MacLennan, - educator (Nova Scotia Community College, Strait Campus) and community economic development activist, River Denys, Nova Scotia

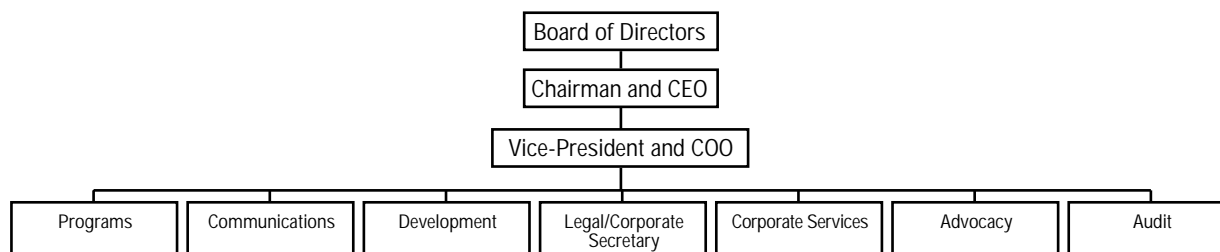
Gregory MacKenzie, C.A. and Trustee in Bankruptcy - senior principal with KPMG Chartered Accountants, Sydney, Nova Scotia

Betty Anne AuCoin, - administrator Hôpital Sacré-Coeur and Foyer Père Fiset, Chéticamp, Nova Scotia

Curdis Karrel, - businessman, owner/operator of Island Distributors and other business interests, Sydney, Nova Scotia

Spyro Trifos, - architect, owner/operator of Trifos Design Consultants, Sydney, Nova Scotia

ECBC at a Glance



The Environment

On Cape Breton Island, the job losses resulting from the decline of traditional resource industries are not fully being replaced by new jobs in other industry sectors. Furthermore, the number of people entering the workforce has out-paced job creation/attrition. Many of the displaced workers are finding they do not possess the skills, nor the training required in the new knowledge-based economy.

Many of the youth entering the workforce are not finding job opportunities locally, and therefore, leave the area to find work. On top of this, many of the jobs in tourism, agriculture, fishing, construction, etc., that exist in Cape Breton involve seasonal work. The result is a consistently high unemployment rate and a low labour force participation rate.

Labour Force

	Cape Breton	Nova Scotia	Canada
Participation Rate	52.2%	60.3%	65.2%
Unemployment Rate	19.5%	10.7%	7.6%
Employment Rate	42.2%	53.8%	60.2%

Source: Stats Canada, Labor Force Survey, March 2001

The current population of the Island stands at 158,000. This number has been in constant decline over the last 30 years, with a loss of 10,000 people over that same period. Cape Breton Island is losing its 20-39 year-old population. According to the 1996 census, this population segment represents 27% of Cape Breton's total population, while in the Halifax Regional Municipality it represents 35% of the population.

In spite of these challenges, there are a number of emerging sectors which comprise a small part of the overall economy. For the most part, firms within these sectors operate on a relatively small scale. They are often unable to attract outside investment and few are export oriented.

Planning

Each year as part of the corporate planning process, ECBC engages in consultations with employees, its Board of Directors and key stakeholders in the community. The Corporation also conducts an environmental scan which includes an overview of current economic conditions and a critical analysis of economic sectors that offer the most potential for growth and the creation of long-term sustainable jobs in the local economy.

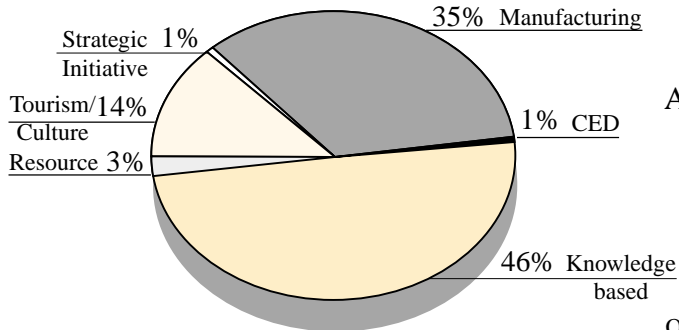
This year the Corporation also made use of the report produced by the consultation panel which was put in place to canvas Island residents as to the best means to invest the economic adjustment money provided by the Government of Canada and the Province of Nova Scotia further to the decision to downsize and privatize DEVCO.

As a result of the Corporation's planning process, the following sectors have been targeted:

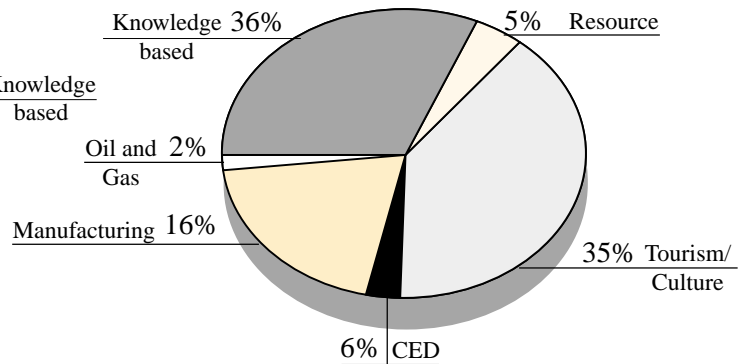
- knowledge-based industries
- resource-based industries
- tourism
- arts, culture and music
- energy (oil and gas)
- manufacturing
- community economic development

**The following charts outline ECBC and ACOA commitments
in these sectors during 2000/2001**

ECBC Commitments by Sector



ACOA/BDP Commitments by Sector



Business Lines

ECBC's activities are divided into two main business lines: Development and Corporate Administration.

The majority of ECBC's efforts to achieve its objectives are carried out under Development. ECBC's legislative mandate is clear: the Corporation's function is to assist in the economic diversification of the Island by directly undertaking or otherwise fostering economic development.

ECBC has further defined its development role by establishing eight strategic objectives:

- Delivery Agent
- Access to Capital
- Tourism Marketing
- Operations
- Trade & Investment
- Image
- Advocacy
- Policy

Corporate administration serves to ensure that resources are used effectively and efficiently and that administrative systems and services are in place to enhance management decision making, managerial accountability and operational control.

Development: The Strategic Objectives

Project Summary: Levels of Activity (all programs delivered by ECBC)

Total number of projects	165
Total dollar value of commitments	\$22,381,936
Total dollars leveraged	\$44,455,862
Total number of jobs created (estimated)	674
Average assistance per job created	\$ 33,208
Average assistance per project	\$ 135,648
Percent of assistance to commercial projects	61%
Percent of assistance to non-commercial/CED projects	39%
Percent of repayable contributions	41%
Percent of non-repayable contributions	59%

Delivery Agent

In addition to its own programs, ECBC acts as a delivery agent for other federal government programs, more specifically the programs of ACOA, in its mandate area. ECBC's activities enhance the effectiveness of ACOA programming and Cape Breton Island communities benefit from this unique relationship. These programs include the Business Development Program, the Canadian Fisheries Adjustment and Restructuring initiative,

Community Business Development Corporations, the COOPERATION Program and the Canada/Nova Scotia Infrastructure Works Program. The Corporation undertook a marketing campaign to promote the various programs it offers. This included an updating of assistance guidelines, advertising and a direct mail campaign to the business community. As a result, the Corporation experienced a significant increase in the number of commercial applications.

Budget Allocation 2000/2001 - all programs

	ECBC	ACOA/BDP	CFAR	CBDCs	Total
Development	2,000	-	-	-	2,000
Allocated for commercial	2,265	7,800	2,060	-	12,125
Allocated for non-commercial	646	725	1,250	-	2,621
Allocated for CED	500	1,675	-	450	2,625
Total Budgets (000\$)	5,411	10,200	3,310	450	19,371

Access to Capital*

Results 2000/2001	Target	Actual	% of Target
# jobs created	100	413	413%
\$ value leveraged funds	4,000,000	25,618,785	640%

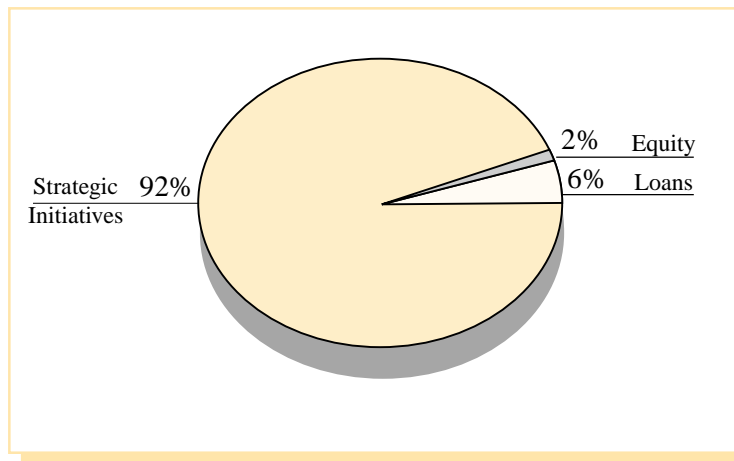
* ECBC programs only

One of the major concerns for organizations in the Corporation's mandate area is access to capital. The flexible powers of the Corporation allow it to use a number of instruments, many of which are unique, to assist businesses with start ups and expansions. ACOA programs were used by ECBC to provide financing ranging from assistance for machinery and equipment to soft costs such as marketing, R&D,

skills training, etc. This access to capital is in the form of unsecured, interest-free, repayable contributions for commercial activities and non-repayable contributions for non-commercial activities.

ECBC provided access to capital primarily through equity investments and strategic initiatives.

ECBC Access to Capital by Instrument



ECBC Commitment Results 2000/2001*

Number of Projects		Assistance Amounts (000s)		Jobs Created	
Total	37	Total	\$6,016	Total	413
Commercial	13	Commercial	5,023	Commercial	413
Non-commercial	12	Non-commercial	498	Non-commercial	0
CED	12	CED	495	CED	0

* ECBC programs only

Tourism Marketing

The year 2000 was the fourth consecutive year that Nova Scotia's tourism revenues exceeded the one-billion-dollar mark. These have been exceptional years for tourism on Cape Breton Island as well and ECBC's tourism marketing activities contributed to the success. Overall tourism revenues for Cape Breton Island alone were approximately \$230 million in 2000.

ECBC works with the private sector, Tourism Cape Breton, the Province of Nova Scotia, the Atlantic Canada Tourism Partnership, and the Canadian Tourism Commission to improve the tourism industry on the Island. ECBC's tourism marketing helps to lever funds, attract visitors, increase tourism expenditures and lengthen stays on Cape Breton Island, all of which contribute to economic growth and job creation. Tourism marketing includes an advertising campaign, special promotions, familiarization (FAM) tours, trade shows, printed materials and distribution of this material.

Through these activities, ECBC set a target of 65,000 inquiries for the 2000/2001 campaign, resulting in 20,000 visitors annually. These visitors would directly spend \$20 million.

The actual number of inquiries received as a result of the marketing campaign from January 1, 2000 – December 31, 2000 was 96,386, resulting in 17,780 visitors spending \$22.7 million.

Advertising

ECBC uses a combination of traditional and new media to deliver its message to target markets. The advertising message includes a call-to-action (a business reply card, a toll-free telephone number, or the tourism web site address) to generate an inquiry for more tourism information about Cape Breton Island. In 2000/2001 the tourism advertising budget was \$600,000.

Planning for the 2000 campaign began in the third quarter of 1999. Three key markets were targeted:

- New England
- Ontario
- Quebec

The advertising campaign consisted of print ads, direct mail and Internet-based advertisements.

FAM Tours

A FAM Tour is an effective tool for generating publicity. The main goal of the media familiarization program is to increase total tourism visitation to Cape Breton Island by providing the opportunity for industry writers to experience, "hands on", the Cape Breton Island tourism product.

A total of 29 media FAM Tours and 12 travel trade FAM Tours took place on Cape Breton Island between May 2000 and March 2001.

A representative from the Corporation also attended Media Marketplace in Los Angeles, a tourism promotional event specifically targeting travel writers. The representative networked with media writers from across the United States, providing information about Cape Breton Island and inviting them to visit and to write stories on its attractions. As a result, a total of seven media writers visited Cape Breton Island in 2000.

ECBC coordinated FAM Tours for IMG representatives to view Bell Bay and Highlands Links Golf Courses as possible locations to host the "2001 Wayne Gretzky & Friends Invitational" Golf Tournament.

Travel Trade:

ECBC also promotes the Cape Breton Island tourism product through its travel trade strategy which allows personal contact with industry suppliers. Trade shows are the backbone of the travel trade activities. A representative from ECBC attended Rendez Vous Canada in Calgary in May and the Atlantic Canada Showcase, in New Brunswick in October. At these shows, meetings were held with tour operators to update them on Cape Breton Island attractions and to help them plan their itineraries. ECBC also participated in the Mid Atlantic Seminars and Trade Show in Iceland in February 2001.

Operations

Human Resource Development

A number of changes have occurred in ECBC's operational environment. There has been an increase in demand for the Corporation's programs especially those in support of commercial projects. In addition, the Corporation is required to provide project evaluation services for proposals submitted to the Cape Breton Growth Fund. As a result, efforts have been taken to strengthen the Corporation's financial evaluation capacity. A number of new employees have been engaged over the past year. These individuals bring a wealth of experience to the Corporation in the areas of business planning and counselling as well as strong financial analysis skills.

The Corporation has also created a new Internal Audit Unit which reports to the Vice President and COO and the Audit Committee of the Board of Directors. It performs audits on both commercial and non-commercial projects as well as internal contracts. The Unit works closely with the Office of the Auditor General of Canada, which is the Corporation's auditor.

Point Edward Resource Centre

Partnership is key to the Point Edward Resource Centre's ability to continue to be a focal point for those involved in resource-based industries. The Centre has signed MOUs with a number of provincial government departments, a school board and the local university:

- Nova Scotia Department of Agriculture and Marketing
- Nova Scotia Department of Fisheries and Aquaculture
- Nova Scotia Department of Natural Resources
- University College of Cape Breton
- Cape Breton/Victoria Regional School Board

The Centre continues to play an important role in the delivery of resource-based education programs which have addressed improved production practices, forest management and equipment safety.

Results 2000/2001

Operations	Target	YTD	% of Target
Number of companies adopting new practices	20	21	105%

Demonstration/R&D projects included:

- Atlantic Coastal Action Program (ACAP) - composting
- Advanced Glazings - commercial product testing
- Cape Breton Food Producers & Processors Association - better business practices
- Hosting an Industry Canada Community Access Program site

The Centre continued to host a forestry training program run by the Cape Breton/Victoria Regional School Board. This program allows students access to various types of forest conditions while, at the same time, teaching effective forest management practices. In addition, Nova Scotia Power is carrying out a research project involving soil enhancement techniques at the Centre.

Port Hawkesbury Business Facility

ECBC owns a 16,800 square foot manufacturing incubator building in Port Hawkesbury. The facility is being used primarily as a business service centre housing the Corporation's regional office and a number of tenants including the Strait District Planning Commission, the Strait-Highlands Regional Development Agency, InRich Business Development Centre Ltd. and the Nova Scotia Department of Economic Development.

Trade and Investment

Trade & Investment Results 2000/2001	Target	Actual	% of Target
# new exports	5	16	320%
# exporters that increase export sales	10	10	100%
Value of contracts resulting from trade activity	\$2,000,000	\$517,000	26%

ECBC has established a Trade and Investment Unit which is focussed on export development for local business in order to generate real economic wealth and business development.

ECBC's trade strategy is designed to enhance the capabilities of small-and medium-sized enterprises to establish trading relationships and to expand trading activity. ECBC worked in conjunction with ACOA's trade strategy which provides a framework to assist companies in trade development. The Corporation took a "hands on" approach by actively identifying and working with companies with export potential. Once companies are ready for the export market, ECBC helped coordinate and participated in various trade missions and shows.

Trade and Investment summary of activities for 2000/2001:

Trade Promotional Campaign

- A series of trade related ads were placed in Cape Breton newspapers to stimulate interest in exporting.

Trade Research

- MBA students from Dalhousie University were hired to conduct market research on the Caribbean and the UK markets for Cape Breton Island companies.
- In cooperation with Trade Team Nova Scotia, ECBC provided specific research information for various Cape Breton Island companies.

Incoming Missions

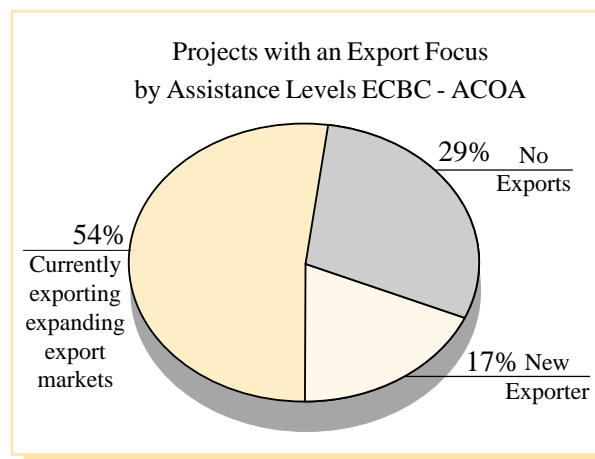
- Worked with clients to attend incoming buyers missions in PEI and Halifax. Buyers were from Atlanta, Miami, Puerto Rico and Iceland.

Identifying Potential Exporters

- ECBC identified close to 20 new potential exporters.

Trade Missions

- Coordinated trade mission to Boston (multi-sector - six companies);
- Coordinated trade mission to Houston (oil and gas - five companies);
- Coordinated trade mission/trade show in Chicago (multi-sector, three companies);
- Coordinated mission to Iceland; and
- Ongoing work with Province of Nova Scotia to recruit companies for its trade missions.



Trade Shows

ECBC coordinated trade shows in the following locations:

- UK and France (building products - two companies);
- Houston (oil and gas - three companies);
- Ottawa (IT - two companies);
- Montreal (food producers - four companies); and
- Baltimore (multi-sector - five companies).

Investment

- Prepared investment prospecting materials in response to inquiries (various sectors).

Image

Improving Cape Breton Island’s image as a place to do business was addressed by ECBC through a number of promotional activities. A public relations campaign in 1999/2000 provided factual information about the business climate and lifestyle on Cape Breton Island.

As a result of those activities the following issues were raised regarding image:

- Improving image is a long-term process.
- Advertisements are supplemental to the message. Actions speak louder than words.
- Success stories give a positive message.
- Image message contained in advertising is very broad and image is influenced by many outside factors.
- The advertising campaign is having limited measurable impact.

ECBC is now focussing its activities on examining Cape Breton’s image as it relates to labour relations. A consultant was commissioned to conduct a Labour Relations and Construction Cost Comparison study. The Corporation continues to explore avenues to assist in the development of a long term cost effective strategy to address Cape Breton’s image.

Advocacy

ECBC’s advocacy function is to advance the interests, priorities and concerns of Cape Breton Island in government project selection, decisions and

actions. ECBC’s core objectives for its advocacy activities include:

- providing advice on issues which can affect the opportunities for economic development on Cape Breton Island;
- ensuring awareness of the interests, priorities and concerns of the Island on the part of other government departments, and agencies;
- ensuring an effective two-way process of information, bringing insight and knowledge of policies, perspectives and priorities to and from the Island; and
- working cooperatively with and coordinating efforts of government departments on mainland Nova Scotia.

Results 2000/2001

Advocacy	Target	YTD	% of Target
Incremental resource commitments	\$200,000	\$250,000	125%

Through a partnership office in Halifax, Cape Breton perspectives, issues and opportunities were highlighted during discussions and meetings of the following groups:

- iei Council (Information Economy Initiative)
- Sustainable Communities Steering Committee
- COOPERATION Directorate
- e-commerce Working Group
- Labour Market Development Agreement IT Task Team
- Atlantic Canada Petroleum Institute Working Group
- Canadian Foundation for Innovation Working Group
- ACOA Transportation Network
- ACOA/ECBC-NS Intergovernmental Affairs Working Group
- Committee on Economic Development

Policy

ECBC's policy and research program is based on input from economic development stakeholders and partners as well as findings and knowledge from a growing body of completed research and consultation. ECBC maintains a forward-looking research plan which reflects and supports emerging local economic issues, structural challenges and opportunities, sector-specific considerations, key federal policies, and ECBC's strategic priorities and program initiatives. ECBC carries out internally driven research as well as research carried out by and with external partners.

Research Studies

Completed:

- Oil and Gas Manufacturing Study (In cooperation with the Nova Scotia Petroleum Directorate)
- ECBC Client Satisfaction Survey
- Input-Output/Econometrics Model Update
- Labour Force Assessment, Tele-Service Industry
- Economic Impact and Opportunities Analysis of the Rowan Gorilla III Decommissioning and Retrofit Contract
- Labour Relations and Construction Cost Comparison study
- 2000 Tourism Advertising and Promotion Conversion Study (Phase I and II)
- Estimating Cape Breton Island Tourist Visitation

Initiated:

- Cape Breton Regional Municipality Skills Survey
- Golf Destination Strategy for Cape Breton Island
- Evaluation of the ECBC/UCCB Memorandum of Understanding

In addition ECBC worked on economic impact analysis studies for various clients.

Industry networks

ECBC's approach to economic development, and opportunity identification, is strongly based on the formation of partnerships. ECBC has a strong track record of partnering with the private sector, the public sector, educational institutions, non-profit groups and other organizations.

ECBC has been a catalyst in the formation of a number of industry networks which serve to bring together individuals and companies, government and other partners with similar interests. Working with community-based groups such as the Technology Advisory Group (TAG), the Culture and Heritage Advisory Group (CHAG), or the Potential Offshore Gas Opportunities (POGO), ECBC facilitates the exchange of ideas that have led to the growth of these sectors. ECBC will continue to be a catalyst in these areas as it attempts to find new ways to bring individuals and businesses together to identify opportunities for development and growth on Cape Breton Island.

Client Satisfaction Survey

The Corporation reviewed the results of a client satisfaction survey carried out in March of 2000. Its objective was to provide information to assist with process improvement in an effort to address service delivery standards and to determine what changes, if any, the Corporation could make to provide better service to its clients. The survey rated positively almost all aspects of the evaluated areas, including applications for assistance, project experience, ECBC staff and ECBC's strategic focus.

Four recommendations were provided to improve service delivery standards:

- Consider taking steps to isolate positive and negative client experiences
- Examine the possibilities to curb application withdrawals
- Increase communication with respect to programs
- Increase advertising and publicity to improve corporate identity

Cooperative Relationships

ECBC works with all levels of government and the private sector to address the economic conditions of Cape Breton Island and the Mulgrave area. Over the past year, the Corporation has established or maintained a number of working relationships including:

The Human Development Partnership Committee - formed to enhance the capacity of individual communities to determine needs, identify assets and build on strengths critical to the development of appropriate, sustainable programs and services that are consistent with the Labour Market Development Agreement priorities. ECBC is represented on the Committee along with other federal departments, provincial government departments, school boards and training institutions.

Canada/Nova Scotia COOPERATION Agreement on Economic Diversification - ECBC is an active member on the management committee of the Canada/Nova Scotia COOPERATION Agreement on Economic Diversification (EDA). The EDA is a cooperation agreement between the province and the federal government to target strategic initiatives for Nova Scotia that will generate economic growth.

The Mayors and Wardens Committee - an ECBC-led initiative to bring municipal officials together with federal and provincial departments for joint discussions on economic development.

Persons With Disabilities Partnership Committee for Cape Breton - ECBC works closely with HRDC and several local organizations. Its main objective is employment for persons with disabilities.

Federal/Provincial Working Group for Sustainable Communities - ECBC is a member of the group (involving several provincial and federal departments) which is exploring ways to work more effectively together and with communities to support local efforts toward sustainability.

The Nova Scotia Federal Council - the Council has established a sub-committee on economic development specifically for Cape Breton Island. This committee brings together various federal departments to focus on a coordinated approach to economic development in Cape Breton.

Community Economic Development - ECBC has worked closely over the past year with its partners in assisting with local development initiatives.

- Cape Breton County Economic Development Authority
- Strait Highlands Regional Development Agency and the three Community Business Development Corporations:
 - InRich Business Development Centre Ltd.
 - Coastal Business Opportunities Inc.
 - Northside Economic Development Assistance Corporation

Working with its partners, ECBC has been able to provide expertise and funding to assist community groups with strategic planning and community capacity building.

Management's Responsibility For Financial Reporting

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

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

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

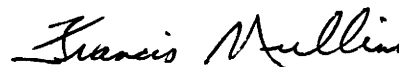
The Audit Committee of the Board of Directors has periodic meetings with management and the independent auditors to discuss the financial reporting process as well as accounting and reporting issues. The financial statements are reviewed and approved by the Board of Directors upon the recommendation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

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

May 18 , 2001



Rick Beaton
Rick Beaton
Vice-President and Chief Operating Officer



Francis Mullins
Francis Mullins
Comptroller

Auditor's Report

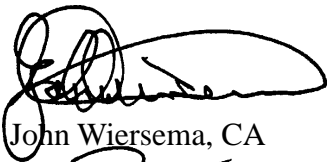
To the Minister for the purposes of the *Atlantic Canada Opportunities Agency Act*

I have audited the balance sheet of Enterprise Cape Breton Corporation as at March 31, 2001 and the 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 financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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



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

Ottawa, Canada
May 18, 2001

Balance Sheet

as at March 31, 2001

ASSETS

	<u>2001</u>	<u>2000</u>
Current assets		
Cash	\$ 6,893,376	\$ 305,033
Accounts receivable, net (Note 3)	3,093,993	5,395,035
Prepaid expenses	<u>57,016</u>	<u>55,144</u>
	10,044,385	5,755,212
Loans, net (Note 4)	2,270,664	2,415,982
Investments, net (Note 5)	400,000	400,000
Investment in subsidiary (Note 6)	1	-
Capital assets, net (Note 7)	<u>390,349</u>	<u>280,672</u>
	<u>\$ 13,105,399</u>	<u>\$ 8,851,866</u>

LIABILITIES

Current liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 8,813,081	\$ 4,126,898
Provision for employee termination benefits	<u>374,644</u>	<u>463,059</u>
	9,187,725	4,589,957

EQUITY

Equity of Canada	<u>3,917,674</u>	<u>4,261,909</u>
	<u>\$ 13,105,399</u>	<u>\$ 8,851,866</u>

Commitments (Note 10)
Subsequent event (Note 13)

See accompanying notes to the financial statements.

Approved by the Board of Directors:



Director



Director

Statement of Operations and Equity

for the year ended March 31, 2001

	<u>2001</u>	<u>2000</u>
Program expenses		
Development expenses (Note 9)	\$ 16,257,345	\$ 4,798,892
Contribution to the Cape Breton Growth Fund Corporation (Note 6)	15,000,000	-
Other program expenses (Note 9)	1,772,564	1,724,382
Provision for loan impairment (Note 4)	<u>23,157</u>	<u>332,571</u>
	33,053,066	6,855,845
Other expenses		
Administrative expenses	1,302,064	1,686,509
Amortization	<u>114,084</u>	<u>99,309</u>
	<u>1,416,148</u>	<u>1,785,818</u>
Total expenses	<u>34,469,214</u>	<u>8,641,663</u>
Revenue		
Rental facilities	72,303	289,011
Interest, investments and other	<u>438,676</u>	<u>271,511</u>
	<u>510,979</u>	<u>560,522</u>
Activities on behalf of the Atlantic Canada Opportunities Agency (Note 11)		
Program expenses	14,087,942	11,698,439
Salaries, professional and other	<u>1,755,754</u>	<u>1,456,754</u>
	15,843,696	13,155,193
Less: Costs recovered from ACOA	<u>(15,843,696)</u>	<u>(13,155,193)</u>
	-	-
Net cost of operations before parliamentary appropriation	<u>33,958,235</u>	<u>8,081,141</u>
Parliamentary appropriation	<u>33,614,000</u>	<u>8,565,720</u>
Net (loss) income	(344,235)	484,579
Equity, beginning of the year	<u>4,261,909</u>	<u>3,777,330</u>
Equity, end of the year	<u>\$ 3,917,674</u>	<u>\$ 4,261,909</u>

See accompanying notes to the financial statements.

Statement of Cash Flows

for the year ended March 31, 2001

	<u>2001</u>	<u>2000</u>
Cash flows from (used for) operating activities		
Parliamentary appropriation received	\$ 34,723,720	\$ 7,450,000
Cash received from ACOA	17,429,360	11,939,490
Cash received from investments and bank account	407,817	248,960
Cash received from the Growth Fund for services performed	119,777	-
Cash received from rental activities and other parties	93,728	266,625
Payments made for program and administrative expenditures	(32,118,127)	(8,777,461)
Payments made on behalf of ACOA	(13,456,309)	(14,209,224)
Payments made on behalf of the Growth Fund	(280,022)	-
Payments made for termination benefits	<u>(230,000)</u>	<u>-</u>
	<u>6,689,944</u>	<u>(3,081,610)</u>
Cash flows from (used for) investing activities		
Loan repayments	351,829	388,609
Loan disbursements	(229,668)	(820,142)
Purchase of capital assets	(223,761)	(133,906)
Purchase of share for investment in subsidiary	<u>(1)</u>	<u>-</u>
	<u>(101,601)</u>	<u>(565,439)</u>
Net increase (decrease) in cash	6,588,343	(3,647,049)
Cash, beginning of the year	<u>305,033</u>	<u>3,952,082</u>
Cash, end of the year	<u>\$ 6,893,376</u>	<u>\$ 305,033</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

March 31, 2001

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.

2. Significant accounting policies

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

a) Parliamentary appropriations

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

b) Measurement uncertainty

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

c) Loans

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

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 or restructured. If terms and conditions are not fulfilled, the forgiveness or conditional repayable amounts are reversed and the balance becomes due and payable.

Loans are written off after all reasonable restructuring or 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 to reduce the recorded value of the loan to its estimated net realizable value if there is doubt as to the timely collection on a particular loan. Impaired loans are measured according to their estimated realizable amounts by discounting expected future cash flows at the effective interest rate inherent in the loans. For loans granted with a zero interest rate, impairment is calculated based on the expected future cash flows using the zero percent rate associated with the loan. 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.

When necessary, a general allowance is established in respect of loans for which individual specific allowances cannot yet be determined. The general allowance is based upon an evaluation of the loan portfolio in which numerous factors are assessed, including an analysis of arrears, past loss experience, recent events and changes in economic conditions.

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

e) Interest income

Interest income is recorded on the accrual basis. When a loan becomes impaired, interest income ceases to be recognized. Recognition of interest income recommences when the specific allowance for loan impairment is reversed.

f) Investments

The Corporation has invested in preferred equity holdings and partnerships. These are shown at the lower of cost and estimated net realizable value. Estimated net realizable value is measured by discounting expected future cash flows. 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.

g) Investment in 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. The Governor in Council has directed that after 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.

h) Capital assets

Capital assets 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 25 years
Equipment and furniture	4 to 10 years
Computer equipment and software	5 years
Leasehold improvements	up to 20 years
Vehicles	3 or 4 years

i) Pension plan

All eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan require that the Corporation contribute on a 2.14 to 1 ratio (2000 - 1 to 1 ratio) to those employees. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

j) Termination benefits

Upon termination of employment, employees are entitled to certain benefits provided for under their conditions of employment. The cost of these benefits is expensed in the year in which they are earned. There are no other significant post employment benefits.

The liability for termination benefits is estimated by management and discounted, based on current entitlements.

3. **Accounts receivable**

Accounts receivable consist of:

	<u>2001</u>	<u>2000</u>
Due from the Atlantic Canada Opportunities Agency (Note 11)	\$ 2,638,559	\$ 3,999,560
Other receivables	449,434	279,755
Parliamentary appropriation	<u>6,000</u>	<u>1,115,720</u>
	<u>\$ 3,093,993</u>	<u>\$ 5,395,035</u>

The amount from the Atlantic Canada Opportunities Agency relates to expenditures made on behalf of the Agency pursuant to a memorandum of understanding. Included in other receivables is an amount of \$160,244 currently due from the Growth Fund 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, 2001 the Corporation had a portfolio of 69 loan accounts (2000 - 100) including repayable contributions. These loans are issued in order to promote economic development to support the corporate mandate. The amount included in the financial statement balance is net of an allowance for loan impairment. The balance consists of:

	<u>2001</u>			<u>2000</u>
	<u>Amount Due</u>	<u>Allowance</u>	<u>Carrying Value</u>	<u>Carrying Value</u>
Loans	\$ 2,626,132	\$ (1,420,185)	\$ 1,205,947	\$ 1,243,698
Repayable contributions	1,984,714	(926,553)	1,058,161	1,154,029
Interest receivable	<u>7,141</u>	<u>(585)</u>	<u>6,556</u>	<u>18,255</u>
	<u>\$ 4,617,987</u>	<u>\$ (2,347,323)</u>	<u>\$ 2,270,664</u>	<u>\$ 2,415,982</u>

The Corporation has six debtors (2000 - five) representing sixty-nine percent of the amount due (2000 - sixty-one percent).

The allowance for loan impairment of \$2,347,323 (2000 - \$2,574,620) is management's best estimate of the difference between the recorded value of these accounts and the present value of the total amount the Corporation expects to collect on these accounts. For loans granted with a zero interest rate, the present value is calculated using a zero percent discount factor. The Corporation made significant assumptions in determining this estimate, including: collection amounts, timing of collection, economic conditions and interest rate factors. If the key assumptions used by management vary, then the estimate could be significantly different. The allowance for loan impairment consists of:

	<u>2001</u>				<u>2000</u>
	<u>Beginning Balance</u>	<u>Write-offs</u>	<u>Provision</u>	<u>Ending Balance</u>	<u>Balance</u>
Specific	<u>\$ 2,574,620</u>	<u>\$ (250,454)</u>	<u>\$ 23,157</u>	<u>\$ 2,347,323</u>	<u>\$ 2,574,620</u>

The fair value of loans is determined using expected future cash flows discounted at the Consolidated Revenue Fund lending rate to Crown corporations. The fair value of loans approximates \$1,757,669 (2000 - \$1,857,000) which is \$512,996 (2000 - \$559,000) less than the carrying amount. The difference results from 78 percent (2000 - 78 percent) of the loan portfolio having a zero interest rate.

The total portfolio consists of:

<u>Annual Interest Rate</u>	<u>2001</u>			<u>2000</u>
	<u>Amount Due</u>	<u>Allowance</u>	<u>Carrying Value</u>	<u>Carrying Value</u>
0%	\$ 3,590,649	\$ (2,104,505)	\$ 1,486,144	\$ 1,562,039
Less than 10%	603,884	(242,233)	361,651	370,041
10% and over	<u>416,313</u>	<u>-</u>	<u>416,313</u>	<u>465,647</u>
	4,610,846	(2,346,738)	2,264,108	2,397,727
Interest receivable	<u>7,141</u>	<u>(585)</u>	<u>6,556</u>	<u>18,255</u>
	<u>\$ 4,617,987</u>	<u>\$ (2,347,323)</u>	<u>\$ 2,270,664</u>	<u>\$ 2,415,982</u>

Included in the above balance are non-interest bearing repayable contributions of \$1,058,161 (2000 - \$1,154,209) net of the allowance for impairment.

Repayment dates of the loans are as follows:

<u>Date Due</u>	<u>2001</u>		<u>2000</u>	
	<u>Amount Due</u>	<u>Allowance</u>	<u>Carrying Value</u>	<u>Carrying Value</u>
Past Due	\$ 201,622	\$ (192,975)	\$ 8,647	\$ 24,477
2001	-	-	-	-
2002	956,928	(527,522)	429,406	321,136
2003	501,672	(179,304)	322,368	363,086
2004	597,029	(287,861)	309,168	334,490
2005	486,498	(203,333)	283,165	324,324
2006 & beyond	<u>1,867,097</u>	<u>(955,743)</u>	<u>911,354</u>	<u>1,030,214</u>
	4,610,846	(2,346,738)	2,264,108	2,397,727
Interest receivable	<u>7,141</u>	<u>(585)</u>	<u>6,556</u>	<u>18,255</u>
	<u>\$ 4,617,987</u>	<u>\$ (2,347,323)</u>	<u>\$ 2,270,664</u>	<u>\$ 2,415,982</u>

Forgivable loans totalling \$594,773 (2000 - \$614,836) are not included in the loan portfolio. The statement of operations and equity includes a charge of \$52,065 (2000 - \$282,938) for forgivable loans made during the year.

Conditional repayable contributions totalling \$12,100,000 are not included in the loan portfolio. The statement of operations and equity includes a charge of \$9,000,000 for conditional repayable payments made during the year. The remaining \$3,100,000 relates to the transfer of the Sydport Industrial Park. Charges for both forgivable loans and conditional repayable contributions are included in development expenses.

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

In 1999, the Corporation transferred ownership of the Sydport Industrial Park to a private sector group. The sale price for this transaction was \$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 investment in the Park. If the purchaser significantly violates the terms of the agreement, the Corporation has the right to retake possession of the property.

5. Investments

The Corporation has made investments to promote economic development in Cape Breton. Management has recorded these investments net of an allowance for impairment. The balance consists of:

	<u>2001</u>		<u>2000</u>	
	<u>Amount Due</u>	<u>Allowance</u>	<u>Carrying Value</u>	<u>Carrying Value</u>
Interest in Office Building	\$ 300,000	\$ -	\$ 300,000	\$ 300,000
Shares/Partnership Units	<u>800,000</u>	<u>(700,000)</u>	<u>100,000</u>	<u>100,000</u>
	<u>\$ 1,100,000</u>	<u>\$ (700,000)</u>	<u>\$ 400,000</u>	<u>\$ 400,000</u>

The Corporation's share in the net income, based on its percentage interest of the office building, is \$97,814 (2000 - \$92,632). The shares and partnership units consist of non-voting redeemable and retractable preferred shares and partnership units in private sector entities. No dividends were received or declared during the year (2000 - nil).

The allowance for doubtful investments is based on significant assumptions by management of the timing, amount and discount rate. If these assumptions vary, the amounts could be significantly different. The fair values of investments, determined using discounted contracted future cash flows, approximate their carrying value.

6. Investment in subsidiary

A summary of the audited position and results for the 7 months of operation of the Growth Fund are:

<u>Balance Sheet</u>	As at <u>March 31, 2001</u>
Assets	\$ 18,172,599
Liabilities	180,436
Shareholder's equity	17,992,163
<u>Statement of Operations</u>	For the 7 months ended <u>March 31, 2001</u>
Program Expenses	\$ -
Program support and administrative expenses	(305,686)
Interest income	257,920
Funding from Enterprise Cape Breton Corporation	15,000,000
Other government funding	<u>3,039,928</u>
Net income after government funding	<u>\$ 17,992,162</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 financial statements.

7. Capital assets

	<u>2001</u>			<u>2000</u>		
	<u>Cost</u>	<u>Accumulated Amortization & Write Down</u>	<u>Net Book Value</u>	<u>Cost</u>	<u>Accumulated Amortization & Write Down</u>	<u>Net Book Value</u>
Land for development	\$ 345,805	\$ 341,596	\$ 4,209	\$ 341,597	\$ 341,596	\$ 1
Equipment, furniture, leasehold	1,603,760	1,217,620	386,140	1,395,336	1,114,665	280,671
Rental facilities	<u>2,317,181</u>	<u>2,317,181</u>	-	<u>2,306,051</u>	<u>2,306,051</u>	-
	<u>\$ 4,266,746</u>	<u>\$ 3,876,397</u>	<u>\$ 390,349</u>	<u>\$ 4,042,984</u>	<u>\$ 3,762,312</u>	<u>\$ 280,672</u>

8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of:

	<u>2001</u>	<u>2000</u>
Due to the Atlantic Canada Opportunities Agency	\$ 428,444	\$ 203,781
Payable on behalf of the Atlantic Canada Opportunities Agency	4,973,699	2,586,312
Other payables	<u>3,410,938</u>	<u>1,336,805</u>
	<u>\$ 8,813,081</u>	<u>\$ 4,126,898</u>

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. Included in other payables is an amount of \$6,748 for amounts due and payable for the Growth Fund for services performed on their behalf. Other payables are subject to normal commercial conditions and relate to development and administrative expenses.

9. Program expenses

Development and other program expenses consist of:

	<u>2001</u>	<u>2000</u>
Development expenses		
Access to capital	\$ 14,694,283	\$ 1,614,626
Tourism marketing	846,917	1,652,652
Trade and investment	277,236	270,165
Policy and advocacy	193,258	394,890
Strategic initiatives	190,093	500,000
Image	<u>55,559</u>	<u>366,559</u>
	<u>\$ 16,257,346</u>	<u>\$ 4,798,892</u>
Other program expenses		
Program support	\$ 1,628,730	\$ 1,338,373
Rental facilities	<u>143,834</u>	<u>386,009</u>
	<u>\$ 1,772,564</u>	<u>\$ 1,724,382</u>

10. Commitments

- (a) As at March 31, 2001, the Corporation had outstanding commitments for development programs in the amount of \$5,926,335 (2000 - \$14,940,845).
- (b) Future minimum payments by fiscal year on operating leases in excess of one year are as follows:

2002	\$ 471,736
2003	475,108
2004	475,108
2005	475,108
2006 and beyond	<u>39,592</u>
	<u>\$ 1,936,652</u>

11. 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 are reflected in the statement of operations and equity and totalled \$100,668 (2000- \$137,284). 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 administrative and program support services. In addition, the Corporation provided and recovered program support and administrative expenses of \$232,130 and \$54,640 for capital assets from the Growth Fund.

12. Pension plan

Contributions to the PSSA consisted of:

	<u>2001</u>	<u>2000</u>
Employer contribution	\$ 307,750	\$ 155,111
Employee contribution	<u>159,073</u>	<u>150,358</u>
	<u>\$ 466,823</u>	<u>\$ 305,469</u>

13. Subsequent event

On May 16, 2001 the Government of Canada announced that it was committing a further \$10 million in future funding to the Corporation as a result of the decision to close the Cape Breton Development Corporation's Prince Colliery. In accordance with the Corporation's accounting policy, this funding will be recognized in the period in which Parliamentary approval is given.

14. Comparative figures

Certain of the comparative figures have been reclassified to conform to the presentation adopted for the current year.