# ACCESSING OUR FUTURE

# Enterprise Cape Breton Corporation

## Annual Report 2007

# ECBC KEY PERFORMANCE INDICATORS AT A GLANCE

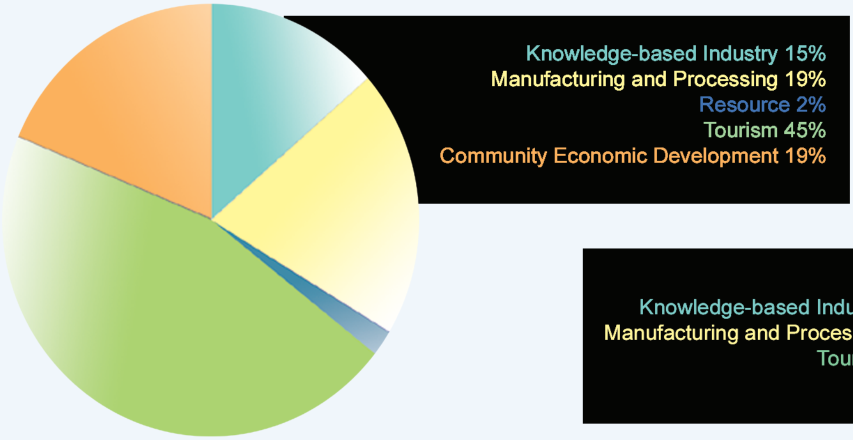
## PROJECT SUMMARY - LEVELS OF ACTIVITY (2006-2007)

| | ALL PROGRAMS ACOA/ECBC |
|---|---|
| Total number of projects | 205 |
| Total dollar value of commitments | $22,276,174 |
| Total dollars leveraged | $18,295,366 |
| Total number of jobs created (estimated) | 142 |
| % of assistance to commercial projects | 27% |
| % of assistance to non-commercial projects | 73% |
| % of repayable contributions | 21% |
| % of non-repayable contributions | 79% |

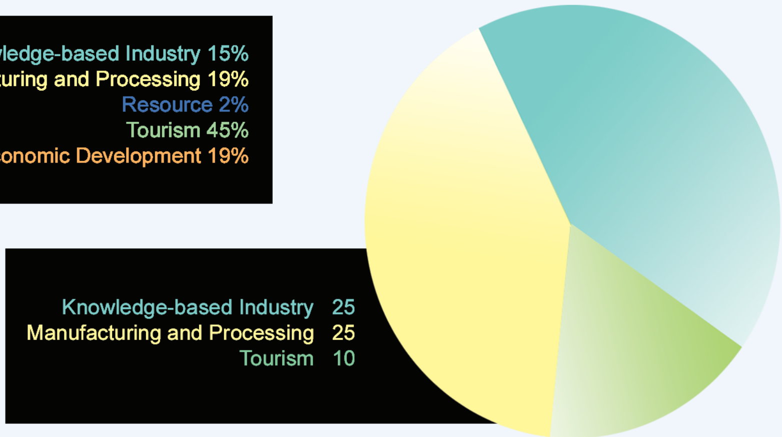
## ECBC COMMITMENTS

| | |
|---|---|
| Total number of projects | 126 |
| Total dollar value of commitments | $7,958,543 |
| Total dollars leveraged | $8,337,947 |
| Total number of jobs created (estimated) | 60 |
| % of assistance to commercial projects | 50% |
| % of assistance to non-commercial projects | 50% |
| % of repayable contributions | 34% |
| % of non-repayable contributions | 66% |

### ECBC COMMITMENTS BY SECTOR




### ECBC JOBS CREATED BY SECTOR



The Honourable Peter G. MacKay, P.C., M.P
Minister of Foreign Affairs 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, 2007.

This annual report is submitted in accordance with the provisions of the *Financial Administration Act*, and the *Government Organization Act*, *Atlantic Canada, 1987* (also known as the *Enterprise Cape Breton Corporation Act*). It contains the annual financial statements together with the auditor's report thereon.

Yours sincerely,

Monique Collette
Chair and CEO
Enterprise Cape Breton Corporation

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## Message from Chair & CEO Monique Collette

## Message from Acting Vice-President Marlene Usher

The economy of Cape Breton Island continues to adjust to the changes brought about as a result of the closure of the coal and steel industry, as well as the decline of the fishery. As demonstrated by this annual report, progress is being made in the diversification of the economic base and the economic indicators show signs of improvement. Unemployment remains high, however, and out migration continues to erode the Island's population base.

Faced with these ongoing challenges, the Board of Directors of ECBC has worked diligently to use the Corporation's flexible mandate and financial resources to leverage new opportunities. Working closely with community stakeholders and private sector entrepreneurs, the Corporation has invested in the future of the Island.

The success that has been achieved is in no small measure due to the dedication and vision of the Board of Directors. In 2006-2007, the terms of five of the Corporation's seven directors had expired. As a result, five new directors joined the Board in January 2007. I would like to take this opportunity to thank the out-going directors for their contributions and to welcome the new Board members. I am privileged to work with so many community-minded individuals who share a common goal-building a better future for Cape Breton Island and Mulgrave.

At ECBC, our staff is passionate about Cape Breton Island and the Mulgrave area. We are deeply committed to building a brighter economic future for our families, friends and neighbours. We are an integral part of the community we serve.

This year, with guidance from the Board of Directors, ECBC has been active in numerous initiatives that have provided support to businesses and communities. Through our Memorandum of Understanding (MOU) with the Atlantic Canada Opportunities Agency (ACOA), we continue to successfully deliver the Agency's economic development programs in our mandate area. This enables us to bring additional resources to bear on the strategic direction established by the Board. In the areas of policy, advocacy and business recruitment, we have been involved in initiatives related to tourism and environmental remediation. These investments will set the stage for further growth.

The Corporation's work continues. I know I speak for all staff when I say that we look forward to the future and the opportunity to work with clients, community groups and other economic development stakeholders to strengthen and grow the economy. I would also like to thank management and staff for their dedication to the Corporation's mandate.

# SENIOR MANAGEMENT

**JOE CASHIN**
DIRECTOR, INTERNAL AUDIT

**SHELLY KEHOE**
ACTING DIRECTOR GENERAL, COMMERCIAL ACCOUNTS

**D.A. LANDRY**
DIRECTOR, COMMUNICATIONS AND ACCESS TO INFORMATION/PRIVACY

**MARLENE USHER**
ACTING VICE PRESIDENT

**THOMAS PLUMRIDGE**
ACTING DIRECTOR GENERAL, CORPORATE SERVICES

# BOARD OF DIRECTORS

**MONIQUE COLLETTE**
Ms. Collette assumed the responsibilities of Chair of the Enterprise Cape Breton Corporation in 2003. She is also President of ACOA.

**MARLENE USHER**
Ms. Usher joined the Corporation in 2001, after 12 years with a national chartered accounting firm. As a chartered accountant, she brings a wealth of experience in private sector business and consulting services.

**TERRY MILLER**
Mr. Miller is a long-time resident of Cape Breton Island. He is a graduate of St. Mary's University and has recently retired from a career in banking. He is currently employed with the Cape Breton District Health Authority.

**FRANK MACINNIS**
Mr. MacInnis, a resident of Creignish, Inverness County, is a graduate of St. Francis Xavier University. He is now retired from a career in education. Mr. MacInnis serves on several boards and numerous organizing committees.

**BOB MUNROE**
A native of Sydney, Mr. Munroe is a chartered accountant and an associate partner of KPMG LLP in Sydney. He has extensive experience in auditing, accounting, tax and other financial advisory services. Mr. Munroe is involved in various professional and community activities.

**SARA FIGLIOMENI**
A native of North Sydney, Ms. Figliomeni is a graduate of Mount St. Vincent University and has knowledge and experience in the hospitality industry as a young entrepreneur. Ms. Figliomeni is currently the owner/ operator of Joe's Warehouse Restaurant in Sydney and serves on several boards and community organizations.

**EVA LANDRY**
Ms. Landry, a resident of St. Peters, brings a wealth of professional experience to the board. Ms. Landry was the first woman to hold the positions of inspector and superintendent of schools in Nova Scotia and has also worked as a consultant in education. Now retired, Ms. Landry is an active volunteer in her community.

# WHO WE ARE

As a Crown corporation, ECBC is a distinct entity which reports to Parliament through the Minister of ACOA, who is also responsible for ECBC and the Cape Breton Growth Fund Corporation (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 ECBC to design its programming and economic development strategies to complement ACOA programming. The MOU was renegotiated with ACOA for two additional five-year terms effective April 1, 2000 and April 1, 2005.

In August 2000, 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 CBGF reports separately to Parliament through its own corporate plan and annual report. ECBC, through an MOU with CBGF, provides program and operational support, thereby minimizing administrative expenses.

In addition to its relationship with CBGF and ACOA, ECBC has a history of working in partnership with the federal Department of Human Resources and Social Development, Nova Scotia Economic Development, Regional Development Authorities, Nova Scotia Business Inc., Nova Scotia Department of Tourism, Nova Scotia Department of Energy, Cape Breton Development Corporation (DEVCO), Destination Cape Breton, community business development corporations (CBDCs), various 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.

## OUR 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.**

## OUR 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.*

# ECONOMIC CONTEXT

Economic restructuring continues to evolve in Cape Breton after the closure of the Island's two major industries between 1999 and 2001. For over a century, the coal and steel industries dominated the Cape Breton economy. It has been seven years since their closure and, while there are still a number of challenges, the Cape Breton economy has remained stable.

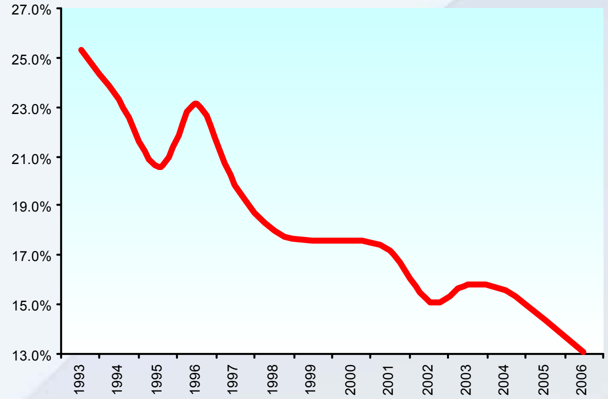
Statistics Canada Labour Force indicators continue to be very positive for Cape Breton. At the time of the closure of the coal and steel industries, Cape Breton's unemployment rate was estimated at approximately 18%. Since then, the unemployment rate has shown a steady decline. In 2006, the unemployment rate was estimated at approximately 13%, the lowest it has been in decades.

Employment figures for the Island have shown improvement. Employment figures since 1993 have shown a steady increase from approximately 47,000 people to approximately 55,000 people in 2006.

A continuing challenge for Cape Breton Island is out-migration. Although numbers have shown an improvement over the past few years, calculations by Statistics Canada have shown an increase in out-migration for 2004-2005.

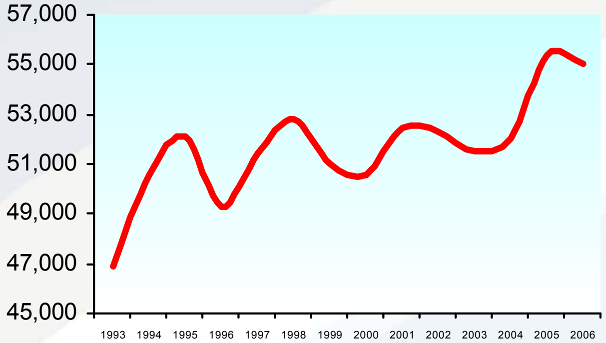
The most recent income data available for the Island show steady growth in employment income per earner. Total earned income grew by 2.2% in 2004.

## ANNUAL UNEMPLOYMENT RATE CAPE BRETON



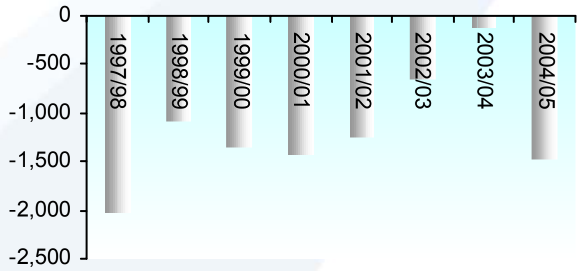

Source: Statistics Canada - Labour Force Survey

## ANNUAL EMPLOYMENT CAPE BRETON



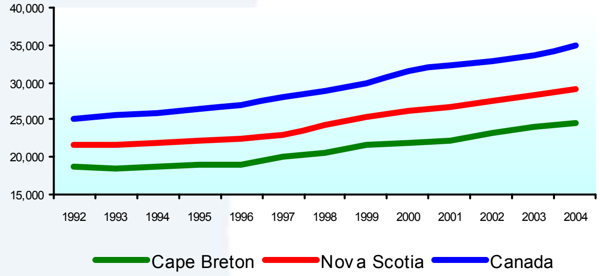

Source: Statistics Canada - Labour Force Survey

## NET MIGRATION CAPE BRETON




Source: Statistics Canada - Migration Data

## EMPLOYMENT INCOME PER EARNER CAPE BRETON




Source: Statistics Canada - Neighbourhood Income and Demographics

# PERFORMANCE AGAINST OBJECTIVES

ECBC has established a number of performance objectives and indicators that measure the Corporation's overall progress in implementing the strategic direction outlined in its corporate plan. The performance indicators serve to:

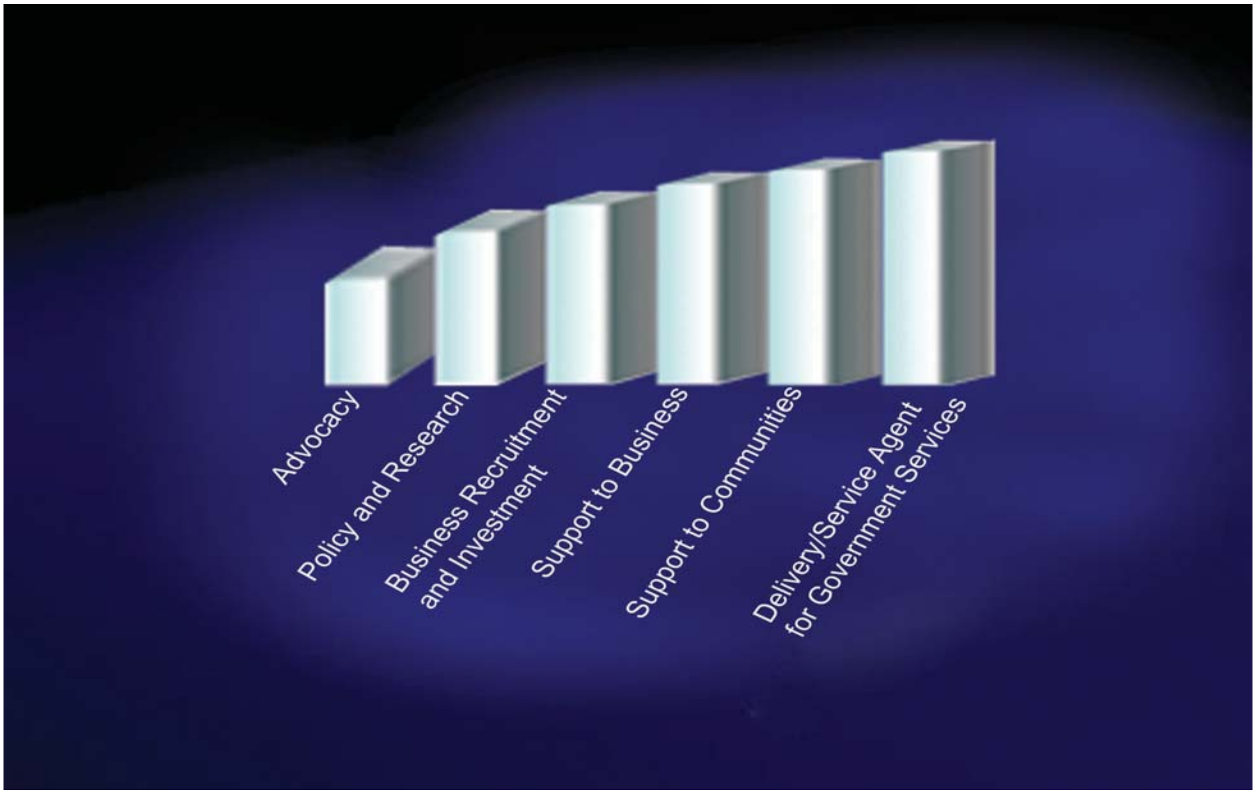
- verify that the Corporation is achieving what it sets out to achieve;
- provide feedback on corporate goals and outcomes for management planning; and
- provide a basis for public reporting and accountability.

In 2006-2007, six activities continued to guide the Corporation's strategic direction. They are:

- Support to Business;
- Support to Communities;
- Business Recruitment and Investment;
- Advocacy;
- Policy and Research; and
- Delivery/Service Agent for Government Services.

ECBC also researches economic data to determine whether the Corporation is making a positive contribution to the Cape Breton economy. Over the past decade, economic indicators show improvement. By working with the economic development tools available, other levels of government, the private sector, and communities, ECBC continues to be a catalyst for positive change.

Through research, ECBC also monitors, on an ongoing basis, the impacts that the Corporation's programs are having on the region. During the year, the Corporation carried out a cost-benefit analysis of its e-Commerce initiative to determine its impact on Cape Breton's tourism participants and the overall economy.



## 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.

For a number of years, the Cape Breton economy was dominated by two main industries, coal and steel, which operated on the Island for more than a century. Due to the inordinate dependence on these industries, the economy's entrepreneurial base had not matured to the same extent as other regions of the country. With the closure of these industries over seven years ago, the Island's economy began to rebuild. ECBC works with businesses on the Island in various stages of growth, making investments in business start-ups, expansions, innovation, export development, e-business, business skills development, strategic infrastructure and telecommunication links.

The Corporation can provide access to capital in the form of secured, unsecured or interest-free loans, equity or non-repayable assistance. During 2006-2007, ECBC committed over $3.9 million in assistance as part of its support to business activities.

In 2006, ECBC commissioned a cost-benefit analysis of the eCommerce initiative. Launched in 2004, the e-commerce initiative assists local businesses in adopting an Internet presence in the form of an informational website and/or fully functional e-Commerce website. The websites build a strong technology infrastructure giving businesses on Cape Breton Island a competitive edge by making locally produced products more accessible to international markets. The cost-benefit analysis determined that for every $1 spent on e-Commerce, $50.7 in sales is generated.

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

Between April 1, 2006 and March 31, 2007, ECBC assisted in the direct creation of an estimated 60 jobs. During the year, the Corporation met its annual target and is expected to reach its five-year target for new job creation and new export sales.

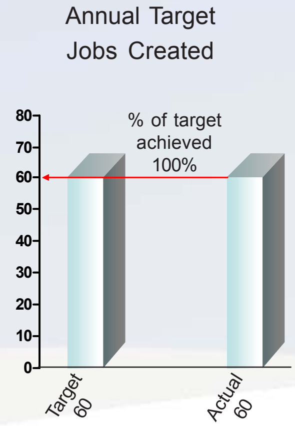
The Corporation fell short on its target for leveraged investment and e-Commerce projects. ECBC's target for leveraged investment will be revisited as CBGF winds down. Over the past six years, ECBC has participated in a number of projects supported by CBGF which, given their size and scope, resulted in larger than average amounts of leveraged investment on the part of ECBC. Given that the majority of the Fund was committed by the end of 2005-2006, there were no new projects funded by CBGF in 2006-2007 and therefore, no opportunity for ECBC to participate.

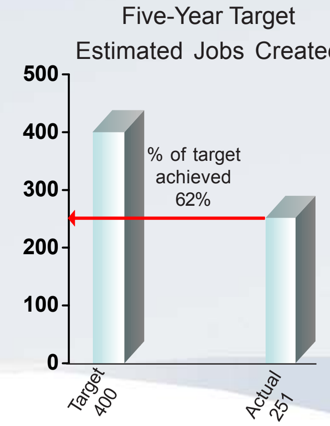
The e-Commerce initiative remains a priority for ECBC. In the first few years of the initiative, it was targeted primarily at the tourism sector and resulted in a great deal of uptake. The initiative was later expanded to other sectors. It is anticipated that more communication on the part of ECBC to promote the initiative will result in increased take-up in the future.

## Estimated Number of Jobs Created

Annual Target
60 FTEs Created

Five-Year Target
(2005-2006/2009-2010)
400 FTEs Created

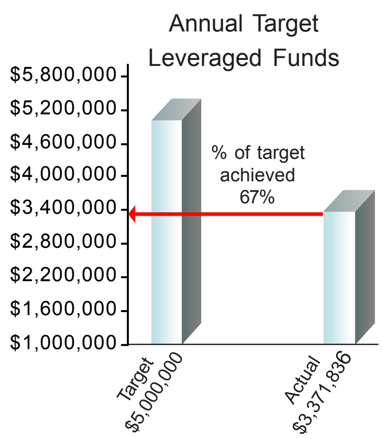


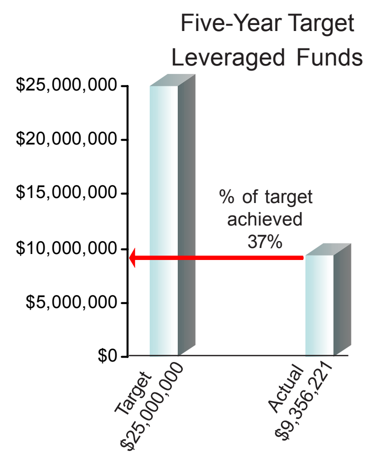




## Dollar Value of Leveraged Funds

Annual Target
$5 M in leveraged funds

Five-Year Target
(2005-2006/2009-2010)
$25 M in leveraged funds

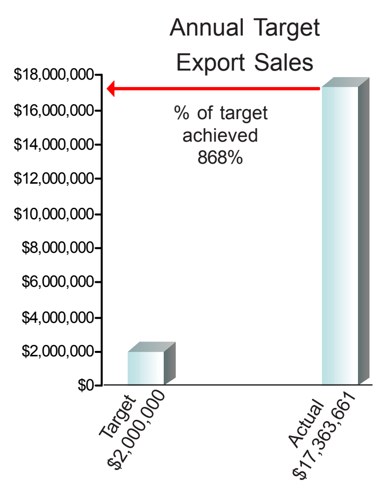


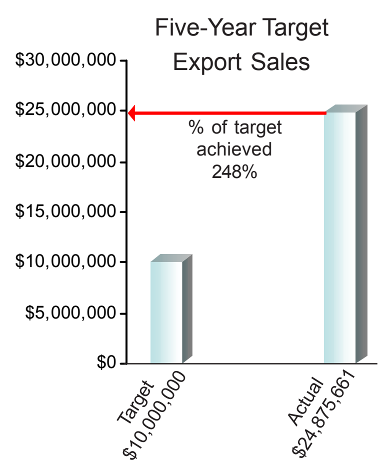




## Dollar Value of New Export Sales

Annual Target
$2 M in new export sales

Five-Year Target
(2005-2006/2009-2010)
$10 M in new export sales

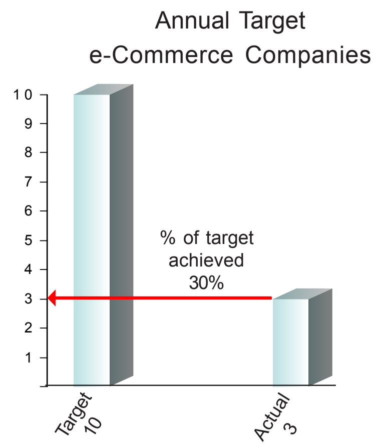


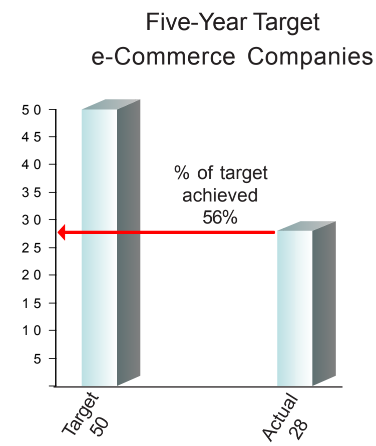




## Companies Assisted by e-Commerce Initiative

Annual Target
10 companies

Five-Year Target
(2005-2006/2009-2010)
50 companies



## Ground Zero Communications Inc.

During 2006-2007, ECBC contributed funds toward the construction of a manufacturing facility for the first fully-integrated, web-based communications system for Ground Zero Communications Inc. The system will offer all the advantages of voice-over Internet protocol technology on a mobile platform, as well as serving as a standard mobile phone and cordless landline phone. The company plans to test the product under live conditions in Cape Breton. They will target both the emergency relief market and infrastructure opportunities in developing countries.

LOUISBOURG RESORT

*Golf & Spa*

## CBI Cape Breton Island Developers Inc.

In December 2006, an announcement was made by European developers to build a resort community near Louisbourg, Cape Breton. Cape Breton Developers plans to build a $300-million, world-class luxury development with facilities that include a golf course, spa, family recreation centre, restaurant, and conference facilities. The company will initially construct 24 luxurious homes, but the plan is to expand to a 200-300 home resort with completion by 2011.

A project of this magnitude is great news for the Cape Breton economy. Cape Breton Developers estimates that it will cost $95 million to cover the infrastructure costs of the resort and another $205 million to cover the cost of construction of the homes.

Through its Support to **COMMUNITY** activities, ECBC helps communities plan and implement community development projects that have a direct link to long-term, self-sustaining economic acitivity.


Through its Support to **BUSINESS** activities, ECBC assists clients to start, expand or modernize their business. Stronger businesses lead to an improved economic climate, new investment, increased employment and income.

Enterprise Cape Breton Corporation
Société d'expansion du Cap-Breton

Canada

## OBJECTIVE

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

During 2006-2007, the Corporation worked with a number of community economic development organizations to achieve the specific goals identified and initiated by communities. Investment in communities helps to create a competitive business climate on the Island, ultimately encouraging business start-up and as attracting new investment to the region.

Community development took many forms throughout the year. Projects included strategic planning in Sydney Mines, infrastructure improvements at Cape Breton University, investment in a new building for the Cape Breton Centre for Craft and Design and for the Francophone community television, as well as many other community development projects.

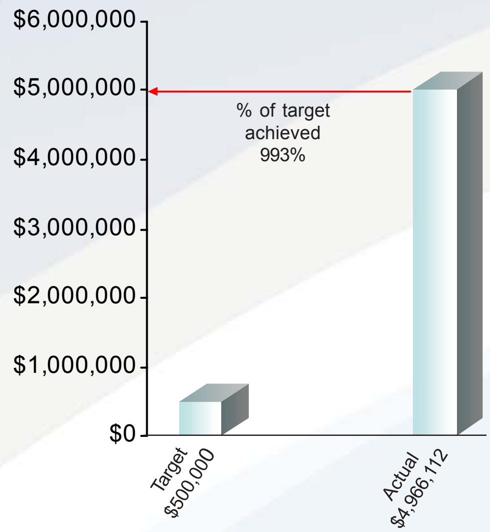
The Corporation exceeded both its annual and five-year targets for leveraged investment. During 2006-2007, the Corporation leveraged $4.96 million under its Support to Community activities.

ECBC continues to support convention and sporting events. In 2006-2007, it was a major sponsor of the Vince Ryan Memorial Old-timers Hockey Tournament that took place at venues across the Island in March. The impact of this event during the tourism off-season provided a tremendous boost to the Cape Breton economy. During the year, ECBC also provided support to the 2006 Grand Slam of Curling Event, as well as the 30th Annual Festival of Community Economics.

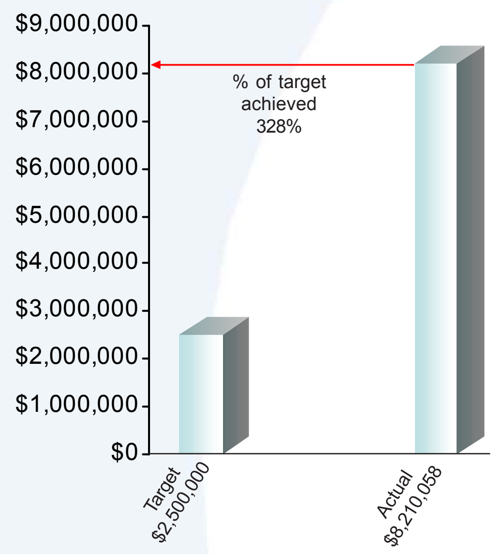
As part of the Festival and Events initiative, ECBC supported 70 festival and events across the Island, leveraging over $1.3 million.

## DOLLAR VALUE OF LEVERAGED FUNDS

Annual target $500,000 in leveraged funds

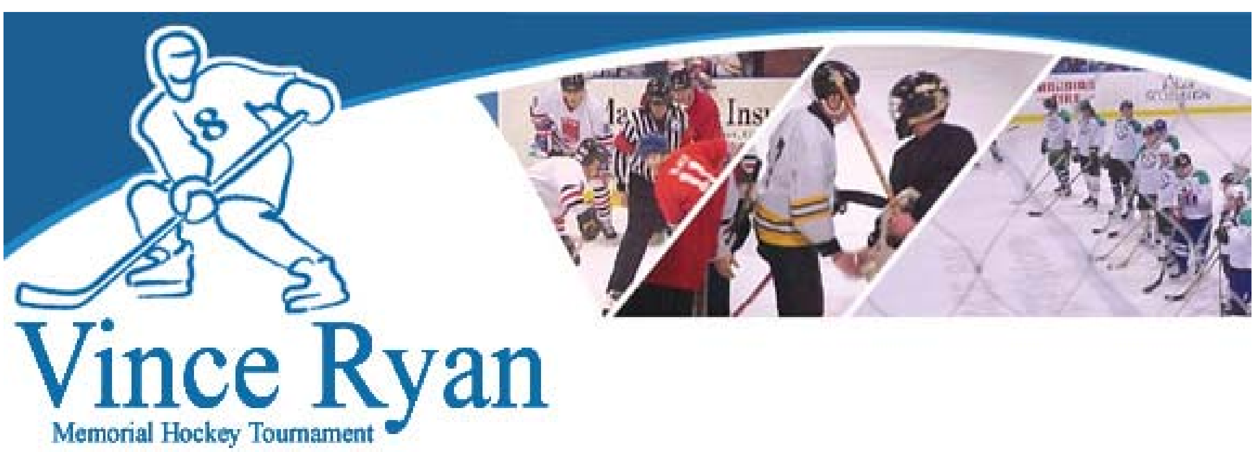



Five-Year Target (2005/2006-2009/2010)
$2.5 M in leveraged funds



## Cape Breton Centre for Craft and Design

The Cape Breton Centre for Craft and Design constructed a new building with financial assistance from ECBC. The new building includes a gallery, studio space, classrooms, display area, library and office space.




ECBC provided financial assistance to the Vince Ryan Memorial Old-timers Hockey Tournament to help maintain and increase off-island registration.

The tournament is one of the largest adult hockey tournaments in the world. More than 200 volunteers are needed to run a successful tournament on an annual basis. Since 1989, the tournament has raised approximately $100,000 in scholarships for local high school students.

## OBJECTIVE

To attract new business investment to Cape Breton Island.

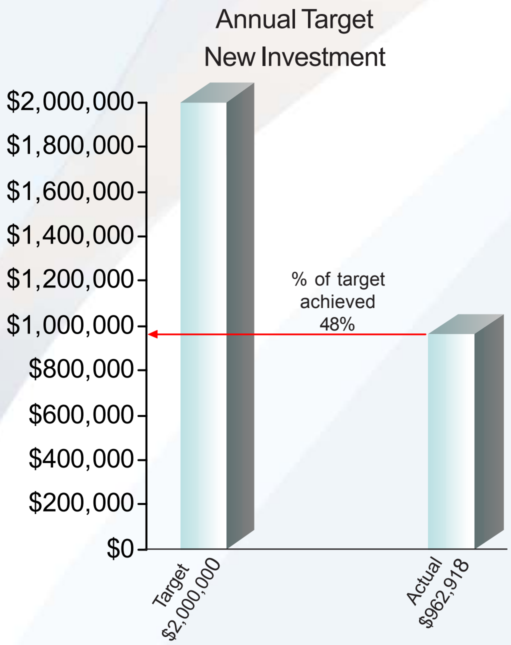
ECBC's business recruitment and investment strategy has evolved from research carried out by the Corporation, marketing plan development, community consultation, and partnerships with community stakeholders and other levels of government.

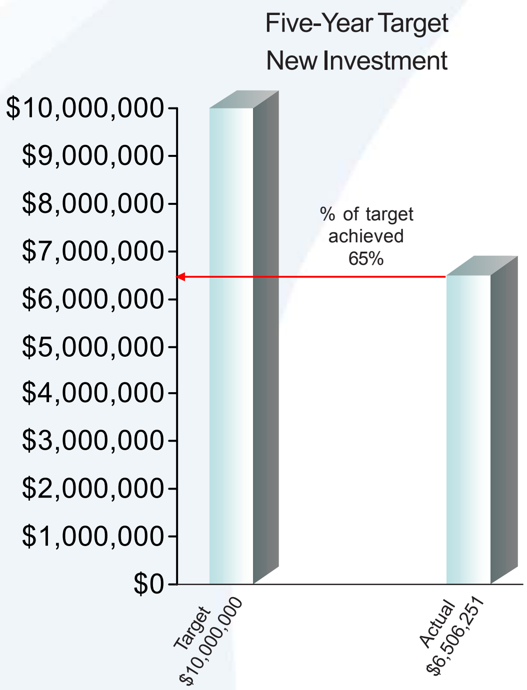
During the year, ECBC supported a number of business recruitment activities including a business and consumer showcase in Port Hawkesbury. The Corporation also co-sponsored a multi-sector trade show in Alberta (Partner East) to display products and services of companies from Atlantic Canada in an effort to demonstrate the advantages of partnering with Nova Scotian firms.

The Corporation also organized a fact-finding tour of Humber Valley, a resort destination in Newfoundland. ECBC representatives viewed the properties and amenities and met with the developers of the resort to gather additional knowledge and insight to advance a similar Cape Breton initiative, now known as Louisbourg Golf and Spa.

ECBC captures new investment by identifying foreign direct investment from outside Canada, as well as off-Island investment from within Canada. ECBC attracted an estimated $962,918 in new investment to Cape Breton during 2006-2007, achieving close to 50% of its target.

As with ECBC's target for leveraged investment under its Support to Business activities, its target for new investment will be revisited as CBGF winds down. Over the past six years, ECBC has participated in a number of the projects supported by CBGF which, given their size and scope, had resulted in larger than average amounts of investment in Cape Breton.



The centerpiece of the Louisbourg Resort will be an 18-hole championship golf course, "The Fortress", designed by world-renown golfer Nick Faldo. An 18-hole, par 3 course will complement the championship course.

# LOUISBOURG RESORT

## *Golf & Spa*


## OBJECTIVE

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

ECBC's advocacy role is aimed at advancing the interests, priorities and concerns of Cape Breton Island in government project selection, decisions and actions.

The primary advocacy functions include:

- providing advice on issues that can affect the opportunities for economic development on Cape Breton Island through participation in meetings, working groups and committees;
- ensuring awareness of the interests, priorities and concerns of Cape Breton Island on the part of other government departments and agencies through partnerships and networking;
- ensuring an effective two-way process of information sharing and bringing insight and knowledge of policies, perspectives and priorities on and off the Island; and
- working co-operatively with other government departments on mainland Nova Scotia and in Ottawa.

During the year, ECBC played an advocacy role on a number of issues. The Corporation led a working group comprised of a number of customer contact centres on the Island, to undertake an examination of employee turnover rates. High levels of turnover are often endemic to this industry, and staffing is challenging when it comes to finding, selecting, training and keeping good staff. The Corporation hired the services of Dan White and Associates to undertake an examination to better understand the underlying causes of employee turnover and to look at the best practices in other centres.

The customer contact industry in Cape Breton continues to play a pivotal role in the local economy. The economic impact of the sector is significant. A study conducted in 2004 determined that the contact centres on the Island spent an estimated $119 million on general operations that year, providing over 3,800 person-years of employment (including spin-off effects) and $113 million in GDP.

Pursuant to the Corporation's Memorandum of Understanding with the CBGF, ECBC hired the services of Ernst & Young Orenda Corporate Finance Inc. to formulate an exit strategy for the CBGF to divest of Cape Breton Casting Inc. (CBCI). During 2005-2006, CBGF exercised its rights under its contract with CBCI, assuming control of the company in March 2006. Over the course of establishing this plant, the shareholders of CBCI ran into financial difficulties and were unable to secure the required financing to complete the project.

During 2006-2007, ECBC continued to work in partnership with First Nations communities throughout Cape Breton toward the achievement of economic development goals. ECBC continued to be involved in a number of committees and working groups where Cape Breton perspectives were highlighted. They included:

- Tripartite Economic Development Committee (TEDC): a partnership between the federal and provincial governments and First Nations communities of Nova Scotia.
- Economic Development Officers Network (EDON): a voluntary group that meets on a regular basis to address issues related to Aboriginal peoples.
- Marshall Response Initiative: an initiative led by Indian and Northern Affairs Canada. It is part of the federal government's response to the Marshall decision that includes a component for economic development in First Nations communities.

### Sydney Tar Ponds Remediation

During the year, representatives from ECBC worked with five Aboriginal communities on procurement activities related to the remediation of the Sydney Tar Ponds. The Sydney Tar Ponds Agency has set aside a portion of the cleanup funds for Aboriginal businesses. Only companies with at least 51% Aboriginal ownership and control will be eligible to bid. In addition, if a bidder has more than five full-time employees, at least one-third of them must be at the least Aboriginal. There are also Aboriginal content requirements for subcontractors.

## OBJECTIVE

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

ECBC research and analysis reflects and supports:

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

During 2006-2007, ECBC's Policy Unit carried out three research studies. Each of the studies is described below.

### Turnover Analysis of the Tele-service Industry on Cape Breton Island

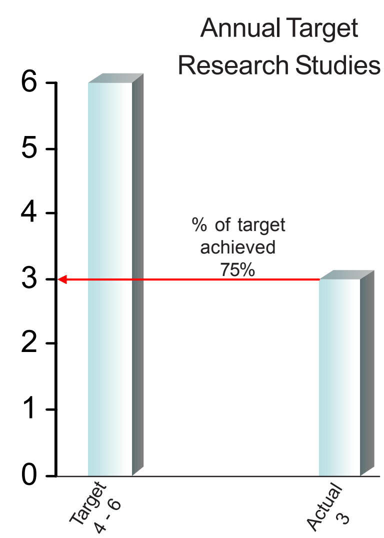
The Corporation contracted the services of Dan White and Associates to carry out an in-depth analysis of employee turnover in the tele-service industry on Cape Breton.

The analysis determined that human resource practices at Cape Breton contact centres may benefit from refinement and customization appropriate to the local context. Cape Breton centres are large compared with the average size of Canadian and U.S. operations; therefore, their circumstance with respect to turnover is unique and seems to require special interventions. Teamwork, training and specific retention strategies take on more importance under such circumstances, and employee career paths are fundamentally key to motivation and empowerment.

### Economic Impact Analysis of Cape Breton Casting Inc. (CBCI)

ECBC carried out an economic impact assessment of CBCI. CBGF currently oversees the operation of the facility and is seeking a buyer for the operation. The main results of the analysis are as follows:

- During the construction phase, CBCI created total employment of 40.1 person years, household income of $1.2 million and gross domestic product of $1.5 million.
- For a typical year of operation, CBCI provides total employment of 108 direct and indirect jobs, a total wage bill of $4.2 million and a total gross domestic product of $5.0 million.
- The operation also provides estimated fiscal benefits of $0.57 million per year - in federal tax revenue and $0.59 million in provincial tax revenue.




### Cost Benefit Analysis of the ECBC e-Commerce Initiative

The Corporation commissioned the services of Canmac Economics to carry out an economic benefit analysis of ECBC's e-Commerce initiative to determine its impact on Cape Breton's tourism participants. This study began in the 2005-2006 fiscal year. It was determined, at that time, that there was not enough information to proceed as a number of the e-Commerce sites were not yet operational. The study was deferred and completed in December 2006.

The main findings of this report are:

- ECBC e-Commerce clients were asked to rate their satisfaction with respect to the success of the e-Commerce project on a scale of 1 to 5, 1 being very dissatisfied and 5 being very satisfied. The average score for this question was 4.2.
- Clients were further asked to rate their satisfaction with ECBC's role in assisting with their e-Commerce projects on the same scale (1-5) as was used in rating the project. The average score regarding ECBC's assistance was 5, as all respondents were very satisfied with ECBC's assistance.
- Over the 2007 to 2011 period, average total sales per client are expected to grow slowly and to reach $1,028,278 by 2011, growth of 20.1% or 4% per year. However, revenue from e-Commerce as a percentage of total sales is expected to grow from 27.11% in 2006 to 44.0% in 2011. This represents growth of 62.3% or 12.5% per year.
- Every $1 spent on e-Commerce generates $50.7 on sales.
- Over the period 2004 to 2011, it was estimated, on a present value basis, that the program will generate the following benefits:
  - $26.7 million in sales;
  - $7.9 million in wages; and
  - $2.2 million in business profit.

Clients estimate that 44.4% of these benefits would not have occurred without ECBC assistance.

### Working with Communities

During the year, the Policy Unit worked with a number of community groups to develop terms of reference for various studies and community projects, including:

- Silver Dart Centennial Association ~ 100th anniversary of flight in Canada;
- Premium Seafood and Louisbourg Seafood ~Cape Breton Ground Fishery Study; and
- Louisbourg Merchants' Association ~ Strategic Planning for the 250th Anniversary of the Second Siege of Louisbourg.

## OBJECTIVE

To deliver programs and services, on behalf of government organizations, in an effort to increase the opportunity for a co-ordinated approach to economic development on Cape Breton Island and, specifically, to enhance the growth of both earned incomes and employment opportunities in the region.

## ATLANTIC CANADA OPPORTUNITIES AGENCY

**ECBC delivers the following programs on behalf of ACOA:**

### Business Development Program (BDP)

This program is designed to help small- and medium-sized enterprises (SMEs) establish, expand and modernize by offering access to capital in the form of interest-free, unsecured loans. The BDP also provides non-repayable support to non-profit organizations.

### Consultant Advisory Services (CAS)

The CAS program provides clients with access to consulting expertise in pursuing business opportunities or solving problems.

### Municipal Rural Infrastructure Fund (MRIF)

This program supports small-scale municipal infrastructure projects. The MRIF also includes a component addressing the infrastructure needs of First Nations communities.

### Community Futures Program

This program supports autonomous, not-for-profit CBDCs to help entrepreneurs in rural areas obtain access to the information, advice and capital required to succeed.

### Atlantic Investment Partnership Second Wave

In 2000, the Atlantic Investment Partnership was launched as a $700-million investment to support economic development in Atlantic Canada. The Atlantic Investment Partnership has entered its second phase and addresses areas that are fundamental to continued economic growth -- investing in innovation, investing in communities, investing in people, and investing in the business climate.

## CAPE BRETON GROWTH FUND CORPORATION

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/.

| ACOA Programs 2006-2007 (Commitments) | Number of Projects | Assistance |
|---|---|---|
| Business Development Program | 45 | $ 6,184,200 |
| Consulting Advisory Services | 24 | $ 69,226 |
| Municipal Rural Infrastructure Fund | 12 | $ 10,437,731 |
| Community Futures Program | 3 | $ 1,125,000 |
| Atlantic Investment Partnership | | |
| - Innovative Communities Fund | 19 | $ 6,255,938 |
| - Women, Youth and Business Skills | 10 | $ 410,089 |
| - Trade, Investment and Tourism | 2 | $ 342,404 |

# PROPERTY OPERATIONS

ECBC reactivated DARR (Cape Breton) Limited in 2003, a real estate holding company, in order to consolidate real property management and promote economic development in Cape Breton.

DARR deals with the acquisition and disposition of properties that financially benefit Cape Breton by encouraging private sector investment. DARR follows the policies of ECBC and reports its operational and financial activities at all ECBC Board meetings.

During the 2006-2007 fiscal year, DARR operated four properties in the Sydney and Port Hawkesbury area. Three of these properties are predominately office space and are occupied by public and private sector firms. The Point Edward Resource Centre was vacant during 2006-2007 and is available for sale.

ECBC and the Cape Breton Development Corporation (DEVCO) have collaborated during DEVCO's wind-up porcess in an effort to maximize the further potential for economic development as it relates to the transfer of DEVCO's real property assets to ECBC. To that end, a formal MOU was executed in 2005 and renewed in 2006. The first custodial transfer occurred in January 2007, which involved the transfer of approximately 3,700 acres of land to ECBC. Both Crown corporations are currently working toward a second phase, which is expected to occur in mid-fall 2007.

# HUMAN RESOURCES

ECBC is divided into a number of operational units that report to the Vice-President. The units consist of:

- Commercial Accounts;
- Community Economic Development;
- Internal Audit;
- Corporate Services; and
- Communications and Access to Information.

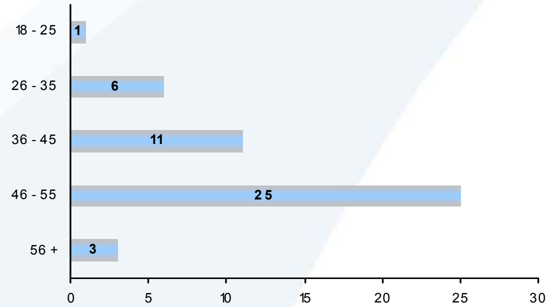
Training is offered in a number of areas including French language training, annual professional development for the Corporation's certified accountants, university-level courses, leadership training, corporate governance training, life planning and retirement seminars, and workplace health and safety conferences.

Many ECBC employees have significant private-sector experience, contributing to the overall success of the Corporation as a socially connected entity. Over 13% of the staff hold professional designations and 6% have masters degrees. Approximately 19% of staff members are bilingual.

ECBC has two locations to serve clients in its mandate area. The main office, located in Sydney, Nova Scotia, is the day-time home to 44 employees. The Corporation also has a satellite office in Port Hawkesbury, Nova Scotia, which is staffed by two employees.

ECBC's employees live in local communities and are committed to fulfilling the Corporation's mandate to improve the local economy. They are active volunteers in their communities and continue to make a difference. They have been proud to support many different charities such as Big Brothers & Big Sisters, Canadian Cancer Society, and the Every Woman's Centre.

### EMPLOYEE DEMOGRAPHICS BY AGE
### MARCH 31, 2007




| AVERAGE AGE | |
|---|---|
| All Staff | 44 |
| Senior Management | 47 |
| **YEARS OF SERVICE** | |
| Less than 10 years | 26 |
| 10 - 29 years | 20 |
| 30 years + | 0 |
| **TOTAL STAFF COMPLEMENT** | 46 |

# CORPORATE SOCIAL RESPONSIBILITY

## ACCOUNTABILITY AND TRANSPARENCY

The Corporation is committed to accountability and transparency in its operations. A policy of proactive disclosure, whereby all travel and hospitality expenses of the management team are regularly posted on its website, has been implemented. The site also contains a detailed listing of all approved projects that is equipped with a search feature.

ECBC became subject to the *Access to Information Act* (ATIA) and *Privacy Act* (PA) in September 2005. Since that time, the Corporation has invested in training for staff and additional software to facilitate its compliance with this new legislative requirement. In terms of requests, the Corporation experienced a high volume of requests during 2005-2006; however the demand diminished during 2006-2007. A total of 20 ATIA requests and two PA requests were carried over from 2005-2006 into the new fiscal year. Only three ATIA requests and one PA request were received in 2006-2007. As of March 31, 2007, there were no outstanding ATIA requests and only one outstanding PA request. The Corporation also administers the ATIA and PA on behalf of CBGF.

## HUMAN RIGHTS

ECBC employees and clients are entitled to have their dignity as human beings respected and to work in an environment free from intimidation, hostility or offensiveness. ECBC, is therefore, committed to creating and maintaining a work and business environment that is free from harassment and discrimination on prohibited grounds.

## YOUTH AND EDUCATION

Since its inception, ECBC has been committed to partnering with educational institutions and key stakeholders to build an economy that offers opportunities for youth.

With out-migration numbers increasing, creating opportunities for our youth has become more important than ever. ECBC recognizes that youth are the future of the Island and collectively we must increase opportunities in education and entrepreneurship.

ECBC delivers the "Students in Business" program to encourage young entrepreneurs throughout its mandate area to create their own summer employment and gain valuable experience in the field of entrepreneurship. ECBC also continues to hire six students each year for summer employment in all areas of economic development.

The Corporation will continue to work with the Junior Chamber International (JCI). The Corporation assists the JCI in a number of areas, particularly entrepreneurship and skills development, export development and internships.

# OFFICIAL LANGUAGES, COMMUNICATIONS AND GOVERNMENT ON-LINE

## OFFICIAL LANGUAGES

The Corporation is committed to the principles of the *Official Languages Act* (OLA) and works closely with the minority language (Francophone) communities on the Island that have identified economic development as a priority and a determining factor to their survival and growth.

With a bilingual staff complement of approximately 19%, ECBC maintains a core bilingual staff to provide the Corporation's various programs and services in both official languages. In 2005-2006, the Corporation established a small language school to assist staff with career advancement and to facilitate language retention. Two members of the management team were involved in full-time language training during 2006-2007.

With regard to its outreach activities, the Corporation has developed a close working relationship with minority language communities on Cape Breton Island and a designated development officer works directly with Francophone community groups and businesses. The Corporation also has an official languages champion, who liaises with the Treasury Board Secretariat and other Crown corporations for the promotion of official languages within the Corporation.

## COMMUNICATIONS

Good communications is key to building strong relationships with the Corporation's shareholder and the community it serves. The overall goal of the communications team is to relate how the Government of Canada, through ECBC, is investing to improve the economic outlook of Cape Breton Island.

ECBC projects have affected almost every community in the Corporation's mandate area. To encourage a sense of pride and facilitate further investment, it is important to recognize, celebrate and communicate these achievements.

Over the past year, ECBC has issued 13 releases on various initiatives and participated in seven trade shows or trade missions -- as either a corporate sponsor or an exhibitor.

Working directly with ACOA, the ECBC Communications Unit continues to assist and promote a number of initiatives related to entrepreneurship, innovation, trade and women in business.

The Corporation has its own in-house graphic design capability that not only reduces costs, but enables the Corporation to maintain greater control over the design and management of public affairs materials. A total of 54 operational and promotional ads were created and placed in various publications throughout the year. The Corporation also produces its own annual report in-house, with staff taking responsibility for all aspects of the process from editorial content and layout and design to printing and binding.

## GOVERNMENT ON-LINE

Government On-line (GOL) is a government-wide initiative to use information and communications technology to provide Canadians with enhanced access to citizen-centred government services on-line and in the official language of their choice.

To this end, ECBC has worked with ACOA to implement the secure channel on-line services for ACOA clients. In 2006, ECBC launched its own client portal called "ECBC Direct." This secure channel infrastructure enables clients to have access to their project information and to submit claims on-line. It also enables clients to correspond with ECBC officials in confidence. Further enhancements to this service may include secure on-line application submission.

# CORPORATE GOVERNANCE

**Government considers an effective board of directors to be a vital element of the corporate governance and accountability regime for Crown corporations.**

Guidelines for Corporate Governance in Crown Corporations and Other Public Enterprises, Treasury Board Secretariat, Ottawa, June 1996.

Corporate governance refers to the process and structure for overseeing the direction and management of a corporation so that it carries out its mandate and objectives effectively.

ECBC is a distinct legal entity, established by an act of Parliament as an instrument of public policy in the area of economic development. The *ECBC Act* sets out the Corporation's mandate, powers and objectives. Authority is vested in its Board of Directors comprising the Chairperson/CEO, the Vice-President and five other directors appointed by the Minister with the approval of the Governor in Council.

The legislative framework for ECBC's governance and accountability regime is set out in Part X of the FAA. It places the Board of Directors at the centre of the governance process. A major change in ECBC's governance and accountability regime occurred with the passing of the *Federal Accountability Act* in December 2006. As part of the government's efforts to strengthen overall accountability, the Act contained amendments to the *ECBC Act* whereby the current combined position of Chair and CEO will be eliminated. In its place, a new CEO position will be created, replacing the current Vice-President's position. Separating the function of Chair from the CEO position is in keeping with current good governance practices. The amendments come into effect on April 1, 2007.

The ECBC Board of Directors oversees the management of the Crown corporation and holds management responsible for its performance. In turn, the Board is accountable to Parliament through its responsible Minister. In accordance with the FAA, ECBC must submit annually, for government approval, a corporate plan and capital budget and operating budget.

It also must prepare an annual report, which is the principal means by which the Corporation is accountable to Parliament and all Canadians. The annual reports as well as summaries of all budgets and plans are tabled in Parliament.

All Crown corporations are required to maintain proper financial statements that are subject to annual audit. The Office of the Auditor General of Canada has been appointed auditor for ECBC. Audit provisions for all Crown corporations are the same and include an annual audit opinion on the fair presentation of the financial statements and on compliance with significant authorities, and a provision to raise other matters as the auditors deem appropriate. ECBC is also subject to a value-for-money audit known as a special examination, which is conducted once every five years.

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. Certain benchmarks were established. A follow-up survey was conducted in 2002 by the Conference Board of Canada. As a result of this exercise, ECBC established a corporate governance self-assessment tool to track key components of good corporate governance practices as they relate ECBC's specific legislation, mandate and organizational structure.

The self-assessment is completed on a yearly basis for inclusion in the Corporation's annual report. Management's comments, analysis and rationale behind the assessment of each of the guidelines are also included.

## GOVERNANCE SELF-ASSESSMENT

| BOARD RESPONSIBILITIES | COMMENTS |
|---|---|
| 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. | • The Board of Directors oversees the strategic direction of the Corporation and was involved in the development of the Corporate Plan.<br>May 2006 - 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. | • Risk assessment forms part of ECBC's due diligence evaluation of all project applications.<br>• The Board approves policies that provide guidelines to management as to the type of projects and assistance levels that can be approved.<br>• Management provides regular reports to the Board on the status of the loan/equity portfolio as well as progress against performance targets.<br>• ECBC has developed an internal process to carry out an environmental risk assessment on its projects and operations in accordance with the *Canadian Environmental Assessment Act*.<br>• A risk management framework has been established and the objective is to complete a more comprehensive risk management strategy that includes all aspects of the Corporation's operations in 2007-2008. |
| c. Approve management's succession plan. | • Management provides 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. | • Management continues to solicit feedback from the Board on the quantity and quality of information provided.<br>• The Board approves the activities of the Audit Committee.<br>• All ECBC operational units prepare annual work plans.<br>• The Board approves the annual report.<br>• The Board's Audit Committee meets with the Corporation's auditors twice a year. |

| PUBLIC POLICY OBJECTIVES | | COMMENTS |
|---|---|---|
| 2. The board of directors of every Crown corporation should examine its public policy objectives and, periodically, its legislated mandate to ensure their continuing relevance. | | |
| a. | Document the current public policy objectives of the Corporation. | • The Board reviewed the mandate and mission statement of ECBC as part of the corporate planning process.<br>• A mandate review was requested and will be undertaken during 2007-2008. |
| b. | Appreciate the contemporary trade-offs between competing public policy and commercial objectives of the Corporation. | • ECBC is dependent upon its parliamentary appropriation as its primary source of funds.<br>• ECBC has a clear public policy objective, i.e. economic development.<br>• 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. | • As part of the corporate planning process, the relevance of the mandate, mission and priorities is reviewed.<br>• In its 2005 decision letter, the Treasury Board referred to a possible review of the Corporation's mandate. This process will be completed during 2007-2008. |

| COMMUNICATIONS | | COMMENTS |
|---|---|---|
| 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). | • The Chair and President have the primary responsibility for communicating with the shareholder on behalf of the Board.<br>• The VP has the primary responsibility for communication with stakeholders.<br>• The Corporation implemented a communications strategy that involved numerous communication activities targeting the general public. |

| | | |
|---|---|---|
| b. | Reporting responsibilities. | • ECBC's performance measurement framework continues to be refined.<br>• The primary vehicles for reporting are the annual report and corporate plan. |

| BOARD MANAGEMENT AND RELATIONS | | COMMENTS |
|---|---|---|
| 4. | Boards of directors and management should develop an effective working relationship. | |
| a. | Allocating responsibilities. | • ECBC has developed responsibility mandates for the Board, Chair, VP, Audit Committee, and management. |
| b.<br>c. | Building a relationship.<br>Establishing accountability. | • The Board has implemented accountability accords and performance measurement systems with the Chair and VP, which are reviewed annually.<br>• 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 |
|---|---|---|
| 5. | The board of directors should ensure that the Board can function independently. | |
| a. | The roles of the Chair (*The Guidelines for Corporate Governance in Crown Corporatons* suggest that the roles of the Chair and CEO should be separate). | • The *ECBC Act* stipulates that the Chair is also the CEO. The *Federal Accountability Act* amended the *ECBC Act*, whereby the Chair will no longer be the CEO. The VP's position has been eliminated, creating in its place a separate CEO position. These amendments become effective on April 1, 2007. |
| b. | Allocating responsibilities. | • The Board meets in-camera as required. |
| c. | Public servants as directors. | • Five of the seven directors are not public servants.<br>• The VP 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.<br>• Under the *ECBC Act*, the Chair is the President of ACOA, thus a public servant. |

| | | |
|---|---|---|
| d. | The use of committees. | • The Board has only one committee, the Audit Committee.<br>• Two of the three voting members of the Audit Committee, including the Chair of the Committee, are outside directors.<br>• Given the relative size of the Board -- seven voting members -- it has chosen not to create additional committees. |
| e. | Independent advice. | • The Board has adopted, through its by-laws, a procedure whereby directors may avail themselves of independent advice. |
| f. | Conflict of interest. | • 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 FAA and the applicable portions of the Conflict of Interest and Post-Employment Code for Public Office Holders. |

| THE POSITION OF CEO | | COMMENTS |
|---|---|---|
| 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. | |
| a. | Assessing the CEO's position (The Guidelines suggest that the Minister should consult with the Board on the appointment of the CEO). | • The President of ACOA serves as the ex-officio Chair and CEO of ECBC, in accordance with the *ECBC Act*.<br>• The Board has no involvement in the appointment of the Chair and CEO in light of this model. |
| b. | Evaluating performance. | • The Board and Chair developed an annual accountability accord.<br>• The Board's views on the performance of the VP and Chair are communicated to the Minister and the Privy Council Office.<br>• The Board evaluated the VP's performance for 2006-2007. |

| RENEWAL OF THE BOARD | COMMENTS |
|---|---|
| 7. The board of directors of every Crown corporation should assess its effectiveness and initiate renewal of the Board. | |
| a. Assessing the Board. | • The Board performs a governance self-assessment as part of the annual report. |
| b. Renewal of the Board. | • The Board's views on appointments are communicated to the Minister.<br>• The Board has adopted a skills profile, which has been sent to the Privy Council Office and the Minister.<br>• 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 directors' views on the renewal of existing members. |

| EDUCATION OF DIRECTORS | COMMENTS |
|---|---|
| 8. Directors of Crown corporations should receive orientation and education appropriate to their needs. | |
| a. New directors. | • ECBC has developed an orientation package for new directors.<br>• A full-day orientation was held for new directors in March 2007. Specific emphasis was placed on corporate governance. |
| b. Ongoing education. | • The Board adopted a policy on training that entitles directors to attend at least one conference or seminar on either economic or governance issues. |

| COMPENSATION | COMMENT |
|---|---|
| 9. The board of directors should review the adequacy and form of compensation for directors. | |
| | • When requested, the Board reviews compensation and provides its views to the Minister and the Privy Council Office. |

| RESPONSIBILITY FOR CORPORATE GOVERNANCE | COMMENT |
|---|---|
| 10. The board of directors should assume responsibility for developing the Crown corporation's approach to governance issues. | |
| | • The Board developed a governance framework and self-assessment model with the assistance of the Conference Board of Canada. |

## BOARD ACTIVITY

The ECBC Board of Directors met nine times during 2006-2007 (eight meetings and one orientation session). It was a year of dramatic change in the Board's make up. Five of the seven directors were replaced during the year. The new appointments became effective in late January and February 2007. As such, the outgoing Board met seven times during the year, while the newly constituted Board met once. In addition, all new directors participated in a day-long orientation session.

The Audit Committee is the only committee of the ECBC Board of Directors. Prior to the appointment of new directors, the Audit Committee was chaired by Sonny MacDougall, CA. Other members of the Audit Committee during 2006-2007 were Robert McFadgen, Ferne MacLennan and Betty Ann Aucoin. A new Audit Committee, chaired by Robert Munroe, CA, was struck in March 2007. All outside directors agreed to act as members of the committee; however, the quorum remains at three. The Audit 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 twice during 2006-2007. Its duties and functions include reviewing and advising the Board of Directors in respect to the financial statements and related auditor's report. The Audit Committee also takes an active role in recommending the approval of loan impairments, forgiveness and write-offs.

## BOARD ATTENDANCE AND REMUNERATION

| MEMBERS | BOARD MEETINGS/ SESSIONS | AUDIT COMMITTEE | RETAINER | PER DIEMS |
|---|---|---|---|---|
| Monique Collette | 8 | 1 | N/A | N/A |
| Rick Beaton | 7 | 2 | N/A | N/A |
| Ferne MacLennan | 7 | 2 | $2,044.52 | $2,000.00 |
| Betty Ann Aucoin | 7 | 2 | $2,044.52 | $2,000.00 |
| Gary Corsano | 7 | 1 | $2,044.52 | $1,750.00 |
| Sonny MacDougall | 6 | 2 | $2,147.26 | $1,750.00 |
| Robert McFadgen | 7 | 1 | $2,044.52 | $1,750.00 |
| NEW BOARD MEMBERS | | | | |
| Eva Landry | 2 | N/A | $349.31 | $500.00 |
| Robert Munroe | 2 | N/A | $452.05 | $500.00 |
| Terry Miller | 2 | N/A | $452.05 | $500.00 |
| Sara Figliomeni | 2 | N/A | $452.05 | $500.00 |
| Frank MacInnis | 2 | N/A | $452.05 | $500.00 |
| Marlene Usher | 1 | N/A | N/A | N/A |

# RISK MANAGEMENT

Risk refers to the uncertainty that surrounds future events and outcomes. It is the expression of the likelihood and impact of an event with the potential to influence the achievement of an organization's objectives. A certain element of risk is inherent in all of ECBC's operations. Risk management is a systematic approach to establish the best course of action within the context of uncertainty, by identifying, assessing, understanding, acting on and communicating risk issues.

In 2005, ECBC commissioned the services of Deloitte & Touche LLP to undertake the development of a risk management framework that would form the basis of a structured, systematic, and disciplined approach to comprehensive risk management. The framework confirmed the significant risks impacting ECBC; provided a common means of classifying and communicating risk across the Corporation; provided a structure for the assessment, reporting and monitoring of risks by various groups; and ensured that due consideration is given to all risks in a day-to-day environment.

The Corporation is working toward completing a more comprehensive risk management strategy addressing all aspects of the Corporation's operations by the end of 2007-2008. One area of development during 2006-2007 has been the development of an internal process to carry out environmental risk assessments on ECBC projects and operations in accordance with the *Canadian Environmental Assessment Act* (CEAA).

Environmental assessment is a process to predict the environmental effects of proposed initiatives before they are carried out. An environmental assessment:

- identifies possible environmental effects;
- proposes measures to mitigate adverse effects; and
- predicts whether there will be significant adverse environmental effects, even after the mitigation is implemented.

The CEAA is the legal basis for the environmental assessment process required of federal entities. The Act sets out the responsibilities and procedures for carrying out the environmental assessments of projects that involve federal government decision making.

ECBC has been subject to the CEAA since 2006. The Corporation has made investments in staff training to carry out its own environmental assessments and to ensure that all projects and internal initiatives are assessed for environmental impact. Any identified mitigation measures are incorporated into the terms and conditions of the assistance agreement between ECBC and the applicant. Ongoing monitoring of 100% of projects is done to ensure that conditions have been respected and proper mitigation procedures have been implemented. This is a key component of ECBC's approach.

## ENVIRONMENTAL ASSESSMENTS

| | |
|---|---|
| Mitigated projects | 26 |
| In progress or under review | 8 |
| Internal land transfer reviews | 75 pids* |

*PIDS - Property Identifiers

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING AND DEVELOPMENT ACTIVITIES

ECBC's total parliamentary appropriation was $8.655 million in 2006-2007 (2006 - $8.650 million).

Development expenses in the form of non-repayable assistance totaled $4.9 million. Of this amount, the Corporation provided $1.3 million in direct support to business and $3.5 million in support to communities. In addition, other areas of focus included in the Corporate Plan, such as policy and investment, totalled $0.1 million.

| ($000s) | ACTUAL 2006/07 | CORPORATE PLAN 2006/07 |
|---|---|---|
| Support to Business | $ 1,247 | $ 4,850 |
| Support to Communities | 3,482 | 1,750 |
| Policy & Investment | 132 | 500 |
| | $ 4,861 | $ 7,100 |

In addition to the above-noted non-repayable assistance, the Corporation also provided repayable loans to businesses totalling $2.9 million (2006 - $2.8 million), which is not reflected in the above expenditures. The combined repayable and non-repayable assistance in 2006-2007 totalled $7.8 million, which is $0.7 million greater than budget. Additional funds were made available to applicants by way of development assistance as a result of recoveries being $0.7 million in excess of budget. The excess revenues relate to additional loans and repayable contribution collections, rentals, bad debt recoveries and other income. Therefore, it is felt the Corporation did indeed exceed its planned mandate.

## PROGRAM SUPPORT

The Corporation employs 46 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.

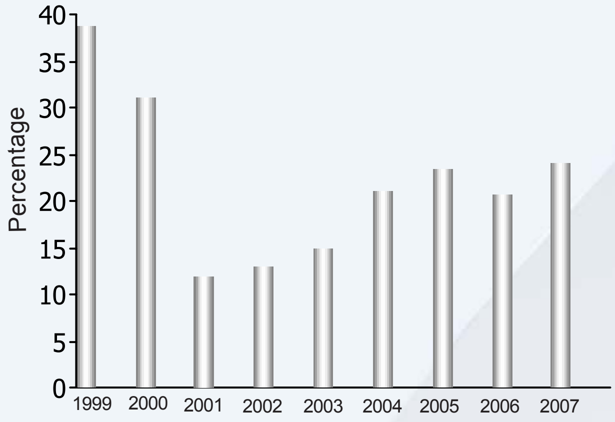
Staff deliver ECBC, ACOA and CBGF programming. In order to better capture time spent in each area, the Corporation uses an electronic time-keeping system. All employees enter their time electronically and allocate their time between ECBC, ACOA and CBGF on a daily basis. The time system assists in providing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

Overall, administrative costs incurred in 2006-2007 are reasonable in relation to budget and the prior year as detailed below.

| ($000s) | ACTUAL 2006 | ACTUAL 2007 | CORPORATE PLAN 2007 |
|---|---|---|---|
| General Administration | $ 1,238 | $ 1,254 | $ 902 |
| Program Support | 482 | 602 | 853 |
| | $ 1,720 | $ 1,856 | $ 1,755 |

Program support costs are $0.1 million more than the prior year and $0.2 million less than budget due to a number of factors including staff departures and secondment arrangements.

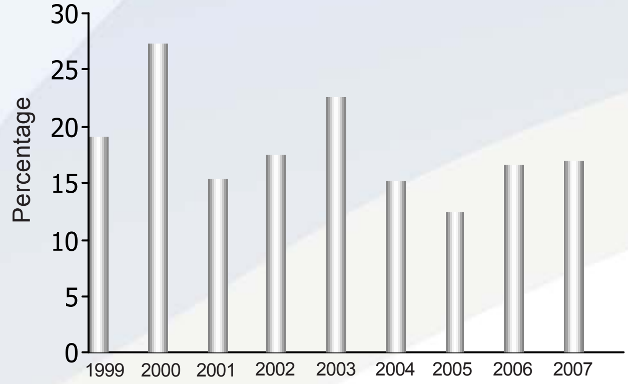
**OVERHEAD AS A % OF DEVELOPMENT EXPENSES AND LOAN DISBURSEMENTS**



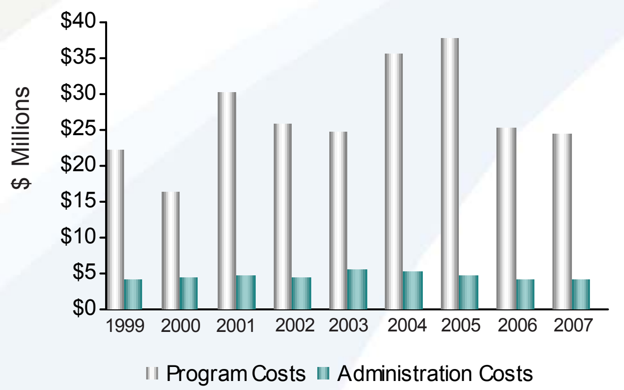

The percentage of overhead (administrative and program support) to development expenses and loan disbursements has decreased significantly from 1999. The percentage for 2007 is reported at 24% (2006 - 20.6%) compared with 38.7% in 1999.

The combined ECBC/ACOA program support costs are 17.0% (2006 - 16.6%) of the total programs delivered for ECBC and ACOA, which is reasonable in relation to the rates for the previous eight years (as displayed in the graphs below).

**% OF PROGRAM SUPPORT COSTS**




**ECBC/ACOA PROGRAM AND ADMINISTRATION COSTS**



## 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, 2007, the cash balance was $5.9 million and the interest rate paid by the bank was 4.25%.

## LOANS

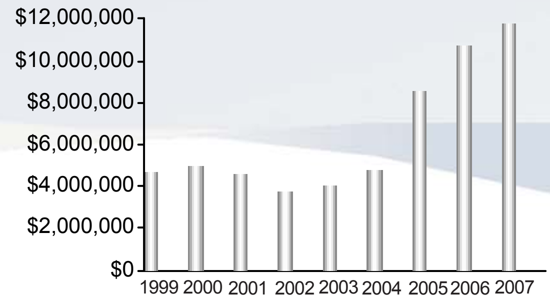
Several types of loan instruments are used by the Corporation including forgivable loans, interest-bearing loans, non-interest bearing loans and conditionally repayable contributions.

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.

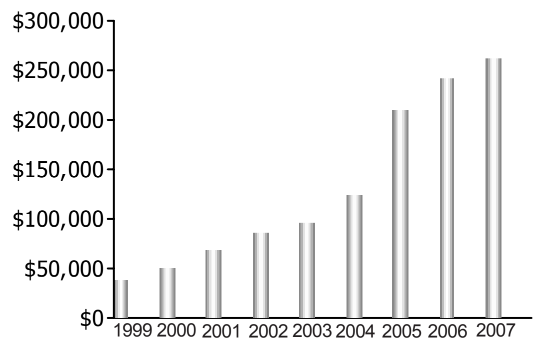
The Corporation has focused on providing a mix of investment vehicles to clients including loans, grants and conditionally repayable contributions in order to achieve the appropriate balance required by clients to grow and expand their business yet maximize the return on capital to the Corporation. By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

During the year, the Corporation disbursed $2.9 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, 2007 are $11.8 million and consist of 45 accounts. The average loan and repayable contribution balance is $261,860 in 2007, compared to $38,555 in 1999.

**LOANS RECEIVABLE AND REPAYABLE CONTRIBUTIONS**




**AVERAGE LOAN AND REPAYABLE CONTRIBUTION BALANCE**

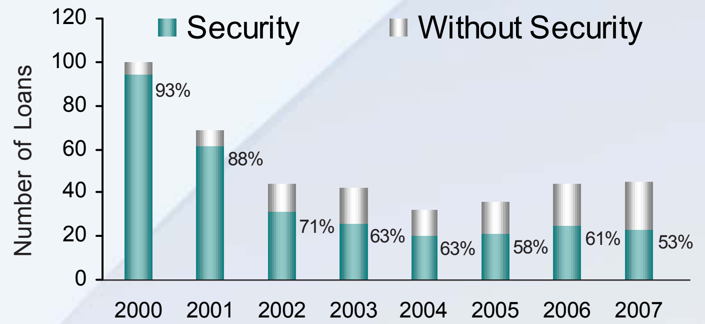



Collections on loans totalled $1.0 million (2006 - $1.2 million) during the year, which represents 12.0% (2006 - 16%) of the previous year's closing net balance and is $0.5 million in excess of the Corporate Plan budget.

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|
| Forgivable loans issued | $ 283,036 | $ 282,938 | $ 52,065 | $ (374,111) | $ - | $ - | $ - | $ 585,891 | $ (26,579) |
| Loan repayments | $ 434,277 | $ 388,609 | $ 351,829 | $ 585,064 | $ 604,373 | $ 551,099 | $1,004,289 | $1,170,136 | $1,029,898 |
| Loans disbursed | $ 371,116 | $ 820,142 | $ 229,668 | $ 806,077 | $1,330,099 | $1,408,314 | $4,893,861 | $2,768,001 | $2,881,435 |
| Conditionally repayable contributions issued | $ - | $ 3.1 M | $ 9.0 M | $ 3.7 M | $ 1.7 M | $ 3.7 M | $ 0.02 M | $ 0.7 M | $ 0.5 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 53% (2006 - 61%) of the loans outstanding at March 31, 2007. 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**

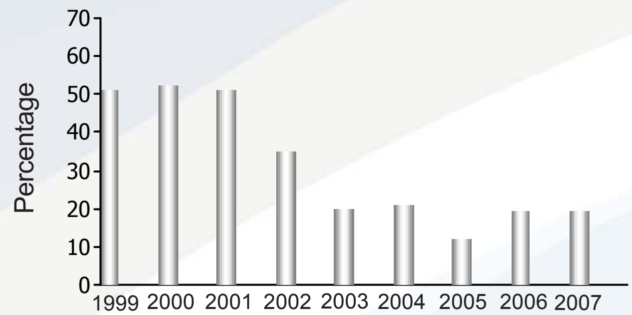



## ALLOWANCE FOR LOAN IMPAIRMENT

The allowance for loan impairment as a percentage of the loan balance outstanding has decreased significantly from 1999 to the current year percentage of 19.5% (2006 - 19.4%).

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**



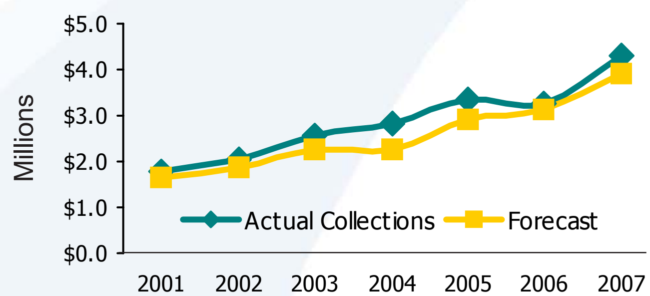

## ACOA

Collections on the ACOA portfolio managed by ECBC for the 2006-2007 fiscal year totalled $4,312,000 (2006 - $3,263,000), which is 111% (2006 - 104%) of the established target amount.

The Corporation has not only met ACOA's collection targets for the past seven 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 4% (2006 - 4%). The results have been achieved due to the concerted efforts of both collection staff and program officers.

**ACOA RECEIVABLES PORTFOLIO**



## EQUITY INVESTMENTS

There were no new equity investments made during the 2006-2007 fiscal year. The total number of equity investments stands at three (2006 - 4). Redemption of preferred shares totalled nil (2006 - $120,000).

## 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 Crown corporation. 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 and the remaining assets and liabilities of the CBGF will be transferred to the Corporation in 2007-2008.

### DARR (CAPE BRETON) LIMITED

The Corporation operates 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 $731,803 which is slightly less than the Corporate Plan budget amount of $775,000. Planned acquisitions of equipment and renovations to existing property occurred, including renovations to MacDonald House. During 2006-2007, renovations were completed at Silicon Island, and Cape Breton Development Corporation has relocated to the Silicon Island facility.

## PROVISION OF SERVICES - ACOA

The Corporation administered $19.6 million (2006 - $19.9 million) of various ACOA programs during 2007 and recovered $2.3 million (2006 - $2.5 million) for salaries, professional fees and other operating costs related to delivering services pursuant to the ECBC/ ACOA MOU.

## SYDPORT INDUSTRIAL PARK

A settlement agreement was signed in September 2005, with an amended cash purchase price of $1.255 million. Payments totalling $72,929 were received in 2006-2007 with payments of $252,071 and $325,000 due in 2008 and 2009 respectively. Repayments are non-interest bearing except in the event of a default.

# 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.

Marlene Usher, CA
Acting Chief Executive Officer

Thomas Plumridge, CA
Acting Director General, Corporate Services

Sydney, Canada
May 25, 2007

# 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, 2007 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 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,* the by-laws of the Corporation and the articles of incorporation and the by-laws of its wholly-owned subsidiary.

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

Halifax, Canada
May 25, 2007
(except as to note 15 which is as of June 7, 2007)

# CONSOLIDATED BALANCE SHEET

*as at March 31, 2007*

## ASSETS

| | 2007 | 2006 |
|---|---|---|
| Current | | |
| Cash | $ 5,954,787 | $ 3,185,130 |
| Accounts receivable (note 3) | 4,901,254 | 5,138,432 |
| Prepaid expenses | 11,543 | 8,126 |
| | 10,867,584 | 8,331,688 |
| Long-term | | |
| Loans, net (note 4) | 9,484,356 | 8,616,560 |
| Investments, net (note 5) | - | 80,000 |
| Investment in Cape Breton Growth Fund Corporation (note 6) | 1 | 1 |
| Property, buildings and equipment, net (note 7) | 3,221,556 | 2,743,867 |
| | 12,705,913 | 11,440,428 |
| | $ 23,573,497 | $ 19,772,116 |

## LIABILITIES

| | 2007 | 2006 |
|---|---|---|
| Current | | |
| Accounts payable and accrued liabilities (note 8) | $ 9,562,461 | $ 7,011,091 |
| Long-term | | |
| Accrued obligation for employee severance benefits (note 9) | 484,871 | 454,727 |
| | 10,047,332 | 7,465,818 |

## EQUITY

| | 2007 | 2006 |
|---|---|---|
| Retained earnings | 13,363,365 | 12,306,298 |
| Contributed capital (note 13) | 162,800 | - |
| | 13,526,165 | 12,306,298 |
| | $ 23,573,497 | $ 19,772,116 |

Commitments (note 11)
Contingencies (note 12)
Subsequent event (note 15)

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors:

Robert R. McKenzie

Director

Director

# CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

*for the year ended March 31, 2007*

| | 2007 | 2006 |
|---|---|---|
| Program expenses | | |
| Development expenses (note 10) | $ 4,861,004 | $ 5,571,346 |
| Program support and administrative expenses (note 10) | 1,856,631 | 1,719,917 |
| Rental and development facilities | 410,707 | 409,520 |
| Impairment expense (notes 4 and 5) | 1,107,918 | 1,469,977 |
| Amortization | 404,307 | 337,421 |
| | 8,640,567 | 9,508,181 |
| Revenue | | |
| Rental facilities | 600,863 | 582,454 |
| Interest, investments and other | 315,428 | 230,634 |
| Gain on disposal of property, buildings and equipment | 126,343 | 1,255,000 |
| | 1,042,634 | 2,068,088 |
| Activities on behalf of the Atlantic Canada Opportunities Agency (ACOA) (note 13) | | |
| Program expenses | 19,569,342 | 19,853,211 |
| Salaries, professional and other | 2,305,201 | 2,496,231 |
| | 21,874,543 | 22,349,442 |
| Less: Costs recovered from ACOA | (21,874,543) | (22,349,442) |
| Net cost of operations before parliamentary appropriation | 7,597,933 | 7,440,093 |
| Parliamentary appropriation | 8,655,000 | 8,645,000 |
| Net result after parliamentary appropriation | 1,057,067 | 1,204,907 |
| Retained earnings, beginning of year | 12,306,298 | 11,101,391 |
| Retained earnings, end of year | $ 13,363,365 | $ 12,306,298 |

The accompanying notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*for the year ended March 31, 2007*

| | 2007 | 2006 |
|---|---|---|
| Cash flows from (used for) operating activities | | |
| Parliamentary appropriation received | $ 8,655,000 | $ 8,650,000 |
| Cash received from ACOA | 22,787,579 | 23,870,129 |
| Cash received from the Cape Breton Growth Fund Corporation for services performed | 292,299 | 483,021 |
| Interest and investment income received | 288,640 | 227,468 |
| Cash received from rental activities and other parties | 522,973 | 663,405 |
| Payments made for program and administrative expenditures | (6,338,304) | (8,179,149) |
| Payments made on behalf of ACOA | (20,630,801) | (29,737,421) |
| Payments made on behalf of the Cape Breton Growth Fund Corporation | (187,890) | (594,768) |
| Payments made for employee severance benefits | (175,449) | (147,291) |
| | 5,214,047 | (4,764,606) |
| Cash flows from (used for) investing activities | | |
| Loan repayments | 1,029,898 | 1,170,136 |
| Loan disbursements | (2,881,435) | (2,768,001) |
| Equity investment repayments | - | 120,000 |
| Purchase of property, buildings and equipment | (731,803) | (926,136) |
| Proceeds on disposal of property, buildings and equipment | 138,950 | - |
| | (2,444,390) | (2,404,001) |
| Net increase (decrease) in cash | 2,769,657 | (7,168,607) |
| Cash, beginning of year | 3,185,130 | 10,353,737 |
| Cash, end of year | $ 5,954,787 | $ 3,185,130 |

The accompanying notes are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*March 31, 2007*

## 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 (ACOA) 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 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.

The Corporation has a wholly-owned subsidiary, DARR (Cape Breton) Limited (DARR), incorporated under the *Nova Scotia Companies Act.* DARR owns and manages the Corporation's real property holdings.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Consolidation and investment in subsidiary

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

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.

b) Parliamentary appropriations

Parliamentary appropriations are recorded as funding in the consolidated statement of operations and retained earnings 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 conditionally 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. 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.

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 service is rendered.

(ii) Interest and investment income
Interest and investment income is recorded on an accrual basis.

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 using the Consolidated Revenue Fund lending rate to Crown corporations.

g) Property, buildings and equipment

Buildings 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 |

h) 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 are expensed in the period in which the services are rendered. The Corporation is not required to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

i) 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 period in which the employees render services to the Corporation 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. Changes to these estimates are charged or credited to the program support and administrative expenses on the consolidated statement of operations and retained earnings in the period they are assessed.

j) Measurement uncertainty

The preparation of these consolidated 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 consolidated 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.

k) Future accounting changes

In January 2005, the Canadian Institute of Chartered Accountants (CICA) issued the following accounting standards that will impact the Corporation:

*Financial Instruments - Recognition and Measurement* – This standard sets out criteria for the recognition, derecognition, measurement and classification of financial instruments. The Corporation will be required to categorize its financial assets as held for trading, held to maturity, available for sale, or as loans and receivables. Financial assets categorized as held for trading or available for sale are to be measured at fair value while financial assets categorized as held to maturity, loans and receivables will be initially measured at fair value and subsequently measured at amortized cost using the effective interest rate. The fair value of a loan or receivable with a non-market rate of interest is estimated as the present value of all future cash receipts discounted using the prevailing market rates of interest for a similar instrument with a similar credit rating.

*Comprehensive Income* – This standard requires certain gains and losses that would otherwise be recorded as part of net income to be presented in other comprehensive income until such time as it is considered appropriate for them to be recognized in net income. The Corporation may be required to present a new financial statement titled Comprehensive Income to record such amounts until they are realized.

These new standards will come into effect for the Corporation's 2007/2008 fiscal year. The Corporation is in the process of determining the impact these standards will have on its financial reporting.

## 3. ACCOUNTS RECEIVABLE

| | 2007 | 2006 |
|---|---|---|
| Due from the Atlantic Canada Opportunities Agency (note 13) | $ 4,676,933 | $ 4,896,510 |
| Due from the Cape Breton Growth Fund Corporation | 1,570 | 108,289 |
| Harmonized Sales Tax rebate | 28,091 | 26,053 |
| Other receivables | 194,660 | 107,580 |
| | $ 4,901,254 | $ 5,138,432 |

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 the Growth Fund's 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, 2007 the Corporation had a portfolio of 45 loan accounts (2006 - 44). These loans are issued to promote economic development in support of the corporate mandate. All loans are evaluated using the Corporation's risk ratings ranging from low (1) to high (5) risk. The total portfolio consists of:

| | 2007 | | | 2006 |
|---|---|---|---|---|
| Risk Rating | Amount Due | Allowance | Carrying Value | Carrying Value |
| 5 | $ 3,886,835 | $ 2,275,517 | $ 1,611,318 | $ 312,979 |
| 4 | 1,318,200 | 23,881 | 1,294,319 | 1,838,140 |
| 3 | 2,482,235 | - | 2,482,235 | 3,012,658 |
| 2 | 2,971,600 | - | 2,971,600 | 3,452,783 |
| 1 | 1,124,884 | - | 1,124,884 | - |
| | $11,783,754 | $ 2,299,398 | $ 9,484,356 | $ 8,616,560 |

The Corporation has 8 debtors (2006 - 8) representing 63% of the amount due (2006 - 69%).

The allowance for loan impairment consists of:

| 2007 | | | | 2006 |
|---|---|---|---|---|
| Beginning Balance | Write-offs | Annual Expense | Ending Balance | Ending Balance |
| $ 2,076,753 | $ (885,273) | $ 1,107,918 | $ 2,299,398 | $ 2,076,753 |

There were no write-offs related to loans that were restructured during the year (2006 - $411,435).

The allowance for loan impairment of $2.3 million (2006 - $2.1 million) is for loans with an original book value totalling $3.4 million (2006 - $2.3 million).

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 $8.2 million (2006 - $7.4 million). The difference between the fair value and the carrying value results from 79% (2006 - 69%) of the loan portfolio having a zero percent interest rate.

Repayment dates of the loans are as follows:

| | 2007 | | | 2006 |
|---|---|---|---|---|
| **Date Due** | **Amount Due** | **Allowance** | **Carrying Value** | **Carrying Value** |
| Past Due | $ 54,948 | $ - | $ 54,948 | $ 19,968 |
| 2007 | - | - | - | 1,125,001 |
| 2008 | 2,067,559 | 43,425 | 2,024,134 | 1,527,432 |
| 2009 | 1,797,863 | 205,572 | 1,592,291 | 1,477,658 |
| 2010 | 1,683,526 | 360,372 | 1,323,154 | 1,368,446 |
| 2011 | 1,707,247 | 361,572 | 1,345,675 | 1,345,675 |
| 2012 and beyond | 4,457,383 | 1,328,457 | 3,128,926 | 1,748,924 |
| | 11,768,526 | 2,299,398 | 9,469,128 | 8,613,104 |
| Interest receivable | 15,228 | - | 15,228 | 3,456 |
| Total | $ 11,783,754 | $ 2,299,398 | $ 9,484,356 | $ 8,616,560 |

Forgivable loans totalling $251,497 (2006 - $309,936) are not included in the loan portfolio. The consolidated statement of operations and equity includes a recovery of $26,579 (2006 - expense of $585,891) for forgivable loans.

Conditional repayable contributions totalling $15.0 million (2006 - $14.9 million) are not included in the loan portfolio. The consolidated statement of operations and retained earnings includes a charge of $519,101 (2006 - $718,015) to development expenses for the disbursement of conditional repayable contributions during the year.

## 5. INVESTMENTS

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

| | 2007 | | | 2006 |
|---|---|---|---|---|
| | **Cost** | **Allowance** | **Carrying Value** | **Carrying Value** |
| Shares | $ 1,895,556 | $ 1,895,556 | $ - | $ 80,000 |

The shares consist of non-voting, redeemable, and retractable preferred shares in private sector entities. No dividends were received or declared during the year (2006 - nil). There was no redemption of preferred shares during the year (2006 - $120,000); however, $80,000 of preferred shares was converted to an interest-bearing loan.

Management has recorded these investments net of an allowance for impairment of $1.9 million (2006 - $1.9 million). The fair values of investments, determined using discounted expected future cash flows, approximate their recorded carrying value.

## 6. INVESTMENT IN CAPE BRETON GROWTH FUND CORPORATION

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, 2007 | As at March 31, 2006 |
|---|---|---|
| Assets | $ 42,510,759 | $ 57,341,152 |
| Liabilities | $ 11,765,034 | $ 14,839,202 |
| Shareholder's equity | $ 30,745,725 | $ 42,501,951 |

| Statement of Operations | Year ended March 31, 2007 | Year ended March 31, 2006 |
|---|---|---|
| Program expenses | $ (5,173,447) | $ (21,995,640) |
| Program support and administrative expenses | (294,677) | (871,627) |
| Interest income | 1,263,502 | 1,267,282 |
| Loss from discontinued operation | (7,551,604) | (3,413,611) |
| Net loss | $ (11,756,226) | $ (25,013,596) |

As of March 31, 2007, the Growth Fund had outstanding commitments for development activities as follows:

| | |
|---|---|
| 2008 | $ 13,226,680 |
| 2009 | 534,129 |
| | $ 13,760,809 |

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 Growth Fund acquired Cape Breton Casting Inc. (CBCI) on March 3, 2006 by exercising the security of the loans outstanding. The acquisition for nil cost resulted in the creation of a subsidiary of the Growth Fund. The operations of CBCI are reported as a discontinued operation as the operation is for sale.

The windup of the Growth Fund will commence when its funding is fully committed. It is anticipated that the funds will be fully committed by March 31, 2008. 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, BUILDINGS AND EQUIPMENT

| | 2007 | | | 2006 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization and Write Down | Net Book Value | Net Book Value |
| Land for development | $ 694,124 | $ 341,596 | $ 352,528 | $ 178,101 |
| Equipment, furniture and leasehold improvements | 2,015,998 | 1,826,103 | 189,895 | 229,288 |
| Rental facilities | 5,547,388 | 2,868,255 | 2,679,133 | 2,336,478 |
| | $ 8,257,510 | $ 5,035,954 | $ 3,221,556 | $ 2,743,867 |

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2007 | 2006 |
|---|---|---|
| Payable on behalf of the Atlantic Canada Opportunities Agency (note 13) | $ 5,844,247 | $ 4,600,505 |
| Due to the Atlantic Canada Opportunities Agency (note 13) | 920,768 | 227,309 |
| Harmonized Sales Tax payable | 155,720 | 115,275 |
| Other payables | 2,641,726 | 2,068,002 |
| | $ 9,562,461 | $ 7,011,091 |

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. Severance benefits will be paid from future parliamentary appropriations. Information about the plan, measured at March 31, is as follows:

| | 2007 | 2006 |
|---|---|---|
| Accrued obligation for employee severance benefits, beginning of year | $ 615,565 | $ 592,923 |
| Cost for the year | 88,332 | 169,933 |
| Benefits paid during the year | (175,449) | (147,291) |
| Accrued obligation for employee severance benefits, end of year | $ 528,448 | $ 615,565 |
| | | |
| Current portion | $ 43,577 | $ 160,838 |
| Long-term portion | 484,871 | 454,727 |
| | $ 528,448 | $ 615,565 |

The current portion is reflected in accounts payable and accrued liabilities.

The accrued obligation is based on the assumption that all employees with at least three years of service will be entitled to benefits and that employees will retire at 60 years of age. The Corporation used a discount rate of 4.19% (2006 - 4.42%) and an assumed rate of inflation of 3.25% (2006 - 3.5%).

## 10. PROGRAM EXPENSES

Development and other program expenses consist of:

| | 2007 | 2006 |
|---|---|---|
| Development expenses | | |
| Support to communities | $ 3,482,352 | $ 2,935,405 |
| Support to business | 1,246,800 | 2,428,471 |
| Policy and investment | 131,852 | 207,470 |
| | $ 4,861,004 | $ 5,571,346 |
| | | |
| Program support and administrative expenses | | |
| Program support | $ 602,432 | $ 482,373 |
| Administration | 1,254,199 | 1,237,544 |
| | $ 1,856,631 | $ 1,719,917 |

## 11. COMMITMENTS

As at March 31, 2007 the Corporation had outstanding commitments for development programs totalling $2,192,231 (2006 - $2,070,763).

## 12. CONTINGENCIES

In the ordinary course of business, lawsuits have been filed against the Corporation. In management's opinion, the outcome of these actions cannot be determined at this time and no provision has been made in the financial statements. An estimate of claims resulting from these lawsuits, if any, will be recognized in the accounts in the year that such a determination can be made.

## 13. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. In addition to those related party transactions disclosed elsewhere in these financial statements, the cost of services provided by these entities is reflected in the consolidated statement of operations and retained earnings and totalled $99,837 (2006 - $67,484). 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 provision of program support and administrative services. The Corporation provided and recovered program and administrative support of $185,580 (2006 - $591,310).

The Corporation leases property to Cape Breton Casting Inc. (CBCI), a wholly-owned subsidiary of the Cape Breton Growth Fund Corporation. Rent, property taxes and other related costs billed to CBCI during the year totalled $189,894 (2006 - $97,822) with an amount receivable at March 31, 2007 of $114,298 (2006 - nil). During the year, the Corporation also made a contribution of $98,076 (2006 - $245,121) to CBCI.

During the year the Corporation received 3,700 acres of land from the Cape Breton Development Corporation, a federal Crown corporation. This land has been recorded at the carrying value in the accounts of Cape Breton Development Corporation of $162,800 and treated as a capital contribution.

## 14. PENSION PLAN

The Corporation and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. Contributions to the Public Service Pension Plan consisted of:

| | 2007 | 2006 |
|---|---|---|
| Contributions by the Corporation | $ 345,217 | $ 386,582 |
| Contributions by the employees | $ 165,162 | $ 181,841 |

## 15. SUBSEQUENT EVENT

On June 7, 2007, the Governor in Council revoked the provision in the Order in Council establishing the Cape Breton Growth Fund Corporation that instructed the Growth Fund to act as a parent Crown corporation for purposes of Part X of the *Financial Administration Act*. Therefore, effective June 7, 2007, the Corporation has control over the Growth Fund and future financial statements will include the accounts of the Growth Fund.

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Canada