

ECBC



30 YEARS

ENTERPRISE CAPE BRETON CORPORATION 1998-1999 ANNUAL REPORT

Canada

Enterprise Cape Breton Corporation (ECBC)
Enterprise Cape Breton Corporation (ECBC)

P.O. Box 1750
Commerce Tower, 4th Floor
15 Dorchester Street
Sydney, Nova Scotia B1P 6T7
Tel: (902) 564-3600
Fax: (902) 564-3825
1-800-705-3926

ECBC Satellite Office
32 Paint Street
Port Hawkesbury, NS B0E 2V0
Tel: (902) 625-3111
Fax: (902) 625-3266

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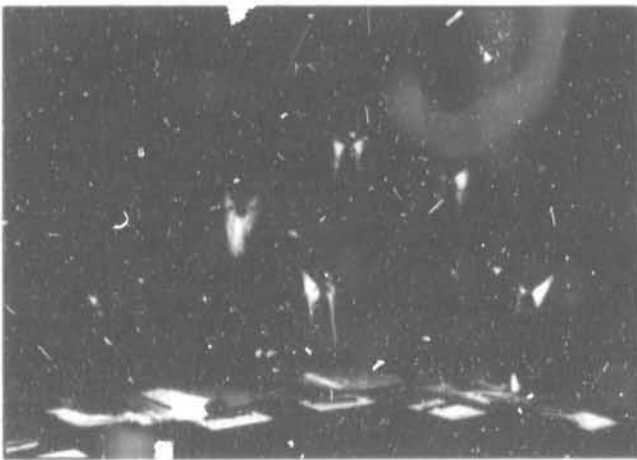
Governance

As a schedule III Crown corporation, Enterprise Cape Breton Corporation (ECBC) is subject to the control and accountability regime set out in the *Financial Administration Act* (FAA). ECBC is governed by a seven person Board of Directors and reports to Parliament through the Minister of Industry, who is assisted by a Secretary of State. The Board is composed of the President, the Vice-President, and five other members appointed by the Governor-in-Council on the advice of the Minister of Industry.

The Board of Directors is responsible for a number of areas, including: providing strategic direction, safeguarding of Corporate assets, performance management, and reporting to the Crown.

The day-to-day operations of the Corporation are carried out by the various departments: The Vice-Presidents office; the four sectoral development units; Communications & Marketing; Policy, Planning & Resources; and Corporate Services.

Board of Directors



Members of the ECBC Board of Directors, from left to right, seated: Curdis Karrel; J.D. Nicholson, President (retired effective March 31, 1999); Keith Brown (term expired April 30, 1999); standing: Gail Rudderham-Chernin; Betty Ann AuCoin; Charles Smith and Gregory MacKenzie.

Officers of the Corporation

J. D. Nicholson, *President*

Keith G. Brown, *Vice-President*

D. A. Landry, *Corporate Secretary*

Francis Mullins, *Treasurer*

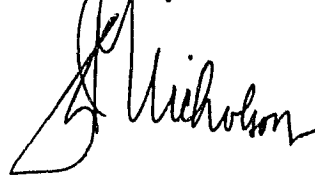
The Honourable John Manley
Minister of Industry, Minister for the Atlantic Canada Opportunities
Agency
Minister of Western Economic Diversification
Minister responsible for the Canada Economic Development for
Quebec Regions
House of Commons
Ottawa, Ontario K1A 0A6

Dear Mr. Minister:

On behalf of the Board of Directors, I am pleased to present the Annual Report of Enterprise Cape Breton Corporation for the fiscal year ended March 31, 1999.

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

Sincerely,

A handwritten signature in black ink, appearing to read "J. D. Nicholson". The signature is written in a cursive style with a large, sweeping initial "J".

J. D. Nicholson
Chairperson of the Board of Directors
Enterprise Cape Breton Corporation

President's Message

As we approach the new millennium, one tends to reflect on past successes, challenges and what lies ahead. There is no question that the economy of Cape Breton Island has experienced dramatic change and restructuring over the last several decades. Despite downsizing in many of the Island's cornerstone industries, the economy has evolved to create new opportunities in the service sector. The challenge continues to be our ability to keep pace with structural change within the economy and the growth of the labour force.

This being said, there are a number of opportunities on the horizon. The offshore oil and gas industry is growing at a rapid rate and has the potential to positively impact on the Cape Breton economy. There has been significant growth in the information technology sector on the Island. Tourism continues to be a strong source of revenue and employment. Aquaculture is another promising growth industry as well as certain niche markets in agriculture and forestry.

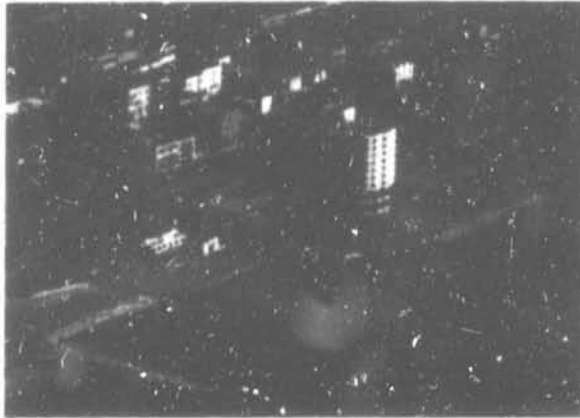
ECBC has a major role to play in the future. As a Crown corporation with a broad and flexible mandate, ECBC can effect true change. We will continue to work with our communities to focus on the areas of the economy which have the potential to give Cape Breton Island a competitive advantage in the international marketplace.



We believe that by concentrating on the identified program priorities and strategic activities within the four primary economic clusters, ECBC can help create a stronger environment for economic growth. The Corporation will work with the private sector, other levels of government, regional development authorities and the community to ensure that its resources are used to capitalize on the economic opportunities available to the residents of Cape Breton Island and the Mulgrave area.

J.D. Nicholson

Chairperson of the Board of Directors
Enterprise Cape Breton Corporation



Sydney

Enterprise Cape Breton Corporation (ECBC) is a federal Crown corporation which was established pursuant to Part II of the *Government Organization Act, Atlantic Canada, 1987*, with a jurisdictional mandate which includes all of Cape Breton Island and a portion of mainland Nova Scotia in and around the Town of Mulgrave. The Corporation is charged with the responsibility for promoting and assisting the financing and development of industry in the region, providing employment outside the coal-producing sector and broadening the base of the local economy.

ECBC has a broad mandate to foster business growth outside the coal industry. In addition to its own programs, it is responsible for the delivery of the economic development programs of the Atlantic Canada Opportunities Agency on Cape Breton Island. These include the Business Development Program, Canada/Nova Scotia Infrastructure Works Program and the Canada/Nova Scotia COOPERATION Agreement on Economic Diversification.

CORPORATE PROFILE



Port Hawkesbury

The Corporation is extremely active in its community. It is involved in research and advocacy in a number of economic sectors, and the investment in strategic economic development infrastructure. The Corporation also markets Cape Breton Island as a business and tourism destination. Through partnership arrangements with a number of federal and provincial departments and the local federation of agriculture, the Corporation owns and operates a resource centre which supports the resource-based industries.

The Corporation operates from its head office in Sydney, Nova Scotia and has a satellite office in Port Hawkesbury.

VISION

The Corporation's vision is to address the long-term economic development needs of the community by facilitating job creation, opportunity identification, investment in strategic infrastructure and the provision of business advice and counselling. The Corporation's vision includes close collaboration with other levels of government, the private sector, educational institutions and other economic development groups.

MISSION STATEMENT

"Recognizing the importance of the world economy to the future, ECBC will take the lead in creating a business environment which fosters sustainable job development and economic growth on Cape Breton Island and the Mulgrave area, through proactive and innovative leadership in partnership with private and public sectors and other relevant organizations."

OBJECTIVES

ECBC works in various sectors of the local economy to address long-term economic development needs. It is a partner in the development process, working with community groups, the regional development authorities (RDA's), businesses, the University College and all levels of government to achieve a common goal. The Corporation identified these clusters as its major priorities for 1998/1999:

Priority Clusters

- Knowledge-Based Industries
- Resource-Based Industries
- Tourism/Culture/Entertainment
- Oil and Gas

Program Priorities

- Marketing - Economic Destination and Tourism
- Trade Development
- Youth
- Research and Development
- Access to Capital
- Human Resource Development

YEAR IN REVIEW

ACCOMPLISHMENTS

The 1998-1999 fiscal year was an active one for ECBC, as it continued to focus on the long-term development of Cape Breton Island and the Mulgrave area. ECBC's capacity to accelerate growth in the Cape Breton economy has to be seen in the context of the relatively small size of the Corporation's budget and the economic challenges confronting the Cape Breton economy.

In 1998-1999, ECBC program expenditures accounted for less than 0.5% of total income on Cape Breton, as measured by GDP. In addition, the continued decline of Cape Breton's cornerstone industries (coal, steel and fish), impacts on overall economic conditions. Here are some of the year's accomplishments.

Information & Communications Technology (ICT) Sector

ECBC has taken a key role in the development of the ICT Sector over the past six years. This sector has experienced significant growth over that time, with over 145 Cape Breton companies actively supporting ICT initiatives through involvement in community-based activities and through project proposals. The 1998-1999 fiscal year marks a significant benchmark in the emergence of this sector with two anchor facilities established in Cape Breton, the Silicon Island Art & Innovation Centre and the Technology Enterprise Centre at UCCB.

The Corporation worked with leaders in the sector to strengthen the support infrastructure for ICT. Projects such as the Millennium project (with a local Cable Company) and the Connectivity Project (with SENCEN) extended access to the Internet to residents in rural communities. In addition, ECBC established a clear focus for development in this sector by identifying specific priority occupational clusters requiring support (programmers, system analysts, computer scientists/engineers, IT-related occupations, and multimedia).

In the area of trade development, Cape Breton companies were able to attend several trade shows targeting the ICT sector, including the High Tech Show '98 (Toronto), Commerce '98 (Ottawa), Softworld '98 (St. John's), the Nova Scotia Trade Mission (Boston, Washington) and the Knowledge Fair (Sydney). In addition, the Corporation sponsored workshops on strategic planning, sales planning, Java programming and foreign market prospecting.

The Corporation also played a lead role in promoting development in the sector through participation in the Technology Advisory Group (TAG), promotion of the Atlantic Digital Media Festival, being a host demonstration site for a new greenhouse insulation product, and by supporting a smart community initiative by SENCEN and UCCB.

Many of the existing companies in the ICT sector are clients who have accessed ECBC programs for capital acquisition, operating and better business practices such as human resources development, marketing and quality assurance.



ACCOMPLISHMENTS

Tourism

ECBC has been instrumental in the growth and success of the tourism industry on Cape Breton Island. Tourism generated revenues totalled \$214 million in 1998. In addition to product development and assistance to private sector operators, ECBC actively promotes Cape Breton Island as a tourism destination in key markets:

ECBC has also assisted both the private sector and community groups in undertaking research on specific tourism initiatives, has participated in the establishment of new products and has partnered with other stakeholders in lengthening the Island's tourism season.

As a result of the advertising campaign for 1998, requests for tourism information increased to 38,000, up from 26,000 inquiries in 1997. The conversion of these inquiries to actual Cape Breton vacationers was 42 per cent. The Conversion Study estimates that direct expenditures attributable to North American vacationers to Cape Breton Island is approximately \$24 million.



Community Economic Development

ECBC, in conjunction with Cape Breton Island's municipalities, co-hosted "Succeeding Together in the Third Millennium." This community economic development forum was developed for people who work in and with local communities on Cape Breton Island and in the Mulgrave area.

ECBC was also involved in community consultations with northern Cape Breton regarding wilderness trail development. Preliminary discussions have been held with community economic development groups in communities to be affected by the recent announcement on the future direction of the Cape Breton Development Corporation.

In addition, the Corporation is involved in on-going consultation with various community economic stakeholders across the Island.

Investment & Prospecting

The Corporation is taking a lead role in the investment and prospecting activities for Cape Breton Island. By forging strong relationships with government and industry partners, ECBC can facilitate increased growth activities through trade and prospecting.



ACCOMPLISHMENTS

Resource-Based Industries

Cape Breton's resource-based sector continues to grow. Aquaculture has used the pristine waters surrounding Cape Breton Island to expand into steelhead salmon, scallop, and oyster production. Cape Breton is now home to Atlantic Canada's largest rainbow trout producer, Scotia Rainbow.

Agribusiness, particularly horticulture and greenhouse production is now moving into international export markets. Memorandums of Understanding have now been signed with all Nova Scotia provincial counterparts including Natural Resources, Agriculture & Marketing and Fisheries & Aquaculture.

In the area of trade development, the Corporation has successfully worked with a number of horticulture producers who have successfully negotiated sales to the Caribbean.

Oil & Gas

ECBC continues to promote opportunities related to the Sable Offshore Natural Gas Project (SOEP). The Potential Gas Opportunities Group (POGO) has been established to allow local businesses to access information pertaining to contracts on the SOEP project. ECBC arranges presentations and also disburses contract information to ensure that Cape Breton and Mulgrave businesses are aware of the opportunities.

In addition, ECBC has assisted the Strait Area and the Marconi Campuses of Nova Scotia Community College in the hiring of a joint petroleum co-ordinator who will oversee petroleum related training on Cape Breton. ECBC has also assisted the University College of Cape Breton in the establishment of a Centre of Excellence in Petroleum Development which will provide training and research for the petroleum industry with a skilled workforce in the areas of trades and technologies as a result of these activities.

ECBC's most important function is to promote the region's attributes to the petroleum industry and to ensure that the local community is aware of the opportunities associated with the oil and gas industry. Such activities as the participation in the Offshore Technologies Conference in Houston, the CORE conference in Halifax, presentations in Calgary, Edmonton and Red Deer, Alberta, the inclusion of local representatives in a trade mission to Aberdeen, Scotland and the organization of seminars and POGO meetings have assisted ECBC in achieving this above objective. ECBC has developed a database of approximately 350 individuals in its POGO listing and has approximately 500 industry contacts as a direct result of ECBC participation in various trade activities.



ECONOMIC CONDITIONS

Cape Breton Island continues to experience the distress associated with the decline of its cornerstone industries of coal, steel, and the fishery. Additional negative impacts are expected due to the announced down-sizing of the Cape Breton Development Corporation (DEVCO). While dramatic shifts in employment from the traditional goods-producing sectors to service sectors have occurred over three decades, the region has been unable to develop new opportunities quickly enough to offset this structural transition and associated shifts in labour force behaviour. Data from the 1996 Census shows that Cape Breton Island continues to under perform in terms of labour force characteristics, income levels, and reliance on government transfer payments.

For the second straight year, survey respondents rated image and prospecting as the second and third most important priorities, respectively. The first priority was access to capital. This is strong evidence that the Corporation's strategic direction has the support of the business community and that the Corporation's Board of Directors has been effective at channelling the concerns of the local community into the Corporation's strategic direction.

Input was also given through the Corporation's economic summit, "Succeeding Together in the Third Millennium." The summit highlighted local examples of economic progress, as well as development strategies being employed internationally. The conference resulted in increased participation in economic development activities by municipal governments. Over the next five years, ECBC hopes to further its linkages with the six municipal units in its mandate area.

CONSULTATION WITH STAKEHOLDERS

Consultations with public and private sector partners, the Board of Directors and Corporation staff have played a significant role in shaping the strategic direction of ECBC. In an attempt to solicit greater community participation in ECBC's planning process, a telephone survey was conducted with over 2,000 businesses and organizations in the Corporation's mandate area. The outcome of this consultation process demonstrated strong support for the current direction of ECBC and affirmed the direction established by ECBC in its 1997/1998 - 2001/2002 Corporate Plan.

ACTIVITIES

Tourism Marketing

The tourism sector continues to be an important sector within the region's economy. It generated approximately \$214 million in revenues for 1998, the strongest year ever. The sector provides direct and indirect jobs totalling 6,600.

ECBC is proud of the leadership role it has played in the development, marketing and promotion of Cape Breton Island as a tourism destination. The strategy for marketing efforts continues to be determined through private sector input from which a detailed marketing plan is devised. The main objective of this plan is "to attract visitors, increase the length of the tourism season and lengthen stays while maintaining the living cultures and unspoiled beauty of Cape Breton Island." To ensure maximum impact from the limited financial resources available, the marketing plan stresses the development of effective partnerships with public and private sectors. The Nova Scotia Marketing Agency, Parks Canada, and Tourism Cape Breton are all very important partners for ECBC in its efforts to achieve the plan's objectives.

The Corporation continued to support familiarization (FAM) tours as a major means of partnering with tourism operators and the Province of Nova Scotia. Travel writers, travel agents, tour operators and tour wholesalers were hosted on Cape Breton Island while visiting the Province. In 1998, 70 media writers were hosted on FAM tours and nine travel trade FAM tours hosted 173 trade participants. The private sector contributed in excess of \$140,000 to the FAM program, coupled with ECBC's \$66,000 investment. As a result of the editorial coverage received, it is estimated that Cape Breton Island received \$9.6 million in "free" publicity.

Cape Breton Island has "The best island scenery in the world", say the writers of *Condé Nast Traveler*, one of North America's most recognized travel publications. They have also voted Cape Bretoners as second in the world for being the friendliest people. Testimonials like these can benefit Cape Breton Island as they help to draw additional people to the Island each year.

Cultural/Entertainment Industries

Cape Breton music and dance remained immensely popular with a host of performers rising to stardom. Add to this the strong global interest in Celtic culture and it makes for a growing industry with strong links to tourism development. Indeed, major events have taken place during 1998/1999 in this high profile sector of the Cape Breton Island economy.

The Corporation continued to take a leadership role in the development of festivals and special events by improving organization, presentation and marketing. ECBC was a major partner in planning and funding the second annual Celtic Colours International Festival in October, 1998 as well as promoting the Cape Breton Island music industry at the 11th Annual East Coast Music Awards held in St. John's, Newfoundland.

Knowledge-Based Industries

Throughout 1998/1999, the Corporation continued to focus a high priority on knowledge-based industries. Several research projects were initiated to determine the future direction of this sector. A preliminary study into the opportunities of environmental remediation was undertaken. At year end this research is still ongoing and should provide some interesting data which will determine the emphasis ECBC should place on this sub-sector. Analysis also continued into telecommunications issues both in industrial and rural Cape Breton. Several pilot projects with Community Access Point sites are currently underway to address connectivity issues within their network and with outside entities.

Off-Island trade opportunities were explored via trade show participation in the Ontario and New England markets. As well, a prospecting plan was developed through interactive community working groups.

The Technology Advisory Group held its monthly meetings throughout the year with the active participation and financial support of ECBC. As well the Corporation was a major sponsor of the second annual Atlantic Digital Media Festival in Baddeck and hosted the third annual Technology Breakfast in connection with Technology Day in October. Both events were well received with attendance topping that of previous years.

ACTIVITIES

Resource-Based Industries

ECBC has taken the lead in establishing a resource centre for agriculture, forestry and aquaculture at the former Point Edward Farm operation. A value-added production study has been completed to identify additional opportunities for these sectors which are the principal mainstays of the rural economy. Horticulture and greenhouse-produced crops continued to lead a strong agriculture business sector. International trade and joint ventures are also priorities of this sector.

Oil & Gas

ECBC has identified the east coast offshore oil and gas industry as having sufficient economic potential for Cape Breton Island and the Mulgrave area. The Sable Offshore Energy Project (SOEP) encompasses one of the largest known natural gas deposits to be developed in North America. This \$3 billion project is one of the largest projects in Nova Scotia's history. Further reserves are located off the coast of Cape Breton in the Laurentian Channel. In addition, Cape Breton Island has significant potential as a result of land-based oil and gas reserves. As such, the Corporation's oil and gas unit, whose mandate is to maximize the short and long-term economic benefits which accrue from this project, is actively pursuing opportunities in this sector.

ECBC has established a Potential Offshore Gas Opportunities (POGO) group to assist local businesses in accessing the opportunity presented by the oil and gas industry. In addition, research, trade show participation, the development of an ECBC oil and gas industry newsletter and local education initiatives are priorities of the unit.

Image & Prospecting

ECBC is taking a leadership role in promoting Cape Breton Island as a great place to live and to do business. Economic development is more than just delivering capital assistance programs to clients. It is a long-term, multi-faceted process that involves, among other things, improving public perception/image of the Island, highlighting the strategic advantages of the region, soliciting new investment from outside sources as a result of those advantages, and assisting local businesses to be more export-oriented.

Creating sustainable economic development is the main priority of the Corporation and the means to create this development is assisted through a comprehensive marketing plan. ECBC views private sector participation in the marketing process as being integral to its success.

The Corporation concentrates on the following areas:

- Image Campaign
- IT Industry
- Oil and Gas Industry
- Economic Destination Marketing
- Trade Development

ECBC will be increasing its role in investment/prospecting activities. *Team Cape Breton*, comprised of private sector, education and government leaders in the community, will be developed to promote several industry clusters on Cape Breton Island. The Corporation will work with all levels of government and the private sector to identify and cultivate prospective investors interested in Cape Breton Island's competitive advantage.

ACTIVITIES

Sydport

Sydport Industrial Park is home to 36 firms employing approximately 400 people. The Corporation recognizes that if Sydport is to achieve its full potential as an economic stimulus in the Industrial Cape Breton area, a significant investment in park infrastructure is required. Since the required investment is much larger than ECBC's budget can accommodate, the Corporation has entered into negotiations with a private sector company to privatize the facility. However the agreement between the purchaser and the Corporation has not yet been finalized. It is hoped the divestiture of the Park will be completed in the 1999/2000 fiscal year.

Partnerships

In partnership with the community, ECBC continued to facilitate community economic development. Its work with the community-based Technology Advisory Group (TAG), the Culture and Heritage Advisory Group (CHAG) and the Potential Offshore Gas Opportunities Group (POGO) are fine examples of the Corporation's partnerships.

ECBC also collaborated with the private sector, other levels of government and specific groups such as the minority language community, women in business, persons with disabilities, the community business development corporations and young entrepreneurs. In 1998, implementation of the Careers Cape Breton Program was shifted from the Corporation to the University College of Cape Breton. ECBC remains active in its support for this youth entrepreneurship and seasonal employment program. The Corporation also continued to partner with the two RDA's by providing assistance and direction in implementing their strategic plans.

Rural Visits

In an on-going effort to ensure that ECBC programs and resources are accessible to all areas of the mandate area, development officers initiated a series of regularly scheduled visits and office hours in communities across the Island. Officers are available to provide general program information and to discuss projects.

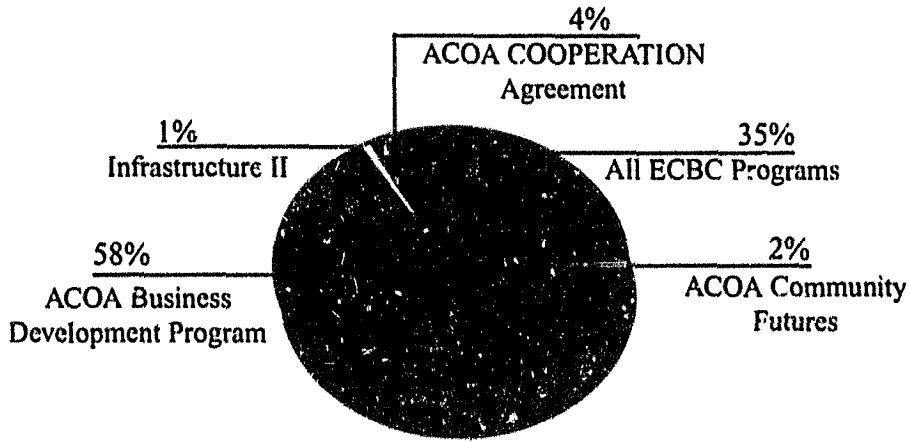
Consequently, as a way of reaching out to rural Cape Breton Island development officers followed a schedule that included visits to communities of Cheticamp, Arichat, Ingonish, and Inverness on a monthly basis.

Y2K Readiness

The Year 2000 issue arises because an information technology practice in writing computer code has been to use two-digit instead of four digit data fields to identify a given year in date-sensitive programs. This means that at the turn of the century computers will read the year "2000" as the year "00". Although there are varying theories as to how programs will respond and interpret a year of "00", the implications of this problem are for the most part unknown. The problem becomes more complex when one considers the integration and inter-connectedness of systems where a failure in one could stimulate a chain reaction.

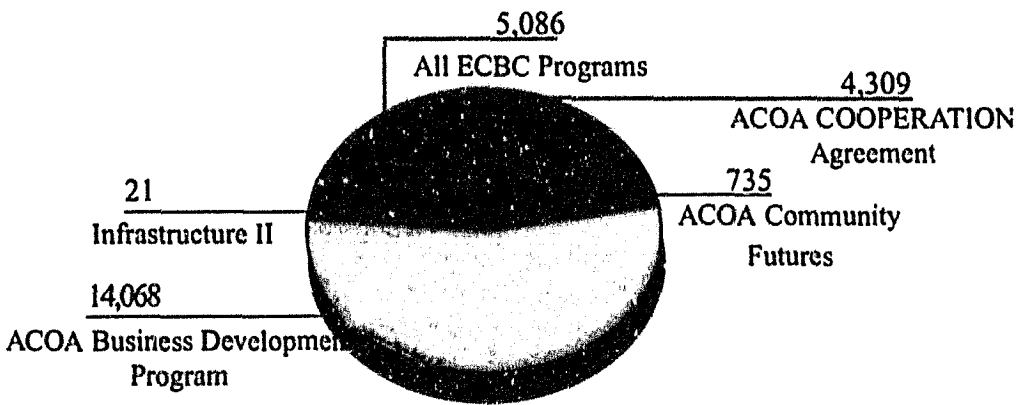
ECBC has undertaken an extensive program to meet the objective of having its business operations run accurately throughout the Year 2000 transition period. The Corporation has used a phased process which includes assessment and prioritization, action planning, testing and validation and implementation. In addition, operational contingency plans have been prepared and ECBC has undergone an independent audit of its Y2K procedures in May, 1999.

**Number of Contracts,
Ending March 31, 1999**



TOTAL = 283 Contracts

**Approved Assistance for Fiscal Period
Ending March 31, 1999 (in \$'s)**



TOTAL = \$24,219

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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


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


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

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

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

May 28, 1999


Selma Rudderham
Acting Vice-President


Francis Mullins
Comptroller

AUDITOR'S REPORT

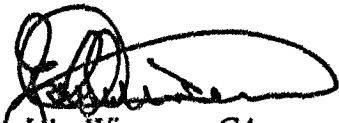
To the Minister for the purposes of the *Atlantic Canada Opportunities Agency Act*

I have audited the balance sheet of Enterprise Cape Breton Corporation as at March 31, 1999 and the statements of operations and equity and changes in financial position 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 generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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



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

Ottawa, Canada
May 28, 1999

BALANCE SHEET

as at March 31, 1999

	<u>ASSETS</u>	
	<u>1999</u>	<u>1998</u>
Current assets		
Term deposits (Note 3)	\$ 3,989,920	\$ 2,886,378
Accounts receivable (Note 4)	3,519,499	3,398,450
Prepaid expenses	64,370	64,688
	<u>7,573,789</u>	<u>6,349,516</u>
Loans (Note 5)	2,317,000	2,941,902
Investments (Note 6)	400,000	750,000
Capital assets (Note 7)	246,075	164,886
	<u>\$ 10,536,884</u>	<u>\$ 10,206,304</u>

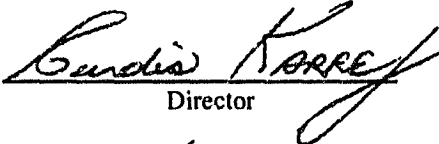
	<u>LIABILITIES</u>	
Current liabilities		
Bank indebtedness	\$ 37,838	\$ 449,837
Accounts payable and accrued liabilities (Note 8)	6,256,230	4,951,886
	<u>6,294,068</u>	<u>5,401,723</u>
Provision for employee termination benefits	465,486	454,900
	<u>6,759,554</u>	<u>5,856,623</u>


	<u>EQUITY</u>	
Equity of Canada	<u>3,777,330</u>	<u>4,349,681</u>
	<u>\$ 10,536,884</u>	<u>\$ 10,206,304</u>

Commitments (Note 10)
Subsequent event (Note 13)

See accompanying notes to the financial statements.

Approved by the Board of Directors:


Director


Director

STATEMENT OF OPERATIONS AND EQUITY

for the year ended March 31, 1999

	<u>1999</u>	<u>1998</u>
Program expenses		
Development expenses (Note 9)	\$ 5,033,834	\$ 5,990,901
Other program expenses (Note 9)	2,202,332	1,955,182
Provision for loan impairment	561,721	539,631
Provision for doubtful investments	<u>350,000</u>	<u>300,000</u>
	8,147,887	8,785,714
Other expenses		
Administrative expenses	1,552,977	1,532,097
Amortization	<u>79,726</u>	<u>161,645</u>
	1,632,703	1,693,742
 Total expenses	 <u>9,780,590</u>	 <u>10,479,456</u>
Revenue		
Rental facilities	569,331	679,174
Interest, investments and other	<u>238,908</u>	<u>293,837</u>
	808,239	973,011
Activities on behalf of the Atlantic Canada Opportunities Agency (Note 11)		
Program expenses	17,071,104	15,826,716
Salaries, professional and other	<u>1,275,718</u>	<u>1,243,788</u>
	18,346,822	17,070,504
Less: Costs recovered from ACOA	<u>(18,346,822)</u>	<u>(17,070,504)</u>
	-	-
Net cost of operations before parliamentary appropriation	<u>\$ 8,972,351</u>	<u>\$ 9,506,445</u>
Parliamentary appropriation	<u>8,400,000</u>	<u>9,786,720</u>
Net (loss) income	<u>\$ (572,351)</u>	<u>\$ 280,275</u>
Equity, beginning of year	\$ 4,349,681	\$ 4,069,406
Net (loss) income	<u>(572,351)</u>	<u>280,275</u>
Equity, end of year	<u>\$ 3,777,330</u>	<u>\$ 4,349,681</u>

See accompanying notes to the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended March 31, 1999

	<u>1999</u>	<u>1998</u>
Operating activities		
Net income (loss)	\$ (572,351)	\$ 280,275
Charges not affecting cash		
Amortization	79,726	161,645
Employee termination benefits expense	10,586	59,792
Provision for doubtful investments	350,000	300,000
Provision for loan impairment	561,721	539,631
Loan forgiveness	<u>283,036</u>	<u>9,748</u>
	712,718	1,351,091
Decrease in non-cash operating working capital	1,183,613	2,152,198
Employee termination benefit payments	<u>-</u>	<u>(48,578)</u>
Cash provided by operating activities	<u>1,896,331</u>	<u>3,454,711</u>
Investing activities		
Loan advances	(654,152)	(1,280,256)
Loan repayments	434,277	142,263
Purchase of investments	-	(100,000)
Purchase of capital assets	<u>(160,915)</u>	<u>(168,911)</u>
Cash used in investing activities	<u>(380,790)</u>	<u>(1,406,904)</u>
Increase in cash position	1,515,541	2,047,807
Cash position, beginning of year	<u>2,436,541</u>	<u>388,734</u>
Cash position, end of year	<u>\$ 3,952,082</u>	<u>\$ 2,436,541</u>

Cash position is defined as term deposits and bank indebtedness.

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 1999

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.

2. Significant accounting policies

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

a) Parliamentary appropriations

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

b) Management estimates

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

c) Loans

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

Certain loans are subject to terms of forgiveness as stipulated in the loan contract. The amount of forgiveness is charged to operations when the loan is issued or restructured. If terms and conditions are not fulfilled the forgiveness is reversed and the balance becomes due and payable.

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

d) Allowance for loan impairment

Loans are classified as impaired when, in the opinion of management, there is reasonable doubt as to the timely collection of the full amount of principal and interest, where applicable. A specific allowance is established to reduce the recorded value of the loan to its estimated net realizable value if there is doubt as to the timely collection on a particular loan. Impaired loans are measured according to their estimated realizable amounts by discounting expected future cash flows at the effective interest rate inherent in the loans. For loans granted with a zero interest rate, impairment is calculated based on the expected future

cash flows using the zero percent rate associated with the loan. This reflects a zero cost of capital for these loans because they are funded by appropriations provided by the Government of Canada. When future cash flows cannot be estimated with reasonable reliability, the estimated realizable amounts are measured at the fair value of any security underlying the loans, net of any expected costs of realization.

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

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

e) Interest income

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

f) Investments

The Corporation has invested in preferred equity holdings and partnerships. These are shown at the lower of cost and estimated net realizable value. Estimated net realizable value is measured by discounting expected future cash flows. Investment income is recorded on an accrual basis. The Corporation records an allowance for doubtful investments for the amount by which the value of the investment has been impaired.

g) Capital assets

Capital assets are recorded at the lower of cost less accumulated amortization and net recoverable value. Amortization is provided over the estimated useful lives of the capital assets using the straight-line method at the rates indicated below:

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

h) Pension plan

All eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required equally from the employees and the Corporation. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

i) Termination benefits

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

The liability for termination benefits is estimated by management without discounting, based on current entitlements.

3. **Term deposits**

The Corporation has term deposits with a major Canadian chartered bank in the amount of \$3,989,920 (1998 - \$2,886,378). The term deposits have effective rates of interest ranging from 4.77% to 4.95% (1998 - 4.75% to 4.83%) and mature within one year. The fair values of the term deposits approximate their carrying value.

4. **Accounts receivable**

Accounts receivable consist of:

	<u>1999</u>	<u>1998</u>
Due from the Atlantic Canada Opportunities Agency (Note 11)	\$ 3,284,681	\$ 3,144,982
Other receivables	<u>234,818</u>	<u>253,468</u>
	<u>\$ 3,519,499</u>	<u>\$ 3,398,450</u>

The amount from the Atlantic Canada Opportunities Agency relates to expenditures made on behalf of the Agency pursuant to a memorandum of understanding. 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.

5. **Loans**

At March 31, 1999 the Corporation had a portfolio of 122 loan accounts (1998 - 129) including repayable contributions. These loans are issued in order to promote economic development to support the corporate mandate. The amount included in the financial statement balance is net of an allowance for loan impairment. The balance consists of:

	<u>1999</u>			<u>1998</u>
	<u>Amount Due</u>	<u>Allowance</u>	<u>Balance (net)</u>	<u>Balance (net)</u>
Loans	\$2,455,707	\$ 1, 3,704	\$ 1,092,003	\$ 1,110,523
Repayable contributions	2,226,953	1,009,101	1,217,852	1,811,288
Interest receivable	21,046	13,881	7,165	20,091
	<u>\$4,703,706</u>	<u>\$ 2,386,686</u>	<u>\$ 2,317,020</u>	<u>\$ 2,941,902</u>

The Corporation has four debtors (1998 - four) representing fifty-five percent of the amount due (1998 - fifty percent).

Forgivable loans totalling \$401,540 (1998 - \$128,257) are not included in the above balance. The statement of operations and equity includes a charge of \$283,036 (1998 - \$9,748) for recognition of forgivable loans made during the year. This charge is included in development expenses. If terms and conditions of the loans are not met, the amounts will become due and payable. Any amounts that would be recorded at that time would be net of any required allowance for loan impairment.

The allowance for loan impairment of \$2,386,686 (1998 - \$2,204,248) is management's best estimate of the difference between the recorded value of these accounts and the present value of the total amount the Corporation expects to collect on these accounts. For loans granted with a zero interest rate, the present value is calculated using a zero percent discount factor. The Corporation made significant assumptions in determining this estimate, including: collection amounts, timing of collection, economic conditions and interest rate factors. If the key assumptions used by management vary, then the estimate could be significantly different. The allowance for loan impairment consists of:

	1999			1998
	Beginning Balance	Write-offs	Provision	Ending Balance
Specific	\$1,904,248	\$ (379,283)	\$ 611,721	\$2,136,686
General	300,000	-	(50,000)	250,000
	<u>\$2,204,248</u>	<u>\$ (379,283)</u>	<u>\$ 561,721</u>	<u>\$2,386,686</u>
				<u>\$ 1,904,248</u>
				<u>300,000</u>
				<u>\$ 2,204,248</u>

The fair value of loans is determined using expected future cash flows discounted at the Consolidated Revenue Fund lending rate to Crown corporations. The fair value of loans approximates \$2,019,000 (1998 - \$2,500,000). The fair value is \$317,000 (1998 - \$442,000) less than the carrying amount. The difference results from 73 percent (1998 - 88 percent) of the loan portfolio having a zero interest rate. Discounting zero interest rate loans at the lending rate to Crown corporations results in the difference between the fair value and the carrying amount.

The total portfolio consists of:

Annual Interest Rate	1999			1998
	Amount Due	Allowance	Balance (net)	Balance (net)
0%	\$ 3,400,873	\$ 1,379,263	\$ 2,021,610	\$ 2,581,858
Less than 10%	767,340	533,542	233,798	313,281
10% and over	<u>514,447</u>	<u>460,000</u>	<u>54,447</u>	<u>26,672</u>
	\$4,682,660	\$2,372,805	\$2,309,855	\$ 2,921,811
Interest receivable	<u>21,046</u>	<u>13,881</u>	<u>7,165</u>	<u>20,091</u>
	<u>\$ 4,703,706</u>	<u>\$ 2,386,686</u>	<u>\$ 2,317,020</u>	<u>\$ 2,941,902</u>

Included in the above balance are non-interest bearing repayable contributions of \$1,217,852 (1998 - \$1,811,288) net of the allowance for impairment. During the year, loans in the amount of \$681,193 (1998 - \$500,000) were restructured.

Repayment dates of the loans are as follows:

Date Due	1999			1998
	Amount Due	Allowance	Balance (net)	Balance (net)
Past Due	\$ 275,801	\$ 241,777	\$ 34,024	\$ 216,128
1999	-	-	-	321,022
2000	428,174	99,399	328,775	398,017
2001	437,281	178,103	259,178	264,604
2002	540,206	134,878	405,328	368,492
2003	509,014	125,739	383,275	321,090
2004 & beyond	<u>2,492,184</u>	<u>1,592,909</u>	<u>899,275</u>	<u>1,032,458</u>
	4,682,660	2,372,805	2,309,855	2,921,811
Interest receivable	<u>21,046</u>	<u>13,881</u>	<u>7,165</u>	<u>20,091</u>
	\$ 4,703,706	\$ 2,386,686	\$ 2,317,020	\$ 2,941,902

6. Investments

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

	1999			1998
	Amount Due	Allowance	Balance (net)	Balance (net)
Interest in Office Building	\$ 300,000	\$ -	\$ 300,000	\$ 300,000
Shares/Partnership Units	<u>850,000</u>	<u>750,000</u>	<u>100,000</u>	<u>450,000</u>
	\$ 1,150,000	\$ 750,000	\$ 400,000	\$ 750,000

The Corporation's share in the net income, based on its percentage interest of the office building is \$76,865 (1998 - \$65,312). The shares and partnership units consist of non-voting redeemable and retractable preferred shares and partnership units in private sector entities. No dividends were received or declared during the year.

The statement of operations and equity includes a charge of \$350,000 (1998 - \$300,000) for the provision for doubtful investments. This estimate is based on significant assumptions by management of the timing, amount and discount rate. If these assumptions vary, the amounts could be significantly different. The fair values of investments are determined using discounted contracted future cash flows. The fair values of investments approximate their carrying value.

7. Capital assets

	1999			1998		
	Cost	Accumulated Amortization & Write Down	Net Book Value	Cost	Accumulated Amortization & Write Down	Net Book Value
Land for development	\$ 482,319	\$ 482,318	\$ 1	\$ 482,319	\$ 482,318	\$ 1
Equipment, furniture, leaseholds	1,299,604	1,053,530	246,074	1,157,288	992,403	164,885
Rental facilities	<u>15,697,200</u>	<u>15,697,200</u>	-	<u>15,678,601</u>	<u>15,678,601</u>	-
	\$17,479,123	\$17,233,048	\$ 246,075	\$17,318,208	\$17,153,322	\$ 164,886

Included in the above amounts are assets related to the divestiture of Sydport Industrial Park with a net book value of \$1 (1998 - \$1). An agreement in principle to dispose of these assets has not yet been finalized (see also note 13).

8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of:

	<u>1999</u>	<u>1998</u>
Due to the Atlantic Canada Opportunities Agency	\$ 704,605	\$ 7,060
Other payables	<u>5,551,625</u>	<u>4,944,826</u>
	<u>\$ 6,256,230</u>	<u>\$ 4,951,886</u>

The amount due to the Atlantic Canada Opportunities Agency relates to advances used for program expenditures made 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 expenditures.

9. Program expenses

Development and other program expenses consist of:

	<u>1999</u>	<u>1998</u>
Development expenses		
Tourism, entertainment and culture	\$ 2,662,218	\$ 2,751,138
Knowledge-based industries	746,169	492,466
Specific initiatives	509,396	1,611,094
Other business development	486,087	499,032
Oil and gas	404,281	-
Resources industries	192,567	222,691
Youth skills	<u>33,116</u>	<u>414,480</u>
	<u>\$ 5,033,834</u>	<u>\$ 5,990,901</u>
Other program expenses		
Program support	\$ 1,376,505	\$ 1,263,016
Rental facilities	<u>825,827</u>	<u>692,166</u>
	<u>\$ 2,202,332</u>	<u>\$ 1,955,182</u>

10. Commitments

(a) As at March 31, 1999 the Corporation had outstanding commitments for development programs in the amount of \$2,864,643 (1998 - \$3,242,143)

(b) Future minimum payments by fiscal year on operating leases in excess of one year are as follows:

2000	\$ 454,755
2001 and beyond	<u>51,769</u>
	<u>\$ 506,524</u>

11. Related party transactions

The Corporation entered into a memorandum of understanding with the Atlantic Canada Opportunities Agency establishing the arrangements for the Corporation to deliver the Agency's programs on the Island of Cape Breton. As of March 31, 1999, the Agency reimbursed the cost of its program activities and related program delivery provided by the Corporation except for the amount included in accounts receivable of \$3,284,681 (1998 - \$3,144,982).

The cost of services provided by other federal government departments, agencies, and Crown corporations are reflected in the statement of operations and equity and totalled \$258,654 (1998 - \$204,439). These transactions are in the normal course of operations and are measured at the exchange amount.

12. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The Corporation may experience the effect of the Year 2000 Issue before, on, or after January 1, 2000. The effect on operations and financial reporting, if not addressed, may range from minor errors to significant systems failure, which could affect the Corporation's ability to conduct normal business operations. While plans have been developed to meet internal requirements, with regular reports made to senior management and the Board of Directors, it is not possible to ensure that all aspects of the Year 2000 Issue, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

13. Subsequent event

During the year, the Corporation reached an agreement in principle to divest its operation, Sydport Industrial Park, to a private sector group. However the agreement between the purchaser and the Corporation has not yet been finalized. The Corporation is awaiting Order in Council approval of the Corporate Plan for 1998-99 to 2002-03 which includes the Corporation's intention to divest of the Sydport Industrial Park. Accordingly, the Corporation's financial statements still include these assets. This transaction will be recorded in the financial statements in the year that the purchase and sale agreement is finalized.

14. Comparative figures

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