

ECONOMIC INFRASTRUCTURE
CAPACITY AND OPTIMISM

Building:

annual report
2011 / 2012



Cover image: Pacific Rim National Park
This page: Long Beach

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ICET REGION

North Island Coast
Development Initiative
Trust — Regions

- Central South Island
- North Island — Sunshine Coast
- Other

ABOUT THE ISLAND COASTAL ECONOMIC TRUST

The \$50 million Island Coastal Economic Trust (ICET) was created by the Government of BC in 2006 to help diversify the economies of central and northern Vancouver Island and the Sunshine Coast.

The Trust uses its funds to leverage partnerships, investments and opportunities for Island and Coastal communities, non-profit societies, First Nations, and other organizations.

ICET also makes strategic investments in targeted sectors to spark new and sustainable regional economic growth and jobs. These sectors include: forestry, transportation, tourism, mining, small business, energy, agriculture and aquaculture, and economic development.

ICET is guided by a 13-person Board and two Regional Advisory Committees (RACs). Board members are either appointed by the RACs (8 people) or by the Province (5 people). The RACs are made up of elected local government officials and MLAs. This exceptional team of local community leaders collaborates to set regional priorities and build vital multi-regional networks.

Right image: Carmannah



Supporting communities
to realize priorities and sustain

Growtn

Our Mission

ICET is a partner and catalyst to build a diverse and sustainable Island and Coastal economy

Our Vision

The North Island and Sunshine Coast is a more diversified, globally competitive regional economy

Our Objective

ICET's primary objective is to be a catalyst to build a diverse and sustainable Island/Coastal economy

Our Goals

- The investment goal of ICET is to leverage economic development and diversification investments in the economies of the regions. For every dollar ICET invests, it expects that an additional \$3.00 will be invested.
- ICET will be managed judiciously, consistent with the intent of the Act, Mission and Goals with an emphasis on sound strategic and operational planning and will be responsive to changing circumstances and opportunities.
- Preference will be given to partnerships and leveraged investments that achieve the projected economic and diversification impacts for the broader region, with a bias for projects which have a broad regional impact while recognizing that local benefits of projects are also valuable.

\$ **5.1**
MILLION

IN NEW
PROJECTS
APPROVED

3
NEW
BOARD
MEMBERS

REPRESENTING SMALLER COMMUNITIES

6
AWARDS

GIVEN TO ICET PROJECTS

\$ **9.5**
MILLION

IN FUNDS
DISBURSED

4.9
JOBS

PERMANENT
JOBS PER

\$100,000

ICET INVESTMENT

15

COMMUNITIES

APPROVED
FOR
FUNDING

\$4.4

LEVERAGED

FOR EVERY
ICET DOLLAR
INVESTED

AUDITS
REVIEWS

INITIATED BY EXTERNAL AGENCIES

MESSAGE FROM THE CHAIR AND CEO

In a climate of slow but continued economic recovery and externally driven events and forces, ICET has renewed its focus and commitment to pursue its mission as a partner and catalyst to build a diverse and sustainable economy for our region.

In its day-to-day operations, ICET has responded to the region's diverse and unique needs with its flexible program and one-on-one support. We are pleased to present our results that demonstrate that our program is enabling communities to realize their vision, from the ground up, on their terms. This Report will celebrate signature projects that are receiving independent recognition, and will provide a highlight of ICET's project universe, showcasing projects in larger centres, smaller communities and in remote locations.

One of the external factors affecting ICET this year was the audit of the three economic development trusts by the office of the Auditor General of BC. The results of this audit, focused on legislative compliance and public accountability, have been published on the Auditor General's website. ICET and the two other trusts also participated in a review conducted by the Ministry of Jobs, Tourism and Innovation examining trust performance, the results of which have not yet been published.

While these two audits placed significant pressure on our organization's modest administrative resources, the silver lining is that the positive results in the Auditor General's report confirmed that ICET is meeting its legislative compliance requirements. Another positive impact is that ICET has accepted the Auditor General's recommendation to adopt the BC Reporting Principles, which is demonstrated in this year's new expanded reporting format.

Following the outcome of local government elections in November 2011, ICET welcomed eleven new Regional Advisory Committee members and elected three new Board members. These new Board members, representing smaller communities on the North Island and Sunshine Coast, will bring a new vision to complement the broader regional board perspective.

We are thankful for the contribution of our outgoing Board members and Regional Advisory Committee members. In particular we wish to thank our past chair, Barry Janyk, for his steadfast leadership of the Board and participation since the creation of ICET in 2006.

The successful implementation and completion of a number of large capital projects this past year resulted in disbursements to communities totalling \$9.5 million. Despite the challenging economic conditions and limited availability of matching funding sources, ICET approved \$5.3 million dollars in funding to a wide range of projects. ICET is especially proud of fact that the majority of these 14 new



Phil Kent
Chair



Al Baronas
Chief Executive Officer

projects are in small and remote communities facing significant economic challenges. This demonstrates that, in challenging economic times, ICET's process and systems ensure that funding is allocated where it is most needed.

ICET experienced a busy year of celebration with its applicants. Board and staff joined applicants on 23 occasions to celebrate project openings and announcements. We are especially proud to highlight and celebrate the achievements of our applicants who received awards this past year.

The process of regular, ongoing reviews of all project applications by both Regional Advisory Committees and monthly Board meetings continues to build collaboration and cohesion throughout our diverse region. This process fosters the ongoing development of a regional vision, shared learning and appreciation of challenges faced by the regions' communities, large and small.

In addition to the external reviews, this past year was also one for internal review of ICET's vision for the future. At its Strategic Planning Session, the organization undertook a detailed review of its model and its funding options in light of its achievements, lessons learned and future options.

This process resulted in a renewed focus to continue ICET's work in the region and seek long-term funding from the Province. Other highlights of this process include the commitment to develop new pro-active approaches to address economic capacity building in the region, the support of targeted sectors and collaboration with the Province to support the BC Jobs Plan initiatives.

While we celebrate the numerous achievements of the past year, we end on a note of caution. Given ICET's diminishing capital resources, the organization faces an uncertain future. This uncertainty creates risk in our operations and limits our long-term vision and capacity to take advantage of opportunities.

The Board is committed to seeking funding replenishment in order to pursue this successful collaborative regional model of economic development that will keep investment momentum moving forward into the future.

Statement of Accountability

The 2011-2012 Island Coastal Economic Trust Annual Report was prepared under the direction of the CEO and the Board, according to the British Columbia Performance Reporting Principles and the North Island Coast Development Initiative Trust Act. The Board is accountable for the contents of the report and how it has been prepared.

The information presented represents the actual performance of the Island Coastal Economic Trust for the 12 months ended March 31, 2012.

The Board is responsible for ensuring internal controls are in place so that performance information is measured and reported accurately and in a timely fashion.

The measures presented are consistent with the organization's mission, goals and objectives and focus on aspects critical to understanding our performance. The report contains estimates and interpretive information that represent the best judgement of management. Any significant limitations in the reliability of the data are identified in the report.

GOVERNANCE ROLES AND RESPONSIBILITIES

ICET's governance structure is defined in its legislation, the North Island Coast Initiative Development Trust Act.

Board of Directors

ICET is governed by a Board of Directors consisting of 13 directors, 8 of whom are appointed by 2 Regional Advisory Committees (RACs), representing the Central South Island Region and the North-Island Sunshine Coast Region. The remaining 5 Directors are appointed by BC's Lieutenant Governor in Council.

The Board occupies a central role in ICET's governance. It is responsible for guiding the strategic direction of ICET, providing oversight of management, and making all final funding decisions. The ICET Board provides direction to the Chief Executive Officer, who in turn is responsible for the daily operations of ICET. The Board includes representatives from diverse areas in the ICET region, including the largest community and the very smallest. This diverse Board, complemented by the specific expertise of the provincial appointees, brings an exceptional skill set and wide ranging perspectives to the table at each monthly meeting.

Regional Advisory Committees

The ICET Board is advised by two Regional Advisory Committees comprised of the mayors, chairs or other elected representatives from each regional district and Members of the Legislative Assembly from the Region. Regional advisory committees meet three or four times a year to review all funding applications to ICET, and provide advice to the Board on strategic issues. The Chairs from each of the RACs attend Board meetings as ex officio members.

The Regional Advisory Committees play a key role in ICET's operations. Their regional knowledge and ground truth perspective assists the Board in better understanding project proposals and making decisions based on fact. The RACs also bring the region's voice to the table in the development of strategy and policy ensuring that no community is left unheard.

In November of 2011 there were significant changes in the Board and Regional Advisory Committee membership due to the outcome of the municipal elections. Eleven new members were welcomed to the North Island Sunshine Coast Regional Advisory Committee, which triggered the election of 3 new Board members and one RAC Chair to represent this region. In the Central South Island Regional Advisory Committee area, only two new members were welcomed. There was no impact on the Board from these elections for the CSIRAC region as sitting Board members held their seats and the sitting Chair was re-elected for another one year term by the membership.

ICET can expect further changes to Board composition in the coming year as the terms of 4 of its 5 provincially appointed members come to an end.

Staff

The organization's philosophy since inception has been to focus its energy and funds on the ground, in the community and to do so in the most cost-effective way possible. Organization staffing is lean, efficient and interchangeable.

ICET is managed by a core staff of three, comprising of the CEO, a Project Manager and a Corporate Administrator. Finances and investments are managed by a contract CFO. Additional consultants are used on an as-needed basis to provide ICET with the high level expertise needed for the diverse nature of its work.



Mayor Phil Kent
Duncan – Board Chair



Camela Tang
Provincial Appointee
Vice Chair



Mayor Gerry Furney
Port McNeill – Board
Treasurer



Mayor Bev Parnham
Port Hardy
Board Secretary



Dallas Smith
Provincial Appointee
Member at Large



Bob Bennie
Provincial Appointee



Mayor John Henderson
Sechelt



Mayor Rob Hutchins
Ladysmith



Mayor Edward Lewis
Zeballos



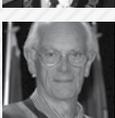
Dave Mannix
Provincial Appointee



Arlette Raaen
Provincial Appointee



Mayor John Ruttan
Nanaimo



Joe Stanhope
Nanaimo Regional District



Mayor Teunis Westbroek
Qualicum Beach
NISCRCAC Chair



Gerry Giles
Cowichan Valley Regional
District – CSIRAC Chair

**Members of the North Island-Sunshine
Coast Regional Advisory Committee**

Mayor Teunis Westbroek
Qualicum Beach – RAC Chair

Mayor Paul Ives, Comox
RAC Vice-Chair

Mayor Jan Allen
Port Alice

Mayor Craig Anderson
Gold River and Chair,
Strathcona
Regional District

Mayor Leslie Baird
Cumberland

Mayor Michael Berry
Alert Bay

Mayor John Douglas
Port Alberni

Gary Feschuk
Chief Councillor, Sechelt
Indian Government District

Mayor Dave Formosa
Powell River

Scott Fraser, MLA
Alberni-Qualicum

Mayor Gerry Furney
Port McNeill

Edwin Grieve, Chair
Comox Valley Regional
District

Mayor John Henderson
Sechelt

Al Huddleston, Chair
Mt.Waddington Regional
District

Mayor Bill Irving
Ucluelet

Mayor Walter Jakeway
Campbell River

Mayor Larry Jangula
Courtenay

Mayor Edward Lewis
Zeballos

Mayor John MacDonald
Sayward

**Honourable
Don McRae, MLA**
Comox Valley

Garry Nohr, Chair
Sunshine Coast Regional
District

Colin Palmer, Chair
Powell River Regional
District

Mayor Bev Parnham
Port Hardy

Mayor Wayne Rowe
Gibsons

Mayor Perry Schmunk
Tofino

Mayor Jude Schooner
Tahsis

Nicholas Simons, MLA
Powell River-Sunshine Coast

Claire Trevena, MLA
North Island

Glenn Wong, Chair
Alberni-Clayoquot Regional
District

**Members of the Central South Island
Regional Advisory Committee**

Gerry Giles, Director
Cowichan Valley Regional
District – RAC Chair

Joe Stanhope, Chair
Nanaimo Regional District
– RAC Vice-Chair

Mayor Chris Burger
Parksville

Ron Cantelon, MLA
Parksville-Qualicum

Mayor Jack deJong
Lantzville

Mayor Ross Forrest
Lake Cowichan

**George Holme, Director
Area “E”**
Regional District of Nanaimo

Mayor Rob Hutchins
Ladysmith

Mayor Phil Kent
Duncan

Leonard Krog, MLA
Nanaimo

Mayor John Lefebure
North Cowichan

Bill Routley, MLA
Cowichan Valley

Doug Routley, MLA
Nanaimo-North Cowichan

Mayor John Ruttan
Nanaimo

Staff

Al Baronas, Chief Executive Officer

Line Robert, Project Manager

Al Sweet, Chief Financial Officer

Denice Regnier, Corporate Administrator

OPERATIONS AND PROCESS

ICET's mission is to strengthen and diversify the economies of central and northern Vancouver Island and Coast region. Its core business is to leverage its principal funds to make strategic, non-repayable contributions to economic development projects within this region. Guided by its governing legislation, ICET invests its funds in projects that enhance the region's competitive position in eight key sectors: Forestry, Transportation, Tourism, Mining, Small Business, Energy, Agriculture and Aquaculture and Economic Development.

Grant Program

ICET's core business is its Grant Program. The program supports eligible projects with non-repayable contributions up to a maximum of \$400,000 (reduced from the previous maximum of \$5 million). Eligible applicants include local governments, non-profits and First Nations. Businesses are not eligible as sole applicants for direct funding support.

The program funds economic development projects that demonstrate:

- Regional impact
- Consistency with ICET's strategic plan and any other local or regional development plans
- Incremental economic benefits
- Direct economic development and diversification impacts
- Co-operation between communities, local governments and other organizations
- Long-term sustainability

ICET will not invest in traditional municipal or recreation infrastructure, business initiatives, land acquisition, core operating costs or any projects where the primary objectives are not related to the eight key sectors. ICET will not fund any initiatives that may have direct negative impacts on neighbouring communities, regions or existing "for profit" businesses. ICET has developed specific policies regarding special events, local marketing initiatives, downtown revitalization and trails, which applicants must adhere to in addition to the general application guidelines.

Matching funding regime

Applicants must also demonstrate matching project funding ranging from one half to three quarters of project costs. To adjust for variations in economic vitality between communities applying for funding, ICET uses a sliding scale matching funding criteria. This criteria, developed by an economist, is based on a community economic performance analysis.

There are three levels of matching funding. For remote, resource dependent coastal and rural communities, applicants must provide equal matching funding (1:1). For small yet thriving communities, applicants must provide funding equal to two times the ICET contribution (1:2). For fast-growing and less resource-reliant communities, applicants must provide three times the ICET contribution (1:3).

Grant application process

The ICET grant application process consists of two main stages that are supported and closely monitored by staff. ICET provides one-on-one assistance to applicants and a preliminary review of proposals to ensure that the applicant is presenting the best case possible. Where feasible, staff will also assist applicants with the search for matching funding and connect them to the resources they may require.

The Stage One process determines eligibility. Summary applications are initially reviewed by staff then by Regional Advisory Committees who understand the needs and challenges of the communities. These committees then make recommendations to the Board of Directors. The Board makes the final decision to move the project to Stage Two. No appeals are possible for Stage One applications, but applicants may reapply.

The Stage Two process provides detailed information. For larger funding proposals, a business plan is required. These proposals go through a rigorous due diligence process that may include review by specialized third party consultants for larger, more complex projects. For example, all harbour improvement applications go through an economic impact assessment process to determine the potential incremental economic benefits and number of jobs created per \$100,000 of ICET investment.

Stage Two applications are reviewed by the Board and these final decisions can be appealed.

Project implementation and monitoring

ICET has a very conservative risk profile. The organization goes through a thorough due diligence process prior to approval and has a number of protocols and systems in place to minimize the risks inherent to grant funding.

Once a project is approved, the applicant is provided with a conditional letter of intent. When the applicant has met all conditions, a Contribution Agreement and project commencement date is issued. The usual conditions include providing proof that all matching funding is in place, providing proof of tenure, proof that all regulatory requirements have been met, and proof of insurance. These strict conditions provide ICET with the assurance that the applicant has all of the requirements to ensure successful project completion. No funds are authorized until all of these requirements are met.

Applicant accountability

ICET has developed a project monitoring and reimbursement process to ensure applicant accountability and minimize risk. Once the project start has been authorized, ICET issues a custom project reimbursement form which tracks project spending by authorized budget category. ICET does not advance any funding. Applicants are required to submit all paid project invoices and proof of payment. In addition, applicants must submit quarterly progress reports. Staff will visit projects periodically, at least once during the construction or implementation phase.

ICET also holds back the last 20% of project reimbursement until the project is complete, all invoices have been paid and all final reports are submitted and approved. The final reports include a review of the project and implementation process, performance measurement metrics and other benefits to date as well as a financial statement detailing all sources of project funding and expenses.

All final reports are posted on the ICET website to ensure transparency, accountability and the sharing of best practices and lessons learned.

Sponsorships and Partnerships

In addition to ICET's core business, the Grant Program, the organization is also involved in other initiatives. For example, ICET will provide sponsorship funding for a few select regional or provincial events, providing they are held in its region and promote economic development or other specific sectors. ICET has also initiated and collaborated on some partnership initiatives, such as sectoral studies, support for small business initiatives, and support for forestry workers.

Stakeholder and Funding Partner Relations

In addition to the ongoing stakeholder relationship with its regional advisory committees, ICET is involved in developing meaningful relationships throughout the region. The organization regularly collaborates with bodies such as the Mid-Island Science, Technology & Innovation Council, Community Futures, regional and local Chambers of Commerce, and sectoral organizations. ICET also cultivates relationships with local, provincial and federal government staff involved in economic development and other related initiatives. These relationships will sometimes involve ICET participation in local or regional planning initiatives or participation as a presenter at conferences or other events.

Funding partner relationships are also an important piece of ICET's outreach activities. ICET maintains relationships in order to assist its applicants in the most complete way possible. These relationships enable ICET staff to provide applicants with up-to-date information, and assist them in their search for matching funding.

Data Management

ICET's project data is tracked on a day-to-day basis by staff and maintained in two centralized, custom-designed databases. Information is managed centrally from initial receipt of an application through the approval process. The centralized data management enables instantaneous updates of the status of ICET funds and by cross-checking summary totals ensures data is current. The central database model also enables regular analysis by an external contractor of how funding is allocated on a variety of dimensions, such as community size, location, investment leverage and other topics as requested by the Board or other stakeholders.

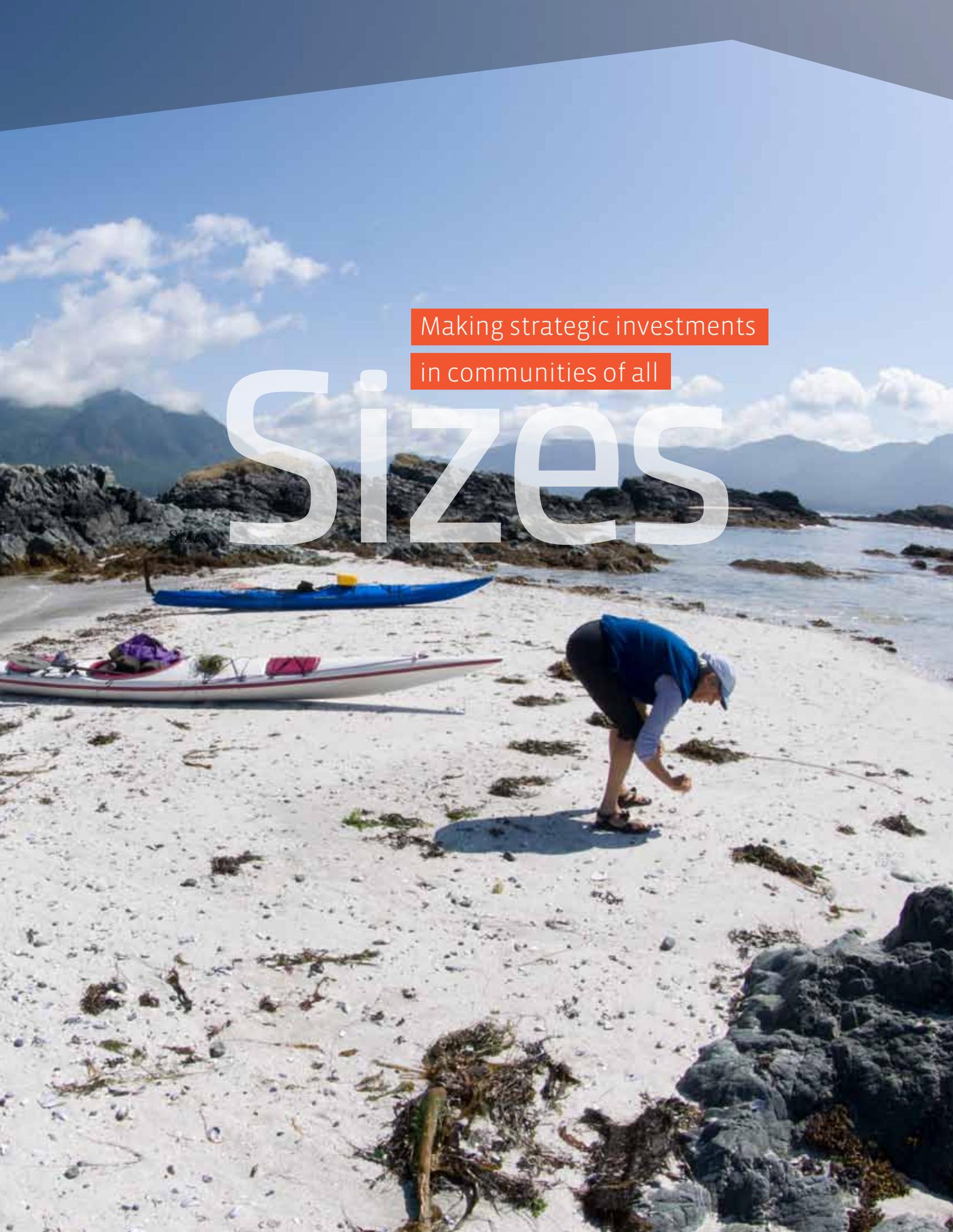
\$9.5  **37** **PROJECTS**
MILLION **UNDER WAY**

Right image: Esperanza Inlet

Making strategic investments

in communities of all

Sizes



SPOTLIGHT ON PROJECTS

ICET's broad vision and flexible grant program enables communities of all shapes and sizes to develop projects that will meet their immediate and unique needs. Contrary to the majority of funding programs, ICET's wide ranging criteria enable communities to develop projects according to their priorities, level of readiness and budget. The breadth of projects funded by ICET is a testament to the depth of needs and priorities in the North Island and Coastal region.

Larger Centres

Award-winning signature projects

Since inception ICET has funded a number of projects in centres serving larger populations. ICET's role has been to assist these communities in the realization of their vision which often has been to develop signature, quality infrastructure projects that are key foundation pieces for their economy. Airports, harbours and visitor infrastructure are just a few examples. In the past year, several of these projects have received recognition.

Deep Bay Field Station

2011 Best Metal Roof of the Year – MetalMag Architectural Award

2011 – SAB Canadian Green Building Award



Metalmag



SAB Awards
CANADIAN GREEN BUILDING AWARDS

Vancouver Island Mountain Centre

2012 Award of Merit (Institutional)
Vancouver Island Real Estate Board,
Commercial Building Awards



Campbell River Airport Expansion

2012 Award of Merit (Institutional)
Vancouver Island Real Estate Board, Commercial Building Awards



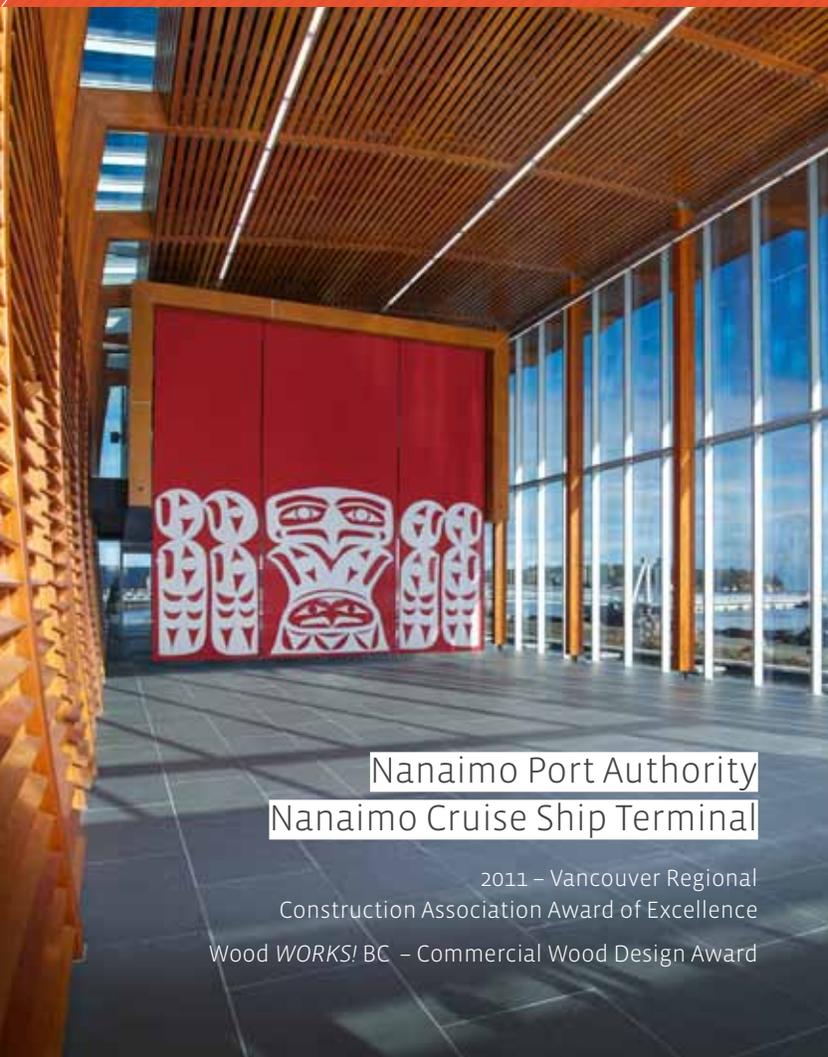
“ICET helps larger centres make their mark and take their economic development and tourism attraction efforts to the next level.”

Phil Kent, ICET Chair



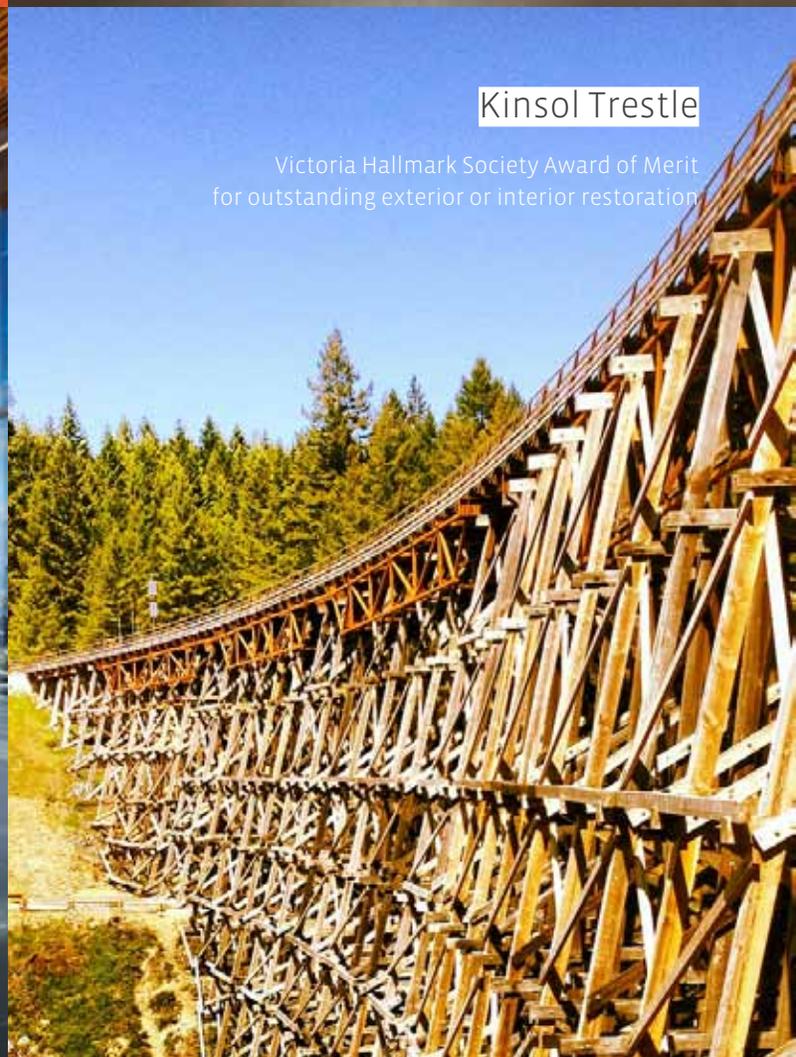
Vancouver Island and Coast Visitor Centre

2012 Best Overall Entry – Vancouver Island Real Estate Board, Judges Choice Award



Nanaimo Port Authority Nanaimo Cruise Ship Terminal

2011 – Vancouver Regional Construction Association Award of Excellence
Wood WORKS! BC – Commercial Wood Design Award



Kinsol Trestle

Victoria Hallmark Society Award of Merit for outstanding exterior or interior restoration

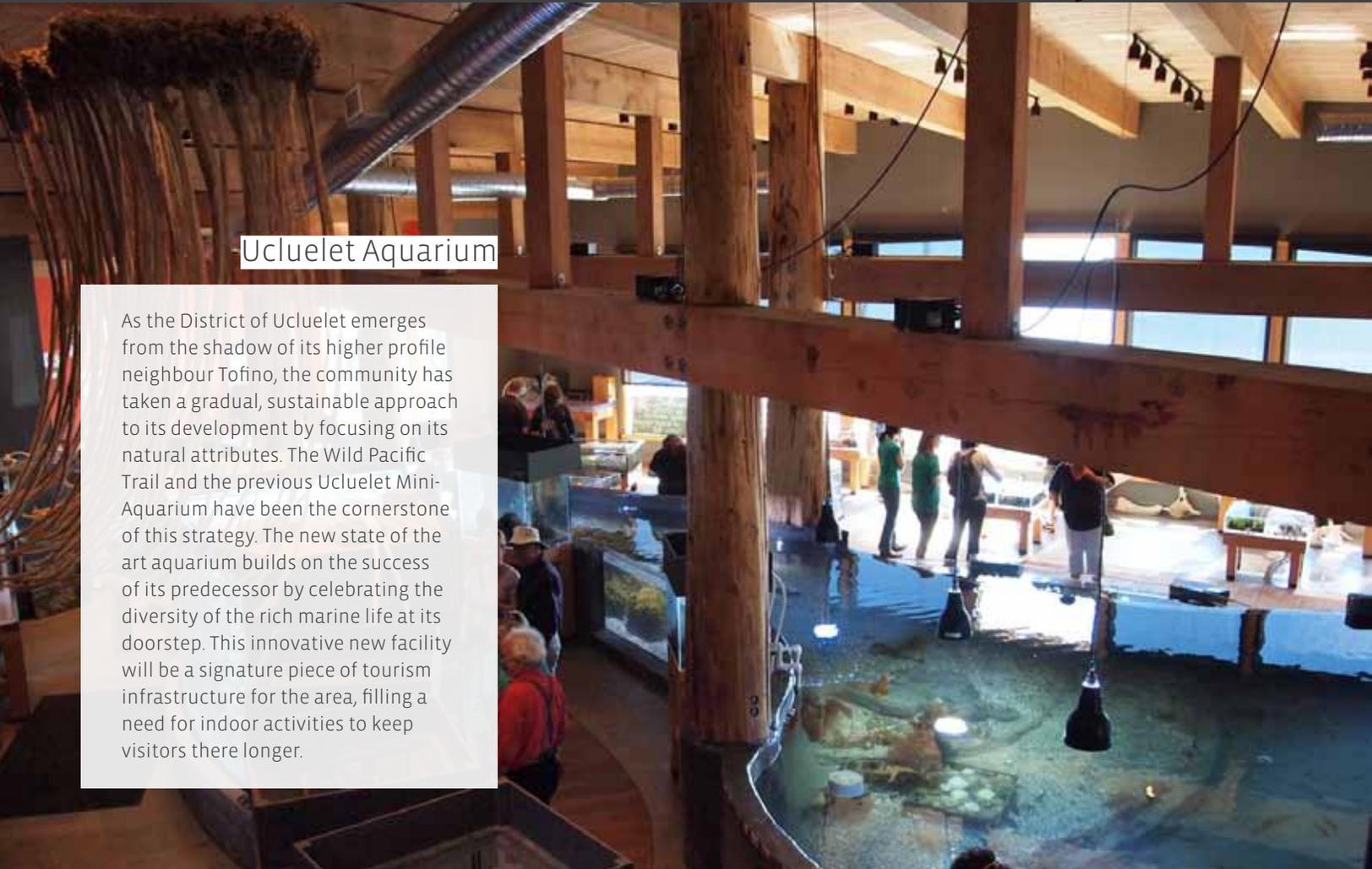
“The impacts of these smaller projects have a catalytic effect: for some it is the possibility to survive and thrive; for others the projects represent a next step forward in their longer term sustainable development strategy.”

Al Baronas, ICET CEO

Smaller Centres

Building on existing assets and capacity

Economic development does not have to only be about big project, big budget initiatives. While a few projects in smaller population centres may rival those in larger centres, most do not have the same visibility, stature or budget. Nonetheless, these projects play a key role in the local economy, enabling sustainable development that builds on the area’s existing infrastructure and natural assets. ICET empowers smaller communities with projects suited to their needs and budgets.



Ucluelet Aquarium

As the District of Ucluelet emerges from the shadow of its higher profile neighbour Tofino, the community has taken a gradual, sustainable approach to its development by focusing on its natural attributes. The Wild Pacific Trail and the previous Ucluelet Mini-Aquarium have been the cornerstone of this strategy. The new state of the art aquarium builds on the success of its predecessor by celebrating the diversity of the rich marine life at its doorstep. This innovative new facility will be a signature piece of tourism infrastructure for the area, filling a need for indoor activities to keep visitors there longer.

Merridale Cider Works and Hazelwood Herb Farm

ICET has provided its support for the launching of the international Economusée® Network concept in our region – at Merridale Cider Works and at Hazelwood Herb Farm. The funding will assist with the development of the network and the marketing and interpretive signage for two pilot projects.

The concept enables businesses in small communities and rural areas to develop viable, attractive cultural tourism draws from assets, culture and knowledge already established in their region. The success of this initiative will not only boost the pilot businesses' bottom line but will also benefit other tourism industry providers in the region.

Cowichan Estuary Nature Centre

Located at Hecate Park directly on the Cowichan Estuary, the Cowichan Estuary Interpretive Nature Centre is an attractive, cost-efficient building and bird watching tower designed to complement the region's natural assets and enhance Cowichan Bay's amenities. The centre will focus on educating and attracting the lucrative bird watching tourism market to the area. The project takes advantage of the incredibly rich and diverse natural assets of the estuary and builds on existing knowledge and expertise. The project also builds on existing tourism amenities in Cowichan Bay which are well suited to this high end, predominantly older market.

Coal Harbour Wharf Improvement

The Coal Harbour Wharf Improvement project will enable the Quatsino First Nation and the Coal Harbour community to increase their economic opportunities with better amenities to serve the increasing demand for offloading fish from the commercial fleet and fish farms. In addition the project includes a tourism attraction component, providing moorage for transient boaters. The carving and erection of two new totems at the entry to the harbour will create an additional draw that will enable the Quatsino Nation to build on this key piece of community economic infrastructure by showcasing their culture and heritage, and developing unique Aboriginal tourism products.

Remote Communities

Leveraging new opportunities

Increasingly, ICET has been playing a role in assisting remote communities develop and finance projects suited to their unique natural assets and community capacity. For these communities, leveraging an asset which differentiates them and attracts tourism markets is vital to improving their economy and quality of life. For communities with greater economic challenges, this type of economic development may represent the key to survival.

Homalco Wildlife Tours

Homalco Wildlife Tours is an excellent example of a First Nation building on its natural assets, history and culture by developing a wildlife viewing program. The project also serves as an asset for the region, providing eco-tourists and the businesses that accommodate and serve their needs with quality tourism experiences to help keep this lucrative market in the area longer. The project includes new bear viewing towers, an interpretive centre featuring wildlife and Homalco First Nation history, and interpretive signage. The bear towers and signage all feature Coast Salish language and cultural depictions of local wildlife, enabling tour guides to integrate First Nations history and culture to the wildlife viewing experience.





Nuchatlaht Recreation Site and Dock Facility

Located close to Zeballos on a pristine waterfront site, the recreation area will feature waterfront campsites with unique views of the ocean and mountains. The dock and breakwater will enable safe access by water for tourists and sport fishermen and will support new tourism and aquaculture opportunities. The project enables the community to use its existing knowledge and experience to develop economic opportunities that complement their way of life and community capacity. These building blocks, the first step in a tourism attraction strategy, will create opportunities not only for the Nuchatlaht but for the area's two other First Nations, as well as for the community of Zeballos.



Penelakut Marine Destination Project

The Penelakut Tribe is developing a marine destination on Tent Island that will offer basic campsites and amenities. Tent Island, in the southern Gulf Islands, is a highly sought marine destination for kayakers and boaters. To date, campers and boaters have been using the Island informally. Rather than restrict access to the general public, this project will develop a sustainably managed tourist destination and will increase public knowledge and access to the site. This will enable the Penelakut to preserve the natural and cultural integrity of the Island while providing employment and new business opportunities in recreational tourism and ancillary product development for its members and other businesses in the region.

ENVIRONMENTAL SCAN

ICET's core business, its economic development Grant Program, is primarily a re-active initiative. As such, the organization is subject to the same external economic, political and capacity issues that the region's communities face, as well as some internal challenges. This section summarizes the external and internal factors that have influenced ICET's performance and strategic planning in the past year.

Political and Economic Context

Overall economic conditions in the ICET region have recovered somewhat from the 2008-2009 recession but have not returned to 2008 levels of employment. The region's unemployment rate of 9.2% for 2011 was the highest in 7 years and higher than any other BC region.

The region-wide statistics mask significant differences within the region, where long-term downward trends in forestry- and fishing-related employment have disproportionately impacted smaller and more remote communities. More than 85% of population growth in the ICET region from 2006 to 2011 was in the Comox Valley, Nanaimo and Cowichan Valley Regional Districts.

There has been a similar divergence in growth in the business and industrial tax base between communities, creating a situation where the communities most in need of new initiatives to encourage economic diversification are the ones facing the most severe local funding challenges. Fiscal tightening by the federal and provincial governments are similarly shrinking the pool of available matching funding that communities could access in the past, especially immediately after the start of the recession when substantial stimulus-related funds were available.

The impact on ICET programs and operations has been important. The most noticeable result has been a reduction in the number of projects, especially larger capital projects from larger communities. Another has been the shift in the mix of new projects with the majority coming from smaller, more economically challenged communities who benefit from a more favourable 1:1 or 1:2 matching ratio. While this has had a very positive impact for those communities, ensuring the dollars are spent where they are most needed, the impact on ICET's results has been a significant reduction of project leveraging.

Another important impact of the current economic context is the uncertainty that ICET faces with respect to its future. Having made the decision to pursue recapitalization in order to continue its work in the region, the organization itself is impacted by the fiscal belt tightening as new funding capital has not been forthcoming in the current economic environment. Consequently, ICET cannot move forward with many administrative improvements, program development ideas and other innovations until its long-term funding situation is resolved.

Audits and Reviews

In the past 2 years, ICET has been involved in 4 separate review and audit processes, 3 of which were conducted by outside agencies. In 2010-2011, ICET undertook a third party managed consultative process to complete its mandated legislative review. In addition, the Ministry of Finance initiated a review of ICET operations, which included significant consultation of stakeholders and a thorough review of documents and processes.

In the fall of 2011, ICET was given notice of audit by the Auditor General’s office. Shortly thereafter, ICET was advised of a third party review conducted on behalf of the Ministry of Jobs, Tourism and Innovation. While these audits placed important demands on ICET’s limited staff resources and delayed the realization of a few strategic objectives, the process provided significant insight into ICET operations as well as useful recommendations.

The results of the audit by the Auditor General have been published and can be found on the Auditor General’s website. The audit, focused on legislative compliance and public accountability, concluded that ICET was fully compliant with the terms of its legislation. The report states:

“We concluded that ICET has met the key aspects of its legislative requirements. Specifically, ICET has established its governance structure, created and managed its accounts with its legislated purposes, and produced the required strategic plans and annual reports.”

In addition, the Attorney General report concluded that ICET is demonstrating good practices in its public accountability reporting, but that there is room for continuous improvement. The primary recommendation of the report was that ICET adopt the BC Reporting Principles. This recommendation was implemented immediately beginning with this annual report.

Governance

The Municipal elections in the fall of 2011 affected ICET governance significantly, especially in the North Island Sunshine Coast Regional Advisory Committee area. Eleven members of the committee were replaced, resulting in the need to elect three new members from this region to the Board. The Central South Island Regional Advisory committee was less affected with only three new members, and no changes in members elected to the Board. Special meetings were held to provide orientation to new RAC and Board members and to conduct the requisite Board elections.

In addition, in the coming fiscal year at the end of August, all five provincially elected Board member terms come to a conclusion at once.

While the Board retained many of its most experienced members, turnover nonetheless has an impact on administration, requiring additional meetings, orientation sessions and documentation and time to initiate new Board and RAC members to ICET administrative processes.

	NICRAC	CSIRAC	BOARD OF DIRECTORS	
MET	4 TIMES	3 TIMES	10 TIMES	
REVIEWED	23 STAGE ONE APPLICATIONS	11 STAGE ONE APPLICATIONS	34 STAGE ONE APPLICATIONS	14 STAGE TWO APPLICATIONS

PERFORMANCE RESULTS

STRATEGIC FRAMEWORK

ICET's mission is to be a partner and catalyst to build a diverse, sustainable, globally competitive Island and Coastal Economy. The primary strategy, reaffirmed since inception, has been to administer a simple, flexible Grant Program. This program enables communities, non-profits and First Nations to develop economic development projects and acquire financing based on their priorities and needs, while supporting regional economic priorities. The Grant Program is defined in detail in the Proposal Application Guidelines document, available at www.islandcoastaltrust.ca/guidelines.

Every year, the program is fine-tuned to respond to changing economics, lessons learned and the funding environment. In addition, at its annual Strategic Planning session, ICET develops a series of annual priorities as part of a three year Strategic Plan in order to focus its direction for the coming year, hone its core program, respond to external and internal opportunities or threats, and develop new initiatives as needed.

PERFORMANCE MEASUREMENT

ICET's vision at inception was to develop a sunset organization with a mission to invest the full \$50 million dollars in economic development projects, within a medium term of about 5-7 years. The investments on the ground would become the economic infrastructure legacy on which future generations could build. Consequently, the organizational development focus has been to maximize investment in the region and minimize administrative structure and costs.

As such, ICET's structure is very different to most organizations that rely on annual revenues or allocations and set annual targets. While ICET uses quantitative performance measures, these are complemented by the organization's qualitative approach to goal setting and economic development. ICET's policies and guidelines ensure that investment is not restricted to the 'lowest hanging fruit,' or only to those projects that deliver the best metrics. ICET's matching funding regime ensures that funding is invested where it is most needed and where it will generate the greatest benefits to the region.

It is important to view ICET's performance measures holistically in the context of the investments made since inception, and of the qualitative benefits of projects. For some projects, success might be defined as a reverse in declining growth or the development of key economic

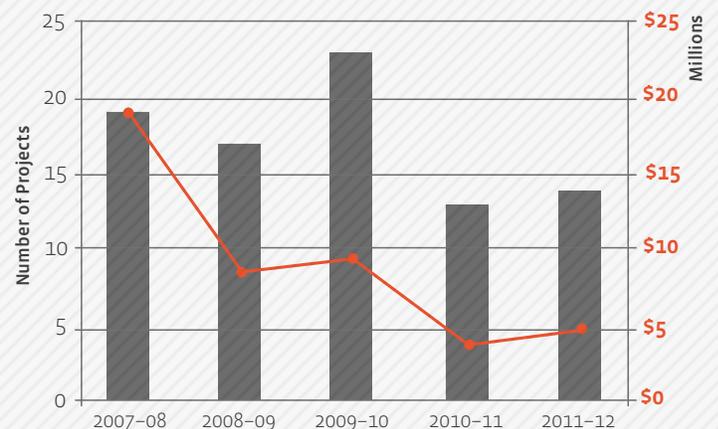
foundation pieces to foster future investment and growth, regardless of the number of immediate jobs or project leveraging. ICET has remained focused on its mission to be a catalyst, knowing and understanding that the catalytic effect cannot always be accurately measured in graphs and numbers.

PERFORMANCE HIGHLIGHTS

In the 2011-2012 year, ICET continued to focus on its core business: economic development and diversification projects, as per its Grant Program guidelines. In addition, ICET continued to partner with other organizations by providing sponsorship for regional economic development, technology and agriculture events. In keeping with ICET's philosophy of a collaborative approach to project development, the organization has continued to support applicants with their project development processes, providing guidance and one-on-one assistance as required.

There were 14 new projects approved in 2011-2012 compared to 13 in the previous year. This represents \$5.3 million dollars in ICET funding for project budgets totaling \$15 million. The projects approved supported the tourism, economic development, small business and transportation sectors.

Projects Approved and ICET Funding



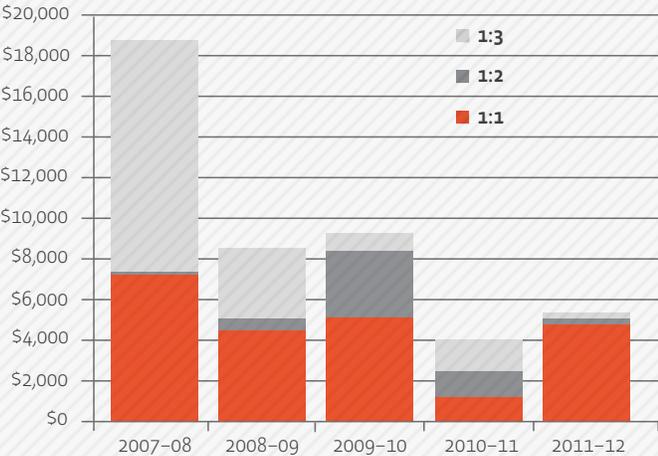
The approvals also continued to reflect the challenging economic climate, with the majority of ICET funding going where it is most needed, in the most economically challenged communities. There were few investments in the larger



communities that traditionally submit the larger infrastructure projects. Most of ICET’s investments (89%) went to communities with economic challenges who benefit from the more favorable 1:1 matching ratio.

ICET funding was distributed throughout the region, in large, small and remote communities. Eight of the 14 projects approved were located in small communities with fewer than 5,000 people, two in communities with less than 1,000 people.

ICET Funding by Matching Level



The average project value in 2011-2012 was \$375,393. Factoring in the anomaly created by the one project with a higher value, there is a clear downward trend in the value of projects approved, precipitated by the economic environment and the reduced ICET maximum project amount. Over time, these project values have varied from a high of \$989,446 in 2007-2008 to a low of \$302,803 in 2010-2011.

The estimated job creation impact of ICET investments this year is 4.9 jobs per \$100,000 of ICET investment. This brings ICET’s total estimated job creation impact, since inception, to 2,185 jobs.

RESULTS IN RELATION TO GOALS AND ANNUAL PRIORITIES

Goal 1

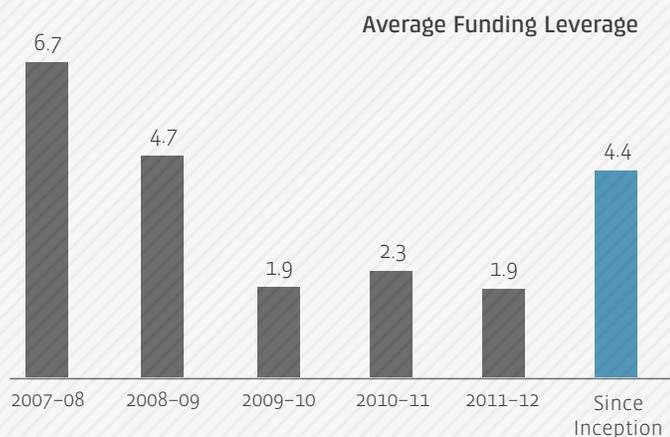
The investment goal of ICET is to leverage economic development and diversification investments in the economies of the regions. For every dollar ICET invests, it expects that an additional \$3 will be invested.

Annual priorities

Ensure maximum benefit of remaining ICET funds through continuous operational improvement and efficiencies.

- Continue to monitor and adjust to changing economic and political climate
- Continue to maintain or exceed investment and leveraging targets

In the current fiscal year, ICET project approvals have leveraged investment at a rate of 1:1.9, for a cumulative total of 1:4.4 since inception. This means that for every ICET dollar invested in projects since inception, there are additional investments of 4.4 dollars by other project funders. This remains well above the ICET lifespan target, set at inception, of 1:3.



While leveraging targets represent one key indicator of the impact of ICET projects in the region, it is important to view them in the context of the economic climate and ICET's unique matching policy, which provides more favorable leveraging conditions for communities with economic challenges. In difficult economic times, lower leveraging indicates that ICET is investing in communities with the

greatest need. It also indicates that ICET is a major funder and likely the tipping point for the realization of the projects.

The declining availability of project funding from senior government programs is reflected in the amount of "other funding" used to match ICET funds. From a high of \$41.7 million in 2007-2008 this amount has steadily declined to only \$3.2 million in 2011-2012. This funding represented 33% of matching funding in the most recent fiscal year, after varying from 72% to 83% in the three previous years.

Goal 2

ICET will be managed judiciously, consistent with the intent of the Act, Mission and Goals with an emphasis on sound strategic and operational planning and will be responsive to changing circumstances and opportunities

The 2011-2013 Strategic Plan identified the need to seek a recapitalization for ICET, and to review the current operating model in light of opportunities for improvement, future needs and potential future funding. This was done in the context

Matching Funding by Year						
	2007-08	2008-09	2009-10	2010-11	2011-12	Since Inception
Community/ Local Government Funding	\$69,029,969	\$3,497,214	\$1,179,904	\$381,777	\$1,142,873	\$75,231,737
Applicant Equity	\$13,757,095	\$2,879,193	\$3,374,490	\$536,583	\$5,176,918	\$25,724,279
Other Funding	\$41,654,442	\$32,757,416	\$12,713,944	\$6,902,534	\$3,200,669	\$97,229,005
In Kind Contribution	\$895,435	\$518,517	\$510,902	\$1,166,776	\$239,850	\$3,331,480
TOTAL	\$125,336,941	\$39,652,340	\$17,779,240	\$8,987,670	\$9,760,310	\$201,516,500

of the organization's financial commitments approaching the \$50 million mark, signaling the need to either wind up, as originally intended, or seek recapitalization to continue and build on the current model.

In light of all of the positive benefits to the region, including some unexpected but welcome ones such as the development of regional cohesion, collaboration and vision, ICET's Board came to the conclusion that the organization's work was not done, but rather just beginning. The region was gaining ground and needed to continue building on its momentum, rather than abandon this new-found regional voice.

Consequently, the Strategic Planning process focused on a fundamental review of ICET's operations and financing, with a view to renewing its funding and defining a model designed for longer-term operations.

! Annual priorities

Renew ICET funding with a view to becoming a long-term legacy Trust

- *Ask the Province for long-term funding*
- *Research alternative sources of funding*

The first step in this plan was to undertake a comprehensive review and use the results to build a business case to ask for further funding. Due to a number of external conditions, the comprehensive review and business case process was postponed to the following year. Despite the postponement, some elements of the review were conducted including reports on regional allocation of ICET funding and jobs impact of ICET investments.

! Annual priorities

Review ICET business model with a focus on both short-term and long-term implementation

- Research and review opportunities for the development of a loans program*

- Research and review potential targeted approaches for capacity building in small communities*

- Research and review potential targeted approaches, opportunities and programs for long-term implementation related to:*

- *Support of small business*
- *Green economy*
- *Other strategic sectors*

During the year, the organization reviewed a number of different operating models. The organization is cognizant that the model it originally adopted for a short-term organization may not necessarily suit a long-term focus. The strategy was to consider all reasonable options and determine the best long-term course of action for the region, in addition to making reasonable short-term adjustments consistent with remaining funding and organization focus. This exercise also included the examination of alternative funding options, focusing more specifically on loans.

Opportunities for the development of a loans program

The first step in this process was to review the core business model and consider other revenue generating models, focusing specifically on loans. ICET consulted with a wide range of stakeholders including local government, Chambers of Commerce, Community Futures, the Mid-Island Science, Technology and Innovation Council, businesses and business organizations to determine if there were any significant gaps in the marketplace with respect to the need for loan financing.

In addition, discussions and consultations were undertaken with potential public and private sector partners. This information was then used to develop a draft loan model that highlighted different options for implementation, the impact on ICET operations and finances, and potential short-term and long-term costs and benefits. ICET's Board concluded that the region was well served with existing public and private sector

loan programs. Without a very significant new capital injection (far greater than ICET's original \$50 million), the benefits of a loan program as a revenue generator for ICET and as a tool for business were too limited to justify the shift of focus away from its core business.

Capacity building program options

The need to support all communities in the region, including those with limited financial and human resource capacity, has always been an overriding interest to the ICET Board. At inception, the Board developed a matching funding regime designed to level the playing field for communities with more administrative, social and economic challenges than others. However, while this approach has facilitated access to more funding, communities still face a number of other issues that limit their participation in the ICET program.

During the year, ICET consulted with a wide range of stakeholders, similar Trust organizations, regional college and university representatives, and government to better understand current best practices and partnership options available. The result of this process has been a stronger focus on the role that ICET should play in capacity development. The final program developments have been postponed pending the consideration of the recommendations of the review of ICET conducted by the Ministry of Jobs, Tourism and Innovation in early 2012.

Targeted sector approaches

While ICET recognizes that not all sectors will receive equal representation in project approvals, due to geography, natural assets, workforce capacity, transportation and other pragmatic factors, there is the potential for greater intervention from ICET in certain sectors.

Mining

This past year, ICET began to see dividends from its previous year's proactive outreach efforts to the mining sector. A meeting between the North Island communities and Geoscience BC, sparked by ICET's outreach activities to the mining industry, yielded an application to ICET for geoscience exploration work in the North Island region. This project gained significant attention when it was selected as one of the priority initiatives during the economic forum in Campbell River hosted by the Province of BC. This project represents ICET's first action in support of the mining sector and also demonstrates the new-found regional cohesion and collaboration occurring in the region.

Agriculture

In the previous fiscal year, ICET undertook an Agriculture Study in collaboration with the Ministry of Jobs Tourism and Innovation. The study is scheduled for release in the summer of 2012. This initiative yielded a number of new partnerships with agriculture organizations and a better understanding of ICET's role in the region and its potential as an agriculture funding partner. ICET also sponsored the first Island Agriculture Show and approved two Economusée® pilot projects in support of agri-tourism.

Small Business

While most of ICET's approved projects will benefit small businesses either directly or indirectly, ICET is always seeking new ways to support this sector, which represents the majority of businesses in BC. This past year ICET approved funding for the Exit Opportunities (renamed Venture Connect) project. This succession-planning project, managed by Community Futures, focused on linking small business and future buyers with a series of online tools and resources, as well as one-on-one assistance.

ICET has also had discussions with provincial government representatives regarding investment attraction initiatives with a view to developing a regional program to complement and support the BC Jobs Plan. Additional consultations with the region and provincial government representatives will continue in the coming year, with a new program launch targeted for late 2012.

! Annual priorities

Ensure maximum benefit of remaining ICET funds through continuous operational improvement and efficiencies

D. Continue to monitor and adjust to changing economic and political climate

E. Plan for Board, RAC and staff succession

As the economic and political context changes, ICET's operations must adapt. This past year, ICET undertook a review of staff job descriptions and the use of its consultants in order to maximize available skills and efficiency, while keeping administration costs stable.

New systems have also been implemented including a new online payment system for payroll, Board and RAC expenses. A number of changes to the project management systems



have been implemented including changing the contribution agreement template, reinforcing reporting and reimbursement guidelines, and refining final reporting guidelines to improve results measurement.

The increase in smaller projects and smaller grant requests has resulted in some projects being fast-tracked in order to reduce the administrative burden and cost to both ICET and the applicant. Given the success of these test cases, the organization has included as one of its priorities for 2012 the development of a new one-step application process for smaller grant requests.

Communications

! Annual priorities

Increase recognition of ICET and its successes through improved communications

- F. Develop targeted messages for various audiences*
- G. Improve communication of ICET successes to the various audiences*
- H. Improve branding of the organization and its documents*
- I. Improve key communication tools*

One of the positive impacts of the multiple reviews of ICET in the past 2 years has been a better understanding of the external perception of the organization. The auditors and reviewers, through their questions and initial misconceptions of the organization, have highlighted the areas where ICET needs to improve its messaging in order to ensure that its work and successes are highlighted and understood by the various stakeholders and the public at large.

Initiatives undertaken in 2011-2012 include refining the messaging in news releases and developing a new web-based system for these releases. The annual report format was modified to include more information about ICET's core business and include profiles of successful project in various sectors. The organization also produced project stories and developed a web-based delivery format. The organization's community and industry profile increased with participation in 23 community announcements or opening events and increased participation in conferences, economic forums and other related economic events. The organization also initiated a key messaging and branding process, in collaboration with a Board committee, which will be completed in the summer of 2012.

Board RAC and staff succession

Municipal elections hold a special significance for ICET given that the majority of the Board and RACs are elected officials and could potentially all be replaced at one time. While this is unlikely to happen, the uncertainty which surrounds this process creates risk to the organization.

In order to minimize the risks of a large number of replacements to the Board, the organization put in place some new systems and tools to deal with change and facilitate the integration of new Board members. The organization has also been working with the Board Resourcing and Development office to ensure that the upcoming provincial appointments to the Board are done in a timely manner.

ICET also continued to fine-tune its staff succession strategies building on the successful experience of the previous year.

Goal 3

Preference will be given to partnerships and leveraged investments that achieve the projected economic and diversification impacts for the broader region, with a bias for projects which have a broad regional impact while recognizing that local benefits of projects are also valuable.

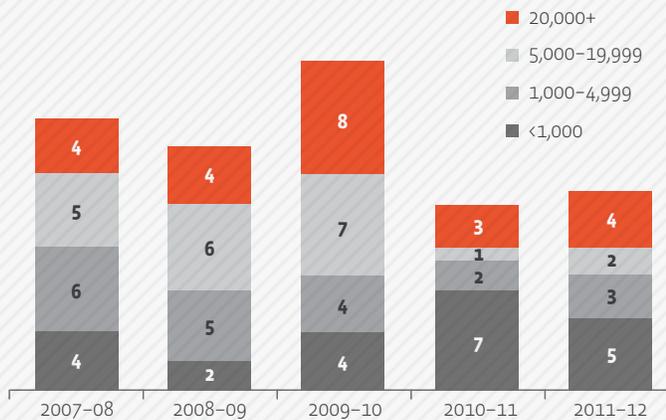
ICET has developed its funding criteria to ensure that projects have incremental economic benefits for the region. While there are a few cases where benefits are limited to the local area, most of ICET's projects, including those in remote areas, have an impact on the region.

This past year ICET approved 14 new projects and all of these projects have regional benefits. Even the projects located in remote communities provide varying types of tourism infrastructure, which benefit the region and its businesses as a whole.

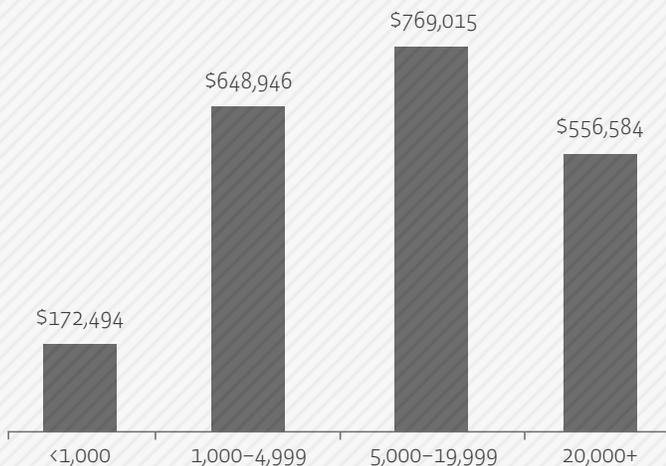
The regional distribution of ICET projects is quite diverse. In addition to 1 project covering the entire ICET region, there are 5 projects in the North Island area, 2 in the Alberni-Clayoquot area, 2 on the Sunshine Coast, 1 in Nanaimo and 3 in the Ladysmith/Cowichan area.

ICET has provided funding support for communities of all sizes, ranging from the smallest unincorporated settlements of a few hundred people to the largest cities in the region with tens of thousands of residents. About one-quarter of all projects have gone to communities with less than 1,000 residents while half have gone to communities with less than 5,000 people.

Number of Projects by Community Size



Average ICET Funding by Community Size (Since Inception)



Opportunities for improvement and future outlook

The success of the current focus and model indicate that ICET will maintain its core business relatively unchanged for the coming year. The organization expects to approve at least \$2 million in new projects, despite the scarcity of matching funding available. The organization should also disburse approximately \$10 million to previously approved projects, as work on several large capital projects progresses and reaches completion. Despite the fact that the annual leveraging targets have been lower in recent years due to the economic context, the organization expects the average leveraging, over the lifetime of ICET, to continue to exceed 3:1.

ICET is a re-active model and consequently requires some pro-active action to achieve the best results for the

region at large. ICET’s applicants’ challenges become the organization’s challenges. ICET wants to empower these applicants and connect them to the right resources and tools, to ensure that they have the best capacity to develop and manage projects and successfully seek funding from diverse funding sources. Their success ensures ICET’s collective success.

Some of the key areas for improvement that the organization will be focusing on in the coming year are:

Targeted assistance for smaller communities

Over time ICET has realized that certain communities and organizations, especially in smaller and more remote communities, are not submitting applications due to capacity issues. ICET has worked diligently to bridge this gap by providing one-on-one assistance to certain communities and projects on an ad hoc basis. This type of support ranges from coaching during the application process to more direct assistance with project redevelopment, site development and/or troubleshooting other technical difficulties. However, the reality is that ICET has a very small core staff and cannot meet the needs of all applicants.

In order to offer a more comprehensive approach, the organization will be consulting with stakeholders and partners to develop program solutions before the end of the fiscal year. These solutions will focus on economic capacity development and, in keeping with ICET’s vision, will be wide-ranging in order to meet the unique needs of these communities, all with varying capacity and development levels. The organization has set a goal of providing targeted assistance to at least 6 small communities in 2012-2013 on an ad-hoc basis as in previous years, as well as through the newly launched initiatives at the end of the fiscal year.

Simplify grant process for smaller requests for funding

With the recent increase in smaller applications and decrease in very large, multi-million dollar capital projects, it has become evident that ICET’s two-step granting process is too cumbersome and time consuming for smaller grant applicants. To date, ICET has alleviated this burden on a case-by-case basis by fast tracking the process for small grant applications that were exceptionally well-prepared and complete.

However, in order to level the playing field and develop a permanent, long-term solution, the organization will reduce the administrative burden on applicants by developing a simplified

Projects approved between April 2011 and March 2012

 Small Business

 Economic Development

 Tourism

 Transportation

APPROVED		ICET Financial Commitment	Total Project Budget
	Exit Opportunities (Venture Connect) — Business Succession Demonstration Project	\$43,627	\$352,880
	Bear Cove Recreation Site Upgrade — Port Hardy	\$400,000	\$1,208,401
 	Coal Harbour Wharf Infrastructure Upgrades Project — Coal Harbour	\$191,750	\$426,500
 	Cowichan Estuary Interpretive Nature Centre — Cowichan Bay	\$87,500	\$350,000
 	Fishermen's Harbour Improvement Project — Port Alberni	\$3,545,000	\$9,807,628
 	Hidden Grove Handicap Trail — Sechelt	\$6,681	\$26,707
 	Implementing the Economusée® Approach — Cowichan Valley	\$46,300	\$153,300
 	Long Beach Airport Navigational Aids — Tofino	\$169,000	\$507,000
	Northfield Rotary Park Information Kiosk — Nanaimo	\$155,000	\$620,000
 	Nuchatlaht Recreation Site and Dock Facility — Ocluje	\$235,000	\$470,000
	Salmon Brewster Equine Trail and Campsite Project — Sayward	\$40,000	\$82,000
 	Sunshine Coast Visitor Information Park — Sunshine Coast Regional District	\$69,500	\$274,125
 	Tent Island Destination Project — Tent Island	\$113,143	\$226,286
 	Tidemark Theatre Revitalization Project — Campbell River	\$153,000	\$510,984
Total Committed		\$5,255,501	\$15,015,811

Permanent Job Creation from Island Coastal Economic Trust Funding

\$44.3
MILLION
FUNDING¹

2,185
JOBS²

1) Total funding does not include \$1.5 million in Job Opportunities Program funding that supported short-term employment creation.

2) Includes estimated direct, indirect and induced jobs in ICET communities after project completion and several years of operation. Based on analysis of 55% of ICET funding and extrapolated to other projects.

one-step application process for smaller grant requests and projects. This process is expected to be available to applicants in the fall of 2012.

Develop new grant programs targeting specific sectors

It has become clear, with 6 years of program administration under its belt, that ICET's current Grant Program may not be ideal to support some of the target economic sectors. Consequently, during the course of the year, the organization will review the results of its more proactive approach to mining and agriculture and use this information and these new relationships to build a strategy for the future. ICET will also determine whether other sectors should be targeted and will consider any new approaches in the context of the BC Jobs Plan. ICET has set a goal for 2012-2013 to develop two new programs that target specific sectors.

Improve communications and web presence

In the coming year, ICET will continue to build on the communications initiatives undertaken last year. This will include the completion of the key messaging and communication strategy as well as the development and dissemination of project success stories and best practices. This will also include the integration of the BC Reporting Principles in ICET's annual reporting and administrative processes.

With the rapid advances in technology and the population's increasing thirst for greater and more functional web presence and information availability, ICET recognizes that its website could be improved to better meet public expectations. Given the uncertain context regarding ICET's recapitalization, the organization has been reticent to make wholesale improvements to the website. However, despite this uncertainty, ICET has planned a number of smaller changes to ensure the organization meets its transparency obligations to the general public. Some of the changes include an improved project completion report section, new applicant information section with access to online forms as well as more complete information about Board and staff.

For more information on ICET's 2012-2013 Strategic Priorities please consult the 2012-2014 Strategic Plan: www.islandcoastaltrust.ca/system/files/ICET_Strategy.pdf

MANAGEMENT DISCUSSION AND ANALYSIS

This financial management discussion provides management's perspective on the Island Coastal Economic Trust's financial position, results of operations and internal controls, and provides a brief description of the forecast for the next few years. It should be read with the annual audited consolidated financial statements and associated notes and material contained at the end of this Annual Report.

Results of operations

ICET is focused on investing all of its capital in economic development projects, within the short term, in order to provide communities with the building blocks their economies require as soon as possible. This strategy has been extremely successful and, in ICET'S sixth year of operations, there remains approximately \$4 million of the original capital and close to \$6 million of surplus interest income left to allocate. If ICET's efforts to recapitalize are not successful, it is expected that operations will continue at the current level for approximately 1 year before the \$50 million fund is exhausted. At this point, ICET will need to implement a wind down strategy using the funds in its interest income reserve fund. This could involve some reallocation of funding to the grant program or other initiatives during the wind down period.

ICET's revenues are generated by the interest on its capital balance. In 2011/2012 the rate of return was improved with a 3.1% average return yielding a total of \$866,000 in interest income. This amount is down from the previous year's total of \$928,000 given the decrease in the pool of investment funds from \$33 million in March of 2011 to \$24 million in March of 2012. Investment returns are recorded in a separate surplus account to cover management and operations of the Trust. On March 31, 2012 the surplus account stood at \$5.9 million after payment of all operational expenses, up from \$5.6 million on March 31, 2011.

Project grants disbursed

To date, ICET has strategically paid out \$32.1 million in repayable grants to projects that meet the organization's goals and objectives. As of March 31, 2012, this leaves \$13.7 million of previously approved projects to be paid out and \$4.1 million in funding yet to be allocated. The following graph offers an illustration of ICET funds disbursed to approved projects on an annual basis since inception:

ICET Funds Disbursed to Approved Projects

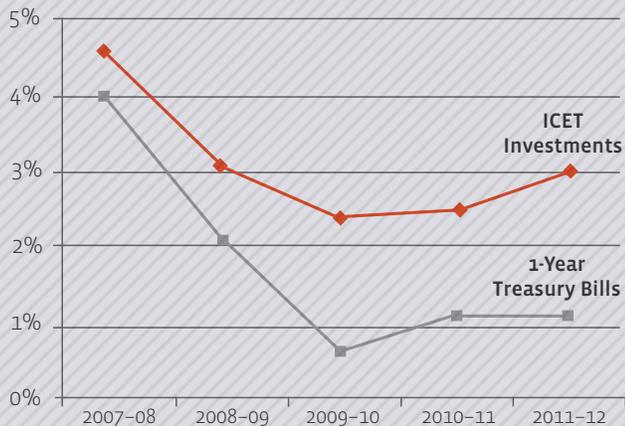


Investments

Given ICET's strategy to invest its capital in the region in the short term, it has adopted a very conservative approach in order to preserve its capital and keep it available for allocation. All of ICET's capital is invested in the Municipal Finance Authority Pooled Investment Funds to provide a competitive rate of return as well as meet liquidity requirements. Funds are left as long as possible in the bond and intermediate fund in order to generate maximum income and transferred to the current account only as required.

Since inception, ICET has earned an average of 3.3% which compares to the market average for similar conservative investments. On a yearly basis, since inception, ICET's investments have equaled or exceeded market index.

Financial Return, ICET Investments vs. Canadian One-Year Treasury Bills



Operations

The ICET Board prides itself as being a low cost funder with less than six cents of every grant dollar disbursed spent on administrative costs. The organization’s operations are structured to ensure that the maximum amount of funds is allocated to projects, not administration.

This year, the organization’s total operating expenses increased by 2.04%, which is below the annual cost of living index. There were no capital expenditures in 2011/2012. Individual operating expenses are consistent with prior year expenses. As a percentage of the year’s operating expenses, the largest increase was in travel costs. This was due to an increased number of new projects underway and projects not yet completed, requiring project visits and attendance at opening events. This amount is expected to remain constant in the next year and then decrease as total active projects numbers decrease in the next few years. Directors’ expenses were down, due to the fact that there were fewer project applications than previous years. This amount is expected to stay at the current rate for the coming year.

Internal controls

ICET has very stringent internal controls to manage financial risk. Investments are currently limited to MFA funds and returns are reviewed at every monthly Board meeting. All project reimbursement requests are subject to a review from staff for eligibility and proof of payment. ICET does not advance any funds; project applicants are required to have sufficient cashflow to pay for expenses prior to requesting reimbursement. Staff approvals, including the full detail of the request is then sent to two Board Executive members for approval and signature, prior to a cheque being issued. All other organization expenses and payments are authorized by two duly authorized ICET signatories.

In order to ensure transparency and full accountability, the details of all project funding approvals and monthly operational financial statements are reviewed by the Board at the next monthly Board meeting.

Forecast

In the past two years, ICET has disbursed nearly \$10 million per year to approved projects. Disbursements are expected to remain at this level for 2012-2013 and then decrease significantly in subsequent years. This is due to the fact that most of ICET’s large capital projects, with investments in the millions, are now almost complete. New project approvals in 2010-2011 and 2011-2012 are for significantly smaller amounts, given that the maximum grant amount was reduced from \$5 million to \$400,000 in response to changing economic circumstances and community needs. In addition, there were fewer project applications in the past two years due to the funding environment, with very little matching funding available.

While project approval numbers were down in 2010-2011 and 2011-2012, early numbers indicate a resurgence of new projects for 2012-2013. Many organizations that were stretched by major infrastructure projects during the Community Adjustment Program are now recovering financially and developing new initiatives. Despite an ongoing lack of matching funding, new and interesting projects are being proposed, albeit of a much smaller scale than in previous years. Also, as ICET gains community acceptance and trust, there has been a marked increase in the number of projects from small communities, remote communities and First Nations communities. For many of these smaller communities, ICET is the only source of capital funding for economic development projects.

ICET’s operating expenses are expected to remain stable for the next two years. Should the organization obtain additional capitalization, the staffing structure could be modified to adapt to new programs and strategies. It is unknown at the present time if this would affect operating expenses. Should ICET not be recapitalized, it is expected that beyond 2 years, the operation expenses would be significantly reduced to accommodate a cost-efficient exit strategy.

While ICET does not expect any radical changes to the returns on its investments, the decreasing pool of capital will soon no longer be sufficient to cover operating expenses. In 2012-2013, the Trust expects to once again meet or exceed market rates for its investments, which should be in the 3% range. For the first time, this income could be insufficient to fully cover operating expenses for the year. If so, the organization will begin using the operation reserves which have been set aside for this purpose.



CERTIFIED GENERAL ACCOUNTANTS
MANAGEMENT CONSULTANTS

WWW.DSCP.CA

5155 ARGYLE STREET
PORT ALBERNI BC CANADA V9Y 1V3

T 250.724.5717
F 250.724.5155

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INDEPENDENT AUDITOR'S REPORT

To the Directors of North Island - Coast Development Initiative Trust

Report on the Financial Statements

We have audited the accompanying financial statements of North Island - Coast Development Initiative Trust, which comprise the balance sheet as at March 31, 2012, and the statements of operations and fund balance and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

(continues)

Independent Auditor's Report to the Directors of North Island - Coast Development Initiative Trust *(continued)*

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of North Island - Coast Development Initiative Trust as at March 31, 2012 and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Port Alberni, B.C.
June 22, 2012

Duncan Sabine Colyer Partners LLP.

CERTIFIED GENERAL ACCOUNTANTS

DSCP

NORTH ISLAND - COAST DEVELOPMENT INITIATIVE TRUST
BALANCE SHEET
AS AT March 31, 2012

ASSETS

	2012	2011
Current assets		
Cash and short-term deposits	\$ 267,826	\$ 95,466
Accounts receivable	6,324	-
Prepaid expenses	<u>10,241</u>	<u>9,731</u>
Total current assets	284,391	105,197
Investments (Note 3)	23,619,424	32,953,933
Capital Assets (Note 4)	<u>13,017</u>	<u>17,291</u>
	<u>\$ 23,916,832</u>	<u>\$ 33,076,421</u>

LIABILITIES

Current liabilities		
Accounts payable and accrued liabilities	\$ <u>181,173</u>	\$ <u>27,265</u>

FUND BALANCES

Invested in Capital Assets	13,017	17,291
Externally Restricted - Uncommitted	4,106,991	8,320,232
Externally Restricted - Committed (Note 5)	13,727,739	19,123,263
Unrestricted	<u>5,887,912</u>	<u>5,588,370</u>
	<u>23,735,659</u>	<u>33,049,156</u>
	<u>\$ 23,916,832</u>	<u>\$ 33,076,421</u>

APROVED BY THE BOARD



Phil Kent, Chair



Gerry Furney, Treasurer

NORTH ISLAND - COAST DEVELOPMENT INITIATIVE TRUST
STATEMENT OF OPERATIONS AND FUND BALANCE
FOR THE PERIOD ENDED March 31, 2012

	2012	2012	2012	2011
	<u>Operating</u>	<u>Project</u>	<u>Total</u>	<u>Total</u>
REVENUES				
Investment income	\$ 865,937	\$ -	\$ 865,937	\$ 928,410
Total Revenue	<u>865,937</u>	<u>-</u>	<u>865,937</u>	<u>928,410</u>
EXPENSES				
Advertising, travel and communications	32,004	-	32,004	24,351
Bank charges and interest	420	-	420	-
Capital expenditures	-	-	-	1,701
Partnerships and Sponsorships	-	62,196	62,196	10,500
Consultants	45,452	-	45,452	75,945
Contract services	32,099	-	32,099	-
Directors expenses	47,961	-	47,961	56,405
Due Diligence	34,972	-	34,972	-
General office and administration	281,712	-	281,712	339,710
Grants	-	9,546,569	9,546,569	9,822,333
Insurance	9,874	-	9,874	10,459
Internet and web site	2,090	-	2,090	-
Office and sundry	9,293	-	9,293	-
Professional fees	5,909	-	5,909	10,744
Regional advisory meeting costs	39,767	-	39,767	35,738
Rent	19,001	-	19,001	-
Telephone and utilities	5,841	-	5,841	-
Total Expenses	<u>566,395</u>	<u>9,608,765</u>	<u>10,175,160</u>	<u>10,387,886</u>
EXCESS OF REVENUE OVER EXPENDITURE	299,542	(9,608,765)	(9,309,223)	(9,459,476)
FUND BALANCE BEGINNING OF YEAR	<u>5,588,370</u>	<u>27,443,495</u>	<u>33,031,865</u>	<u>42,491,341</u>
FUND BALANCE COMMITTED END OF YEAR (Note 5)	-	13,727,739	13,727,739	19,123,263
FUND BALANCE UNCOMMITTED END OF YEAR	<u>5,887,912</u>	<u>4,106,991</u>	<u>9,994,903</u>	<u>13,908,602</u>
TOTAL FUND BALANCE END OF YEAR	<u>\$ 5,887,912</u>	<u>\$ 17,834,730</u>	<u>\$ 23,722,642</u>	<u>\$ 33,031,865</u>

NORTH ISLAND - COAST DEVELOPMENT INITIATIVE TRUST
STATEMENT OF CASH FLOW
FOR THE PERIOD ENDED March 31, 2012

	2012	2011
OPERATING ACTIVITIES		
Cash used in operations		
Net loss	\$ (9,309,223)	\$ (9,459,476)
Add (deduct): charges to income not involving cash		
Capital expenditures included in operations	<u>-</u>	<u>1,701</u>
	(9,309,223)	(9,457,775)
Net change in non-cash working capital		
Accounts receivable	(6,324)	-
Accounts payable and accrued liabilities	153,909	4,201
Prepaid expenses	<u>(510)</u>	<u>(526)</u>
	<u>(9,162,148)</u>	<u>(9,454,100)</u>
INVESTING ACTIVITIES		
Additions to capital assets	-	(1,701)
Net increase in investments	(865,491)	(928,088)
Redemption of long-term investments	<u>10,200,000</u>	<u>9,940,000</u>
	<u>9,334,509</u>	<u>9,010,211</u>
INCREASE (DECREASE) IN CASH	172,361	(443,889)
CASH, beginning of period	<u>95,465</u>	<u>539,355</u>
CASH, end of year	<u>\$ 267,826</u>	<u>\$ 95,466</u>

NORTH ISLAND - COAST DEVELOPMENT INITIATIVE TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2012

1. AUTHORITY

The North Island - Coast Development Initiative Trust is a not-for profit organization incorporated under the North Island - Coast Development Initiative Trust Act October 2005.

The Trust is partner and catalyst to build diverse and sustainable Island and coastal communities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

Fund Accounting

The Trust follows the restricted fund method of accounting for contributions.

The Operating Fund accounts for the organizations general activities.

The Restricted Fund reports contributions restricted to activities outlined in the Trust's strategic plan.

Revenue recognition

Externally restricted contributions received for the Operating Endowment Account are recognized as revenue in the year received. All other externally restricted contributions received are recognized in the Operating Fund as revenue in the year in which the related expenses are incurred.

Investment income is recognized when the income becomes due.

Externally restricted - committed funds

Externally committed restricted funds represent funds at year end for specific project proposals that have been approved by the Board of Directors, and the cash disbursement will not occur until a future date after year end once the conditions of the signed funding agreement are met.

Externally restricted - uncommitted funds

Uncommitted externally restricted funds represent funds not committed at year end to specific project proposals.

Grants and repayable grants

Grants and repayable grants awarded by the Trust are recognized when the conditions of the signed funding agreement are met.

NORTH ISLAND - COAST DEVELOPMENT INITIATIVE TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2012

Capital Assets

Capital assets are recorded at cost. Depreciation and amortization are provided annually at rates calculated to write-off the assets over their estimated useful lives as follows:

Computer equipment	30%	diminishing balance
Furniture, fixtures & equipment	20%	diminishing balance

Income taxes

No provision has been made for income taxes in these financial statements as the Trust is exempt under Paragraph 149(1) of the Income Tax Act.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from the estimates.

3. INVESTMENTS

The Trust's investments are held with the Municipal Finance Authority in the following fund:

	<u>2012</u>	<u>2011</u>
Money Market Fund	\$ 465,106	\$ 156,857
Intermediate Fund	6,124,720	13,470,994
Bond Fund	<u>17,029,598</u>	<u>19,326,082</u>
	<u>\$ 23,619,424</u>	<u>\$ 32,953,933</u>

4. CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net 2012</u>	<u>Net 2011</u>
Computer equipment	\$ 24,047	\$ 18,344	\$ 5,703	\$ 8,148
Equipment, furniture & fixtures	<u>20,324</u>	<u>13,010</u>	<u>7,314</u>	<u>9,143</u>
	<u>\$ 44,371</u>	<u>\$ 31,354</u>	<u>\$ 13,017</u>	<u>\$ 17,291</u>

NORTH ISLAND - COAST DEVELOPMENT INITIATIVE TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2012

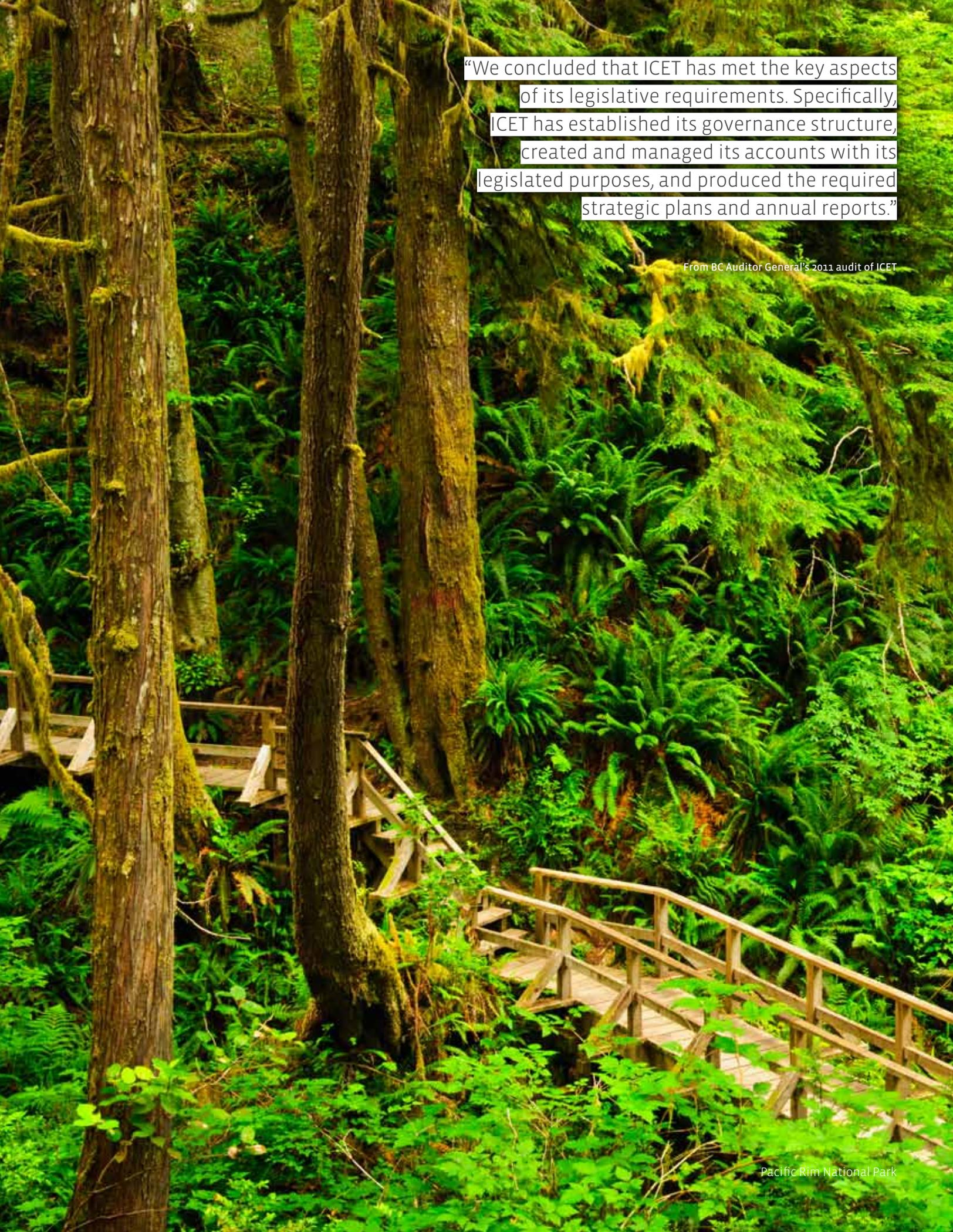
5. SCHEDULE OF EXPENDED AND COMMITTED FUNDS

	2011	2012	2012
	<u>Expended</u>	<u>Expended</u>	<u>Committed</u>
Alberni Inlet Trail CNPR Trail	39,574	36,427	36,427
Alberni Visitor Centre	536,336	169,856	169,856
BC Forest Museum	-	-	224,050
Bear Cove Recreation	-	-	400,000
Campbell River Airport	-	1,848,000	2,310,000
Campbell River Attractions	23,453	-	12,547
Campbell River Marina	-	-	30,000
Coal Harbour Dock Expansion	-	63,653	191,750
Comox Valley Harbour	-	320,000	400,000
Comox Valley Marketing	50,000	-	-
Cowichan Fisherman's Wharf	18,700	-	-
Cowichan Valley Estuary	-	32,473	87,500
Cowichan Valley Trail	-	-	1,743,891
Craig Street Revitalization	-	190,000	190,000
Cumberland Village Square	27,225	-	-
Deep Bay Field Station	598,671	200,000	200,000
Denman Island Dock	40,556	74,947	74,947
Duncan Cowichan Visitor Ctr.	-	28,000	520,000
Economuseum Project	-	25,506	46,300
Fanny Bay Harbour	176,300	338,700	338,700
Gibsons Geothermal	171,237	12,995	61,791
Heriot Bay Wharf	-	274,345	450,000
Homalco Wildlife Tours	103,822	52,178	91,178
INFILM Film Industry Dev.	-	8,861	21,069
Job Opportunities Program	534,312	222,248	256,976
Kelsey Bay Wharf	-	13,086	18,200
Ladysmith Marina	-	489,375	543,750
Malcom Island Marine Center	-	-	248,500
Mt. Cain Capital Improvements	12,000	-	12,466
Namgis Waterfront	399,440	99,860	99,860
Nanaimo Airport Expansion	250,000	-	-
Nanaimo Cruise Ship Terminal	2,800,000	-	700,000
North V I Integrated Tourist Plan	49,864	-	13,750
Northfield Visitor Kiosk	-	-	155,000
Nuchatlaht First Nation	-	-	235,000
Pacific to Plate	-	26,128	49,668
Port Alberni Port Authority	-	-	3,545,000
Port Alberni Uptown Development	247,000	-	-
Port Hardy Marina	1,195,106	16,220	798,894
Port McNeill Harbour	1,207,955	-	349,900
Powell River South Harbour	90,797	1,699,467	2,147,033
Powell River Wharf & Infill	117,180	32,829	1,364,162

NORTH ISLAND - COAST DEVELOPMENT INITIATIVE TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2012

5. SCHEDULE OF EXPENDED AND COMMITTED FUNDS CONTINUED

	2011	2012	2012
	<u>Expended</u>	<u>Expended</u>	<u>Committed</u>
Quatse Salmon Centre	68,494	96,809	106,506
Raft Cove / Marble River Trail	52,401	-	-
Roberts Lake Trail	35,955	14,045	14,045
Salmon Brewster Equine Trail	-	-	40,000
Sechelt Groves Society	-	4,800	6,681
Small Business Development	41,738	-	-
Stamp River Anglers Trail	17,014	-	-
Sunshine Coast Botanical	212,694	86,601	86,601
Sunshine Coast Information Park	-	48,165	69,500
Sunshine Coast Trail	124,190	417,635	1,346,860
TAVI 2010 Strategic Plan	114,812	38,409	44,521
Tent Island	-	-	113,143
Texada Wireless	10,334	-	3,666
The Runners Trail	125,575	-	90,000
Tidemark Theatre	-	-	153,000
Tofino Airport Navigation	-	-	169,000
Tourism Powell River	31,725	12,782	18,275
Ucluelet Aquarium	-	412,000	515,000
V I U Sturgeon Studies	-	1,139,852	1,300,000
V. I. Mountain Adventure Centre	288,692	266,808	266,808
Vancouver Island Discovery Ct.	-	720,537	720,537
West Bamfield Dockside	-	12,972	50,000
Yellow Cedar Marketing Initiative	9,181	-	22,000
Total	<u>\$ 9,822,333</u>	<u>\$ 9,546,569</u>	<u>\$ 23,274,308</u>

A lush green forest with tall trees and a wooden boardwalk. The forest is dense with various types of trees, including tall, straight trunks and large, moss-covered branches. The ground is covered in a thick carpet of green ferns and other vegetation. A wooden boardwalk with railings winds through the forest, providing a path for visitors. The overall atmosphere is serene and natural.

“We concluded that ICET has met the key aspects of its legislative requirements. Specifically, ICET has established its governance structure, created and managed its accounts with its legislated purposes, and produced the required strategic plans and annual reports.”

From BC Auditor General's 2011 audit of ICET



Island Coastal Economic Trust
#201A – 2435 Mansfield Drive
Courtenay, British Columbia
Canada V9N 2M2
Tel: 250-871-7797

www.islandcoastaltrust.ca

