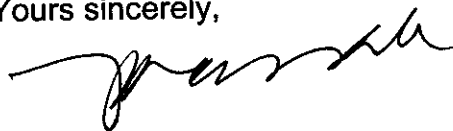


June 27, 2008

William MacKenzie
Clerk of the House of Assembly

I hereby table the Annual Report of Newfoundland Government Fund Limited for its fiscal year ended December 31, 2007. Ten copies of this document are being delivered to your office today for tabling in accordance with the provisions of the *Transparency and Accountability Act*. If you have any questions respecting this report, please contact Earl Saunders, Director, Debt Management Division, Department of Finance at 729-6848.

Yours sincerely,



THOMAS W. MARSHALL, Q.C.
Minister of Finance

cc: Mr. Gary Norris
Clerk of the Executive Council

Ms. Tanya Noseworthy, Director
Transparency and Accountability Office

**NEWFOUNDLAND GOVERNMENT
FUND LIMITED**

Annual Report

Year Ending December 31, 2007

**Newfoundland Government Fund Limited
Annual Report
December 31, 2007**

Overview

Newfoundland Government Fund Limited (“NGFL”) was incorporated on November 10, 1995 under the *Corporations Act* of the Province. All shares of the Corporation are held by Ministers of the Crown on behalf of the Province and the affairs of the Corporation are governed by a Board of Directors appointed by the Lieutenant Governor in Council. NGFL operates with a December 31 fiscal year end and, because of its intended nature as a self-financing entity, the results of the Corporation’s activities are not consolidated in the Province’s annual financial statements.

Mandate

NGFL is a Government-administered venture capital fund under the *Immigration Act* (Canada) and Regulations. In September 1996, NGFL issued an Offering Memorandum to raise funds from immigrant investors in order to provide loan and equity capital to establish, expand, or revitalize businesses or commercial ventures in the Province, particularly where there are opportunities to partner with private sector companies for the provision of services and facilities traditionally provided by the public sector. For immigrant investors, in addition to earning a nominal return on their capital, their investment in NGFL helped satisfy a portion of the visa requirements under Canada’s Immigrant Investors Program.

Board Representation

The affairs of NGFL are overseen by a Board of Directors appointed by the Lieutenant Governor in Council. All Board members are employees of the Province, with the position of Chair held by the Deputy Minister of Finance. The current members of the Board and their positions are as follows:

Mr. Terry Paddon (Chair)
Deputy Minister of Finance

Ms. Donna Brewer
Assistant Deputy Minister
Financial Planning and Benefits Administration
Department of Finance

Ms. Cathy Duke
Deputy Minister of Innovation, Trade and
Rural Development

Mr. Earl Saunders (Secretary)
Director of Debt Management
Department of Finance

Ms. Rebecca Roome
Deputy Minister of Education

Sources of Funding

NGFL's offering comprised 140 units, each of which represented a \$250,000 promissory note, bearing interest at 2% per annum and repayable five years after the date funds were invested in eligible projects. Funds raised through the issue and sale of these units were to be distributed as follows:

Distribution, marketing, legal and accounting costs	10%
A reserve to refund investors who may be refused a visa	20%
Available for investment in eligible projects	<u>70%</u>
	<u>100%</u>

The offering expired on June 30, 1998 and no subscriptions for investor units could be accepted after that date. Due to the fact that many subscribers had been denied a visa or were no longer considering immigration to Canada, NGFL completed only 92 of the planned 140 units, representing total potential funding of \$23.0 million. Of this amount \$16.1 million (i.e. 70%) was required to be invested in a minimum of two eligible projects.

NGFL ultimately invested \$14.1 million, representing 70% of the proceeds of 81 closed investor units, in two projects. The first investment, in 2000, was \$9.4 million in a new health care facility constructed at Norris Point, Bonne Bay. The Corporation's investment represented a loan to the private sector developer which constructed the facility for lease to Western Regional Health Authority. For its second investment, in 2002, NGFL advanced a loan of \$4.7 million to a private sector developer for construction of a school at Lawn, for lease to the Newfoundland and Labrador Education Investment Corporation (later assigned to the Province). The loans to the developers were for terms of five years at an interest rate of 5%, and the financing structure for both projects linked repayment by the developers to NGFL's retirement of the promissory notes issued to immigrant investors.

Payments and Collections

Both private sector developers defaulted on their repayment obligations to NGFL. NGFL enforced the security provisions of its loan agreements, which resulted in the hospital being acquired by the Western Regional Health Authority, and the school being purchased by the Province. During 2007-08, the Province advanced additional funding of \$1.6 million to cover NGFL's cash shortfall on its investments, thereby enabling the Corporation to fully repay the 81 investors.

There remain 11 subscribers, representing net funding of some \$2.0 million available for investment, who have not yet been invested in an eligible project. While these subscribers have technically not met their minimum five year investment periods, they have all been issued visas by Citizenship and Immigration Canada. Due to the relatively small capital project which could be financed with the net proceeds, and the requirement to partner with the private sector, NGFL

does not intend to seek a third project. Citizenship and Immigration Canada was approached, but turned down NGFL's request to waive the investment requirement for this group. The only option now available is a transfer of this final group of subscribers to Canada's new immigrant investor program. It is anticipated that this process will be concluded early in 2008.

Objective

In accordance with the *Transparency and Accountability Act*, NGFL prepared an Activity Plan for the year ending December 31, 2007. This Activity Plan outlined the following objective:

"By December 31, 2007, NGFL had fulfilled its obligation to fully repay the 81 investors whose investment proceeds provided the financing for two eligible projects. Citizenship and Immigration Canada has been requested to either waive the investment requirement for the remaining 11 subscribers, or approve their transfer to the new Federal immigrant investor program. Therefore, with respect to investors in NGFL, no further activity is necessary or planned."

Progress

NGFL has repaid the promissory notes of the 81 closed investors. Citizenship and Immigration Canada has approved the transfer of the 11 subscribers still in escrow to the new Federal immigrant investor program, and it is anticipated this process will be finalized in 2008.

Outlook

Legal action against the two private sector developers, a related construction company, and the principal shareholder of all three companies, has been commenced by the Department of Justice. Apart from providing information and/or support to the Department of Justice as the action proceeds through the court, there are no activities planned for NGFL during the coming years. Eventually, the Corporation will be wound up.

Financial Statements

NGFL was incorporated under the *Corporations Act* and there is no specific Provincial legislation requiring the Corporation to prepare an annual report or audited financial statements. However, NGFL has been preparing annual financial statements, which are audited by the Office of the Auditor General.

The last audited financial statements of NGFL were for the year ended December 31, 2003. It was obvious that, as a result of default by the developers in repaying their loans from NGFL, the Corporation would not be in a position to fully repay the 81 investors. NGFL was therefore not a "going concern" and this fact would have to be noted in the Corporation's financial statements. This issue was resolved during 2007 with a contribution of \$1.6 million from the Province. Now that there are no outstanding issues respecting NGFL, financial statements for the period 2004-07 can be completed and audited, and will be available for tabling in the Legislature.