

2.27 Strategic Enterprise Development Fund

In November 1998, Government signed an agreement with Newfoundland Bonding and Composites Limited (subsequently changed to CHC Composites Inc.) regarding Government's contribution of \$9.5 million towards the construction of a facility to provide manufacturing, repair and engineering services for aircraft components in Gander. Although the agreement had a number of provisions which allowed Government to inspect the Company's accounting records, and appoint a member to the Board of Directors, Government did neither.

In March 2003, Cabinet authorized a payment of \$1 million to offset the Company's operating losses in exchange for preference shares in the Company. At the same time, the Department of Industry, Trade and Rural Development and the Department of Finance were directed to pursue collection activity on a \$150,000 personal guarantee from an individual, who is also the Chairman and Chief Executive Officer of CHC Helicopter Corporation, relating to a personal guarantee provided for a now defunct company.

In April 2003, the Department of Industry, Trade and Rural Development wrote the individual requesting payment in full of the \$150,000 personal guarantee no later than 15 May 2003. The letter indicated that "*Failure to do so will leave the Department with no other alternative but to examine all available options, including formal legal action.*" However, although the \$150,000 personal guarantee was not collected, this individual's company was provided with the \$1 million in July 2003. As of 24 October 2003, the amount had still not been collected.

In addition to providing the \$1 million, the November 1998 agreement was amended to extend the date for creation of 1,000 person years of employment from a six year period from July 1999 to July 2005, to the period ending in May 2008.

The Department of Industry, Trade and Rural Development contravened the *Financial Administration Act* when it provided the \$1 million to the Company, in that the expenditure was recorded in 2002-03 as a payment "in trust" relating to an expenditure that was actually made in the 2003-04 fiscal year.