WHERE DO WE GO FROM HERE?

SASKATCHEWAN’S WORST DEAL?
February 12, 2008

Part 3: Yes Victoria, there is a Santa Claus!

In January 2007, the Saskatchewan Government sold the Meadow Lake Pulp and Paper Mill (MLPLP) to Asia Pulp and Paper (APP), an Indonesian company, for $37.5 million. APP and its parent company, the Sinar Mas Group, are two of the most notorious corporations in the world. Both companies have repeatedly been taken to task for ongoing breaches of environmental rules, while APP has defaulted on over $13 billion in loans from various companies in the US.

Just last month, Staples Business Depot, one of the world’s largest office supply retailers, ended its 11-year contract with Asia Pulp and Paper because of APP’s environmental practices. Office Depot had ended their contract with APP for similar reasons in 2004.

Over the past 16 years, the Meadow Lake mill has cost Saskatchewan taxpayers almost a billion dollars. This amount could escalate much higher as the government retained a 20% interest in the mill and it is quite likely that there will be expenses for environmental clean up. These costs are as yet unknown.

So, who is responsible for this great deal that brought in only $37.5 million for a company that had already cost its shareholders at least 26 times that amount? Victoria Park Capital has that dubious honour.

So, who is Victoria Park Capital?
Victoria Park Capital Inc. (VPC) was created by Investment Saskatchewan (IS) to manage its private equity and venture capital investment portfolio. Investment Saskatchewan is a wholly owned subsidiary of the Crown Investments Corporation of Saskatchewan (CIC), which in turn, is the financially self-sufficient holding company for 11 subsidiary commercial Crown corporations owned by the Government of Saskatchewan. This gets a tad complicated, so perhaps we should start at the beginning.

According to their website, CIC was established in 1947 as the Government Finance Office (GFO). Its mandate was to act as a holding company for many of the province’s Crown corporations and to be a mechanism for developing broad policy control, directing investment, and routing dividends into the government’s consolidated fund. In 1978, a new Crown Corporations Act renamed the GFO to Crown Investments Corporation of Saskatchewan. The Crown Corporations Act of 1993 is the current governing legislation.

Investment Saskatchewan Inc. became a stand alone subsidiary of CIC in September 2003. Its mandate is to enhance Saskatchewan’s long-term economic growth and diversification through the provision of investment capital and financing, and to ensure prudent management of commercially viable investments.

A month after its inception, Investment Saskatchewan ran advertisements in both the Saskatchewan StarPhoenix and the Regina Leader-Post requesting proposals for “Venture Capital Fund Management”. According to Eric Cline, the then Minister Responsible for Investment Saskatchewan Inc., the Request For Proposals (RFP) was also widely distributed to more than 50 firms across Canada.

In the spring of 2004, however, the Investment Saskatchewan Board decided it would be better to establish an investment management company spun out from IS operations. In order to ensure “alignment of interests” with the management company and IS, employees would be given an opportunity to buy shares in the new company at fair market value.

When questioned about the process, Minister Cline is on record as stating: “The RFP process was concluded in September 2004 when the Investment Saskatchewan Board of Directors determined that no third-party manager had presented an acceptable value proposition. The Investment Saskatchewan Board subsequently submitted their recommendation to Government who agreed with their advice that the creation of an investment management company will produce the best results for the Government from a number of different perspectives: economic, commercial; and public policy.”

On June 27, 2006, the Investment Saskatchewan Chair, Maurice Delange, and two Directors, Anne Parker and Robert Reid officially incorporated Victoria Park Capital Inc. as a new corporate entity in Saskatchewan. On November 1, 2006, Investment Saskatchewan outsourced the
WHERE DO WE GO FROM HERE?

The Prairie Policy Centre

2229 Ave. C. N.
Saskatoon, Sask. S7L 5Z2
ph: 306-242-2981
fx: 306-242-1329
www.prairiecentre.com
info@prairiecentre.com

“Where Do We Go From Here?” is a feature service of the Prairie Centre.

The Prairie Policy Centre is an independent public policy think tank whose mission is “to advance ideas on wealth creation in order to enhance the economic and social well being of the prairie region.”

The opinions expressed in this forum are those of the writer and do not necessarily represent the views of the Prairie Centre.

management of its $452.5 million investment portfolio to VPC. According to a CBC News report, “The contract with the private company also allows the government to designate some employees as so-called “key persons”. Those are employees the government sees as valuable and can require the company to keep Investment Saskatchewan continues to exist, but its role has changed “from active investment management to oversight of an investment manager”. (I believe that means managing the manager.) IS still has a Board of Directors, which is now comprised of seven rather than eight directors, and five employees. Delange, Parker and Reid are no longer Directors of IS.

The 2006 Investment Saskatchewan Annual Report states that on December 31, 2006, it owned 37,216 shares of Victoria Park Capital that had a book value of $33,000. This equates to an approximate value of 89 cents per share, but it is not clear whether or not this is the fair market value the VPC shareholders actually paid. During the first half of 2007, IS disposed of 13,572 shares, but remains VPC’s largest shareholder.

According to the Province’s Corporate Registry, as of July 18, 2007, the shareholders of Victoria Park Capital were:

<table>
<thead>
<tr>
<th>SHAREHOLDER</th>
<th>Shares</th>
<th>Book Value*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Sask</td>
<td>23,644</td>
<td>$21,000</td>
</tr>
<tr>
<td>Janet Wightman</td>
<td>20,000</td>
<td>$17,888</td>
</tr>
<tr>
<td>Laurie Powers</td>
<td>15,000</td>
<td>$13,350</td>
</tr>
<tr>
<td>Brian LaBerge</td>
<td>10,714</td>
<td>$9,535</td>
</tr>
<tr>
<td>Heather Forbes</td>
<td>8,214</td>
<td>$7,310</td>
</tr>
<tr>
<td>Jamie Schwitzer</td>
<td>7,143</td>
<td>$6,360</td>
</tr>
<tr>
<td>Heather Collins</td>
<td>5,000</td>
<td>$4,450</td>
</tr>
<tr>
<td>D’Arcy Skwara</td>
<td>5,000</td>
<td>$4,450</td>
</tr>
<tr>
<td>Troy Olson</td>
<td>3,571</td>
<td>$3,180</td>
</tr>
<tr>
<td>Shanna Ralston</td>
<td>1,000</td>
<td>$890</td>
</tr>
<tr>
<td>Erin Anderson</td>
<td>714</td>
<td>$635</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>100,000</td>
<td><strong>$89,000</strong></td>
</tr>
</tbody>
</table>

* Based on 89 cents per share established by Investment Saskatchewan

Janet Wightman is the President and CEO of Victoria Park Capital. She held that same position with Investment Saskatchewan from May 2004 until joining VPC in November 2006. Laurie Powers was appointed Chief Financial Officer of VPC after serving as CFO of Investment Saskatchewan since September 2004.

Brian LaBerge, Heather Forbes, Jamie Schwitzer and Heather Collins are all partners in the new firm. LaBerge joined Investment Saskatchewan in March 2006 and Victoria Park Capital in November 2006. Ms. Forbes was with both IS and Crown Investments Corporation Industrial Interests Inc. prior to joining VPC. Mr. Schwitzer joined VPC in February 2007 after a stint with Crown Capital Partners. And Ms. Collins was a manager with Crown Investments Corporation before joining VPC in November 2006.

D’Arcy Skwara is a senior investment analyst who joined Investment Saskatchewan in January 2006 and VPC in November the same year. Troy Olson is the Director of Finance who was with IS for two years prior to moving to VPC. Shanna Ralston is an Accounting Technician while Erin Anderson is an Administrative Assistant.

The Directors of Victoria Park Capital are listed as Anne Parker (Chair), Maurice Delage, Janet Wightman, Heather Forbes and Robert Reid. Donald Wilson has acted as counsel and corporate secretary to VPC since it was created. All are former directors or employees of Investment Saskatchewan.

What does Victoria Park Capital do?
Victoria Park Capital states it is a venture capital and private equity management company that currently manages an investment portfolio on behalf of its founding client (and major shareholder), Investment Saskatchewan. VPC also offers investment capital for companies with operations in Saskatchewan who require more than $3 million in total equity or near-equity financing. However, there is no record of VPC having any clients other than IS at this time.

According to their literature, “VPC provides a strategic advantage for businesses at all stages of development, including early stage, start-up, expansion, restructuring, succession and buyout. In addition to contributing investment capital, we offer management, planning and business networking support to strengthen the success of our investees. As further commitment to our investees, we also actively seek to establish partnerships and lever third party investment capital.”

Where is the taxpayers’ money invested?
According to VPC, they currently manage the government’s $429 million, with a portfolio that includes 22 direct investments and participation in four fund-of-funds.

The direct investment portfolio includes investments in: Big Sky Farms Inc.; Bioriginal Food & Science Corp; Can Pro Ingredients Ltd.; CLINICARE; Jump.ca Wireless Supply Corp.; Meadow Lake OSB Limited Partnership; Performance Plants Inc.; Phenomenome Discoveries Inc.; Premium Brands Income Fund; Quantec Geoscience Limited; Saskferco Products Inc.;
WHERE DO WE GO FROM HERE?

The Prairie Policy Centre is an independent public policy think tank whose mission is “to advance ideas on wealth creation in order to enhance the economic and social well being of the prairie region.”

The opinions expressed in this forum are those of the writer and do not necessarily represent the views of the Prairie Centre.

Solido Design Automation Inc.; Targeted Growth; and Terra Grain Fuels Inc.

VPC also participates in the following fund-of-funds: Foragen Technologies Management Inc.; Prairie Ventures Limited Partnership; Primaxis Technologies Management Inc.; Prairie Ventures Limited Partnership; Primaxis Technology Ventures Incorporated; and Western Life Sciences Venture Fund, LP.

A fund-of-funds (FoF) is an investment fund that uses an investment strategy of holding a portfolio of other investment funds rather than investing directly in shares, bonds or other securities. One of the concerns with an FoF is that management fees are typically higher than those on traditional investment funds, largely because they include part of the management fees charged by the underlying funds.

The companies that IS had previously invested in include some familiar names: Beauval Forest Industries Inc.; Canadian Western Bank; Centennial Foods Partnership; Haro Financial Corporation; Kitsaki Zelensky Limited Partnership; Meadow Lake Pulp Limited Partnership; Minds Eye Entertainment Ltd.; and, the Saskatchewan Valley Potato Corporation (SPUDCO).

Here’s what we don’t know:

We don’t know why Investment Saskatchewan Inc., was designated as a Crown Corporation on September 3, 2003 and then began looking almost immediately for a third-party investment manager. Was IS deemed to be unable to make proper investment decisions?

If so, why would IS set up a separate venture capital company then sell it off to the very IS employees that had previously been managing its assets?

We don’t know why IS couldn’t find a third-party manager to present an acceptable-value proposition. The CVCA – Canada’s Venture Capital & Private Equity Association – represents the majority of private equity companies in Canada, with over 1200 members and over $50 billion in capital.

The ad invited “parties with the skill, knowledge and experience who are entrepreneurial, creative and innovative” to submit proposals. Surely at least one of those members could have presented an acceptable proposition.

We don’t know what information the VPC partners derived from those companies that responded to the October 2003 call for proposals. Their replies would have included highly confidential information including management fees and other material that could have assisted VPC in setting up the new venture capital company.

We don’t know why the NDP government of the day, which was adamant about not privatizing Crown corporations, went ahead and privatized the management of investments the government was making. Former Minister Eric Cline, in an exchange with a reporter January 11, 2007 at the Saskatchewan Legislature, told the reporter ‘I don’t have any problem with that’ when the reporter remarked that VPC is ‘a form of privatization’.

We don’t know why VPC was set up, or why fees are being paid to VPC when the government apparently still has control of the investments. According to one Investment Saskatchewan official, the government can over-ride any investment decision that Victoria Park Capital makes and can also force the firm to make investments that the firm disagrees with.

We know Investment Saskatchewan’s reported book value, but don’t know how much of Saskatchewan taxpayer’s cash has been invested in each company. Surely the people of Saskatchewan are entitled to know how much of their money is invested and what return they are getting on each and every investment. Should we not expect that transparency from every stated-owned enterprise?

We don’t know – but can guess – how Saskatchewan business people feel about funding rival businesses with their taxpayer dollars.

We don’t know what the costs for VPC are. According to an April 26, 2007 report, Investment Saskatchewan deal saves money, government officials acknowledged that Victoria Park Capital was paid just under $800,000 in management fees and reimbursement of legal and consulting costs for November and December 2006.

So, although Christmas is over for most of us, sounds like it continues for the partners in VPC. Yes Victoria, there is a Santa Claus – at least for some.

Gail Radford-Ross

Gail Radford-Ross is the principle of Radford Ross Research, a Saskatoon based company that investigates the practices of private businesses and government agencies. She is investigating the MLPPLP deal on behalf of a group of unsecured creditors.