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**Commission of
Inquiry into
the Facts of
Allegations of
Conflict of Interest
Concerning the
Honourable
Sinclair M. Stevens**

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**Commissioner
The Honourable W.D. Parker**

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Commission of Inquiry
into the Facts of Allegations of
Conflict of Interest Concerning
the Honourable Sinclair M. Stevens



Commission d'enquête
sur les faits reliés à des allégations
de conflit d'intérêts concernant
l'honorable Sinclair M. Stevens

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**TO HER EXCELLENCY
THE GOVERNOR GENERAL IN COUNCIL**

MAY IT PLEASE YOUR EXCELLENCY

By Order in Council PC-1986-1139 dated May 15th, 1986,
I was appointed Commissioner to inquire into the matter of
alleged conflict of interest. I now beg to submit the attached
Report.

Respectfully submitted.

A handwritten signature in dark ink, appearing to read "W.D. Parker", written over a horizontal line.

Commissioner



PRIVY COUNCIL

Certified to be a true copy of a Minute of a Meeting of the Committee of the
Privy Council, approved by Her Excellency the Governor General
on the 15th day of May, 1986.

The Committee of the Privy Council, on the recommendation of the Prime Minister, advise that pursuant to section 37 of the Judges Act, the Honourable William Dickens Parker, be authorized to act as a Commissioner and that a Commission do issue under Part I of the Inquiries Act and under the Great Seal of Canada appointing the Honourable William Dickens Parker, to be a Commissioner to inquire into and report on

- (a) the facts following allegations of conflict of interest made in various newspapers, electronic media and the House of Commons, with respect to the conduct, dealings or actions of the Honourable Sinclair M. Stevens; and
- (b) whether the Honourable Sinclair M. Stevens was in real or apparent conflict of interest as defined by the Conflict of Interest and Post Employment Code for Public Office Holders and the letter from the Prime Minister to the Honourable Sinclair M. Stevens of September 9, 1985; and

The Committee do further advise that the Commissioner be authorized,

- (a) to adopt such procedures and methods as he may consider expedient for the proper conduct of the inquiry and to sit at such times and at such places as he may decide;

- (b) to engage the services of such staff and counsel as he may consider necessary or advisable, at such rates of remuneration and reimbursement as may be approved by the Treasury Board;
- (c) to engage the services of such experts and other persons as are referred to in section 11 of the Inquiries Act who shall receive such remuneration and reimbursement as may be approved by the Treasury Board; and
- (d) to rent office space and facilities for the Commission's purposes in accordance with Treasury Board policy; and

The Committee do further advise that the Commissioner be directed to submit a report in both official languages to the Governor in Council as soon as possible, and to file his papers and records with the Clerk of the Privy Council as soon as reasonably may be after the conclusion of the inquiry.

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Abbreviations

ADRG	assistant deputy registrar general
BB	Inquiry designation for Shirley Walker diaries, series 1
CBCA	Canada Business Corporations Act
CCERD	Cabinet Committee on Economic and Regional Development
CDC	Canada Development Corporation
CDIC	Canada Development Investment Corporation
CEIC	Canada Employment and Immigration Commission
CIBC	Canadian Imperial Bank of Commerce
DRIE	Department of Regional Industrial Expansion
EDB	Economic Development Board
ERDA	Economic Redevelopment Agreement
FIRA	Foreign Investment Review Agency
GPT	general preferential tariff
IRD program	Industrial and Regional Development Program
MOU	memorandum of understanding
PIP	Petroleum Incentive Program
SMDC	Saskatchewan Mining Development Corporation
SW	Inquiry designation for Shirley Walker diaries, series 2
YCC	York Centre Corporation
YCPL	York Centre Properties Limited

Preface

The Honourable Sinclair M. Stevens resigned from the federal cabinet on May 12, 1986, in the wake of conflict of interest allegations relating to his responsibilities as a minister of the Crown. The conflict of interest allegations were made in the media and in the House of Commons and concerned Mr. Stevens' activities as the cabinet minister responsible for regional economic development, foreign investment review, and privatization. The allegations referred to private financial dealings with the same individuals or firms that were doing business with Mr. Stevens' government department and suggested numerous instances of conflict of interest on the part of Mr. Stevens as a minister of the Crown.

Following the initial news reports in late March and early April 1986, the allegations multiplied in number and became even more serious and wide ranging. In addition to the specific conflict of interest charges, there were more general allegations of influence peddling, breach of public trust, and corruption. As a result of the growing controversy, and shortly after Mr. Stevens' resignation from the cabinet, this Commission of Inquiry was established, and I was directed to inquire into the facts following these allegations and report on whether Mr. Stevens was in real or apparent conflict of interest under the code of conduct governing public office holders.

This is my report. It is divided into twenty-seven chapters grouped under five parts. Part One consists of three introductory chapters, the first containing a discussion of the allegations and the terms of reference of the Inquiry. Well over one hundred allegations were made, but they can be grouped under five heads: one, that Mr. Stevens was in a conflict of interest in his dealings with Magna International Inc., a large manufacturing firm; two, that Mr. Stevens was in a conflict of interest in his dealings with the Canada Development Investment Corporation and certain Bay Street investment firms; three, that Mr. Stevens was in a conflict of interest with regard to the auto manufacturer Hyundai Corporation; four, that he was in a conflict of interest because he mingled private and public business; and five, that he failed to comply with the Conflict of Interest Guidelines for Ministers of the

Crown and the regime that replaced these guidelines, the Conflict of Interest and Post-Employment Code for Public Office Holders.

Having summarized the allegations, I then describe in Chapter 2 the conflict of interest regimes to which Mr. Stevens was subject as a member of the cabinet. This discussion of the two relevant conflict of interest regimes underscored the fact that in neither one was conflict of interest defined. I concluded that such a definition was essential if I was to discharge my mandate. In Chapter 3, I develop a set of definitions for real and apparent conflict of interest.

Part Two of the report deals with Mr. Stevens' business interests and his involvement in these interests to September 1984, when he was appointed to the cabinet. In the first chapter, Chapter 4, I briefly describe Mr. Stevens' background and ministerial responsibilities. In Chapters 5, 6, and 7, I describe the York Centre group of companies, their overall financial condition, and Mr. Stevens' role in the companies to September 1984. I conclude this part with a description of the steps taken by Mr. Stevens in September 1984 to comply with the conflict of interest rules.

In Part Three I examine the extent to which Mr. Stevens remained involved in private business matters after September 1984 and his appointment to the cabinet. Eight specific incidents are examined. I also examine the roles that were played by Shirley Walker and Noreen Stevens and the nature and extent of their communication with Mr. Stevens. With this background I am better able to draw conclusions about Mr. Stevens' involvement in private business matters while a minister of the Crown.

In Part Four I turn to the public side and the conflict of interest allegations. Chapters 20 to 24 are devoted to a detailed analysis of the allegations as set out under the five categories. I make certain findings under each category and draw certain conclusions.

Part Five completes the report. It contains my final comments and observations. Chapter 25 provides a detailed description of the inquiry process and the procedures that were employed. Chapter 26 contains a summary of my conclusions regarding the conflict of interest allegations. Chapter 27, the final chapter, is devoted to my recommendations for reform.

It is my hope that this final chapter will be of some assistance to those who are involved in the reform of the present system. This Inquiry has had a unique opportunity to explore the practical workings of the conflict of interest regime that is presently in place. My observations and recommendations emerge from the lessons of this Inquiry. Four issues with respect to conflict of interest kept arising during the course of the Inquiry: one, what assets and activities should cabinet ministers have to disclose and how should assets be divested; two, should cabinet ministers be obliged to declare their interests and withdraw when necessary from certain responsibilities; three, what should be required of spouses of cabinet ministers; and, four, what should the responsibilities

be of the office of the Assistant Deputy Registrar General. These issues I discuss in some detail in the final chapter.

I must say in closing that the conduct of this long and complicated Inquiry and the preparation and writing of this final report would not have been possible without the cooperation of all those who participated in the process. I thank Commission counsel and Commission staff for their effectiveness and their energy. I also thank counsel for all the parties, and for the many witnesses who gave evidence in the Inquiry. Their sense of commitment and cooperation is recognized and much appreciated. Finally I wish to offer my personal thanks to those members of the public who gave evidence before me and thereby enabled me to make the findings of fact recorded in this report.

William D. Parker
Commissioner

Part One

Introduction

Part One consists of three introductory chapters. The first contains a discussion of the allegations and the terms of reference of the Inquiry. The second describes the conflict of interest regimes to which Mr. Stevens was subject as a member of the cabinet. The third chapter provides a definition for real and apparent conflict of interest.

Chapter 1

The Inquiry, the Allegations, and the Terms of Reference

The Inquiry

On May 15, 1986, the Government of Canada by Order in Council P.C. 1986-1139 constituted a commission of inquiry appointing and directing me to inquire into and report on:

- (a) the facts following allegations of conflict of interest made in various newspapers, electronic media and the House of Commons, with respect to the conduct, dealings or actions of the Honourable Sinclair M. Stevens; and
- (b) whether the Honourable Sinclair M. Stevens was in real or apparent conflict of interest as defined by the Conflict of Interest and Post Employment Code for Public Office Holders and the letter from the Prime Minister to the Honourable Sinclair M. Stevens of September 9, 1985. . . .

Following my appointment I began the task of conducting this Inquiry. I engaged Commission counsel and sufficient staff to assist with the investigation of the allegations. I issued an invitation to interested parties to come forward, and many did. Twelve parties were granted standing. All parties and almost all of the witnesses were represented by counsel.

I then proceeded to hear all of the evidence. The public hearing process was lengthy and complex. It lasted from July 1986 to February 1987 and involved over 90 witnesses and thousands of pages of documents. After the public hearing phase concluded, I invited and received oral and written submissions from those wishing to make them and then began to work on this report. I am pleased to provide a more detailed description of the proceedings of the Inquiry in Chapter 25 of the report.

The Allegations

My first task is to set out the allegations. At the commencement of the Inquiry, Commission counsel prepared and filed as exhibit 5 a book

itemizing all of the various allegations made in the House of Commons and in the media. Exhibit 5 represents a list of all the allegations, in the words of the acting prime minister, "both temperate and intemperate." Counsel for Mr. Stevens and the Government of Canada urged upon me that instead of adopting a checklist approach to these allegations, I should distil them into groups and I do so below. A comparison of the contents of exhibit 5 with the five categories of allegations listed below will demonstrate that there are intemperate allegations, for example, the allegation that Mr. Stevens instituted "a true system of payoff," or that his government department was "more open to corruption than most," which are not encompassed in any one of the five categories. The reader will understand that such accusations were not supported by any evidence and have clearly not been made out. It is unnecessary for me to deal with them on an individual basis. What is left are the five categories of allegations about which evidence was tendered and with which I am required to deal.

The allegations may be summarized as follows:

1. It is alleged that, in his dealings as the minister responsible for the Department of Regional Industrial Expansion (DRIE), Mr. Stevens was in a position of conflict of interest with regard to:

- loans, grants, and other assistance from that department to Magna International Inc. (Magna); and
- Magna's proposal to acquire an interest in Canadair Ltd. (Canadair);

because his wife, Noreen Stevens, had obtained a \$2.6 million loan for Cardiff Investments Ltd. (Cardiff) from 622109 Ontario Inc., a numbered company controlled by Anton Czapka, a Magna-related individual.

2. It is alleged that, in his dealings as the minister responsible for the Canada Development Investment Corporation (CDIC), Mr. Stevens was in a position of conflict of interest with regard to:

- the appointment of the CDIC directors and the decision to permit companies associated with certain directors to acquire CDIC assets;
- the award of, and approval of fees for, advisory contracts to Burns Fry Ltd. (Burns Fry) and Dominion Securities Ltd. (Dominion Securities);
- the award of, and approval of fees for, an advisory contract to Gordon Capital Corporation (Gordon Capital); and
- the sale of shares of the Canada Development Corporation (CDC);

because Noreen Stevens and Edward (Ted) Rowe, president of York Centre Corporation (York Centre), were approaching CDIC

director J. Trevor Eyton, president of Brascan Ltd. (Brascan), and senior officials in Burns Fry, Dominion Securities, and Gordon Capital for financial advice or assistance on behalf of York Centre.

3. It is alleged that, in his dealings as the minister responsible for Investment Canada, Mr. Stevens was in a position of conflict of interest with regard to Hyundai Corporation (Hyundai):

- by waiving a commitment made to the Foreign Investment Review Agency to export certain quantities of goods from Canada; and
- by awarding substantial federal government assistance to Hyundai to establish an automotive assembly plant in Bromont, Quebec;

because of his companies' obligations to the Hanil Bank of Canada (Hanil Bank), a subsidiary of a bank in which Hyundai was a major shareholder, and his desire to ensure that a parts plant was built in his riding.

4. It is alleged that, in his dealings as a minister responsible for DRIE and CDIC, Mr. Stevens was in a position of conflict of interest because he mingled his private interest and the public interest.

5. It is alleged that Mr. Stevens failed to comply with the Conflict of Interest Guidelines for Ministers of the Crown (guidelines) and the Conflict of Interest and Post-Employment Code for Public Office Holders (code) and an explanatory letter of the prime minister dated September 9, 1985 (letter), in that:

- the blind trust was not blind because he continued to have knowledge of his private business affairs and his spouse managed the assets in the blind trust; and
- the blind trust was an inappropriate method of divestiture for a closely knit "family" business.

The Scope of the Terms of Reference

As noted earlier, this Commission of Inquiry was established to inquire and report on:

- (a) the facts following allegations of conflict of interest made in various newspapers, electronic media and the House of Commons, with respect to the conduct, dealings or actions of the Honourable Sinclair M. Stevens; and
- (b) whether the Honourable Sinclair M. Stevens was in real or apparent conflict of interest as defined by the Conflict of Interest and Post Employment Code for Public Office Holders and the letter from the Prime Minister to the Honourable Sinclair M. Stevens of September 9, 1985. . . .

During the course of the Inquiry questions were raised by some counsel as to the scope of my terms of reference. The questions that were raised can be summarized under two heads:

- First, are some of the allegations that may involve conflict of interest too broad and general to be considered as allegations into which I am to inquire and report?
- Secondly, should I report on those allegations involving breaches of the blind trust or the code of conduct that are not allegations of conflict of interest by themselves?

Inquiry into the General Allegations of Conflict of Interest

In construing the terms of reference, counsel for Mr. Stevens urged that I ought to find that the words used in part (a) of the Order in Council, "to inquire into and report on (a) the facts following allegations of conflict of interest," meant the facts relating to allegations of conflict of interest made in the media and the House of Commons. Further, it was argued that this "re-writing" of the Order in Council is necessitated if the terms of reference "are to make sense." Counsel for Mr. Stevens argued that it follows from this interpretation that the terms of reference confine the scope of this Inquiry only to those specific allegations which are in fact allegations of conflict of interest made prior to Mr. Stevens' resignation on May 12, 1986. It is readily apparent that many allegations involving breaches of the code of conduct governing public office holders, including breaches of the blind trust, are not conflict of interest allegations per se.

In accordance with this interpretation, counsel for Mr. Stevens submitted that there are basically only three allegations of conflict of interest that fall within the terms of reference. These are the allegations relating to Mr. Stevens' dealings with Magna, Hyundai, and certain Bay Street financiers. All counsel agree that the scope of the Inquiry extends at least to an examination of the facts relating to these allegations and the question of whether Mr. Stevens was in these instances in a position of real or apparent conflict of interest.

Mr. Stevens' counsel submitted that any consideration by me of the "mingling of government and private business" as a fourth distinct allegation would be erroneous and outside the terms of reference. Counsel, in his written argument on behalf of Mr. Stevens, stated that the mixing of government and private business

is not a separate allegation of conflict of interest but simply one way of defining conflict of interest. The phrase was used by John Turner during a radio interview. The statement was made to describe how he characterized Stevens' conduct relating to the Magna Allegation and the Bay Street Allegation. There are no facts forming part of this allegation as there are in the case of the other allegations, which

further confirms that this is not an allegation the facts of which are to be investigated.

(Submission of Sinclair M. Stevens, p. 5)

On this basis, counsel for Mr. Stevens submitted that incidents about which the Commission heard extensive evidence involving James (Jim) Stewart of the Chase Manhattan Bank, Angus Dunn of Morgan Grenfell & Co. Ltd. (Morgan Grenfell), Kenneth (Ken) Leung of Olympia & York Developments (Olympia & York), Thomas (Tom) Kierans of McLeod Young Weir Ltd., and Mr. Stevens' Korean visit to the Hanil Bank are not within the terms of reference of the Commission and that I should therefore make no report regarding them.

Counsel for the Government of Canada did not join with counsel for Mr. Stevens in seeking so restrictive an interpretation of the terms of reference. Counsel's written submission argued that the Order in Council "is predicated on a *conflict* of interest, i.e. an improper mingling of a minister's public duty and his private interest" and invited the Commission to decide whether the minister was in real or apparent conflict of interest. As I understand this submission, the Government of Canada urged the Commission to investigate and report on all incidents of conduct that could give rise to a finding that Mr. Stevens was in a position of real or apparent conflict. This of course would include incidents involving the mingling of public and private business as is said to have occurred with Jim Stewart, Angus Dunn, Ken Leung, Tom Kierans, and Mr. Stevens' Korean visit to the Hanil Bank.

The interview referred to by counsel for Mr. Stevens was the interview given to CFRB Radio in Toronto by John Turner, leader of the opposition, on May 12, 1986. It included the following statement: "The tragedy of Sinclair Stevens is that he mingled and his family mingled their own private family interests with the way they were handling the public interests, the way that department was being managed" (Exhibit 224).

This very general allegation was made in the first few moments of the interview and well before any discussion of Mr. Stevens' dealings with Magna or the Bay Street brokers. Although this was an allegation of conflict of interest, the question posed by counsel for Mr. Stevens is whether either its generality or context preclude me from treating it as a separate and distinct allegation.

Although admittedly no facts form part of the allegation, its generality does not necessarily alter its character as an allegation. In this context it is noteworthy that the terms of reference themselves failed either to enumerate the instances of alleged conflict into which I was to inquire or to define the meaning to be attributed to the word allegation. In the absence of any definition or limitation, the word allegation ought to be given its natural and ordinary meaning without the artificial restriction suggested by counsel for Mr. Stevens.

This broad interpretation of the word allegation is not only consonant with the ordinary and natural meaning of the word but also clearly

reflects the intention of the government in drafting the terms of reference. A statement made by the acting prime minister, Erik Nielsen, to the House of Commons on May 14, 1986, in response to questions about the scope of the Inquiry is of some assistance:

As I have assured the House on Monday, Tuesday, and again today, the terms of reference will take into account the allegations made in the House of Commons, both temperate and intemperate. They will take into account the allegations made in the newspapers, both temperate and intemperate. They will take into account the allegations made in the electronic media, both temperate and intemperate. It will be in the context of the conflict of interest Code of Conduct for public office holders, in addition to the Prime Minister's letter of September 9 to the former Minister and other members of his Ministry.

(Canada, House of Commons, *Debates*, May 14, 1986, p. 13,260)

Logic does not dictate that the absence of a specific factual underpinning to the allegation alters its character as an allegation. This is especially so in light of the terms of reference, which make it my obligation to find the facts in relation to these allegations.

I also reject the submission of counsel for Mr. Stevens that it is clear from the context of Mr. Turner's remarks that he was referring specifically to the loan made by Anton Czapka or to the approaches to Bay Street brokers. To the contrary, I find that the statement made by John Turner is sufficiently separated from the discussion of the Czapka loan or the Bay Street brokers to constitute an independent allegation that Mr. Stevens mingled his private interest with his public duties as a minister responsible for a department of government. Therefore I decline to accept the submissions of counsel for Mr. Stevens, and find that the mingling of private interests and public interests is indeed an allegation of conflict of interest that I must investigate and report on.

Allegations Relating to the Blind Trust or Code of Conduct

There remains the second issue involving the terms of reference of the Commission: whether I should inquire into matters of non-compliance with the guidelines and code or breaches of the blind trust which do not necessarily involve conflicts of interest, real or apparent. Counsel on behalf of the Government of Canada and Mr. Stevens both submitted that these matters were outside the terms of reference of the Commission. In his written argument on behalf of the Government of Canada, counsel stated:

It is difficult to see how this allegation fits into the Commission's mandate except, indirectly, as part of the Commission counsel's attack on Mr. Stevens' credibility. Undoubtedly the Guidelines and Code imposed on Mr. Stevens a duty to establish and comply with the terms of the blind trust. But the mandate of this Commission is

directed to the issue of whether specific allegations of conflict of interest — real or apparent — are well founded, not whether Mr. Stevens observed the procedural steps contemplated by the Code as a precaution to prevent “potential” conflicts from arising.

... The Code itself draws a clear distinction between compliance “in form” and compliance “in substance.” Following the recommended procedures does not necessarily save a Minister from conflicts. Conversely, failure to follow recommended “avoidance” procedures does not necessarily place a Minister in conflicts.

Section 5(2) of the Code says explicitly that:

Conforming to this Code does not absolve public office holders of the responsibility to take such additional action as may be necessary to prevent real, potential or apparent conflicts of interest. (Exhibit 7, tab 7, p. 2)

Conversely, violations of a blind trust may put a public office holder in breach of the Code, and may expose him or her to potential conflicts, but a breach of the Code's procedural requirements does not itself amount to a conflict of interest.

(Submission of the Government of Canada, pp. 19–20)

This submission is at first blush persuasive. However, it leaves unanswered those numerous allegations made in both the House of Commons and in the media which involved the minister's compliance with the guidelines and those regarding his activities, or those of his spouse Noreen Stevens, which involved breaches of the blind trust. These allegations were summarized by Commission counsel in exhibit 5 and a sampling is sufficient to make the scope of these allegations apparent. They are as follows:

- Even though the Minister's interests had been placed into a blind trust, his family and former associates were still very much involved in their continuing operation.
- It's one thing if a Minister puts one hundred shares of a widely-held public company like Bell Canada into a blind trust; the trustee may sell them the next day and buy shares of Canadian Pacific and the Minister would never know. But it's another thing entirely when — as was the case with Stevens — a Minister's family firm is put into a blind trust; the trustee is obviously not going to sell it. So the Minister knows he still owns it and can conceivably take advantage of this knowledge. Or his wife can.
- The Minister's trustee must have been aware of the loan negotiations and approved them. If the trustee, National Trust, was not aware and did not approve, that would make even more ridiculous than now the use of the blind trust gimmick as a way of avoiding conflict of interest problems. It would mean that for all real purposes the trustee was the Minister's wife.
- Stevens and his wife short-circuited the system — when the spouse is an officer of their joint company, the barrier insulating the blind trust from the Minister is too easily broken. The private interests of the

Minister and his spouse are indistinguishable and his blind trust is not nearly blind enough.

- The “so-called” blind trust was a “farce”: “it was not blind, it was not at arm’s length, we had active participation by the Minister’s spouse on his behalf . . .”
- The Minister does not have a blind trust if his wife was part of the management.
- There cannot be a blind trust when the Minister’s wife is running one of the subsidiaries, his law firm is attached to their own offices and his telephone number is the number of subsidiaries.
- Because of the contact between husband and wife, an arm’s length relationship cannot be maintained between the Minister and his holdings. Handing his affairs over to his spouse was not sufficient.
- The Minister’s blind trust looks like a “transparent ruse” if his wife was still running the business — getting up in the morning and having toast and coffee with the Minister, and then setting off to seek million-dollar loans for one of his companies from people dealing with his department. How blind was this trust!?
- The ADRG did no investigation beyond speaking to the Minister.
(Exhibit 5, pp. 1–3)

My fact-finding mandate is described in paragraph (a) of the terms of reference. I am required to find the facts following allegations of conflict of interest made in the House of Commons and the media. I find that the words conflict of interest in the context of my fact-finding mandate extend to the facts of all allegations that relate to conflict of interest issues generically, such as breaches of the blind trust or procedural non-compliance with the code. This interpretation coincides with the interpretation given in the House of Commons by Erik Nielsen in answer to a question posed by another member of the House about the scope of this Inquiry. If the government had intended that I refrain from finding the facts relating to certain clear allegations such as that the blind trust was not blind, not blind enough, or a ruse, I have no doubt it would have made its intention known in unambiguous terms.

It is noteworthy that counsel for the government and counsel for Mr. Stevens concede that evidence of Mr. Stevens’ knowledge of his financial interests is an essential finding of fact in any determination of whether he was in real or apparent conflict. However, the issue of Mr. Stevens’ knowledge and the manner in which it was obtained are also inextricably interwoven with issues regarding Mr. Stevens’ compliance with the guidelines and code. Therefore, on the view of my mandate urged by counsel for Mr. Stevens and the Government of Canada, the facts of Mr. Stevens’ knowledge must be found by me in the discharge of my fact-finding mandate.

However, the effect of counsels’ submission is that, although I should find the facts in relation to such matters as Mr. Stevens’ knowledge, I

should stop there and not draw any conclusions about whether such facts disclose a violation of the guidelines or code. This is nothing short of inviting me to find facts in a vacuum, without identifying their ultimate meaning. Such a position is inconsistent with the effective discharge of my mandate, and I therefore hold that conclusions with respect to compliance are a necessary part of the fact-finding process with which I am charged.

Further, conclusions regarding Mr. Stevens' compliance with the code have a significant bearing upon his credibility. Under oath at this Inquiry, Mr. Stevens testified as follows:

Q. First of all, at page 2 of Exhibit 211, in your letter to the Prime Minister, which was dated May 11, 1986, in the second paragraph you wrote:

"I have repeatedly stated that I have complied fully with the provisions of the Conflict of Interest Code for public office holders, as well as with the provisions contained in your letter to ministers, dated September 9, 1985."

That was the text of your letter at the time, sir?

A. That is right.

Q. Would it be fair, and I want to be fair here, to confirm that your intent was to say that you complied fully with the Code that was in existence in 1984 when you were appointed to the Cabinet in addition to that which was in existence at the time that this letter was written?

A. I had complied fully with the Code in both instances, if that is the thrust of your question.

(Transcript, vol. 71, p. 12,141)

A few moments later, Mr. Stevens was asked by Commission counsel about his present position:

Q. In respect of all of these statements that were made at the time, I gather from your evidence in chief that, effectively, you reassert them at this stage in this Inquiry; is that right, sir?

A. Yes.

(Transcript, vol. 71, p. 12,147)

It is obvious that such assertions bear fundamentally on Mr. Stevens' credibility. For this reason as well I find that the matter of whether Mr. Stevens acted in violation of the guidelines or code of conduct or in breach of the provisions of the blind trust is one that I am duty bound to inquire into and report on.

In sum, I conclude that my terms of reference include general allegations of conflict of interest, such as the "mingling of government and private business," and also the allegations relating to the blind trust.

Chapter 2

Conflict of Interest Rules: Guidelines, Code, and Letter

This chapter describes the rules relating to conflict of interest in place during the period between September 1984 and May 1986. A proper understanding of the rules is necessary to draw conclusions about whether Mr. Stevens complied with them, conclusions I have determined are inherently part of the fact-finding process with which I am charged.

As a preliminary matter I address the issue of which rules were in force during the period in which most of the events comprising the allegations took place.

The Applicable Conflict of Interest Regime

During this period the Government of Canada had in place two regimes to deal with conflicts of interest and ministers of the Crown. The first was contained in the guidelines (Appendix E) that were released together with a letter of commentary by Prime Minister Pierre Elliott Trudeau on April 28, 1980 (Appendix G). When the present administration came to power in September 1984 the guidelines were continued in effect pending a complete review of conflict of interest matters within the public service. Following this review, a new regime was announced by Prime Minister Brian Mulroney in the House of Commons on September 9, 1985, embodied in the code (Appendix F), the text of which was released that day together with a letter of commentary (the letter) from the prime minister (Appendix H).

The code took effect on January 1, 1986. Under section 74 of the code, however, a minister continued to be governed by the guidelines until a review of his or her compliance arrangements was completed. In the case of Mr. Stevens, this review was completed on April 11, 1986; therefore, until that date he was subject to the guidelines.

The matter is of some significance because my terms of reference direct me in part to inquire into and report on

whether the Honourable Sinclair M. Stevens was in real or apparent conflict of interest as defined by the Conflict of Interest and Post

Employment Code for Public Office Holders and the letter from the Prime Minister to the Honourable Sinclair M. Stevens of September 9, 1985.

I must determine how these terms can be construed in light of my finding that, during the period in which almost all the activities giving rise to the allegations took place, Mr. Stevens was subject to another conflict of interest regime.

There can be no serious question that my task is to assess the allegations in light of the applicable regime. The applicable regime was for the most part the guidelines, not the code. However, this finding does not alter my task appreciably since there is no substantial difference of concept, policy, or language between the two regimes. As well, neither contains an explicit definition of conflict of interest, and thus the definition itself, dependent on outside sources, does not vary. Further, all counsel dealing with the regimes addressed both of them. Finally, to interpret my terms of reference literally, as precluding analysis and consideration of the guidelines, would mean having to determine whether Mr. Stevens was in real or apparent conflict of interest as defined by a regime to which he was not subject, and so would be unfair to him.

To give meaning to my terms of reference, therefore, I have concluded that I must consider both regimes. In doing so, I am satisfied that I am neither altering in any meaningful way the ambit of my instructions, nor prejudicing Mr. Stevens. An examination of relevant provisions of the guidelines and code follows.

Requirements of the Guidelines and the Code

The Guidelines

The provisions of the guidelines can be divided into two parts, the first consisting of a number of general statements that attempt to express the high standards of conduct expected of ministers, and the second consisting of procedural requirements and techniques which, if followed by ministers, may minimize the risk that they will fail to abide by the standards. The guidelines state explicitly that merely complying with the letter of the procedural requirements may not suffice. They are designed only to assist in maintaining high standards of conduct, and no more.

The general statements of principle in the guidelines (set out in Sections I and III) are as follows:

- 1) The onus for preventing real, apparent or foreseeable conflicts of interest rests with the individual;
- 2) Ministers must perform and appear to perform their official responsibilities and arrange their private affairs in a manner that will conserve and enhance public confidence and trust in

government and that will prevent conflicts of interest from arising;

- 3) Ministers must not take advantage or appear to take advantage of their official positions, or of information obtained in the course of their official duties that is not generally available to the public;

....

Ministers shall not accord preferential treatment in relation to any official matter to relatives or friends or to organizations in which their relatives or friends have an interest.

Ministers must also take care to avoid placing, or appearing to place, themselves under an obligation to any person or organization which might profit from special consideration or favour on their part.

The guidelines contain various techniques to assist ministers in determining which assets or activities can or cannot continue to be held or pursued. These techniques are **disclosure** (of assets and activities); **divestment** (of assets); and **avoidance** (of activities). The guidelines also classify a minister's assets as **exempt**, **discloseable**, or **controlled**, to determine if they need to be disclosed or divested.

Disclosure

The first step in the sequence of compliance is confidential disclosure, which requires that ministers make a full report to the prime minister through the assistant deputy registrar general (ADRG) of all assets and liabilities and certain specific activities and positions. These activities and positions include any partnerships, directorships, and corporate executive positions held during the two years preceding appointment (with the nature of the business, and the responsibilities carried, indicated) as well as all executorships or trusteeships.

Public disclosure is a possible next stage in the disclosure process. Ministers may be required to make a public disclosure of some or all assets, depending on their classification. They must also make a public disclosure of the activities and positions listed in their confidential disclosure.

Divestment

The nature of an asset determines whether disclosure is sufficient or divestment is required. As mentioned, the guidelines classify a minister's assets as exempt, discloseable, or controlled for the purpose of deciding which treatment is needed.

A minister's exempt assets are defined in Section V(A) as "property which is for the personal use of Ministers and their families" or "assets not of a commercial character." Such assets need not be publicly disclosed or divested. Section V(A) also sets out a number of examples,

such as “self-administered registered retirement savings plans composed exclusively of other exempt assets.”

The next category, discloseable assets, is defined in Section V(B) as assets which are both unlikely to give rise to a conflict of interest and fall within a list of various types of assets. Section V(B)(1) describes one type of discloseable asset relevant to this Inquiry:

ownership interests in family businesses, and in companies whose stocks and shares are not traded publicly, which do not contract with the government, which are of a local character, and which do not own or control shares of public companies[.]

Ministers may publicly disclose these assets, failing which the rules for the treatment of the next category, controlled assets, apply.

Controlled assets are assets that are neither exempt nor discloseable. They must be divested, either by arm's length sale or by transfer to a trust, such as a blind trust. Section V(C) lists a number of examples of controlled assets, two of which are relevant:

2) interests in partnerships, proprietorships, joint ventures, private companies and family businesses which are not discloseable assets;

....

4) self-administered registered retirement savings plans, except those composed exclusively of exempt assets[.]

Because divestment through a blind trust is designed to accomplish the same thing as an outright sale, the guidelines require a blind trust to have certain characteristics. Section V(C)(2) states the key requirements:

1) Title to all assets placed in trust must be transferred to the trustee(s);

2) All trustees of such trusts shall be individuals, corporations or firms that deal with the Minister at arm's length (as this term is defined in the Income Tax Act of Canada). This means that individuals connected with a Minister by blood relationship, marriage or adoption cannot serve as trustees;

....

4) All decisions of the trustees of a blind trust must be approved by a majority of the trustees, which majority must include the government designated trustee;

....

6) The terms of each trust instrument shall place on the trustee(s) a clear responsibility not to divulge to, or otherwise inform, directly or indirectly, the Minister of any matter concerning the assets in or the management of the trust, except as hereinafter provided;

7) The trustee(s) of each trust must be empowered to make all decisions concerning the management of the assets in the trust free of direct or indirect control or influence by the Minister,

and without informing, consulting with or seeking advice from the Minister;

- 8) Each trust instrument shall provide that the trustee(s) must deliver annual statements to the Minister that will permit the preparation of annual income tax returns, or compliance with any other legislation or legal requirements;
- 9) Any trust instrument may provide that the Minister be informed of the total value of the trust fund at any time, but such information and the statements referred to . . . above, must not disclose to the Minister the identity, nature, or value of any of the assets in the trust;
-
- 11) The Minister may request the trustee(s) to pay to him or her such part of the capital of the trust fund, in cash and not in specie, as he or she may direct[.]

There are additional provisions designed to ensure the independence of the trustee(s) from the minister, as well as requirements that the ADRG review a copy of any trust document before it is signed and receive a copy of the final document.

Avoidance

A third compliance technique is avoidance. For the same reasons that prohibit continued ownership of certain assets, the guidelines require a minister to avoid various activities upon appointment. For example, Section II, Prohibited Activities, requires that ministers must not:

- 1) engage in the practice of a profession or the management or operation of any business or commercial activity, or in the management of assets except exempt or discloseable assets;
- 2) serve as paid consultants;
- 3) retain or accept directorships or offices in commercial corporations, [and in many cases in charitable or philanthropic organizations]. . . .
- 4) serve actively as members in unions or professional associations.

Certain of the statements of principle set out above specify what a minister must avoid. As well, ministers must take steps to avoid conflicts of interest that might arise from serving actively as an executor or trustee.

The Code

The code came into effect on January 1, 1986. It contains requirements that governed Mr. Stevens during his last four weeks in office. As with the guidelines, the code can be divided into general statements dealing with the standards of conduct required of ministers (among others), and particular techniques designed to assist but not to ensure that the

standards of conduct are observed. The code, like the guidelines, makes it clear that simply following the techniques it prescribes may not be enough and that ministers are responsible for taking any additional action necessary to prevent real, potential, or apparent conflicts of interest from arising.

The code's general statements about standards of conduct are set out in section 7:

- (a) public office holders shall perform their official duties and arrange their private affairs in such a manner that public confidence and trust in the integrity, objectivity and impartiality of government are conserved and enhanced;
- (b) public office holders have an obligation to act in a manner that will bear the closest public scrutiny, an obligation that is not fully discharged by simply acting within the law;
- (c) public office holders shall not have private interests, other than those permitted pursuant to this Code, that would be affected particularly or significantly by government actions in which they participate;
- (d) on appointment to office, and thereafter, public office holders shall arrange their private affairs in a manner that will prevent real, potential or apparent conflicts of interest from arising but if such a conflict does arise between the private interests of a public office holder and the official duties and responsibilities of that public office holder, the conflict shall be resolved in favour of the public interest;
- (e) public office holders shall not solicit or accept transfers of economic benefit, other than incidental gifts, customary hospitality, or other benefits of nominal value, unless the transfer is pursuant to an enforceable contract or property right of the public office holder;
- (f) public office holders shall not step out of their official roles to assist private entities or persons in their dealings with the government where this would result in preferential treatment to any person;
- (g) public office holders shall not knowingly take advantage of, or benefit from, information that is obtained in the course of their official duties and responsibilities and that is not generally available to the public;
- (h) public office holders shall not directly or indirectly use, or allow the use of, government property of any kind, including property leased to the government, for anything other than officially approved activities; and
- (i) public office holders shall not act, after they leave public office, in such a manner as to take improper advantage of their previous office.

Although these statements are more detailed, there are no substantial differences, relevant to this Inquiry, between them and the general statements of principle in the guidelines. As with the guidelines, the code sets out a number of steps to be taken by ministers. These procedures are virtually identical to those in the guidelines.

Disclosure

First, a minister is required to make a confidential report of all assets that are not exempt, of all direct and contingent liabilities, and of all outside activities, including those during the two-year period before he or she became a minister, as well as of philanthropic, charitable, and non-commercial activities, and involvements as trustee, executor, or under power of attorney.

Then, as in the guidelines, a minister is required to take one or more additional steps. If a minister has any significant non-exempt assets, he or she must make either a public declaration of them in a formal written statement or divest them. If he or she has reported any activities in the confidential report, a public declaration of certain of these must be made, just as is the case in the guidelines. In addition, the code requires a public declaration of all gifts, hospitality, or other benefits with a value of \$200 or more.

Divestment

Divestment is usually effected either by arm's length sale of the assets or by placing them in a trust. Assets are also classified, as in the guidelines, to determine whether disclosure or divestment is needed. Generally, exempt assets are assets and interests for a minister's or his or her family's private use or of a non-commercial character; the code sets out a number of examples in section 19, such as "registered retirement savings plans that are not self-administered." No public declaration or divestment need be made of exempt assets. There need be no confidential report either.

Declarable assets are effectively defined as those that are neither exempt nor "controlled." The code gives illustrations of declarable assets in section 25, one of which is relevant to this Inquiry:

- (a) interests in family businesses and in companies that are of a local character, do not contract with the government, and do not own or control shares of public companies, other than incidentally, and whose stocks and shares are not traded publicly[.]

Making a public disclosure of declarable assets and continuing to deal with them is permitted by the code so long as a minister ensures that his or her dealings cannot give rise to a conflict of interest.

Controlled assets are assets whose value could be directly or indirectly affected by government decisions or policy. Relevant types of controlled assets set out in section 26 are:

- (a) publicly traded securities of corporations and foreign governments;
- (b) self-administered Registered Retirement Savings Plans, except when exclusively composed of exempt assets. . . .

Controlled assets, except for those determined by the ADRG to be of such minimal value that they do not constitute any risk of conflict of interest, are to be divested; the ADRG can approve exceptions to this rule if the controlled assets in question are pledged to a lending institution as collateral, of such value as to be practically non-marketable, or lost or not available for disposition by the minister.

The code notes that controlled assets are usually divested by an arm's length sale or by putting them in a trust, the most common of which are set out in a schedule to the code. Such trusts must not leave in the minister's hands any power of management or decision over the assets placed in trust.

The appropriate trust arrangement may depend on the nature of the asset to be divested. The schedule mentions three common types of trusts (blind, frozen, and retention). The first two are relevant and are defined as follows:

- (a) ... A blind trust is one in which the trustee makes all investment decisions concerning the management of the trust assets with no direction from or control by the public office holder who has placed the assets in trust.

No information is provided to the public office holder (settlor) except information that is required by law to be filed. A public office holder who establishes a blind trust may receive any income earned by the trust, add or withdraw capital funds, and be informed of the aggregate value of the entrusted assets.

- (b) ... A frozen trust is one in which the trustee maintains the holdings essentially as they were when the trust was established. Public office holders who establish a frozen trust are entitled to any income earned by the trust.

Assets requiring active decision making by the trustee (such as convertible securities and real estate) or assets easily affected by Government action are not considered suitable for a frozen trust.

The schedule also contains certain general requirements for all trusts to be used in effecting divestiture, which are similar to those in the guidelines regarding blind trusts. The relevant requirements are as follows:

- (a) ... The assets to be placed in trust must vest in the trustee.
- (b) ... The public office holder (settlor) may not have any power of management or control over trust assets. The trustee, likewise, may not seek or accept any instruction or advice from the public office holder concerning the management or the administration of the assets.

....

- (d) ... The term of any trust is to be for as long as the public office holder who establishes the trust continues to hold an office that makes that method of divestment appropriate. A trust may be dismantled once the trust assets have been depleted.

-
3. Care must be exercised in selecting trustees for each type of trust arrangements. If a single trustee, other than the ADRG, is appointed, the trustee should be:
 - (a) a public trustee;
 - (b) a company, such as a trust company or investment company, that is public and known to be qualified in performing the duties of a trustee; or
 - (c) an individual who performs trustee duties in the normal course of his or her work.
 4. If a single trustee is appointed he or she shall clearly be at arm's length from the public office holder.
 5. If more than one trustee is selected, at least one of them shall be a public trustee or a company at arm's length from the public office holder.

Just as in the guidelines, the minister must supply the ADRG with a copy of the trust document for his or her confidential files. The code also provides for possible reimbursement of costs incurred in setting up such trusts.

Avoidance

The code also includes avoidance requirements; as in the guidelines, a minister must avoid or withdraw from certain activities or situations. For example, section 29 requires that, except in certain restricted circumstances, ministers must not:

- outside their official duties,
- (a) engage in the practice of a profession;
 - (b) actively manage or operate a business or commercial activity;
 - (c) retain or accept directorships or offices in a financial or commercial corporation;
 - (d) hold office in a union or professional association; or
 - (e) serve as a paid consultant.

They must also avoid giving preferential treatment to family, friends, or organizations to which they belong, and being or appearing to be placed under an obligation to anyone who might profit from special consideration by them.

Compliance Techniques

The code, in addition to setting out the procedures and techniques described above, also explicitly defines each of them. These definitions, which are contained in section 16, are as follows:

- (a) Avoidance ... is the avoidance of, or withdrawal from participation in, activities or situations that place public office holders in a real, potential or apparent conflict of interest relative to their official duties and responsibilities;

- (b) Confidential Report . . . is a written statement by a public office holder to a designated official of ownership of an asset, receipt of a gift, hospitality, or other benefit, or participation in any outside employment or activity. The designated official shall keep the statement confidential. Where a public office holder is subject to continuing direction in the performance of his or her official duties and responsibilities, a Confidential Report will, usually, be considered as compliance with the conflict of interest measures set out in this Part. In cases where a Confidential Report does not constitute such compliance, a Confidential Report is preliminary to a Public Declaration, resignation from activity or Divestment;
- (c) Public Declaration . . . is a written public statement by a public office holder of ownership of an asset, receipt of a gift, hospitality or other benefit, or participation in any outside employment or activity, where such ownership, receipt or participation could give rise to a conflict of interest or otherwise impair the ability of the public office holder to perform his or her official duties and responsibilities objectively; and
- (d) Divestment . . . is the sale at arm's length, or the placement in trust, of assets, where continued ownership by the public office holder would constitute a real or potential conflict of interest with the public office holder's official duties and responsibilities. The requirement to divest of such assets shall be determined in relation to the duties and responsibilities of the public office holder. For example, the more comprehensive the duties and responsibilities of the public office holder, the more extensive the Divestment needed and, conversely, the narrower the specialization of the duties and responsibilities of the public office holder, the narrower the extent of the Divestment needed.

In cases of disagreement or doubt as to the appropriate technique, the ADRG is to determine what is appropriate, taking into account the minister's specific responsibilities, the value and type of the assets and interests involved, and the costs of divestment versus the potential for conflict of interest, while trying to reach agreement with the minister.

Division of Responsibility among the ADRG, the Prime Minister, and the Minister

The ADRG has a mandate to assist ministers in observing the principles set out in the guidelines and code through advice, consultation, and education, and to administer the guidelines and the provisions of the code dealing with ministers. In the course of assisting a minister, the ADRG forms an opinion about the minister's compliance with the guidelines or code. When satisfied, the ADRG will recommend that the prime minister approve the measures taken by the minister. This advisory role involves helping ministers to make their disclosures and to arrange their affairs generally in accord with the guidelines or code. For example, under the code the ADRG is required to keep copies of trust documents for reference by ministers.

Although the ADRG does obtain background material on ministers during the compliance process, and the officials of that office must and do offer advice on fairly sensitive matters and exercise considerable judgment, the office of the ADRG is not constituted as an independent policing and investigative authority. Responsibility for compliance with the guidelines and code remains with ministers, while responsibility for promulgation of standards of conduct, and approval of compliance measures, rests with the prime minister as first minister.

Certain provisions of the guidelines and code recognize this line of authority. For example, under the guidelines a minister is required to report his or her assets and liabilities to the prime minister through the ADRG. Under both the guidelines and the code, issues that a minister and the ADRG cannot settle are ultimately referred to the prime minister. Under the code, the prime minister has the authority to take appropriate measures, including discharge or termination of appointment, where a minister has failed to comply with its provisions.

I also note that, at pages 64 and 65 of the submission of the Government of Canada, reference is made to Prime Minister Mulroney's letter of September 9, 1985, to members of Parliament and senators on the subject of the code. The prime minister's letter too makes it clear that responsibility for promulgating ethical standards governing ministers lies with the prime minister and cabinet, and ultimately with Parliament. The ADRG's office, he wrote, was not to be a "quasi-independent [office] . . . that will allow the Government to shirk its responsibility." Nothing in the code would relieve him and his colleagues of the need to exercise judgment, he wrote, nor would rules or regulations be allowed to be a substitute for this need. The letter also reiterates that "the Code continues to place the onus of responsibility on the individual public office holder for his or her own conduct." This responsibility is clear from the guidelines and code themselves, and is stated in both explicitly.

Spouses

The guidelines and code apply only to public office holders — not their spouses. Neither the guidelines nor the code directs a spouse of a public office holder to alter, let alone cease, the practice of a profession or a business activity. In fact, no restraint of any kind is placed on a spouse's activities or dealings with property. These provisions, responding to the social fact that spouses have independent careers, reflect a policy decision that the restraints imposed on a public office holder should not extend to his or her spouse.

The absence of any restraint on spouses under the guidelines or code, when coupled with considerations of the marital relationship, gives rise to legitimate concerns that a spouse's activities may well bring a minister into a position of conflict. This of course was the reason for certain statements made in both Prime Minister Trudeau's letter of April 28, 1980, and Prime Minister Mulroney's letter of September 9,

1985, which in substance direct that a minister has an individual responsibility to prevent conflicts of interest, including those that might conceivably arise out of the activities of a spouse or the dealing in property or investments, owned or managed in whole or in part, by a spouse.

Under this direction a minister has a duty to ensure, one, that a spouse's activities do not create a conflict for the minister and, two, that a spouse is not used as a vehicle to circumvent restrictions on the minister's behaviour. Thus the obligation to avoid real or apparent conflict rests squarely with the minister. Whether or not there is a general social expectation that a minister will rely on his or her spouse to abstain from activities that could give rise to conflicts of interest, there is no duty or obligation on the spouse to do so.

This duty, which is by its nature continuing, requires that a minister remain sufficiently aware of a spouse's activities to take whatever action is necessary to avoid real or apparent conflicts. Some of the more obvious questions a minister might have to consider in carrying out the duty are as follows:

- What is the nature of my duties as a minister? What kinds of contacts do I have? What kinds of decisions do I make?
- Is there anything in the activity of my spouse that could conceivably give rise to a conflict of interest *on my part*? Is any difficulty created when the professional or business activities of my spouse relate directly to the assets placed in the blind trust? Will the professional or business activities of my spouse bring her or him into contact with any of the same institutions or people with whom I will be dealing as minister?
- Is there anything in our family's current situation, financial or otherwise, that suggests such approaches or contacts on the part of my spouse in the foreseeable future? If so, what should be done about that situation? How do I best fulfil the obligation that I have as minister to prevent conflicts of interests that could conceivably arise out of the activities of my spouse?

If the answers to these questions raise issues of conflict of interest and no mutually satisfactory arrangement is reached between the spouses as to who will abstain from certain activities, I do not resile from the proposition that it is the minister and not the spouse who will be obliged not to act, when to act would bring the minister into a position of conflict. Although onerous, such an obligation is consonant with the high standard of ethics required of public office holders.

This is my understanding of the application and operation of the relevant conflict of interest regimes as they pertained to Mr. Stevens. I now turn to the definition of conflict of interest.

Chapter 3

The Definition of Conflict of Interest

The terms of reference ask me to inquire and report on whether the Honourable Sinclair M. Stevens was in real or apparent conflict of interest "as defined by the Conflict of Interest and Post Employment Code for Public Office Holders and the letter from the Prime Minister to the Honourable Sinclair M. Stevens of September 9, 1985." However, neither the code nor the letter referred to defines real or apparent conflict of interest, nor do the guidelines formerly applicable to ministers. Because much will depend on how conflict of interest is defined, it is important that I ensure that there is no doubt about my interpretation of the language of the guidelines, code, and letter, or about the definition that I will be employing throughout the balance of this report. Given the absence of an explicit definition for me to rely on, I must have recourse to the more traditional sources of interpretation such as the common law and our common understanding of what conflict of interest means.

I am grateful to counsel for their oral and written submissions on this important question of definition. Although differing in their approaches, they provided useful analyses of the relevant case-law and the leading textual authorities on the meaning of real and apparent conflict of interest.

Real Conflict of Interest

All counsel agreed that at least three prerequisites have to be established before a public office holder can be said to be in a position of real conflict of interest. They are:

1. the existence of a private interest;
2. that is known to the public office holder; and
3. that has a connection or nexus with his or her public duties or responsibilities that is sufficient to influence the exercise of those duties or responsibilities.

There was also agreement that conflict of interest does not require conflicting interests in the literal sense, that is, a divergence between the

public office holder's private interests on the one hand and his or her public duties or responsibilities on the other. It is clear that a conflict of interest can exist even where private interests and public duties coincide. This point was made in the 1984 *Report of the Task Force on Conflict of Interest* (Starr-Sharp Report):

Private and public interests need not be in competition or conflict for an ethical problem to exist; the public interest could be abused equally where the private interests of the office holder coincide with the public interest so as to mesh together, with the result that in serving the public purpose the individual benefits privately as well. . . . Conflict of interest can in some cases mean compatibility of interest. (p. 29)

The disagreement among counsel was over whether there had to be a fourth prerequisite: that the exercise of the public office holder's duties or responsibilities must have reached the stage of actual decision making.

Commission counsel submitted that the addition of this fourth prerequisite — the need for an actual decision — was too narrow a focus for conflict of interest. In the submission of Commission counsel, the "exercise of duties and responsibilities of government," whether by a minister or any other public office holder, includes more than just the moment of actual decision. The duties and responsibilities of a minister may involve numerous ways in which his or her official functions are exercised — ranging, for example, from informal telephone conversations and meetings to more substantial discussions of government business and more formal ministerial decisions or rulings. In the submission of Commission counsel, the appropriate focus for a definition of conflict of interest is the discharging of public duties or responsibilities, not just the making of a decision that confers a benefit. The focus then is on the situation, not the decision. Making a decision can be an aspect of the situation, but it need not be. In Commission counsel's submission, public office holders may have telephone conversations or attend meetings where public matters are discussed and where no actual decision is made, and still be in a position of conflict.

Counsel for Mr. Stevens and for the Government of Canada disagreed with this approach. They urged me to restrict real conflict of interest to those cases where a minister had actually made a decision that conferred a benefit. According to this definition, a minister of the Crown who met with a party that was clearly seeking government work from the minister, and who discussed with that party a private proposal that would further the minister's personal interests, would not be in a position of conflict unless he or she actually decided to award government work to that party.

I find this latter submission and the suggested definition of conflict of interest much too narrow. In my view, the narrowing of the focus to the moment of actual decision does not accord with the purpose of the code or indeed with the objectives underlying a modern ethics-in-government

regime. As Commission counsel quite properly noted, if the need to show an actual decision conferring a benefit is to be required as part of the test for conflict of interest, the test would be narrowed down to what is already proscribed by our criminal law. Provisions in our Criminal Code already deal with decision-making activities of public office holders that in some circumstances may amount to a fraud upon the government or a breach of the public trust (see, for example, sections 110 and 111 of the Criminal Code in Appendix J).

It is important not to blur the demands of the criminal law with the requirements of a conflict of interest code. The former consists of carefully legislated provisions with attendant penal consequences for actions that fall below the line of what is socially acceptable. The object of the criminal provisions is to ensure that, at a minimum, public office holders will not engage in fraudulent, corrupt, or otherwise criminal behaviour. The provisions of the conflict of interest code are of a different character. First, the provisions are guidelines at most. No legal consequences flow from their violation. The sanctions, if any, are political rather than legal. Their overall objective is to *enhance* public confidence in the integrity of government. The point was effectively made by Commission counsel as follows: "It is not enough . . . to show that you are not a crook. . . . More, surely, is expected of public office holders. . . . [T]hat is why the enhancement of public confidence is at the root of the conflict of interest guidelines" (Transcript, vol. 83, pp. 13,856-57).

Further, the guidelines and the code that I must interpret and apply themselves demand more of public office holders than mere compliance with the criminal law of Canada. For example, section 7(a) of the code requires public office holders to "perform their official duties and arrange their private affairs in such a manner that public confidence and trust in the integrity, objectivity and impartiality of government are conserved and *enhanced*." Section 7(b) states that "public office holders have an obligation to act in a manner that will bear *the closest public scrutiny*, an obligation that is not fully discharged by simply acting within the law." Section 5(2) makes it clear that "[c]onforming to this Code *does not absolve* individual public office holders of the responsibility to take such *additional action* as may be necessary to prevent real, potential or apparent conflicts of interest" (emphasis added).

Moreover, nowhere do the provisions of the code limit their application to situations where a public duty is actually being exercised or a decision is actually being made. Rather, the provisions speak about "situations," "positions," and "activities" and the obligation on the part of the public office holder to avoid activities or situations that place him or her in real, potential, or apparent conflicts of interest relative to his or her official duties and responsibilities; see, for example, sections 4(d), 5(2), 7(a), 7(b), 7(c), 7(d), 16(a), 36(2), and the letter of September 9, 1985.

The purpose for which conflict of interest rules are designed — that is, to ensure that a public office holder exercises his or her official duties

and responsibilities “in a manner that will bear the closest public scrutiny” so that “public confidence and trust in the integrity, objectivity and impartiality of government are conserved and enhanced” (section 7) — would be defeated if the focus of inquiry were artificially confined to cases of actual decision.

The duties and responsibilities of public office, and particularly those of a minister, are sophisticated and subtle. Immense power and influence can be wielded even in the absence of actual decision. The nature of modern government — the importance of access, the nature of influence, the structure of governmental decision making — is such that public confidence and trust in the integrity, objectivity, and impartiality of government can only be conserved and enhanced if *all* of the duties and responsibilities of the public office holder are properly subject to scrutiny, not just those that involve actual decisions. The mingling of private interests with those public duties or responsibilities is no more acceptable at the meeting and discussion stage than it is at the decision-making stage.

I am thus satisfied that the proper interpretation of conflict of interest is one that is concerned with any situation in which the public office holder is exercising or discharging any duty or responsibility of public office, not just that of decision making. This interpretation is also supported in the academic literature on conflict of interest, and in particular in the writings of Professors Sandra Williams and Kenneth Kernaghan. Conflict of interest is defined as “a situation” in which an official or a public office holder has a private financial interest that is “sufficient to influence, or appear to influence, the exercise of his public duties and responsibilities” (Williams, *Conflict of Interest: Ethical Dilemma*, p. 6; see also Kernaghan, “Code of Ethics,” p. 253).

Indeed, this is the very definition that was set out by the Privy Council in 1973. The *Green Paper on Members of Parliament and Conflict of Interest* defined conflict of interest as a “situation in which a Member of Parliament has a personal or private pecuniary interest sufficient to influence, or appear to influence, the exercise of his public duties and responsibilities” (p. 1).

The emphasis is on the situation. The focus of the Inquiry is not confined to the making of a decision but to the full exercise of an office holder’s public duties and responsibilities. It should be noted that the test is objective; it is not “did the private pecuniary interest *in fact* influence the exercise of the particular duty or responsibility,” but “was the private pecuniary interest *sufficient* to influence the exercise of the public duty or responsibility.”

It should also be noted that a real conflict does not materialize until the public office holder is in a situation in which he or she is exercising a duty or responsibility of public office. This is not to say that positive action, such as a telephone call, the attendance at a meeting, or the discussion of some issue, is always required; there may be circumstances where failure to act or a conscious refusal to intervene may amount to *de facto* approval or endorsement. In these cases the situation may be

live with conflict even though the "exercise" of a public duty or responsibility amounts to nothing more than conscious inaction.

Again, the key to understanding the Green Paper's definition of conflict of interest is to understand that the focus is on the situation, not the decision, and that the framework for scrutiny is *any* exercise by the public office holder of his or her official duties or responsibilities.

I am satisfied that the definition set out in the 1973 Green Paper is an appropriate and reasonable interpretation of what constitutes a real conflict of interest. It not only accords with the leading authorities but also with a common sense understanding of what we mean when we say that someone is in a position of conflict of interest. I am reassured to note that Commission counsel referred to the 1973 Green Paper definition throughout the course of the hearings and indicated to all concerned that this was indeed the standard they were using.

It should be noted, however, that the Green Paper connects real and apparent conflict of interest under one definition. In my view, it is important to treat the two notions separately. I will deal with "apparent" conflict in some detail below. Here I want to set out the definition that I will be using for real conflict of interest.

In my view, the 1973 Green Paper definition can be paraphrased for the purposes of this Inquiry as follows: a *real* conflict of interest denotes "a situation in which a minister of the Crown has knowledge of a private economic interest that is sufficient to influence the exercise of his or her public duties and responsibilities." This is the definition of real conflict of interest that I will employ throughout the balance of this report.

Before turning to apparent conflict of interest, one final matter has to be addressed. If real conflict is a situation in which a public office holder has a private economic interest that could influence the exercise of a public duty or responsibility, what then is potential conflict? The code refers to "real, potential and apparent" conflicts of interest in its provisions. The analysis developed above, in my view, helps clarify the notion of potential conflict of interest. Where the public office holder finds himself or herself in a situation in which the existence of some private economic interest could influence the exercise of his or her public duties or responsibilities, the public office holder is in a potential conflict of interest provided that he or she has not yet exercised such duty or responsibility. As soon as the telephone call is placed, or the meeting convened, or the question answered, or the letter drafted, a duty or responsibility of public office has been exercised and the line between potential and real has been crossed.

Potential conflict is the situation that arises between the moment the public office holder realizes that he or she has a private economic interest in some matter at hand and the moment the public office holder exercises a public duty or responsibility and places himself or herself in a position of real conflict of interest. Potential conflict is that momentary oasis of sober reflection that allows the public office holder an

opportunity to respond to and resolve the problem presented in a manner that enhances public confidence in the integrity of government.

The key to understanding potential conflict is in the notion of foreseeability. The potential for conflict exists as soon as the public office holder can foresee that he or she has a private economic interest that may be sufficient to influence a public duty or responsibility. As soon as a real conflict of interest is foreseeable, the public office holder must take all appropriate steps to extricate himself or herself from the predicament. If the caution signs are ignored and the public office holder proceeds to discharge any duty or responsibility of the particular public office that could affect or be affected by the private interest, the line is crossed and a situation of real conflict ensues.

The link between potential conflict and the notion of foreseeability is evident from a review of the provisions of both the 1985 code and the 1980 guidelines. Indeed, although the code speaks in terms of "real, potential or apparent" conflicts of interest, the guidelines are more direct and refer to "real, apparent or foreseeable" conflicts.

A situation of potential conflict should not of itself attract criticism or condemnation and indeed is not criticized in the code. Rather, the code urges the public office holder to reflect upon his or her circumstances and take appropriate steps to prevent the situation from developing into one of a real conflict. Modern conflict of interest inquiries such as this one are thus not concerned with identifying instances of potential conflict — after all, for most public office holders these instances should be nothing more than occasions for reflection and resolution. It is therefore not surprising that in my own terms of reference the Privy Council has not directed that I inquire into instances of "potential" conflict but rather that I inquire into and report on "whether the Honourable Sinclair M. Stevens was in real or apparent conflict of interest."

Apparent Conflict of Interest

Although apparent conflict of interest is not explicitly defined in the guidelines, code, or letter, many provisions of the code make clear that there is a concern about appearances.

Section 7(d) of the code requires public office holders to arrange their private affairs "in a manner that will prevent real, potential or apparent conflicts of interest from arising." Section 16(a) suggests as one method of compliance the technique of "avoidance," which is defined as the avoidance of or withdrawal from participation in "activities or situations that place public office holders in a real, potential or apparent conflict of interest relative to their official duties and responsibilities." Section 36(2) counsels public office holders to "take care to avoid being placed or the appearance of being placed under an obligation to any person or organization that might profit from special consideration on the part of the office holder."

Here again no sanctions or legal consequences flow from a finding of apparent conflict. Public office holders are simply urged to "act in a manner that will bear the closest public scrutiny" (section 7(b)) and to "arrange their private affairs in a manner that will prevent real, potential or apparent conflicts of interest from arising" (section 7(d)).

The concern about appearance of conflict as an important ethical postulate of modern government is one that is well founded. The reasons are obvious. Trust and confidence in government can be maintained and enhanced only if the occasions for apparent conflict are kept to a minimum. Public perception is important. Indeed, the perception that government business is being conducted in an impartial and even-handed manner goes a long way to enhancing public confidence in the overall integrity of government.

As Mr. Justice Robins noted in *Re Moll and Fisher* (1979), 23 O.R. (2d) 609, a case involving municipal school trustees, at page 621:

Clearly, it is inimical to the public interest that an elected official having a voice in bargaining on behalf of the public should, at the same time, be in a position to advance his private economic interest. . . . Trustees, like Caesar's wife, must be, and appear to be, beyond temptation and reproach. The law sets a high objective standard of conduct.

The code is not law as such. The code contains guidelines for ethical conduct. And it strives to set a "high objective standard of conduct" for public office holders. But what is that standard? Apparent conflict of interest is not defined. Further, recourse to the common law is not as helpful as it was for real conflict. Given that legal consequences rarely flow from findings of mere appearance of conflict, few cases are litigated or reported. One exception is the decision of the Federal Court of Appeal in *Threader and Spinks v. The Queen* (1986), 68 N.R. 143. However, the specific prerequisites set out there for appearance of conflict are not directly relevant because of the peculiar regulatory context and because of the court's concern to deal with the serious job-related consequences that were at stake.

Some assistance from the common law, however, can be found in what is known in the judicial context as "reasonable apprehension of bias." The principle that justice must not only be done, but must also be seen to be done, a principle commonly associated with the 1924 decision in the *Sussex Justices Case*, [1924] 1 K.B. 256, is as ancient as the law itself. As Chancellor Boyd noted in *Re L'Abbé and Blind River* (1904), 7 O.L.R. 230 at page 231:

"The plain principle of justice, that no one can be a judge in his own cause, pervades every branch of the law, and is as ancient as the law itself": Paley on Summary Convictions, 7th ed., p. 43, thus sums up the old law. And in *Allinson v. General Council of Medical Education and Registration*, [1894] 1 Q.B. 750, we have the modern exposition: "In the administration of justice, whether by a

recognized legal Court, or by persons who, although not a legal public Court, are acting in a similar capacity, public policy requires that, in order that there should be no doubt about the purity of the administration, any person who is to take part in it should not be in such a position that he might be suspected of being biased": Lord Esher, M.R., at p. 758.

Chancellor Boyd went on to observe at page 231 that "[t]his fundamental rule in the administration of the law is equally venerable and pervasive in the consuetudinary practice of parliaments and legislative bodies."

Relying on the analogy with reasonable apprehension of bias and the common understanding of the phrase "appearance of conflict," Commission counsel suggests the following definition: "An appearance of conflict exists when there is a reasonable apprehension, which a reasonably well-informed person could properly have, that a conflict of interest exists."

An appearance of conflict could thus exist even where there is no real conflict in fact. Real conflict requires, *inter alia*, knowledge on the part of the public office holder of the private interest that could be affected by his or her actions or inactions. No such actual knowledge is necessary for an apparent conflict because appearance depends on perception. However, the perception must be reasonable, fair, and objective. An appearance of conflict should not be found unless a reasonably well-informed person could reasonably conclude as a result of the surrounding circumstances that the public official must have known about his or her private interest.

It was also emphasized that although appearance of conflict requires that the perception be fair-minded and reasonably well informed, it does not require that the perception be based on a complete understanding of *all* the facts, including the public office holder's actual knowledge.

It is on this point that Commission counsel on the one hand and counsel for Mr. Stevens and for the Government of Canada on the other part company. The latter would add a further requirement for appearance of conflict: that the reasonably well-informed observer establish in fact that the minister had actual knowledge of or was at least wilfully blind to the existence of his private interests.

Both ^{the}counsel for Mr. Stevens and for the Government of Canada argued that ^{the}actual knowledge is thus required not only for a finding of real conflict of interest but also for a finding of appearance of conflict. The submission amounted to the assertion that "knowledge," or "*mens rea*" in the criminal law sense, was a necessary prerequisite to appearance of conflict.

I have difficulty with this submission. The concern that actual knowledge or *mens rea* be a prerequisite to a finding of appearance of conflict seems to be rooted in a fundamental misunderstanding of "appearance of conflict" and a misreading of the provisions of the code. The submission of counsel for Mr. Stevens and for the Government of Canada in my view proceeds from the erroneous assumption that the

code is designed to punish wrong-doers. Indeed, this adoption of criminal law analysis was evident in the submission of counsel for the Government of Canada at page 11 that "the code is not a device to punish the innocent."

But this, in my view, characterizes the nature and purpose of the conflict of interest code incorrectly. As noted earlier, the code and particularly the provisions dealing with appearance of conflict are not penal in nature. The consequences for breaching these standards of ethical behaviour are moral and political, not legal and certainly not penal. The object and purpose of the code is to enhance the impartiality and integrity of public office holders. The prevention of apparent conflict is one way in which this objective is achieved.

I do not believe it is appropriate to impose by analogy or otherwise the requirements of criminal law upon conflict of interest guidelines. Indeed, I note that the criminal law itself has carved out an exception to the doctrine of mens rea in the area of breach of trust by public office holders. In *R. v. Campbell*, [1967] 3 C.C.C. 250, the Ontario Court of Appeal found that even under a Criminal Code prosecution for breach of public trust, full mens rea or wilful blindness was not required, and that in certain circumstances ordinary negligence was sufficient to establish the criminal offence. If knowledge or intention is not required in related prosecutions under the criminal law, it surely cannot be a prerequisite for the application of conflict of interest guidelines.

Counsel for Mr. Stevens and for the Government of Canada also submitted that the onus is upon the reasonably well-informed observer to ascertain *all* the facts, including the office holder's state of knowledge, before coming to any conclusion about appearance of conflict. Counsel for the Government of Canada put the point this way: If I should find after five months of public hearings and listening to the evidence of more than 90 witnesses that in a particular situation Mr. Stevens in fact had no knowledge of his private interest, then I should not find an appearance of conflict. That is, if I have now found the "true" situation, and if I have satisfied myself that in this situation the minister did not in fact know about a particular private interest, then there can be no finding of appearance of conflict with regard to that situation.

This is, to say the least, a remarkable submission. It really amounts to the suggestion that the reasonably well-informed Canadian must conduct his or her own commission of inquiry before he or she can draw any conclusions about appearance of conflict.

In support of this submission, counsel for Mr. Stevens and for the federal government rely on the Supreme Court decision in *Valente v. The Queen*, [1985] 2 S.C.R. 673. In their view, the Court adopted the "true situation" test as part of the requirements for finding appearance of conflict, or, more accurately in the judicial context, reasonable apprehension of bias. Counsel for both Mr. Stevens and the Government of Canada submit that in *Valente* the Supreme Court of Canada adopted the dissenting opinion of Mr. Justice de Grandpré in *Commit-*

tee for Justice and Liberty et al. v. National Energy Board et al., [1978] 1 S.C.R. 369. In this decision the majority of the Supreme Court of Canada, per Laskin C.J.C., defined reasonable apprehension of bias at page 391 as "a reasonable apprehension, which reasonably well-informed persons could properly have."

Mr. Justice de Grandpré dissented, however, and set out his test in two ways. First, at page 394 he said:

[T]he apprehension of bias must be a reasonable one, held by reasonable and right minded persons, applying themselves to the question and obtaining thereon the required information. In the words of the Court of Appeal, that test is "what would an informed person, viewing the matter realistically and practically — and having thought the matter through — conclude."

Later, at page 402, Mr. Justice de Grandpré put the question somewhat differently:

[W]hat would a reasonable and right minded person have discovered if he had taken the time and trouble of informing himself of the true situation?

It is interesting to note that Commission counsel accepts the first branch of Mr. Justice de Grandpré's test as a paraphrase of the conventional definition that they urge me to adopt. Commission counsel takes exception, however, to the second branch and the additional requirement that the reasonably well-informed person must also take the time and trouble to inform himself or herself of *all* the facts, that is, of the "true situation."

Commission counsel submits that the second branch of Mr. Justice de Grandpré's test was not in fact adopted in the Supreme Court's decision in *Valente*. I agree. A careful reading of Mr. Justice LeDain's decision in *Valente* shows that only the first portion of Mr. Justice de Grandpré's language was in fact approved, that is, "what would an informed person, viewing the matter realistically and practically, and having thought the matter through, conclude."

The second part of Mr. Justice de Grandpré's test — taking the time and trouble to inform oneself of the true situation — was not adopted or approved by the Supreme Court. And for good reason. The onus is surely not upon the fair-minded and reasonably informed Canadian citizen to conduct his or her own commission of inquiry in order to determine whether or not certain facts were indeed known to the minister. The onus in modern ethics-in-government regimes and, in particular, in the provisions of the code, is upon the public office holder to act "in a manner that will bear the closest public scrutiny" (section 7(b)) and to arrange his or her own affairs "in a manner that will prevent real, potential or apparent conflicts of interest from arising" (section 7(d)).

It is enough that an informed person viewing the matter realistically and practically and having thought the matter through concludes that

there is an appearance of conflict. That is what appearance means. I am satisfied that the appropriate definition is that set out by the Supreme Court of Canada in *Valente* as quoted above, or as paraphrased for the purposes of this Inquiry as follows: "An apparent conflict of interest exists when there is a reasonable apprehension, which reasonably well-informed persons could properly have, that a conflict of interest exists."

Definitions

- A real conflict of interest denotes a situation in which a minister of the Crown has knowledge of a private economic interest that is sufficient to influence the exercise of his or her public duties and responsibilities.
- An apparent conflict of interest exists when there is a reasonable apprehension, which reasonably well-informed persons could properly have, that a conflict of interest exists.

These are the definitions of real and apparent conflict that in my view accord with the common law, and with the provisions of the guidelines and code. These are the definitions that I will be using in this report.

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Part Two

Business Interests

In this part I briefly describe Mr. Stevens' background and ministerial responsibilities and then set out the nature and extent of Mr. Stevens' private business interests, their financial condition, and his involvement in these business interests to September 1984 when he was appointed to the cabinet. This part concludes with a discussion of the steps that were taken by Mr. Stevens to comply with the guidelines, code, and letter.

Chapter 4

Mr. Stevens' Background and Ministerial Responsibilities

Personal Background

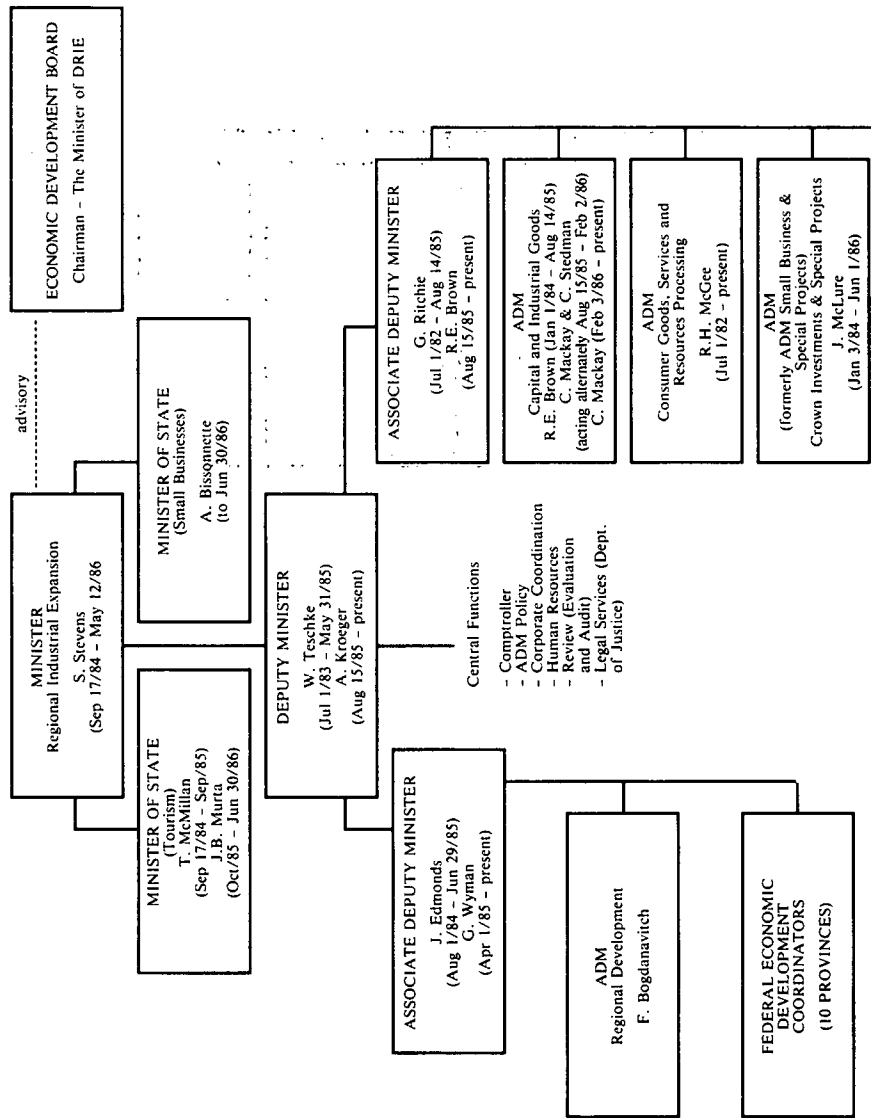
Sinclair M. Stevens graduated from the University of Western Ontario in journalism in 1951 and was employed for two years thereafter as a full-time reporter for the *Toronto Star*. He continued his work as a journalist part-time while he attended Osgoode Hall Law School. In 1955 Mr. Stevens completed his legal studies and joined the Toronto law firm of Fraser and Beatty. In 1957 he established the firm of Stevens, Hassard & Elliott, and practised law until the early 1960s. At this time Mr. Stevens' interests began to turn to business, and he left the practice of law in 1964.

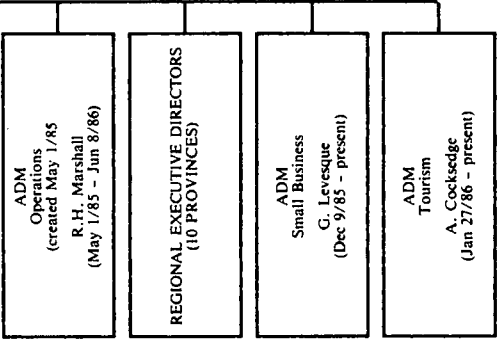
During these early years Mr. Stevens incorporated York Trust & Savings Corporation, which eventually became Metropolitan Trust, now part of National Trust Company. He also incorporated British International Finance (Canada) Limited. Mr. Stevens then worked with James Coyne, a former governor of the Bank of Canada, to obtain a bank charter for the Bank of Western Canada. Together they raised \$13 million and eventually obtained the charter, but the bank was never established because of management disagreements. British International Finance was the predecessor corporation to York Centre.

In the late 1960s Mr. Stevens began his involvement in political life by becoming the secretary of the then York-Simcoe Progressive Conservative Association. In 1971 the search committee for that riding asked Mr. Stevens to run for the nomination, and, in February 1972, he was acclaimed by the Progressive Conservative riding association. In every election since, he has been acclaimed and has won the seat.

In 1979 the Progressive Conservative party led by Joe Clark formed the government. Mr. Stevens served for the short time that government was in power as president of the Treasury Board. After the government's defeat, Mr. Stevens continued in Parliament as a member of the opposition and resumed his business activities. On September 4, 1984, the Progressive Conservatives, led by Brian Mulroney, won the general election and again formed the government. On September 17, 1984, Mr. Stevens was appointed minister of DRIE.

Figure 4.1 Department of Regional Industrial Expansion Organization, July 1986





Source: Exhibit 6, Chart 2

Ministerial Responsibilities

As minister, Mr. Stevens was responsible for the management and direction of DRIE. His vast powers and duties extended generally to manufacturing, processing, and service industries, regional industrial development, small business, tourism, and trade and commerce within Canada. In accordance with this mandate, the minister was to seek ways of enhancing the national economy as well as promoting development in less advantaged areas in Canada. To give effect to these objectives, he was responsible for developing and overseeing various programs, some of which delivered substantial amounts of financial assistance to the private sector. In carrying out his departmental responsibilities Mr. Stevens established and chaired a ministerial committee, called the Economic Development Board (EDB), to review certain major applications for assistance. He was also chairman of another committee in this area, the Cabinet Committee on Economic and Regional Development (CCERD), as well as a member of the Priorities and Planning Committee. The basic organization of the department is shown in figure 4.1.

In addition to DRIE, Mr. Stevens was also responsible for CDIC, Investment Canada, and a number of smaller crown corporations and investments, including the Federal Business Development Bank, Cape Breton Development Corporation, Canadian Patents and Development Ltd., and Pêcheries Canada Inc., and federally owned shares in two fish-packing companies, Fishery Products International Ltd. and National Sea Products Ltd. An overview of these responsibilities is set out in figure 4.2.

As minister responsible for the Cape Breton Development Corporation, Mr. Stevens was involved in liaison with the Sydney Steel Corporation (Sysco), a Nova Scotia crown corporation with overlapping responsibility for development in the Cape Breton area. Mr. Stevens' duties also included carrying out proposed changes to foreign investment regulation which resulted in the abolition of the Foreign Investment Review Agency (FIRA) and the establishment on July 1, 1985, of its successor, Investment Canada.

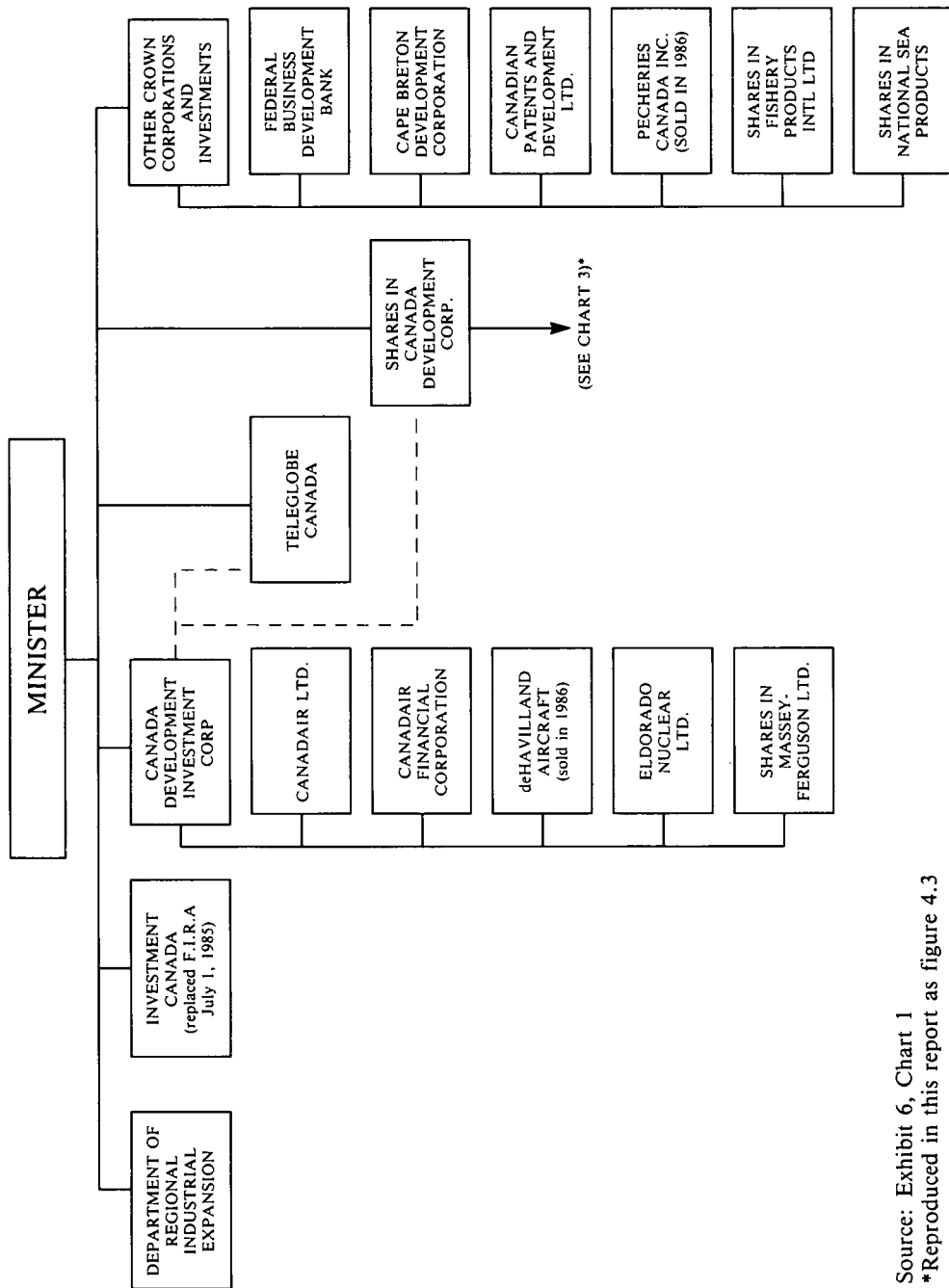
Mr. Stevens, as trustee shareholder, had responsibility for CDIC. CDIC, put simply, is a parent crown corporation, holding certain federally owned assets. Mr. Stevens was charged with overseeing government policy in privatization; in the fall of 1984 that policy was to sell to the private sector as quickly as possible the crown corporations owned or managed by CDIC as well as the government's shares in CDC. In doing so, he headed a ministerial committee called the Task Force on Privatization. CDIC's assets changed during Mr. Stevens' tenure as minister as some of its holdings were privatized, but in September 1984 the holdings included Canadair, de Havilland Aircraft of Canada Ltd. (de Havilland), Eldorado Nuclear Ltd. (Eldorado), and the federally owned shares in Massey-Ferguson Ltd. CDIC was responsible for overseeing the operations of Teleglobe Canada

(Telelobe); it also advised the minister, as trustee shareholder for the government, on the federally owned shares in CDC. The ownership and managerial responsibilities of CDIC are also set out in figure 4.2.

The federal government had approximately a 48 percent voting interest in CDC in the fall of 1984. In turn, CDC's holdings included companies whose activities were wide ranging — Polysar Ltd. and Petrosar Ltd., Canterra Energy Ltd., Kidd Creek Mines Ltd. (Kidd Creek), and CDC Life Sciences Inc., to name but a few. The holdings of CDC as of December 31, 1985, are set out in figure 4.3.

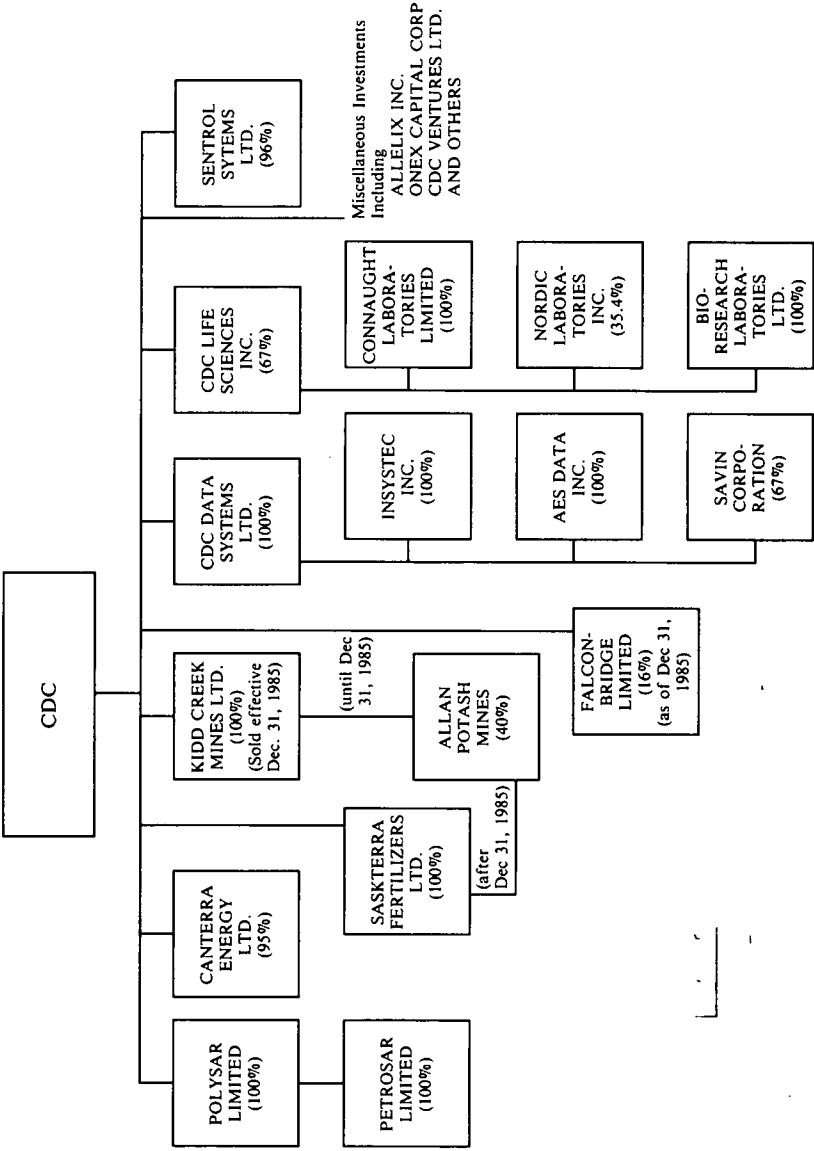
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Figure 4.2 Portfolio Responsibilities of the Minister of Regional Industrial Expansion, May 15, 1986



Source: Exhibit 6, Chart 1
 *Reproduced in this report as figure 4.3

Figure 4.3 Canada Development Corporation Holdings, December 31, 1985



Source: Exhibit 6, Chart 3

Chapter 5

The York Centre Group of Companies

Mr. Stevens' business interests must be reviewed in detail for a number of reasons. First, the allegations involved dealings with assets and companies alleged to be Mr. Stevens'. The nature of these interests and Mr. Stevens' relationship to them must be understood in order to discuss the issues raised by the allegations and to follow in context the events that form part of them. Secondly, the conflict of interest requirements for cabinet ministers refer to a minister's assets. It is important to know what Mr. Stevens' assets were in order to assess what he was required to do as a minister and whether he did it.

This chapter reviews Mr. Stevens' business assets by describing various companies, the shareholdings in them, their activities, and their key personnel. It outlines the officers and directors in the companies, and describes the companies' financial and administrative interrelationships and the views others had of them. Finally, it deals with the issue of Mr. Stevens' influence and control over them.

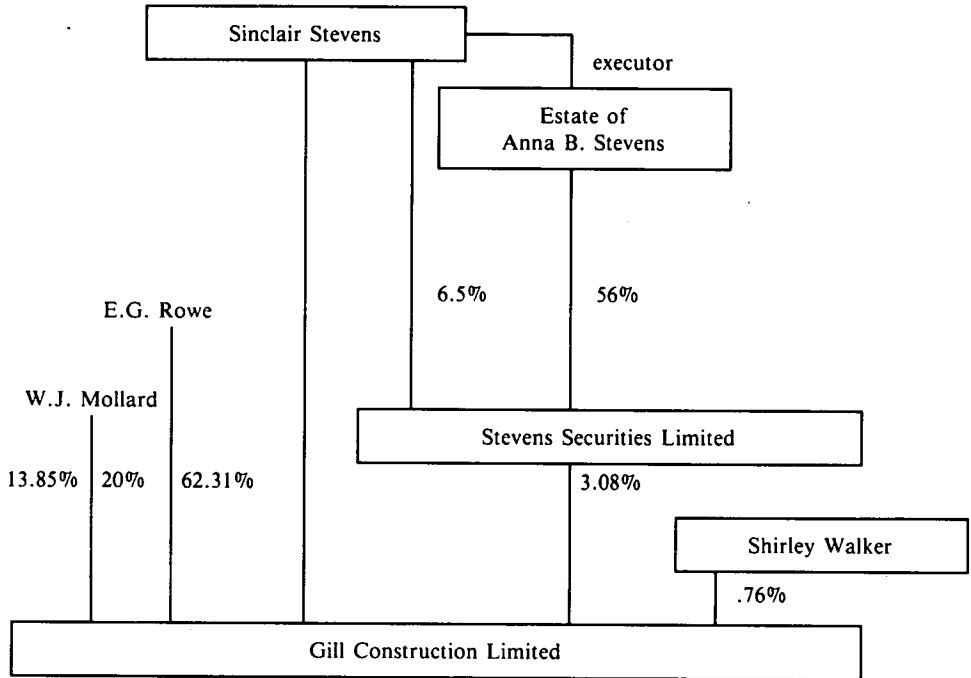
Direct Holdings of Sinclair Stevens: Gill Construction Limited and Stevens Securities Limited

In 1984, when he entered the cabinet, Mr. Stevens' major asset was his shareholding in Gill Construction Limited (Gill). (This shareholding was placed in a blind trust.) Gill was a holding company that had no active business of its own. The voting shareholdings in Gill at that time are set out in figure 5.1. As can be seen, Mr. Stevens was the majority shareholder in Gill. He was also able to vote the Gill shares held by a company called Stevens Securities Limited (Stevens Securities) because of his powers as the sole executor of the estate that controlled it.

As a holding company, Gill had assets consisting of loans to and investments in other companies. In March 1984, 81 percent of Gill's assets consisted of loans to and shares in York Centre. A further 14 percent of Gill's assets consisted of loans to and investments in companies connected with York Centre.

In addition to his shares in Gill, Mr. Stevens' business assets included a small shareholding in Stevens Securities. Stevens Securities had

Figure 5.1 Gill Construction Limited, Voting Shareholdings, September 1984



Source: Exhibit 190, pp. 28, 29, 32, 37; Exhibit 212, p. 2; Exhibit 8, Tab 1, p. 26

originally been set up to provide for the education of Mr. Stevens' nephews, but by 1984 its primary purpose was as a vehicle for borrowing and advancing money to York Centre and companies connected with it. More than 80 percent of Stevens Securities' assets consisted of loans to or investments in York Centre and connected companies.

Indirect Holdings of Sinclair Stevens: York Centre Corporation and Other Companies

Gill's major asset was its shareholding in York Centre, in 1984 a public company traded on the Vancouver Stock Exchange. Gill held the largest single number of voting shares in York Centre. The next largest block was that owned by Mr. Stevens' long-time business associate, Mr. William (Bill) Mollard. One other shareholder had a significant block, with about 10 percent of the votes; the remainder were widely held. The voting shareholdings in York Centre in 1984 are set out in figure 5.2.

Like Gill, York Centre was a holding company with no active business of its own. In 1984 it held major investments in companies with interests in four areas:

- oil and gas;
- real estate;
- strip bond holding and trading; and
- shoe manufacturing.

In 1984 many of York Centre's areas of investment were relatively new, reflecting recent changes in the company's interests. For example, it had embarked on oil and gas investments in 1980-82 and on strip bond activity in 1980, while by 1983 it had ended its historical involvement in building. Its involvement in shoe manufacturing ended in the fall of 1984, when Sisman's Holdings Ltd., owned 49 percent by York Centre, went into receivership.

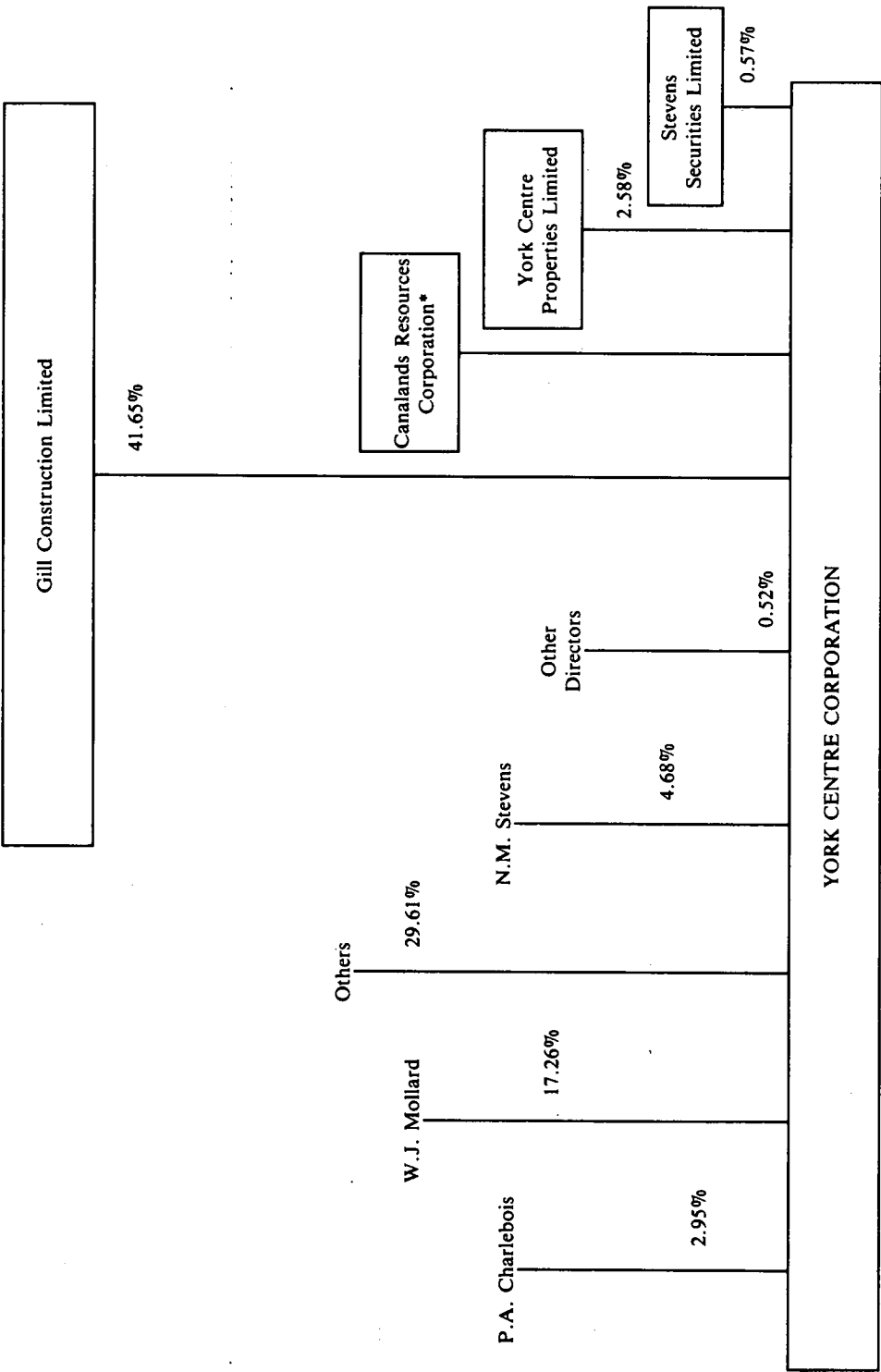
In 1984 Mr. Stevens was president of Gill and Mr. Ted Rowe, who was also his campaign manager, was president of York Centre. Mr. Stevens had been chairman of York Centre from 1981 until late 1983. The board of Gill consisted of Mr. Stevens, his assistant Shirley Walker, who later became a special assistant to him as minister, and Mr. Mollard. Mr. Mollard and Miss Walker also held offices in York Centre and Mr. Rowe and Mr. Mollard were directors.

I now turn to the companies in which York Centre held investments.

Oil and Gas

In 1984 York Centre's interests in oil and gas were mainly held through investments in Sentry Oil & Gas Corp. (Sentry) and Canalsands

Figure 5.2 York Centre Corporation, Voting Shareholdings, September 1984



Sources: Exhibit 99, p. 113; Exhibit 111-1, p. 229; Exhibit 190, pp. 8-9, 13-15

*Shares held by Canalands could not be voted — Percentages for other companies therefore do not take account of this shareholding.

Resources Corporation (Canalands), both of which it controlled directly or indirectly (see figure 5.3). According to the 1984 annual report, oil and gas investments comprised 79 percent of York Centre's assets, but produced virtually no revenue.

In 1984 Sentry was a public company traded on the Vancouver Stock Exchange. It had been incorporated late in 1980, in part by Gill and York Centre. York Centre obtained control of Sentry late in 1982. In 1984 Canalands was also a public company whose shares were traded on the Alberta Stock Exchange. Canalands had been formed from a merger in 1983 of Canalands Energy Corporation (Canalands Energy) and Invermere Resources Inc. (Invermere). York Centre had participated in the incorporation of Canalands Energy late in 1980, obtaining control of it by the end of that year. York Centre had taken over Invermere by early 1983; it then sold its Canalands Energy shares to Invermere and the merger took place.

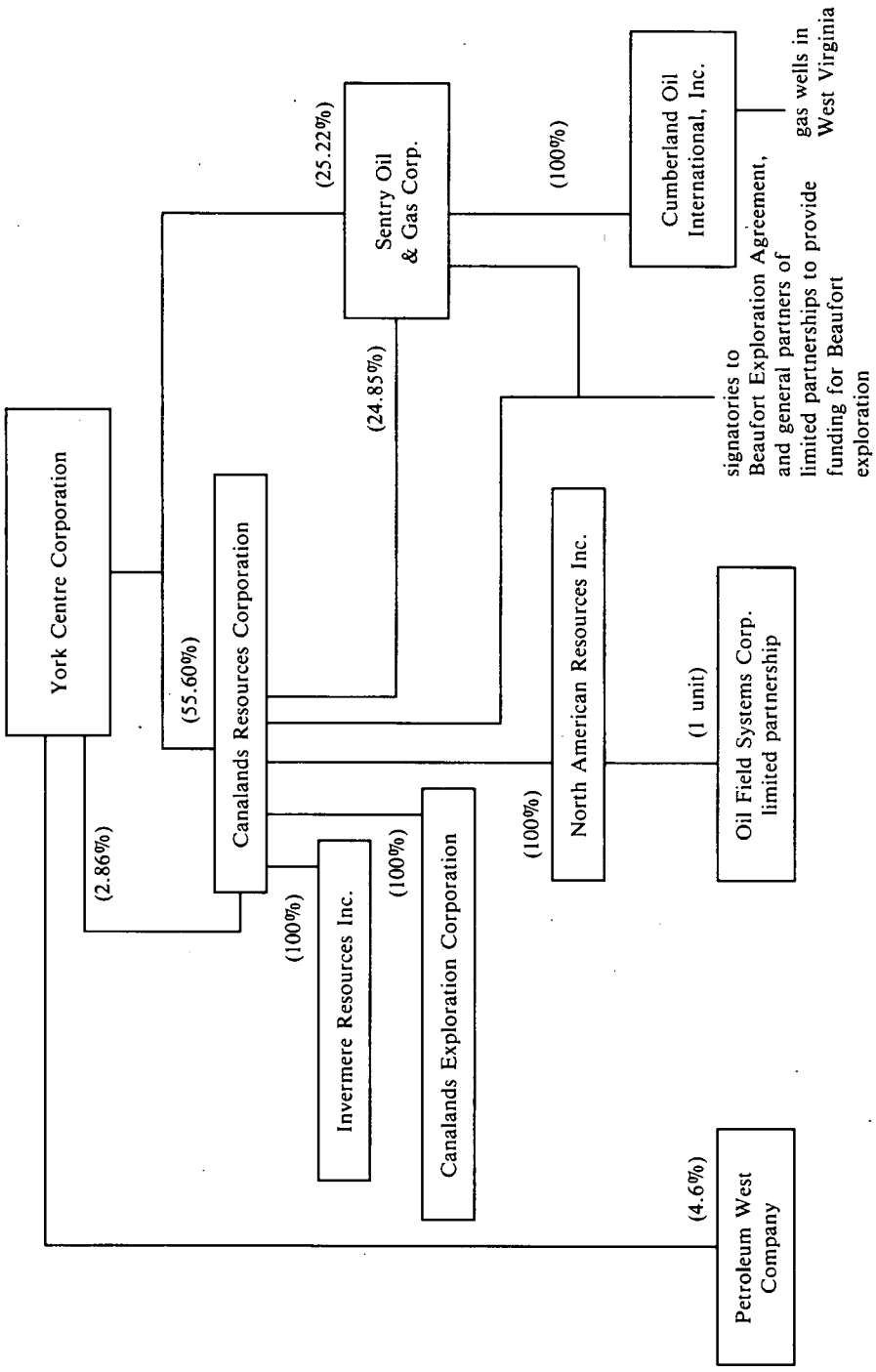
Canalands' and Sentry's principal investment was established through an agreement Canalands Energy reached with Esso Resources Canada Limited (Esso) in May 1982 for exploration and development of oil and gas deposits in the Beaufort Sea. By 1984, owing to the substantial funding requirements for this activity, Sentry and Canalands had reached an agreement with AT&S Exploration Ltd. (AT&S) which provided for AT&S to assume their exploration-funding requirements in return for a share of their interest in the ultimate revenues from the Beaufort exploration.

Sentry and Canalands also had other, less significant investments in oil and gas, as did York Centre. Sentry was the sole owner of Cumberland Oil International Inc. (Cumberland), and Canalands was the sole owner of North American Resources Inc. (North American). Cumberland and North American were U.S. companies with investments in U.S. exploration and interests in several producing gas wells. York Centre also owned a small percentage of the shares in another oil and gas company.

To assist it in entering the oil and gas field, York Centre had added two executives, J. Donald Macgregor and Michael Neary, in 1980. Mr. Macgregor was experienced in the oil industry, and, as the technical expert, he commissioned or received geological data, valuations, and reports of exploration activity which he analyzed and summarized. Mr. Neary was experienced in financial analysis. Both men assisted with equity and debt-financing proposals. Successful proposals in which they were involved included Canalands bank loans and a Sentry share issue. In 1984 Mr. Macgregor was the president of Canalands and Sentry and a director of both companies, and Mr. Neary was an officer in both companies and a director of Canalands.

At that time, Mr. Rowe, Miss Walker, and Mrs. Noreen Stevens, Sinclair Stevens' wife, were associated either with Sentry or Canalands, Mr. Rowe being chairman and a director of Canalands, Mrs. Stevens secretary and a director of Sentry, and Miss Walker an officer of Canalands. Mr. William Mollard was a director of Canalands.

Figure 5.3 York Centre Investment in Oil and Gas Resources, September 1984



Sources: Exhibit 99, pp. 130, 148, 156, 157, 250, 268, 271; Exhibit 111, p. 78; Exhibit 190, pp. 88, 89, 105-6

Real Estate

In 1984 York Centre itself owned shares in three companies, Cardiff Construction Co. Limited (Cardiff Construction), the Highlands of King Investments Group Limited (Highlands), and Clady Farm Limited (Clady Farm). Cardiff Construction in turn had a number of subsidiaries, and these subsidiaries, Clady Farm, and Highlands owned real estate. The shareholdings in this area are set out in figure 5.4.

With the exception of York Centre Properties Woodbine Limited, York Centre had complete ownership of all the real estate companies either directly or indirectly. Mrs. Stevens described York Centre's real estate subsidiaries as "really the same company ... incorporated ... primarily to comply with the Planning Act" (Transcript, vol. 62, p. 10,596). Mr. Stevens himself testified that the companies were "generally looked upon as the real estate division" (Transcript, vol. 69, p. 11,843). Indeed, in the spring and early summer of 1985 the real estate companies, apart from Clady Farm and York Centre Properties Woodbine Limited, were amalgamated into Cardiff.

The real estate held by the companies consisted of developed industrial sites, vacant land, and farm property in Ontario and Alberta. From the evidence, it appeared that the real estate companies had constructed and leased buildings on various properties prior to the 1980s but that this development activity had ceased by 1984. There was also evidence from the internal records of creditors indicating that some properties were sold between 1982 and 1984. According to York Centre's 1984 annual report, 13 percent of its assets consisted of revenue-producing commercial and industrial properties and land held for development.

Two individuals had specific association with the real estate companies. Mr. William Mollard was president of the eight companies in 1984. He continued to be one of the persons who dealt with creditors in September 1984 but, according to Mr. Stevens, was then approaching retirement and inclined to lessen his activity in the companies.

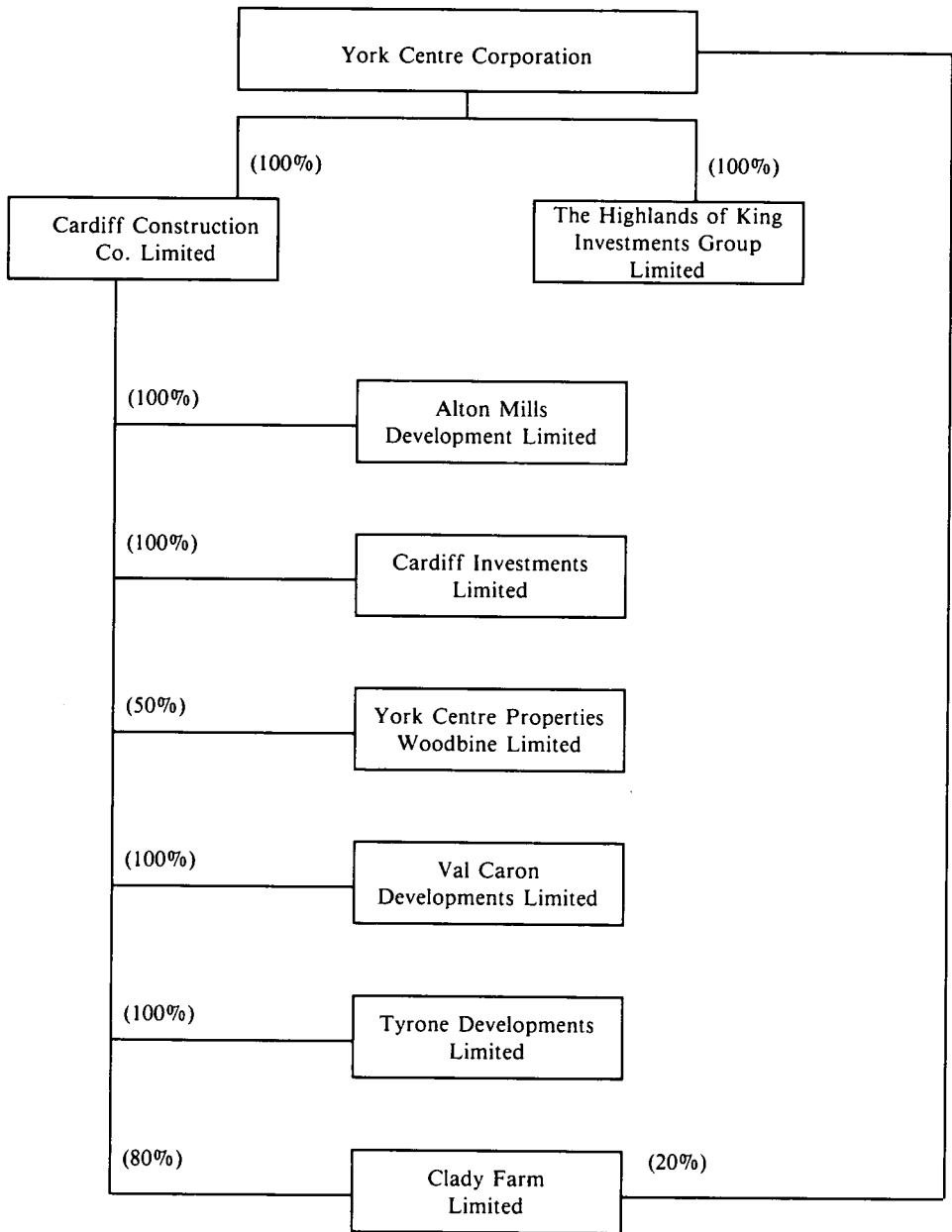
In 1984 Mr. Douglas Hopkins held the title of vice-president in three of the subsidiaries, was a director of five, and managed them along with Mr. Mollard. The evidence showed that Mr. Hopkins had dealt with one of the creditors of Cardiff Construction, Guaranty Trust Company of Canada, and had had a role in refinancing two properties.

Mr. Rowe, Mrs. Stevens, and Miss Walker held positions in most of the real estate subsidiaries in addition to their involvement in oil and gas, Mr. Rowe being an officer in two companies and a director of six, Mrs. Stevens an officer in seven companies and a director of two, and Miss Walker an officer in all eight companies and a director of three.

Strip Bonds

The other area of investment was strip or stripped bonds. A strip bond is an ordinary bond (typically issued or backed by a government) that has

Figure 5.4 York Centre Real Estate Shareholdings, September 1984



Sources: Exhibit 98, pp. 140, 141, 261; Exhibit 99, pp. 74, 75, 214, 215

been separated into two components, the interest coupon(s) and the so-called "residual," the issuer's promise to pay the principal amount. Either component may be referred to as a strip bond. Investments are made in the strip bonds themselves or in securities that afford an investor a right in pools of such bonds. Mr. Stevens was one of the initial developers of the strip bond business in the early 1980s. The business was successful at first because, like all deferred interest vehicles at that time, the strip bonds allowed investors to avoid paying income tax until they actually received the interest some years later. In late 1981 Canada's tax laws were changed to require payment of tax on accruing but unpaid interest at intervals of no longer than three years.

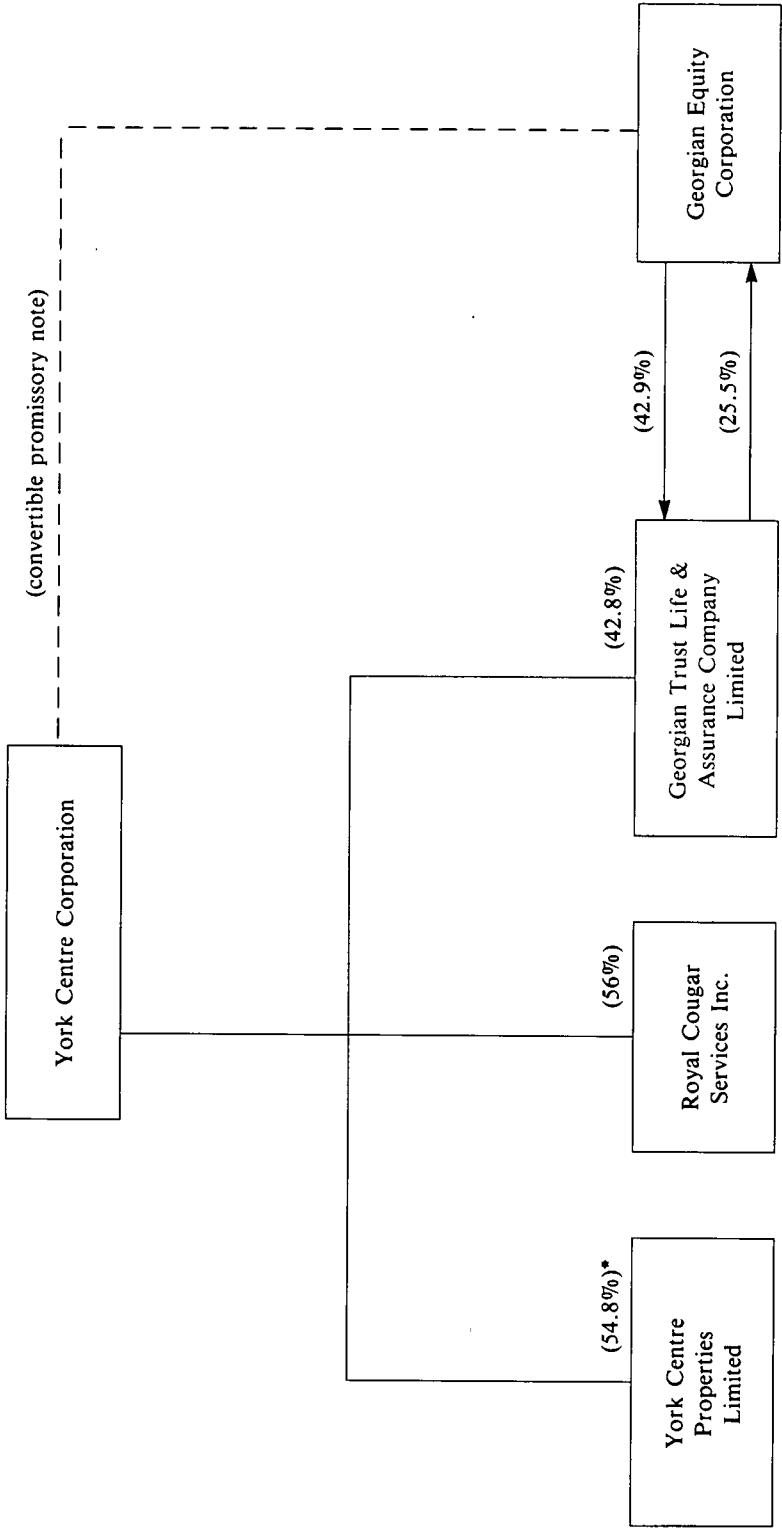
In 1984 York Centre's involvement with strip bonds was primarily through its investments in Royal Cougar Services Inc. (Royal Cougar) and Georgian Trust and Life Assurance Company Limited (Georgian Trust), a Turks and Caicos corporation, both of which Mr. Stevens was instrumental in founding, and secondarily through its investments in Georgian Equity Corporation (Georgian Equity), a Georgia corporation, and York Centre Properties Limited (YCPL). Its interests in these companies are set out in figure 5.5.

Georgian Trust was incorporated in 1980 as a result, according to Mrs. Stevens, of discussions Mr. Stevens had had with her over some years about the financial concept of strip bonds. In 1984 it held a significant portfolio of B.C. Hydro and Ontario Hydro residuals. Since these did not mature for some time, this investment provided no revenue to York Centre. Georgian Equity was activated in 1980, having been established some years earlier by Mr. Stevens and an Atlanta partner. In 1984, Georgian Equity was used as a financial intermediary for various companies both inside and outside the bond group. Royal Cougar was incorporated in 1982 and became active in 1983. Its business was the retail sale of strip bonds or securities backed by strip bonds. YCPL, incorporated in 1962, was activated to act as Georgian Trust's agent on a loan in 1983.

In 1984 York Centre held the majority of the voting shares in Royal Cougar and, as far as is known, in YCPL. As for Georgian Equity and Georgian Trust, there was a considerable amount of evidence regarding ownership and control. In figure 5.5, the broken line connecting York Centre to Georgian Equity represents a convertible promissory note from Georgian Equity held in 1984 by York Centre. Gill originally obtained this conversion right in 1980. The conversion privilege was contained in an agreement which provided that the debt could be changed to shares in Georgian Equity. Mr. Stevens entered into this agreement on behalf of Georgian Equity, and Miss Walker signed for Gill. If the agreement were triggered, the owner of the note would then own 30,000 shares, which on Georgian Equity's share structure in 1984 would have amounted to about 91 percent of the shares. The evidence was that the agreement was never triggered.

There was also evidence that Mrs. Stevens held about 49 percent of the 3075 shares in Georgian Equity outstanding in 1984. It was

Figure 5.5 York Centre Investment in Bonds, September 1984



Sources: Exhibit 99, pp. 74, 111, 214; Exhibit 190, pp. 133, 139, 142; Exhibit 213, pp. 1-3, 21; Exhibit 230, pp. 11, 14-15
*1986 figure

suggested, however, that she held most of these shares in trust, under a trust apparently not reduced to writing until 1986.

I find that York Centre's interest convertible into shares provided it with effective control of Georgian Equity and thus also Georgian Trust.

In 1984 Mr. Philip MacDonald was the president and a director of Royal Cougar and YCPL, having joined both in 1983. He managed Royal Cougar's operations. Mr. Stevens was the president and one of the two directors of Georgian Equity until July 1984, when he was replaced by Mrs. Stevens. Mrs. Stevens and Miss Walker were associated with YCPL and Royal Cougar. Miss Walker was an officer of Georgian Trust and Mrs. Stevens a director. Mrs. Stevens became an officer and director of Georgian Equity in 1984 on her husband's resignation.

Officers and Directors

In 1984 a small group of people were officers and/or directors in a number of the companies in which Gill and York Centre had an interest. I have mentioned, for example, the positions of Mr. and Mrs. Stevens, Miss Walker, Mr. Rowe, and Mr. Mollard, each of whom was associated with companies in more than one area of York Centre's business; the others mentioned, such as Mr. Neary or Mr. Hopkins, held operating positions in one area. In addition to these individuals, there were officers and directors who apparently were less actively involved. The officers and directors of the various companies in 1984 are set out in tables 5.1, 5.2, 5.3, 5.4, and 5.5.

Table 5.1 Officers and Directors, Gill and Stevens Securities, September 1984

Officers and Directors	Gill Construction Limited	Stevens Securities Limited
Officers		
Chairman	—	—
President	S. Stevens	S. Stevens
Vice-president	W. Mollard	—
Secretary	S. Walker	E. Bailey
Other	N. Stevens	A. Stevens S. Walker
Directors	W. Mollard S. Stevens S. Walker	E. Bailey J. Bailey A. Stevens S. Stevens

Sources: Exhibit 8, tab 1, pp. 25, 68; Exhibit 8, tab 2, pp. 33, 34; Exhibit 180, p. 2; Exhibit 190, pp. 3-5; Productions of Mr. Stevens

Table 5.2 Officers and Directors, York Centre, 1984

Officers and Directors	York Centre Corporation
Officers	
Chairman	—
President	E. Rowe
Vice-president	W. Mollard
Secretary	S. Walker
Other	A. Wofford
Directors	L. Bodie J.P. Charlebois P.A. Charlebois D. McPhail W. Mollard E. Rowe B. Shekter S. Walker J. Wintermeyer A. Wofford

Sources: Exhibit 8, tab 2, p. 33; Exhibit 99, pp. 23, 116; Exhibit 190, pp. 3–5; Productions of Mr. Stevens

Table 5.3 Officers and Directors, Real Estate Companies, 1984

Officers and Directors	Cardiff Construction Co. Limited	The Highlands of King Investment Group Limited	Alton Mills Development Limited	Cardiff Investments Limited	York Centre Properties Woodbine Limited	Clady Farm Limited	Tyrone Investments Limited	Val Caron Developments Limited
Officers								
Chairman	—	—	—	—	—	—	—	—
President	W. Mollard	W. Mollard	W. Mollard	W. Mollard	W. Mollard	W. Mollard	W. Mollard	W. Mollard
Vice-president	—	E. Rowe	D. Hopkins	—	R. Leslie	E. Rowe	D. Hopkins	D. Hopkins
Secretary	S. Walker	S. Walker	N. Stevens	N. Stevens	S. Walker	N. Stevens	S. Walker	S. Walker
Other	J.P. Charlebois N. Stevens		S. Walker	J.P. Charlebois S. Walker	M. Leslie N. Stevens	S. Walker	N. Stevens	N. Stevens
Directors								
	W. Mollard	W. Mollard	W. Mollard	W. Mollard	W. Mollard	W. Mollard	W. Mollard	W. Mollard
	J.P. Charlebois	E. Rowe	D. Hopkins	N. Stevens	S. Walker	N. Stevens	D. Hopkins	D. Hopkins
	D. Hopkins	S. Walker	E. Rowe	D. Hopkins	R. Leslie	E. Rowe	E. Rowe	S. Walker
	E. Rowe			J.P. Charlebois E. Rowe	M. Leslie			

Sources: Exhibit 8, tab 2, p. 33; Exhibit 180, pp. 1,2; Exhibit 190, pp. 3-5; Productions of Mr. Stevens

Table 5.4 Officers and Directors, Oil and Gas Companies, 1984

Officers and Directors	Canalands Resources Corporation	Sentry Oil & Gas Corp.
Officers		
Chairman	E. Rowe	—
President	D. Macgregor	D. Macgregor
Vice-president	M. Neary	—
Secretary	—	N. Stevens
Other	S. Walker	M. Neary
Directors	D. Macgregor	L. Bodie
	D. McPhail	D. Macgregor
	W. Mollard	D. Schwartz
	M. Neary	N. Stevens
	E. Rowe	A. Wofford
	A. Wofford	

Sources: Exhibit 99, pp. 134, 160; Exhibit 180, pp. 1, 2; Exhibit 190, pp. 3-5; Productions of Mr. Stevens

Table 5.5 Officers and Directors, Bond Companies, 1984

Officers and Directors	Georgian Equity Corporation	Georgian Trust & Life Assurance Company Limited	York Centre Properties Limited	Royal Cougar Services Inc.
Officers				
Chairman	—	—	—	—
President	S. Stevens/N. Stevens ¹	P. Peary	P. MacDonald	P. MacDonald
Vice-president	—	—	N. Stevens	—
Secretary	G. Thrasher	P. Savory	S. Walker	N. Stevens
Other	S. Walker	S. Walker	—	S. Walker
Directors				
	G. Thrasher	A. Morris	P. MacDonald	P. MacDonald
	S. Stevens/N. Stevens ¹	P. Peary	N. Stevens	N. Stevens
		P. Savory	S. Walker	S. Walker
		N. Stevens		

Sources: Exhibit 8, tab 2, p. 33; Exhibit 156, p. 4; Exhibit 180, pp. 1, 2; Exhibit 190, pp. 3-5, 134; Exhibit 214, p. 43; Productions of Mr. Stevens

¹ Mr. Stevens resigned on July 18, 1984, and Mrs. Stevens replaced him.

Other Relationships among the Companies

From the formal aspects of their corporate structure, such as their officers, directors, and shareholdings or potential shareholdings, it is clear that these companies formed an interlocking network. The full extent of their interconnection emerged, however, from evidence about their financial relationship and their operation.

Financial Relationships

Most of the assets of the two holding companies consisted of shares in and loans to the other companies of the group. In 1984 such shares and loans comprised 95 percent of Gill's assets and 97 percent of York Centre's assets. The figures for Stevens Securities, Georgian Equity, and YCPL were similar. Shares and loans to the other companies or individuals involved with them comprised 91 percent of Stevens Securities' assets, 91 percent of Georgian Equity's assets, and 99 percent of YCPL's assets. The viability and worth of Gill and Stevens Securities, Mr. Stevens' direct assets, of York Centre, the major holding company, and of Georgian Equity and YCPL thus depended on the performance of the group as a whole.

The interdependence of the companies was also illustrated in some instances by the large percentage of its liabilities one company might owe to the others. This was not true of all the companies since some of them needed, and were able to obtain, external financing. In addition, the liabilities' figures did not take account of actual interdependence where the external liability was undertaken on behalf of another company (as YCPL did for Georgian Trust), or where external liabilities of one company were guaranteed by one or more of the others.

The holding companies, Gill and York Centre, were able to generate outside funds, and thus most of their liabilities were external. However, the outside financing typically involved support from one or more of the other companies in the form of a guarantee. For example, York Centre had guaranteed Stevens Securities' debt; Georgian Trust had guaranteed YCPL's debt; the real estate subsidiaries had guaranteed debt incurred by York Centre and Cardiff Construction jointly and by Cardiff Construction alone; and various of the companies had guaranteed debt owed by each of the oil companies.

The companies also provided less formal support for one another. Georgian Equity and Stevens Securities, which along with Gill were described by Mr. Stevens as financial intermediaries, maintained margin accounts at Toronto brokerages in which they placed shares of the public companies from time to time. Essentially, these shares were pledged to secure funds from the broker. As the shares' value fluctuated, the broker might require additional shares. When Georgian Equity was asked to put up further shares in 1984, Gill "lent" it York Centre shares.

Such relatively informal assistance also occurred when one of the public companies needed financial help in a share issue. In 1983, for example, Stevens Securities purchased the last shares needed to complete Canaland's share issue. In a fairly complex series of steps outlined in figure 5.6, the shares were sold the next year to York Centre for a promissory note, and Stevens Securities used this note as collateral for a bank loan, the proceeds of which were advanced to Gill, York Centre, and Canaland's. A second example occurred in 1984. When York Centre's Class B share offering proved largely unsuccessful that year, a number of the companies subscribed for almost all the issue.

Figure 5.6, illustrating Stevens Securities' assistance with Canaland's share issue, also demonstrates another feature of the companies' financial relationship — the advance of funds among them. As can be seen, the proceeds of a bank loan from the National Bank of Canada (National Bank) went from Stevens Securities to Canaland's, York Centre, and Gill. Both Mr. Mel Leiderman, the auditor or accountant for many of the companies, and Mr. Bruce Buckley, the auditor for Gill, Stevens Securities, Canaland's, and later Sentry, testified that these intercompany advances were common. Their extent was demonstrated by the asset and liability figures referred to earlier, and was also noted in accountants' working papers placed in evidence before me. Mr. Stevens testified with respect to Gill, for example, that the cash it received was "often, if not almost inevitably, loaned back into one of the York Centre companies" (Transcript, vol. 69, p. 11,837).

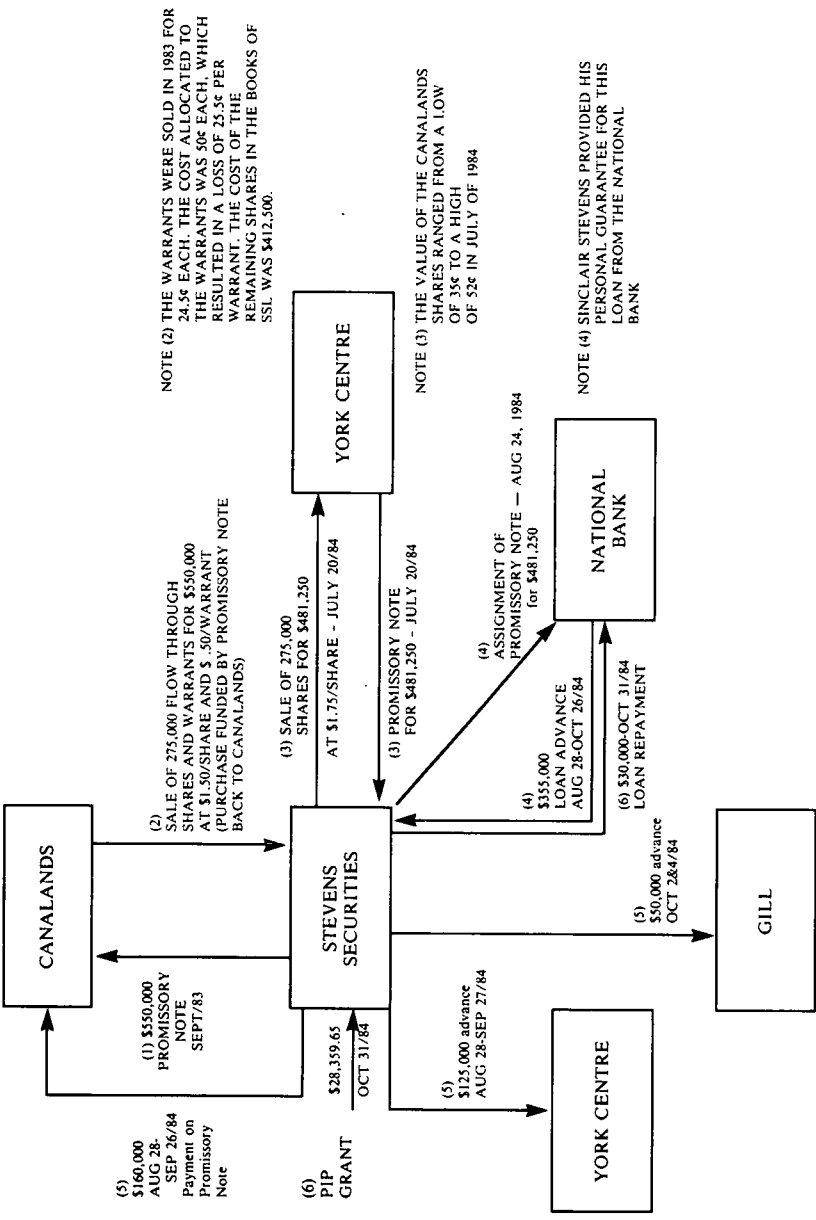
Such advances were usually made informally and not documented at the time. Mr. Buckley testified, for example, that in his experience there was little documentation of interest rates and legal terms for these loans. The advances were not only informal in terms of documentation, they were also made freely among the companies without regard to whether borrower and lender(s) shared a common area of business or had any direct ownership relation.

An example of the coordination and joint effort involved was an occasion on which Gill gathered together funds from YCPL, Stevens & Stevens, and Mr. Stevens, added its own contribution, and then transferred the total amount to Canaland's.

Administrative and Structural Relationships

In 1984 the various companies all shared common premises in the Commerce Court West office building in Toronto, the oil companies having moved from nearby offices in late 1983. York Centre and Canaland's also shared staff, dividing the salaries of Miss Walker and bookkeeper Mrs. Joan Foulkes between them. Although Miss Walker apparently also worked for many of the other companies, none of these companies, according to the documentary evidence, absorbed a portion of her salary.

Figure 5.6 Purchase, Sale, and Assignment of a Canalands Share Issue by Stevens Securities



Sources: Exhibit 212, p. 70; Transcript, vol. 71, pp. 12,353-54

Certain of the companies were nominally headquartered elsewhere. Georgian Trust was based in the Turks and Caicos Islands. Mr. Leiderman testified that, when he visited the headquarters of Georgian Trust in 1980, there was no bond inventory and no record of bond transactions kept there. There was no indication of any decisions involving that activity being made by persons in the Turks and Caicos, and the evidence about the company's holdings and financing indicated that in 1984 it had invested exclusively in Canadian bonds, had obtained its funding from Canadian-based institutions, and maintained active bank accounts in Canada. I conclude there was no effective management of Georgian Trust from elsewhere than York Centre personnel in Canada.

Georgian Equity was based in Atlanta, Georgia. Its principal asset was its interest in Georgian Trust. Mr. Stevens, Georgian Equity's president until 1984, described the company as a financial intermediary. I note his comment that "other than kind of intermediary banking functions, [Georgian Equity] did not have certainly a day-to-day activity" (Transcript, vol. 69, p. 11,877). Georgian Equity maintained Toronto brokerage and bank accounts to carry out such functions. I find it too was effectively managed by York Centre personnel in Canada.

The management relationships among the companies were illustrated by evidence of actual and proposed "management fees" charged or to be charged by some of the companies to others. For example, in 1979 York Centre charged management fees to Cardiff Construction, the subsidiary that indirectly owned most of the real estate. Management fees were also charged to various real estate subsidiaries in 1983 and 1984. Similar fees were proposed by Mr. Stevens, in the context of a plan to merge Gill and Stevens Securities in 1983, and by Mr. Rowe, in the context of another reorganization plan in 1984. In 1983 the plan to merge Stevens Securities and Gill was to result in management fees being charged to the real estate subsidiaries and Royal Cougar for services in obtaining financing and new business arrangements. The 1984 plan called for York Centre to charge management fees to Canalands, Sentry, Gill, and a new financial services company, which was to hold York Centre's interests in Georgian Trust and Royal Cougar. (Neither of these reorganization plans was implemented.)

There was also evidence of common management of the companies. For example, Sentry and Canalands held a joint board meeting in 1984. Because the primary investment of both companies was their interest in the same exploration in the Beaufort Sea, and they shared common operating management and ownership, I have no doubt there were other occasions of common management and, indeed, every reason for them.

Opinions about the Companies' Relationships

Mrs. Stevens, Mr. Rowe, and Mr. Leiderman all referred in their testimony to the companies as a "group," although Mrs. Stevens was

careful to point out that she did not regard them as family companies in the sense of being controlled by her husband and herself. Mr. Stevens too used the word "group" to describe the companies. However, he divided them into two, the "York Centre group" and the "Georgian group." Nonetheless, the use of the word indicates that the companies, in whole or in part, were seen as a single entity. This view was shared by others.

Bank records supplied by the Canadian Imperial Bank of Commerce (CIBC) indicate it had concluded in 1983 that Gill controlled York Centre and therefore grouped together loans originally advanced separately to Gill and Stevens Securities, and to York Centre and Cardiff Construction. Certain brokers and financiers (for example, Trevor Eyton, Anthony Fell, and Jack Lawrence) also associated Mr. Stevens and his family with control of York Centre; and the internal records of other creditors showed that they too associated Mr. Stevens with various companies such as YCPL, Cardiff Construction, Georgian Trust, Gill, Canalsands, and Sentry.

Summary

In September 1984 Mr. Stevens' major business asset was his shareholding in Gill. Gill's major asset in turn was an interest in York Centre, a holding company with investments in other companies. York Centre had actual or potential control of most of these companies. I have reviewed the administrative and financial intimacy and interdependence of these companies in some detail. From this it is clear that in fact they operated as a unit, undertaking coordinated business strategies. The pattern of informal connections among them was too substantial to be random or to suggest anything other than orchestration. The interlocking offices and directorships held by a small number of people are consistent with and support this conclusion.

The question remains, at least in a theoretical sense, whether the direction of the companies can be traced to Gill or Mr. Stevens. In other words, did Gill have the power to control York Centre and Mr. Stevens the power to control Gill? Mr. Stevens denied both propositions.

Mr. Stevens noted that although he was the majority shareholder of Gill, he was only one of three directors and could be outvoted by the other two (Shirley Walker, his secretary, and William Mollard, his long-time associate) if an issue arose about how Gill's shareholdings in York Centre should be voted. In such a case, he said, his only recourse would be to begin injunctive proceedings or call a special meeting of shareholders to replace the board.

Mr. Stevens raised other hypothetical situations to deny that Gill controlled York Centre. He first defined control as unfettered ownership of 51 percent of the voting power of the shares needed to elect the directors of the company. He then pointed out that since Gill had less than this amount in York Centre, some other person could buy

up a majority of the voting power and take control of York Centre. In other words, if someone could solicit the roughly 2500 small shareholders of York Centre, purchase or gain voting rights over a large number of these shares, and do the same with Mr. Mollard's block of shares, he or she could gain control of York Centre.

Mr. Stevens was correct in his analysis of these hypothetical situations. But his assertions had nothing to do with the actual situation in York Centre and Gill, or with the issues of whether Gill had the power to control York Centre and Mr. Stevens the power to control Gill.

As a practical matter, public companies such as York Centre can be effectively controlled by shareholders, like Gill, that hold substantially less than 50 percent of the voting power. This was recognized by Mr. Alfred Powis, the president of Noranda Inc., when he testified of his own company: "Brascan has effective control of Noranda. . . . [I]t has approximately 45 per cent of the stock" (Transcript, vol. 49, p. 9052). In circumstances such as these, where Gill held a number of shares sufficient to block any competing interest from gaining control unless it first obtained the right to vote a large number of widely held shares, Gill was able to make the fundamental corporate decisions in York Centre and its subsidiaries despite having only a minority interest. In fact, the York Centre companies appear to have operated free from any influence or constraint exercised by outside shareholders. Fundamental corporate decisions, such as entering or leaving entire areas of business, were reached during the 1980-84 period without any sign that the will of the largest shareholder was being frustrated or influenced or that any other will predominated. Thus, not only was Gill in a position to exercise practical control over York Centre, but all signs pointed to the fact that it had such control and was using it.

It is interesting to note that before this Inquiry began, Gill and York Centre personnel took the view that Gill effectively controlled York Centre. They expressed their views on this to others, typically to reassure them that matters would continue as they had in the past. Mr. Rowe wrote the Hanil Bank in 1984: "Gill . . . has effective voting control of York Centre. . . . Effective control remains with Gill. Day-to-day operations continue with existing management" (Exhibit 102, p. 202). And Miss Walker wrote the trustee of Mr. Stevens' blind trust in 1984: "Gill has effective voting control of York Centre Corporation" (Exhibit 35, p. 26; Transcript, vol. 5, p. 682). Mr. Stevens also agreed, subject to his hypotheses about takeovers, that the word "control" could be used to describe Gill's shares in York Centre. In 1983, describing part of Gill's shareholding in York Centre (the common shares), he wrote urging CIBC to give them a greater value: " . . . these shares represent the critical control block" (Exhibit 106, p. 219). Asked about this comment at the Inquiry, he admitted that he "was pointing out there is a control subject to various limitations" (Transcript, vol. 71, p. 12,328).

On the basis of the practical control that a share block such as Gill's in York Centre would give in circumstances where no competing interest could influence the company without convincing a large number of minority shareholders to join it, as well as on the evidence that the companies, including Gill, operated together without any sign of such a competing interest, I conclude that Gill effectively controlled York Centre. As for Mr. Stevens' control of Gill, his resources and rights as the majority shareholder placed him in a position to prevent the Gill board from doing anything with which he did not agree and, subject to minority shareholders' rights, to undertake whatever he wished. I conclude without the slightest hesitation that Mr. Stevens controlled Gill.

I have found that the companies in which York Centre had actual or potential majority control operated together. Given the conclusions I have reached about Mr. Stevens, Gill, and York Centre, I find that Mr. Stevens' business assets comprised the entire group of companies described in this chapter. They will be referred to in this report as the York Centre group of companies.

Chapter 6

Financial Condition of the York Centre Group of Companies

In media reports that set out the conflict of interest allegations, Mr. Stevens' businesses were said to have financial problems at the relevant times ranging from serious cash flow difficulties to being bankrupt. It is important to review and assess these suggestions before turning to the allegations.

The Commission received a great deal of evidence concerning the financial condition of the York Centre group of companies. This evidence came primarily from four sources:

- the testimony of York Centre's bankers, along with internal bank memoranda and bank correspondence with York Centre;
- the testimony of persons involved with attempts to provide financing to York Centre, along with their notes and written evaluations;
- the testimony of York Centre's auditors and accountants, along with their documents; and
- the testimony of the management of York Centre, along with documentation and financial records of the companies.

This chapter reviews the companies' financial condition between 1983 and 1986, first referring to York Centre's consolidated financial statements for these years and then setting out a chronology of events concerning both the development of the financial problems and attempts to deal with them.

The Consolidated Financial Statements of York Centre

Overall, York Centre's investments in oil and gas, real estate, and strip bonds resulted in a loss during 1983-86. York Centre's audited consolidated financial statements disclose losses for each of the following years ending June 30 to be:

1983	\$ 297,767
1984	\$ 582,633

1985	\$1,133,172
1986	\$ 234,516.

Further, the financial statements of York Centre, Canalsands, and Sentry for 1984, 1985, and 1986 each contained a note regarding the future operations of each company. The note was additional information to shareholders and prospective investors. The note to the 1984 financial statement of York Centre, which was essentially the same as for the subsequent two years, stated:

Furthermore, the majority of the company's assets are investments in petroleum and gas properties which have not reached revenue-producing status.

Accordingly, in order to realize the carrying value of its assets and discharge its liabilities in the normal course of business, the company is dependent upon raising additional equity capital, attaining overall profitable operations, and the ability of its affiliates to realize the carrying value of their assets and discharge their liabilities in the normal course of business.

(Exhibit 99, tab 6)

The note thus indicated that the valuation of York Centre's assets on the financial statement was dependent on the company's remaining financially viable. In other words, were the company not able to raise additional capital or achieve profitability, its assets would have to be liquidated, and, by implication, the attributed value might be less.

The evidence established that the primary reason for the lack of profitability was that the company's investment in the Beaufort Sea produced no revenue. Although certain reserves of gas and oil had been found in the Beaufort Sea, these reserves were not easily exploited because of the large expenditures required to bring them to market, coupled with a decline in world oil and gas prices. At the time, it was unlikely that this investment would generate any income in the foreseeable future, which meant that York Centre's largest asset would not contribute to its achieving profitable operations and thus that additional capital was needed.

Chronology of Events Relating to Financial Condition

1983 – Summer 1984

The principal banker for York Centre throughout this period was CIBC. In 1983 CIBC was concerned about the debt level of the York Centre group of companies. The bank had not received adequate information from the company, which was already having difficulty servicing its debt, and it doubted whether the value of the investment in the Beaufort Sea was sufficient to support the value of Canalsands shares that it held as security. In a letter dated February 11, 1983,

Mr. Stevens gave a commitment to CIBC to reduce the loan to Gill by \$300,000 by June 30. A further commitment was made by a formal letter of undertaking in May 1983 that the York Centre/Cardiff Construction loan would be reduced to a maximum of \$2 million by July 31, 1983. During this period, correspondence between CIBC and York Centre reveals that CIBC was worried about the continuing negative cash flow at York Centre. The bank also understood that the debt reduction proposed would be accomplished through equity issues and the sale of real estate.

During 1983 the Hanil Bank lent three of the York Centre companies, Gill, Cardiff Construction, and YCPL, a total of \$3.55 million, some of which was used to pay off CIBC's loans to Stevens Securities/Gill and to pay down the York Centre/Cardiff Construction indebtedness to CIBC in return for CIBC releasing certain properties held as security. Despite the latter paydown, York Centre/Cardiff Construction indebtedness to CIBC was reduced only to \$3.8 million and not the desired level of \$2 million. However, CIBC continued to carry the account, because of repeated assurances that other debt financing from, for example, Guaranty Trust would be forthcoming, and because the bank was awaiting the results of a rights offering of shares being planned by York Centre.

In the spring of 1984 York Centre completed its rights offering of Class B shares and warrants, which attempted to raise \$2 million. Mr. Rowe reported to the bank in early April 1984 that this offering was profoundly disappointing to York Centre. It had raised only \$25,000 in cash of the \$2 million sought. When it appeared that the results of the offering would be unsatisfactory, York Centre requested certain affiliates to take some of the rights offering, which resulted in an exchange of debt for equity. The failure of the rights offering, combined with the significant losses disclosed on the financial statements of the various York Centre companies, confirmed CIBC's desire to see its loans to York Centre substantially reduced, if not liquidated.

On May 4, 1984, CIBC wrote to York Centre indicating that it was not willing to continue its support on the present basis to the York Centre group of companies unless the problems with the account were resolved satisfactorily by June 5, 1984. Failing this, CIBC wanted a specific repayment schedule that would liquidate the loans in an orderly fashion. On June 5, 1984, Mr. Stevens and Mr. Rowe met with Mr. Roland Wagg and Mr. Miller of CIBC to discuss the bank's concerns. At the bank's insistence, York Centre agreed to reduce its loans, through the sale of real estate or other refinancing methods, to \$2 million by January 31, 1985. As far as the bank was concerned, York Centre was at last prepared to reduce its indebtedness through the liquidation of real estate assets. The bank believed that an orderly disposition of assets would give it the best possible result and that York Centre personnel, being familiar with the properties, were in the best position to effect the liquidation. On this basis, CIBC agreed to continue to carry the account.

On June 8, 1984, the CIBC inspector's report downgraded York Centre's loan to non-performing accrual, which indicated there was a possibility that not all the loan would be repaid. This reclassification resulted in increased monitoring of both the account and the performance of the companies.

Also in the spring of 1984, CIBC expressed concern about the value of York Centre's investment in the Beaufort Sea, characterizing it as "speculative." The bank was unwilling to lend further funds with this investment as collateral. York Centre found this investment increasingly difficult to carry. Under the farmout agreement with Esso, Canlands and Sentry were required to contribute to exploration costs, which were substantial. These costs consistently contributed to the negative cash flow of York Centre. By June 1984 the oil companies were essentially drained dry of cash, and, as York Centre could do little to assist, they were unable to meet their cash calls from Esso. Consequently, they signed promissory notes for these amounts. As a longer-term method of coping with this problem, they entered into an agreement with AT&S whereby AT&S acquired the right to earn a portion of their interest in the Esso program in return for its assuming payment of 100 percent of their exploration expenses. The agreement with AT&S had the effect in the period 1984-86 of reducing the companies' interest in the Esso Beaufort program by at least 60 percent.

September 1984

Thus when Mr. Stevens entered the cabinet in September 1984, York Centre was facing a deadline for debt reduction from its principal banker, CIBC, and was no longer able to fund its share of the exploration expenses related to its investment in the Beaufort Sea. The position of York Centre at this time is described in a letter from Ted Rowe to Mr. Stevens that was found in the York Centre file maintained in Mr. Stevens' Ottawa office. The letter outlines topics for a meeting held on September 30, 1984, two weeks after Mr. Stevens entered the cabinet. The meeting was attended by Mr. and Mrs. Stevens, Mr. Rowe, Mr. Mollard, and Miss Walker. The letter is significant for its analysis of York Centre's financial condition, its outline of the options available to York Centre, and the insights it provides into the relationships among York Centre's key personnel. For these reasons, I set it forth in full below:

September 28, 1984

Dear Sinc:

Realizing your busy schedule and that it is only going to get busier, I feel it is imperative we have a meeting this weekend to discuss York Centre's concerns. I would suggest that Bill Mollard, Shirley and Noreen attend such a meeting.

I can understand your possible frustration with yet another weekend meeting, but I believe we need your input in order to make some significant decisions as well as get everyone's input.

I know your thoughts regarding the B shares as well as a possible York Centre Offering but the fact is, I am unable to presently facilitate either one, and some decisions have to be made until we are in a position to raise public funds.

After last weekend's meeting, Noreen and I met with Ron Graham regarding the real estate and he will not have an answer for us until next week. If in fact he comes back with a negative answer we should have a secondary plan in place such as using Carpenter or trying to sell the properties outright.

I fully understand your reasoning for wanting to do a package deal, but if we cannot sell it, we should make an alternative move and list the properties.

To do a participating mortgage alone is not enough. We will still have the large monthly mortgage payment and it will only work if we cut some of our present overheads.

It is easy for me to say sell our lands but Bill Mollard is not interested in selling anything. He does not say it in as many words, but he strongly feels we have levered the land to the limit in order to stay in the Beaufort and does not want the raw land sold because of future deals that may come along.

I, as President of York Centre do not have a problem of saying sell the raw land, but if we go that route, and I believe we should, I want your support and want you to be aware of Bill's attitude regarding such sales.

If Bill does not agree to selling land maybe this is the time to structure a deal to take Bill out of York Centre.

Also, to cut overheads we should move the real estate out of Toronto and rent the space to Royal Cougar.

I believe we should also be trying to restructure our debt in Canaland. I met with the Walwyn people this week and they do not offer any encouragement other than if the market turns, they would be prepared to move quickly. They are also concerned about the debt Canaland's has with Esso and the Continental and therefore find it difficult to do a private placement where we would keep control. They also wonder what effect the new energy policy will have on future investors.

I met Thursday with Maynard Energy regarding American and Canadian Properties. As I told you last weekend, there was cash flow of 50-60 U.S. per year. What I was not aware of was that there were capital cost requirements of \$40,000.00 last year. Capital cost for the coming year could range from 0-40 depending on the drilling equipment. After conversations with Lee Matchett and looking at the Invermere farmouts, I honestly do not believe there is any useful purpose of having our operations man going over the same material.

Mr. Matchett would sell his 30% American interest for \$100.00 (U.S.) [sic].

As we owe Maynard \$330,000.00, one option could be to borrow \$430,000.00 and pay Maynard off as well as purchase his 30% interest and use the entire cash flow of \$70,000.00 U.S. to service

the debt. I met with Financial Trustco and Canadian Commercial regarding a production loan against the properties and will be working with them again next week.

A production loan does little other than shift the debt.

I would propose we approach Maynard with the idea of forgiving the \$430,000.00 debt plus the \$200,000.00 and \$400,000.00 Debentures and take an interest in our Beaufort program such as AT & S did, leaving us with the \$70,000.00 American cash flow. I would also propose we talk to the Continental about a similar arrangement.

Maynard does have an interest in working out an arrangement with Canaland and is looking for us to make a proposal.

In regards to Sisman's, the Bank of Nova Scotia will be back to me on Tuesday. If they do not want to work with us on our restructuring plan then I recommend we put it into receivership. We cannot operate under the present structure and I have laid the factory off next week on the basis of lack of work until I get some direction from the Bank.

Our creditors are waiting for some positive announcement regarding Sisman's and our Customers are beginning to wonder if they place orders with us, will they in fact get these orders.

In fairness to the present Sisman's Shareholders and Management, the Sisman's future has to be decided next week.

Sinc, I do not treat my job lightly at York Centre and wish I could paint a better picture, but the fact is, we are fighting for our survival. You have some good loyal people working with you who need your guidance in structuring a survival package.

Topics for Discussion

1. Ideally the best solution would be to have some brokerage firm take our B shares and market them. To date I have been unsuccessful in finding any interest. Do you have any fresh thoughts or approaches I could take.
2. Get a participating mortgage. If not, sell vacant land.
3. Talk to Maynard Energy and Continental Bank regarding their taking an interest in the Beaufort.
4. If the Bank of Nova Scotia does not support our Sisman's plan, put it in Receivership.

No matter how quick we move unless there is a quick sale of the B shares or extended lines of credit, we will be unable to cover our interest obligations for the month of October.

(Exhibit 47)

At the meeting on September 30, 1984, the group discussed Mr. Rowe's concern that CIBC might call its loan or put more pressure on York Centre if something were not done by January 31, 1985. There was also discussion about raising money through an equity issue or through liquidating real estate properties. According to Mr. Rowe, it was Mr. Stevens who had originally suggested the possibility of raising

money through a participating mortgage, a possibility mentioned in the letter. Mrs. Stevens characterized the situation facing York Centre at this time as a serious cash flow problem that could be solved by voluntary liquidation, by selling off assets, or possibly by a merger with another corporation that had sufficient cash to take advantage of York Centre's assets. What is forcefully clear from the letter and the tenor of the discussions is that York Centre was in a state of crisis, and that the company was pursuing a variety of strategies and possibilities, without success.

Fall 1984

In September or October 1984 Mr. James (Jim) Davies of Richardson Greenshields became involved in developing a proposal to raise financing for York Centre. Richardson Greenshields had dealt with York Centre in the past when it handled a share issue for Canaland. Mr. Rowe, Mr. Davies' main contact at York Centre during this period, referred in his testimony several times to the possibility that Mr. Stevens mentioned Mr. Davies' name as someone who might find investors. Mr. Davies had been responsible, Mr. Rowe said, for interesting York Centre in the Invermere takeover in 1982. In the fall of 1984 Mr. Davies developed an offering memorandum proposing an issue of between \$6.5 and \$10 million of unsecured floating-rate notes with interest payable in York Centre shares in lieu of cash. Richardson Greenshields would act as York Centre's agent for the placement of these notes.

On October 19, 1984, Mr. Davies had a dinner meeting with Mr. and Mrs. Stevens. Mr. Stevens testified that at the dinner he suggested to Mr. Davies that he contact Mr. Trevor Eyton, president of Brascan, for advice or assistance with respect to financing York Centre. As a result of this suggestion, Mr. Davies wrote to Mr. Eyton on October 29, 1984, enclosing a copy of the offering memorandum of that date. Around this time, Mr. Rowe also contacted Mr. Eyton to arrange a meeting. In early November Mr. Rowe, Mrs. Stevens, Mr. Eyton, and Mr. Clarke of the Great Lakes Group Inc. (Great Lakes), a company affiliated with Brascan, met to discuss the Richardson Greenshields proposal and Mr. Eyton's ideas for potential investors. Mr. Eyton testified that he may also have referred either Mr. Rowe or Mr. Davies to Mr. Patrick (Pat) Keenan, an outside director of Brascan, at Keewhit Investments. After the meeting, Mr. Eyton requested his associates at Hees International Corporation (Hees), another company associated with Brascan, to assess the proposal. (Various companies associated with Brascan are set out in Chapter 21, figure 21.1.) Mr. Rowe and Mr. Davies followed up with Keewhit. Around this time, Mr. Eyton also spoke to Mr. Keenan about the York Centre financing.

Earlier, in late October, CIBC had been asked to provide a guarantee in the form of a letter of credit for the proposed floating-rate note

offering. On November 26, 1984, CIBC wrote to York Centre agreeing in principle to provide the letter of credit subject to certain strict conditions, including the liquidation of all debts to CIBC, Guaranty Trust, and Hanil Bank and a pledge of security in the form of government bonds.

On December 10, 1984, the management of York Centre met with Mr. Tim Casgrain and Mr. Manfred Walt of Hees to discuss the Richardson Greenshields proposal. The next day Mr. Casgrain and Mr. Walt reported by memorandum to Mr. Eyton that the proposal did not meet Hees' investment criteria for the following reasons:

- York Centre's primary investment was in the Beaufort Sea, which Hees regarded as speculative, too long term, and subject to changes in the National Energy Program in relation to Petroleum Incentive Program (PIP) grants which would affect York Centre's main source of funding;
- the investment instrument provided for a low rate of interest to be paid in the form of shares, not cash, and subordinated to all other securities; and
- the proposed investment instrument lacked any subordination by management of its voice in the company's affairs.

This assessment effectively ended any further consideration of the Richardson Greenshields proposal by Hees.

Winter 1984-85

The letter from Mr. Rowe set forth earlier mentions Canaland's debt to the Continental Bank of Canada. Mr. Richard Ross of that bank testified that after November 1984 the bank received neither repayment of principal nor payment of interest on this loan. The bank had lent approximately \$1.5 million to Canaland's Energy as a short-term loan in spring 1982. This loan was to be repaid in full by late 1982 or early 1983. However, by December 1983 the bank realized that this repayment was not going to occur. In fact, by June 1984 the bank realized that Canaland's was having difficulty not only with arranging sources for repayment of principal but also with servicing the debt.

As the January 31, 1985, CIBC deadline referred to earlier approached, Mrs. Stevens and Mr. Rowe met with senior officials in the head office of CIBC, including Mr. C.W. (Peter) Cole, senior executive vice-president, and undertook to reduce York Centre's indebtedness to the bank. Mrs. Stevens informed bank officials that efforts were under way to arrange external financing for York Centre that would make moneys available for this purpose. The bank pressed its view that York Centre should liquidate its assets. On January 28, 1985, Mr. Wagg, the branch manager, wrote to his superiors as follows: "we are not prepared

to let our position deteriorate further and in light of the lack of material progress in marketing the private placement [the Richardson Green-shields proposal] we have reverted to the company's earlier commitment to reduce loans through the sale of properties" (Exhibit 109, p. 16). At this time York Centre was in the process of selling off real estate holdings, but the closings for some of these transactions had been delayed.

On February 2, 1985, Mr. Mills, vice-president of CIBC, authorized the carrying of the account until March 31, 1985, on the basis that the net proceeds of the sale of all properties must go to the bank and, further, that the bank must approve in advance *all* cheques issued by York Centre. This decision was communicated to Mr. Rowe, who began to provide CIBC with lists of cheques that York Centre intended to issue. At this time there was a \$75,000 monthly cash flow deficiency at York Centre, which the bank indicated needed to be addressed without further delay. Shortly thereafter, CIBC received York Centre's 1984 financial statements, which indicated that in 1984, on revenues of \$799,397, York Centre had a loss of \$582,633. Mr. Wagg testified that these statements showed that York Centre's financial position had deteriorated since 1983.

CIBC began discussions with York Centre in order to obtain additional security for the bank. On February 11, 1985, the senior vice-president and chief inspector of CIBC decided to defer reclassification of the account until April 30, 1985, but with the following caveat: "If loans do not reduce as now expected; if there are doubts as to the ultimate safety of our loans; or if it becomes necessary to begin capitalizing interest; I would expect the account to be classified promptly" (Exhibit 109, p. 34). The branch was now reporting the account's loan position daily to head office as well as seeking prior authorization from head office for all cheques.

On January 21, 1985, Mr. Eyton called Mr. Jack Lawrence, chairman of Burns Fry, and Mr. Tony Fell, chairman of Dominion Securities, and asked them to look at the feasibility of refinancing York Centre. Mr. Wilmot (Wil) Matthews of Burns Fry and Mr. James (Jim) Davie of Dominion Securities subsequently undertook an evaluation of York Centre. During late January and February they met with Mr. Rowe a number of times as well as with other York Centre personnel, such as Mr. Macgregor, to collect information, particularly with regard to the oil and gas investments.

By February 20, 1985, Burns Fry had completed its preliminary analysis and concluded that York Centre was a bad investment. The biggest difference of opinion between Burns Fry and York Centre was on the valuation of the oil and gas assets. Burns Fry valued York Centre's 50 percent interest in Canalsands at between nil and \$2 million, whereas Mr. Macgregor placed the value at \$9.7 million. Burns Fry's valuations put the net asset value of York Centre at between \$.02 and \$2.79 per share, depending upon the values attached to Cardiff and Canalsands.

At the same time, Mr. Davie also reached a negative opinion with respect to the prospects of a York Centre financing, concluding that it was not financeable or marketable by Dominion Securities. It was difficult to put a hard value on the investment in the Beaufort Sea because Dominion Securities regarded the prospect of any cash flow from this investment until the next century as unlikely. The conclusion as to the net realizable value of York Centre was between \$2.4 and \$2.7 million, or \$1.31 to \$1.47 per share. In contrast, the Richardson Greenshields preliminary offering memorandum for the floating-rate notes indicated a pro forma asset value of \$7.09 to \$7.14 per share and suggested a \$6.50 conversion price per share. In January 1985 York Centre shares traded on the Vancouver Stock Exchange at prices between \$4.40 and \$5.50. Although Dominion Securities adjusted its numbers modestly higher after further analysis, its ultimate opinion did not change.

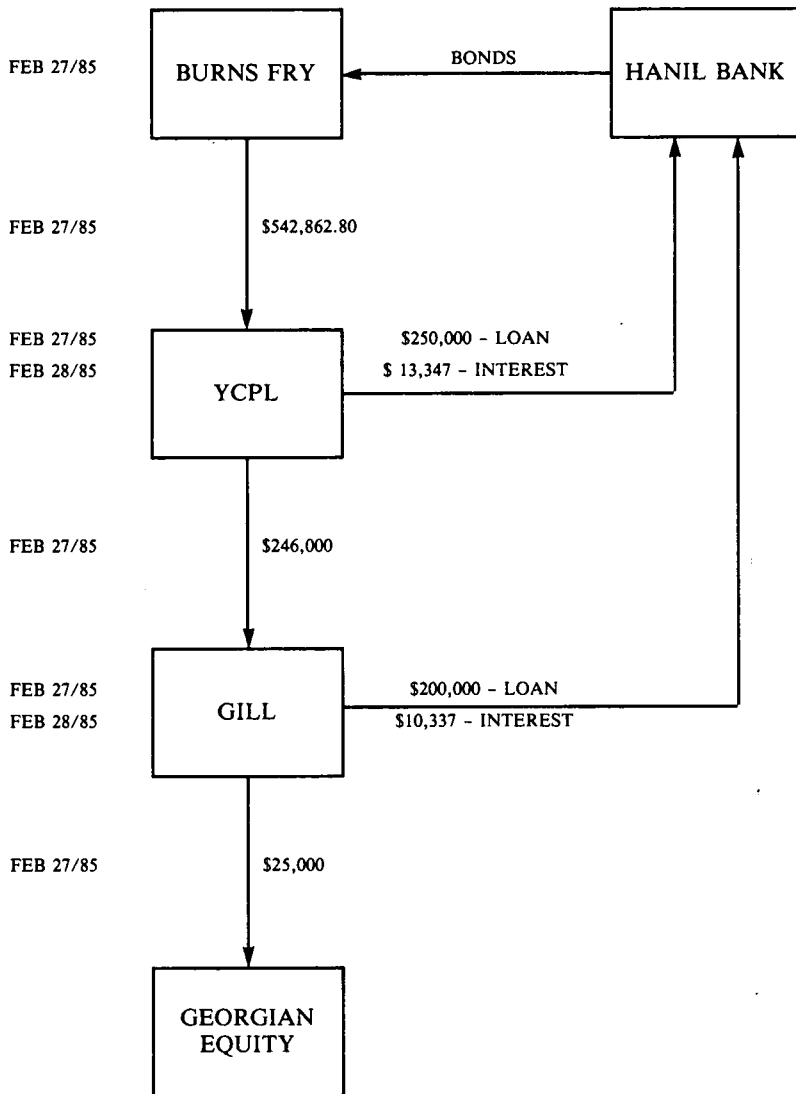
On February 28, 1985, Mr. Davie met with Mr. Matthews and they agreed that York Centre was not financeable on reasonable terms. This conclusion was transmitted to Mr. Rowe. In late March 1985 Mr. Lawrence of Burns Fry told Mr. Eyton that the best plan for York Centre was to reduce its liabilities, cut its overhead, and sell its assets carefully.

At the suggestion of Mr. Cole at CIBC, Mr. Rowe had also approached Mr. Gordon Eberts of Gordon Capital on February 15, 1985, and forwarded to him both the Richardson Greenshields draft preliminary offering memorandum and financial statements for York Centre and its public subsidiaries. Mr. Cole had told Mr. Rowe that Gordon Capital, which had a reputation for creative financing, might be helpful. Mr. Cole later spoke to Mr. Eberts with regard to a possible joint action between CIBC and Gordon Capital to finance York Centre. In the end, CIBC rejected participation by itself because that would only further expose CIBC.

At the end of February 1985 Georgian Trust sold its portfolio of B.C. Hydro strip bonds for \$542,862. YCPL acted as the Canadian agent for Georgian Trust. Most of the sale proceeds, illustrated in figure 6.1, went to pay down the YCPL loan from Hanil by \$250,000 and the Gill loan from Hanil by \$200,000. It is a telling comment on the relationship between Georgian Trust and the others in the York Centre group that Georgian Trust, the owner of the bonds, did not receive any of the proceeds of the bond sale.

In March 1985 Mr. Rowe and Mrs. Stevens began to meet with Ms. Jocelyn (Jo) Bennett of Gordon Capital about York Centre financing. Ms. Bennett prepared a floating-rate note issue she believed could be arranged with Canada Permanent. She met with Mr. Rowe and Mrs. Stevens to discuss this proposal on March 28, 1985. The next day they met with representatives of Canada Permanent, who expressed concern about the cash flow difficulties in York Centre. Ms. Bennett then started to explore the idea of a third party guaranteeing the interest to Canada Permanent. None of these proposals came to fruition.

Figure 6.1 B.C. Hydro Bond Sale, February 1985



NOTE: ALL CHEQUES AND CORRESPONDENCE
ARE SIGNED BY SHIRLEY WALKER

Source: Exhibit 191, pp. 76-78, 82-88

Spring 1985

On March 19, 1985, Mr. Mills of CIBC authorized carrying the York Centre account until April 15, 1985, on the basis of the bank's obtaining additional security on real property from York Centre and on the assumption that the bank would receive some of the proceeds from certain real estate sales and ventures. Apart from \$180,000 received from the sale of a Calgary property on February 22, 1985, CIBC had not yet received any proceeds from sales in 1985. By April 19, 1985, one planned sale had gone through, but CIBC received none of the proceeds, which went primarily to Guaranty Trust. The closing of a limited partnership deal had also been delayed. There was, therefore, no permanent loan reduction to the bank.

Late in April 1985 Mrs. Stevens completed negotiations for a loan to Cardiff and Highlands from Anton Czapka for \$2.62 million that was scheduled to close on May 16, 1985. (The transaction with Mr. Czapka is discussed in more detail in Chapter 20.) In early May Mrs. Stevens met with CIBC officials and presented them with a debt-reduction schedule based primarily on the anticipated proceeds from the Czapka loan. On May 16, 1985, as scheduled, CIBC received \$1.4 million from the proceeds of the loan. This was a substantial paydown of York Centre's debt to CIBC, and greatly increased CIBC's comfort level. The remainder of the proceeds were divided between the Hanil Bank (\$1 million to retire its loan to Cardiff Construction) and Guaranty Trust (\$200,000).

Throughout the spring and summer of 1985, apart from Clady Farm and the properties mortgaged under the Czapka loan, many real estate properties held by York Centre were either sold or its interests in them diluted.

In the spring of 1985 York Centre took a number of steps to lower overhead costs, including reducing its operations, staff, and office space. The Royal Cougar operations were terminated, which led to the departure of Mr. MacDonald and his assistant, Ms. Viki Martin. Mr. Mollard and Mr. Hopkins, who handled the day-to-day operations for the much-reduced real estate branch, both retired by the summer of 1985. Mr. Macgregor, president of Sentry and Canalsands, and his assistant, Mr. Neary, moved to part-time employment after they were informed that, owing to the illiquid position of the company, they would be paid only for work specifically requested of them. Mr. Rowe, president of York Centre, had his salary reduced, accepted a position with Jems Manufacturing, and devoted only part of his time to York Centre.

Summer 1985

On May 17, 1985, Mrs. Stevens and Mr. Rowe met with Mr. Eyton, Ms. Bennett, and Mr. Clarke to discuss the current financing proposals.

They concluded that more work should be done and more thought should be given to the proposals. On June 3, 1985, Ms. Bennett met with Mr. Clarke, who informed her that the latest financing proposal did not have much appeal for Brascan or Great Lakes. At this point York Centre and Gordon Capital began to consider instead conventional equity financing. Ms. Bennett sent a proposal for conventional equity financing to Mr. Eyton on June 13. On July 5, 1985, Ms. Bennett, Mr. Rowe, Mrs. Stevens, Mr. Eyton, and Mr. Clarke met to consider whether equity financing could be structured with an underwriting consortium. There was also discussion of possible Great Lakes investment in the issue. On July 8, 1985, Mr. Eyton telephoned Mr. Lawrence and Mr. Fell to set up a meeting to determine whether there were any alternatives left for York Centre. Given Gordon Capital's new proposal, Mr. Eyton felt it might be worthwhile to examine York Centre once more.

Burns Fry evaluated the proposal, but maintained its view that the oil and gas assets of York Centre were worth very little. Mr. Matthews of Burns Fry testified that his company valued the oil and gas properties at between \$1 and \$2 million, whereas Gordon Capital, based on York Centre's figures, valued them at \$32 million.

The head office of the Hanil Bank in Seoul, Korea, approved the renewal of the Gill and YCPL loans in a July 2, 1985, telex to Mr. Arnold Denton of the bank's Toronto office. However, it directed Mr. Denton to continue to monitor the value of the collateral for the Gill loan closely to make sure the loan was not undermargined. The collateral for the loan was York Centre shares. In early July Mr. Denton spoke with both Miss Walker and Mr. Rowe about the "bad rumours on the street" that the firm was in a "cash crunch" (Transcript, vol. 17, p. 2669). He also commented that they would soon be two months in arrears on their interest payments and that, if this should occur, he would have to report the fact to his superiors in Seoul.

Mr. Eyton arranged a meeting for August 7, 1985, with Messrs. Clarke of Great Lakes, Lawrence of Burns Fry, Fell of Dominion Securities, and Neil Baker of Gordon Capital, the purpose being to get advice about a possible public financing for York Centre. However, Mr. Eyton was not overly optimistic that anything could be done for York Centre. The meeting itself was relatively short, about 30 minutes. The group quickly came to the consensus that nothing could be done for York Centre that made sense commercially. The financial condition of York Centre was deteriorating under increased pressure and the next two or three months would be critical. Various financing proposals were discussed, but all were dismissed as unfeasible. Both the size of the company and the size of the proposed share issue were a problem. Further, as Mr. Eyton testified, the Beaufort did not have "a very good ring" to it and any new investor would be at a substantial risk; moreover, under the proposal, the "up-side potential" remained with the existing shareholders, including "the Stevens family," who would continue to control the company (Transcript, vol. 51, pp. 9332-33).

On August 8, 1985, Mr. Eyton met with Mr. Rowe and, according to his diary, Mrs. Stevens, to convey the results of the previous day's meeting. At the Inquiry Mr. Eyton was referred to an entry in Shirley Walker's notebook about the meeting, which states "\$1 MILL GIFT — won't solve problems" (SW-4-137). Mr. Eyton testified that he might have explained the gravity of the situation to Mr. Rowe thus:

I may have said in extremis "Ted, \$1 million is not going to help the company." In other words, I was trying to relate to the financing problem that York Centre had and trying to quantify it. We were not talking of a half a million dollar problem or a million dollar problem; we were talking about something more than that.

(Transcript, vol. 51, pp. 9342-43)

Further in this discussion on August 8, Mr. Eyton suggested that York Centre should consider an orderly liquidation of its assets and that Hees would be willing to assist in such a process. This meeting signified the end of any significant assistance by Mr. Eyton to York Centre, although he did meet briefly with Mr. Rowe in September and November to offer advice.

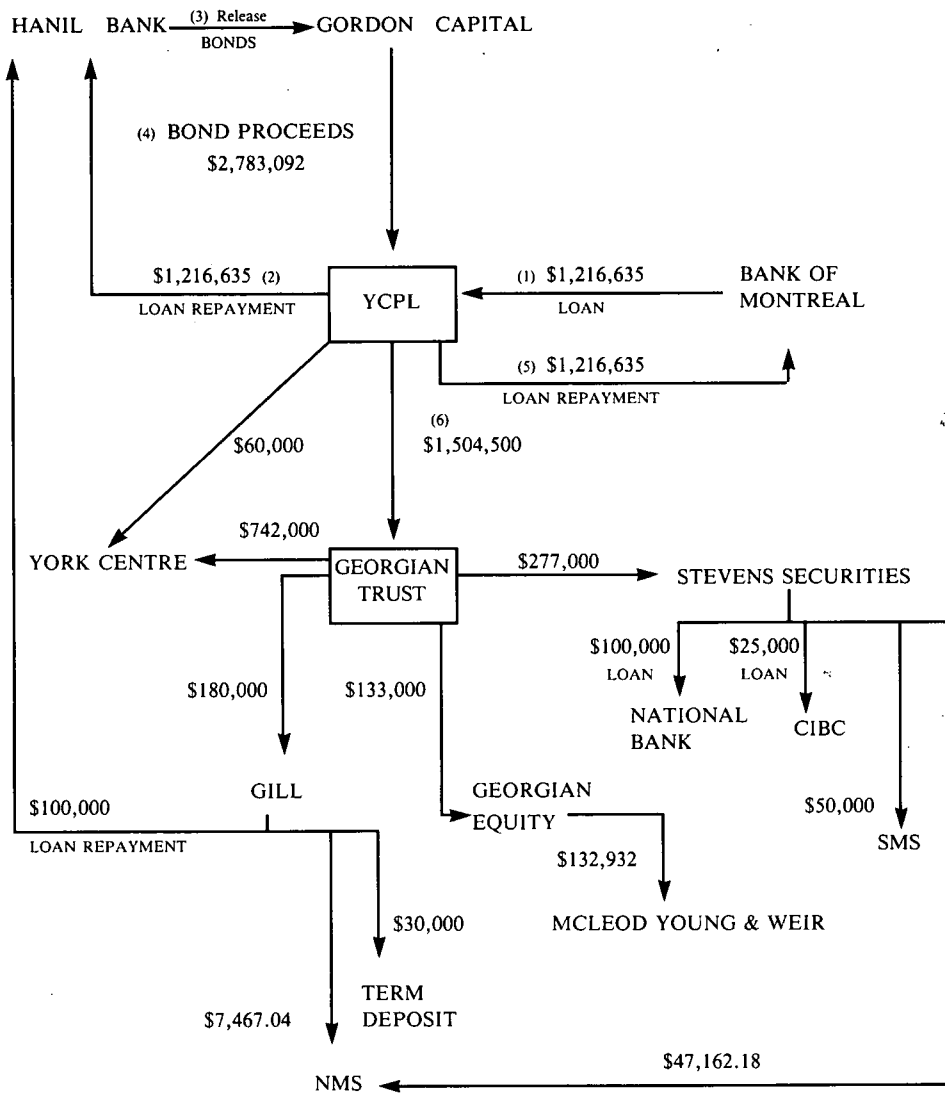
During this period one further financing proposal was brought into being. In May 1985 Richardson Greenshields, through Mr. Davies, prepared a proposal for a \$10 million loan from the First Interstate Bank. It was contemplated that the security for this loan would be the Ontario Hydro strip bond portfolio of Georgian Trust. Mr. Davies testified that this proposal was sent to Mr. Michael Mann of First Interstate, who seemed interested. However, in mid-August 1985 Georgian Trust sold the bond portfolio on which this proposal was based, and the matter was not pursued further.

These events in the summer of 1985 effectively marked the end of the search for financing for York Centre. Mr. Rowe testified that in the period from the fall of 1984 to the summer of 1985, York Centre approached approximately 20 financial institutions with proposals for financing York Centre and that none of these approaches was successful. In the period from November 1984 to the end of November 1985, the value of York Centre's shares trading on the Vancouver Stock Exchange fell from \$8.50 to \$1.50.

As just noted, in mid-August 1985 Georgian Trust sold almost all the remainder of its portfolio of Ontario Hydro strip bonds, receiving proceeds of \$2,783,092. In this transaction, YCPL, as it had in the February bond sale, acted as the Canadian agent for Georgian Trust. The proceeds of the sale, dispersed through a variety of accounts, served primarily to pay down bank loans of various York Centre companies (figure 6.2).

Proceeds from the sale were also used to pay Georgian Equity's account with McLeod Young Weir in the amount of \$132,932 (permitting the release of York Centre shares, which were then used as security for Hanil's loan to Gill). York Centre received proceeds of \$802,000, then paid off a debenture to Maynard Energy in the amount

Figure 6.2 Distribution of Proceeds from Ontario Hydro Bond Sale, August 15, 1985



NOTE: ALL CHEQUES ARE SIGNED
BY SHIRLEY WALKER

Source: Exhibit 191, pp. 101-40

of \$406,575 and advanced \$203,287 to Canalsands, which permitted this company to pay off the other Maynard Energy debenture.

The sale of the bond portfolio is significant for several reasons. It was the disposition of a premier asset that had, for example, been envisaged as an integral element in the First Interstate financing package. Also, it exemplifies York Centre's cash needs at the time, since the proceeds of the sale were used primarily to reduce bank indebtedness and to satisfy current cash needs instead of being used in a new investment. Moreover, the sale of the Ontario Hydro bonds was done at the cost of York Centre's having to record a further loss on its public financial statements. This occurred because the sale resulted in a loss of \$1,179,201, which was reflected on the financial statements of Georgian Trust. Through its equity interest in Georgian Trust, York Centre recognized a significant loss on its financial statements, which had the effect of changing York Centre's 1986 income statement from a profit to a loss.

It was argued that the recorded loss from the sale of the bond portfolio was not a real loss because the bonds were sold for more than was paid for them. However, the evidence is that Georgian Trust recorded as revenue the deferred interest on these bonds year by year. Thus, the loss occurred because the recorded revenue from the bonds was higher than the amount realized from the sale.

The evidence of the principals involved is unsatisfactory as to how or why the decision to sell the portfolio was made. In the "Agreed Statement of Facts Regarding the Evidence of Philip MacDonald," it is stated that Mr. MacDonald gave instructions that:

[S]ome or all of the bonds . . . were to be sold when an adequate profit level was reached. He does not recall what that level was to be. Having had nothing to do with the sale in August, 1985 of the Hydro bonds, he has no knowledge as to whether the bonds were sold in accordance with those instructions or otherwise.

(Exhibit 231)

There was no evidence that the bonds were, in fact, sold pursuant to this formula. Given the use made of the proceeds of the sale of the portfolio, I find that the portfolio was sold because of the cash needs of York Centre and not according to the formula.

During this period York Centre reduced the number of its real estate properties. The extent of this reduction is made obvious by reference to the annual reports of York Centre. In 1984 the real estate assets of the company on the consolidated balance sheet were \$7,233,226. By 1986 the real estate assets on the consolidated balance sheet were \$3,018,532.

Conclusions

I find that when Mr. Stevens entered the cabinet in September 1984 the York Centre group of companies was in serious financial difficulties sufficient to cause concern for the principal owner of the companies,

Sinclair Stevens. Indeed, Mr. Stevens testified, "It [York Centre] needed somebody that could tend to the various financing needs that were obviously there when you are long on assets and short on cash flow" (Transcript, vol. 69, p. 11,846). I find that this financial condition had persisted for some time and was deteriorating, especially from the spring of 1984 to the summer of 1985.

During Mr. Stevens' tenure as minister, York Centre had three areas of business interests. Activities in each of these areas were largely confined to the sale of assets as opposed to ongoing business. By the summer of 1985 York Centre had disposed of, mortgaged, or sold under a limited partnership most of its real estate properties. Royal Cougar had ceased activities, and Georgian Trust had sold its bond portfolio and purchased bonds of a greatly reduced present value. The primary remaining asset of York Centre was in its diminishing interest in the farmout agreement in the Beaufort Sea, which was in any event not revenue producing. I find that in this period York Centre effected an orderly liquidation of assets to meet pressing current financial needs caused by its debt obligations.

There was a poor match between York Centre's assets, which were long term and primarily non-revenue producing, and its liabilities, which were short term. As a result, there was not enough cash to cover all ongoing business expenses let alone to service the debt.

During the period in which Mr. Stevens was in the cabinet, there were three principal sources of cash for York Centre:

- funds from the sale of Georgian Trust bonds in February and August 1985 in the amount of \$3,325,954;
- funds from the sale of five properties of approximately \$4,000,000; and
- funds from the loan by Anton Czapka to Cardiff/Highlands in the amount of \$2,620,000.

These funds were used primarily to reduce indebtedness to financial institutions. In the case of the Czapka loan, the transaction permitted a transfer of the debt obligation from the banks to Anton Czapka and also provided a period of interest relief.

In this period the Czapka loan stands out as a source of cash for the company in that, unlike the other significant transactions, funds were generated to reduce debt to financial institutions without the outright sale of assets.

Further I find that in September 1984 Mr. Stevens was fully informed of the financial condition of the York Centre group of companies, including, by his own admission, the pressure from CIBC. He was actively proposing possible courses of action, at a time when, in his words, York Centre "needed management" (Transcript, vol. 69, p. 11,846), and, in the words of Mr. Rowe's letter to Mr. Stevens, York Centre was "fighting for [its] survival."

Chapter 7

Mr. Stevens' Role in the York Centre Group of Companies to September 1984

Mr. Stevens' role in the York Centre group of companies is important for two reasons. First, certain allegations amounted to assertions that he continued to be involved in his private business affairs while he was a cabinet minister. Familiarity with his role in the companies prior to September 1984 will help in assessing the nature and purpose of any continued involvement. Secondly, Mr. Stevens took part in certain meetings (described fully in Part Three) while he was a minister. In his testimony he offered various explanations for his presence at these meetings, which included reference to his prior business activities. It is important to review his earlier role in order to assess these explanations fairly.

Mr. Stevens described himself as quite removed from the daily operations of the companies during most of the 1982-84 period. He said that he had, however, been involved in meetings with certain banks to establish or review a "banking relationship" but was not likely involved in following up such meetings (Transcript, vol. 69, p. 11,847). He said most dealings with banks were carried out by others. Other evidence confirmed that Mr. Stevens dealt with banks, as well as with other entities, facilitating the obtaining of financing and the maintenance of credit. This kind of activity was central to the companies and indeed constituted their major "activity" between 1982 and 1984. This was a period in which, initially, they underwent substantial expansion in the oil and gas and bond areas. Such expansion required financing and Mr. Stevens played a key role in obtaining it. Further, with the exception of Royal Cougar, which engaged in retail sales, the companies were largely investment holding companies; thus, subject to the need to monitor the investments, their business was complete once an investment was made. Others carried out the oil and gas exploration. The bond residuals were simply held. The historical involvement in building had ceased and the rental properties were being administered.

As economic conditions for oil and gas exploration changed, and the tax laws regarding accrued interest changed, the companies faced setbacks which, as outlined in Chapter 6, had become severe by 1984. In this period, maintenance of the credit Mr. Stevens had obtained for expansion became critical. Here too he played a key role. The evidence

indicated that he both dealt with existing creditors and was involved in efforts to obtain new financing, both from financial institutions and equity markets. The companies' major business activity became to an even greater degree the protection of its investments and the maintenance of credit. Thus Mr. Stevens' admitted involvement with banks was actually involvement with the most important matters then facing the companies.

Role in Financial Intermediaries

With regard to specific companies, Mr. Stevens agreed that he had been involved in all Gill's operations and that, subject to certain constraints, he was the "control agent" for Stevens Securities (Transcript, vol. 71, p. 12,333). He described both these companies, along with Georgian Equity, as financial intermediaries that obtained funds and passed them on to the others. Although he admitted to being the key person in this respect for Gill and Stevens Securities, he resisted the suggestion that he had been so for Georgian Equity. Other evidence showed the following.

- Mr. Stevens was authorized to trade and did trade on Georgian Equity's account with McLeod Young Weir; no one else but Shirley Walker would have had any authority in this company; and, as the following memo makes clear, Miss Walker regarded him as familiar with it.

TO: S.M. Stevens
cc: NMS

SW COPY [handwritten] SEPT. 4/84

FROM: S. WALKER

RE: MARTIN TRUAX RESTAURANT VENTURE, ETC.
GEORGIAN EQUITY INVESTMENT

The way I understand it:

1. Georgian Equity invested \$100,000 in Cumberland promissory note and sold 25% of its interest to Jim Houston. Result: G.EQ. put up \$75,000 and Jim put up \$25,000. All this in U.S. dollars.
2. Cumberland repaid the \$100,000 promissory note. G.EQ. received its \$75,000 plus 75% of the PN interest paid. Jim received his \$25,000 plus 25% of the PN interest paid.
3. G.EQ. took \$50,000 of the above \$75,000 and reinvested it in one unit of Cumberland (or renamed venture).

....

Now, Sept. 4/84:

6. In comes a JH Restaurants Inc. certificate (copy only) for 250,000 shares registered U.S. VENTURES I, LTD.
Does this represent G.EQ. \$50,000 in (3) above.

(Exhibit 100, p. 54)

- Mr. Stevens and Miss Walker executed documents in 1980 giving his company, Gill, potential control of Georgian Equity; and Mr. Stevens later notified CIBC of a plan to sell this interest to York Centre, and carried through the plan.
- Mr. Stevens had incorporated Georgian Equity with an Atlanta partner some years earlier and he made the decision to reactivate it in 1980.
- Until 1984 Mr. Stevens served as president of Georgian Equity and as one of its two directors, the other being its incorporating lawyer, Mr. Grady Thrasher.

Mr. Stevens' Gill and Stevens Securities activities included the following: he obtained a \$1.1 million loan for Gill from Hanil in 1983; he caused Stevens Securities to help Canaland's on a 1983 share issue; he advised CIBC of an abortive plan to merge Gill and Stevens Securities and then collect management fees for arranging the Guaranty Trust/Royal Cougar co-venture to sell strip bonds, the Canaland's share issue, and a real estate pool financing; he dealt generally with CIBC and Hanil, creditors of Gill and of Stevens Securities; he guaranteed a loan Shirley Walker arranged for Stevens Securities during the election in 1984; and he set up a brokerage account for Stevens Securities in the same year.

Role in York Centre

With regard to York Centre, Mr. Stevens said his role was passive and that his return to the company as chairman in 1981 was a response to persuasion by others who wanted to re-establish his "connection" to the firm while continuing to run it themselves (Transcript, vol. 69, p. 11,839).

On the contrary there was evidence that Mr. Stevens arranged financing for the takeover of two oil companies and that he dealt routinely with York Centre's major creditor, CIBC. As York Centre was an investment company, then expanding, his financing efforts were obviously critical. Not only did Mr. Stevens initiate and review "banking relationships" on isolated occasions, as he admitted, but also he routinely nurtured and developed them, closely monitored them, and was active in all the companies in the York Centre group. Four specific interventions with CIBC exemplify both his role with the bank and his general involvement in the York Centre group.

- Between February 3 and February 10, 1983, Mr. Stevens wrote letters to CIBC, and spoke by telephone and met with bank officials regarding the bank's loan to York Centre (and to Gill, Stevens Securities, and Cardiff Construction). The letters show his knowledge

of and involvement in all sectors of the business. In the letters, Mr. Stevens advised the bank that there had been substantial reductions in the York Centre/Cardiff Construction loans and repayment of the Sentry share loan. He pointed to possible sources of repayment. Negotiations had been started, he wrote, with Capital Canada Limited and Barclays Bank Canada Limited to raise long-term money on the real estate assets; three scheduled sales of real estate would reduce the loans substantially; the company was entertaining bids on its Calgary property; and cash flow from rentals would assist the repayment (a cash flow statement was enclosed). Once York Centre sold Sentry to Invermere, Mr. Stevens wrote, cash would become available. He noted various lines of credit for Canaland's, Sisman's, and Georgian Trust, and enclosed organization charts and financial statements for all the companies. He provided the following illuminating comment and rationale for the many intercompany transactions:

Intercompany advances have been made in most instances to better control the borrowing activities of associated companies. We have considered it better to advance the funds rather than to give the borrowing authority to a subsidiary or associated company, and in so doing, to give at least the implied guarantee of the parent.

(Exhibit 106, p. 211)

- On August 17, 1983, Mr. Stevens, Mr. Rowe, and Miss Walker met with Mr. Roland Wagg of CIBC and other bank officials. According to a bank memorandum, Hanil and Guaranty Trust financing offers were discussed and Mr. Stevens said he would re-evaluate the latter offer. Mr. Stevens was also reported in the memorandum to have stated that he was negotiating to sell a building in Calgary. He was further reported to have discussed York Centre's investments in Sisman's, Georgian Trust, and Canaland's.
- On September 7, 1983, Mr. Stevens, Mr. Rowe, and Miss Walker met again with Mr. Wagg and another bank official. The conversation, according to Mr. Wagg, revolved around loan reductions through Guaranty Trust and Hanil financings, for which negotiations were then in progress. Mr. Stevens wished CIBC to postpone its security to that of Guaranty Trust. He also referred to his negotiations to sell a Calgary building. Bank officials suggested that some of the non-self-supporting real estate be sold, but Mr. Stevens rejected the suggestion and advised them that at this stage he wished to hold on to the assets.
- On June 5, 1984, Mr. Wagg and Mr. Miller of CIBC met Mr. Stevens and Mr. Rowe. Mr. Wagg testified that Mr. Stevens spoke for York Centre at the meeting. He said that Mr. Stevens undertook to speak directly to Guaranty Trust about a delay in receiving a second advance on its loan to Cardiff Construction, one of the matters to be resolved. He noted that the second advance was received from Guaranty Trust soon after the meeting. Mr. Wagg said Mr. Stevens

agreed at the meeting that the sale of the companies' real estate was the only course of action open and assured the bank that this process would be expedited. Mr. Rowe wrote to the bank three days later outlining a number of proposals, among them a note that "Equion Securities Canada Limited . . . are interested in selling some or all of our real property" (Exhibit 108, p. 115). Other proposals contemplated financing oil exploration costs through pension funds, the transfer of York Centre's interests in Royal Cougar and Georgian Trust to a new financial services company, and the charging of management fees by York Centre to Canaland's, Sentry, Gill, YCPL, and the financial services company. In my opinion it is reasonable to conclude that Mr. Stevens was at least aware of these proposals, having attended the meeting to address the concerns they were meant to deal with three days earlier.

Role in the Oil and Gas Companies

Mr. Stevens described himself as being aware and supportive of York Centre's investments in oil and gas, without being actively involved in the oil and gas companies themselves. This description, however, omitted his successful efforts on behalf of York Centre and Canaland's to obtain financing from CIBC and the Continental Bank for the acquisition of Invermere Resources and Sentry; his involvement along with Mrs. Stevens in obtaining financing for Sentry from the U.S. bank Equibank; and his role in Canaland's 1983 share issue, including the use of Stevens Securities to complete it. As one might expect, Mr. Stevens' area of interest was money, not geology, and financing was thus the focus of his activity with the oil companies.

Specifics of Mr. Stevens' involvement with the oil companies included:

- In February 1982 Mr. Stevens purchased Invermere shares in order to gain control.
- In March 1982 Mr. Stevens applied to CIBC for a \$3.3 million loan to York Centre to facilitate this takeover, which was granted.
- Also in 1982, Mr. Stevens was involved in the initial negotiation of Canaland's Energy's loan from the Continental Bank for the acquisition of Invermere shares.
- In June 1982 Mr. Stevens applied to use \$140,000 of the \$3.3 million to buy Sentry shares. This was to be paid back in part from the proceeds of a \$400,000 loan for Sentry, he was negotiating with Equibank.
- In the spring of 1983 Mr. Stevens gave assurances to both CIBC and Continental Bank regarding these loans, caused York Centre and all the real estate companies to give a formal undertaking to reduce the

debt to be given by York to CIBC, and promised a complete paydown of the Canalsands loan by June 30 if required.

Role in the Real Estate Companies

Mr. Stevens painted a similar picture of detachment with regard to his role in the real estate subsidiaries. He said he was kept abreast of events in the "real estate division" when he attended York Centre board meetings (Transcript, vol. 69, p. 11,843). Other evidence showed Mr. Stevens' awareness of and involvement with real estate matters to be extensive:

- In February 1983 Mr. Stevens wrote to the CIBC noting that negotiations for long-term financing using the real estate had been started and that various property sales were forthcoming.
- In March 1983 Mr. Stevens and Mr. Rowe met Mr. Denton of Hanil Bank. Among loans forthcoming after the meeting was a \$1 million loan to Cardiff Construction.
- In April 1983 Mr. Stevens was involved in the signing of undertakings to CIBC to be signed by all the real estate companies.
- In May 1983 Mr. Stevens advised CIBC that, in a recent discussion, a life insurance company had expressed interest in providing conventional mortgage financing at preferred rates with equity participation.
- In the same month, Hanil sent Mr. Stevens a commitment letter for the \$1 million loan to Cardiff Construction. Subsequently, over the summer of 1983, Mr. Stevens dealt with CIBC to arrange release of security over properties to enable them to be given as security to Hanil. He also dealt with CIBC's queries about the information that was provided by him, Mrs. Stevens, and Miss Walker regarding the number and value of properties to be released.
- In June 1983 Mr. Stevens attended an initial meeting with Mr. Stewart Carter of Guaranty Trust to arrange financing using certain of the properties owned by Cardiff Construction. In considering the loan, Guaranty Trust noted that Cardiff Construction's future growth "may be facilitated by 'participation financings' with mortgage lenders" (Exhibit 110, p. 16). Mr. Stevens received a first offer to finance from Guaranty Trust in June and sent back an altered conditional acceptance in July. In 1984, Mr. Stevens was also involved in obtaining a second advance of the Guaranty Trust loan.
- In June 1983 Mr. Stevens objected to CIBC's use of proceeds from the bridge financing of one property.
- In August and September 1983 Mr. Stevens, Mr. Rowe, and Miss Walker met twice with CIBC officials to discuss Cardiff Construction's Hanil and Guaranty Trust financings. He was reported to have

said that he was negotiating to sell a building, and to have rejected at the second meeting a bank suggestion that non-self-supporting real estate be sold.

- In June 1984, when York Centre was faced with an ultimatum from CIBC, Mr. Stevens and Mr. Rowe met with bank officials. As mentioned earlier, Mr. Wagg of CIBC testified that Mr. Stevens undertook to speak to Guaranty Trust about the delay in the second advance of its loan and agreed that the sale of the companies' real estate was the only course of action open, assuring the bank that the process would be expedited. Within a few days, Mr. Rowe wrote the bank that a firm had expressed interest in selling some or all of York Centre's real property. I have found that Mr. Stevens was aware of this too.
- Mr. Rowe testified that Mr. Stevens talked with him prior to his going into cabinet in September 1984 about efforts to arrange a participating mortgage or to sell the real estate. I note that this testimony is consistent with Mr. Rowe's letter to Mr. Stevens of September 30, 1984, referred to in Chapter 6, which mentions "a participating mortgage" (Exhibit 47).

Role in the Strip Bond Companies

Mr. Stevens confirmed he was one of the originators of the strip bond concept but testified that he had no involvement with YCPL or Royal Cougar, and that, although involved in an idea for financing Georgian Trust in 1982, he was not an officer or director of it. Other evidence was as follows:

- Mrs. Stevens testified that discussions between her and Mr. Stevens led to the incorporation of Georgian Trust in 1980.
- Mr. Fell of Dominion Securities and Mr. Lawrence of Burns Fry testified that Mr. Stevens approached their firms in the early 1980s about doing bond business with them.
- Ms. Bennett of Gordon Capital and Mr. Ron Graham, a minority shareholder of Royal Cougar, both of whom were involved with Royal Cougar in its formative stages, testified that Mr. Stevens was responsible for the formation of this company. Royal Cougar was incorporated late in 1982.
- Royal Cougar and Guaranty Trust formed a joint venture to market strip bond products called Cougars. In February 1983 Mr. Stevens advised CIBC by letter, in the context of an abortive plan to merge Gill and Stevens Securities, that the merged company could charge fees to Royal Cougar for his services in arranging this joint venture.
- In March 1983 Mr. Stevens and Mr. Rowe met Hanil Bank executive Arnold Denton to discuss strip bonds. Among loans forthcoming after

the meeting was a \$1.5 million loan to YCPL, as agent for Georgian Trust, to finance the latter's strip bond portfolio. YCPL was activated to perform this role. Mr. Stevens later asked Mr. Lawrence of Burns Fry to give an opinion on the marketability of bonds to be given by YCPL as security for this loan, which he did.

- In June 1984, according to the memorandum below, Mr. Stevens instructed a Royal Cougar employee to purchase bonds for YCPL. The memorandum is from the employee, Ms. Viki Martin to Miss Walker. It states in part:

SHIRLEY
Information Bulletin

June 8, 1984

SMS instructed me to buy 47 x 25,000 (face value) of Residuals from Guaranty Trust 47 @ \$1,874.00 (14% compounded annually) = \$88,031.00

Interior Trust has agreed to open a Margin Account in the name of York Centre Properties Limited. Conditions are 90%–10% and Prime + 1%.

SMS is aware of these arrangements. . . .

(Exhibit 97, p. 72)

- From 1982 to 1984, according to Mr. Tom Kierans of McLeod Young Weir, Mr. Stevens traded bonds from time to time in a margin account Georgian Equity had with this firm.

Conclusions

In his testimony, Mr. Stevens downplayed the extent of his activities in the companies. I have no doubt that his responsibilities as a member of Parliament occupied a significant portion of his time between 1980 and 1984 and that there were employees in the various companies to deal with administrative matters and the monitoring and analysis of investments.

Accordingly, so far as it goes, I regard Mr. Stevens' account as correct. Nonetheless, the testimony of others, together with information available from documents, makes it quite clear that although Mr. Stevens' contact during the period in question was irregular, he remained generally familiar with significant events as they occurred and continued to discharge an important responsibility in directing the affairs of the York Centre group of companies.

It is apparent from Mr. Rowe's letter of September 30, 1984 (set out in Chapter 6), and from the subsequent meeting, that the group sought specific advice and direction from Mr. Stevens, in circumstances in which it was obvious that Mr. Stevens had theretofore been actively involved, for addressing problems in all areas of investment. These problem areas were primarily, if not exclusively, financial. The

communications on this occasion represent a plea for help and advice from a source upon which the group had obviously regularly relied.

In my opinion, the significance of Mr. Stevens' role in the establishment and maintenance of banking relationships was also minimized by him. It is clear that during the period of Mr. Stevens' greatest involvement with bankers, 1982-83, the group borrowed extensively to finance its affairs and thereafter faced straitened circumstances owing to its inability to meet its bankers' repayment expectations. As I noted earlier, management of the loans and the banking relationships was vital to the group, particularly as its financial situation deteriorated. It is clear that Mr. Stevens intervened whenever these relationships were seriously threatened and that his intimate knowledge of the affairs of all the companies was a matter of sufficient comfort to their bankers as to result in continuing relationships.

Mr. Stevens suggested that York Centre was being run by others while he was the chairman in the period 1981-83. I note first that York Centre was a holding company without independent activity other than supervision of its investments, few of which were revenue-producing in the period in question. When this assertion is considered in light of the testimony and documents, I have no hesitation concluding that Mr. Stevens was involved in the major activity of this company in this period, namely dealing with ongoing financing requirements that were essential for its survival.

Somewhat similar conclusions can be drawn about Mr. Stevens' statement that he was not active in Canalsands or Sentry or their subsidiaries. The critical needs of these companies were the financing and monitoring of investments, both of which were ongoing. Mr. Stevens was the major decision maker in expanding the investments in the oil and gas field. He arranged the financing to carry this out. Although there were no doubt many activities in these companies with which he was not involved, the basic activity would not have been launched without his admitted concurrence — and the evidence points to a stronger role than that. His statement that he was not active in these companies does not tell the whole story.

Similarly, his comment that he was not actively involved with the operations of Cardiff Construction and its subsidiaries was tempered by the evidence of Mr. Carter and Mr. Denton that he broke the ground for loans to Cardiff Construction and by the documents from CIBC, Guaranty Trust, and Hanil Bank, in particular correspondence from him detailing how to dispose of real estate. No doubt the mechanics of these substantial transactions were carried out by others, but this is of little moment.

I have concluded that Mr. Stevens had both an economic and a controlling interest in Georgian Trust. He exercised his resultant influence in attempting to develop proposals that would fundamentally alter its ownership and activity in spite of the fact that he was not an officer of the company. Also noteworthy is his introductory role in

arranging for the use of the company's bond portfolio to obtain financing through YCPL.

Regarding Georgian Equity, Mr. Stevens' testimony both suggested he had no involvement and minimized the significance of his office-holding by describing the company as quiescent. From Mrs. Stevens' testimony about the limits of Mr. Thrasher's activity, as well as the testimony of Mr. Kierans, my earlier finding that the company was managed in Canada, and the fact that Miss Walker, the only other officer, was Mr. Stevens' subordinate and believed him to be knowledgeable about the company, I conclude that in practical terms Mr. Stevens was the ultimate authority in this company.

Mr. Stevens denied any involvement in or connection with YCPL. This statement is incorrect. He was involved in the one transaction for which this company was reactivated. Further, I note that there was evidence of his subsequent involvement with YCPL, in the form of a direction to purchase bonds, although he held no office in the company.

I find therefore that Mr. Stevens was involved with all the York Centre group of companies between 1980 and 1984. Although, no doubt, not constantly involved in the companies on a hands-on basis, he directed their significant activities, he enjoyed a level of knowledge about their overall activities that one would expect from a person whose net worth was closely tied to their fate, and he took the lead in all significant activities in which they participated. These activities continued to the point of his entering the cabinet.

Chapter 8

Compliance with the Guidelines, Code, and Letter

Upon entering the cabinet, Mr. Stevens was obliged to comply with the conflict of interest rules contained in the guidelines, and later in the code and letter. This chapter describes the steps that Mr. Stevens took to comply with these requirements.

The Guidelines

On September 17, 1984, the day of Mr. Stevens' appointment as minister, Mr. Robert Boyle, the assistant deputy registrar general (ADRG), wrote to him enclosing a copy of the guidelines and advising him that certain procedures needed to be carried out, including his own confidential disclosure and the designation of those members of his staff who were to be subject to the guidelines. Mr. Boyle then assigned Mr. Peter Herbert of his office to assist Mr. Stevens with his compliance. Mr. Herbert had dealt with Mr. Stevens' compliance measures in 1979 and was familiar with the Stevens' affairs.

Mr. Stevens delegated the task of dealing with the ADRG's office to Miss Walker and the law firm of Stikeman, Elliott, as he had done in 1979. Mrs. Stevens was involved briefly as well. A few days after Mr. Stevens' appointment, she wrote to Mr. H.N.R. Jackman of the National Victoria and Grey Trust Company (National Trust) asking that the company become trustee of the blind trust.

Mr. Herbert began by referring to the confidential file he had prepared in 1979. This file included financial statements for Gill, Mr. and Mrs. Stevens' blind trust, correspondence from Miss Walker and others, notes of his meeting with Mr. Stevens at that time, and other material on the Stevens' interests gathered by him. He also checked the *Financial Post's* survey of directors to up-date his knowledge of Mr. Stevens' affairs.

On October 11, 1984, having received no reply to the ADRG's letter of September 17, Mr. Herbert telephoned Mr. Stevens' office. The next day Mr. Herbert was advised that Mr. Frederick von Veh of Stikeman, Elliott would be handling Mr. Stevens' affairs and that Miss Effie Triantafilopoulos, Mr. Stevens' chief of staff, would be designating

those members of his exempt staff who were to comply with the guidelines.

On October 18, 1984, Mr. Herbert contacted Mr. von Veh, who later advised him that Mr. Richard Clark of Stikeman, Elliott was also involved. On October 24, 1984, Mr. Herbert received a telephone call from Miss Walker. Mr. Herbert mentioned to her that he had had difficulty in reaching either Mr. Stevens or Miss Triantafilopoulos, and Miss Walker expressed surprise that Mr. Herbert had not been directed to talk to her. He met with Miss Walker later that day and discussed with her the intent and main requirements of the guidelines. She advised him that Mr. Stevens had resigned several positions well before being sworn in, that she would do all she could to ensure Mr. Stevens' compliance, and that exempt staff who would be subject to the guidelines were designated.

At some point before October 30, 1984, Mr. Herbert received a statement of net worth dated September 30, 1984, as part of Mr. Stevens' confidential disclosure. On October 28, 1984, Mr. Clark sent Mr. Herbert an unsigned copy of the blind trust document. A signed copy was later sent to Mr. Herbert. Mr. Stevens had executed the blind trust on October 19, 1984. Mr. Stevens transferred the ownership of the following controlled assets to the trustee: 81 common and 20,500 preference shares of Gill, held by him, and 13,800 York Centre shares and \$549.03 held by an RRSP of which he was the beneficiary. The trust document itself is reproduced in Appendix I.

Mr. Stevens testified that he had instructed Miss Walker to make sure that any data or information relevant to what should or should not go into a blind trust was made available, and that there were discussions with the ADRG as to what the ADRG wished done, given Mr. Stevens' various assets — for example, whether they should be treated as exempt, discloseable, or controlled. He had formed the preliminary view that a blind trust "appeared to be the answer" for the controlled assets (Transcript, vol. 71, p. 12,270).

Mr. Stevens testified that he had asked Miss Walker to get in touch with Mr. Clark to make sure that things were done in what Mr. Clark felt was an appropriate legal fashion. Mr. Clark worked, he said, from factual data provided by him and Miss Walker. Mr. Stevens also testified that he had had discussions with both Mr. Clark and Mr. von Veh, in the course of which he reviewed some typical blind trusts. Recent quarterly financial statements of York Centre and various subsidiaries or affiliates were made available to them, but, beyond that, Mr. Stevens could not recall discussing York Centre's financial condition.

By October 30, 1984, Mr. Herbert had received the executed trust document, the statement of net worth, and draft disclosure statements, and had spoken with both Mr. Clark and Miss Walker. That day, he discussed the draft material with Miss Walker, who assured him that the disclosure of activities was a "complete disclosure of all activities

which require a declaration” and that Mr. Stevens had no disclosure with regard to gifts or other benefits to make (Exhibit 8, tab 1, p. 19).

Mr. Herbert did not recall having made any specific inquiries about Mrs. Stevens. He testified, however, that he did “recall very distinctly having referred to the need for a spouse to take care not to embarrass her husband” during discussions with “people from Stikeman, Elliott and . . . Ms. Walker” (Transcript, vol. 3, p. 318). He said that he asked the advisers for an assurance that there was no problem regarding her involvements which might affect Mr. Stevens, and that he received assurances from one or both of them, but certainly from Miss Walker, that Mrs. Stevens did not have any activities or assets which might pose any problem for Mr. Stevens vis-à-vis the guidelines.

On October 30, 1984, Mr. Herbert drafted a summary letter that was delivered to Mr. Stevens, advising him of the information he had gleaned from Miss Walker and Mr. Clark. In the letter Mr. Herbert asked Mr. Stevens, “[p]articularly since it has not yet been possible to meet with you personally,” to “look over this letter carefully” and to sign and return an additional copy “[i]f you find the information I have set down is accurate and sufficiently complete” (Exhibit 8, tab 1, p. 20). Mr. Stevens signed and returned the letter and its enclosed disclosure documents without alteration the next day.

The letter included the following representations:

- Miss Walker had confirmed that the information in the draft “Disclosure of Activities” enclosed with the letter (the same as the one Mr. Stevens signed) “represents a complete disclosure of all activities which require a declaration” (Exhibit 8, tab 1, p. 19).
- The assets of the Anna B. Stevens estate consisted solely of Government of Canada bonds.
- His wife Noreen had no activities or assets which might pose any problem for him vis-à-vis the guidelines.

I note that, contrary to the second representation, the Anna B. Stevens estate, discussed in Chapter 5, owned a majority of the issued shares of Stevens Securities. Regarding the third representation, in effect a statement that Mr. Stevens had discharged his duty under Part VII of the guidelines, the only background for this was, apparently, a discussion Mr. and Mrs. Stevens had had to the effect that she would not represent in her practice anyone having dealings with the government.

The letter also reiterated Mr. Herbert’s wish to meet with Mr. Stevens and his offer to assist him with any questions concerning the guidelines or conflict of interest. Mr. Herbert testified that he did not meet with Mr. Stevens in 1984, although he had attempted to, and that in the circumstances it appeared unnecessary. He said he was satisfied from information and documentation provided by others that Mr. Stevens had complied with and was fully aware of the guidelines. Mr. Stevens testified that he was unaware that the ADRG’s office wished to

meet him, but he did recall discussing compliance with Mr. Clark and Miss Walker. He said he would have met with the ADRG had Mr. Clark or anyone else expressed concern.

On receipt of the signed letter, the ADRG wrote to Mr. Stevens on November 1, 1984, advising him that Mr. Herbert had confirmed to the ADRG his compliance with the guidelines and that the ADRG would be recommending that the prime minister approve Mr. Stevens' compliance measures. This formal approval was sent to Mr. Stevens on January 15, 1985.

Mr. Stevens' public disclosure of his activities and assets in the registry held by the ADRG is set out in figures 8.1 and 8.2.

The Code and Letter

The code came into force on January 1, 1986. Early in December 1985 the ADRG wrote two letters to Mr. Stevens regarding the code and letter. The first, dated December 5, 1985, enclosed a copy of the code and described the responsibilities it imposed upon Mr. Stevens and the ADRG. The ADRG advised him that a separate letter would deal with his personal affairs and would detail the additional information required by the code to determine the appropriate compliance methods. Also mentioned were the prime minister's directives in the letter regarding preferential treatment and grants to or contracts with, among others, spouses.

The second letter from the ADRG, dated December 12, 1985, noted that the requirements for ministers had "scarcely changed" from the guidelines (Exhibit 8, tab 1, p. 58). It advised Mr. Stevens that certain things were required; namely, confidential disclosure (1) of any changes to assets or liabilities disclosed in a previous report or any annual update; (2) of all activities — commercial, government, philanthropic, charitable, or non-commercial — within the preceding two years; and (3) of gifts, hospitality, or other benefits over \$200 in value received from someone other than a family member or close friend. It was pointed out that on receipt of this information the ADRG would advise Mr. Stevens as to what compliance methods were appropriate. The letter further noted that, although it was no longer necessary to provide detailed information on exempt assets, it would still be prudent for Mr. Stevens to disclose any asset that could give rise to a real or potential conflict of interest. Once the appropriate compliance methods were determined, the letter noted, the ADRG would prepare any necessary public filings based on the information provided by Mr. Stevens. The ADRG also wrote that he wished "to emphasize that the Code includes special requirements regarding . . . hiring of or contracting with family members" (Exhibit 8, tab 1, p. 59). There was evidence from Mr. Stevens that he may have discussed with his wife the fact that the code did not have new provisions regarding, or applying to, spouses.

Figure 8.1 Mr. Stevens' Disclosure of Activities

CONFLICT OF INTEREST GUIDELINES
LIGNES DIRECTRICES CONCERNANT LES CONFLITS D'INTÉRÊTS

DISCLOSURE OF ACTIVITIES
DÉCLARATION D'ACTIVITÉS

I, Sinclair McKnight Stevens

declare that during the two years preceding my appointment I held the undernoted partnerships, directorships, and corporate executive positions, and professional and other activities:

Je,

déclare qu'au cours des deux années qui ont précédé ma nomination, j'ai entretenu des liens de participation ou activités et j'ai occupé les postes de direction et d'administration indiqués ci-dessous:

1. Public Companies

Resigned November 25, 1983 as Chairman and Director

- York Centre Corporation, a management and investment company which, through subsidiaries and associated companies, is engaged in real estate management and development, financial services and energy and resource investment.

Suite 1350, Commerce Court West, Toronto, Ontario

2. Private Companies

Resigned October 19, 1984

- Gill Construction Limited, a general investment holding company
- Stevens Securities Limited, a general investment holding company

Suite 1350, Commerce Court West, Toronto, Ontario

3. Other Interests

- Stevens & Stevens
Barristers and Solicitors
R.R. 3, King City, Ontario

Inactive as a partner since prior to June 1977

- Kings Lynn Farms, a farming operation
R.R. 3, King City, Ontario

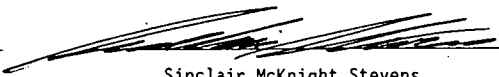
Inactive as a partner since my appointment as a Minister of the Crown.
Management responsibility delegated effective October 19, 1984.

This disclosure is made in the full knowledge that it will be open to examination by the general public in the Public Registry maintained by the Assistant Deputy Registrar General.

Cette déclaration est faite sachant qu'elle sera accessible au public dans le Registre public du Sous-registraire général adjoint.

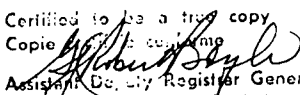
October 31, 1984

Date


Sinclair McKnight Stevens

Certified to be a true copy

Copie certifiée conforme


Assistant Deputy Registrar General

Sous-registraire général adjoint

CCA-1866

Figure 8.2 Mr. Stevens' Disclosure of Discloseable Assets

**CONFLICT OF INTEREST GUIDELINES
LIGNES DIRECTRICES CONCERNANT LES CONFLITS D'INTÉRÊTS**
**DISCLOSURE OF DISCLOSEABLE ASSETS
DÉCLARATION DE BIENS POUVANT ÊTRE DIVULGUÉS**

I, Sinclair McKnight Stevens
declare that:

Je,
déclare que:

1. I own a 50 per cent interest in Kings Lynn Farms,
Part lot 27, Con. 2, Township of King, Regional Municipality
of York. While I am subject to the Conflict of Interest
Guidelines, the management of the farm is entirely the
responsibility of the co-owner.
2. I own 9.7 per cent of the preferred shares and 6.5 per cent
of the common shares of Stevens Securities Limited, a private
general investment holding company, Suite 1350, Commerce Court
West, Toronto, Ontario.

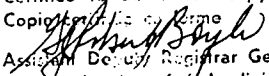
This disclosure is made in the full knowledge that it will be
open to examination by the general public in the Public
Registry maintained by the Assistant Deputy Registrar
General.

Cette déclaration est faite sachant qu'elle sera accessible
au public dans le Registre public du Sous-registraire général
adjoint.

October 31, 1984

Date


Sinclair McKnight Stevens

Certified to be a true copy
Copie certifiée vraie

Assistant Deputy Registrar General
Sous-registraire général adjoint

CCA-1867

Source: Exhibit 8, p. 26

The next apparent contact between the ADRG's office and Mr. Stevens was on February 4, 1986, when Mr. Herbert called Miss Walker at the York Centre offices and left a message. Later that day she called back and assured him there were "No changes whatsoever" to be reported (Exhibit 8, tab 1, p. 61). (I will deal later in this section with how Miss Walker came to make this statement.) On February 20, 1986, Mr. Herbert wrote to Miss Walker care of the box number of the York Centre offices, where he had been in the habit of writing and telephoning her, enclosing drafts of the necessary public filings for Mr. Stevens' consideration. In essence, these were exactly the same as the 1984 documents. Mr. Herbert also enclosed blank forms in case any changes were necessary.

By April 9, 1986, Mr. Stevens had signed the documents and the ADRG's office had received them. On April 11, 1986, the ADRG wrote to Mr. Stevens advising that the necessary information had been assembled for his confidential report, that his public documents were satisfactory, and that the ADRG would be recommending that the prime minister approve Mr. Stevens' compliance methods.


Mr. Stevens' public disclosures of his activities and assets are set out in figures 8.3 and 8.4. As part of his compliance, Mr. Stevens also certified that he had read and understood the code, agreed to observe it as a condition of holding office, and had complied with the conflict of interest measures set out in Part II of the code.

As mentioned earlier, there was some question from the testimony as to how Miss Walker came to advise Mr. Herbert that there were no changes to report. Miss Walker testified that she made the statement based on her assumption that there were no changes. She had not asked Mr. or Mrs. Stevens if there were any changes or, for that matter, made any inquiries.

At various points in his testimony, Mr. Stevens stated that Miss Walker had not been delegated the responsibility to communicate with the ADRG and that he could not recall giving her any specific authority or instruction to make this statement. However, he also testified that he had had discussions with Miss Walker about compliance and with Mr. Clark and Mr. von Veh about whether the code required any changes; that Miss Walker had been instructed to make the statement that there were no changes to report; and that he had turned over compliance with the code to Miss Walker and to Stikeman, Elliott. The evidence of Miss Walker and Mr. Herbert indicated no involvement by Stikeman, Elliott whatsoever.

I conclude that Mr. Stevens did in fact delegate communication with the ADRG to Miss Walker. She clearly took charge of the matter with his knowledge and without any objection from him. After that, one of two things happened. Either Mr. Stevens and Miss Walker communicated further about the matter and, based upon this communication, she concluded that she should tell the ADRG there were no changes to report; or they did not communicate, and he left the matter of what to advise the ADRG entirely to her.

Figure 8.3 Mr. Stevens' Public Declaration of Outside Activities



Government of Canada
Gouvernement du Canada

**Conflict of Interest
and
Post-Employment Code
for
Public Office Holders**

**PUBLIC DECLARATION
OF OUTSIDE ACTIVITIES**

**Code régissant la conduite
des titulaires de charge publique
en ce qui concerne
les conflits d'intérêts
et l'après-mandat**

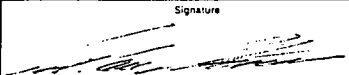
**DÉCLARATION PUBLIQUE
D'ACTIVITÉS EXTÉRIEURES**

I, the undersigned, declare that, during the two years before assuming my official duties and responsibilities, I was engaged in the undernoted activities. I further declare that I am currently involved in the activities so indicated.

Activities from which I resigned before or upon assuming my official duties:

1. Chairman and Director, York Centre Corporation
2. President and Director, Gill Construction Limited
3. President and Director, Stevens Securities Limited
4. Stevens and Stevens, Barristers and Solicitors
5. Kings Lynn Farms, a farming partnership.

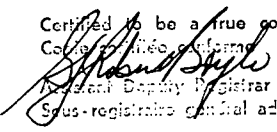
Je, soussigné(e), déclare, qu'au cours des deux années précédant mon entrée en fonction, j'ai participé aux activités indiquées ci-dessous. De plus, je déclare que présentement j'exerce les activités ainsi identifiées.

Date	Name/Nom	Signature
86 03 26 Y/A M/M D/J	SINCLAIR M. STEVENS	

This *Public Declaration* is made in the full knowledge that a certified copy will be placed in the Public Registry maintained by the Assistant Deputy Registrar General.

Cette *Déclaration publique* est faite sachant qu'une copie certifiée conforme sera versée au Registre public tenu par le Sous-registraire général adjoint.

Certified to be a true copy
Copie certifiée conforme


Assistant Deputy Registrar General
Sous-registraire général adjoint


Canada

ADRG/SRGA-0013

Source: Exhibit 8, p. 68

104 Part Two

Figure 8.4 Mr. Stevens' Public Declaration of Declarable Assets



Government of Canada
Gouvernement du Canada

Conflict of Interest
and
Post-Employment Code
for
Public Office Holders

PUBLIC DECLARATION
OF DECLARABLE ASSETS

Code régissant la conduite
des titulaires de charge publique
en ce qui concerne
les conflits d'intérêts
et l'après-mandat

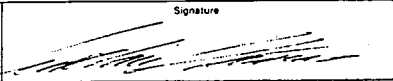
DÉCLARATION PUBLIQUE
DE BIENS POUVANT ÊTRE DÉCLARÉS

I, the undersigned, declare:

Je, soussigné(e), déclare:

1. I own a 50 per cent interest in Kings Lynn Farms,
Township of King, Regional Municipality of York.
While I am subject to the Code, the management of
the farm is entirely the responsibility of the co-owner.

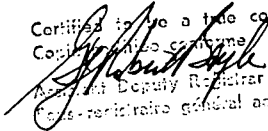
2. I own 9.7 per cent of the preferred shares and 6.5
per cent of the common shares of Stevens Securities
Limited, a private general investment holding company,
Suite 1350, Commerce Court West, Toronto, Ontario.

Date	Name/Nom	Signature
86 03 26 <small>Y/A M/M D/J</small>	SINCLAIR M. STEVENS	

This **Public Declaration** is made in the full knowledge that a certified copy will be placed in the Public Registry maintained by the Assistant Deputy Registrar General.

Cette **Déclaration publique** est faite sachant qu'une copie certifiée conforme sera versée au Registre public tenu par le Sous-registraire général adjoint.

Certified to be a true copy
Certifié être conforme


Assistant Deputy Registrar General
Sous-registraire général adjoint

ADRG/SRGA-0012

Canada

Source: Exhibit 8, p. 69

Compliance 105

Summary

In both 1984 and 1986 Mr. Stevens delegated compliance matters and discussion with the ADRG to others. In 1984 Miss Walker and the firm of Stikeman, Elliott both discussed Mr. Stevens' affairs with the ADRG and finalized the compliance arrangements; in 1986 these functions were handled entirely by Miss Walker. In 1984 Mr. Stevens had had discussions with both Miss Walker and the Stikeman, Elliott lawyers; in 1986 there was no evidence apart from Mr. Stevens' of any such discussions.

Upon being presented with the necessary forms, Mr. Stevens signed them. There was evidence that Mr. Stevens had some form of discussion with his wife in 1984 about her not representing persons having dealings with the government, and that he may have had some discussions with her, in 1986, to the effect that the code did not have new provisions regarding, or applying to, spouses. There was no evidence that Mr. Stevens discussed Miss Walker's compliance responsibilities with her. This was delegated, he said, to Miss Triantafilopoulos.

Part Three

Mr. Stevens' Involvement in Private Business Matters while a Minister of the Crown

In Part Two I summarized the evidence relating to Mr. Stevens' business interests and his involvement in the York Centre group of companies prior to his appointment as minister in September 1984 and his formal compliance with the conflict of interest regimes on entering office and thereafter. In this part I examine the nature and the extent of his involvement in private matters while he was a cabinet minister. I first consider the evidence relating to Mr. Stevens himself. I then consider the roles that Miss Walker and Mrs. Stevens played in these same business areas, and their involvement, if any, with Mr. Stevens. With this background I assess the nature and extent of Mr. Stevens' knowledge of or involvement in private business matters while he was a minister. I then turn to the allegations of conflict of interest in Part Four. First, however, let me set out the evidence relating to Mr. Stevens' involvement in private business matters.

The Commission heard evidence that Mr. Stevens continued his involvement in the affairs of the York Centre group of companies even after becoming a minister of the Crown. The evidence related in particular to the following events:

- meetings with Mr. Mel Leiderman, the York Centre accountant, on March 16, 1985, and April 13, 1986;
- meetings and conversations regarding the La Ronge goldplay;
- involvement in the Christ coin proposal and discussions with Chase Manhattan Bank officials;
- a meeting with Mr. Angus Dunn of Morgan Grenfell & Co. Ltd. (Morgan Grenfell) in March 1985;
- an approach to Mr. Tom Kierans of McLeod Young Weir on July 31, 1985;
- a telephone call to Mr. Ken Leung of Olympia & York in August 1985;
- certain financial documents pertaining to the York Centre group of companies found in files and elsewhere in the minister's Ottawa office; and

- a meeting with Mr. Ron Graham on May 2, 1986.

Some of these incidents also relate to the allegation that Mr. Stevens improperly mingled private business with government business. The “mingling” aspect of these incidents will be examined in more detail in Chapter 23. My concern here is to deal with this evidence, at least in part, to allow a proper assessment of the nature and extent of Mr. Stevens’ involvement with the York Centre group of companies while he was a minister of the Crown.

Chapter 9

The Meetings with Mel Leiderman

Mr. Mel Leiderman is a chartered accountant and a partner in the firm of Lipton, Wiseman, Altbaum & Partners. Mr. Leiderman has been the accountant and auditor for most of the York Centre companies since 1979. He has come to know Mr. and Mrs. Stevens, Ted Rowe, Shirley Walker, and the other officers and personnel at York Centre and has worked with them in a number of areas. Mr. Leiderman has not only performed general accounting and auditing services but on numerous occasions has also provided tax advice, financial consulting, and general business assistance.

For example, both in the fall of 1984 and in the spring and summer of 1985, when York Centre was attempting to raise money on Bay Street, Mr. Leiderman accompanied Noreen Stevens or Ted Rowe to meetings held with Richardson Greenshields, Hees, and Gordon Capital. He was familiar with the financial condition of the York Centre companies and some of the financing strategies that were being pursued.

Mr. Leiderman testified that he had private dealings with Mr. Stevens, by telephone and in person, while Mr. Stevens was a minister of the Crown. He said that he had "a couple" of telephone conversations with Mr. Stevens between October 1984 and May 1986. Although unable to pinpoint the date more precisely, Mr. Leiderman recalled that Mr. Stevens called him and they "discussed the financial affairs of Georgian Trust" and, in particular, the draft financial statements of the company (Transcript, vol. 15, pp. 2155, 2154).

Mr. Leiderman also testified that on two occasions he met with Mr. and Mrs. Stevens while Mr. Stevens was minister. The first meeting was on March 16, 1985, and the second on April 13, 1986. Both were weekend meetings that were held at the Stevens farm near King City. Each meeting lasted approximately two to three hours, and only Sinclair and Noreen Stevens were present. On each occasion Mr. Leiderman made contemporaneous notes of what was being discussed. He produced to the Commission four pages of notes from the first meeting and one page from the second.

Mr. Leiderman's evidence on what was discussed at these meetings is particularly important in assessing the extent to which Mr. Stevens was involved in private business matters while he was a minister of the

Crown. It also provides an important basis against which to measure other incidents and other evidence. I shall deal with each of the meetings in turn.

Meeting of March 16, 1985

Mr. Leiderman's Testimony and Notes

On Saturday, March 16, 1985, Mr. Leiderman met with Mr. and Mrs. Stevens at their farm for two to three hours. According to Mr. Leiderman, the financial condition of York Centre at this time was such that it would have had difficulty meeting its obligations unless the operation became profitable or additional equity was raised. The "thrust of the discussion" at this meeting was a proposed reorganization of the York Centre group of companies in order to raise "additional equity or capital or cash" (Transcript, vol. 15, pp. 2188, 2169). According to Mr. Leiderman's evidence, one of the reasons for the proposed reorganization was the "need for money" (Transcript, vol. 15, p. 2188).

I have already described the financial condition of the York Centre companies in Chapter 6, and it is sufficient to say here that in March 1985 there was an urgent need to obtain additional financing. Indeed, it was at this point that the approaches to Burns Fry and Dominion Securities were proving unsuccessful and an approach was being made to Gordon Capital. The "need for money" and the way that the money could be raised was discussed in some detail at the March 16 meeting.

According to the evidence of Mr. Leiderman and the notes that he made as the meeting progressed, the need to raise between \$3 million and \$5 million was discussed. If \$3 million were raised, the amount would be distributed as follows: \$1.5 million would go to York Centre, \$1.2 million to the Hanil Bank, and \$0.3 million to Equibank.

Mr. Leiderman's testimony and notes indicate that certain property valuations and bond holdings were also discussed. The appraised value of the "H of K land" was noted as \$300,000 (Exhibit 97, p. 192). This was the valuation of the Highlands of King property in Barrie, Ontario, that shortly thereafter was included in the mortgage agreement Mrs. Stevens entered into with Mr. Anton Czapka. There was also a notation about Georgian Trust and the "B.C. bonds, profit or loss on sale" (Exhibit 97, p. 192). The B.C. Hydro bonds held by Georgian Trust had been sold about two weeks earlier, on February 28, 1985.

There was discussion of a possible use of redeemable preference shares financed by strip bond securities ("Cougars") as a vehicle to raise the \$3 million (Exhibit 97, p. 191). According to Mr. Leiderman this was another "scenario as to a proposed refinancing" (Transcript, vol. 15, p. 2182). There was also discussion of using Georgian International Corporation, a shell company incorporated in the United Kingdom, as another possible vehicle to raise money.

Mr. Leiderman testified that both Mr. and Mrs. Stevens appeared knowledgeable about the financial condition of the companies at the

time of the meeting and about the need to raise money. Mr. Leiderman also testified that although Mrs. Stevens contributed to the discussions, Mr. Stevens was the main source of the ideas generated at this meeting.

Several days after the meeting, Mr. Leiderman prepared a "proposed reorganization" chart dated March 21, 1985. The chart was based on the notes he had taken during the meeting. In his testimony, Mr. Leiderman could not recall whether he delivered the chart to either Mr. or Mrs. Stevens. Nor could he recall having any further meetings or discussions in this regard with either of them.

Mr. and Mrs. Stevens' Evidence

Mr. Stevens testified that he was present at the meeting as a "resource person," to provide background and commentary. According to Mr. Stevens, this meeting was simply a "meeting of . . . professionals" (Transcript, vol. 70, p. 11,997). Because it had nothing to do with the day-to-day activities of the York Centre group of companies, "operational people" such as Ted Rowe or Bill Mollard were not present (Transcript, vol. 73, p. 12,593).

Mr. Stevens conceded that the need to raise money could have been discussed but testified that this would have been in the context of trying to effect a sensible reorganization. When questioned about Mr. Leiderman's evidence and the items in Mr. Leiderman's notes that pertained to the financial discussions — the need to raise \$3–\$5 million, how the proceeds would be distributed, the Highlands of King property, the B.C. Hydro bonds, the use of Georgian International Corporation — Mr. Stevens testified that he could not recall discussing any of these matters.

Mr. Stevens testified that after the meeting concluded and Mr. Leiderman had left, he and his wife discussed matters further but in a general way only, and that thereafter they had no additional discussions about the meeting. Mr. Stevens also testified that he did not discuss with his wife, on that day or thereafter, the raising of \$3–\$5 million; that he did not discuss it with Mr. Ted Rowe; and that he did not ever ask Mrs. Stevens or Mr. Rowe how the financing efforts were progressing or whether money was in fact being raised. Mr. Stevens testified that he was not interested in the financing efforts or concerned about them.

Mrs. Stevens testified that in her view the items discussed at the March 16, 1985, meeting had nothing to do with the "management" of York Centre.

Conclusions

I accept the evidence of Mr. Leiderman. I was impressed by his careful testimony. Mr. Leiderman testified in circumstances that were undoubtedly difficult for him as the York Centre accountant, yet he

answered all the questions put to him, directly and candidly. His testimony was forthright and credible, and he attempted in good faith to recall the discussions of March 16, 1985, from the notes he made on that day as the meeting progressed.

I find as a fact that corporate reorganization and “the need for money,” and in particular the need to raise \$3–\$5 million, were discussed by Mr. and Mrs. Stevens at the March 16 meeting. Indeed, I find that all the items noted by Mr. Leiderman and described above were matters discussed during the meeting.

I further find that the matters discussed that day were matters that related to the current financial condition of the York Centre group of companies and the urgent need for refinancing, to current property and bond values, and to proposals relating to corporate reorganization. All of these are typically “management” concerns. I reject Mr. Stevens’ characterization of the meeting as simply a “meeting of professionals.” It was more than that. I find that management matters relating to the York Centre group of companies were discussed by Mr. and Mrs. Stevens at this meeting with Mr. Leiderman.

Meeting of April 13, 1986

Mr. Leiderman’s Evidence

Mr. Leiderman met with Mr. and Mrs. Stevens again on Sunday, April 13, 1986. The meeting was arranged by Miss Walker, who had telephoned Mr. Leiderman and asked him to attend at the Stevens farm on the Sunday afternoon. Mr. Leiderman brought to the meeting some current financial statements and some correspondence files relating to the York Centre group of companies. He also brought a spreadsheet that had been prepared by Joan Foulkes, the York Centre bookkeeper. The spreadsheet showed the intercompany balances as of December 31, 1985.

The meeting with Mr. and Mrs. Stevens lasted approximately two-and-a-half to three hours. Mr. Leiderman again made notes of what was being discussed.

The purpose of the meeting was to discuss ways to “clean-up” the balance sheets of the various York Centre companies by eliminating intercompany loans through the exchange of debt for equity. The discussions centred primarily on the spreadsheet. The spreadsheet listed the intercompany balances, as of December 31, 1985, of the following companies: York Centre, Cardiff, Clady Farm, Canaland, YCPL, Stevens Securities, Georgian Trust, Georgian Equity, Gill, and Sentry. Of the ten companies named, three were public companies (York Centre, Canaland, and Sentry). The others were private or offshore companies.

According to this spreadsheet, the “intercompany balances” in the York Centre companies, as of December 31, 1985, were as follows:

- Stevens Securities owed Canaland's \$387,500;
- Canaland's owed York Centre \$598,782;
- York Centre owed Stevens Securities \$541,250;
- Cardiff owed Gill \$6,000;
- York Centre owed Gill \$130,600;
- Clady Farm owed Cardiff \$805,316;
- York Centre owed Georgian Trust \$729,217;
- Georgian Trust owed York Centre \$87,631;
- York Centre owed Cardiff \$2,600,713;
- Cardiff owed York Centre \$193,000;
- Canaland's owed Sentry \$261,545;
- Georgian Equity owed York Centre \$71,619;
- Sentry owed York Centre \$19,873;
- York Centre owed YCPL \$33,431;
- Canaland's owed Gill \$39,057.

(from Exhibit 97, pp. 263–64)

Mr. Leiderman discussed these intercompany balances with Mr. and Mrs. Stevens and how they could be cleaned up, reviewing each loan and ways to deal with it. According to Mr. Leiderman's evidence, both Mr. and Mrs. Stevens contributed to the discussion, and both seemed to understand what was being discussed.

There was also a discussion of ways to strengthen the balance sheet of York Centre — by York Centre increasing its share ownership in Sentry and Canaland's, by York Centre merging with a cash flow company, or by making use of Georgian International. Certain specific and current matters were discussed, such as the "then existing mortgage in favour of a numbered company" (Transcript, vol. 15, p. 2209). This was the \$2.62 million mortgage in favour of 622109 Ontario Inc. that had been negotiated with Mr. Czapka in April and May 1985. (The transaction is reviewed in Chapter 20.) Mr. Leiderman advised Mr. and Mrs. Stevens that if any properties encumbered by this mortgage were sold, the proceeds would go to the mortgagee, not the mortgagor.

There was also a discussion of the sale of the Barrie real estate property for \$236,000, which had closed less than two weeks prior to the meeting. This was the property discussed at the first meeting, on March 16, 1985. The property had been included in the transaction with Mr. Czapka. Thereafter, it was the subject of negotiations between Mrs. Stevens and Mr. Czapka, resulting in Mr. Czapka's granting permission for its sale for \$236,000.

Following the meeting, Mr. Leiderman prepared a worksheet that summarized the discussions at the meeting and outlined 11 proposed transactions that involved either an exchange of debt for equity or a repayment of loans between certain York Centre companies. Mr. Leiderman forwarded a copy to Mrs. Stevens on April 17, 1986.

Subsequently, Mr. Leiderman sent Mr. Rowe a letter summarizing the proposed intercompany transactions. The letter was reviewed by the

York Centre board of directors on or about June 27, 1986, and the board passed a resolution that implemented a number of the proposals.

Mr. and Mrs. Stevens' Evidence

Mr. Stevens testified that the meeting of April 13, 1986, was largely in response to the concerns of the accountants, who had been urging for "quite a time" that "there had to be a clearing up of ... [the] intercompany loans" (Transcript, vol. 70, p. 12,004). According to Mr. Stevens, he had to be present at this meeting for two reasons: first, "to [provide] my input as to what had happened prior to my being in the Cabinet as far as these round robins were concerned" (Transcript, vol. 70, pp. 12,004-5); secondly, because of his involvement with Stevens Securities, a company that had a monetary interest in the inter-company loan discussions. Mrs. Stevens testified that a "main purpose" of the meeting was to "make sure that the Stevens Securities group would convert ... their inter-company debt into equity" (Transcript, vol. 65, p. 11,174).

Mr. Stevens testified that he could not recall discussing such matters as the sale of the Barrie property for \$236,000, the mortgage in favour of a numbered company, or the use of Georgian International Corporation.

Conclusions

It is not clear from the evidence on whose direction Miss Walker arranged the meeting. Mrs. Stevens testified that although she and her husband wanted the meeting, she was not involved in its arrangement. Mr. Stevens testified that it was his impression that the meeting was a "reaction to the accountants" or "a result of the accountants saying 'can we not get together'" (Transcript, vol. 70, p. 12,004). Mr. Leiderman, however, testified that he was not told why the meeting was being called or what would be discussed. I believe Mr. Leiderman. I am satisfied that it was either Mr. Stevens or Mrs. Stevens who instructed Miss Walker to arrange the meeting with Mr. Leiderman for the Sunday afternoon.

I also find that the testimony, notes, and documentation of Mr. Leiderman relating to the April 13, 1986, meeting must be preferred to the recollection of Mr. or Mrs. Stevens, both of whom failed to remember much of what happened at this meeting and neither of whom took any notes.

I find that the matters discussed at this meeting, and in particular such matters as the sale of the Barrie land for \$236,000 and the mortgage in favour of a numbered company, make clear that the meeting was not simply about cleaning up intercompany balance sheets in the abstract or about mere housekeeping matters. The items discussed suggest that a general updating of recent financial develop-

ments in the York Centre group of companies was an important part of the agenda.

Indeed, an examination of the spreadsheet itself shows that a number of the entries reflected financial developments that had taken place in 1985 or early 1986, while Mr. Stevens was a minister of the Crown. For example, one entry shows that York Centre owed Georgian Trust \$729,217. This indebtedness was a result of a loan of \$742,000, in August 1985, by Georgian Trust to York Centre. The \$742,000 was obtained by Georgian Trust from the proceeds of its sale of the Ontario Hydro bonds on August 15, 1985. The evidence presented to the Commission and set out in figure 6.2 shows that \$742,000 was advanced to York Centre from the August 1985 bond sale. Because Georgian Trust already owed York Centre \$12,783, the net advance was thus \$729,217, the amount that was set out on the spreadsheet and discussed at the meeting.

I find that, like the first meeting with Mr. Leiderman one year earlier, the second meeting was a lengthy and detailed discussion of the current state of affairs in the York Centre group of companies. Management matters were again discussed, and in detail.

As for the explanation offered of why Mr. Stevens himself had to be present for the April 13 meeting, I am unable to accept the evidence of Mr. and Mrs. Stevens. Neither of them was able to explain to my satisfaction why Mr. Stevens had to be present for a detailed review of all the intercompany balances, a review that included not only the three public companies but such private companies as Cardiff, YCPL, and Gill, the company that was in a blind trust. I am satisfied that Mr. Stevens' reliance upon his interest in Stevens Securities, which was not included in the blind trust assets, as a basis for attendance at the meeting was an effort to create a reason, after the fact, for his presence at a meeting which he ought not to have attended if the dictates of the blind trust were being observed. (The subject of the blind trust and what such a vehicle required of Mr. Stevens is dealt with in detail in Chapter 24.)

I find that Mr. Stevens was present on both occasions not as a casual observer providing background commentary but as an individual who was vitally interested in the management of his companies. I shall return to this point in more detail below.

Chapter 10

Involvement in the La Ronge Goldplay

The La Ronge Greenstone belt is a gold-mining area in northern Saskatchewan that attracted the attention of Mr. and Mrs. Stevens in the fall of 1985. The Commission heard testimony from three witnesses on their dealings with the Stevenses or certain of the York Centre companies during the fall and winter of 1985-86.

Mr. Donald Busby, a mining executive who resides in Colorado, gave evidence about a meeting involving Mr. Stevens on October 11, 1985, and a number of subsequent telephone conversations. Mr. Robert Callander, a specialist in mining finance with Burns Fry in Toronto, gave evidence about his telephone conversation with Mr. Stevens on October 11, 1985, and about certain mining materials that he subsequently forwarded to the minister. Mr. Ronald (Ron) Netolitzky, a Calgary geologist and mining consultant, testified about a telephone call and then a meeting with Mr. Stevens in the fall of 1985 and about certain consulting initiatives for Mrs. Stevens, York Centre, and Sentry in late 1985 and early 1986.

Much of the evidence given by these three witnesses was contradicted or denied by either Mr. or Mrs. Stevens. Mr. Stevens in particular denied any knowledge of any relation between the York Centre group of companies and the La Ronge goldplay. I shall come to the differing versions of the conversations and meetings after setting out in turn the evidence of Messrs. Busby, Callander, and Netolitzky. Although describing what were from their perspectives unconnected incidents, Messrs. Busby, Callander, and Netolitzky were able, through their evidence, to bring together the following cohesive story.

Meeting and Conversations with Mr. Donald Busby

Meeting of October 11, 1985

Mr. Donald Busby is the president of Goldsil Resources Limited (Goldsil), a Canadian subsidiary of Cumberland Resources Inc. (Cumberland Resources). He is also the president of Mahogany Minerals Resources Inc. (Mahogany), a Canadian subsidiary of Goldsil.

Mr. Busby has offices in Denver, Colorado, and Vancouver, British Columbia.

In 1984 Mr. Busby acquired control of Cumberland Resources, an Atlanta-based company, by buying out Martin Truax, then president and controlling shareholder. Mr. Truax stayed on as a financial consultant and a minor shareholder. Mr. Busby and Cumberland Resources owned shares in Golden Rule Resources Limited (Golden Rule), a gold-mining company involved in joint ventures in the La Ronge Greenstone belt of northern Saskatchewan.

Cumberland Resources was attempting to raise \$1.5 million (Cdn.) to help develop the mines on its La Ronge properties. Mr. Truax suggested that Mr. Busby come to Toronto to meet with the principals of York Centre, including a Mr. Stevens, "the Financial Minister of Canada" (Transcript, vol. 56, p. 10,023). A meeting was arranged for October 11, 1985.

At about 1:00 p.m. on that date, Mr. Busby arrived at the CDIC offices and shortly thereafter met with Martin Truax and Ted Rowe. Mr. Busby described the Goldsil and Mahogany ventures to Mr. Rowe and generally attempted to persuade Mr. Rowe that York Centre should consider an investment with Cumberland Resources in this area. The meeting lasted about two hours.

Following this meeting, the three men went into Mr. Stevens' office, where Mr. Stevens joined them for a meeting that went on for about an hour and a half. Mr. Busby described the La Ronge Greenstone ventures for Mr. Stevens' benefit, and Mr. Stevens in turn described York Centre to Mr. Busby. Mr. Stevens told Mr. Busby that York Centre had substantial oil holdings in the "North Sea" but needed a pipeline to get the oil out. This could take some years, he explained, and so York Centre would be interested in having something to help it flourish during the years it would be waiting for the pipeline to be built (Transcript, vol. 56, pp. 10,032-33).

Mr. Busby explained to Mr. Stevens that Cumberland Resources was looking for \$1.5 million and that, in order to secure such financing, it was willing to consider rights of first refusal on its properties in the La Ronge Greenstone area. Mr. Busby explained that the method of financing was not tied down; it could be arranged by way of convertible debentures, stock purchase, or even direct loan. They then discussed a potential investment by York Centre in the La Ronge goldplay.

Mr. Stevens left the room at one point to make a telephone call. When he returned, he advised Mr. Busby of the current stock quotations for Goldsil and for Golden Rule, and he indicated that both mining companies were known to the Toronto brokerage community. Mr. Busby testified that as far as he was concerned there was an obvious interest on everyone's part to pursue some kind of arrangement.

Mr. Busby then pointed out that it would be impossible for him to advise York Centre on what properties to put into York Centre if the deal went through. He said that one of the most knowledgeable geologists in the area was Mr. Ron Netolitzky, whom he offered to

contact — and later did — to ask if he would act as a consultant to York Centre on this matter.

As the meeting was ending Mrs. Stevens arrived, and, together with Miss Walker, the group left for dinner at the CN Tower restaurant. At the table there was some discussion of the goldplay, but the talk consisted mostly of light conversation. Mr. Truax asked Mr. Busby to explain the profitability of a high-grade gold mine, which Mr. Busby did. Because he had a plane to catch, Mr. Busby was at the restaurant less than 50 minutes.

Mr. Busby testified that both meetings on the afternoon of October 11, 1985, were in reference to York Centre. As far as he was concerned, he was dealing throughout with York Centre. York Centre was to furnish the money in some manner — whether through underwriting or by borrowing — to Cumberland Resources, and in turn it would receive certain properties in the La Ronge Greenstone area. Mr. Busby testified that after the meeting of October 11, 1985, Mr. Truax asked him to telephone Mr. Stevens to try to finalize these matters.

Telephone Conversations

Mr. Busby gave evidence that towards the end of November or in the first part of December 1985, he and Mr. Truax made contact with Mr. Stevens in a three-way telephone conversation that lasted 10 or 15 minutes. Mr. Stevens advised them that he wanted to pinpoint the exact properties that York Centre could have an option on and the price at which it could have the option. Mr. Stevens told them that he wanted to “lock in” the actual properties, and he identified specifically three properties that York Centre wanted, namely CBS 7429, 7431, and 7434 (Transcript, vol. 56, p. 10,041). In each of these properties Goldsil had more than a 50 percent interest. Mr. Busby recalled that Mr. Stevens was basically asking what it would cost York Centre to become involved in these properties. Mr. Busby was not able to provide an answer immediately but advised Mr. Stevens that he would look into the matter and call him back.

Mr. Busby testified that he had a second telephone conversation with Mr. Stevens about three or four weeks later. Mr. Stevens advised Mr. Busby that York Centre was interested in making a loan to Cumberland Resources but was wondering what Cumberland Resources could offer as collateral. Mr. Busby told Mr. Stevens that he would be able to furnish collateral that would be in the form of a tradeable security. Nothing more was covered, and Mr. Busby had no further discussions with Mr. Stevens.

Mr. Stevens' Evidence

Mr. Stevens' version of the meeting of October 11, 1985, and the subsequent conversations is fundamentally different from Mr. Busby's.

According to Mr. Stevens, the meeting of October 11, 1985, was initiated by a call from Martin Truax, who told Mr. Stevens that his group, including Donald Busby, had an interest in a goldplay in the La Ronge area and wanted Mr. Stevens' help in securing an investment in Cumberland Resources. Mr. Stevens testified that he met with Mr. Truax and Mr. Busby in his ministerial capacity only and as a personal favour to his old friend Martin Truax. According to Mr. Stevens, there was no discussion of York Centre or its holdings or activities, of any potential investment by the York Centre group, or of any Cumberland-related properties that would be offered to York Centre as part of a financing or loan arrangement.

Mr. Stevens testified that he was interested in the "Toronto attitude" towards the La Ronge goldplay and the companies with which Mr. Busby was involved (Transcript, vol. 70, p. 12,039). Mr. Stevens left the room at one point and made a telephone call to a brokerage house. He then returned to the meeting to report on the stock quotations on Goldsil, Mahogany, and Golden Rule and to advise Mr. Busby and Mr. Truax that the Toronto brokerage community had heard of the companies. Mr. Stevens also testified that he then offered to introduce Mr. Busby and Mr. Truax to potential investors and that subsequently he made some telephone inquiries of Mr. John Gairdner and others on Cumberland Resources' behalf.

As for the two telephone conversations, Mr. Stevens' evidence again differed markedly from Mr. Busby's. Mr. Stevens testified that some time after the October 11, 1985, meeting, Mr. Truax called him to see if he had had any success in locating potential investors. Mr. Stevens reported that he was having some difficulty. It was at this time that the idea of providing an option on some of the gold-mining properties was raised as a way to attract investors. According to Mr. Stevens, Mr. Truax suggested that Mr. Stevens discuss this with Mr. Busby. Mr. Stevens did so, and Mr. Busby in turn recommended that Mr. Stevens contact Mr. Ron Netolitzky in order to obtain an independent valuation of the properties available.

Mr. Stevens denied saying anything to Mr. Busby about wanting to pinpoint the exact properties on which York Centre could obtain an option or the price at which York Centre could acquire them. According to Mr. Stevens, throughout his dealings with Mr. Busby, both at the meeting of October 11, 1985, and in the follow-up telephone conversations, he was acting in a ministerial capacity in an effort to help his friend Martin Truax find potential investors for the Cumberland Resources goldplay. He testified that to his knowledge neither he nor York Centre had any interest in the goldplay; nor did Mr. Stevens ever refer to York Centre in the context of a proposed investment in any goldplay.

Conversation with Mr. Robert Callander

Telephone Call from Mr. Stevens

Mr. Robert Callander, a mining specialist with Burns Fry, testified that he received a telephone call from Mr. Stevens on Friday, October 11, 1985. Through his involvement as a Burns Fry consultant in the privatization of certain CDIC assets, Mr. Callander knew Mr. Stevens. In the course of this work for the federal government he had occasion to speak with Mr. Stevens — who had ministerial responsibilities for CDIC — both on the telephone and in person.

On October 11, 1985, Mr. Stevens telephoned to say that he had been meeting with a number of people concerning a Saskatchewan gold exploration play in the La Ronge area; he wanted to know if Burns Fry had any background information on the play itself, and how it would compare with a major gold-mining play. Mr. Stevens also wanted to know if Burns Fry knew any of the people involved or had any background information on certain companies. He mentioned Mr. Murray Pezim by name and also Canadian Premier Resources, Mahogany, and Golden Rule.

At the end of the conversation, Mr. Stevens asked Mr. Callander if he thought this kind of gold exploration play “could add some excitement or bring some life to York Centre” (Transcript, vol. 44, p. 8066). Mr. Callander answered that he did not know anything about York Centre and thus would not know if this kind of goldplay could add some excitement to the company. Mr. Stevens then asked Mr. Callander if he knew Ted Rowe at York Centre. Mr. Callander did not.

Mr. Callander then suggested to Mr. Stevens that Burns Fry would put all the information together in a package and send it to Mr. Stevens. Mr. Stevens, if he had any questions about the materials, could call Mr. Callander. Mr. Stevens agreed. The materials were collected and sent over, and Mr. Stevens, having received the package of information on the gold-mining properties, later called Mr. Callander to thank him.

Mr. Stevens' Evidence

Mr. Stevens testified that he left the October 11 meeting at one point to call Burns Fry to find out what the view in Toronto was about the La Ronge goldplay. Mr. Stevens could not recall speaking specifically with Mr. Callander, but he did recall that he obtained some information about the La Ronge goldplay and that he took this information back to the meeting.

Mr. Stevens could not recall asking Mr. Callander if he thought the goldplay could add some excitement or bring some life to York Centre. Nor could Mr. Stevens recall asking Mr. Callander if he knew Ted Rowe at York Centre.

Conversation and Meetings with Mr. Ronald Netolitzky

Telephone Call from Mr. Stevens

Mr. Ron Netolitzky, a Calgary geologist and mining consultant, is president of Taiga Consultants Ltd. He knows Mr. Busby and has consulted with Mr. Busby's companies in the past. He is very familiar with the La Ronge area in northern Saskatchewan.

Mr. Netolitzky testified that in late October or early November 1985 he received a telephone call from Mr. Busby, who advised him that he would be getting a telephone call concerning some consulting work in Toronto. Mr. Netolitzky testified that this was followed by a call from Mr. Stevens himself. Mr. Stevens asked Mr. Netolitzky if he would be available "for consulting work on behalf of his wife or his wife's companies" (Transcript, vol. 58, p. 10,195).

Arrangements were made for Mr. Netolitzky to come to Toronto, with a stop first in Saskatoon to review a La Ronge area property called the Preview Lake Prospect. On November 26, 1985, on his way to Toronto, Mr. Netolitzky arrived in Saskatoon, where he signed a confidentiality agreement on behalf of York Centre with the Saskatchewan Mining Development Corporation (SMDC), the owner of the property. This agreement allowed him to obtain information on Preview Lake. He brought this information with him to Toronto on November 27, 1985.

Meeting at the Stevens Farm

Mr. Netolitzky met with Mr. and Mrs. Stevens and with Mr. Ted Rowe at the Stevens farm on the morning of November 27, 1985. The meeting was introductory in nature. Mr. Netolitzky gave a general description of the activities of the various companies in the La Ronge Greenstone belt in northern Saskatchewan. The four participants discussed the geology of the area and the mining activities in a general way and then had lunch.

There was no discussion of Mr. Busby or any of his properties. Indeed, there was no discussion of any specific properties. From the conversation, however, Mr. Netolitzky assumed that York Centre was interested in acquiring an interest in some of the mining properties in that area.

Other Meetings and Related Developments

After lunch, Mr. Netolitzky accompanied Mrs. Stevens and Mr. Rowe to the York Centre office in Commerce Court West. Mrs. Stevens, Mr. Rowe, and Mr. Netolitzky discussed the specific properties that were available in the Goldsil group, and Mr. Netolitzky pointed out the ones that in his view had a high priority. Later in the afternoon they met Mr. Ed Wenger, an oil and gas geologist and an associate of Mrs. Stevens.

Mr. Netolitzky reviewed the Preview Lake property and the Goldsil properties and provided his opinion again of their potential. Mr. Netolitzky attended a number of other meetings the following day and then returned to Calgary. Thereafter, Mr. Netolitzky dealt primarily with Mrs. Stevens.

In early December 1985 Mr. Netolitzky was advised that the Preview Lake property would not be pursued and that the Goldsil properties were too expensive. Mr. Netolitzky was asked if there were any other properties available. He recommended an SMDC property and suggested that Sentry enter into a joint venture with a senior mining company, possibly Giant Yellowknife Mines Limited (Giant Yellowknife). Acting on this suggestion, Mrs. Stevens wrote to Giant Yellowknife to explore the possibility, but nothing came of this.

Mrs. Stevens asked Mr. Netolitzky to continue to search for a suitable property for Sentry, and in January 1986 Mr. Netolitzky contacted SMDC again and learned that another SMDC property, the "Kirk Lake property," was available for farmout. Mr. Netolitzky then drafted a letter for Mrs. Stevens and Sentry to send to SMDC. After several months of further negotiation, Sentry, Giant Yellowknife, and SMDC agreed to a three-year joint venture. Mr. Netolitzky testified that following the initial telephone call from Mr. Stevens, and the morning meeting at the farm, his principal contact throughout these negotiations and dealings was Mrs. Stevens.

Mr. and Mrs. Stevens' Evidence

Mr. and Mrs. Stevens' evidence of their dealings with Mr. Netolitzky and especially of the meeting of November 27, 1985, is markedly different from that of Mr. Netolitzky. Not only does their evidence contradict that of Mr. Netolitzky, but it is difficult to reconcile even as between the two of them.

This is evident from the first telephone call to Mr. Netolitzky. Mr. Stevens testified that he had called Mr. Netolitzky because Mr. Busby had recommended him as someone who would be able to suggest possible gold-mining properties for potential investors. Mr. Stevens further testified that in his telephone conversation with Mr. Netolitzky he told him that he was trying to identify three properties in particular which could be put into a package to help the financing along, and that he needed Mr. Netolitzky's help. Mr. Stevens could not recall saying anything about his wife or his wife's companies or about Mr. Netolitzky's making himself available to do consulting work for Mrs. Stevens or her companies.

Mrs. Stevens, on the other hand, testified that she had telephoned Mr. Netolitzky herself and asked him to meet with her at the Stevens farm to discuss the La Ronge goldplay in more detail. She testified that she authorized Mr. Netolitzky to execute a confidentiality agreement with SMDC on behalf of York Centre, Canaland, and Sentry so that

he could bring the necessary information to the Toronto meeting. Mrs. Stevens also testified that she did not know why her husband would have called Mr. Netolitzky himself.

Mr. Stevens testified that he was not aware that his wife had also spoken to Mr. Netolitzky and had directed him to sign a confidentiality agreement in order to obtain more information about certain Saskatchewan properties.

In any event, both Mr. and Mrs. Stevens were looking forward to the Netolitzky visit but, according to their testimony, for very different reasons. Mrs. Stevens wanted Mr. Netolitzky to meet with her and with Mr. Rowe at the Stevens farm on November 27, 1985. As far as Mrs. Stevens was concerned, her husband simply "was there" recovering from surgery (Transcript, vol. 66, p. 11,396). Mr. Stevens had just had heart surgery and was convalescing. Mr. Stevens, however, testified that he attended the meeting to obtain the information he had requested of Mr. Netolitzky about the three properties that could help attract investors to the Cumberland Resources financing.

Mrs. Stevens testified that Mr. Netolitzky brought various maps of Saskatchewan with him and that the meeting was nothing more than a general information session. Mr. Stevens, however, testified that during the course of this meeting Mr. Netolitzky identified the three properties that would be attractive to potential investors and marked these properties on the maps he had brought with him. Mr. Stevens then testified that after he received the information he wanted on the three properties, he left the room to make a number of telephone calls and had no further involvement. According to Mr. Stevens, the first time he learned his wife and Mr. Rowe were indeed discussing a possible Sentry involvement in the Saskatchewan goldplay was months later, after his resignation as minister.

Conclusions

As I stated earlier, the evidence of Mr. and Mrs. Stevens and that of Messrs. Busby, Callander, and Netolitzky is fundamentally irreconcilable. Mr. Stevens' evidence in particular directly contradicts the evidence of the three witnesses on fundamental matters regarding the character and content of the various meetings and telephone conversations. For me to accept Mr. and Mrs. Stevens' version of these events, I would have to disbelieve the evidence of Messrs. Busby, Callander, and Netolitzky. These were three independent and unrelated witnesses whose testimony, as noted earlier, meshed together and provided a cohesive picture, albeit from differing perspectives, of what transpired.

I found the testimony of Messrs. Busby, Callander, and Netolitzky to be forthright and credible. Each of the three witnesses impressed me with the care with which he testified. Even though there were minor errors in some facts stated, these enhance rather than detract from my assessment of their evidence. These errors are typical of witnesses who

make no effort to manufacture or give studied testimony. Mr. Busby, for example, testified that his U.S. colleague, Mr. Martin Truax, had advised him that Mr. Stevens was the "Financial Minister of Canada." Although this was not factually accurate, I have no doubt that this is what he was told. Similarly, Mr. Busby recalled a reference by Mr. Stevens that York Centre had substantial oil holdings in the "North Sea" but needed a pipeline to get the oil out. Here again, the detail was not factually correct but was Mr. Busby's honest recollection, and he did not attempt to alter it. In short, Mr. Busby genuinely endeavoured to recall as carefully as possible the meetings and discussions he had had with Mr. Stevens in relation to the La Ronge goldplay. I accept his evidence.

Mr. Callander and Mr. Netolitzky displayed a similar concern to recall what had taken place. Mr. Callander was well aware of the importance of the evidence he was giving and was visibly concerned that he present his recollection of the telephone conversation with Mr. Stevens in the fairest and most accurate fashion.

The same can be said for Mr. Netolitzky. Here too was a witness who testified carefully and honestly. I should note that even without the evidence of Mr. Netolitzky, I would have had great difficulty accepting the evidence of Mr. and Mrs. Stevens, particularly when the evidence the two of them gave was itself difficult to reconcile. To accept Mr. and Mrs. Stevens' version of what transpired at their meeting with Mr. Netolitzky, I would have had to find in effect that Mr. and Mrs. Stevens ended up at the same meeting on the same morning in their own home with the same person, but for two unrelated reasons, and that none of this was discovered until months later.

I believe the evidence of Messrs. Busby, Callander, and Netolitzky, and I find the facts in relation to the La Ronge goldplay to be as follows. I find that Mr. Stevens arranged to meet with Mr. Busby on October 11, 1985, not as a disinterested minister of the Crown attempting to find potential investors for his old friend Martin Truax, but as a principal of York Centre with a direct interest in discussing a York Centre-related involvement in the La Ronge goldplay. The discussions at the meeting related to a possible investment by York Centre in Mr. Busby's properties. For this reason, during the meeting Mr. Stevens called Mr. Callander of Burns Fry to ask about Mr. Busby's companies and whether the La Ronge goldplay "could add some excitement or bring some life to York Centre." Some time after the October 11 meeting, Mr. Busby informed Mr. Netolitzky that he should expect some consulting work from Toronto. Mr. Stevens called Mr. Netolitzky to ask if he would be available "for consulting work on behalf of his wife or his wife's companies." Mr. Netolitzky then came to Toronto and on the morning of November 27, 1985, met with Mr. and Mrs. Stevens and Mr. Rowe and discussed in a general way the La Ronge gold-mining area and its potential.

I find that the three farmout properties supposedly identified by Mr. Netolitzky at the morning meeting with Mr. Stevens were really

identified and discussed by Mr. Netolitzky at the afternoon meeting with Mrs. Stevens, who then carried the information back to her husband. Mr. Stevens then identified these properties to Mr. Busby in their telephone conversation, not as part of a disinterested suggestion to help Mr. Busby attract potential investors but as part of the negotiation for an investment by York Centre in the La Ronge goldplay. That these properties were being considered by York Centre is made plain in documentary evidence received by the Commission, in particular by a letter dated February 5, 1985, from Mr. Rowe to Mr. Tom Crom of Cumberland Resources, in which Mr. Rowe sets out York Centre's understanding of a proposed loan to Cumberland Resources. Mr. Rowe refers to the three farmout properties — CBS 7429, 7431, and 7434 — and suggests that Goldsil's interest in these three properties would have to be assigned to York Centre for a nominal consideration as part of the proposed transaction.

York Centre's eventual involvement in the La Ronge goldplay was not through Mr. Busby's companies but through a partnership arranged by Mr. Netolitzky with Sentry, Giant Yellowknife, and SMDC. I find that this was an important new initiative for the York Centre group of companies, designed to "bring some life to York Centre."

I find that Mr. Stevens initiated the contacts with both Mr. Busby and Mr. Netolitzky and that Mrs. Stevens followed through on the initiative. Further, I find that Mrs. Stevens kept Mr. Stevens fully informed as to the progress of the gold play and that Mr. Stevens remained interested and involved as the initiative developed.

Chapter 11

Involvement in the Christ Coin Proposal

The Commission heard evidence that, beginning in the fall of 1985, Mr. and Mrs. Stevens became involved in a proposal to market a gold coin that would commemorate the two-thousandth anniversary of the birth of Christ and would be minted by the Vatican. The “Christ coin” proposal involved a sophisticated application of the strip bond concept. Its development in the fall and winter of 1985–86 brought Mr. and Mrs. Stevens into contact with officials of both the Chase Manhattan Bank and the Vatican.

During the course of the Inquiry, Commission counsel brought an application for letters rogatory so that certain Chase Manhattan officials residing in New York City could be compelled to give evidence to the Inquiry. Although I concluded that this evidence was relevant, I declined to issue a letter of request to the judicial authorities in the State of New York so that this evidence could be obtained. My reasons for so ruling were recorded and are set out in Appendix K to this report. The Inquiry proceeded without the evidence of officials from the Chase Manhattan Bank and the Chase Manhattan Capital Markets Corporation because, on the basis of the other evidence presented, the pertinent details of the Christ coin proposal were sufficiently explained.

Mr. and Mrs. Stevens eventually abandoned the Christ coin proposal. In the several months of its development, however, the discussions and meetings revealed important evidence concerning the nature and extent of Mr. Stevens’ involvement in private business matters while he was a minister of the Crown.

Background

Mr. and Mrs. Stevens’ involvement in the gold coin proposal developed out of a long-standing interest in strip bonds and their applications. The Commission heard evidence that, throughout their marriage, Mr. and Mrs. Stevens had often discussed the application of different financial instruments in various settings. Mr. Stevens in particular takes credit for helping to develop the strip or “zero coupon” bond concept in both the Canadian and U.S. financial markets.

Indeed, in the early 1980s, having encountered some resistance from financial institutions in Toronto, Mr. and Mrs. Stevens turned to institutions in the United States and began to meet with Mr. Jim Stewart and Mr. Joe Wilson of the brokerage firm Merrill Lynch. Both Mr. Stewart and Mr. Wilson recognized that the strip bond concept had potential, and after further research Merrill Lynch developed its own version of the product, called the "Tiger."

Mrs. Stevens testified that with the issuance of the Merrill Lynch Tiger, strip and zero coupon bonds became increasingly popular in the United States. Merrill Lynch sold billions of dollars' worth of strip bonds. Other brokers in the United States followed suit, and in the early 1980s the idea began to catch on in Canada.

According to Mrs. Stevens, one of the main reasons behind the popularity of the strip bond was the widely held view that income tax was not payable until the residual or the coupon matured. Thus an individual could accumulate the interest over the period of the life of the bond and avoid taxation until the bond or coupon came due.

Mrs. Stevens testified that the taxing authorities in both Canada and the United States dealt a serious blow to the financial viability of the strip bond when they clarified the tax laws and required the individual to accrue the interest every three years and include it as income. The market for strip bonds thus began to decline.

Mr. and Mrs. Stevens discussed applications of the strip bond that could avoid the new tax changes; for example, they considered applying a strip bond to a commodity such as art. They also began to discuss the idea of using a commemorative gold coin backed by a strip bond. Various tax and securities law experts were approached for their opinions. The future value of the coin would be guaranteed by a strip bond whose maturity date would coincide with the take-out date on the coin.

One of the ideas that Mr. and Mrs. Stevens had in 1983 was to use a gold coin to commemorate the five-hundredth anniversary of Columbus' discovery of America. This idea was abandoned, however, because the period between 1983 and the anniversary year, 1992, was only nine years and thus too short to accommodate a financially viable strip bond application. A more appropriate time frame would have a take-out date in 1999 or 2000.

In the spring of 1984 Mrs. Stevens came upon the idea of a gold coin to commemorate the two-thousandth anniversary of the birth of Christ. The coin would be issued by the Vatican and dated December 25, 2000, a more workable take-out date for a strip bond application.

Development of the Christ Coin Proposal

Mr. Stevens testified that he mentioned to Mr. Stewart, who was then still with Merrill Lynch, that he and Mrs. Stevens had come up with a new idea involving strip bonds that would avoid the tax problem. In the

summer of 1985 Mr. Stewart left Merrill Lynch and joined the Chase Manhattan Bank in New York City. He stayed in touch with Mr. and Mrs. Stevens and told them that he would be interested in learning if their idea was something that could involve Chase Manhattan.

On October 18, 1985, Mr. Stevens, while in New York City to give a speech to the Canadian Club, met with Mr. Stewart. Mr. Stewart was eager to hear more about the gold coin proposal and, over the next several months, had a number of conversations with Mrs. Stevens. By mid-December Mr. Stewart and his colleagues at the Chase Manhattan Capital Markets Corporation, a subsidiary of Chase Manhattan Bank in New York City, were considering the gold coin proposal.

On December 13, 1985, Mr. Stevens telephoned Emmett Cardinal Carter of the Roman Catholic archdiocese of Toronto to discuss the possibility of having the gold coin minted by the Vatican. Mrs. Stevens testified that although it was her idea to telephone Cardinal Carter, Mr. Stevens telephoned because he knew him better. Cardinal Carter's response was positive.

Mr. Stevens' telephone call to Cardinal Carter was followed by a letter from Mrs. Stevens on December 16. The letter set out the "Christ coin" proposal in more detail. The basic idea was that the Vatican would agree to be the issuing authority and the actual minter of the gold coin. The coin would be dated 1986, but the reverse side would bear the date December 25, 2000, and would have a guaranteed U.S. dollar value at the redemption date. Mrs. Stevens suggested that the guaranteed value of the coin in the year 2000 be U.S. \$1000. The coin would be issued in 1986 at a retail price of U.S. \$300. Thus, according to Mrs. Stevens, the buyer would be buying "a \$1,000 future value coin for \$300 to-day" (Exhibit 188, p. 14).

The letter advised Cardinal Carter that the Chase Manhattan Capital Markets Group in New York City was currently reviewing the project with a view to guaranteeing the U.S. dollar value for the coin in the year 2000. Chase Manhattan would do so by purchasing a strip U.S. treasury bond with a \$1000 face value that would be due on or near December 25, 2000. Mrs. Stevens calculated that even with the costs of minting, marketing, and distribution, there would still be a "margin" to allow a "payment to the Vatican" and a "bottom line profit for the Co sponsors" (Exhibit 188, p. 14).

Mrs. Stevens also explained that the Chase Manhattan guarantee would be like a "put option"; that is, if the coin sold for more than \$1000 in the year 2000, the holder would realize the better price and would not put to Chase Manhattan the obligation to redeem the coin for the face value of the bond. Mrs. Stevens estimated that realistically one million gold coins could be issued. At a current sale price of U.S. \$300 million, this would result in a guaranteed value of U.S. \$1 billion in the year 2000.

Mrs. Stevens concluded by asking that Cardinal Carter "inquire with the appropriate authority in the Vatican if they would be interested in issuing such a coin to commemorate the Birth of Christ." Mrs. Stevens

then indicated that, if there was such interest, "we in due course would like to discuss the proposal in more detail with your officials in Rome" (Exhibit 188, p. 15).

On December 19, 1985, Cardinal Carter responded by letter to Mrs. Stevens that the project "sounds extremely interesting" and that he was writing immediately to Cardinal Baggio, the president of the pontifical commission for Vatican City (Exhibit 188, p. 17). On the same day, in a letter to Cardinal Baggio, Cardinal Carter set out the gold coin proposal. He indicated that the gold coin project was presented to him by "the Honourable Sinclair Stevens, the Minister of Regional Industrial Expansion in the present Canadian Government." He also advised Cardinal Baggio that Mr. Stevens had "turned the matter over to his firm which is the firm of Stevens & Stevens, Barristers & Solicitors, near Toronto," and that "one of the firm members, Mrs. Noreen M. Stevens," had written to Cardinal Carter with regard to the proposal (Exhibit 188, p. 18).

Cardinal Carter then set out excerpts from Mrs. Stevens' letter of December 16, 1985. Cardinal Carter indicated that he found the proposal "extraordinarily interesting from many points of view," and ended by offering to send further information and noting that if the Vatican reaction were favourable, then some of the members of the Stevens & Stevens law firm would be prepared to visit with Cardinal Baggio in Rome (Exhibit 188, pp. 18, 20). Cardinal Baggio replied in a letter dated January 21, 1986. I shall come to this shortly.

On January 16, 1986, Mrs. Stevens wrote to Mr. Stewart at Chase Manhattan and advised him as follows: "We are intending to structure a Group to facilitate this type of activity and would be pleased to continue our discussions with you as to your participation in this Joint Venture with us" (Exhibit 188, p. 37). Mrs. Stevens set out a "marketing plan" in the letter that would blend the sale of the commemorative coins with "put and call options." She also set out the various profit margin calculations associated with a \$10,000 face-value strip bond that would be redeemable in the year 2004. Mrs. Stevens then summarized earlier discussions covering the need for sponsoring corporations, a lending bank, marketing agents, paying agents, an issuing sovereign state, and trustees, and she invited further discussions as to corporations that "might be interested in participating in this Programme" (Exhibit 188, p. 38).

The letter concluded with a brief analysis of the tax implications and with Mrs. Stevens' opinion that, because the transaction was essentially a "put arrangement," there would probably be no income tax implications apart from a capital gain when the put was exercised. She attached a copy of a letter from McCarthy & McCarthy dated January 14, 1986, setting out the law firm's opinion on the tax questions.

According to Mr. and Mrs. Stevens, the importance of this gold coin application to strip bonds was that the recently introduced requirements of the income tax laws, deeming interest to accrue every three years, could be avoided. Even if the gold coin had a guaranteed take-out value

at some future date, the taxing authorities would be influenced by the possibility that, at this date, the gold coin itself could be worth more than the value of the put option. The taxing authorities would have to wait until that future date to determine the actual sale price of the coin. Then, at that time, the holder of the gold coin would have three options: sell the coin, keep the coin, or exercise the put. The taxing authorities would have to wait until the holder exercised one of the three options before deciding on the level of taxation. Thus, there could be a tax deferral until the year 2000 or 2004. According to Mr. and Mrs. Stevens, this was precisely the advantage that strip bonds enjoyed prior to the changes in the income tax law.

The key to success, however, was a solid and reputable financial sponsor. Mrs. Stevens testified that it was "important" to have a "recognized institution" such as Chase Manhattan to promote the gold coin proposal successfully (Transcript, vol. 64, p. 10,855). Mr. Stevens agreed that an institution of some repute was needed to guarantee the payment in the year 2000. Mr. and Mrs. Stevens testified that they went to Chase Manhattan and Chase Manhattan Capital Markets Corporation because of their dealings with Mr. Jim Stewart.

Discussions with Chase Manhattan

On January 16, 1986, Mr. Stewart and his colleague Mr. Michael Hudson of Chase Manhattan Capital Markets Corporation were in Ottawa meeting with officials of DRIE. Mr. Stewart suggested to Mr. Stevens that he come to New York the next day to meet with other Chase Manhattan officials and further explore Chase Manhattan's possible involvement in a number of federal government projects.

Mr. Stewart suggested that Mrs. Stevens also fly down to meet with the Chase Manhattan lawyers who were working on the gold coin proposal. Mrs. Stevens testified that her trip to New York was thus "a fairly last-minute thing" (Transcript, vol. 64, p. 10,881). She went to Ottawa that night and then flew to New York City early the next morning with her husband, Mr. Stewart, and Mr. Hudson.

Upon arrival in New York City, they went directly to the Chase Manhattan offices and began a series of meetings that covered a variety of topics and involved various participants. There were two meetings in the morning. The first involved government business and related to the Sydney Steel Corporation (Sysco) project. There was then a discussion of the gold coin proposal. According to Mrs. Stevens, Mr. Stevens took part in the discussion because he was the inventor of the strip bond and was best able to explain the intricacies of the gold coin/strip bond proposal.

The meetings continued after lunch. There were discussions of more government matters relating to the development of Cape Breton, including Sysco, a thermal-energy project, and an oil refinery project. Then the gold coin proposal was discussed again with the Chase

Manhattan officials and their lawyers. Both Mr. and Mrs. Stevens testified that Mrs. Stevens did not participate in the discussion of government matters. She was, however, present for some of the governmental discussions — indeed, she was even able to identify some of the matters that were being discussed. Nonetheless, during some of the government discussions she left the meeting room to wander around the building and view the artwork.

According to Mrs. Stevens, the afternoon discussion of the gold coin proposal concluded with the Chase Manhattan officials thinking that there was some merit in the proposal. They advised Mr. and Mrs. Stevens, however, that they wanted to consider the matter further and review the McCarthy & McCarthy tax opinions. Mr. and Mrs. Stevens then returned to Toronto.

On January 21, 1986, Mrs. Stevens wrote to Cardinal Carter to report on the meeting and to advise him that Chase Manhattan was “very enthusiastic” about the marketing of the gold coin. Chase Manhattan was hoping to hear from its lawyers in the very near future because it was “most anxious to market the Coin this year” (Exhibit 188, p. 50). Mrs. Stevens advised Cardinal Carter that she and Mr. Stevens would be in Europe in the next three weeks and asked if he could arrange an appointment for them to meet with Cardinal Baggio in Rome some time in early February. As things turned out, Mrs. Stevens did not accompany her husband to Europe. Mr. Stevens testified that while in Davos, Switzerland, attending a conference at the end of January 1986, he tried unsuccessfully to reach Cardinal Baggio by telephone.

On January 23, 1986, Mrs. Stevens wrote to Mr. Stewart at Chase Manhattan to thank him for the January 17 meetings and to answer a question that had been raised by the tax lawyers: Could a gold coin in fact increase in value so as to justify a put price 10 or 20 times the issued price of the coin? Mrs. Stevens advised that there were numerous examples of this happening in the gold coin area. She forwarded excerpts from a coin book entitled *High Profits Without Risk* and advised that she would be happy to talk with the tax lawyers further if they required any more information.

On February 6, 1986, Mr. Stewart was in Toronto and met briefly with Mrs. Stevens at the York Centre offices in Commerce Court West. Mr. Stewart advised Mrs. Stevens that the U.S. tax lawyers did not think the gold coin proposal could have an application in the United States. Mrs. Stevens communicated this news to Mr. Stevens, who discussed the matter briefly with Mr. Stewart that evening when they had dinner together. According to Mr. Stevens, Mr. Stewart told him he was sorry that the tax lawyers could not see fit to support the concept that a tax would not accrue.

As it turned out, Cardinal Baggio had written to Cardinal Carter on January 21, 1986, advising him that the Vatican would not be in a position to consider the project outlined by Mr. Stevens because the Vatican was limited by a treaty with Italy in its ability to mint coins.

The evidence was not clear as to when this information was conveyed by Cardinal Carter to Mr. and Mrs. Stevens, but I assume it was in early February.

That in effect ended the discussions with Chase Manhattan and with Cardinal Carter and the Vatican. After February 6, 1986, Mrs. Stevens had no further discussions with Mr. Stewart with respect to the Christ coin proposal. Mrs. Stevens testified, however, that she was still working on certain aspects of the gold coin proposal.

Conclusions

It is obvious that Mr. Stevens' meeting with the Chase Manhattan officials on January 17, 1986, in his capacity as the minister of DRIE, and his discussion with them of both private business and government business, is a matter that relates to one of the allegations of conflict of interest that I must address in due course: the mingling of private and public business. This allegation and the extent to which the evidence relating to Chase Manhattan establishes a real or apparent conflict of interest on the part of Mr. Stevens is covered in considerable detail in Part Four of the report. My concern here is to review the gold coin proposal and the meetings with Chase Manhattan in a more limited context in order to assess the nature and extent of Mr. Stevens' involvement in private business matters while he was a minister of the Crown.

In this regard, I am satisfied that the evidence set out above allows me to make a number of findings. First, I find on the evidence that the Christ coin proposal was a commercial or money-making idea. I note that Mr. and Mrs. Stevens testified that they were merely pursuing a "hobby" and that the discussions with Chase Manhattan were still at the "conceptual" stage and had not yet materialized into a business proposition. However, I reject these characterizations. Indeed, I confess that I have some difficulty with the repeated reliance on the words "concept" or "conceptual" — as if this immunizes the activity. I find in any event that the suggested distinctions are quite unimportant.

Whether one finds from the letters to Cardinal Carter or to Mr. Stewart of Chase Manhattan or from the discussions that took place on January 17, 1986, that the gold proposal was merely a concept with commercial possibility or had reached the stage of commercial feasibility, matters less than the self-evident observation that this was a significant and substantial money-making venture. A proposal to market one million gold coins with a guaranteed take-out value of U.S. \$1 billion is more than just a "hobby." Indeed, Mr. Ted Rowe agreed that when Mrs. Stevens and Mr. Philip MacDonald were discussing the gold coin idea in 1984 in conjunction with Georgian International U.K., they were discussing a "business activity" and a "commercial" idea as opposed to a mere "hobby" (Transcript, vol. 22, p. 3525).

Secondly, I find that the evidence reveals that the nature and extent of Mr. Stevens' involvement in the discussions and development of the gold coin proposal was both intimate and substantial. Indeed, it was Mr. Stevens who made contact with Mr. Jim Stewart in October 1985, telephoned Cardinal Carter in December 1985, arranged to meet with the Chase Manhattan officials in January 1986, and attempted to contact Cardinal Baggio by telephone while at a conference in Davos. I also find that, as was their habit with financial matters, Mr. and Mrs. Stevens discussed the financial dimensions of the gold coin proposal and the "put option" scheme fully and freely, whenever necessary and without any reservation.

Thirdly, I find that the gold coin proposal was being developed on behalf of a client, but the "client" was a York Centre company, namely Georgian Equity and/or Georgian Trust. Mrs. Stevens agreed on cross-examination that the gold coin proposal was "fundamentally a Georgian exercise" that would be developed "by or on behalf of the Georgian group" (Transcript, vol. 64, pp. 10,913, 10,914). Indeed, other evidence attests to this fact as well. The letters to Mr. Stewart are written on Georgian Equity letterhead; the letters to Cardinal Carter are on Stevens & Stevens letterhead but refer to "our Client, The Georgian Group" (Exhibit 188, pp. 37, 52, 14, and 50). Also, the statements of account from both Canadian and U.S. law firms for legal services rendered in connection with the gold coin proposal were rendered either to Georgian Trust or in reference to Georgian Equity (Exhibit 188, p. 6, and Exhibit 189, p. 15).

In sum, the Christ coin proposal was a significant money-making scheme that, if successful, would have yielded substantial financial rewards for both the "Georgian group" and for Mr. and Mrs. Stevens.

Chapter 12

The Meeting with Angus Dunn of Morgan Grenfell

The fourth area of private involvement involved a meeting with Mr. Angus Dunn, a director of Morgan Grenfell.

Description of Events

Morgan Grenfell is a large merchant bank in the United Kingdom which has been active since 1980–81 in assisting the British government in many of its privatization projects. It has also had extensive dealings in Canada in both the private and public sectors.

As early as November 1984, in response to the Canadian government's policy of privatization, Morgan Grenfell, through the former head of its International Finance Department, William Hopper, contacted officials of the government including Mr. Stevens under whose mandate privatization lay. On behalf of Morgan Grenfell, Mr. Hopper offered a range of services to assist in the privatization process and to promote foreign investment in Canada. Several meetings were held between Mr. Stevens, his cabinet colleagues, and Mr. Hopper.

These general discussions continued intermittently throughout the winter, and at the end of February 1985 Mr. Stevens stopped off in London on the first leg of the Air Canada inaugural flight to Singapore. During a luncheon reception in London he discussed these privatization and investment issues with Christopher Reeves, the chief executive officer of Morgan Grenfell.

Mr. Reeves, anticipating Mr. Stevens' arrival in Singapore, contacted his colleague Angus Dunn, a director of Morgan Grenfell, who was residing in Singapore and then acting as the company's regional director in Southeast Asia. Mr. Reeves suggested that Mr. Dunn endeavour to meet with Mr. Stevens in Singapore to continue discussions. In response to Mr. Reeves' request, Mr. Dunn got in touch with the office of the Canadian high commission in Singapore and subsequently attended a cocktail party hosted by the Canadian government at which Mr. Stevens was present. After a brief conversation with Mr. Dunn, Mr. Stevens suggested that they meet again if Mr. Stevens' schedule permitted.

Shortly thereafter, Mr. Dunn was telephoned and invited to a meeting in the minister's hotel suite. On arrival, he found the minister, several of the minister's staff, including Mr. Phil Evershed, his executive assistant, and officials from the office of the high commission. The discussion focused on what kind of proposal the minister would like to see from Morgan Grenfell on their possible advisory role in relation to both privatization and inward investment. This meeting was interrupted and, again at Mr. Stevens' suggestion, Mr. Dunn was asked to call him later in the evening to see if they might pursue the discussion.

In response, Mr. Dunn telephoned the minister at 10:00 p.m. and was invited to call upon him at his hotel. Mr. Dunn arrived at the hotel between 10:00 and 10:30 and remained until close to midnight. During this meeting, Mr. Dunn and the minister completed their discussion about Morgan Grenfell's possible advisory role, and the minister requested that the bank send a submission to him in Ottawa. Mr. Dunn agreed to ask his colleagues in London to do so.

Mr. Dunn testified that near the end of this meeting the minister raised the entirely separate matter of one of his wife's business interests. The minister produced either a corporate brochure or financial statement indicating that his wife had certain business interests involving a company with offshore oil rights in the Canadian Arctic, in either the Bering or Beaufort seas. The minister asked if Morgan Grenfell might be able to find anyone interested in taking an equity stake in this company. In due course, Mr. Dunn forwarded this corporate document to London to be examined by Morgan Grenfell's Energy Group. Subsequently, he was advised that the matter was not of interest to Morgan Grenfell.

Evidence indicates that Phil Evershed was present for part of this late night meeting and, further, that while he was present he neither heard the minister's remarks about "his wife's business interests" nor saw Mr. Stevens give Mr. Dunn a brochure. Mr. Dunn recalled that when he spoke with Mr. Stevens about Mrs. Stevens' business interests, Mr. Evershed was not present. Mr. Evershed testified that he made between two and four phone calls during this time of no more than 10 to 15 minutes each; they were placed from a separate area in the hotel suite where he could neither hear nor see Mr. Dunn and the minister. As a result, Mr. Evershed, whose memory was unclear, may have been absent for as much as an hour.

Mr. Stevens had no explanation of the events in issue. He testified that he could not recall meeting Mr. Dunn at the reception held at the Canadian high commission and did not recall meeting with him at his hotel room in the presence of the Canadian high commissioner and others to discuss privatization. Further, Mr. Stevens denied any conversation about his wife's business interest later that evening.

Morgan Grenfell was never engaged by the Canadian government to perform any services in relation to privatization or inward investment.

Conclusions

I accept the evidence of Mr. Dunn. He testified in a clear and forthright manner. Unless he was deliberately fabricating his testimony, a suggestion that counsel for Mr. Stevens does not make, Mr. Dunn's knowledge of certain uncontroverted facts, for example, Mrs. Stevens' oil and gas business interests in the Beaufort Sea, is strong evidence that the discussions took place as he described.

Mr. Stevens' recollection of the incident was, by his own admission, very vague. Further, before it was established that Mr. Dunn would come to Canada to give evidence to the Commission, Mr. Stevens described Mr. Dunn in highly uncomplimentary terms. He testified as follows:

Q. Do you recall a meeting in Singapore with somebody by the name of Angus Henry Dunne of Morgan Grenville [sic]?

A. I am very vague on it. I remember who I think this fellow is, and the main thing, to be frank with you, I remember about him is he had very long hair and long fingernails.

Q. Longer than mine?

A. Very much.

....

It was a disappointing meeting in that it is one of those meetings where you sit there wondering "how did I get stuck with this guy." It was late at night, and maybe I was overly tired or something, but Phil Evershed, my personal assistant, was there. He has been the one that I have asked, "can you recall for me this meeting," and as it turned out, to get rid of him, I suggested that — he said that he had a lot of information he wanted to give me, and this type of thing, and I said "why do you not get whatever you would like to give me and give it to my assistant," and Phil Evershed met with him the following day.

(Transcript, vol. 70, pp. 12,093–94)

This evidence is important because it became apparent when Mr. Dunn gave evidence to the Commission that Mr. Stevens' characterization of his appearance and demeanour was wholly inappropriate and misleading. Mr. Dunn, who testified that he had not altered his physical appearance since meeting with Mr. Stevens, could be described only as a conventional English businessman. Further, Mr. Stevens, in response to questions by Commission counsel, persistently refused to give his own recollection of this incident, putting forward instead Mr. Evershed's version of events. When Mr. Evershed testified, however, he did not support important aspects of Mr. Stevens' testimony. In particular, Mr. Stevens' assertion that Mr. Evershed was present throughout the evening with Mr. Dunn was not confirmed. I reject Mr. Stevens' testimony that private business matters were not discussed in the meeting with Mr. Dunn.

Mr. Stevens' conduct with Mr. Dunn is evidence of his knowledge of and involvement in management activities within the York Centre

group of companies. More specifically, there is no doubt that Mr. Stevens on this occasion was endeavouring to obtain financing for Canalands or Sentry. When considered in conjunction with the first meeting with Mr. Leiderman, this conduct further confirms that in March 1985 Mr. Stevens was aware of the need for money for the York Centre companies. This incident is also an example of Mr. Stevens' mingling of private business matters and public business, a matter that will be dealt with later in this report.

Chapter 13

The Approach to Tom Kierans of McLeod Young Weir

McLeod Young Weir is a large Canadian investment house that had for some time acted for York Centre, Georgian Equity, and Georgian Trust in the purchase and sale of strip bonds, coupons, and shares. Alex Lutsky was the registered representative of McLeod Young Weir who had handled these transactions. Prior to October 1984 Mr. Lutsky dealt with Mr. Stevens, but after Mr. Stevens' appointment to the cabinet Mr. Lutsky's contacts were with either Mrs. Stevens or Miss Walker.

Description of Events

On July 31, 1985, Mr. Tom Kierans, president of McLeod Young Weir, had a luncheon meeting with Mr. Stevens to discuss government business. The lunch was held at the minister's CDIC office and lasted about one-and-a-half hours. The topic discussed was a proposed Atlantic Development Fund. These discussions were of a preliminary and general nature, with Mr. Stevens endeavouring to obtain Mr. Kierans' views on how to find the necessary funds using exchangeable debentures and exchangeable preferred shares. The whole program had yet to be approved by cabinet. Mr. Stevens promised to provide a copy of the Atlantic Development Fund proposal so that Mr. Kierans might review it. This document was subsequently provided. At this meeting there was no discussion of the particular role that McLeod Young Weir might play in this initiative.

Mr. Kierans testified that, at the end of the meeting, Mr. Stevens turned to the unrelated subject of strip bonds. Mr. Stevens outlined the problems and possible solutions involved in funding a portfolio of coupons and bonds and told Mr. Kierans that these conceptual problems were currently being dealt with by his wife, Noreen Stevens. The minister then asked Mr. Kierans to give the matter some thought with a view to meeting with Mrs. Stevens and advising her on an appropriate course of action. During this discussion, there was no mention of any specific bonds or companies.

Mr. Stevens denied that the matter of strip bonds was raised by him. He said it was raised by Mr. Kierans at the beginning of the meeting in

the context of acknowledging McLeod Young Weir's short-sightedness in failing to take up Mr. Stevens' idea about strip bonds in the early 1980s. Further, Mr. Stevens denied that he discussed the problems of funding a portfolio of coupons and bonds with Mr. Kierans or that he asked him to meet with Mrs. Stevens to advise her. Mr. Stevens said he made a passing remark that the York Centre group was still active in the field of strip bonds and that Mr. Kierans might wish to call Noreen Stevens or she might wish to call him to discuss them generally. In cross-examination, Mr. Stevens said that, in response to his remark that Mrs. Stevens continued her involvement with strip bonds, Mr. Kierans offered to help in any way he could. Mr. Stevens testified that he later told his wife that Tom Kierans had offered assistance to her "stripped bond type of concept work" (Transcript, vol. 73, p. 12,637).

On August 1 or 2, 1985, Mrs. Stevens called Mr. Kierans and arranged to meet him at 10:00 a.m. on August 6 at his office. During this brief telephone call, according to Mr. Kierans, Mrs. Stevens explained she had a "conceptual problem" pertaining to a bond portfolio with which she was involved. She made no reference to any meeting or discussion which Mr. Kierans had had with her husband. Mr. Kierans testified that his July 31 meeting with Mr. Stevens did not pave the way for his meeting with Mrs. Stevens. He said that, because of the value of the portfolio of bonds being discussed, he would have met with her even if she had called without any introduction.

On August 4 Mr. Stevens called Mr. Kierans, wanting to meet with him to discuss the possibility of Mr. Kierans' appointment as deputy minister. August 4 was a Sunday and Mr. Kierans was not able to meet him. As a result, a meeting was scheduled for August 6, 1985. Mr. Stevens testified that officials of his department had told him that Mr. Kierans was a candidate for the position of deputy minister and that Mr. Kierans was extremely interested in the position.

On the morning of August 6 Mr. Kierans met Mrs. Stevens at his office. During their short meeting they discussed a large portfolio of strip bonds, held by a company in the Turks and Caicos Islands, having a face value of between \$14 and \$17 million. Mrs. Stevens wanted to raise money on the portfolio, and explained that she had a potential offshore source of funding, perhaps in Switzerland. Her question was whether provision could be made for the loan to accumulate in principal value until the maturity date of the bonds, when the loan could be repaid. In the period between the date of the loan and the maturity date, there would have to be little cash drain. Mrs. Stevens left the portfolio with Mr. Kierans so he could assess the financing strategies for her.

During this meeting, Mrs. Stevens gave Mr. Kierans the impression that the bonds in question were held in a company in which she had management involvement and that she was in charge of receiving advice and directing the disposition of the bonds. Mr. Kierans testified that he had no knowledge beyond this and had no information that they were part of "family-related portfolios" (Transcript, vol. 49, p. 9004).

On the same day, Mr. Stevens met Mr. Kierans for lunch, and they discussed whether Mr. Kierans would consider becoming a deputy minister of DRIE or having some other senior association with the department. Mr. Kierans said he would have to consider the matter. Subsequently, he declined to leave the private sector.

Mr. Kierans later discussed the problem raised by Mrs. Stevens with one of his colleagues, Gordon Cheeseborough. Mr. Cheeseborough discussed it with his colleague, Tony Woodward. Both Mr. Woodward and Mr. Cheeseborough examined the portfolio and eventually advised Mrs. Stevens that there was "too much exposure" and that she would be well advised to liquidate the portfolio. At the same time, McLeod Young Weir referred Mrs. Stevens to an outside consultant. Mr. Kierans then telephoned Mrs. Stevens on August 7 or 8 to report the company's preliminary view that the risk profile of the portfolio was excessive and the bonds should be put up for sale.

Mrs. Stevens testified that her husband suggested she call Tom Kierans to see if he could help with her "problem with the [F]irst Interstate type of application" of strip bonds (Transcript, vol. 67, p. 11,424). (The First Interstate Bank of Canada proposal was prepared by Richardson Greenshields in the early summer of 1985; it was an effort to borrow \$10 million from this bank for York Centre, using the Ontario Hydro strip bonds as security.) Mrs. Stevens denied that she was aware that Mr. Kierans was expecting her to call. Further, she said that although it was possible that what she discussed was in fact the Georgian Trust portfolio, she used it only as an example in the context of the more abstract issues presented by the First Interstate Bank proposal and by the problems of raising money using a bond portfolio. She could not recall any details of the discussion, the meeting with Mr. Cheeseborough, being referred to a consultant, or being told to sell the bonds. She testified that she could only recall the meeting with Mr. Kierans vaguely and that "if it was anything . . . [it] dealt again with the concept of the stripped bond and its application to financing" (Transcript, vol. 62, p. 10,646).

On August 15, 1985, the bonds held by Georgian Trust were sold to Gordon Capital for \$2,783,092. McLeod Young Weir had been asked a few days earlier to bid on the bonds, which it did. Its bid was not accepted. A colleague of Mrs. Stevens dealt with McLeod Young Weir in matters pertaining to the bid. Mrs. Stevens testified that she did not make the decision to sell the Georgian Trust portfolio, but she was equivocal about her knowledge of the sale. She first testified that it was possible she knew the sale occurred in August 1985 but could not say whether she knew it occurred on the specific date of August 15, 1985. When reminded of her role in arranging the overnight loan of \$1,216,635 from the Bank of Montreal, which facilitated the sale of the bonds, Mrs. Stevens testified she was generally aware of the transaction. Subsequently, however, Mrs. Stevens denied on two occasions that at the time she had had knowledge the bonds were to be sold.

On the issue of knowledge, it is important to note that Mrs. Stevens received \$47,162.18 from Stevens Securities and \$7,467.04 from Gill as part of the distribution of proceeds from the sale. These sums were owed to Mrs. Stevens by the companies. Mrs. Stevens testified that she recalled, but not in any detail, receiving these funds. During her testimony Mrs. Stevens had difficulty answering certain questions, but undertook to the Commission to check her records and provide such answers, in writing, if they were available. In response to one such undertaking, Mrs. Stevens confirmed that “[n]o other sums of money of the same magnitude were received from either Gill Construction or Stevens Securities Limited between 1984–86” (Exhibit 230, tab 1, p. 6).

Mr. Stevens testified that he had no knowledge of his wife’s meeting with Tom Kierans on the morning of August 6, 1985. Further, he had had no discussions with his wife before or after this meeting about strip bond activities, financing a bond portfolio, or problems relating to strip bonds, except in relation to how to structure a strip bond in conjunction with a coin or other commodity so as to avoid tax on accrued income. Further, Mr. Stevens denied any knowledge of the sale of the bonds, including McLeod Young Weir’s bid on the Georgian Trust bonds.

During this same time frame, Mr. Stevens held other discussions with Mr. Kierans about government matters. As a matter of convenience the nature of these discussions and Mr. Kierans’ response will be dealt with in Chapter 23, which deals with the allegation that Mr. Stevens mingled public and private business.

Conclusions

I accept the evidence of Tom Kierans. He had a clear recollection of the circumstances surrounding his contact with Mrs. Stevens and he had no interest in the outcome of these proceedings. Mrs. Stevens, by her own admission, had only a very vague recollection of the events and was not able to describe with any certainty or in any detail the conversation she had with Mr. Kierans.

The evidence of Mr. Kierans, when considered in the context of York Centre’s search for forms of financing which would produce little cash drain for the companies, establishes that Mrs. Stevens’ “conceptual difficulty” related directly to York Centre’s need to raise money and its desire to use the portfolio of bonds held by Georgian Trust to do so. The specific commercial character of these difficulties is made abundantly clear by the fact that, a few days after her contact with Mr. Kierans, the very portfolio of bonds discussed with him was sold. Further, I find that Mrs. Stevens was aware of the sale of the bonds at the time it occurred. Her involvement with the First Interstate Bank proposal (which could no longer be implemented as a result of the sale of the bonds), her involvement in arranging the overnight loan to facilitate the sale, and her receipt of proceeds from the sale is evidence of her knowledge.

Mr. Stevens denied he had discussions with his wife concerning the use of strip bonds as a vehicle for financing. He gave the following evidence:

- Q. The question is: What conversation had you had prior to this lunch with Mrs. Stevens about stripped bond activities, problems or otherwise?
- A. Nothing, other than the fact she had talked with me in a general way about the type of thing that we ended up discussing with Chase Manhattan, if you like, the McCarthy & McCarthy interpretation of how you can structure a stripped bond in conjunction with a coin or another commodity and end up in a tax-avoidance position.
- Q. Did you discuss with her, Mr. Stevens, prior to speaking to Mr. Kierans or any time, conceptual problems of raising funds utilizing stripped bonds?
- A. No, not in the context of when you say "raising funds," not in that context. The context that we discussed was, having come up with the idea of a stripped bond, now being faced with the fact that they are taxable every three years — before going into the Ministry, I tried to work out a new approach as to how you could use a stripped bond but avoid tax.
- It was in that context that my discussions with Noreen took place.
- Q. Did she tell you that at that very moment, whoever's idea it was, whether it was yours or Mr. Kierans', she was engaged on behalf of the York Centre group in attempting to develop a method of raising capital utilizing stripped bonds?
- A. No.
- Q. Did she tell you anything about First Interstate and the approaches she had made to First Interstate?
- A. No. Until, at this hearing, the name was raised, I did not even know that there was such a bank active in Canada.
- Q. So, do I understand correctly that you are saying she did not put any problem, conceptual or otherwise, to you that would have caused you to raise this with Mr. Kierans? Is that right?
- A. In reference to the raising of finances?
- Q. Yes.
- A. That is correct.

(Transcript, vol. 73, pp. 12,637-39)

I find that this evidence conflicts with the evidence given by Mrs. Stevens, who testified that her husband suggested she call Mr. Kierans to see if he could help with her "problem with the [F]irst Interstate type of application" (Transcript, vol. 67, p. 11,424).

I reject Mr. Stevens' evidence in light of Mrs. Stevens' testimony about her husband's knowledge. Further, I find that Mr. Stevens was aware of the approach made by Mrs. Stevens to Mr. Kierans and of the First Interstate Bank proposal, which involved using strip bonds to obtain financing.

Mr. Stevens' evidence also conflicts with that given by Tom Kierans in a number of important areas, including whether Mr. Stevens asked Mr. Kierans to see his wife. Mr. Stevens denied he made such a request.

I reject Mr. Stevens' evidence and find as a fact that he did make such a request to Mr. Kierans. I further find that this request not only demonstrates a significant degree of involvement in the continuing affairs of the York Centre group of companies, but also discloses a willingness on the part of Mr. Stevens to use his public office and his wife's name and interests to secure access to individuals and acquire financial advice directly related to the problems faced by the York Centre companies. This conduct was part of a pattern which became increasingly evident during the course of this Inquiry. This pattern involved the minister making an initial contact ensuring access, with Mrs. Stevens then seeking specific advice or assistance.

Chapter 14

The Call to Ken Leung of Olympia & York

Mr. Ken Leung is the senior vice-president, finance and administration, of Olympia & York. In the discharge of his duties, which extend to arranging financing for the company, Mr. Leung reports directly to Albert and Paul Reichmann.

Description of Events

Some time in early August 1985, Mr. Leung received a telephone call from Mr. Stevens. Prior to this phone call Mr. Leung had never met or spoken with the minister. Although Mr. Leung could not recall the details of the conversation, he indicated that the minister inquired whether or not he would mind if Mrs. Stevens contacted him for some advice. Mr. Leung assumed that the minister was referring to his wife; he recalled that the matter he anticipated discussing with Mrs. Stevens was of a financial character.

Subsequently, Mrs. Stevens and Douglas Coyle, a young computer analyst, met with Mr. Leung on or about August 7, 1985, at his office. Mrs. Stevens testified that the subject of the meeting was whether strip bonds could be used to finance real estate limited partnerships. Both Mrs. Stevens and Mr. Leung described the meeting as brief, Mr. Leung being unable to provide any useful advice. Mr. Leung had no other dealings with Mr. Stevens, Mrs. Stevens, or Mr. Coyle.

Mr. Leung testified that although he was personally uninvolved in the dealings that Olympia & York had with the government in 1984-85, he was aware of them in August 1985. Throughout the 1984-85 period the federal government was trying to further Canadianize the petroleum industry. In particular, the government sought to assist Olympia & York in acquiring Gulf Canada Corp. from its U.S. owners. Mr. Stevens was one of the intermediaries between Olympia & York and the federal government in this effort. Later he became involved with Olympia & York in its dispute with Allied Lyons over a proposed takeover of Hiram Walker. In this matter, Mr. Stevens was acting in his capacity as minister responsible for Investment Canada. The policy in this area was not set by Mr. Stevens personally but by the cabinet.

Mr. Stevens testified that he knew of Mr. Leung, by reputation only, as a senior executive at Olympia & York. He had no recollection of any telephone conversations with Mr. Leung and, further, could not identify any reason that would have caused him to call Mr. Leung.

Mrs. Stevens did not know specifically how she came to meet with Mr. Leung, although she conceded someone must have made the introduction. Mrs. Stevens testified that she was generally aware from news reports that Olympia & York was involved with the Canadian government, specifically DRIE, over Gulf Canada.

Mrs. Stevens also testified that her husband was aware of the conceptual difficulty she was having with strip bonds, which included in part the problems of using a portfolio of bonds to raise money. Further, she indicated that one example of this problem was reflected in the First Interstate proposal.

Conclusions

Mr. Leung, a respected member of the business community, was a straightforward witness with no interest in the outcome of these proceedings. Although his recollection of events surrounding this incident was not detailed, I am satisfied that his description of the telephone call from the minister is accurate. Given the absence of association between Mr. Leung and the minister, the call would be at least unusual.

In contrast, Mr. Stevens testified as follows:

- A. I cannot recall phoning Mr. Leung. I have tried to refresh my memory as to why I would have called him, and I have drawn a complete blank on it.
- Q. I take it you have nothing to offer in terms of why Mr. Leung would say that if it had not occurred.
- A. I have never met the man, Mr. Scott.

(Transcript, vol. 73, pp. 12,651-52)

In these circumstances I accept the evidence of Mr. Leung. Further, I find that Mr. Leung's willingness to meet with Mrs. Stevens was communicated to her by Mr. Stevens. Mrs. Stevens, on her own admission, would not have contacted Mr. Leung without an introduction.

As well, given the context of the activities of Mrs. Stevens during July and August 1985 in relation to York Centre's search for financing, including her meeting with Mr. Kierans, it is clear that Mrs. Stevens' contact with Mr. Leung was part of her effort to utilize the bonds held by Georgian Trust as a vehicle for financing. I find that Mr. Stevens discussed with Mrs. Stevens her efforts with both Tom Kierans and Ken Leung to use the bonds in this manner. This conclusion is strengthened by the improbable coincidence that Mr. Stevens would have assisted in

arranging appointments for his wife on these consecutive days in early August without any knowledge of their purpose. Mr. Stevens' involvement with these incidents leads inescapably to the conclusion that he was aware of his wife's efforts, their failure, and the subsequent decision to sell the bonds, one of the most important assets of the York Centre group. This conclusion is entirely consistent with Mr. Stevens' extensive involvement in the Georgian companies prior to entering cabinet in September 1984 and with his efforts several months after the sale of the bonds to develop the Christ coin proposal to revitalize the companies.

Finally, as in the meeting with Mr. Kierans, Mr. Stevens' conduct on this occasion further evidences a willingness to open doors for his wife in order for her to obtain financial advice for their companies.

Chapter 15

York Centre Group Financial Materials Found in the Minister's Office

The Commission also heard evidence about certain York Centre group financial materials that were found in the minister's office. Ms. Aline Charlebois testified to this effect. Ms. Charlebois, a government employee, worked as the minister's private secretary after he became a member of the cabinet in September 1984. She was primarily responsible for coordinating his daily schedule, bringing forward correspondence for him to sign, filing documents, and in general keeping track of the paper flow in the minister's office. She also answered telephone calls directed to the minister.

Description of Events

It was the minister's custom to travel to Toronto three or four times a month, generally on Friday, to work out of his office at CDIC. When he returned to Ottawa on Monday, Ms. Charlebois, as part of her duties, would go through his briefcase and pick out documents for filing or for passing on to his special assistants. It was after one such trip during the first few months of his tenure in office that Ms. Charlebois removed a York Centre Corporation annual report from his briefcase. On first seeing this document, she asked Mr. Phil Evershed if she should keep it. She was informed that it was of "interest to the Minister," and, as a result, she opened a file on York Centre Corporation (Transcript, vol. 14, p. 2060). Mr. Evershed testified that Ms. Charlebois approached him with a variety of corporate financial statements — he did not recall the names — and he simply told her to file them.

Ms. Charlebois testified without the aid of the file marked "York Centre Corporation," which was subsequently produced from the minister's office. She described removing annual reports or financial statements from his briefcase on three to five occasions, spread out over the time Mr. Stevens was minister. She described these documents as pertaining to York Centre, Gill, Canalsands, Sentry, and one of the Georgian companies. She also saw some documents — she was unaware of their nature — relating to Royal Cougar. Ms. Charlebois testified that some of this material was kept in the York Centre file but that the

annual reports were stacked with other annual reports received by the minister's office.

On May 13, 1986, within 24 hours of the minister's resignation, Ms. Charlebois sent a number of York Centre Corporation annual reports to Mr. Stevens' Parliament Hill office. Those documents were received by Ms. Marian Guilfoyle, his assistant, and almost immediately forwarded to York Centre Corporation, care of Ms. Alice Patry, Noreen Stevens' secretary.

On July 2, 1986, after the cabinet shuffle and the appointment of a new minister of DRIE, Ms. Charlebois packed up the minister's files, including the file marked York Centre Corporation, and forwarded them to Ms. Guilfoyle. The York Centre file was stored by Ms. Guilfoyle until it was made available to the Commission. This file included the following documents:

- Canals Resources Corporation, Annual Report, 1985;
- Canals Resources Corporation, Interim Financial Report, 6 months ended December 31, 1985;
- Georgian Trust and Life Assurance Company Limited, Financial Statement, ending March 31, 1985;
- Gill Construction Limited, Financial Statement, for year ending March 31, 1985;
- Gill Construction Limited, Auditor's Report, dated June 14, 1985, marked "Draft, for Discussion";
- Sentry Oil & Gas Corp., Annual Report, 1984;
- Sentry Oil & Gas Corp., Annual Report, 1985;
- Sentry Oil & Gas Corp., Interim Financial Information, 6 months ended December 31, 1985;
- York Centre Corporation, Annual Report, 1985.

On the same occasion, Ms. Guilfoyle also received from the minister's office a blue file folder, entitled Clady Farm, which contained magazines on breeding cattle and other sundry financial information. Included was a spreadsheet of intercorporate debt dated April 4, 1986, which dealt with the York Centre group of companies, and a letter dated September 28, 1984, prepared by Mr. Rowe and discussed at length in Chapter 6 of this report.

During his term of office the minister never asked Ms. Charlebois to produce the York Centre Corporation file, any of the financial statements, or the annual reports.

Mr. Stevens denied ever knowingly receiving these financial statements or being aware that his secretary had opened a file on York Centre. Mr. Stevens speculated that he may have been on a shareholders' list, which resulted in these documents being sent to him; he offered no explanation of how they could have been placed in his briefcase.

Mr. Stevens denied any knowledge of how the spreadsheet of April 4, 1986, might have got into his file. Although it was identical to the spreadsheet of debt discussed at the meeting with York Centre Corporation auditor, Mel Leiderman, on April 16, 1986, Mr. Stevens said he doubted he would have taken it from the meeting.

Conclusions

I accept the evidence of Ms. Charlebois and Ms. Guilfoyle and find that the documents relating to the York Centre companies located in the minister's office were indeed documents carried by the minister from Toronto to Ottawa. Further, I find that these documents were acquired by him on three to five different occasions spread over the period of his tenure in office.

When asked for an explanation about his possession of these documents and how they may have come to be placed in his briefcase, Mr. Stevens was not helpful or persuasive. He testified as follows:

Q. You cannot, I take it, identify, or can you, anyone who would have put these documents in your briefcase other than yourself.

A. And I did not do it.

Q. Can you give us the name of somebody else, sir?

A. Anybody could. You could have.

(Transcript, vol. 72, p. 12,530)

This was one of two occasions on which the minister suggested that Commission counsel might have placed the documents in his briefcase. When viewed in the context of the minister's duty to safeguard his briefcase, which may contain highly confidential government documents, these answers are at best glib and evasive.

When pressed as to who would have had sufficient access to his briefcases to place such material in them, Mr. Stevens identified a number of his Ottawa staff as well as Mr. Ted Rowe. In fact, none of the staff named had any connection with York Centre or the other companies. Mr. Stevens ultimately agreed that it was also unlikely that Ted Rowe put such documents in his briefcase. In contrast, when asked whether Shirley Walker or his wife might have placed them in the briefcases — both of whom are individuals with relatively easy access to the minister's briefcase — the minister excluded them as possibilities. In giving this testimony, Mr. Stevens, I find, was not forthright.

Further, I reject Mr. Stevens' assertion that he had no knowledge of these documents. I find that his possession of this financial documentation relating to the York Centre group of companies was with full knowledge of their existence and their contents. The volume of documents, the numerous occasions on which they were found, and the fact that they were found in his briefcase upon his return from Toronto all are evidence of this. As well, it is significant that some of these documents, one even in draft form, related to corporations, including Gill, that were not public.

These facts give rise to only one conclusion when considered in conjunction with his conversations with Mr. Leiderman about the draft financial statements for Georgian Trust, his meetings of March 16, 1985, and April 13, 1986, with Mr. Leiderman, and his other involvements with York Centre described elsewhere in this report. Mr. Stevens' possession of these documents is evidence of his continued interest and involvement in York Centre Corporation and its related companies' financial affairs.

Chapter 16

The Meeting with Ron Graham

The Commission also heard evidence about a meeting that Mr. Stevens had with Mr. Ron Graham on May 2, 1986. Ron Graham is a consultant who specializes in real estate and mortgages. He first came into contact with both Mr. and Mrs. Stevens in 1982–83 when he advised them on the formation of Royal Cougar and subsequently took a minority stake in the company. In 1985 he was a director of Royal Cougar. Mr. Graham described Mr. Stevens as responsible for the idea behind Royal Cougar and for the formation of the company. He said Mrs. Stevens gave legal advice but was not involved in discussing the founding of the company.

Mr. Graham was also involved in the real estate activities of the companies. In 1983 he “assisted [Mr. and Mrs. Stevens] in obtaining some mortgage financing on their real estate” from Guaranty Trust (Transcript, vol. 55, p. 9990). (This was the loan to Cardiff Construction referred to in Chapters 6 and 7.) He subsequently sold a mortgage for Cardiff Construction and advised on several sales. From September 1984, when Mr. Stevens became a minister of the Crown, to April 1986, Mr. Graham had no further business dealings as a real estate consultant with anyone at York Centre. He did have one or two informal conversations with Mrs. Stevens about refinancing the real estate portfolio or the sale of parts of it.

Description of Events

At the end of April 1986 Mr. Graham read several newspaper articles critical of the “interest-free” mortgage received by Cardiff from Anton Czapka. As a result of reading these articles, Mr. Graham called Mrs. Stevens and indicated that, depending upon the underlying asset value and cash flow, he might be able to sell the properties at a profit. Mr. Graham could not recall the response he received, but the matter was not pursued at that time.

Mrs. Stevens informed her husband of the call and, shortly thereafter, Mr. Graham was telephoned by Miss Walker, who indicated that Mr. Stevens would like to see him. An appointment was arranged for

2:00 p.m. on May 2, 1986, at the minister's CDIC office. At this meeting, Mr. Stevens expressed concern about the conflict of interest allegations that were appearing in the press and concern for Mrs. Stevens, saying he felt strongly that she was being unnecessarily abused. Mr. Stevens said his wife felt the allegations singled her out as the source or cause of the conflict. Mr. Stevens then asked Mr. Graham if he would consider replacing her in some form or other in the discharge of her responsibilities at York Centre and its various subsidiaries or interests. Mr. Graham responded that, prior to making any commitment, he would want to review the status of the companies, including their financial position, to see if he could be of any real assistance. Mr. Stevens indicated that the financial information Mr. Graham wished to see would be provided and that, if Mr. Graham were interested, a further meeting with Don McPhail and Mel Leiderman would be set up. (At this time Mr. McPhail was a director of York Centre, Gill, and Canaland as well as vice-president of Gill.)

Later that afternoon, Mr. Graham received a complete set of annual reports and financial statements, including interim financial statements, for Canaland, Sentry, and York Centre from 1983 on. Mr. Graham passed these documents to one of his associates, David Sears, to review. However, his office received a phone call from Mr. Stevens on May 5, 1986, indicating he should not proceed until he heard further from Mr. Stevens. Mr. Stevens testified that he asked Mr. Graham to stop work on the project because he realized he was not supposed to be speaking to him about matters involving the ongoing direction or management of these assets.

Conclusions

Mr. Stevens testified that he could not recall providing any financial information to Mr. Graham. However, Mr. Graham's evidence that Mr. Stevens did provide such information was confirmed when he produced a file during his testimony containing some 27 financial reports. These were received a few hours after his meeting with Mr. Stevens. I also accept Mr. Graham's evidence that Mr. Stevens asked him to replace Mrs. Stevens. Although Mr. Stevens could not recall making such a request, even Mrs. Stevens recalled that her husband had spoken to Mr. Graham and discussed replacing her in the role she was then playing. Further, I reject Mr. Stevens' assertion that he believed his wife's role was confined to that of a solicitor to the companies. It is obvious that the request made to Mr. Graham, a non-lawyer, was not to take over his wife's role as a solicitor but rather her role in the management of the companies.

Further, I find that Mr. Stevens' acknowledgment that he should not be involved with any of the companies is an admission that he was aware that he was not to have any dealings with the affairs of Gill, as well as the affairs of Sentry, Canaland, or York Centre.

This concludes my analysis of the evidence as it pertains to Mr. Stevens himself and the incidents of his involvement in private business matters while he was a minister of the Crown. I now turn to the role that was played by Miss Walker.

Chapter 17

The Role of Shirley Walker

Nature of Role

Shirley Walker was a trusted aide and employee of Mr. Stevens for over 20 years. She joined British International Finance (Canada) Limited (later York Centre) in the 1960s. Within two years she had become Mr. Stevens' administrative assistant, and continued as such until 1979. By then she was also a corporate officer in many companies associated with York Centre. In 1979, in the newly elected Clark government, Mr. Stevens became a member of cabinet as president of the Treasury Board. At this time, Miss Walker resigned all her positions in these companies and began to work as a Toronto-based assistant to Mr. Stevens. She was to provide liaison between interest groups in Toronto and the minister's Ottawa office. She was the only member of the minister's staff based in Toronto, and she continued to work in her private office at York Centre. After the defeat of the Clark government in 1980, Miss Walker resumed her positions with the companies.

Prior to October 1984

Prior to October 1984, Miss Walker was a director or officer of a substantial number of the York Centre group of companies. Her positions are outlined in the text of Chapter 5 and in tables 5.1, 5.2, 5.3, 5.4, and 5.5. Miss Walker's day-to-day role was characterized as that of an executive assistant with both managerial and secretarial responsibilities for the York Centre group of companies. She reported to Mr. Stevens and, when he was not available, to Mr. Rowe. She was involved in numerous financial transactions within the York Centre group, including setting up loans and payments between the companies. In some instances she proceeded without instruction, and she had general authorization from Mrs. Stevens to administer Georgian Equity. She was also involved in buying and selling bonds and did some work for Philip MacDonald of Royal Cougar.

Miss Walker had responsibility for the day-to-day banking of the York Centre group of companies, but her responsibilities extended beyond ensuring that interest payments were made on time. In the summer of 1983 she accompanied Mr. Stevens and Mr. Rowe on two occasions when they met with CIBC officials to discuss the reduction of York Centre's indebtedness to CIBC through loans from the Hanil Bank and Guaranty Trust; they also discussed what might be used as security for the loans. Throughout the spring and summer of 1984 she was in communication with CIBC officials by telephone and correspondence about loan margins, appraisals for Cardiff properties, and the postponement of CIBC's charges over various properties to accommodate a further advance from Guaranty Trust to York Centre. With regard to Hanil, Miss Walker signed, as a corporate officer, essential documents to facilitate its 1983 loans to Cardiff, YCPL, and Gill. She co-signed the loan documents for Gill with Sinclair Stevens. In the summer of 1984 Miss Walker negotiated with the National Bank of Canada for a \$355,000 line of credit for Stevens Securities (detailed in figure 5.6). Mr. Stevens personally guaranteed this loan.

From July 1983 Miss Walker, as well as Sinclair Stevens, was authorized by Georgian Equity to trade on its behalf using its margin account at McLeod Young Weir. Miss Walker corresponded with the brokers, and the trading reports from McLeod Young Weir for this account were directed to her attention both before and after October 1984. (After October 1984 Mr. Stevens was no longer in communication with the McLeod Young Weir traders.) On July 19, 1984, Sinclair Stevens opened a margin account at Dominion Securities for Stevens Securities; both Mr. Stevens and Miss Walker were authorized to trade on this account.

The accountants and auditors for the York Centre group of companies relied on Miss Walker for information. She was closely involved with producing the quarterly financial statements of the various companies, in the preparation of annual tax returns, and in filings for the securities commissions. She assembled materials for the annual meetings of the companies, looked after the printing of these materials and the compilation of the shareholders' lists, and ensured that the mailings were completed. As Mrs. Stevens testified, Miss Walker was resourceful, knowledgeable, and experienced in obtaining information.

The importance of Miss Walker's role at York Centre is also illustrated by her attendance, along with Mr. Mollard, Mr. Rowe, and Mr. and Mrs. Stevens, at the meeting on September 30, 1984. This meeting, which was dealt with in detail in Chapter 6, was called by Mr. Rowe to design strategy for dealing with the difficult financial problems then facing York Centre.

From the time she became his administrative assistant in the 1960s, Miss Walker handled all of Mr. Stevens' personal banking, eventually including payment of his personal bills and filing his income tax returns.

As Special Assistant, 1984–86

In October 1984 Miss Walker joined Mr. Stevens in government as his special assistant. She was based in Toronto and initially continued to work out of her York Centre office, as she had done in 1979. In February 1985 she obtained offices at DRIE, and later at CDIC, in First Canadian Place in Toronto.

As special assistant to the minister she was to provide liaison between Toronto-area people and the minister's office in Ottawa. Mr. Stevens indicated that her chief function was to deal with people who wanted to talk to him about specific problems. Miss Walker testified that people in the Toronto business community knew that, if they were unable to contact Mr. Stevens, they could contact her. Her duties included gathering information, meeting people, and arranging meetings. She looked after Mr. Stevens' appointments when he came to Toronto to work out of his CDIC office. Persons wishing to see the minister or to get information to him in Toronto would go through Shirley Walker.

Beyond general liaison, Miss Walker had specific areas of responsibility. She was responsible for coordination between Toronto and Ottawa federal officials on the Ontario Economic Redevelopment Agreement (ERDA), which involved keeping herself informed, organizing meetings, and supervising the paper flow. She was also heavily involved in organizing Opportunities Canada. This event, which was held in March 1986 and was partially sponsored by the Government of Canada, brought together foreign investors and members of the Canadian business community. Miss Walker was on the board of directors and reported to Mr. Stevens on the progress in organizing the event. She also helped to coordinate the Toronto visit of Malcolm Baldrige, United States secretary of commerce, in 1985.

While Miss Walker was Mr. Stevens' special assistant, she continued to look after all his personal financial affairs. She discussed these matters with Mr. Stevens from time to time if she thought they were important. In this period, no one else managed these personal financial matters or was designated by Mr. Stevens to do so.

In keeping with her role as someone privy to Mr. Stevens' most personal dealings, Miss Walker acted as his agent with the ADRG in October 1984 in arranging compliance with the guidelines and in the establishment of his blind trust. Miss Walker also dealt with the ADRG on behalf of Mr. Stevens in 1986, when compliance with the code was required.

At York Centre, 1984–86

When Miss Walker joined Mr. Stevens' staff in October 1984, she was designated as being subject to the conflict of interest guidelines. She was therefore required to dissociate herself from the York Centre group of companies. On October 19 and 31, 1984, Miss Walker resigned as an officer and director of these companies. As there was no office available

for her at the DRIE offices in First Canadian Place, she carried out her work as a special assistant to the minister from York Centre's offices in Commerce Court West, which were across the street, until mid-February 1985.

Although Miss Walker resigned her positions with the York Centre group of companies, Mr. Rowe testified that she continued to do many of the things she had previously done for these companies. In fact, on October 19, 1984, Sinclair Stevens appointed her a special signing officer for Stevens Securities. As late as June 1985, both Philip MacDonald and Viki Martin reported to Miss Walker the weeks when they would not be in the York Centre office. Throughout the period 1984-86, the York Centre group's accountants and auditors continued to use Miss Walker as their contact person. Miss Walker also continued to deal with the Hanil Bank, with the Standard Chartered Bank over the term deposits Georgian Trust had with that bank, and with the National Bank about its loans to Georgian Equity and Stevens Securities. She continued to handle Georgian Equity's margin account with McLeod Young Weir; its statements indicate trades in the shares of York Centre, Canaland, and Sentry through the fall of 1984 and during 1985. In addition, Mrs. Stevens testified that Miss Walker was an "expediter" on real estate sales, such as the sale to the 4 Square Gospel Church, and that in general in this period Miss Walker had "a lot of input in all these transactions" (Transcript, vol. 66, p. 11,371).

Even after Miss Walker moved into her office at CDIC, Mrs. Foulkes, the bookkeeper for the York group, frequently visited her there. Miss Juliette Toth, the receptionist at CDIC, testified that Mrs. Foulkes called Miss Walker at least once a day. Miss Walker also received phone calls at CDIC from Mrs. Stevens, Mr. Rowe, Mr. Neary, and the auditors and accountants.

Documents filed with the Commission show that Miss Walker did not dissociate herself after October 1984 from the affairs of the York Centre group of companies. These documents include books of cheques, sequentially numbered and all signed by her, for such companies as Gill, Stevens Securities, Georgian Equity, Georgian Trust, and YCPL, as well as letters by her to banks, trust companies, and brokerage houses. Miss Walker testified that she had signed all the cheques issued on behalf of Gill in this period. For the other companies, despite extensive disclosure, the Commission has found no cheques signed by anyone other than Miss Walker. Given this fact, in combination with the sequential nature of the cheques, it is a reasonable inference that Miss Walker in fact signed all the cheques for the other companies as well.

Documents also indicate that she was involved in making loans and payments among the York Centre group and was involved in a number of significant transactions involving the companies. The transactions relating to the August 1985 Ontario Hydro bond sale illustrate this involvement (see figure 6.2 for details of the transaction). As discussed in earlier portions of this report, YCPL, as agent for Georgian Trust, sold Ontario Hydro bonds (then held as collateral for the Hanil Bank's

loan to YCPL) for the amount of \$2,783,092 on August 15, 1985. To have the bonds released, Miss Walker, together with Mrs. Stevens, arranged with the Bank of Montreal for an overnight loan in the amount of \$1,216,635; this amount was then used to retire the debt to the Hanil Bank, which permitted the release of the bonds and their subsequent sale. Miss Walker corresponded with the Bank of Montreal, the Hanil Bank, and Gordon Capital, the purchaser of the bonds, to arrange for the overnight loan and the release and sale of the bonds. Miss Walker signed all the cheques distributing the proceeds of the sale. As noted earlier, there is no satisfactory evidence indicating who ordered the bonds sold. Without suggesting that Miss Walker made this decision, it is illustrative of her capabilities that Mrs. Stevens, when asked whether Miss Walker was the author of this transaction, replied:

I think you can make that assumption, but I would have to check with the auditors to verify it. If you are asking me "was Miss Walker capable of handling a bond transaction of this magnitude and of disposing of these funds," the answer is yes. She is an extremely capable person and she has had many years' experience in the bond market.

(Transcript, vol. 65, p. 11,007)

In September 1985 Miss Walker arranged for Interior Trust to provide funds to Georgian Trust for the purchase of marketable securities. This credit facility was used to purchase a Federal National Mortgage Association ("Fannie Mae") residual in September 1985. On behalf of Georgian Trust, Miss Walker signed the loan agreement, a promissory note for \$493,304.37, and the pledge of the Fannie Mae residual as collateral.

Miss Walker also issued capital dividend cheques to the shareholders of Gill on December 31, 1985. This transaction was recommended to Miss Walker for tax reasons by Mr. Bruce Buckley, the accountant. A Gill resolution dated December 30, 1985, signed by Mr. Mollard and Mrs. Foulkes, established the arrangement to pay out the funds. Miss Walker wrote cheques for \$134,715.00 and \$10,361.50, payable to Mr. Stevens, and deposited them into his bank account. That same day or the next, the "shareholders" loaned the funds back to the company. (National Trust was, of course, then the registered owner of Mr. Stevens' Gill holdings.) Miss Walker utilized a blank cheque signed by Mr. Stevens for her to use in carrying out his personal banking to make Mr. Stevens' loan to the company. In return, each of the "shareholders," including Mr. Stevens, was issued a promissory note executed by Gill.

A statement in the files of Gill regarding this transaction and identified by Miss Walker suggests that National Trust, the trustee of the blind trust, authorized the direct payment of this money to Mr. Stevens. Miss Walker conceded, however, that she had no written authority from National Trust for this transaction and she was unable to recall whether she had spoken to anyone at National Trust to obtain

a verbal direction. Mr. Frank Moores of National Trust, who was then responsible for the administration of the trust, testified that he did not receive a call or message from Miss Walker at the time of the transaction, nor did he subsequently become aware of it. Further, Mr. Moores indicated that any decision regarding a transaction such as this would have been referred to a committee of perhaps half a dozen individuals. Miss Walker gave the following evidence about the transaction:

- Q. Did you understand that you could pay out a cheque and deposit money from Gill Construction into Mr. Stevens' account without doing it through the National Trust?
- A. I thought that I could facilitate this transaction, and I took it upon myself so to do.
-
- Q. Fundamentally, I gather, you simply ran Gill Construction; is that right?
- A. In this case, I certainly did make the decision to do this cheque-crossing activity.

(Transcript, vol. 8, pp. 902, 904)

This transaction is illustrative of Miss Walker's role and the nature of the decisions she made.

The Diaries

The nature of Miss Walker's role and the degree of her involvement in the York Centre group of companies is best illustrated by her diaries covering the period in which she was a special assistant. These notebooks, some 26 in number and totalling 3148 pages, contain primarily two broad categories of information: detailed information relating to the affairs of the York Centre group of companies, and detailed information relating to the minister, his department, and his officials. It is significant that the first category — information relating to York Centre — is more extensive in the diaries than information about ministerial business.

Miss Walker wrote in these diaries while speaking to someone in person or on the telephone, when collecting information, when recording advice she was giving or receiving, as well as when making notes to herself. Miss Walker accounted for her receipt of this quantity of information by indicating that she had a "sympathetic ear."

The diaries were proven to be a written chronicle of the major events in the life of the York Centre group of companies from the fall of 1984 to the spring of 1986. They record details of York Centre's bank debts and margin ratios for bank debts, as well as interest payments, stock prices, intercompany transactions, telephone calls, messages, and notes of meetings. Some of these entries will be reviewed in detail. Through the course of the Inquiry these entries were shown to contain meaningful information capable of confirmation by independent evidence.

Without attempting an exhaustive list, the following events noted in Miss Walker's diaries were confirmed by independent evidence:

- the dinner on October 19, 1984, between Mr. Davies and Mr. and Mrs. Stevens;
- Mr. Eyton's approach to Mr. Keenan regarding financing for York Centre;
- real estate sales of the "4-Square Church," "Jelinek," and "Cummins" properties;
- the meeting between Mr. Stevens and Mr. Mollard on February 3, 1985;
- the sale in February 1985 of the B.C. Hydro bonds;
- reorganization proposals being considered in the spring of 1985;
- the meeting on February 27, 1985, between Mr. Stevens and Mr. Reeves of Morgan Grenfell, a merchant banker, in London, England;
- the meeting of Mr. Stronach with Mr. and Mrs. Stevens on March 24, 1985;
- the Czapka loan;
- the development and sale of the limited partnership units in the "Equion" transaction;
- the meetings between Mr. Stevens and Mr. Kierans on July 31, 1985, and August 6, 1985;
- the meeting between Mr. Leung, Mrs. Stevens, and Mr. Coyle in August 1985;
- the meeting convened on August 7, 1985, by Mr. Eyton to consider what could be done for York Centre;
- the meeting on August 8, 1985, where Mr. Eyton reported to York Centre that nothing could be done;
- the sale in August 1985 of the Ontario Hydro bonds, including the search for bids, the overnight loan, and the method by which the proceeds of this sale were distributed among the York Centre group of companies to allow the paydown of bank loans and other indebtedness;
- the trip to South Korea by Mr. and Mrs. Stevens and Mr. Rowe and their visit to the Hanil Bank with Ambassador Campbell;
- Mrs. Stevens' repayment of her \$75,000 loan from YCPL on September 4, 1985, and the related transactions involving, among others, Mr. Stevens;
- the development of the gold-mining investment in the La Ronge area of Saskatchewan;

- the proposal regarding commemorative coins and strip bonds involving the Vatican and Chase Manhattan; and
- the efforts of York Centre to raise financing on Bay Street, including the approaches to Hees, Dominion Securities, Burns Fry, and Gordon Capital.

As examples only, it is useful to review a number of entries for the purpose of showing both their nature and how subsequent evidence clarified their meaning. On or about December 6, 1984, at BB-7-64, the diaries contain a list headed "Denton" that consists of five items, the last being a reference to Mr. Stevens' "position." Miss Walker testified that she could not recall the entry or explain the reference to Mr. Stevens. However, Mr. Denton of the Hanil Bank testified that this entry related to a telephone conversation he had with Ted Rowe regarding, among other things, Korean banking officials' perplexity about the implications of Mr. Stevens' blind trust. Mr. Rowe had written to the Hanil Bank on November 29, 1984, explaining that Mr. Stevens' Gill shares were in such a trust. On November 28, 1984, the diaries record the following:

shares of GILL
 put in B/T [blind trust]
 but owns
 cannot be sold
without consent
 of trustee
 ① owns them
 convince them
 he is the owner

(BB-7-18)

Mr. Denton testified that he indicated to the Korean officials of the Hanil Bank that Mr. Stevens was still the beneficial owner of the shares, although he could not be involved with any of the business affairs of these companies.

A diary entry on February 4, 1985, reads:

350/sh = \$650,000
 Com & Cl A + Gill holdings
 ① Apr. 1985
 250,000
 over 4 yrs 100,000/yr
 Type & sign
 GILL & WJM.

Meeting held at King City
 on Sunday Feb 3/85
 2 pm

(BB-9-40)

Although Miss Walker testified that she was unable to recall the meaning of this entry, Mr. Rowe testified that it related to a meeting on February 3, 1985, when Mr. Mollard, in the company of Mr. Rowe, visited Mr. Stevens at his farm near King City and Mr. Mollard expressed a desire to have someone purchase his Gill shares. The initials WJM refer to William Mollard. Mr. Mollard's shareholdings in the York Centre group of companies consisted of common and Class A shares of York Centre plus his Gill shares.

It is evident that during the time that Miss Walker was a special assistant to the minister, her involvement with and knowledge of York Centre's affairs was extensive, embracing the day-to-day operations of York Centre. In fact, she remained an essential component of York Centre's management, relied on by other York Centre personnel. Her diaries are overwhelming evidence of her knowledge and her role.

Unfortunately, as a witness, Miss Walker was not forthright on the nature of her role at York Centre or the meaning of the entries in her diaries. In her testimony on Thursday, July 17, 1986, Miss Walker was asked about two one-sentence covering letters, signed by her, for cheques to the Hanil Bank:

Q. Is that your signature at the bottom of that letter?

A. That is my signature.

Q. And did you compose that letter?

A. No, I did not.

Q. Who composed it?

A. I would expect — I am not sure who composed it.

....

Q. If somebody else composed it, why did you sign it?

A. I can only conclude it was something I was asked to do.

Q. And you do not know by whom?

A. No, I do not.

Q. And you don't know why — I gather you do not know why, or do you?

A. No, I don't know why.

(Transcript, vol. 5, pp. 647-48, 650-51)

The letters and cheques in question relate to the transaction in February 1985 whereby YCPL, as agent for Georgian Trust, sold a portfolio of B.C. Hydro bonds, the proceeds of which were used to pay down Hanil loans to YCPL and Gill Construction.

Subsequent evidence revealed the following sequence of events in regard to this transaction. In her diary on February 5, 1985, Miss Walker made note of a "proposal" to pay down the YCPL loan by \$250,000 through the sale of the B.C. Hydro bonds for \$538,000 (BB-9-48). On February 8, 1985, Miss Walker, on behalf of YCPL, wrote to Mr. Denton of the Hanil Bank making reference to "our discussions," outlining the "proposal" as well as noting that: "It is understood that a condition of the Bank to agreeing to this proposal would be the reduction of a loan made to Gill Construction Limited by an amount of

\$150,000. We understand that Gill is willing to give that undertaking" (Exhibit 102, p. 68). On February 13, 1985, the Hanil Bank wrote to Miss Walker, acknowledging her letter and informing her that its head office in Seoul would have to approve the sale. On February 14, 1985, Miss Walker wrote to Mr. Denton on behalf of YCPL and Gill, confirming the paydowns of \$250,000 for YCPL and \$150,000 for Gill. On February 15, 1985, Miss Walker's diary records:

5 pm
Arnold Denton
Feb 15 → wants 200,000 paydown
in Gill

(BB-9-94)

This latter amount is the amount that was eventually paid down.

A difficulty arose in the transaction when the Seoul office of Hanil was slow in approving the sale of the bonds. Consequently, on February 26, 1985, as noted in Miss Walker's diary and confirmed by later testimony of Miss Walker and Mr. Denton, there were urgent attempts on the part of Miss Walker and Mr. Denton to obtain the necessary approval to release the bonds for sale. On February 27, 1985, telexes were exchanged between Hanil Bank Toronto and Hanil Bank Seoul. The necessary approval was obtained. On February 28, 1985, Miss Walker wrote to the Hanil Bank on behalf of YCPL, authorizing the bank to release the bonds to Burns Fry, the purchaser. On the same day, Miss Walker wrote the previously mentioned covering letters for the cheques to the Hanil Bank, which paid down the loans. All correspondence and cheques relating to this transaction were signed by Miss Walker.

In light of Miss Walker's involvement in this transaction as subsequently disclosed, I find that her answers when first presented with the letters were not truthful. Certain other answers given by Miss Walker in regard to her role at York Centre were also shown to be untruthful by further evidence and subsequently her own admissions.

On Thursday, July 17, 1986, under questioning from Commission counsel, Miss Walker gave the following evidence:

- Q. Did you tell — this is a general question and I would like you to listen to it carefully: Did you tell the ADRG at any time after the date of that letter [December 14, 1984] that you were performing some activities for York Centre Corporation?
- A. I was not performing activities for York Centre Corporation.
- Q. You weren't performing any activities for York Centre Corporation or any of its subsidiary companies or for Gill Construction?
- A. No. I had no office in those companies on which to base such activity.

(Transcript, vol. 5, pp. 646-47)

On Wednesday, July 23, 1986, Miss Walker, under questioning from Commission counsel, made the following admission:

Q. Miss Walker, I just want to remind you of the position that you adopted last week with respect to your activities at York Centre. You will recall you told us last week that you were not performing any activities for York Centre Corporation in 1984 and 1985, correct?

A. Correct.

Q. And that is not true, correct?

A. Correct.

(Transcript, vol. 8, p. 840)

On July 17, 1986, Miss Walker, under questioning from Commission counsel, gave the following evidence:

Q. You told me earlier this morning that once you got into your new premises, you never went back to the York Centre offices at Commerce Court West. Is that correct?

A. I never went in there to do any business, that is correct.

Q. Well, did you go into the York Centre Corporation for any purpose at all?

A. To meet someone for lunch? Is that what you mean?

Q. Well, you tell me. Did you ever sit in the office and make phone calls or conduct business of any kind?

A. Not to my recollection.

(Transcript, vol. 5, p. 708)

On July 23, 1986, Miss Walker made the following admission:

Q. You told us last week that after you moved over in February to First Canadian Place, apart from a lunch with Miss Foulkes, you never went back to York Centre Corporation for business purposes, and I think we can agree that was not true in spite of your oath at the time; is that right?

A. Yes, I think we will agree to that.

(Transcript, vol. 8, p. 954)

Miss Walker ultimately conceded that between November 1985 and June 1986 she had entered the York Centre offices outside of business hours some 35 times, which is on average once a week.

Miss Walker was one of the first witnesses at the Inquiry and she began her testimony before many documents became available to the Commission. On July 17, 1986, Miss Walker stated in evidence that the only documents relating to York Centre transactions involving her were the documents that the Commission had received from Hanil and CIBC. Subsequently, on July 23, 1986, Miss Walker admitted that this limited involvement was not true.

When Miss Walker was confronted with the untruthful answers she had given in regard to her activities at York Centre, her transaction of business from York Centre's offices, and the existence of other documents relating to her York Centre role, she attempted to explain her answers as arising from a misunderstanding of what "activities" meant. She suggested she was performing tasks of an administrative

nature to be helpful to the company and because she cared about it. She then gave the following evidence:

- A. I can only say to you, sir, that Wednesday and Thursday of last week was a whole different situation in my mind than when I came in here on Monday.
- Q. I was going to ask you if there was any reason why you had misled the Commission last week that you would like to tell us about.
- A. It was not my intention to mislead.
- Q. You knew you were obligated to swear to tell the truth and you actually had the oath administered to you and swore to tell the truth?
- A. I did.
- Q. And you insist that you were telling the truth?
- A. I was telling the truth to the best of my understanding of what was required in an inquiry. I did not know what was to be volunteered, what was to be produced. All of these things I have since learned.
- Q. So, what you did is you misled the Commission and did not produce things; is that not right?
- A. Not intentionally.
- Q. This morning I asked you these questions. You said you agreed that they were not true, the answers given.
- A. It became obvious that —
- Q. So, there is no explanation, except you misunderstood the nature of this Inquiry; is that correct?
- A. Or any inquiry or any court proceedings.
- Q. Did you understand the meaning of an oath?
- A. I did.

(Transcript, vol. 8, pp. 1001–3)

In assessing Miss Walker's explanation that she did not understand her obligation to tell the truth, it is useful to examine her demeanour as a witness once this obligation was made apparent to her. After she made the admissions just referred to, Miss Walker's answers to questions posed to her continued to be vague, hesitant, and evasive. Further, Miss Walker asserted a failure of memory in regard to events in which, the Commission subsequently learned, she had been directly involved. In particular, her answers regarding the minister's involvement in the affairs of York Centre fell within this category. For example, on Wednesday, July 30, 1986, Miss Walker was asked about an entry in her diary relating to a luncheon meeting at the Albany Club on October 11, 1985. There is a reference on that page to meeting Mr. Stevens. Miss Walker gave the following evidence:

- Q. Did Mr. Truax meet with Mr. Stevens?
- A. If it is the luncheon meeting that I am trying to recall, he did not meet with Mr. Stevens.
- Q. Did he meet with Mr. Stevens outside a luncheon meeting? In other words, forget the luncheon meeting. Did he have any other meeting with Mr. Stevens?

A. In this time period?

Q. Yes.

A. Not that I recall.

(Transcript, vol. 12, pp. 1613-14)

When Miss Walker gave this evidence, the Commission had yet to hear the evidence of Messrs. Donald Busby, Ron Netolitzky, and Robert Callander with regard to Mr. Stevens' involvement in the La Ronge goldplay. Therefore, it was only later, after Mr. Busby testified, that the Commission learned that Mr. Stevens had had an afternoon meeting at his CDIC offices on October 11, 1985, with Messrs. Truax, Rowe, and Busby where the possibility of York Centre's investing in Mr. Busby's La Ronge goldplay was discussed. Mr. Busby testified that Miss Walker came in and out of this meeting a couple of times and later accompanied the party to dinner at the CN Tower. Over dinner the La Ronge goldplay was discussed in general terms, and Mr. Busby explained the profitability of a high-grade gold mine.

After the meetings of October 11, 1985, Miss Walker periodically recorded the stock prices in her diaries for Golden Rule and other mining companies associated with Mr. Busby. She was asked by counsel on a number of occasions to explain these entries and why she was making them. Her answers were not helpful. For example, she gave the following evidence:

Q. So you cannot answer the question about why you recorded those details there?

A. No, sir, I cannot.

(Transcript, vol. 12, p. 1663)

Miss Walker's evidence in relation to the La Ronge goldplay must be assessed in light of evidence heard some months later that she not only came in and out of the meeting on October 11 a number of times and had dinner with the parties but that she had arranged the meeting as well. Further, her diary entries include details of the business venture while it was under consideration. For example, on September 27, 1985, at SW-7-31, Miss Walker's diary contains a note stating "Truax Oct 11th," followed by a reference to America 2000; there then is a line, and below that line are references to Canadian Premier Resources and Cumberland, companies involved in Mr. Busby's La Ronge goldplay. Although Mr. Stevens confirmed that Miss Walker arranged his schedule so he could meet Mr. Truax and Mr. Busby, he testified that he could not recall discussing with her the mining companies referred to on this page.

On October 11, 1985, during a break in his meeting with Messrs. Truax, Rowe, and Busby, Mr. Stevens spoke to Mr. Callander of Burns Fry with regard to some of the companies involved in the La Ronge goldplay. These companies included Mahogany, Golden Rule, and Canadian Premier Resources. Shirley Walker's diary for October 11,

1985, at SW-7-102, contains references to mining companies including Mahogany, Golden Rule and Canadian Premier Resources as well as a reference to Burns Fry. On October 17, 1985, Mr. Callander wrote to Mr. Stevens and enclosed material on the La Ronge gold district. The letter and material were sent to Mr. Stevens care of Miss Walker at CDIC.

There are numerous other references in Miss Walker's diaries to the La Ronge goldplay that indicate she had knowledge of these events. For instance, on November 27, 1985, Mr. Netolitzky visited Mr. and Mrs. Stevens at their farm near King City and later that day and the next met with Mrs. Stevens and others to discuss gold mines. On November 26, 1985, Miss Walker's diary notes:

RON NETOLITZKY
RYH 230 pm Buchan
gold play

(SW-3-68)

As events developed, Sentry sought, through a partnership with Giant Yellowknife, to buy, with the assistance of Mr. Netolitzky, a gold prospect held by the Saskatchewan Mining Development Corporation. On January 10, 1986, Miss Walker's diary contains the following entry:

SOX Ron Nettelitsky
 Giant Yellowknife
 Partic w/ Sentry
 Sask Govt Bd

(SW-8-12)

The subsequent evidence and the diary entries indicate that Miss Walker arranged the October 11 meeting, knew the companies involved in the La Ronge goldplay, knew that Mr. Stevens had a business meeting regarding the La Ronge goldplay, had attended a social event where the La Ronge goldplay was discussed, knew that Burns Fry had sent Mr. Stevens information regarding the La Ronge goldplay, knew about Mr. Netolitzky's involvement in the La Ronge goldplay, and knew that York Centre's interest in the La Ronge goldplay eventually developed through Sentry in a partnership with Giant Yellowknife. In light of this evidence, I find that Miss Walker misled the Commission in regard to events that have become known as the La Ronge goldplay. Further, I find that Miss Walker and Mr. Stevens discussed the La Ronge goldplay on October 11 and thereafter, and that Miss Walker was aware of Mr. Stevens' involvement in this York Centre activity.

Miss Walker's less than forthright stance was also demonstrated by her response to numerous requests that she translate shorthand in her diaries. On many occasions Miss Walker testified that she could not make sense of her own shorthand. On some occasions she was extremely hesitant and strenuously resisted counsel's efforts to have her give a word-by-word translation. On other occasions, when dealing with non-

contentious matters, Miss Walker readily translated her shorthand notes.

Another example of Miss Walker's evasive demeanour as a witness is the evidence she gave in regard to her knowledge of York Centre's efforts to obtain financing. Miss Walker made a general admission that her diaries contain entries relating to York Centre's financing efforts. She was evasive, however, as to the particular firms involved and the particular events relating to the financing efforts, and whether these firms were also dealing with the minister on government business. For example, on Monday, July 28, 1986, Miss Walker gave the following evidence:

Q. These people [Gordon, Dominion Securities, Burns Fry] my information is — and we will have evidence on it — were approached, the companies that I have referred to, in January or February of 1985 and again in July of 1985.

A. On the York Centre side?

Q. Yes.

A. Well, I would have to be refreshed on that.

Q. You do not remember that?

A. I do not remember that.

(Transcript, vol. 10, pp. 1246-47)

Miss Walker's memory failed to improve on the occasions when she was shown entries in her diaries relating to financing efforts. For example, as noted in Chapter 6, Mr. Davies approached Mr. Trevor Eyton of Brascan in October 1984 to assist in the financing effort. Mr. Eyton then spoke to Mr. Pat Keenan. Miss Walker's diary of November 7, 1984, contains the following entry:

Davies:

says early
no word from Brascan
Eyton to Keenan

(BB-6-6)

Miss Walker testified that she could not recall in what circumstances this entry was made. On November 18, 1984, her diary reads:

Pri placemt
Eyton raised it
Waiting to hear from Keenan
as to which way could be
handled

(BB-6-82)

Although Miss Walker conceded that this entry related to York Centre financing, she testified that she could not explain what was being discussed.

Entries in Miss Walker's diary during the winter of 1984-85 indicate a familiarity with the persons and times of meetings for the financing

efforts. Certain entries also indicate a knowledge of the types of proposals being considered. For example, an entry dated February 20, 1985, reads in part as follows:

Peter Cole
Joe Downy
G. Mgr INV

Eberts — 2 wks w/
guarantee principal
but not
not guarantee
cash div
or int pyt.

CIBC [shorthand] put up equity
[shorthand]

Ted you are guaranteed
by Cougar

If CIBC
Then CB come in \$1.4 MILL

Who better to lead it

(BB-10-10)

Mr. Cole of CIBC identified Mr. Downy as someone with whom he had discussed a York Centre financing proposal involving strip bonds. Mr. Cole had referred Mr. Rowe to Mr. Eberts of Gordon Capital for assistance in financing. It is apparent that the page refers to a type of financing scenario then being considered for York Centre.

Miss Walker in her testimony claimed to be unaware of the approaches made to Gordon Capital, Burns Fry, Dominion Securities, and Trevor Eyton in the summer of 1985. On July 5, 1985, Mrs. Stevens and Mr. Rowe met with Ms. Jo Bennett of Gordon Capital, Mr. Eyton, and Mr. Ken Clarke of Great Lakes to discuss possible equity financing for York Centre. On that day in her diary, Miss Walker, under the heading of "TED," listed Trevor Eyton and Jo Bennett as part of a meeting schedule (SW-1-63). On July 11, 1985, the following entry appears in her diary:

Jo Bennet / Eyton

— DSP	EA
— BBD	500,000
— O & Y	
— BRASCAN	
	2 MILL
+ GORDON SAY	.5
	2.5 MILL

(SW-2-4)

Miss Walker testified that she was unable to explain the entry, although she did say that the entry did not relate to ministerial business and that it looked like a telephone message.

On August 7, 1985, Mr. Eyton met with Messrs. Tony Fell of Dominion Securities, Jack Lawrence of Burns Fry, Neil Baker of Gordon Capital, and Ken Clarke of Great Lakes and decided that nothing could be done for York Centre. Mr. Eyton reported this to Mr. Rowe and, according to his diary, Mrs. Stevens on August 8, 1985, and indicated that Hees would be willing to assist in liquidating the company. Miss Walker's diary for that day includes the following consecutive entries:

EYTON very little consequence
 offer disguise Bank call
 they bring in Hees to liquid
③ ————— no reason to continue existence
 ① We wd like to go away
 ② \$1 MILL GIFT — won't solve problems
 ③ Hees

(SW-4-137)

NMS/EGR [Noreen Stevens/Ted Rowe]
Aug 8/85

MYW yields resids same G
 coupons 11.95

Gordon

Tony Fell — DSP
Jack Lawrence — BI
Gordon Sec (not Connacher)
Ken Clark Gt Lake Shipp
Eyton, T.

\$ 1 MILL won't stop

Hees liquidate the Co.
 — real est
 — oil & gas
 — farm

(SW-4-138)

Miss Walker was unwilling to relate the information contained in these two diary entries to the meetings and the efforts to obtain financing for York Centre. I find her evidence in this regard to be deliberately evasive. I find that she clearly had knowledge of who attended the August 7 meeting and was subsequently made aware of the results of the August 8 meeting.

Miss Walker's evidence in regard to the loan of \$2.62 million to Cardiff was also less than forthright. On Thursday, July 17, 1986, Miss Walker gave the following evidence as to her knowledge:

Q. Were you aware that Mrs. Stevens had raised, in May of 1985, the sum of \$2.6 million as a result of a loan from a Mr. Czapka, a former officer of Magna International?

A. I was not.

(Transcript, vol. 5, pp. 711-12)

On Wednesday, July 23, 1986, Miss Walker clarified her answer as follows:

Q. And you swore that you were not aware that Mrs. Stevens had raised \$2.6 million for the company in May of 1985 through the Czapka loan. That is not entirely correct either, is it?

A. Yes, sir, that is correct.

Q. Did you not know that she had raised \$2.6 million?

A. I knew nothing about the Czapka loan, sir.

Q. Did you know that she had raised \$2.6 million in May of 1985?

A. I knew she had raised money, yes.

Q. \$2.6 million?

A. Yes.

Q. So what you are saying is you did not know who the lender was?

A. That is correct.

(Transcript, vol. 8, p. 841)

Miss Walker then gave the following evidence as to how she learned of the \$2.6 million:

Q. Did [Noreen Stevens] give you information, for example, about the loan in May of 1985 that we have spoken of?

A. I knew she had raised money, but that is all I did know.

Q. Did she give you that information.

A. I am not sure whether she gave it to me or Mr. Rowe did.

(Transcript, vol. 8, p. 851)

By her own admission, therefore, Miss Walker discussed this loan in the spring of 1985. She knew at that time that Mrs. Stevens had raised this loan, which provided relief to the financial difficulties faced by the York Centre group of companies.

On April 3, 1985, the day before Mrs. Stevens met Mr. Stronach and was introduced to Mr. Czapka, the following entry appears in Miss Walker's diary:

- ↔ Stronach
today—
- ① 2 things
- [buy 200,000 Cl B
+ issue
- buy Cardiff Investments
- ② net worth
2½ million

(BB-12-25-26)

No witnesses were able to explain this entry. Miss Walker testified that she could not remember the entry or understand it. Subsequently, Mrs. Stevens and Mr. Czapka entered into negotiations and signed a letter of agreement on Monday, April 29, 1985, which included a \$2.62 million mortgage and a land development agreement. Miss Walker's diary for Friday, April 26, 1985, reads:

2.6 mortgage
 defer int
 land develop
 agmt
 X Edm
 X K. Twp

(BB-13-66)

The "X" Edmonton and King Township refers to two properties that Mr. Czapka determined he was not interested in.

On May 16, 1985, the day the moneys were advanced from Mr. Czapka, Miss Walker's diary contains the following entry:

May 16/85

CIBC	1,405,525.36
Bassel Sullivan	200,091.08
Gty.	
Stikeman	1,014,383.56
Hanil	
	<u>2,620,000.00</u>

(BB-14-80)

The entries refer to how the proceeds of the loan of \$2.62 million were distributed. The three recipients were the Canadian Imperial Bank of Commerce, Guaranty Trust, and the Hanil Bank. When shown this entry, Miss Walker gave the following evidence:

A. It appears to be an amount of a bank loan, a pay-down and a balance.

....

Q. Tell us what this is, then, in your own words.

A. It appears that there is a bank loan of \$1.4, pay-down by guarantee of \$200,000, pay-down —

Q. Why do you say pay-down?

A. Looking at it again, it looks like we are adding up here, when I look at the total.

Q. Miss Walker, let us see if we cannot expedite this. Do you have any doubt whatsoever about what is on that page, May 16, 1985? That was a big day and a big event in the life of York Centre; was it not?

A. It certainly is all banking information.

Q. Is that all you can say about it?

A. I am trying to make sense out of it.

(Transcript, vol. 11, pp. 1413-14)

Miss Walker eventually conceded that this entry did, in fact, relate to the mortgage loan of \$2.62 million which Cardiff received on that day. However, she testified that she could not recall who gave her this information and she insisted that she was unaware of who the lender was.

In reviewing the evidence relating to Miss Walker's knowledge of the financing efforts on behalf of York Centre, I find that Miss Walker was kept informed of who was being approached for financing and of the types of proposals being considered. I also find that, at or near the time negotiations were successfully completed, she was aware of the loan to Cardiff and its terms. She was aware when the funds were advanced and how they were dispersed. The questions that then arise are: Did Miss Walker inform Mr. Stevens of these matters? Did she pass information to and from Mr. Stevens regarding the private affairs of York Centre?

Miss Walker made a general denial that she discussed York Centre affairs with Mr. Stevens when she gave the following evidence:

Q. Now, Miss Walker, it has been suggested in a number of the allegations that are before the Commissioner that Mr. Stevens' trust was not blind and that he was receiving information about what was going on with York Centre Corporation. I ask you: Were you the messenger that was delivering information to Mr. Stevens?

A. My answer is no, sir, I was not.

(Transcript, vol. 8, p. 850)

This denial must be assessed in light of several considerations: first, my finding that Miss Walker was not a credible witness; secondly, evidence such as Miss Walker's access to Mr. Stevens, the absence of any understanding between them prohibiting discussion of York Centre affairs, and the fact of Miss Walker's knowledge of Mr. Stevens' involvement in the La Ronge goldplay; and, thirdly, certain lists and other entries in Miss Walker's diaries which indicate communication between them regarding York Centre affairs.

Miss Walker had access to Mr. Stevens, which gave them the opportunity to discuss York Centre affairs. When he was in Ottawa, Miss Walker spoke to him on the telephone approximately once a week. She also visited Ottawa approximately once a month. When Mr. Stevens was at CDIC in Toronto, Miss Walker organized his schedule and passed on his messages to him. Even Mr. Stevens conceded that he met with Shirley Walker 20 to 30 times while he was a minister. It is readily apparent that Mr. Stevens and Miss Walker had frequent opportunities to communicate in private.

Further, there was no understanding between Miss Walker and Mr. Stevens that they should not discuss York Centre affairs. Miss Walker gave the following evidence:

Q. Was it you or was it Mr. Stevens who decided that no such information should be passed to him?

A. It was never discussed.

Q. All right. So you operated on your own instinct, is that it?

A. I did.

Q. And did the Minister ever indicate to you that you should not pass information on to him?

A. He did not.

(Transcript, vol. 10, p. 1249)

The absence of such an understanding is also evident in a conversation referred to earlier that Miss Walker had with Mr. Denton of the Hanil Bank in regard to the release by the bank of the bonds to facilitate the February bond sale. Miss Walker gave the following evidence:

Q. In what circumstances would you be suggesting that Mr. Stevens call the president of the bank in Seoul about York Centre-Hanil banking operations?

A. I think that is just a little roust that Mr. Denton and I had.

Q. A little what?

A. A lively discussion. Because they were taking so long to get this release through, I went through the list of people he could talk to in Canada to get the approvals, and I think he just simply said to me, well, the only thing I can think of is to have Mr. Stevens call Seoul.

Q. You suggested that, though, did you not? The text is: Maybe Mr. S. could call your president in Seoul. That is your suggestion, is it not?

A. No, this is Mr. Denton telling me. When I went to the top of the line in Hanil, to Mr. Lee, presumably, I would threaten him with that.

Q. Threaten who with that?

A. Mr. Lee; if he did not get me the releases, I would try and get someone else to get the releases activated. Anyway, we got them, and it all went away.

(Transcript, vol. 10, pp. 1340-42)

It is interesting that Miss Walker's reaction to this suggestion, assuming it came from Mr. Denton, was not to respond immediately by saying that such a suggestion was inappropriate under the guidelines and the blind trust. If Miss Walker made the suggestion, this reveals her insensitivity to the minister's obligations.

Certain lists and other entries in Miss Walker's diaries suggest that she discussed or intended to discuss York Centre matters with Mr. Stevens. As noted in Chapter 6, in October 1984 Mr. Stevens suggested to Mr. Jim Davies that Trevor Eyton be approached to assist York Centre in its search for financing. Miss Walker subsequently made notes regarding Mr. Eyton's activities. In early December 1984 the management of York Centre met with Mr. Tim Casgrain and Mr. Manfred Walt of Hees. In her diary, Miss Walker noted the change of date for this meeting to December 10, 1984 (BB-7-58). The following is the complete text of a page in Miss Walker's diary in December 1984:

Wed Dec 26

③ Letter to SMS [Sinclair M. Stevens]

Trevor Eyton
called Wed to
explain attitude
on 3 things
we are in

real bottom line

Complimentary about mgmt
Sales presentation
Too linked to them

has
Richardson nobody

You take 1 million
or so.

Not what they are looking
for — too open end
paid off in shares

T.E. 1 MILL +
CIBC 1 ✓ +

(BB-8-5)

After their meeting with York Centre management, Mr. Casgrain and Mr. Walt sent a memorandum to Trevor Eyton assessing the York Centre proposal for financing. This note in Shirley Walker's diary summarizes the essential ideas in that memorandum. Mr. Eyton testified that he would have conveyed this information to Mr. Rowe. Miss Walker testified that she presumed this information was given to her by Mr. Rowe. Mr. Eyton testified that he had no intention of writing a letter to Mr. Stevens, and no evidence exists that such a letter was written. The absence of a letter was apparently a matter of concern to Miss Walker, for she noted a few days later: "NO EYTON LETTER — WALT. HEES ATTITUDE."

The entry "NO EYTON LETTER" comes from a list, made on or about December 29, 1984, which contains some 22 items. This list is only one of a number of lists which are headed "SMS" or "Minister," or in some other way indicate that the information on the list is for Mr. Stevens. The reference to Mr. Eyton is from an item which reads in full as follows:

- ⑬ TED — SIS. 1.2 MILL — MAR CLOSING
WORK IN PROCESS
JAN. 2 — INTERESTED BUYERS
NO EYTON LETTER — WALT. HEES ATTITUDE
RESPONSE TO ESSO — SECOND CHGE — NO
OPTIONS
4 - SQUARE — VERBAL AGMT TO
EXTENSION
Cummins sale Jan 15

(BB-8-23)

The affairs of York Centre are the subject matter of this item on the list. The first three lines refer to the possibility of making a sale of the Sisman's building or of Sisman's work-in-process inventory. Sisman's was in receivership at this time. The fourth line has already been discussed. The fifth line refers to Canaland's investment in the Beaufort Sea in partnership with Esso. The last two lines of this item refer to real estate sales and their prospective closing dates. At the time Miss Walker made this list, which primarily concerns government business, she would still have been located in her York Centre office.

Miss Walker gave the following evidence in regard to item 13:

- Q. Yes, but you have got a list here which, you have agreed, is a list of information to give to the Minister. The source of that information under 13 is quite obviously Ted. He is telling you this, and you are conveying it to the Minister, or am I being unfair in suggesting that to you, Miss Walker, as with all the other items on this list?
- A. My hesitation is — I made the list. It appears that I conveyed all the information to the Minister. Whether I did or whether I did not, I do not know.
- Q. Your intent was to convey this information to him?
- A. In making such a list, yes.

(Transcript, vol. 10, p. 1280)

Miss Walker was asked about the last item on the list and gave the following evidence:

- Q. Item 22 says "Calving one of each."
- A. Right.
- Q. I suggest to you that was a piece of information, as with all of the other pieces of information on this list, that you were conveying to Mr. Stevens; is that correct?
- A. Yes, I believe so.

(Transcript, vol. 10, p. 1288)

It is clear from this evidence that Shirley Walker intended to convey the information in item 13 to Mr. Stevens. When Mr. Stevens was asked about this list he recollected that he was in Florida around this time and had received a phone call from Miss Walker. He agreed that almost all the items on the list would have been communicated to him except for item 13. In examination-in-chief, he stated that after Miss Walker had given him relevant information she would ask to speak to Mrs. Stevens and items such as item 13 would be communicated to his wife. In cross-examination, Mr. Stevens gave the following evidence:

All I can tell you is that it was not uncommon for Miss Walker to phone. Sometimes she would get Noreen first and she would mention certain things to Noreen, some things that had been passed on to her because somebody like Alice, say, knew that Miss Walker was intending to phone me, and Alice would say "when you are speaking to Sinclair, if Noreen is there, would you mention such and such."

Sometimes she would speak to me first of all, and I can remember she would say "is Noreen there; I have got a couple of messages for her."

(Transcript, vol. 74, pp. 12,805-6)

This answer is interesting in that it confirms that Miss Walker was in regular communication with the Stevenses even when they were out of the country. It is also interesting in how it shows the close communication between Alice Patry, Mrs. Stevens' secretary, and Miss Walker, Mr. Stevens' assistant. As to the possibility that item 13 on the list would have been communicated to Mrs. Stevens, I am struck by the fact that Miss Walker, although confronted with a number of similar lists over almost two weeks of testimony, never raised this possibility to explain the presence of York Centre items on lists intended for Mr. Stevens. Mrs. Stevens, in her testimony, also failed to raise this possibility.

A little less than two weeks later, on January 9 and 10, 1985, Miss Walker made another list of 14 items and at the top of the list is written:

Jan 9/85
SMS.

(BB-8-73)

Miss Walker agreed that most of the information on this list would have been conveyed in a telephone call to Mr. Stevens who, at that time, was somewhere in the Caribbean. On January 8, 1985, Miss Walker had sent Mr. Stevens a telex in the Grand Turk. Item 8 on the list says:

Ted — Walt	showed deal to Rick
Eyton Fla.	

followed by the stock prices for York Centre, Canalands, and Sentry. Both Miss Walker and Mr. Stevens testified that such information would not have been conveyed to Mr. Stevens because it was not of interest to him. As further lists were shown to Miss Walker which combined government and York Centre business, the idea that York Centre matters were not of interest to Mr. Stevens and so would not have been communicated to him became a common refrain, both of Miss Walker and, later, of Mr. Stevens.

On April 11, 1985, by which time Miss Walker had moved her office to First Canadian Place, her diary contains the following entry, which is the only entry on the page:

SMS

① Rowe — Jo Bennett
mtg Wed 11 am
Ted back Sat evg
to Ott Mon.

- ② David Ganong — re APEC
at Prov. Econ Council
called Aline re yours Mon.
St. Stephen (506) 466-1220 B
N.B. 466-1329 R
St. St.

- ③ HEULE OF INTERPROVL. PIPE SAID
TO SHAREHOLDERS' MEETING THEY
HAVE "TAKEN A LOT OF GOOD LOOKS"
AT EXTENDING NORMAN WELLS LINE TO
BEAUFORT SEA. AND EXISTING LINE IN
STRATEGIC LOC. FOR BRING'G OIL SO

(BB-12-98)

The first item on this list refers to meetings that Mr. Rowe was having with Ms. Bennett of Gordon Capital regarding financing for York Centre. The second item relates to government business; Mr. Stevens testified that he recalled speaking to David Ganong, who could easily have given him his two phone numbers. Miss Walker testified that the third item was probably taken out of the newspapers. This item would have been of interest to York Centre because of its investment in the Beaufort.

Miss Walker testified that items 1 and 3 on the list would not have been of interest to Mr. Stevens because they relate to York Centre affairs. It must be borne in mind that Miss Walker gave her evidence prior to the evidence canvassed earlier in this report relating to Mr. Stevens' involvement in and knowledge of the affairs of York Centre in this time period. This entry was made, for example, after the meeting Mr. Stevens had with Mr. Angus Dunn in Singapore, where they discussed the possibility of Morgan Grenfell assisting in raising equity for either Canalands or Sentry, and after Mr. Stevens had met on March 16, 1985, with Mel Leiderman, York Centre's accountant, and discussed possible reorganizations involving Sentry. In light of this evidence and other evidence disclosing Mr. Stevens' interest in York Centre, I reject the explanation that York Centre matters, on a list such as this, would not have been of interest to Mr. Stevens. I find that the list headed "SMS," consisting of three items, was intended to be communicated to Mr. Stevens in its totality, including the two items relating to York Centre.

At SW-9-179 there is an entry dated April 2, 1986, and it is headed "SMS TO NMS." It reads as follows and is the only entry on the page:

SMS TO NMS

If we do bond deal
Have G.T. subscribe
treas shs of GILL
GT controls GILL

reorg
used G. U.K.
\$700,000
convert to shs
of YCC
exchanging debt

If the short forms are eliminated, the entry reads:

Sinclair Stevens to Noreen Stevens

If we do bond deal; have Georgian Trust subscribe treasury shares of Gill; Georgian Trust controls Gill; reorganize; used Georgian U.K.; \$700,000; convert to shares of York Centre Corporation; exchanging debt.

The entry concerns a proposed reorganization of the York Centre group of companies which was being discussed at this time. On the date of the entry, Mr. Stevens was in Vancouver and Mrs. Stevens was not with him. Mrs. Stevens was unable to recall whether Miss Walker gave her the information contained in the entry. Both Miss Walker and Mr. Stevens denied that the message was information that Mr. Stevens wanted passed on to his spouse. Both Miss Walker and Mr. Stevens suggested that the line underneath "SMS TO NMS" meant that the words below the line were unconnected to "SMS TO NMS." I find this explanation unbelievable in light of the April 13, 1986, meeting arranged by Miss Walker and attended by Mr. and Mrs. Stevens and Mr. Leiderman at which reorganization and debt-to-equity scenarios similar to this outline were discussed. I find that this entry is a message received by Miss Walker from Mr. Stevens with the intention that she pass the message on to Mrs. Stevens.

Conclusions

Shirley Walker, as a long-term loyal assistant to Sinclair Stevens, was privy to the most confidential information relating to his personal affairs, which she continued to administer while she was his special assistant. Notwithstanding her obligation as a special assistant to withdraw from her role with the York Centre group of companies, she did not do so. As a result, Miss Walker had intimate knowledge of and involvement with all important aspects of these companies' affairs while she was a special assistant.

During Mr. Stevens' tenure as minister, Shirley Walker had regular and private access to him both by telephone and in person. This contact occurred as frequently as four times a month and, by its very nature, required Miss Walker to compile and assemble information to communicate to the minister in order to obtain his direction or to keep him fully informed of events that were occurring.

Shirley Walker's diaries are a contemporaneous and essentially accurate account of the main events in the affairs of the York Centre

group of companies and in the political life of Sinclair Stevens. These diaries mingle, on a daily basis, government and private business. The diaries indicate that Miss Walker was, on any given day, dealing with both government and private business.

I find that Miss Walker collected information to pass on to Mr. Stevens. Some of this information was contained in lists. This information related to both governmental matters and the private business affairs of Sinclair Stevens, including important information pertaining to the York Centre group of companies. Miss Walker conceded that the lists were prepared with the express intention of conveying the information contained therein to Mr. Stevens. Despite this admission, both Mr. Stevens and Miss Walker reiterated again and again that items on the lists pertaining to the business affairs of the York Centre group of companies were not of interest to Mr. Stevens and therefore would not have been communicated to him, despite their appearance on the lists. On some occasions, Mr. Stevens and Miss Walker simply asserted that they could not recall whether such items had been the subject of discussion between them.

I reject these explanations. The evidence that described Miss Walker's administrative capabilities showed her to be scrupulous as to the many details she was obliged to attend to, as indeed her diaries confirm. The manner in which she conducted her business affairs gives rise to the inference that, if such information were intended to be conveyed, it would be conveyed. Both Mr. Stevens' and Miss Walker's assertion of a lack of interest in the business affairs of the York Centre group of companies on the part of Mr. Stevens is belied by the evidence heard by the Commission in relation to Mr. Stevens' extensive knowledge of, and involvement in, the ongoing affairs of the companies. No tenable reason has been advanced to support the claim that Mr. Stevens and Miss Walker did not discuss their areas of mutual interest and activity in the affairs of the York Centre group of companies.

I find that Shirley Walker routinely conveyed to and received from Mr. Stevens information regarding the affairs of the York Centre group of companies.

Chapter 18

The Role of Noreen Stevens

At the heart of many of the allegations is the role that Noreen Stevens allegedly played in managing the assets of the blind trust, in negotiating the Czapka loan, in assisting the search for financing for the York Centre group of companies, and in the mingling of the public and private interests of Sinclair Stevens. It is alleged that Mrs. Stevens dealt with and approached — either on her own or by the direction in part of her husband — the same firms and individuals that her husband dealt with as minister. These allegations raise issues of both conflict of interest and whether the blind trust was truly blind. These allegations, if proven, indicate activities on the part of Noreen Stevens that required the minister to take the necessary steps to prevent real or apparent conflicts.

In general, Mrs. Stevens denied a managerial role in the York Centre companies. She insisted that she acted solely as solicitor for the companies, except for certain limited activities undertaken as a director. Further, she testified that as a solicitor she had a duty of confidentiality to her clients which prevented her discussing their affairs with her husband. It is very important to ascertain whether Mrs. Stevens can be regarded as acting solely as a solicitor. If her activities were those of a solicitor, a number of points would follow. Mrs. Stevens would be correct in stating that she had a duty to keep confidential any matters pertaining to her clients' affairs. This is an historic obligation of solicitors. As well, the minister could not be expected to inquire into matters which Mrs. Stevens was duty bound not to disclose. Thus it is imperative that I determine the nature of her true role and, in addition, whether she perceived herself as acting solely as a solicitor at the time.

It is obvious that Mrs. Stevens acted as solicitor for the York Centre group of companies. She had done so for some 25 years, incorporating many of the companies and handling their day-to-day legal matters. Her professional association with her husband began in the early 1960s when she joined Stevens, Hassard & Elliott, a law firm established by her husband and two law school classmates. In 1967 the firm was dissolved and in 1969 she established Stevens & Stevens in partnership with her husband, although he was never involved to any great extent in the practice of law. Mrs. Stevens is essentially a sole practitioner, the

York Centre group of companies, including Gill, being a major client. However, the issue of whether her activities went beyond those of a solicitor remains.

Whether Mrs. Stevens' actual role in the York Centre group of companies was that of a manager is particularly relevant, given the nature of the allegations, to the issue of whether the minister was in a position of real conflict. It is helpful at this point to reiterate that a real conflict requires knowledge on the part of the minister of a private interest sufficient to influence the exercise of his or her public duties and responsibilities. Therefore, to determine whether Sinclair Stevens was in a position of real conflict of interest, I shall need to make a finding regarding his actual knowledge of the affairs of the York Centre companies. Many of the allegations allege that Mr. Stevens' knowledge arose from communication between Mr. and Mrs. Stevens regarding the affairs of York Centre. If such communication occurred, it will be an important factor in assessing the nature and scope of the minister's knowledge of his private interests. Obviously, the extent and character of Mrs. Stevens' role will determine what information was available to her for communication to Mr. Stevens.

Mrs. Stevens' actual role is also relevant to the question of appearance of conflict. It is helpful to reiterate that an apparent conflict does not require actual knowledge on the part of the minister of his or her private interest. Instead, an apparent conflict occurs where there is a reasonable apprehension, which reasonably well-informed persons could properly have, that a conflict exists. In other words, the test, when considering the issue of knowledge, is whether reasonably well-informed persons would properly conclude that the minister had knowledge. In this regard, Mrs. Stevens' actual role, including the scope of her knowledge, would be one of a number of facts that any reasonably well-informed person would consider in determining whether there was a reasonable apprehension that Mrs. Stevens communicated to her spouse information relating to matters of mutual economic concern.

In approaching the very important question of actual knowledge and actual communication regarding the York Centre group of companies, I intend to consider only evidence, direct or circumstantial, of communication, of the circumstances of such communication, and of the reasons offered, if any, by Mr. and Mrs. Stevens as to why communication did not occur on other occasions. Although reference will be made in this chapter to certain evidence relating to Noreen Stevens, my findings regarding her are based on the full detail of the evidence of her activities as set out here and elsewhere in this report.

Nature of Role

Officer and Director

Noreen Stevens' formal association with the York Centre companies went beyond that of solicitor. While her husband was minister,

Mrs. Stevens continued to be an officer or director of many of the York Centre group of companies, including companies in all areas of investment activity. She held the following offices and directorships in the years prior to June 30, 1985, and June 30, 1986:

Real estate

Cardiff vice-president and director
Clady Farm vice-president, secretary, and director
York Centre Properties Woodbine Ltd. assistant secretary

Oil and gas

Sentry secretary and director
North American vice-president (1985 only) and director
Cumberland secretary (1985 only) and director

Bonds

Georgian Equity president and director
Georgian Trust director
YCPL vice-president and director
Royal Cougar secretary-treasurer and director

Although these titles might be helpful in describing Mrs. Stevens' relationship with the York Centre companies, I do not consider that this formal association determined her true role. Although it is not unusual for a solicitor to be nominally involved in the management of companies as a director, it is less common for a solicitor to be an officer of a company on an ongoing basis when not acting as "in-house" counsel. Mrs. Stevens never suggested she was "in-house" counsel, but rather an independent sole practitioner. Mrs. Stevens' actual role can only be assessed by examining her involvement in York Centre affairs. The evidence called at this Inquiry, and canvassed in part below, established that Mrs. Stevens' positions, as an officer and director, and her activities associated with those positions, went well beyond those of a solicitor.

Real Estate Mr. Rowe, president of York Centre, testified that between October 1984 and May 1986 Mrs. Stevens became actively involved in the management aspects of the York Centre group of companies, especially in relation to real estate transactions. The principal transactions were the Czapka loan, the creation and sale of the Equion limited partnership units, and the sale of various real estate properties. Mrs. Stevens' role was central in all these transactions.

Of these transactions, the largest and most important was the Czapka loan. Noreen Stevens was the only person to deal with Mr. Czapka in negotiating the \$2.62 million loan to Cardiff. When asked whether anybody at York Centre wanted to know who the lender of the \$2.62 million loan was, Mrs. Stevens replied:

No, not really. They seemed content to leave it in my decision. There were not that many, and you forget that Mr. Rowe had Canalands

and Mr. Macgregor, and he had other things to address besides just the real estate, and the real estate was pretty well left with me and Mr. Mollard.

(Transcript, vol. 67, p. 11,615)

Mr. Mollard retired in the spring of 1985. Mrs. Stevens also testified that when Mr. Douglas Hopkins, the vice-president and director who put together real estate limited partnership proposals, retired, she replaced him at Cardiff. It is to be noted that Mr. Hopkins is not a lawyer.

I find that in this area Mrs. Stevens can only be described as a central decision maker, directing the course of affairs within the real estate division. Such a role is consistent only with that of senior management. I find that in relation to real estate, Mrs. Stevens did not confine her activities to those of a solicitor.

Oil and Gas I have found that at the March 1985 meeting with Mr. Leiderman, management matters were discussed, including reorganization and refinancing of the companies. Mrs. Stevens testified that one of the reasons she was at the meeting was to have input as a director and secretary of Sentry. Mrs. Stevens developed the new gold-mining initiative and presented it to the Sentry board of directors in June 1986; Mr. Macgregor, president of Sentry, was uninvolved until the completion of the deal. Mr. Netolitzky, who arranged the transaction on behalf of Sentry, testified that Mrs. Stevens was his primary contact at Sentry and that she acted as a business person. When confronted with this evidence, Mrs. Stevens asserted that in regard to the goldplay she acted "as a lawyer and as a director" (Transcript, vol. 67, p. 11,423).

On September 24, 1985, she attended what the minutes describe as a management meeting of Canaland, at which she took on the responsibility to pay Mr. Macgregor and Mr. Neary, president and vice-president of the company. Mrs. Stevens, who was not an officer or director of the company, testified that the president of the company would look to her as someone who might raise funds.

It is clear that Mrs. Stevens' status in these oil companies does not reflect her position as solicitor. Leaving aside Mr. Stevens' role, which was discussed earlier, she was the person at York Centre who spearheaded the development of the major new initiative in the oil and gas area while her husband was minister — the La Ronge goldplay. It is noteworthy that she undertook this task in the absence of the senior executive officer of the company. What is perhaps more remarkable is that, without any formal position in the company as an officer or director, she conducted herself with authority in relation to raising money for Canaland.

Strip Bonds There was little day-to-day management required of this group of companies. The principal asset of the group, Georgian Trust's bond portfolio, was largely sold in February and August 1985. Prior to the August bond sale, Mrs. Stevens actively sought a vehicle to utilize

the portfolio to obtain new financing. Her meetings with Mr. Kierans and Mr. Leung were to obtain advice as to how this could be done. Mr. Leung could offer no assistance and Mr. Kierans advised that the portfolio be sold. When it was determined that the bonds could not be utilized, most of them were sold; this transaction was the largest single generator of cash for the companies while Mr. Stevens was minister, not only for the bond group but for all the York Centre companies. As already noted, the evidence as to who made the decision to sell the bonds is unsatisfactory. No one with any apparent direct connection to the sale, including Mrs. Stevens, could provide an answer as to who made the ultimate decision to sell. I have already found that Mr. and Mrs. Stevens were aware of this sale when it occurred.

Mr. and Mrs. Stevens always envisaged possibilities for this group of companies. On January 2, 1985, Georgian International Corporation was incorporated in the United Kingdom. Some of the reorganization scenarios developed in the spring of 1985, including those discussed at Mr. and Mrs. Stevens' meeting with Mr. Leiderman on March 16, 1985, contemplated that Georgian International would become the owner of York Centre's interests in the bond companies and, in turn, would become the financial services arm of Sentry, which would own it.

The event of most importance in assessing Mrs. Stevens' role in the bond group of companies is the major investment initiative attempted by this group while Mr. Stevens was minister. That initiative was, of course, the Christ coin proposal.

While Mr. Stevens was minister, apart from Mrs. Stevens there was only one other officer and director of Georgian Equity, Grady Thrasher, the incorporating lawyer in Atlanta, Georgia. When asked who was responsible for the management of Georgian Equity, Mrs. Stevens testified that the company was relatively dormant "because it basically just holds interest in other companies, so it does not need a lot of day-to-day management" (Transcript, vol. 64, p. 10,972). Georgian Equity owned a 43 percent interest in Georgian Trust, which held the bond portfolio.

As to the ownership of Georgian Equity, the evidence of Mr. and Mrs. Stevens was that of the original 1500 shares issued to Mr. Stevens, which represented just under 50 percent of the issued shares, 1000 of the shares were impressed with a trust. These 1500 shares were transferred to Mrs. Stevens on July 18, 1984, 500 as a gift from her husband. The remaining 1000 shares were transferred to the Apollo Trust Corporation Limited, effective February 10, 1986. In her evidence, Mrs. Stevens was uncertain whether the documents setting up the trust were actually executed prior to the commencement of this Inquiry. This fact was not established one way or the other in the evidence. The 1000 shares are in a "discretionary trust," which was described in the evidence as a trust without a named beneficiary, the naming of the beneficiary being in the discretion of the trustees. Whoever this beneficiary might be, there is no doubt as to the close affinity between Georgian Equity and Mr. and Mrs. Stevens, as

evidenced by these transactions as well as by Mrs. Stevens' position as president and director since July 1984, when she replaced Mr. Stevens. From the evidence, apart from Shirley Walker, there is no one other than Mrs. Stevens or Mr. Stevens who could be said to manage the Georgian companies.

Mrs. Stevens' involvement in the bond group extended to management decisions, such as finalizing financial statements and unwinding companies. Mrs. Stevens testified that in November 1985 she had a discussion with Miss Walker and Mr. Leiderman about unwinding YCPL back to a shell company and having it dissolved. YCPL had been activated in 1983 to be an agent for Georgian Trust in obtaining the loan from the Hanil Bank, which was secured by the bond portfolio. Subsequently, YCPL acted as agent for Georgian Trust in the bond sales of February and August 1985. Therefore, after the sale and the liquidation of the Hanil debt, YCPL served no purpose.

Miss Walker testified that she had a discussion with Mrs. Stevens and Mr. Leiderman about the financial statements of YCPL in January 1986. On January 23, 1986, Mr. Leiderman made a note regarding YCPL, "I reviewed 1984 fin/stat with SW & NS & we finalized them," and a note regarding Georgian Equity, "I reviewed March '85 drafts with S.W. & N.S." (Exhibit 199, pp. 10, 18). Although Mrs. Stevens testified that she had no recollection of this meeting, in light of Miss Walker's evidence and the documentation relating to the meeting I find that Mrs. Stevens reviewed and finalized financial statements for the bond group in this period.

Mr. Leiderman, auditor for all the bond group companies, testified that during 1980-84 Mrs. Stevens performed administrative and management duties in relation to general business matters for the York Centre group of companies. He testified that after October 1984 her role changed to a certain extent, and she became more involved in the management of the company. At this point, he saw her as part of management at York Centre.

I find that Mrs. Stevens was the driving force behind new initiatives in the bond group and, further, that she was part of the decision-making process around the sale of the bonds in August 1985. Her role in the bond group can only be described as that of senior management and was certainly not confined to that of solicitor.

Raising of Cash and Dealing with Creditors

The most important activities for the York Centre companies were the raising of cash and dealing with creditors. In the period prior to October 1984, as an officer and director of the companies, Mrs. Stevens entered into debt obligations on their behalf for the purpose of raising cash for the companies. It is significant that on at least some occasions both Mr. and Mrs. Stevens were involved in the same transaction. For instance,

when the Hanil Bank advanced \$1 million to Cardiff Construction, Mr. Stevens was involved in making the initial contact with the bank and was actively involved in determining what security would be given for the loan. For her part, Mrs. Stevens signed the guarantee and postponement of claim on behalf of Cardiff on August 12, 1983, as security for this loan. She also signed for Clady Farm and Alton Mills. On December 2, 1983, and June 26, 1984, she signed debentures for \$950,000 and \$600,000, respectively, to Guaranty Trust on behalf of Cardiff and Alton Mills. On both occasions it was the intervention of Mr. Stevens that led to the advances from Guaranty Trust. All three loans led to paydowns on the CIBC account.

While her husband was minister, Mrs. Stevens, through her activities at Cardiff, raised significantly more cash for the whole York Centre group of companies than was raised through any other activity of the companies. The two single most important Cardiff transactions were the Czapka loan and the Equion real estate limited partnership. Mrs. Stevens signed documents on behalf of Cardiff for the Czapka loan. With regard to the limited partnership, she signed documents on behalf of the general partner, a numbered company which held in trust the partnership moneys borrowed from Guaranty Trust, and she signed the \$700,000 loan commitment letter with Guaranty Trust on behalf of Cardiff. Both of these transactions led to paydowns on the CIBC account.

On three occasions in 1985 Mrs. Stevens had meetings with senior officials of CIBC, the principal creditor of the York Centre group of companies, which was putting pressure on the companies to reduce their debt by January 31, 1985. In January 1985, shortly before this deadline, Mrs. Stevens and Mr. Rowe met with Mr. Peter Cole and Mr. Greg Morris of CIBC's head office. Mr. Cole testified that Noreen Stevens was introduced as a senior officer dealing with the daily affairs of York Centre.

Mrs. Stevens, who, according to the CIBC officials, was in control of the discussion while Mr. Rowe was largely an observer, reviewed the status of the accounts and the condition of the companies involved and then presented forecasts relating to the proposed general steps to be taken to reduce the indebtedness to the bank. Her commitment, demeanour, and obvious knowledge led both bankers to be more comfortable with the account and to conclude that she was sufficiently proximate to the daily working of the company to control the situation and effect the promise to reduce the debt. In fact, Mr. Cole testified that it was his understanding that after Sinclair Stevens took office, it was first Mr. Rowe and then Mrs. Stevens who managed York Centre.

When confronted with the understanding of the bankers as to her role at York Centre, Mrs. Stevens testified that "I considered myself accompanying Mr. Rowe, the President of the company, to a serious meeting with the bankers. If I could help him in any way, I was there to be of assistance" (Transcript, vol. 65, p. 11,064). Mrs. Stevens conceded that at the meeting she may well have given her own interpretation of

the current status of the accounts and the negative cash flow, produced a forecast for debt reduction, and made the presentation to the bankers. I find that Mrs. Stevens' participation in the meeting went well beyond "assistance" to Mr. Rowe. I find that she took charge of the meeting.

On May 7, 1985, Mrs. Stevens and Mr. Rowe met again with senior officials at CIBC. At this time Mrs. Stevens presented a specific proposal, which she had prepared with the assistance of Mr. Rowe and Mrs. Foulkes, for the reduction of the debt. She represented to officials that serious negotiations were in progress to obtain financing by way of a private mortgage. Mrs. Stevens expressed the hope that these negotiations would be concluded in the near future and that a considerable sum of money would then be available to retire the debt. In the interim, to cover pressing payables, Mrs. Stevens requested that the bank extend an additional \$200,000 in credit to York Centre. Mrs. Stevens testified that her reference to negotiations was to the Czapka loan. Mrs. Stevens agreed that once the bank received \$1.4 million of the proceeds from the Czapka loan, the bank was more relaxed. Mr. Cole testified that this payment was a significant event in ameliorating the bank's concern about the companies' indebtedness.

Mrs. Stevens and Mr. Rowe held a third meeting with Mr. Morris of the CIBC in December 1985. The purpose of this meeting was to request an increase in the line of credit available to the companies. As the amount was within the regional limits, they were advised to direct their request to the branch office. Subsequently, they met with branch officials and reviewed the companies' financial requirements into 1986. Mrs. Stevens presented the proposal that the line of credit be extended by \$100,000 to facilitate the rebuilding of a barn that had been destroyed by fire as well as to provide capital for establishing real estate joint ventures in which one of York Centre's companies would act as arranger and manager of the limited partnership. Internal bank records show that Mr. Wagg, branch manager and a person who had monitored the accounts closely, recommended that the request be approved, partly on the basis that "since Mrs. Stevens' direct involvement with the day to day affairs of York Centre, our position has improved considerably"; moreover, he considered the increase to be "justified based on the improved management provided to the company over the past few months" (Exhibit 109, p. 157). In his testimony before the Commission, Mr. Wagg confirmed his belief that Mrs. Stevens was directly involved in the day-to-day affairs of York Centre.

Two things are noteworthy about Mrs. Stevens' contacts with CIBC. First, her role at these meetings was largely that of a "troubleshooter." As her husband had done previously, Mrs. Stevens became involved in negotiations with CIBC at the point where the bank's pressure on the companies to repay their debt was intense. Secondly, her participation with the bank went beyond crisis management and involved her in negotiations of comparatively small sums of money to be advanced for operational expenses and business initiatives. I find that CIBC correctly concluded that Mrs. Stevens managed the affairs of York Centre.

The Search for Financing

During the Inquiry, the phrase “the search for financing” referred to the events from October 1984 to August 1985 in which Mrs. Stevens and Mr. Rowe approached certain Bay Street firms and individuals in an attempt to find financing for York Centre. These events are, of course, related to the raising of cash and dealing with creditors. Apart from the First Interstate Bank proposal in the summer of 1985, Mrs. Stevens was involved in meetings about the Richardson Greenshields proposal prepared in the fall of 1984 and four proposals prepared by Gordon Capital in the spring and summer of 1985.

Richardson Greenshields

In the fall of 1984, Richardson Greenshields developed a proposal for financing York Centre. On October 23, 1984, Mrs. Stevens, along with Mr. Rowe and Mr. Leiderman, met with Mr. Jim Davies and Mr. William (Bill) Volk of Richardson Greenshields to discuss the proposal. In early November 1984 Mrs. Stevens and Mr. Rowe went to a meeting with Mr. Eyton and several others where the proposal was again discussed. On November 29, 1984, Mr. Davies met with Mr. Rowe and Mr. Cole of CIBC to discuss the proposal. I accept the evidence of Mr. Davies that Mrs. Stevens was in attendance. (Mr. Cole, who was not asked whether she was at this meeting, testified that he first attended a meeting with Mrs. Stevens in January 1985. Although Mrs. Stevens thought it was possible she was at this meeting, she could not recall it.) Mrs. Stevens met with Mr. Matthews of Burns Fry and Mr. Davie of Dominion Securities at the York Centre offices in February 1985, at a time when those firms were considering a York Centre financing. The Richardson Greenshields proposal was unsuccessful and was abandoned.

Gordon Capital

In the spring of 1985 Mrs. Stevens met on a number of occasions with Ms. Jo Bennett of Gordon Capital in regard to York Centre financing. On March 8, 1985, Mrs. Stevens had lunch with Mr. Rowe and Ms. Bennett, who testified that they discussed what was going on in York Centre and “what Mrs. Stevens was trying to do with reorganizing [York Centre’s] real estate, and she needed the names of a couple of bright ladies to come and sell some of the partnership she was setting up” (Transcript, vol. 23, p. 3855). Over the next several months Ms. Bennett prepared four proposals for financing York Centre that were discussed at a number of meetings — most of which, if not all, Mrs. Stevens attended. By June, when none of the other proposals had met with success, it was decided to attempt straight equity financing.

On June 13, 1985, Ms. Bennett sent Trevor Eyton the York Centre draft for straight equity financing, indicating that Noreen Stevens “has

requested a firm commitment by June 21" (Exhibit 160, p. 57). Although Mrs. Stevens testified that she could not recall making such a request, Ms. Bennett in her testimony reiterated what was in the letter. I find, based on this testimony and the letter, that Mrs. Stevens did indeed make such a request. On July 5, 1985, there was a meeting of Noreen Stevens, Ted Rowe, Jo Bennett, Trevor Eyton, and Ken Clarke of Great Lakes to discuss the straight equity financing proposal. Subsequently, at a meeting convened by Mr. Eyton on August 7, 1985, of representatives from Great Lakes, Burns Fry, Gordon Capital, and Dominion Securities, it was decided that financing was not feasible.

When asked by her counsel to describe her role in the search for financing, Mrs. Stevens replied:

Generally, my role is and always has been that of a solicitor. That is my training; that is my background. I was assisting Mr. Ted Rowe, who is President of York Centre Corporation. Mr. Rowe is very young. He has limited experience in financing and financial matters, but he is very good. Any time he would ask me to assist him or to attend meetings with him, I would try to go with him to see if I could be of any assistance to him.

(Transcript, vol. 62, p. 10,620)

Although she testified that her role in the search for financing was that of a solicitor, in cross-examination Mrs. Stevens conceded that she had not sent a legal bill to York Centre in regard to this work or the meetings with Mr. Leiderman but that she intended to. When reminded that she had sent legal bills for other work done since the search for financing ended, Mrs. Stevens insisted York Centre would still be billed. Although she had not kept any time dockets, and one-and-a-half years had elapsed, she testified that she would know the amount by reviewing her files. She admitted that she kept no specific files on the financing initiatives or the meetings with Mr. Leiderman. I have grave doubts in the circumstances whether Mrs. Stevens intended, at the time of undertaking these efforts, to render a solicitor and client account.

The impression of Mrs. Stevens held by the bankers and the auditor was shared by others. Mr. Davies of Richardson Greenshields was asked by counsel for Mrs. Stevens whether it was fair to characterize her role as that of a solicitor for the York Centre companies. Mr. Davies declined to do so and testified that "I would perhaps go a little further than that. I would characterize it as being a legal and financial adviser" (Transcript, vol. 23, p. 3837).

Ms. Bennett of Gordon Capital testified that Mrs. Stevens and Mr. Rowe were her main contacts at York Centre throughout her efforts to raise financing for the company and that Mrs. Stevens participated in the various meetings and was knowledgeable about the matters discussed. When asked what Mrs. Stevens' role at York Centre was when she first met her five or six years before, Ms. Bennett replied:

Financial and legal. She had a very, very good grasp of the day-to-day operations of York Centre and of the financing requirements

with the basis of [Royal Cougar]. Like a shoe store has an inventory of shoes, they had an inventory of bonds that had to be financed.

.....

[S]o she was organizing that day-to-day financing and, of course, the trick is to do it a little cheaper than just going to your friendly bank manager at prime plus ten.

(Transcript, vol. 23, pp. 3840–41)

Mr. Rowe testified that in the search for financing, Mrs. Stevens was part of the management team attempting to put a deal together.

Although Mrs. Stevens sought to minimize her role in the search for financing, the evidence overwhelmingly established that she was a central decision maker in these events. It is telling that Ms. Bennett described her as setting up real estate partnerships and as being involved in day-to-day financing. This is clearly the description of a person involved in management activity in a business of this kind.

Relationship and Activities with Miss Walker

The evidence relating to Mrs. Stevens' working relationship with Miss Walker during 1984–86 establishes the detailed nature of her day-to-day management activities. It also establishes that Mrs. Stevens and Miss Walker kept each other informed about York Centre matters and that on some occasions they were co-managers. It is significant that these dealings occurred when Miss Walker was governed by the same guidelines as Mr. Stevens.

Although Mrs. Stevens admitted that she communicated with Miss Walker during working hours while Miss Walker was a special assistant to her husband, Mrs. Stevens asserted that she “did not provide her with much information at all” (Transcript, vol. 66, pp. 11,245). Further, Mrs. Stevens denied that the information in many specific diary entries of Miss Walker came from her. In fact, when questioned by her counsel, she expressed surprise that Miss Walker “had kept track of so many things” (Transcript, vol. 62, p. 10,538), although in cross-examination she said it was “not unusual for Miss Walker to keep tabs on me, too” (Transcript, vol. 64, p. 10,888).

Mrs. Stevens did testify on a number of occasions that Miss Walker was a resource person for the companies and that, as a result, she would be the most appropriate person to consult for information. For instance, in December 1984 Mrs. Stevens referred Mr. Hopkins to Miss Walker in regard to the sale of a Calgary property and land in Oakville. Mrs. Stevens testified that she kept Miss Walker informed of the progress of these sales because other people would be contacting Miss Walker about them and “[b]ecause I would want her to know that the funds were not available or would be available” (Transcript, vol. 66, p. 11,370). She testified that she used Miss Walker as an expeditor in these transactions “through sheer force of habit and knowing it would be done” (Transcript, vol. 66, p. 11,373). In January 1985 Mrs. Stevens dealt with Miss Walker in regard to Royal Cougar's trade-mark

application for "Cougar." When asked why she would have involved Miss Walker in this transaction, Mrs. Stevens testified that Miss Walker "had always taken care of looking after the trade marks" (Transcript, vol. 66, p. 11,329).

Evidence established an ongoing close working relationship between Mrs. Stevens and Miss Walker. For example, in September 1984 Miss Walker reported to Mrs. Stevens that Equibank had seized the accounts of Sentry and Cumberland on deposit with it and applied these amounts to its loan to Sentry. The bank also indicated that any further deposits on this account would be applied against the loan as permitted by the security agreement. In November 1984 Mrs. Stevens drafted a letter to Equibank which outlined a proposal for handling interest on the loan and a promise to pay the interest arrears of \$2200 by early December. In December 1984 Mrs. Stevens supervised Miss Walker's payment of \$2200 to Equibank.

The Commission heard other evidence of their working relationship. In January 1985 Miss Walker sent Mrs. Stevens a memo regarding the need for York Centre/Canalands to acquire more shares in Sentry. This purchase was necessary to ensure that Sentry maintained the required level of Canadian ownership to be eligible for the continued payment of Petroleum Incentive Program grants. Mrs. Stevens testified that Miss Walker was the resource person who always kept track of the shareholdings required for control. In June 1985 Miss Walker sent another memo on this matter to Mrs. Stevens, asking her to amend or approve the attached paperwork for the acquisition of additional Sentry shares by York Centre. Mrs. Stevens testified that she appreciated the work Miss Walker was doing in this regard and assumed that they would have discussed the matter, but she could not recall a specific conversation.

Another example of their working relationship occurred at the end of August 1985, when Mrs. Stevens handled the payment and discharge of the debentures Maynard Energy had from York Centre and Canalands. The cheques in the amounts of \$406,575.34 and \$203,287.67 went out with a letter, drafted by Mrs. Stevens prior to her departure for Asia with her husband. The cheques were signed by Miss Walker. Mrs. Stevens testified that it was possible, but that she did not recall discussing the payment of these debentures with Miss Walker.

Other examples exist. The evidence establishes that Mrs. Stevens and Miss Walker worked together on York Centre affairs on a continuing basis. When Mrs. Stevens was asked whether she was surprised that in August 1985 Miss Walker was still doing banking for York Centre, she replied:

On an administrative basis, not to that extent, although it does surprise me to an extent, now that it has come forward, how much she was involved.

....

[Although on an administrative basis she would not be surprised that Miss Walker] had something to do with Mrs. Foulkes in trying

to wrap up some of these matters that were in place before she left the company.

(Transcript, vol. 66, pp. 11,296-97)

Mrs. Stevens testified that she knew Shirley Walker had resigned her positions as an officer and director in the York Centre group of companies in October 1984. She also testified that she did not know whether Miss Walker was covered by the conflict of interest guidelines and code and the requirement to dissociate from private activity. When confronted with Miss Walker's evidence that Mrs. Stevens knew Miss Walker was to dissociate herself from York Centre pursuant to the guidelines, she conceded that Miss Walker's evidence might be true. She admitted that she knew Miss Walker was helping Mrs. Foulkes, the bookkeeper, in a transitional manner. When asked whether it was her assumption that "at a given point in time Shirley Walker was no longer associated with York Centre or doing any of its work," she replied, "Yes. Do not ask me what the time was because I do not know, but I assume that some time she was free of the management or whatever she was doing with York Centre and was working with my husband's office" (Transcript, vol. 63, p. 10,792).

This statement must be assessed in light of overwhelming evidence that Shirley Walker did not dissociate herself from the York Centre group of companies while she was a special assistant to the minister and that she continued to attend to York Centre affairs even after the minister resigned.

In light of evidence indicating that Mrs. Stevens continued to work with Miss Walker even in late 1985 and 1986, I reject Mrs. Stevens' testimony that she assumed that at some time Miss Walker was "free of the management" she previously undertook for York Centre. As noted earlier in this chapter, she met with Miss Walker and Mr. Leiderman in November 1985 and January 1986 in regard to the bond companies. Also, from the fall of 1985 onward, Miss Walker's diary contains frequent entries about the La Ronge goldplay, including Sentry's eventual involvement with Mr. Netolitzky, Giant Yellowknife, and SMDC. Although Mrs. Stevens admitted that she was the main contact at Sentry with regard to these events, she testified that she was unable to account for their presence in Miss Walker's diary.

During December 1985 and January 1986 Miss Walker made frequent entries in her diary regarding Cardinal Carter, Chase Manhattan, and the Christ coin proposal. For instance, Miss Walker made a note regarding a book which Mrs. Stevens wanted for Mr. Stewart of Chase Manhattan. Mrs. Stevens testified that either she or Mrs. Foulkes had asked Miss Walker to find this information.

I find that the details in the diary entries regarding the La Ronge goldplay and the Christ coin proposal reflect information passed to and from Mrs. Stevens and Miss Walker or between Mr. Stevens and Miss Walker. However, in relation to these entries I am unable, given the testimony of Mr. Stevens, Mrs. Stevens, and Miss Walker, to identify

which of the specific entries can be attributed to information passed to Miss Walker by Mrs. Stevens and which to information passed by Mr. Stevens.

In reviewing the evidence and considering it in its totality, I find that Mrs. Stevens was aware of Miss Walker's dealings with the York Centre group of companies throughout the period she was a special assistant to the minister and that Mrs. Stevens continued to work with her and provide her with information in regard to these companies. Indeed, any other finding is inconceivable in light of the demonstrated involvement of both Mrs. Stevens and Miss Walker in the affairs of the York Centre group of companies throughout this period. I also find that Mrs. Stevens was aware of Miss Walker's duty to dissociate from York Centre. She must be taken to have known that continuing to work with Miss Walker impaired the discharge of that duty.

Yet Mrs. Stevens testified that she did not see anything inappropriate in providing information about York Centre affairs to Shirley Walker or receiving information from her during 1984–86. Further, she did not find Miss Walker's activities at York Centre inappropriate and never addressed her mind to whether Miss Walker should be undertaking these activities while acting as special assistant to the minister.

Conclusions

I find without hesitation that during 1984–86 Mrs. Stevens performed management functions for the York Centre group of companies that went well beyond the role of a solicitor. Further, I find that Mrs. Stevens did not perceive herself to be acting solely as a solicitor. Any other conclusion is inconsistent with Mrs. Stevens' conduct: her negotiations with CIBC, her role in important business initiatives undertaken by the York Centre group of companies, and her role in the search for financing, including her failure to keep files or remit accounts for these efforts.

Indeed, I am unable to find, based on the evidence and the character and demeanour of the witnesses, that during this period there was anyone with more authority than Noreen Stevens at York Centre. Certainly, neither Mr. Rowe nor Miss Walker was senior to her. It is revealing that Mr. Rowe, who Mrs. Stevens described as being "very young [with] limited experience in financing and financial matters," was not present at the meetings Mr. and Mrs. Stevens had with Mr. Leiderman where fundamental matters concerning the corporation were discussed. I have no doubt that during 1984–86 Mrs. Stevens was one of the two or three people who managed the York Centre group of companies in the sense of being its directing mind.

Communication between Mr. and Mrs. Stevens

Mr. and Mrs. Stevens denied that they discussed York Centre affairs. This general denial was accompanied by a number of explanations as to

why such communication did not take place. These explanations ranged from a lack of interest in the subject matter to Mrs. Stevens' obligation as a solicitor to keep confidential information pertaining to her clients. The allegations raise directly the issue of whether Mr. and Mrs. Stevens communicated in regard to the Czapka loan, the search for financing, and the raising of cash for the companies. With respect to each of these allegations, Mr. and Mrs. Stevens have denied that they had any specific communication.

To determine whether Mr. and Mrs. Stevens communicated about the affairs of the York Centre group generally, and more specifically the matters raised in the allegations, I intend to consider evidence, direct or circumstantial, of occasions on which they communicated, the circumstances of such communication, and the reasons offered as to why they did not communicate on other occasions.

Evidence of Communication

Mr. and Mrs. Stevens admitted participating in certain events that I have already found related to the current affairs of the York Centre group of companies, in particular the meetings with Mr. Leiderman on March 16, 1985, and April 13, 1986; with Mr. Busby on October 11, 1985, and with Mr. Netolitzky on November 27, 1985, in relation to the La Ronge goldplay; and the approach to Cardinal Carter in December 1985 and the meeting with Chase Manhattan on January 17, 1986, in relation to the Christ coin proposal.

Mr. and Mrs. Stevens discussed management matters with Mr. Leiderman at the March 1985 meeting, including corporate reorganization and refinancing in terms of the current financial condition of the companies. At the April 1986 meeting with Mr. Leiderman they again discussed management matters, including intercompany loans and balances and how York Centre's balance sheet could be strengthened. There was also a discussion of recent financial developments. Further, they communicated before and after both meetings about the matters discussed.

Mr. and Mrs. Stevens were jointly involved in the development of the La Ronge goldplay and the Christ coin proposal. I have found in regard to the La Ronge goldplay that Mr. Stevens made the contacts with both Mr. Busby and Mr. Netolitzky. Mrs. Stevens followed through on the initiative. In these circumstances, I have already found that Mrs. Stevens kept Mr. Stevens informed as to the progress of the initiative and that they acted together in the development of the La Ronge goldplay.

Mr. and Mrs. Stevens admitted acting together on the Christ coin proposal. In December 1985 Mr. Stevens called Cardinal Carter and Mrs. Stevens followed up with a letter to him. At that time they had discussions with regard to the call and the idea. They had further discussions prior to the meeting with Chase Manhattan on January 17,

1986. They both participated in the discussion of the Christ coin proposal at this meeting.

I find that in both the La Ronge goldplay and the Christ coin proposal, Mr. and Mrs. Stevens were functioning as business partners acting in the interests of the York Centre group of companies and that they communicated as such. The incidents involving Mr. Kierans and Mr. Leung are other examples of occasions where they were jointly involved as business partners seeking advice with regard to a major asset — the Georgian Trust bond portfolio.

In summary, the evidence establishes that Mr. and Mrs. Stevens communicated with each other in regard to at least five events relating to the York Centre group of companies: the Leiderman meetings, the La Ronge goldplay, the Christ coin proposal, and the meetings with Mr. Leung and Mr. Kierans. This communication was as business partners and concerned management affairs, including financing, reorganization, intercompany loans, and new initiatives for the companies.

Circumstances of Communication

The circumstances surrounding these events are relevant in assessing whether the incidents of proven communication between Mr. and Mrs. Stevens ought to be viewed as discrete and isolated or as evidence of a willingness to discuss York Centre affairs.

The events thus must be assessed in the context of the serious financial condition of the companies in this period, companies which were the primary investment of the Stevens family. Also to be remembered is that Mrs. Stevens occupied a central decision-making role at York Centre, which included dealing with the immediate and pressing problem of ensuring the survival of the companies, and that, as a result, she not only knew about the problems and the efforts taken to resolve them, but also bore some of the responsibility to resolve them. Moreover, she shared with Mr. Stevens the responsibilities in this regard. I have already found that, prior to his entry into the cabinet, Mr. Stevens had a direct role in the financing and the maintenance of credit facilities for these companies in which he had a personal stake.

I have also found that when Mr. Stevens entered the cabinet he was aware of the financial difficulties of the companies. Their primary need was cash in the form of new equity or loans. While he was a minister, Mr. Stevens continued to be aware of the serious financial condition of the companies and their deterioration over the next year. Certainly at the March 1985 meeting with Mr. Leiderman he was aware of the need for money. Indeed, at his meeting with Mr. Dunn in Singapore two weeks prior to the meeting with Mr. Leiderman he actively solicited new equity for one of the companies. Further, in the summer of 1985 Mr. Stevens assisted Mrs. Stevens in her attempts to use the bond portfolio to raise money. These events establish that Mr. Stevens was not only aware of the need for funds but was also actively involved in their solicitation.

Another crucial circumstance surrounding these events is the lack of an understanding between Mr. and Mrs. Stevens as to what, if any, information regarding York Centre affairs Mr. Stevens could receive. Although both Mr. and Mrs. Stevens testified that they had a discussion and understanding when he became a minister that Mrs. Stevens would not represent a company that had anything to do with the government, neither testified that this conversation touched on any other restraint that might be placed on the minister or his spouse regarding information about, or activities with, York Centre.

As noted in Chapter 17, there was also no understanding between Miss Walker and Mr. Stevens about what communication between them, if any, was permissible regarding York Centre affairs. I have already found that they discussed York Centre matters. Similarly, I have already found that Mrs. Stevens continued to work with and provide information to Miss Walker while she was a special assistant and covered by the same guidelines.

The lack of an understanding between Mr. and Mrs. Stevens regarding communication about York Centre affairs is apparent from an examination of the incidents of proven communication. These incidents involved discussions about all areas of investment activity of the companies. Indeed, rather than being discrete or isolated incidents, these events show a coherence in that they all reflect different efforts to bring cash into the companies, or to ameliorate the appearance of financial difficulties, or to establish new investment initiatives. An assessment of these incidents of proven communication in light of activities undertaken by Mr. Stevens without Mrs. Stevens, which show an ongoing interest and involvement by him, further rebuts the notion that these incidents are isolated and discrete; examples of these activities include Mr. Stevens' approach to Mr. Dunn and his carrying on three to five occasions of York Centre material from Toronto to Ottawa.

During the course of their testimony I had occasion to observe that neither Mr. nor Mrs. Stevens reflected on or considered the propriety of their behaviour at the time they engaged in certain activities. Mrs. Stevens testified that it did not occur to her that her husband might be in a compromising situation when he discussed government and private business at Chase Manhattan in New York on January 17, 1986. Similarly, Mr. Stevens felt there was no conflict or appearance of conflict whatsoever in discussing government business and also the Christ coin proposal with Chase Manhattan. I would have thought such a situation would immediately alert a senior member of the bar or a senior cabinet minister to possible conflict of interest problems. Yet Mrs. Stevens testified that she had no discussion with her husband about whether he should be involved in the Christ coin activity in light of his position as minister.

It never occurred to Mrs. Stevens that it was inappropriate to be dealing with Mr. Eyton in light of his relationship with her husband's

ministry. Mr. Stevens testified he never considered the propriety of his suggesting to Mr. Davies that he contact Mr. Eyton about York Centre: "I could not see then and I do not see anything now wrong with suggesting" Mr. Eyton (Transcript, vol. 74, p. 12,865). As for Mrs. Stevens' role in the search for financing, he did not consider it a relevant factor for even an appearance of conflict. "Only somebody with maliciousness," he said, would consider it relevant (Transcript, vol. 74, p. 12,879).

Mrs. Stevens had no concern arising from her husband's obligations under the guidelines about his presence at the March 16, 1985, meeting with Mr. Leiderman, "[b]ecause it had nothing to do with the government. It was a purely personal internal matter" (Transcript, vol. 65, p. 11,135). Mr. Stevens testified he "would be surprised if it was not permissible" for him to attend the meeting (Transcript, vol. 72, p. 12,547).

In light of his obligation as a minister not to mix government and private business and not to be involved in his private business affairs, any of these incidents should have set off alarm bells for either Mr. or Mrs. Stevens. Not only were they oblivious to the potential difficulties caused by any of these activities, but the evidence makes it clear that Mr. Stevens involved himself in these events without hesitation or resistance. There is no suggestion that his involvement was at other than his own initiative or that of his wife.

In summary, the circumstances surrounding the occasions on which there is evidence that Mr. and Mrs. Stevens communicated with regard to York Centre matters, combined with the character of the occasions themselves, may be itemized as follows:

- the York Centre companies were in serious financial difficulty;
- the companies represented the primary assets of the Stevens family;
- Mrs. Stevens played a significant managerial role in the companies;
- Mr. Stevens had previously been involved in all the companies, taking the lead in all their significant activities;
- Mr. Stevens was aware of the serious financial condition of the companies and the need for money, and on at least one occasion actively solicited new equity;
- there was no understanding between them as to what information, if any, about York Centre could be discussed;
- the incidents of communication between them about York Centre were not discrete and isolated events but rather showed a pattern of ongoing involvement, as the actual communication involved fundamental management matters;
- they had no sense of inappropriateness regarding the communication that did occur, and Mr. Stevens involved himself without hesitation or resistance.

Mr. and Mrs. Stevens' Explanations of Non-Communication

The admitted participation of Mr. and Mrs. Stevens in ongoing discussions regarding the Christ coin proposal appears to indicate free and open discussions between them regarding a commercial venture. However, they testified that they viewed this activity as a hobby. Mrs. Stevens said:

I guess a lot of people like to talk about weather. We like to talk about this kind of thing. We like to talk about concepts, applications of different financial transactions to various situations, innovative things. It is something that we have always found very interesting in our lives. . . .

We find new ideas, innovative ideas, very interesting, and something that we find very exciting, and we will go out and look for these things, look for answers. If we are on the trail of something we think is interesting, we will go down to the Public Library here in Toronto which has very extensive research. Actually, we will spend an evening in there researching certain things. That is the nature of our hobby. We enjoy that.

(Transcript, vol. 62, pp. 10,519, 10,532)

The evidence indicates that these discussions had a practical purpose. For instance, Mrs. Stevens said that she had discussed with her husband for "quite some years" the development of the concept for strip bonds and that these discussions gave rise to the incorporation of Georgian Trust. In developing the strip bond idea, they approached lawyers, accountants, and brokerage houses and retained computer experts. Mr. Stevens testified that the Christ coin proposal "came out of our original stripped bond activity" (Transcript, vol. 74, p. 12,911). Mr. and Mrs. Stevens resisted calling the Christ coin a business proposal and preferred to call it a "concept," even though one scenario assumed a billion dollar (U.S.) value. However, a \$5594.54 legal bill rendered by the firm of McCarthy & McCarthy to Georgian Trust, and paid by Georgian Trust, covered work to December 1984 in regard to the "gold coin investment proposal to be offered by Georgian Trust" (Exhibit 188, p. 6). Legal advice about a hobby would not be paid by a commercial enterprise. I have no hesitation, therefore, in finding that it was a business proposal and that their discussions regarding the concept were directed at how to make the concept commercially viable.

When Mrs. Stevens was asked by her counsel what constraints she had or felt with respect to discussing York Centre matters with her husband, she replied:

- A. First, I would say as a solicitor I do not discuss my clients' affairs with my husband or with anyone. I do try to maintain a professional confidentiality with my office.

My husband was in the Cabinet. I knew he had resigned all his offices and directorships and I knew he should not and would not be having anything further to do with the management of any of the

companies that he had been previously involved in. I did not involve him in those matters.

....

Q. [D]id you discuss with him the management . . . of the York Centre group of companies from 1984 onwards?

A. No, I did not.

(Transcript, vol. 62, pp. 10,530–32)

I understand this evidence to mean that she felt constrained by her obligation of confidentiality to her client, the York Centre group of companies, and her understanding of her husband's duty to dissociate from his private interests while he was a minister. I intend to examine these explanations in detail.

During their testimony, Mr. and Mrs. Stevens advanced a number of other reasons as to why they did not discuss certain matters. These included a lack of interest, being too busy, and the fact that other people ran the companies. The explanations of being too busy and lacking interest are attempts to minimize matters that were clearly important to the companies and the financial well-being of Mr. and Mrs. Stevens. For instance, Mrs. Stevens characterized the effects of the Czapka loan on York Centre as "ongoing matters of administration, and they were in the hands of other people" (Transcript, vol. 67, pp. 11,615–16). This evidence is not credible in light of the evidence which establishes that she alone negotiated the loan with Anton Czapka and dealt with him thereafter. Further, the Czapka loan was not an insignificant event at York Centre; it was a transaction of substantial benefit. (The transaction is discussed in detail in Chapter 20.)

As to other people running the companies, I have already found that Noreen Stevens was a central decision maker for the companies. I have also found that Sinclair Stevens was at two meetings with Mr. Leiderman when important management matters were discussed, and that he was also central to the development of the Christ coin proposal and to Sentry's entry into a gold-mining investment.

Let me return to the two primary explanations offered for non-communication. With regard to the explanation that client confidentiality prevented communication, two facts raise the issue of whether this is a real or constructed explanation. First, Mrs. Stevens did not act solely as a solicitor for these companies and I have found that she did not perceive herself to be acting solely as a solicitor. Secondly, Mr. and Mrs. Stevens discussed matters which, if the duty of confidentiality applied, would not have been permissible. For example, with regard to the Christ coin proposal, Mr. Stevens testified that the issue of solicitor confidentiality never arose. Indeed, the Leiderman meetings are also an occasion when Mrs. Stevens discussed her clients' affairs openly with her husband.

The depth of Mrs. Stevens' disregard of her duty of confidentiality, if there truly was such a duty in the circumstances, is best shown by her continuing communication with Shirley Walker, a person who had no claim or right to receive any information in circumstances where she

was not an officer, director, or employee of the companies. This is not to suggest that Mrs. Stevens, as a member of the bar, would ordinarily disregard this important ethical obligation. However, the evidence of actual communication between Mrs. Stevens and Miss Walker and between Mrs. Stevens and Mr. Stevens about York Centre affairs establishes that Mrs. Stevens did not perceive that Mr. Stevens or Miss Walker had dissociated themselves from the companies.

Mrs. Stevens made it clear in her evidence that, in her view, Mr. Stevens' duty as a minister with a blind trust to dissociate from York Centre was confined to a "management constraint," which meant that her husband could not make management decisions about the assets in the blind trust (Transcript, vol. 63, p. 10,788). She was much less clear as to whether any information about the companies could be conveyed to him. When asked whether the intent of the blind trust would be fulfilled if anyone informed her husband of the assets in the blind trust, she replied: "I cannot agree with that. It is simple knowledge; it is management that counts" (Transcript, vol. 63, p. 10,787). She also testified: "He would not be involved in the management of them. I do not know that it means he does not know anything about them. They are public companies; they have public financial statements" (Transcript, vol. 63, p. 10,785). When asked whether she felt free to convey information to her husband, she replied: "Not free in the sense of involving him in managerial decisions" (Transcript, vol. 63, p. 10,797). She conceded it was possible she felt she could divulge some things but not others, and that "what would come up in specific details I would address day-by-day depending upon what would arise" (Transcript, vol. 63, p. 10,798). Mrs. Stevens could offer no criteria beyond the "management constraint" for determining what information could be conveyed to her husband. I find that Mrs. Stevens believed there was no real impediment to communicating information.

I reject the explanations offered. In light of all the foregoing circumstances, I find that Mr. and Mrs. Stevens discussed York Centre matters freely and openly.

Chapter 19

General Conclusions about Mr. Stevens' Knowledge of or Involvement in Private Business Matters while a Minister of the Crown

I have now reviewed the evidence relating to the specific instances of Mr. Stevens' involvement in York Centre matters while he was a minister of the Crown: his meetings with Mr. Mel Leiderman, the York Centre accountant; his involvement in the La Ronge goldplay; his involvement in the Christ coin proposal; his meeting with Mr. Angus Dunn of Morgan Grenfell; his approach to Mr. Tom Kierans of McLeod Young Weir; his telephone call to Mr. Ken Leung of Olympia & York; the files of financial documents that were found in his Ottawa office; and his meeting with Mr. Ron Graham following the press reports on conflict of interest. I have also reviewed the evidence relating to the roles and activities of Miss Walker and Mrs. Stevens. In each of these areas I made a number of specific findings with regard to the nature and extent of Mr. Stevens' involvement in private business matters while he was in the cabinet. These individual incidents are not isolated and their cumulative effect must be considered. I find that the evidence, considered in its totality, establishes the following points.

Information Mr. Stevens remained fully informed of all important management and financial matters relating to the York Centre group of companies while he was a minister of the Crown. He had access to or was provided with information about the financial condition and the key financial developments in the York Centre group of companies.

Involvement Mr. Stevens did not withdraw from the York Centre group of companies. Even while he was a minister of the Crown, he remained actively involved in many key financial and managerial decisions relating to the York Centre group.

Role Mr. Stevens' role remained similar to the one he had exercised prior to entering the cabinet. Mr. Stevens continued as a central decision maker with regard to corporate reorganization, financing, and new investment initiatives.

Mrs. Stevens and Miss Walker Mr. Stevens exercised his authority at York Centre directly and indirectly through intermediaries. Both Noreen Stevens and Shirley Walker, with whom Mr. Stevens discussed

York Centre matters fully and freely, were important intermediaries through whom Mr. Stevens could give instructions or advice. His collaboration with Mrs. Stevens as intermediary and business partner is best shown by a pattern that emerged in the evidence. This pattern involved the minister making an initial contact ensuring access, with Mrs. Stevens then seeking specific advice or assistance.

I conclude that Mr. Stevens continued his involvement in the affairs of the York Centre group of companies fully and freely without regard to his responsibilities or obligations as a minister of the Crown.