

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON
PUBLIC UTILITIES AND NATURAL RESOURCES

Thursday, 4 September, 1986

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. S. Ashton (Thompson)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Doer, Parasiuk, Penner, Hon. Mrs. Smith, Messrs. Ashton, Dolin, Enns, Filmon, Manness, Orchard, and Scott

APPEARING: Mr. Gordon Holland, General Manager and Chief Executive Officer

Mr. Maurice Provencher, Director - Finance

Mr. D.J. (Don) Plunkett, Operating Officer - MTX

Mrs. Jean Edmonds, Chairman of the Board

Mr. Jon McGuire, Secretary to MTX Board

MATTERS UNDER DISCUSSION:

Annual Report of Manitoba Telephone System

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MR. CHAIRMAN: The Committee on Public Utilities will come to order.

Mr. Minister, I understand there are some answers to questions in previous committees.

HON. A. MACKLING: Thank you, Mr. Chairperson.

At previous committee hearings, there have been some questions. I believe that some of those questions remain to be answered. There were further questions in the House, in the Legislature, and I indicated I would ask the staff to ready answers for those questions.

I would like to call upon Mr. Holland to deal with those questions and would like him to start with the concerns about financial accounting. It's my understanding that the joint venture, SADL, Saudi Arabia Datacom Ltd., having been incorporated in June, 1983, did have and provided a financial statement dealing with an 18-month period and that, also, there are statements that are available prior to the incorporation period. I would like you to start with that area and then deal with all of the questions that remain to be answered.

Mr. Holland says he would like Mr. Provencher to come forward to elaborate in respect to the financial statements.

Just so Mr. Provencher appreciates it, in the Legislature, Mr. Provencher, I was asked in connection with financial statements for SADL, or Saudi Arabia Datacom Ltd., the joint venture Saudi Arabian company

- I had furnished copies of statements of that company, but there were no statements available for the period prior to June, 1983.

I believe the statements that you furnished to me and that I furnished to the Honourable Member for Pembina covered the period June, 1983 to December, 1984. Would you like to comment on that and the presence or otherwise of financial statements covering the pre-incorporation period.

MR. CHAIRMAN: Mr. Provencher.

MR. M. PROVENCHER: Mr. Chairman, there are audited financial statements for the period August 15, 1982 to June 7, 1983. Those audited statements are currently in Saudi Arabia. We will undertake to obtain them and provide them to the committee.

As the Minister stated, we have . . .

MR. CHAIRMAN: Excuse me, Mr. Provencher.

Mr. Orchard, on a point of order.

MR. D. ORCHARD: We can't hear the words of Mr. Provencher.

MR. CHAIRMAN: Could you speak into the mike? Perhaps, begin your answer again, if at all possible.

Mr. Provencher.

MR. M. PROVENCHER: The partners do have audited financial statements for the period August 15, 1982 to June 7, 1983. Those audited financial statements are currently in Saudi Arabia. We will undertake to obtain those statements, and provide them to the committee.

We have already provided to the committee the audited financial statements for the year ending December 31, 1985. Those statements do have comparative data for the period ending December 31, 1984. That column on those statements includes the full period from June 7, 1983 to December 31, 1984. So when we do obtain the interim period statements for August 15, 1982 to June 7, 1983, all transactions since the beginning of August, 1982 will be in front of the committee, and they will all be audited financial statements.

MR. CHAIRMAN: Mr. Minister.

HON. A. MACKLING: Mr. Provencher, is it possible that those statements will be available shortly? How long do you think it will be before we have them?

MR. M. PROVENCHER: Mr. Chairman, it's currently the weekend in Saudi Arabia. They do have this afternoon off, and it's currently past 6:00 p.m. in Saudi Arabia. Tomorrow is a day off. The earliest opportunity we'll have is on Saturday, and we'll attempt to get them FAX-Commed to Canada.

HON. A. MACKLING: Thank you.

MR. CHAIRMAN: Mr. Filmon.

MR. G. FILMON: Mr. Chairman, is it possible to have questions for clarification on the individual responses, or do you want us to bank everything which makes everything difficult?

HON. A. MACKLING: I think bank, because I'd like to cover all the responses first, Mr. Chairperson.

MR. CHAIRMAN: If that's the will of the committee, we'll proceed that way.
Mr. Minister.

HON. A. MACKLING: Mr. Holland, would you then also - and perhaps you'll want Mr. Provencher to elaborate further - continue with the responses to questions? Again, there were concerns in respect to the \$1.5 million advance or loan. Would you deal with that issue further, please?

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Provencher will provide a detailed background discussion of that topic.

MR. CHAIRMAN: Mr. Provencher.

MR. M. PROVENCHER: Thank you, Mr. Chairman.
The questions that were asked were: When was the loan made? Who had signing authority to release the money? What was the action of the SADL Board? When was it called? If not, why not? Could Mr. Provencher indicate when the \$1.5 million promissory note was signed and when the funds were out, and when it was repaid? What financial authority did SADL have within their jurisdiction? Provide the date the final authorizations were approved by the SADL Board. Finally, when did Mr. Provencher know about the \$1.5 million loan?

A summary answer is that on June 8, 1983, SADL advanced Saudi rial \$4,134,893 to Al Bassam International Telecom. This advance had been . . .

HON. A. MACKLING: Do you want to repeat that line again, Mr. Provencher?

MR. M. PROVENCHER: On June 8, 1983, SADL advanced \$4,134,893 to Al Bassam International Telecom, Saudi rials. This advance had been made by three bank drafts on SADL's account with National Commercial Bank, authorized to the bank by letter dated June 8, 1983, signed by C. Abou Richeh and M. Atila Aysan, who were at that time the President and General Manager respectively of SADL. This advance was not previously authorized by the board of directors of either SADL or MTX.

The funds in the bank account had been deposited equally by Al Bassam International and MTX as their subscribed capital to SADL. This advance appeared to recognize the fact that Al Bassam International had expended considerable sums on behalf of the joint venture SADL during the interim arrangement period

from August 1982 to June 7, 1983, pursuant to that agreement; and I have a detailed answer.

MTX and Al Bassam International operated under an interim arrangement during the period August 1982 to June 7, 1983, pending receipt of commercial registration of SADL under Saudi Arabian laws. The interim arrangement was effected by Al Bassam International Company creating, pursuant to the laws of the Kingdom of Saudi Arabia, a division known as Al Bassam International Datacom.

The Datacom Division of Al Bassam International Company was created specifically for the benefit of SADL in anticipation of its receiving its commercial registration number in the Kingdom of Saudi Arabia and to ensure that both MTX Telecom Services Inc. and Al Bassam International Company would benefit equally from the interim arrangements.

During the interim arrangement period, from August 1982 to June 7, 1983, the Datacom Division of Al Bassam International incurred development costs and acquired current and fixed assets. These expenditures amounted to Saudi rial, \$8.3 million, which is equivalent to approximately \$2.9 million Canadian, based on the exchange rates in effect at that time.

The SADL capital structure, as indicated in Article 5 of the Articles of Association, is Saudi rial, \$4,420,000 divided into 4,420 shares, with a nominal value of Saudi rial, \$1,000 per share. MTX and Al Bassam were each allocated 2,210 shares. On June 6, 1983, MTX Telecom Services and Al Bassam International, as a condition precedent to the commercial registration of SADL, each deposited, Saudi rial, \$2,210,000 in trust for the National Commercial Bank in Saudi Arabia for subscription of their respective 2,210 SADL shares.

When the joint venture, SADL, obtained its commercial registration number 9464 on June 7, 1983, the trust conditions associated with the share capital deposit with the National Commercial Bank were removed. SADL commenced operations in accordance with its approved company objects effective June 7, 1983, for service and activities relating to the installation, commissioning, servicing, maintenance and training programs associated with data and data communication systems. With the approval of both partners, the Datacom Division of Al Bassam International sold assets that had been acquired during the interim operations period to the joint venture SADL.

This sale of assets, effective June 7, 1983, amounted to Saudi rial \$4,420,000 and was for inventory, office and apartment furniture and fixtures, leasehold improvements, tools, vehicles and the electronic messaging system known as Al Mursil. The purchase price payable by SADL represented an accounts payable by SADL to Al Bassam International Datacom.

When I was in Saudi Arabia during the period July 16 to July 25, 1983, Mr. Aysan advised me that the SADL share capital proceeds had been advanced to Al Bassam International for investment purposes. We have been recently advised by Mr. L.H. Keshishian, the financial and administrative manager of SADL that the advance was authorized by the president of SADL on the basis of the approval in principle of final authorizations that had been reviewed and agreed to in principle at the February 18, 1983, partners' meeting.

In respect to this advance, we have determined that the advance was issued on June 8, 1983, and was for

an aggregate sum of Saudi rial \$4,134,893.00. The instruments used to execute the advance were three bank drafts cheques issued by the National Commercial Bank dated June 8, 1983, in the amounts of Saudi rial \$1,500,000, Saudi rial \$810,000, and Saudi rial \$1,824,893.07 payable to M/S. Al Bassam International Co.-Telecom, against the account of joint venture SADL No. 05112648000100.

The manager of the National Commercial Bank, Al Kobar Branch, was authorized to issue the three bank draft cheques by letter, dated June 8, 1983, signed by Mr. M. Atila Aysan and Mr. C.K. Abou Richeh. The SADL bank signing authorities were established on June 8, 1983 when Mr. Tarig Al Bassam authorized the National Commercial Bank, Al Kobar Branch, to accept cheques with the joint signatures of either himself, Mr. C. Abou Richeh or Mr. M.A. Aysan. These bank signing authorities followed the intent of the interim agreement dated 11 April 1982 between Al Bassam International Company and MTX Telecom Services Inc. and were confirmed at the November 3, 1983 SADL Shareholder Founder's Meeting.

The effective secured position of SADL, at the time of the advance, consisted of the assets valued at Saudi rial 4,420,000 that were purchased from the Datacom Division of Al Bassam International on the previous day, June 7, 1983, an official receipt from Al Bassam International Telecom for the advanced proceeds, which amounted to Saudi rial 4,134,893.07 and the incorporate accounts referred to hereafter by me.

The Saudi rial 4,134,893 advance was offset by a SADL liability due to Al Bassam International Datacom in the amount of Saudi rial 4,420,000. The Saudi rial 4,134,893 advance was recorded as a note receivable from Al Bassam International Telecom in the SADL accounts.

The parties agreed that interest was payable at the rate of 11 percent per annum on the net monthly balance of the Al Bassam International and SADL intercompany advances. The Saudi rial 4,134,893 advance was settled by the close of SADL's first financial year, which was December 31, 1984, by intercompany charges between Al Bassam International and SADL. The Al Bassam intercompany charges to SADL were for such expenditures as leasehold improvements, lease rental payments, furniture and fixtures, vehicles, Al Mursil electronic messaging equipment and software, salaries and other services provided by SADL by Al Bassam International. The SADL intercompany charges to Al Bassam Datacom were for services provided under an agreement to provide technical, marketing, services support, management and engineering services.

The SADL final authorizations were reviewed and agreed to in principle, subject to some changes at the February 18, 1983 partners' meeting and were approved at the November 3, 1983 SADL Shareholders Founder's Meeting.

The final authorizations gave authorization to the SADL President to short term investments or fixed deposits, and this was confirmed at the November 3, 1983 SADL Shareholders Founder's Meeting.

MTX Telecom Services received an Al Bassam International irrevocable letter of guarantee amounting to \$725,000 U.S. from the Byblos Bank in Beirut, Lebanon, on July 5, 1983.

This irrevocable letter of guarantee was issued as security to MTX Telecom Services for payment of four equal semi-annual drafts drawn on Al Bassam International by MTX Telecom Services, each draft amounting to \$183,019.53 U.S.

The drafts were issued by MTX Telecom Services Inc. to secure payment for the sale of a Tandem Computer and Telemail software to the Datacom Division of Al Bassam International during the Datacom interim operations period.

The equipment secured by the Al Bassam International irrevocable letter of guarantee formed part of the assets that were purchased by SADL from the Datacom Division of Al Bassam International effective June 7, 1983 for Saudi rial \$4,420,000.00.

HON. A. MACKLING: I believe copies of that statement, very long answer, are available.

I would like Mr. Holland to carry on with further answers. Mr. Plunkett may be required to participate in that as well.

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, at the morning session, on August 21, I was asked if I had been informed about an unsecured, unapproved \$1.5 million loan and I replied that I had no recollection of ever being informed of it. I have checked to make sure that that is absolutely correct and I find that the information that Mr. Provencher has just provided was reviewed with me. On or about November 16, 1984, Mr. Anderson and Mr. Provencher had met with Sheik Bassam, who had indicated that he would take immediate action to finally resolve this outstanding issue.

There were questions asked as to whether or not SADL can sign leases today and put in leasehold improvements and own equipment, and Mr. Provencher is prepared to respond to that.

MR. CHAIRMAN: Mr. Provencher.

MR. M. PROVENCHER: Mr. Chairman, SADL can sign leases today to put in leasehold improvements and own the equipment.

There was another question that we had undertaken: Could Mr. Provencher indicate whether the accounting firm auditing the books of MTS was aware of these offshore sales to a company in Saudi Arabia? The auditing firm of Thorne Riddell, Chartered Accountants, were the MTS auditors during the period of the MTS offshore sales to Al Bassam International in Saudi Arabia prior to the incorporation of MTX Telecom Services Inc. Thorne Riddell were aware of the MTS sales to Al Bassam International for the fiscal year ending March 31, 1982.

I have been advised that the Thorne Riddell working paper files for the year ending March 31, 1981, indicates that they were not aware of the MTS sales to Al Bassam International for the fiscal year 1980-81.

There was another question that we had undertaken: Were there SADL outstanding receivable at the time that \$2 million receivables were reclassified as capital? We are still waiting for the information from Saudi Arabia to answer this question and will provide the answer

when the information is received by MTX from Saudi Arabia.

There was another question, and that question was in the Legislature yesterday, and Mr. Filmon requested the details of the Royal Bank line of credit. Mr. Chairman, during September 1983 the Royal Bank established a revolving non-recourse \$1.6 million Canadian line of credit between MTX, as the exporter, and Al Bassam International Co. Telecom, as the importer. This non-recourse facility was set up based on the Royal Bank's assessment of Al Bassam International financial viability. This facility was for a period of one year only and was not extended by the Royal Bank after August 31, 1984. During December 1983, a \$3 million Canadian revolving line of credit was established by the Royal Bank for MTX export sales to Datacom, a division of Al Bassam International. This facility was backed by a letter of comfort from the Manitoba Telephone System, and this facility is still in place.

MR. CHAIRMAN: Mr. Mackling.

HON. A. MACKLING: Mr. Holland, I believe there were questions dealing with the MTX contract involvement with Grassroots. Would you like to deal with that please?

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, just before Don Plunkett describes that project there were some other questions here.

One was to indicate whether there is one-year waiting list for mobile service. Public mobile telephone service or PMTS is available in Winnipeg and throughout the province and is available for new customers. The automatic car telephone service is available only in Winnipeg and is filled to capacity, and because cellular service will be available in the near future, MTS believes the expansion of the existing ACT service is not justified.

Another question: Does MTS reimburse customers if there telephone service is disrupted? The answer is that the system does reimburse customers from the time the system is notified of the interruption and after a continuous outage, both for incoming and outgoing calls, exceeding 72 hours.

Another question was: Was there a competition for Theresa Aysan's position in MTS? The answer is that there was not an internal competition for Mrs. Aysan's position since previous postings for similar skills revealed that they were not available within MTS.

Mr. Chairman, Mr. Plunkett will discuss the Grassroots Project.

MR. CHAIRMAN: Mr. Plunkett.

MR. D. PLUNKETT: Mr. Chairman, at the previous meeting I was responding to some questions from Mr. Orchard and Mr. Filmon, asked in the House, related to the Timeplex equipment returned from Saudi Arabia. While I was reading in my response I neglected to read in one page of the response; I would like to do that now.

Mr. Chairman, I apologize for the interruption. The questions related to the rate of excise tax, the value

of the equipment in storage, the charges for storing the equipment, whether any other goods have been returned from Saudi Arabia and whether they're in custom-bonded warehouse, and the question on the Royal Bank, which Mr. Provencher has already answered.

Because Canada does have a general trade agreement with Saudi Arabia, a custom and excise tax rate of 25 percent is applicable, as well as federal sales tax is at 12 percent on the equipment that was shipped back from Datacom. MTX and MTS have requested that the Acting Regional Custom Collector consider an exemption under Section 3.1 of the Custom Tariff Act, which would allow the equipment to clear customs at an excise tax rate of 3.9 percent. A decision on this request is expected to take 30 to 45 days.

The total value of the equipment in storage is \$270,000.00. The savings to MTX and MTS, if provided an exemption, would amount to approximately \$65,500.00. There is a \$2,800 charge for maintaining this equipment in the warehouse. This charge is payable whether the equipment is kept for one month or two years. There is no other equipment in customs awaiting clearance, nor has there been any other goods returned from Saudi Arabia, other than the Series 1 computers referred to in Note 2 to the MTX audited financial statements. That should be 1984-85 audit of financial statements.

MTS only guarantees MTX equipment purchases in accordance with a letter of comfort provided to the Royal Bank by MTS in support of a \$3 million line of credit. Other than for equipment financed through the Royal Bank line of credit, MTS does not guarantee MTX purchase arrangements.

Due to the 50 percent equity investment in SADL, the Saudi partner accepts 50 percent of the loss on this equipment.

There have been several questions asked in the House on Grassroots Information Services and I'd like to read a paper into the record, Mr. Chairman.

Grassroots is a computer-based information service providing farmers in agribusiness with a farm management service. Grassroots information is transmitted through the use of telephone lines. Subscribers use personal computers or decoders to gain access to the Grassroots data base, which contains in excess of 34,000 screens of farm management data. Updates on the Grassroots data base are provided continually from over 150 private, commercial, and government participating information providers.

As of May 31, 1986, Grassroots had 2,200 subscribers in Canada and over 700 in the United States. Included in this total are 673 Manitoba subscribers, 75 percent of whom are located in rural areas.

Activities and services undertaken by MTS played a key role in the decision of Infomart to locate their Grassroots service operation in Winnipeg. The Manitoba Telephone System, MTS, obtains annualized revenues presently in excess of \$250,000 from the operations of the Grassroots Service.

Southam Inc. and Toronto Star Newspaper Limited, through their partnership, Infomart, or Southam Infomart, were trying to sell Grassroots and/or seek other equity investments in the Grassroots Service. Southam Infomart indicated its intention to shut down Grassroots on May 29, 1986, should other equity investors not be found.

With the intervention of MTS and the Department of Industry, Trade and Technology of the Province of Manitoba, Southam Infomart agreed to delay the closure until June 30, 1986 while efforts to seek new investors for Grassroots were made.

Agreement has been reached to continue the Grassroots service through a company to be incorporated and to be known as Grassroots Information Services Inc., or Grassroots Inc., to be owned by Southam Infomart, Comcheq Services Limited, Cybershare Ltd. and MTX Telecom Services.

A letter of intent containing the proposal to purchase Grassroots was sent to Southam, jointly signed by Cybershare, Comcheq, and MTS, on June 27, 1986. This letter was subject to receiving approval of the Venture Capital application, the confirmation of the feasibility of transferring the technology to Cybershare's computers, and to MTS-MTX receiving approval from its respective boards. All of these conditions were satisfactorily resolved, subject to formal agreements being finalized.

The capital financing of the company was planned through the utilization of a Venture Capital company to be incorporated, which would provide a vehicle for the funding of Grassroots Inc. An application was submitted on July 9, 1986 to the Manitoba Venture Capital Program and was approved on July 24, 1986, subject to four commitments: (1) a report to be provided in three months as to the employment of 15 staff and in six months as to the overall objective of 22 staff; (2) Cybershare and Comcheq were to commit to equity investment in Grassroots as stated hereafter; (3) full investments proceeds of the Venture Capital company to be reinvested into Grassroots Inc. with no funds to be withheld for the ongoing expenses of the Venture Capital company; (4) the final purchase agreement from Southam Infomart and a long-term management contract and/or rental agreement between Grassroots Inc. and Cybershare to have terms and conditions satisfactory to the Minister of Business Development.

The commitment of the investors are two-fold. MTX and Southam will form a Venture Capital company on the following basis: MTX will invest \$125,000 in cash for 50 percent of the common shares of the Venture Capital company; Southam will invest \$250,000 in cash for 50 percent of the common shares of the Venture Capital company; and the Province of Manitoba, through the Venture Capital Program, will invest \$201,000 in cash and receive all of the 7 percent cumulative preferred shares of the Venture Capital company. These shares will earn no dividends for the first three years of operation. The dividends on the preferred shares will have first call on any payments made by Grassroots Inc. to the Venture Capital company.

Southam, Cybershare, Comcheq and MTX intend to sign an agreement which will provide that Grassroots Inc. will pay to the venture capital company any and all dividends or amounts required for redemption of the preferred shares of the Venture Capital company held by the Province of Manitoba, and that such payments by Grassroots Inc. will be made prior to the payment of any dividend or repayment of shareholders' loans, etc., by Grassroots Inc. to its shareholders.

Grassroots Inc., a new operating company to be incorporated, will be structured as follows: The amount

of \$576,000 will be invested by the Venture Capital Company in Grassroots Inc., the new operating company, in exchange for 49 percent of the issued common shares of the operating company. Cybershare will invest \$125,000, plus the costs of conversion of software programs in Grassroots Inc., the new operating company, in exchange for 25.5 percent of the issued common shares. Comcheq will invest \$125,000, plus provision of management support for the first year of operating to Grassroots Inc., the new operating company, in exchange for 25.5 percent of the issued common shares.

The new operating company, Grassroots Inc., is being formed to develop Grassroots service into a viable ongoing business operation through the expansion of revenues and significant reduction in operating costs. The participants in the business opportunity bring a synergy of experience with information services, corporate stability, experienced computer system operation, and marketing experience in customer services.

The reduction in operating costs will be as a result of reduced overhead expenses and staffing, reduced computer costs, and reduced communication costs. The increase in revenue will be the result of increased charges through existing customers, through the introduction of usage fees to the existing subscription fee; new services which are currently provided independently by Comcheq and Cybershare will be integrated with the Grassroots Services; new market sales channels, through the existing distribution channels of Comcheq and Cybershare; and expansion of potential markets through the increased availability of microcomputers.

A preliminary operating plan for Grassroots Inc., the new operating company, includes the cost of continuing the Grassroots service while software conversion is being done. The preliminary business plan projects an operating loss in 1986 and operating profits in subsequent years.

Net income from the new operating company is projected as, in 1986, a loss of \$262,000; in 1987 a profit of \$69,000; in 1988 a profit of \$162,000; and in 1989 a profit of \$272,000.00.

The operation of Grassroots Inc. will generate revenues to MTS in excess of \$150,000 per year. This is consistent with the operation of the Grassroots service through the past two years where, as noted above, it has paid MTS over \$250,000 per year for communications services.

By ensuring the ongoing operation and expansion of Grassroots, MTS will continue to realize in excess of \$250,000 annual communication revenues from both direct charges to Grassroots and from subscriber usage charges.

It is also consistent with MTS's objective of encouraging economic development in Manitoba by retaining the employment opportunities for Grassroots personnel within the province.

Based on the above, the MTX Board approved the equity investment on July 16, 1986 and the MTS Board on July 28, 1986.

Thank you.

HON. A. MACKLING: I believe copies of that Grassroots undertaking, copies of that are being distributed.

I indicated to the critic that I would provide a list of outstanding MTX formal undertakings where there is a likely continuing legal obligation. Can you review that, Mr. Holland?

MR. G. HOLLAND: Mr. Plunkett will.

MR. D. PLUNKETT: Mr. Chairman, the MTX Telecom Services has several projects and contracts in progress. At the time that the Minister responsible announced the freeze on new contracts and marketing initiatives the following projects and contracts were in progress: 1) In the contracts' area, there was a contract for the installation of a mobile radio system in India. MTX is under contract to Westar Engineering of Vancouver to install mobile radios in India for use in open-pit mining. This project has CIDA funding.

2) MTX was involved in the installation of satellite receiving station in Trinidad and Tobago. This contract is now 95 percent complete.

3) MTX was providing consulting to a department of the government of Ontario on their Fibre Optics plans.

4) . . .

HON. A. MACKLING: Mr. Chairman, rather than reading all of that list, I think I undertook to give a copy of that to the critic. Perhaps we can just give him a copy and save some time in that.

There have been, over the course of the hearings before this committee and in this House, questions asked. I know that the other day, the Honourable Leader of the Opposition asked a number of questions. I believe some of them had been answered before, but I'm wondering if, Mr. Holland, I can ask you to confirm whether or not, according to your review of all of the questions, there are outstanding questions. If there are, would you please answer them?

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Mr. Chairman, information has been requested on Valley Cablevision and the FRED Program and we're still compiling that data.

The other outstanding ones were the questions relating to Cezar Industries and Don Plunkett is prepared to describe that project this morning. According to our records, all other questions have been answered.

HON. A. MACKLING: What were the specific questions in respect to Cezar? Can we deal with those and then members can ask questions?

MR. CHAIRMAN: Mr. Filmon.

MR. G. FILMON: Mr. Chairman, I wonder if I might ask that if they are lengthy that they be tabled, because we aren't going to be able to get to them this morning in any case and we could perhaps review them before the next . . .

HON. A. MACKLING: If this is a lengthy answer, then perhaps we can just provide the written answer. Okay? Fine, it's a four-page, so that's a good suggestion, that will be done.

I ask Mr. Holland again, I've asked your staff to carefully review all of the questions to make sure that either I have provided the answers in the House or that the answers are available for this committee. Can you assure us that you have done that. I want to make sure that I'm not faced with a number of questions that remain unanswered.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, I can possibly refresh Mr. Holland's memory on one question, that he was going to check his notes if I recall Hansard, in which I posed the question to him if he had met Mr. Aysan, I believe in the summer of 1983; I could find that in Hansard. Mr. Holland, you indicated you would have to check your notes to see if you had met Mr. Aysan and you might have an answer for me today.

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: If I had met Mr. . . . Could Mr. Orchard repeat the question please? Summer of 1983?

MR. D. ORCHARD: Well, if I may ask the wrong month or the wrong year, but I believe it was 1983, Mr. Chairman. I believe it was approximately June or July and I believe it was in London - London, England.

MR. G. HOLLAND: Yes, Mr. Chairman, I met with Mr. Aysan in London during the period August 24-29 when Mr. Aysan was on vacation during that period in London.

HON. A. MACKLING: You have a speaking list and I just want to make sure that the questions have been asked and answered. Mr. Orchard can review that again, if he's not satisfied with the answers.

MR. CHAIRMAN: I believe Mr. Orchard was clarifying a question, a request from Mr. Holland.

HON. A. MACKLING: On that specific . . .

MR. CHAIRMAN: On that basis, I recognize Mr. Orchard.

MR. D. ORCHARD: I'm just wondering, I heard Mr. Mackling indicate that there is a speaking list and that if we wish to clarify any other questions or answers to questions this morning that we can do that at a later date. There may not be a later date. Would it be possible and would it be the will of the Minister to allow us to clarify answers given this morning to these questions just in case we don't ever sit in this committee again, so that we can have some of those answers clarified today. Would that be a reasonable approach to proceedings this morning?

HON. A. MACKLING: It's my understanding that there will be another meeting of this committee likely and I would assume that those questions will be answered.

What I wanted now was to ensure that Mr. Holland, according to his records, had accounted to the committee for all the questions that had been put in the House or in this committee, because there had

been a number and there may be some misunderstanding as to whether questions have been answered fully or in part, because my recollection, when the Honourable Leader of the Opposition asks some questions, was that some of those questions had already been dealt with. So my question to Mr. Holland was to provide an overview and the Member for Pembina has raised a specific question, he's received an answer; if he's not satisfied, he will have an opportunity to pursue that.

I wanted to identify through Mr. Holland whether there were any other areas and I'm satisfied that there appears to be one that wasn't answered. The Honourable Member for Pembina has received an answer now; he'll be able to pursue it later.

Were there any other questions, Mr. Holland, or a committee member wants to inquire about, that has been asked and not answered?

MR. CHAIRMAN: Mr. Filmon.

MR. G. FILMON: I'm not sure what the purpose of the Minister going through this exercise is. Obviously, if questions arise that we find that there haven't been answers to, such as the one that came to mind for the Member for Pembina, we're going to ask them again, so it doesn't matter whether he's satisfied or whether Mr. Holland is satisfied. If we find that there is information that hasn't been provided, we'll ask the question.

MR. CHAIRMAN: Perhaps I could suggest to the committee that we proceed in our normal fashion. It's really through those who have indicated interest in asking questions, and perhaps we can deal with it at that time.

Mr. Orchard.

MR. D. ORCHARD: Do you have a speaking list, Mr. Chairman?

MR. CHAIRMAN: Yes, I do.

MR. D. ORCHARD: Could you read the speaking list into the record right now?

MR. CHAIRMAN: It is not the practice of the Chair of the Committee to read a speaking list. I have recognized and I have made notes of those who indicated their desire to speak in the order in which they indicated their desire to speak.

For your information, Mr. Orchard, I have recorded the fact that you are interested in raising questions and we'll recognize you at a subsequent time.

Mr. Orchard on a point of order.

MR. D. ORCHARD: Yes, on a point of order, Mr. Chairman, that exactly confirms the point that I have been making, that without knowing where we are in the speakers' list we may not get an opportunity to ask even questions of clarification on answers provided this morning.

Now, Mr. Chairman, this committee was struck, in the Minister's own words, to provide us with full and complete answers. Surely, questions of clarification on

answers given would meet the Minister's criterion of providing full and complete answers, and those questions should be answered regardless of the existence of a speaking list because there are obvious questions that have come up from the answers provided this morning. There are very obvious ones.

There are follow-up questions I would like to pose to Mr. Holland on his trip to meet Mr. Aysan in London. If the speaking list is not divulged, I may not get on the speaking list today. Therefore, I would not be able to pose those questions of clarification.

Does that not seem to be a reasonable position to you, Mr. Chairman?

MR. CHAIRMAN: Mr. Orchard, I would remind you there was a discussion approximately a few minutes ago and Mr. Filmon seemed to express the will of the committee, which was that we would proceed through our normal procedures and the members having questions, arising out of Mr. Holland's report, would raise them in the normal manner when they are recognized before the committee.

If you are suggesting that we proceed in another way, I can test the will of the committee as to whether we wish to proceed in that way, but the normal procedure is that the members wishing to speak indicate so and I recognize those members.

You, sir, have been recognized in terms of indicating your desire to ask questions before this committee.

Mr. Filmon on a point of order.

MR. G. FILMON: Yes, on that point of order, the only point I was accepting earlier was that we would listen to all of the responses before getting an opportunity to clarify. I wasn't accepting the fact that we are then now going to have to wait until perhaps the next sitting of the committee to clarify information in those responses.

I suggest to you that if you're going to do that, then indeed you are going to give the impression that this thing is going to be covered up and that members of the Opposition are going to have as little opportunity as possible to ask questions and state their views on the record.

I would think that you wouldn't want to put that impression on the record, Mr. Chairman.

MR. CHAIRMAN: Mr. Filmon, I would strongly suggest you not make aspersions towards the Chair.

My intent was clear from the beginning, which was to follow the normal procedure unless the will of the committee is otherwise.

If you are raising a point of order, I will recognize members on the point of order - Mr. Penner and then Mr. Enns.

HON. R. PENNER: I would urge you to develop a speaking list - I don't know of any rule or precedent which prohibits that - so people know where they stand and, secondly, it would be, if it's agreeable to the Opposition, if they feel they haven't had an opportunity by the time we reach twelve-thirty, to extend to, say, one o'clock. I think we want to make sure that those who are here and want to ask questions for clarification have the earliest possible opportunity. So I would think we could dispose of it in that way.

MR. CHAIRMAN: I would remind members that the normal procedure in the past is that if people wish to assure that they were on the speaking list, they contact the Chair. It has not been the practice of any Chair that I'm aware of to read speaking orders into the record. I am quite willing, if members wish to assure that they are on the record, to proceed in that fashion. Mr. Enns.

MR. H. ENNS: Well, simply to support Mr. Penner, and I want to assure you, Mr. Chairman, you are not breaking any new ground. It has been a long-standing practice to reveal, whether it is people that are making presentations before a committee, a legislative committee, to indicate at the beginning of the committee who is there. We have often tried to accommodate out-of-town people that have come, so that we know who is on the list and the order of questions has also been revealed.

I find it just astonishing that the Chairman would try to suggest that by some grace he is now about to do something that's the suggestion of the Attorney-General.

MR. CHAIRMAN: Mr. Schroeder on a point of order.

HON. V. SCHROEDER: Certainly, I agree with Mr. Penner that there would be nothing wrong with doing that, but I strongly disagree with Mr. Enns' suggestion that that is something that is normal everyday practice. I don't recall it ever having occurred during a meeting unless the public was being heard, which is a different issue altogether. We are not here listening to public presentations. We are here with members of the Legislature bringing forward discussion here. So the Chairman is absolutely correct; but, certainly, I agree with Mr. Penner that if the Chairman could be persuaded to read it out, there's nothing wrong with that, and to suggest it's a long-standing tradition is simply incorrect.

MR. G. FILMON: Mr. Chairman, the members of the committee who have sat before - for the Minister of Industry, Trade and Technology - can well recall when there have been busy committees in which many people have wanted to speak. The Chairman will often begin by saying, on the speaking list I have Mr. Enns, Mrs. Hammond, and so and so, and so and so, and so and so; is there anyone else who wants to be placed on the list, and they rattle off the list. That has been common practice in many cases. So you would be breaking no new ground and you would be offending no one by doing it, and I urge you to do it.

MR. CHAIRMAN: I indicated previously that there is no provision, certainly none in Beuchesne or the Rules. However, if the will of the committee is to read the speaking order, I can do so. It appears that the will of the committee is that; but I would indicate to members that I am doing so on the basis of the will of the committee, not in terms of any established rules.

The list I have is the order in which people indicated their interest in speaking. It's Mr. Penner, Mr. Filmon, Mr. Dolin, Mr. Orchard, Mr. Doer and Mrs. Carstairs.

MR. G. FILMON: Clearly, the Member for Pembina I know had raised his hand before I did. Perhaps you

hadn't seen that. I would be very happy to interchange with the Member for Pembina.

MR. CHAIRMAN: There are actually several members who indicated virtually simultaneously, so there'll be no problem in terms of that.

Is there anybody else wishing to get on the list now that we are talking about it?

HON. A. MACKLING: I may from time to time.

MR. CHAIRMAN: Yes, I think that's assumed. Mr. Penner.

HON. R. PENNER: I have a few questions for Mr. Provencher, and I will try to be brief about it to give others an opportunity.

If I may, Mr. Provencher? -(Interjection)- Yes, through the Chair.

MR. G. HOLLAND: Mr. Provencher will respond to the Attorney-General's questions.

HON. R. PENNER: Mr. Provencher, I want to ask you some questions about the lines of authority to which reference has been made, the Partners Meeting which was referred to in your memo of February 18, 1983, the Founders Meeting in November of 1983, and the nature of the transaction to see if we can relate what is now being supplied to us in written form to evidence previously received, and to see if we can clarify the nature of the transaction. Let me perhaps start by getting to the heart of the matter; that is the nature of the transaction.

From your previous evidence, and I have before me Thursday, 21st of August, 1986, at Page 186, where you did refer to a number of accounts payable from SADL to Al Bassam Datacom which, in addition to the note, was security for the advance.

That was referred to and it's referred to in the document today. The transaction; that is, when I refer to the transaction, I am talking about the transfer by three drafts signed by Richeh and Aysan of 1.5 million from the bank where they were in trust until the certificate of registration issued to Al Bassam Datacom. Now that has been variously described as a loan, as an advance, as a settlement of account.

What in effect was it or what actually was it?

MR. DEPUTY CHAIRMAN, M. Dolin: Mr. Minister.

HON. A. MACKLING: I don't want, Mr. Chairperson, to be a nit-picker and frustrate committee members asking questions. However, this is a legislative committee, the questions are through the Chair, and the Minister then calls upon someone to provide the answer. So it is not a direct question from a committee member to an officer of the corporation. It is through the Minister. I will take the question as having been referred through the Chair to the Minister, and I have asked Mr. Holland and he has called upon Mr. Provencher.

I would appreciate committee members recognizing the difference in directing the questions through the Chair and the Minister designating.

MR. CHAIRMAN: Well put, okay.

Mr. Provencher.

MR. M. PROVENCHER: Mr. Chairman, I would consider the transaction as an advance, and that advance is in consideration of considerable expenditures that have been undertaken by Al Bassam on behalf of the joint venture during the interim period. As I have stated, most of that was for inventory, office and apartment furniture and fixtures, leasehold improvements, tools, vehicles, and a new electronic messaging system known as Al Mursil.

During that period of time, our interim agreement stated that the expenditures should be in a 50-50 balance. As a matter of fact, Al Bassam International, during that period of time, contributed 1.7 million Canadian, whereas the MTX contribution was approximately 1.3 million.

Now the 1.7 million that Al Bassam had advanced through Telecom to the Datacom Division of Al Bassam International during the interim period for the acquisition of assets for the ultimate benefit of SADL, in my view were expenditures that were finally transferred and sold at fair market value by the Datacom Division to SADL, and I then consider that this transaction is an advance towards eventual payment and settlement of the sale of assets to the joint venture SADL.

HON. R. PENNER: Through you, Mr. Chairperson, through Mr. Holland to Mr. Provencher.

The document that was read into the record by Mr. Provencher, and which is now in the hands of members of the committee, refers to a sale of those assets from Al Bassam to SADL on June 7, 1983 in excess of 4 million Saudi rial, the question naturally arises: why wasn't the money, which was in the SADL bank account, and which now could be paid out because the certificate of registration was issued, why wasn't that simply paid as a payment of the account rather than what appears to be the case that you have an account payable, which is a receivable in Datacom and a payable by SADL, why isn't that simply paid?

Why do you have a payable that apparently is settled sometimes later and alongside of it you have something variously described as an advance or a loan at 11 percent?

MR. M. PROVENCHER: Mr. Chairman, primarily because both partners requested that the interim operations be audited by the Price Waterhouse representative in Saudi Arabia and that Price Waterhouse determine the fair value of assets to be sold from the Datacom Division to SADL. This did take some considerable period of time. This sale of assets was discussed at a Partners Meeting in February 1983. The basis for the sale was agreed in principle by the partners. On November 3, 1983 it was discussed and the basis of the sale was agreed to, but subject to the audit, to establish the fair value of the assets to be sold to the joint venture SADL. The audited statements were not presented to the board until December 13, 1984 for approval by the board. So the transaction could not be completed until the board had approved the audited financial statements that were presented for their consideration by the audit firm.

Also, this transaction was reviewed at MTX board of directors meetings. It was reviewed on February 28, 1983; September 23, 1983; and November 24, 1983. At the November 24, 1983 MTX board meeting, the board agreed to the sale of those assets subject to receipt of the audited financial statements.

HON. R. PENNER: Through Mr. Holland to Mr. Provencher, will the audited statement of Price Waterhouse with respect to the sale and the documents referred to in the memorandum that you gave us dealing with authority and so on, will they be found in the accounts for the period August 15, 1982 to June 7, 1983, and the other accounts which you say have now been requisitioned or will shortly be requisitioned from Saudi Arabia, or is some of that material presently available?

MR. M. PROVENCHER: I believe the reference is to the intercompany reconciliation. That reconciliation is for the period subsequent to June 7, 1983. We had requested that information from Saudi Arabia. My understanding is it's currently being sent by DHL Courier and that we do expect it at some period of time, and once we have reviewed that reconciliation, we will undertake to provide the basis for that settlement.

HON. R. PENNER: Specifically, will it include, and can it include - and I put this as a request - the Price Waterhouse analysis of the values that were referred to in your answer just a few moments ago?

MR. M. PROVENCHER: Mr. Chairman, I have undertaken to provide the interim operation financial statements for the period August 1982 to June 7, 1983. I do not believe that those statements will show the value of the assets sold to SADL, but will show the assets that were in the Datacom Division of Al Bassam International as of June 7, 1983, and that was the basis that the auditors then used to establish whether or not the selling price was a fair market value.

HON. R. PENNER: Specifically, there will then be a statement from Price Waterhouse in response to that question of whether or not there was a fair market value.

MR. M. PROVENCHER: Mr. Chairman, I don't believe that there is a statement. I think they had an undertaking to the SADL Board, did report to the SADL Board, and did report that it was a fair market value. There is, to the best of my belief, no formal audit report on it. It was a special assignment that was given to those auditors, not in a normal course of their audit duties, but in the course of providing additional client services, and that was a specific request from both MTX telecom service board members and also the Chairman of the SADL Board, Sheik Abdullah. The audit firm did appear at one of our board meetings and did verbally report that the asset value was fair.

HON. R. PENNER: Moving on to a related question, reference has been made in your document to a Partners Meeting on February 18, 1983, partners

presumably being representatives of Al Bassam and of MTX. Who attended that Partners Meeting on behalf of MTX?

MR. M. PROVENCHER: Mr. Anderson, myself and I'd like to check for a second.

HON. R. PENNER: Right, go ahead.

MR. M. PROVENCHER: Mr. Chairman, I'll have to check, but I believe Mr. Pedde was absent from that meeting and I had his proxy, but I'll have to verify that.

HON. R. PENNER: So that in any event, you, Mr. Chairperson, through you, were at that Partners Meeting styled, I think, because without the certificate of registration it couldn't be a shareholders meeting. You were there and Mr. Anderson and I take it that one of the principal, if not the sole, agenda item was the question of the reconciliation of accounts and the financial transactions which would take place following the issue of the certificate of registration? Is that right?

MR. M. PROVENCHER: Mr. Chairman, I can respond to the previous question more specifically. Mr. Pedde, Mr. Provencher and Mr. Anderson were at that Partners Meeting. Basically relating to that meeting, it reviewed the current status of the Datacom registration and other items that the partners had under discussion during the interim period. It did discuss the basis for the sale of assets and how the interim operations would be wound down. It did look at a proposed reporting structure, basic cash flow requirements and methods of financing for the joint venture SADL; a review of the proposed final authorization for the joint venture; a review of supply contracts; a review of the Al Mursil business proposals and the approved procedure for payment of capital for the joint venture and various other administrative items including appointment of auditors, and procedures for board meetings. So it was a rather full agenda and the agenda was specifically to set up procedures and structure of the joint venture SADL prior to its approval by the foreign investment review agency.

HON. R. PENNER: I take it that the decisions that were taken by the partners with respect to the operations of SADL were subject to the formal approval of the SADL first meeting that took place in November, 1983. Is that understood?

MR. M. PROVENCHER: Yes, Mr. Chairman, that is correct. Most of those items were brought forward and were ratified, were discussed at either the shareholders meeting or subsequent meetings of the SADL Board after it received its approval and its commercial registration number from the Minister in Saudi Arabia.

HON. R. PENNER: Just a few more questions. At the February 18th Partners Meeting, specifically, was the question of who could sign the authorizations to the bank to pay out money from that trust account, was that discussed. If so, what were the results of the discussion?

MR. M. PROVENCHER: In answer to that question, it's no. What was discussed or were the proposed final

authorizations that would apply to the joint venture when it received its commercial registration approval, they were preliminary. Some changes were suggested and that was primarily decreases in the level of authorization for disbursements. The specific authorization, I think, that we're concerned about relating to investments either in short-term investments or fixed deposits did not change from the initial draft to what was discussed at that board meeting or what was finally approved at the Shareholders Founders Meeting.

HON. R. PENNER: Specifically, paragraph 4 of your memo, indicates that the signing authorities for the bank were established on June 8, 1983 when a Mr. Tariq Al Bassam authorized the bank to accept cheques with the joint signatures of either himself, Abou Richeh or Mr. Aysan. Pursuant to what authority did Tariq Al Bassam give that authorization to the bank?

MR. M. PROVENCHER: Mr. Chairman, I believe it was based on the agreements that we had in place in our interim arrangement agreements and the signatures that he established follows that intent very closely and the banking authorities were approved at the November 3, 1983 Shareholders Founders Meeting as established by Mr. Tariq Al Bassam on June 8, 1983.

HON. R. PENNER: Just two or three other questions. In your evidence to this committee on the 21st of August, you were uncertain, let me put it that way, as to the signing authority particularly with respect to the position of Mr. Richeh and Mr. Aysan. Your memo now adds a degree of certainty that was lacking at that time. On the basis of what document or documents is this memo now drawn or is this based on, as you said you would be doing, the research of your own files and file notes?

MR. CHAIRMAN, S. Ashton: Mr. Provencher.

MR. M. PROVENCHER: Mr. Chairman, in relation to the items falling in respect to this advance we have determined that is all based on documentary items and we do have those documents with the exception of the intercompany reconciliation, which we have requested.

HON. R. PENNER: Yes. So those documents can be made available either to this committee or to Coopers and Lybrand. They are available?

MR. M. PROVENCHER: Yes they are available.

HON. R. PENNER: Finally, you have described these transactions related to the \$1.5 million advance secured by a promissory note and secured by a payable. You have now advised us that these matters were reported to the MTX Board on three different occasions. I believe you furnished the dates a few moments ago. It was your previous evidence, as I recall it, on August 21, that you had reported that matter to the SADL Board. It would be the first formal meeting on November 3, 1983, but that it had not been reported to the MTX Board. You're now saying it was reported, in fact, to the MTX Board. If so, by whom?

MR. M. PROVENCHER: Mr. Chairman, I did not say that it was reported to the MTX Board. What I said is that the sale of assets accumulated during the interim period by the partners under Datacom, a division of Al Bassam International, to SADL, were reviewed by the MTX Board of Directors. I did not advise them of the advance transaction.

HON. R. PENNER: I'll leave it at that stage so that others may have an opportunity.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Thank you, Mr. Chairman.

Mr. Chairman, I'd like to pose, first off, a couple of questions of clarification to Mr. Holland regarding the employment of Theresa Aysan by the System. Mr. Holland, I believe you indicated that when it was previously bulletined within the system internally, that no suitable candidate showed to fill that position.

Could you provide to committee at the next sitting the dates on which that position was previously bulletined?

MR. CHAIRMAN: Mr. Holland.

MR. G. HOLLAND: Yes, Mr. Chairman.

MR. D. ORCHARD: Was there an external competition for that job, external to the Manitoba Telephone System, Mr. Chairman?

MR. G. HOLLAND: I will have to obtain that information as well. My recollection is that there were periodic advertisements, but that when someone with that set of qualifications appeared and seemed qualified in all respects, and because we did have an ongoing demand for scarce staff with those skills, that we would likely offer employment. Our standard employment, by the way, is probationary for either six or 12 months pending satisfactory performance.

I will confirm the dates of advertising as well.

MR. D. ORCHARD: Mr. Chairman, given that it would appear as if the job was given to Mrs. Aysan without competition, could Mr. Holland indicate who authorized that employment or who gave the directive that the job be offered to Mrs. Aysan?

MR. G. HOLLAND: I will check and provide that information, yes.

MR. D. ORCHARD: Mr. Chairman, at the time that Mrs. Aysan was employed, was there a hiring freeze in place at the Manitoba Telephone System?

MR. G. HOLLAND: Mr. Chairman, I believe that by that time our so-called staff freeze had been essentially lifted. It's a difficult question to answer because we vigorously review our staffing requirements every year. We do have basic studies ongoing at the moment, so that I probably should go back and see if we have any references to staff freezes preceding that. But even where there is a staff freeze, we are offering new services and new programs and new skills are required. I wouldn't want

to imply for a moment that a freeze means we're not replacing vacancies and that we're not constantly acquiring new and needed skills.

I will provide a commentary on the status of the so-called freeze during that period.

MR. D. ORCHARD: Mr. Chairman, can Mr. Holland indicate whether the position filled by Mrs. Aysan, that appears to be filled without competition, was that an existing position, and if it was an existing position, how long had that position been vacant?

MR. G. HOLLAND: Yes, I'll provide that information.

MR. D. ORCHARD: Mr. Chairman, I might move on to a new topic with Mr. Holland. Mr. Holland, you've indicated this morning that you met Mr. Aysan in London from August 24 to August 29. I presume that was the year 1983?

MR. G. HOLLAND: Yes, Mr. Chairman.

MR. D. ORCHARD: Mr. Holland, could you indicate what the nature of the meeting was with Mr. Aysan in London? Was it to discuss Saudi Arabian operations that were being newly formed through SADL, and operations with the Sheik in this joint venture?

MR. G. HOLLAND: Mr. Chairman, Mr. Provencher had been in Saudi Arabia during the period July 16 to 25. When he returned, he met with Glover Anderson and I and expressed concern about Mike Aysan. He indicated that he appeared to be physically exhausted and under a good deal of strain and pressure. So Mr. Anderson and Mr. Provencher urged me to meet with Mike, knowing that he was heading for a private vacation in England.

The purposes of the meeting were to obtain a first-hand report of Saudi Arabia and the activities of Datacom, to, I suppose, demonstrate MTS's keen interest in its employees in Saudi Arabia and our support. Mike had often expressed a sense of isolation that people felt after some time absent from Manitoba and MTS; and, also, to check whether or not our backup support from Manitoba could be strengthened or improved.

MR. D. ORCHARD: Mr. Chairman, was there discussion in terms of provision of a \$1.5 million loan? Was there discussion of the fact that SADL was not receiving its corporate registry as quickly and operations had been convoluted, I guess would be the way to say, until the June 7 registration? Was the flogging incident discussed with you at that time, Mr. Holland?

MR. G. HOLLAND: Mr. Chairman, the answer would be no, no, and no. SADL did have its commercial registration by that time. It was effective June 7, I believe, 1983.

MR. D. ORCHARD: Mr. Chairman, possibly Mr. Holland is not the proper person to ask this next question to, but in answer to questions on the 21st of August, Mr. Aysan indicated that he met with Mr. Holland in Winnipeg. I believe it was when he was on holidays in Winnipeg.

Mr. Holland, was that an additional meeting or are we talking about the same meeting?

MR. G. HOLLAND: Mr. Chairman, I'm still trying to check that. I have no record on my calendar of such a meeting, so I've asked Mike if he would also check his calendar so that we have those dates.

MR. D. ORCHARD: Mr. Chairman, possibly Mr. Aysan might want to come to the mike to provide us with some additional information on his answer on the 21st of August wherein he indicates he met with Mr. Holland in Winnipeg.

MR. CHAIRMAN: Mr. Aysan.

MR. M. AYSAN: I just received the translation of my passport, which includes all my exit/re-entry visas, and I'm going through it to reconstruct the dates and locations. I will provide that information. I was in Manitoba and I did visit with Gordon, but I don't have the exact date. I can provide that information once I have gone through the data. I just received it recently, the translation of my exit and re-entry visas.

I believe it was in 1984. I'll have to check.

MR. D. ORCHARD: Mr. Chairman, I just want to read to Mr. Aysan his answer on Thursday, the 21st of August, where he indicated that in the "summer of '83, yes," to the question of whether he had met with Mr. Holland, and it was "In Winnipeg. I was - I'm trying to remember. I believe I visited Mr. Holland in his office." And "When would that meeting have taken place?" Answer: "When I was in Winnipeg in the summer of '83."

So, Mr. Chairman, I'd really appreciate if Mr. Aysan could go through the translation of his passport and provide that information.

Also, Mr. Aysan, I wonder if I might ask you what discussions you had with Mr. Holland in London, August 24 to 29, 1983?

MR. M. AYSAN: The general discussion was around what was happening at Manitoba Telephone System. We discussed the changes within the company. We discussed the management of issues in the company that related to computer communications. We discussed the support that we were getting in Saudi Arabia at the time from Manitoba and whether the support from Manitoba was adequate and what other support we needed.

We discussed my personal plans relative to when I would like to depart from Saudi Arabia. We looked for a general discussion on new staff from Manitoba to come into Saudi Arabia. Some potential candidates were reviewed and a substantial amount of discussion on my sense of isolationism and my exhaustion. At the time I met with Mr. Holland, it was in August and I had gone through one year of probably on the average of 14 to 16 hours a day without any days off and I truly was very exhausted. He was very concerned at the time about my condition and I told him that probably on my holiday I would recharge my batteries and go back.

It was largely a concern about my isolationism and my mental and physical condition at the time and my personal plans of when I was planning to return and additional people for assistance in the kingdom.

MR. D. ORCHARD: Mr. Chairman, I wonder if Mr. Aysan recalls discussion of the flogging incident or the \$1.5 million loan with Mr. Holland at that meeting in London.

MR. M. AYSAN: As I said before, I considered the caning incident as a personal issue and, no, I did not discuss it with him, and for that fact with anyone other than Moe Provencher on the phone the first time.

MR. D. ORCHARD: And the \$1.5 million unauthorized loan?

MR. M. AYSAN: No, I did not discuss the \$4.4 million rial payment.

MR. D. ORCHARD: Mr. Aysan, you indicated that you discussed the need of support to the operations in Saudi Arabia. Why would you discuss the issue of support in your operations in Saudi Arabia with Mr. Holland, who is president of MTS, when you had just met with Mr. Provencher and Mr. Anderson, both of whom were executive officers for MTX and on the board of SADL? Why was it necessary for you to discuss those particular issues of support with Mr. Holland? Was he that highly involved in the operation in Saudi Arabia that his approval was needed?

MR. M. AYSAN: No. The reason we discussed support in Saudi Arabia, I believe at that meeting I discussed my desire to return to Canada and we were discussing in terms of the next set of people coming into the kingdom should be potential replacements for myself. Also, we were talking about - he was doing an evaluation on whether MTS was supporting us on its day-to-day support in Saudi Arabia and the MTX support to us and their responses.

MR. D. ORCHARD: Mr. Chairman, once again, the question would follow to Mr. Aysan: when you discussed replacement personnel in the Saudi Arabian operation, after having just met with Mr. Provencher and Mr. Anderson, does one assume, when you were discussing personnel replacement, that Mr. Holland approved personnel who went to Saudi Arabia?

MR. M. AYSAN: Could I hear the question again, please?

MR. D. ORCHARD: Since you had just previously met with Mr. Provencher and Mr. Anderson, who are the senior operating officers for MTX, why was it necessary that you discuss personnel problems with Mr. Holland, the President of MTS?

MR. M. AYSAN: I did not meet with Mr. Anderson. I had met with Mr. Provencher and we weren't discussing personnel problems or appointments with Mr. Holland. We were talking conceptually my end of contracts and how we would pull that transition off because the appointment would be subject to MTX, SADL Board, MTX Board, prior to going to MTS Board. So it would have been an irrelevant discussion.

MR. D. ORCHARD: So that your replacement in Saudi Arabia would be approved by the MTS Board as well?

MR. M. AYSAN: I don't know.

MR. D. ORCHARD: Mr. Chairman, I may have misunderstood Mr. Aysan's previous answer where he indicated that the discussion would have to be before the SADL Board, the MTX Board and the MTS Board and hence would be irrelevant or something was his statement.

Did he not indicate that the MTX Board, a couple of minutes ago, would be involved?

MR. M. AYSAN: Could you ask me the question again, please?

MR. D. ORCHARD: Why did you refer to the MTS Board two or three answers ago in discussion of personnel replacement for yourself? In what context?

MR. M. AYSAN: I'm sorry. If my replacement, as I understand, were an MTS officer, the MTS Board, I presume, would have to approve the reappointment of one of its officers.

MR. D. ORCHARD: Mr. Aysan, how much advance notice did you have of the meeting with Mr. Holland in London, England?

MR. M. AYSAN: I can't remember that. I can't remember. I'm sorry.

MR. D. ORCHARD: Mr. Holland, might you remember how much advance notice you gave Mr. Aysan of your meeting with him in London, England.

MR. G. HOLLAND: Mr. Chairman, the merits of the meeting were discussed following Maurice Provencher's return on July 25, 1983. I expect that there likely would not have been that much notice. I can check to see if I have any further notes on it.

MR. D. ORCHARD: Mr. Chairman, this meeting in London, England between Mr. Holland and Mr. Aysan at which there appears to be, according to Mr. Holland and Mr. Aysan, no discussion of a \$1.5 million unauthorized loan, no discussion of the flogging, only general discussions of the operations of MTX and the mental and physical state of Mr. Aysan, this meeting seems to have been arranged in rather post-haste order to discuss issues which did not substantively deal with the operations in Saudi Arabia.

Mr. Chairman, I guess I find that somewhat puzzling that Mr. Holland would interrupt his very busy schedule in Winnipeg, as president of a \$400 million telephone company, fly to London, England to meet Mr. Aysan to discuss his mental and physical health and not to discuss the substantive issues that were then in the press; and I believe it was prior to that August 24, 1983 meeting, and Hansard will show whether I'm correct or not, that both Mr. Filmon and myself posed questions to you, Mr. Holland, about the existence of kickbacks or unusual payments made to secure business in Saudi Arabia to which, Mr. Holland, you might recall you answered "no."

I would ask you, Mr. Holland, if basis that committee hearing in 1983 and your subsequent visit with Mr.

Aysan in London, did you pose the question to him as to whether any kickbacks or anything that could be construed as kickbacks were used as a business practice in Saudi Arabia? Was that discussed?

MR. G. HOLLAND: Mr. Chairman, I wasn't aware of any such practices so that I would not have had occasion to question Mike on that. As far as the reasons for the visits, Mike had been a senior employee of MTS and it was implicit that he would be returning to MTS. Very unique talents were required for the appointment in Saudi Arabia and the availability of those talents were obviously critical both to MTS, MTX and Al Bassam.

We had very broad-ranging discussions. We certainly talked about the business plan and the situation, but as I have indicated earlier, I think Mike's well-being and the plan of succession were probably at the top of the list so that we were assured of the continuous availability of talented people.

MR. D. ORCHARD: Mr. Holland, you might recall - and I'll stand corrected if I'm wrong on the dates of the committee hearing - but I believe it was in July 1983 that Mr. Filmon and I posed the questions to you of kickbacks and other payments required to secure business in Saudi Arabia. Those questions were posed to you. You answered - and once again I'll stand corrected if my memory is flawed - but you said "not to my knowledge."

Now, Mr. Holland, with those kinds of questions posed, I find it difficult that you would not have asked Mr. Aysan, as the general manager in Saudi Arabia, as to whether there was any substance, why would that issue even be raised if there were not some allegation?

And I might remind committee that Mr. Provencher has indicated to committee that in perusal of the statements, I believe in 1983 - or was it 1984 - 1984, I guess, that they discovered a kickback.

Yet that question wasn't discussed at all, Mr. Holland, on your quickly arranged trip to London to meet with Mr. Aysan?

MR. G. HOLLAND: Mr. Chairman, I don't know that quickly arranged is a proper description. It would seem that there likely was at least a month's gap during which the possibility of Mike being willing to give up a couple of days on his vacation and my ability to join him, would have been discussed, so it doesn't appear that it was hastily arranged.

As far as the other questions, I suppose my concerns would be the appropriate organizational structures and appropriate staffing and code of conduct and audit processes, so my attention would likely be directed there.

MR. D. ORCHARD: Mr. Chairman, I won't pursue that line of questioning with Mr. Holland anymore.

Mr. Mackling, can you indicate upon whose advice you and your colleagues chose the Coopers and Lybrand group to do the management audit?

MR. CHAIRMAN: Mr. Orchard, do you have any further questions for Mr. Aysan at the present time?

MR. D. ORCHARD: No.

MR. CHAIRMAN: Mr. Mackling.

HON. A. MACKLING: The recruitment of Coopers and Lybrand was one in which we sought the advice of senior government staff as to who might be appropriate. Government departments have involvement with management agencies and information was obtained from them as to who we could look to, and from that list we were able to obtain the services of Coopers and Lybrand.

MR. D. ORCHARD: Was anyone in the Telephone System consulted as to the appropriateness of Coopers and Lybrand?

HON. A. MACKLING: I don't recall that I contacted anyone in the Telephone System. I think there may have been discussion of that firm with the Chair of the Telephone Board. There may have been. I didn't discuss that personally.

MR. D. ORCHARD: Mr. Chairman, I see the chairman is coming to the mike. He might wish to elaborate.

MR. CHAIRMAN: Ms. Edmonds.

MS. J. EDMONDS: No, Mr. Chairman. I learned of the Coopers and Lybrand appointment as a fait accompli. I had been involved in some discussions about the appropriate process, and the MTS Board and I myself, as Chair, took the position that we wanted to make sure it was an arm's length process and recommended that the Department of Industry, Trade and Technology be asked to provide a list of six firms who were accustomed to operating on an international scale and had the necessary skills. I understand that was done and that the selection was made accordingly.

But as I say, if you're asking whether I had any input or anybody in the system had any input into the actual choice, the answer is no, by our own wish.

MR. D. ORCHARD: Mr. Chairman, a question to Mr. Mackling. How has Coopers and Lybrand been appointed? Is that by Order-in-Council?

HON. A. MACKLING: No, I don't recall there having been an Order-in-Council. I don't believe one is necessary.

MR. D. ORCHARD: Mr. Chairman, then, who has retained their services; who has signed the contract, presumably; what is the value of the contract?

HON. A. MACKLING: I'll have to confirm under which department the formal engagement is.

MR. D. ORCHARD: Mr. Chairman, when might the Minister be able to confirm that with all of the Cabinet Ministers he has around this table?

HON. A. MACKLING: Well, Mr. Chairperson, I will ignore the sarcasm.

MR. D. ORCHARD: No sarcasm, Mr. Chairman.

MR. CHAIRMAN: Order please.
Mr. Mackling.

HON. A. MACKLING: Mr. Chairperson, I was more concerned, as a Minister, in being satisfied that a consulting firm was engaged that had the capacity and the recognition to be able to carry out the work and that the terms of reference were broad enough to satisfy the kind of thorough management audit necessary.

I haven't been particularly concerned about the formality of the arrangements. I certainly can confirm that later.

MR. D. ORCHARD: Mr. Chairman, a simple question: Has a contract been signed with Coopers and Lybrand? Are they currently retained by the government or someone?

HON. A. MACKLING: Yes, they have been engaged and I will confirm the details of that engagement to the honourable member.

MR. D. ORCHARD: Mr. Chairman, will the Minister's knowledge that he's going to impart to the committee at some time include who signed the contract, under what authority, under what appropriation, how much the contract is worth?

HON. A. MACKLING: Certainly.

MR. D. ORCHARD: And, Mr. Chairman, would the Minister - does he think he might be in a position to provide that answer for question period today, or would that be too soon to ask the Minister for that kind of obvious information?

HON. A. MACKLING: I will endeavour to provide that information as soon as I can; and if it's available and if I'm satisfied that I can give the full information that I suspect the honourable member needs, I will give it during question period.

MR. D. ORCHARD: Mr. Chairman, I just find this simply bizarre that the Minister responsible for the Telephone System does not even know who and how and for how much we have retained Coopers and Lybrand, the consultant firm that he's hanging his hat on, to do this great investigative job of getting to the bottom of the mess in MTX and MTS, and he doesn't even know who signed the contract or what the value of the contract is. I find that just incredible, Mr. Chairman.

HON. A. MACKLING: Well, Mr. Chairperson, I am going to ignore the sarcasm and the rhetoric of the honourable member.

My concern, as I indicated, was to ensure the engagement of an internationally respected and capable firm of consultants.

When the honourable member in his question says I don't know who and for how long, the honourable member knows that we have confirmed the name of the company. We've confirmed the terms of reference. We've confirmed the length of the contract, anticipated to be 60 days.

The honourable member is wanting to know under what line, what appropriation, what specific authority; yes, I will provide all that information.

MR. D. ORCHARD: Mr. Chairman, since the government has placed Mr. Curtis in charge of MTX operations, did Mr. Curtis have input into the consulting firm chosen?

HON. A. MACKLING: Mr. Chairperson, I'm not sure whether others may have talked to Mr. Curtis. I did not ask Mr. Curtis personally about the consulting firm.

MR. D. ORCHARD: Mr. Chairman, was this a Cabinet decision to choose Coopers and Lybrand? Is that how the decision was finally arrived?

HON. A. MACKLING: Mr. Chairperson, I don't recall that it was a formal Cabinet decision. It was a decision of government. I certainly took the advice of colleagues in respect to the recruitment of the firm.

MR. D. ORCHARD: Mr. Chairman, could the Minister enlighten us on which of his colleagues highly recommended Coopers and Lybrand?

HON. A. MACKLING: Well, Mr. Chairperson, I don't think that I can recall precisely which colleague recommended whom. I know that there was a list developed. We were concerned that there not be any conflict. I know that at one stage it appeared that one particular firm seemed to be appropriate, but we later determined that there would have been a conflict because of their involvement with I believe another telephone company or other interests, so we weren't able to use that firm.

We went through the list and were satisfied that Coopers and Lybrand did not pose a conflict problem, satisfied our requirements, and we proceeded to engage them.

MR. D. ORCHARD: How did you find out that Coopers and Lybrand was in Saudi Arabia with, I believe you've indicated, 50 or 60 personnel?

HON. A. MACKLING: I didn't personally make those inquiries, but I was given that information that Coopers and Lybrand had the capacity and did have offices in Saudi Arabia.

MR. D. ORCHARD: Who advised you of that, Mr. Mackling?

HON. A. MACKLING: I don't specifically recall now who gave me that advice. I know that it came through a government department.

MR. D. ORCHARD: Well, Mr. Chairman, could Mr. Mackling undertake to indicate where that advice came from because it seems to be front and centre in his explanation of the choice of Coopers and Lybrand?

HON. A. MACKLING: Well, Mr. Chairperson, I don't recall precisely the source of the information. I will endeavour to confirm how the information as to the capacity of Coopers and Lybrand was verified.

I know I was satisfied that they had the capacity to deal with the questions we were putting to them.

MR. D. ORCHARD: Mr. Chairman, I would like to pose some questions to Mr. Holland on the operations of the Telecom Canada Board.

How many members are on the board, Mr. Holland?

MR. G. HOLLAND: One representative of each of the member companies, Mr. Chairman.

MR. D. ORCHARD: And how many member companies are there, Mr. Holland?

MR. G. HOLLAND: I believe it's 10; Newfoundland Tel; MT and T; Island; N.B. Tel; TELESAT; Bell; MTS; SASK TEL; HET; and B.C. Tel - 10.

MR. D. ORCHARD: Mr. Chairman, to Mr. Holland: Who is our representative on the Telecom Canada Board?

MR. G. HOLLAND: Mr. Chairman, I've been the director since May 1, 1974.

MR. D. ORCHARD: I would presume that makes you probably one of the senior members of the Telecom Canada Board, Mr. Holland?

MR. G. HOLLAND: Probably third senior.

MR. D. ORCHARD: Mr. Holland, you would no doubt have gained some influence on that board with that kind of seniority. Would that be a fair assessment?

MR. G. HOLLAND: Mr. Chairman, I don't think influence equates with seniority. Decisions are taken collectively and by unanimous agreement of the board every member certainly has full opportunity to make representation.

MR. D. ORCHARD: Mr. Chairman, Mr. Holland mentions an interesting thing there that decisions are by unanimous consent of the board.

Does that indicate that a member of the board, one of the 10 members, can veto any decision?

MR. G. HOLLAND: Theoretically, Mr. Chairman, that is true. It's obviously used with great care and discretion because one must consider the overall interests of Telecom Canada which provides the national network and makes sure that it progresses satisfactorily.

MR. D. ORCHARD: Would the Telecom Canada Board be involved in decisions such as the awarding of consulting contracts, etc.?

MR. G. HOLLAND: The Telecom Board would be involved in ratifying the operational budgets and in certain areas would be involved in the awarding of contracts, including consulting contracts.

MR. D. ORCHARD: Would there be a value above which for consulting contracts board approval was needed?

MR. G. HOLLAND: I should check that specifically, but I believe not. I think one area, for instance, that has been reviewed in the past are research contracts that are awarded; and those vary in size and are usually reviewed by the board.

I should add that normally the investments are made by the member company, not by Telecom Canada, so

the member company investment required must be brought back and ratified by the MTS authority.

MR. D. ORCHARD: Mr. Chairman, could Mr. Holland indicate whether Coopers and Lybrand has recently been awarded a \$500,000 contract by the Telecom Canada Board?

MR. G. HOLLAND: Mr. Chairman, I believe that Coopers and Lybrand was awarded an organizational or internal study by the president of Telecom Canada and the results have become available and are under review.

MR. D. ORCHARD: Mr. Chairman, when Mr. Holland indicates that the president of Telecom Canada awarded that to Coopers and Lybrand, was that with the unanimous approval of the Telecom Canada Board, all 10 members, of which you are a member?

MR. G. HOLLAND: Mr. Chairman, The contract was awarded by the president under budgetary provisions that he had had approval for. I have no knowledge of the amount of the contract and it did not come before the board for approval. It was within the president's authority, presumably, to award it.

MR. D. ORCHARD: Mr. Holland, you indicate that contract and the results of that study are currently being reviewed. Is there a situation where further contracts for consulting work may emanate from the original contract given to Coopers and Lybrand?

MR. G. HOLLAND: Mr. Chairman, the nature of that study was the adequacy of Telecom Canada's structures and the report was done and recommendations have been made. It seems to me to be a one-time commission and wouldn't obviously lead to extensions.

MR. D. ORCHARD: So, Mr. Holland, your understanding then that you're giving to committee today is that there would be no instance where, as a basis of work done by Coopers and Lybrand on a contract awarded by the president you indicate, report of which has been received, that you do not believe there would be any future work tendered at which Coopers and Lybrand may wish to submit a bid, and naturally in doing so wish to be accepted as the person doing the work and that such work, such contract you don't believe is a follow through of the work that's done and hence wouldn't come before the Board of Telecom Canada.

MR. G. HOLLAND: Mr. Chairman, I hope I didn't say that. Coopers and Lybrand is a very prominent consulting firm. They have a very sound track record and there would be no reason why they would not be eligible to make proposals in the future to Telecom Canada.

MR. D. ORCHARD: Mr. Chairman, I didn't indicate anything in terms of Coopers and Lybrand's abilities. Mr. Holland, I asked whether the nature of the original contract, work which has been completed, report submitted, whether to your knowledge - and I believe you indicated that there was no follow-up contract emanating from the original work done by Coopers and Lybrand - is that correct?

MR. G. HOLLAND: Not to my knowledge, Mr. Chairman, but I can ask the president of Telecom Canada and clarify that, if that would help.

MR. D. ORCHARD: That would be appreciated, Mr. Chairman.

HON. A. MACKLING: Mr. Chairperson, I wanted to put further information on the record in respect to the contract in respect to Coopers and Lybrand.

It's my understanding that the contract will be with Crown Investments. The amount of the contract is being negotiated. There was not a view that there was any conflict of interest. Coopers and Lybrand were concerned or we were concerned to make sure there was no conflict of interest in engaging that firm, and we're satisfied of that. We're satisfied that the quality of the work here is very important. We have reviewed the terms of reference with Coopers and Lybrand and they have started to engage the work.

As I'd earlier indicated, the Coopers and Lybrand firm appears to have access in Saudi Arabia, having staff there. We fully anticipate they'll be able to provide the report that we have requested in 60 days. They do have very reputable and world recognition in respect to their capacity; and we're satisfied that they will do the kind of review and audit that we feel is necessary.

MR. D. ORCHARD: Mr. Chairman, the Minister indicates that he expects a report in 60 days. The work has already commenced. When approximately is that 60-day time period. Would that make it the end of October?

HON. A. MACKLING: I think that estimation would be all right, probably early November.

MR. M. DOLIN: Thank you, Mr. Chairman.

I'd like to thank Mr. McGuire for providing me with the briefing book and I'm wondering through you, Mr. Chairman, if I could ask a couple of short questions on this before I get to the main area.

This briefing manual if I'm clear, correct me if I'm wrong, is the briefing manual supplied for all MTS employees under the Bell subcontract and to MTX employees involved in SADL, is that correct?

MR. J. McGUIRE: Mr. Chairman, it certainly is the document that's provided to all MTS employees and MTX employees who go over to SADL or Al Bassam.

I believe, if my recollection is correct, Mr. Dolin, it is an adaptation of the Bell document. So I would imagine that the people are employees who go over on the Bell project, have a similar one but it might be revised, I'm unaware of that.

MR. M. DOLIN: Just another quick question.

The date on this is June, 1984. I'm wondering what was the document used before June, 1984. Was that the Bell document and if so would it be possible to get a copy of that document?

MR. J. McGUIRE: Mr. Chairman, I can undertake to get from our personnel officer what was used prior. I believe that it was the Bell document itself but I would like to confirm that. I'll undertake to provide that answer.

MR. M. DOLIN: Okay, I would appreciate that. Thank you that's all I have on that.

I'd like to get into the matter of the kickback or kickbacks. Perhaps through Mr. Holland just to try and set the stage because I'm really not clear whether there was one kickback or two kickbacks.

In June, 1984, MTX adopted the Code of Business Conduct at the board meeting I understand, and there was a memo sent out on July 11, 1984 to all employees. Was there any particular reason for this being done either through the Minister or Mr. Holland, whoever is appropriate, to this being done at this particular time?

HON. A. MACKLING: I'm not sure, Mr. Chairperson, where this line of questioning leads. I would like to point out that while all members of this committee are interested in knowing all of the details about any alleged wrongdoings, the RCMP have for some time been involved in investigations and if there is and there appears to have been corroboration for a kickback involving someone other than the SADL employee, but if there is any reference to the alleged kickbacks that are referred to in the affidavit, I think that's an appropriate matter to be left with the RCMP. I won't argue with my colleague. I didn't know his line of questioning. I'm just indicating my concern that we not ask questions that might affect the criminal investigation.

MR. M. DOLIN: Through you to the Minister; no, I have no intention of doing that. What I'm dealing with are items that are already on the public record brought out at previous meetings dealing with the firing of Chafe Abou Richeh, the charges by Saudi Arabian authorities, etc. I am not clear from the testimony whether or not there were one or two. Also, the findings of Mr. Provencher of the little note with the unauthorized payment. I'm not clear whether this is one incident or another incident, when they took place, etc., and what has happened since then. So that's the reason for the line of questioning.

To go back to my original question: In June of '84 when the MTX Code of Business Conduct was adopted, was there any specific reason - and I think you can understand the reason for the question - had one or more incidents come to the attention of either SADL or MTX at this time which precipitated the establishment of the MTX Code of Business Conduct?

MR. G. HOLLAND: Mr. Chairman, I'll have to ask Mr. McGuire to confirm. It's my recollection that the Department of Crown Investments at that time was urging the different agencies to ensure that this type of a standard was adopted on the corporations. MTS, of course, had a code of conduct for some years by that time, but I wonder if Mr. McGuire's counsel would confirm that.

MR. J. MCGUIRE: I confirm what Mr. Holland said, Mr. Chairman. With the additional information, that at the time we were reviewing the MTS code of business ethics and it was deemed appropriate, coincidentally, to apply one and draft one for MTX Telecom Services.

MR. M. DOLIN: A further one on that just to clarify: what were MTX employees operating under prior to

June 1984? Were they operating under the MTS code of conduct, or was there some code of conduct prior to June 1984?

MR. J. MCGUIRE: Mr. Chairman, the MTX employees were operating under the MTS code of ethics.

MR. M. DOLIN: My understanding from what has already been previously put on the record, on December 1, 1984, Chafe Abou Richeh was terminated as president of SADL. He was also terminated, I gather, by Al Bassam Telecom and Al Bassam Datacom as presidents of those two corporations. On December 4, 1984, there was a board meeting where information took place. I'm curious about the firing on December 1, which was three days before the board meeting. Who fired him and for what reasons at that time?

MR. G. HOLLAND: I have no knowledge in that area. I don't know whether Mr. Provencher has any information.

MR. CHAIRMAN: Mr. Provencher.

MR. M. PROVENCHER: As I have previously indicated to the committee, Sheik Abdulla told us that Chafe Abou Richeh's services and positions, and associations with Al Bassam International were terminated. He didn't specifically give us any one reason for the termination.

MR. CHAIRMAN: Mr. Dolin.

MR. M. DOLIN: Just to clarify. When he was terminated as president of Al Bassam Datacom and Al Bassam Telecom, did that automatically terminate his presidency of SADL by Sheik Abdulla, is that how is his termination of SADL took place on December 1?

MR. M. PROVENCHER: Mr. Chairman, I think they are all separate positions and I think there were three terminations for Telecom, Datacom and SADL, all effective December 1.

MR. M. DOLIN: The Sheik, as Chairman of the Board of SADL, had the power to fire him on December 1 and fired him from all three positions. Is that correct?

MR. M. PROVENCHER: Mr. Chairman, under our original interim arrangements and continuing throughout the joint venture, our Saudi partners have the right to appoint the president, so it was an Al Bassam appointment. Seeing as how he was an Al Bassam appointment, they also had the right to terminate his services and they did that for SADL; they did that for Datacom; they did that for their own company, Telecom. They also, at that point, terminated his position as a director of the joint venture, SADL.

MR. M. DOLIN: I'm not clear who replaced him as president of SADL after December 1?

MR. M. PROVENCHER: He has not been replaced, Mr. Chairman.

MR. M. DOLIN: Is there an acting president, and if so, who is it?

MR. M. PROVENCHER: There is no acting president.

MR. M. DOLIN: Who then takes the responsibilities for signing authorities, etc., delegated to the president if there is no acting president? Who is the individual or individuals responsible for either taking up those duties or sharing those responsibilities?

MR. M. PROVENCHER: The general manager.

MR. M. DOLIN: Whom at this point?

MR. M. PROVENCHER: Mr. McInnes.

MR. M. DOLIN: On the December 4 board meeting, it was reported on the record that the partners were advised that the Saudi authorities had charged Chafe Abou Richeh for "attempting unwarranted payment to a Saudi government official." That was on the record. Is this the same payment discovered by you when going through the records of Al Bassam Datacom, which was referred to as an unwarranted payment to a bank representative, or is this yet a different incident?

MR. M. PROVENCHER: Mr. Chairman, I think what I read into the record is that the chairman at a Partners Meeting, not at a board meeting, advised that serious charges were pending by the Saudi authorities against a manager of the Telecom Division of Al Bassam International. That is not Mr. Richeh; that is a manager in Riyadh and that transaction is a transaction in Telecom and we have no direct knowledge of what that is.

MR. M. DOLIN: At that December 4 Partners Meeting, this was the meeting where I understand Mike Aysan reported that an unwarranted payment had been made to a bank representative, which was signed by Chafe Abou Richeh, which you subsequently found around October of 1985 and went back and doublechecked if this was the same thing. Is that correct? Am I correct in that understanding?

MR. M. PROVENCHER: Mr. Chairman, there is no way that I could verify whether it was one and the same payment. I was advised that it related to the same payment.

MR. M. DOLIN: Just some further clarification. I think it's becoming clear that the person charged by the Saudi authorities was not Chafe Abou Richeh? Is that correct?

MR. M. PROVENCHER: That's correct.

MR. M. DOLIN: Chafe Abou Richeh, however, was fired on December 1 by the Sheik, which was within his authority as President of SADL, for reasons unspecified. Is that correct?

MR. M. PROVENCHER: We were informed that it was for a variety of reasons, but no specific reason was given.

MR. M. DOLIN: At the Partners' Meeting on December 4, were any reasons elucidated on for the firing of the

President of SADL by the Sheik or any of the representatives of Al Bassam?

MR. M. PROVENCHER: Sheik Abdulla told us that he terminated Mr. Richeh's total association with the Al Bassam family or Al Bassam group of companies or any companies associated with the Al Bassam group.

MR. M. DOLIN: But specified no specific details as to his reasoning for doing that? Am I correct?

MR. M. PROVENCHER: Mr. Chairman, I don't think it was anything specific, but I think he implied it was related to the incident and may have held Chafe personally responsible for that incident, but I have no direct knowledge. Also, no one was charged on that incident, on SADL or Datacom, it was in Telecom. It was not associated with the partnership or joint venture between MTX and Al Bassam International.

MR. M. DOLIN: I'm just trying to get this clear in my mind because there seems to be three corporations involved, one president to three corporations in two definite incidents; one involving possibly Chafe Abou Richeh, which is the payment to the bank representative; the other the unwarranted payment, which was some other employee of Al Bassam Telecom. Is that a correct understanding first before I get into the next question? Am I understanding correctly that is the case, that there were two separate incidents, one involving possibly Chafe Abou Richeh and one involving an employee of Telecom, of Al Bassam Telecom, for which he was being held responsible by the Sheik and he was therefore terminated by the Sheik in all three presidencies? Is that a correct understanding of what happened?

MR. M. PROVENCHER: Mr. Chairman, I think I would like to identify that I don't know whether it's one or two transactions. I have no direct knowledge, haven't seen any documentary evidence, because I could not substantiate that. So I don't think I could form an opinion except what I was advised. I was advised they were related to the same transaction. Now, that may or may not be factual. I have no way of knowing that.

Now, the transaction in Telecom is separate and does not relate to the joint venture or the partners of the association between MTX and Al Bassam.

MR. M. DOLIN: Perhaps you can just clarify the confusion I have in my mind. If it was Telecom where there was an unwarranted transaction where the Saudi Arabian authorities had laid a charge, it had previously been reported, on the record, that an unwarranted payment was made to a bank representative by Al Bassam Datacom, not Telecom, which is the undated receipt you found from Al Bassam Datacom. So I'm just wondering, in my mind it strikes me as if there are two specific and distinct incidents. I have no specific malice myself either. I'm just trying to clarify in my mind: is this one incident, two incidents? It would appear to me to be two separate incidents involving two separate individuals, possibly.

Am I correct in that perception?

MR. M. PROVENCHER: That may be very well correct, in your assumptions, but I think until further evidence

is collected on it and the RCMP has had a chance to look at it and collect their various evidence, who knows? It may be one; it may be two. I don't know. I think I've tried to be very factual with this committee relating to that incident. I've given you the best information that I have.

MR. M. DOLIN: I understand that and I'm just trying to clarify in my own mind what we're looking at here.

I'm also of the understanding that neither of these, if it's one or two, neither the single incident nor both incidents involved either SADL or MTX but were both by companies under the Al Bassam corporate flag. Am I correct in that understanding?

MR. M. PROVENCHER: That is correct, Mr. Chairman, and I've also been advised by Arthur Andersen, who have done the audits since June 7, 1983 on behalf of MTX Telecom to form an opinion in their financial statement, that they are not aware of any unwarranted payment transactions in SADL, the joint venture.

MR. M. DOLIN: I think it's becoming clear in my mind what happened here and who Have there been any incidents reported - I noticed that you also advised Mr. Aysan, who was then general manager, to remind all staff to adhere to the MTX code of business conduct after that December meeting.

To your knowledge, have there been any reports or any suggestions of any unwarranted payments made by either SADL or by MTX, either before or after that board meeting in December of 1984?

MR. M. PROVENCHER: Mr. Chairman, I do not manage MTX, but I do receive the audited financial statements from Arthur Andersen. To the best of my personal knowledge and based on the control systems that are in place, I believe that there are none.

As to the extent of unwarranted payments in Saudi Arabia, I think that is a matter for the RCMP to review and the extent of it, I do not know. I have no direct personal knowledge.

MR. M. DOLIN: I have more questions, but the Leader of the Opposition . . .

HON. A. MACKLING: Mr. Chairperson, if there is leave and agreement, certainly I think it may be to the advantage of members to waive the 12:30 hour and go later. If it's your will and pleasure to go to one o'clock or one-thirty, I'm certainly agreeable. Until one o'clock, Gary, what do you want?

MR. G. FILMON: I might just point out that out of a two-and-a-half hour meeting, one of our members had an opportunity to ask questions for approximately 40 minutes. We obviously had a great desire, and I know the Minister and I know the government knew that we had a great desire to ask many questions. I know the Member for River Heights is on the speaking list. If this is your idea of a full and open inquiry into this matter . . .

MR. CHAIRMAN: Order please. The question has been raised as to whether the committee will adjourn at 12:30

or, by leave, continue to allow the members to ask questions.

On that point, Mr. Penner.

HON. R. PENNER: On the question, certainly we're prepared to grant leave and I indicated that at the beginning out of my concern to make sure. Given the number of people who had indicated they're on the speaking list, that the Opposition had all of the opportunity. We've had, in terms of questioning, myself and Mr. Dolin - that's two. You've had Mr. Orchard and I think that Mr. Filmon is next on the list, as I understand it. Leave, until 1:30.

MR. CHAIRMAN: Is it the will of the committee to proceed past twelve-thirty? (Agreed) Is one-thirty an acceptable time?

MR. G. FILMON: It depends how long Mr. Dolin is going to go. If he's going to go until 1:30, then there's no point in us going.

MR. CHAIRMAN: There appears to be leave to proceed past 12:30.

Mr. Dolin.

MR. M. DOLIN: Thank you, Mr. Chairman.

MR. G. FILMON: Can we clarify, Mr. Chairman. I don't know if there's unanimity here on whether . . .

MR. CHAIRMAN: Yes, I think Mr. Filmon, 1:30.

MR. G. FILMON: As long as the government is prepared to permit us to go, yes.

MR. CHAIRMAN: Yes, Mr. Dolin is finished in a moment or two.

MR. M. DOLIN: I just have two very short questions. I think I'm clarified on the matter of the unwarranted payments. Just for curiosity, is anyone aware of what happened to the Saudi charges against the employee of Telecom? What was the disposition of those charges and is there any record available to us on those charges?

HON. A. MACKLING: I'll ask Mr. Plunkett or Mr. Provencher whether they have any information on that. Mr. Provencher, do you have any information on that?

MR. M. PROVENCHER: Mr. Chairman, to the best of my knowledge, we do not believe that they proceeded with the charges.

MR. M. DOLIN: One further question. Does anybody know the present whereabouts of Chafe Abou Richeh and is he available, should he be required?

MR. M. PROVENCHER: Mr. Chairman, I have not seen Abou Richeh since December 4, 1984.

MR. M. DOLIN: Do you know where he is?

MR. M. PROVENCHER: I believe he's in Saudi Arabia. His direct location, I have no direct knowledge.

MR. M. DOLIN: Thank you very much. That finishes my questions.

MR. CHAIRMAN: Mr. Filmon.

MR. G. FILMON: Thank you, Mr. Chairman.

My questions, I think, primarily involve a clarification of much of the information, to begin with, that was given to committee at the beginning of the morning. I'll try and recall most of the information.

I believe the first questions involved Mr. Provencher's report. He indicates that audited financial statements for the period August 15, 1982 to June 7, 1983 for the company as it was operated at that time, as Datacom, a division of Al Bassam International, that those audited financial statements are available, but they're in the hands of the partner, the Sheik's company, and that they've been asked for but not yet received. Is that correct?

MR. M. PROVENCHER: That's correct, Mr. Chairman. Those statements do relate to the interim period. They do relate to Al Bassam International Datacom; and yes, we will request them and provide them to the Committee.

MR. G. FILMON: In effect, we were operating under the Sheik's corporation and it was an understood agreement that we would pick up 50 percent of the costs of that operation, and whatever proceeds were there; and that it was indeed 50 percent of our money involved in that operation despite the fact that it was operating under the Sheik's registration.

MR. M. PROVENCHER: Mr. Chairman, the principals of that operation were set out in the interim agreement that I referred to in my comments this morning. And there was an agreement on a 50-50 balancing. But at specifically June 7th, as I've stated this morning, Sheik Abdullah had \$1.7 million Canadian, and we had \$1.3, which was slightly out of balance.

MR. G. FILMON: A further question on that, has any representative of our side of the partnership ever received or seen copies of those audited financial statements for that period of operation, from August '82 to June '83?

MR. M. PROVENCHER: All the board members of SADL would have seen those statements. They were reviewed on a preliminary basis. There was a discussion with the auditors. And based on that review of the board, the statements were finalized.

I saw the draft but I didn't see the finalized ones. We're going to request the signed ones by the audit firm.

MR. G. FILMON: Mr. Chairman, why would we not have required to have a copy of those financial statements three years ago? Why is it just now that we're interested in seeing those financial statements that were very crucial to our initial investment in the matter, to our sharing of the costs of the operation that had taken place in that preceding year? Why is it just now that we've peaked the interest of the partners and the representatives of MTX-MTS on the board?

MR. M. PROVENCHER: I think we've always had an interest, Mr. Chairman, and we did insist at the audit. We did review the preliminary statements. I did see the final statements, but they're in Saudi Arabia.

We did follow through completely on a 50-50 sharing agreement. We then, at that point, did agree on the sale of assets. I think a very responsible position was carried out; and a position I think that will stand the test of time relating to those statements and those financial transactions.

MR. G. FILMON: But why? Was there something that prevented us from bringing those statements home, that we could only leave them with the Sheik's company? What prevented us from having that financial data available to people who, I would assume should have been interested, on the Board of MTX, or on the Board of MTS, who at that point were already responsible for a million-and-a-half dollars of invested capital over there?

MR. M. PROVENCHER: Mr. Chairman, I did review the draft audited financial statements with the MTX Board at that point. There were no significant changes from those. And at the subsequent trip I just didn't get the final ones. I'll have to obtain them now. But I'm confident that there is no significant changes from the ones I've seen, and that I fully disclosed to the MTX Board and discussed with them on the basis of finalization for the final transfer of assets to SADL.

MR. G. FILMON: Well then, are we in possession of a copy of the draft statements that were reviewed by the Board of MTS with Mr. Provencher? Are we in possession of a copy of the draft statements?

MR. M. PROVENCHER: I do have a copy of the draft statements, but I do have some notations on them. I would rather get the final statements - the signed statements - from the auditors because those are the ones I would like to put on the public record.

MR. G. FILMON: Well then, is Mr. Provencher indicating that he's going to table those finalized statements for this Committee and members of the House?

MR. M. PROVENCHER: Yes, Mr. Chairman, I had that undertaking this morning.

MR. G. FILMON: Okay. The further testimony of Mr. Provencher indicated, I think in response to questions by Mr. Penner, that Price Waterhouse had done an evaluation - not quite an audit - but an evaluation of fair market value of everything that occurred at the date of transaction, June 7, 1983, and that that was verbally reported to a partner's meeting of SADL. Is that correct?

MR. M. PROVENCHER: That would have been reported at the SADL Board meeting.

MR. G. FILMON: Did Mr. Provencher indicate that there's nothing in writing with respect to Price Waterhouse's evaluation of fair market value?

MR. M. PROVENCHER: Mr. Chairman, we did provide them with a schedule and then they reviewed that

schedule; and basically formed the opinion that it was consistent with generally accepted accounting principles; and it did represent fair market value.

MR. G. FILMON: Did Mr. Provencher table a copy of that opinion?

MR. M. PROVENCHER: As I said, it was a verbal opinion. Also in reference to the auditors, they're associated with Price Waterhouse. They are not a Price Waterhouse firm as we would associate them in Canada or the U.S. They're an associate of Price Waterhouse.

MR. G. FILMON: Presumably they made an inter-company reconciliation of the assets that were being included in the establishment of the company as of June 7, 1983. Is that available for filing along with the financial statement for that period that we're talking about?

MR. M. PROVENCHER: We could undertake to make that available.

MR. G. FILMON: Mr. Chairman, Mr. Provencher indicated that the difference between our investments in the company as partners was that Al Bassam had approximately \$1.7 million invested at the time; and we, through MTS or MTX, had \$1.3 million invested; and that was therefore to offset a \$1.5 million loan to Al Bassam International. Is that correct?

MR. M. PROVENCHER: Well, Mr. Chairman, those advances to the partnership, during that period of time by both MTX and Al Bassam, were for the ultimate benefit of SADL; and those funds were specifically used for the interim operations and for the acquisition of assets, and inventory and the other items that I previously stated this morning; and which assets formed the basis of the sale and the ultimate security for the advance to Al Bassam International Telecom.

MR. G. FILMON: Yes, Mr. Chairman, but the difference between our respective investments at that point was about \$400,000, yet the advance was \$1.5 million loan that we were making. Is that correct?

MR. M. PROVENCHER: If you add those two figures together, it's about \$3.1 million, which is considerably higher than the \$1.5 million, which meant that the asset base was considerably higher. That was accumulated during the interim period of Datacom.

Now those expenditures in acquisition of assets and acquisition of inventory under the interim agreement were agreed to be shared on a 50-50 basis. I should also mention that for the Tandem Computer and for the Al Mursil software, that MTS did have an irrevocable letter of credit from the Byblos bank which was greater than the MTX subscription for share capital at that point in time.

MR. G. FILMON: Was MTS absorbing any costs in that interim period?

MR. M. PROVENCHER: The interim operations were carried out through MTX Telecom Services, Mr. Chairman.

MR. G. FILMON: The reason I ask that is that on August 21, in response to questioning about the 1.5 million loan, Mr. Aysan says, and I'll quote: ". . . and MTS was absorbing some of the salary costs, etc. I believe they were attempting to keep it on a 50-50 basis." Then he says: "If I recollect properly, the equity capital from both partners had to be put in trust, and this is just a recollection, with the legal firm that represented both partners for the Foreign Investment Review Board."

So Mr. Aysan was making an incorrect reference there, was he, when he referred to MTS paying salaries? It was actually MTX?

MR. M. PROVENCHER: Mr. Chairman, as I've previously identified to this committee on previous occasions, during the initial startup of MTX Telecom Services, all accounting, payroll, disbursement functions were done on our behalf by Manitoba Telephone System. We did pay them the costs associated with that. Any costs associated with payments to employees who were on MTX assignments that were paid through the MTS payrolls were fully charged back to MTX Telecom Services. So any costs associated during the interim period that would have been disbursed by MTS were charged back to MTX, charged back to the joint venture.

MR. G. FILMON: So at the time that the reconciliation was being made where the interim operation was folded into the permanent operation, SADL, there had been 1.7 million invested by Al Bassam in terms of their expenditures and 1.3 million by MTX. Am I correct on that point?

MR. M. PROVENCHER: Yes, Mr. Chairman. I may identify that to get that figure, you have to take the irrevocable letter of credit into consideration.

MR. G. FILMON: So part of Al Bassam's investment, part of their 1.7 million was an irrevocable letter of credit?

MR. M. PROVENCHER: That's right, Mr. Chairman, which we discounted at the bank and received full payment for.

MR. G. FILMON: They really hadn't at that point put up the money but they had the irrevocable letter of credit. When was it discounted at the bank and we received full money for it?

MR. M. PROVENCHER: In September.

MR. G. FILMON: September of what year?

MR. M. PROVENCHER: I'll check my records and verify. I'll have to provide that information.

MR. G. FILMON: What was the amount of the irrevocable letter of credit?

MR. M. PROVENCHER: 725,000 U.S.

MR. G. FILMON: Would that be equivalent to about 1 million Canadian at that point, so that 1 million out

of the 1.7 million was just simply a letter of credit, that they had actually just spent about 700,000 and we had spent 1.3 million at that point?

MR. M. PROVENCHER: Mr. Chairman, to obtain an irrevocable letter of credit, you must block off assets associated with it.

MR. G. FILMON: I understand. I understand that perfectly, but we were told earlier that the reason why the Sheik's company took the 1.5 million loan was that they had spent so much more money in setting up the company, that they had bought equipment, that they had bought transportation equipment, that they had leasehold improvements, paid rent, and that we hadn't done our 50-50 share. It seems as though they had only put up a letter of credit and they had only spent about \$700,000 in hard cash and we had spent 1.3 million.

MR. M. PROVENCHER: They also accepted the accounts receivable from MTX associated with all those shipments to Saudi Arabia and were held personally responsible for payment of those accounts. So if you want to look at it in another way, they almost had 100 percent liability for all the assets that were there and for ultimate payment to MTX Telecom Services.

MR. G. FILMON: You could say that they had 100 percent liability on paper just as today we say we have \$12.5 million worth of receivables from them, that we've been told if the company doesn't proceed, we can't collect. So we had it on paper but we didn't have very much else.

Mr. Chairman, well, I'll let Mr. Provencher comment on that if he wants to.

MR. M. PROVENCHER: I believe that an irrevocable letter of credit for 725,000 U.S. is very substantial. Also, we will undertake to provide the details associated with what was provided by each party during that interim period.

MR. G. FILMON: That would be appreciated.

Earlier, Mr. Provencher, in response, said that the letter of authority to the bank for releasing a loan on June 8, 1983 was signed by Chafe Abou Richeh and M. Atila Aysan. Can he confirm that?

MR. M. PROVENCHER: I think I'm confused on the question. Is it related to who signed those bank drafts?

MR. G. FILMON: Yes.

MR. M. PROVENCHER: The bank drafts, as I stated, were signed by Mr. Aysan and Mr. Richeh.

MR. G. FILMON: Is that the same 1.5 million that Mr. Aysan had said on August 21st he knew nothing about?

MR. M. PROVENCHER: Mr. Chairman, I'd like to correct that last answer. The bank drafts were signed by the bank manager, but based on a letter of authorization signed by the two individuals that I mentioned.

MR. G. FILMON: That's with respect to the same 1.5 million transaction that Mr. Aysan said on August 21st he knew nothing about?

MR. M. PROVENCHER: The transaction that we're currently talking about is the transaction that I referred to as 1.5 million, which I have now stated in exact Saudi rials as it occurred through the various accounts.

MR. G. FILMON: But they're one and the same. You've converted them to Saudi rials and we're talking about the same transaction.

MR. M. PROVENCHER: Yes.

MR. G. FILMON: Mr. Chairman, I look at the operation of the flow chart that was tabled by the Minister, or at least was given to our critic yesterday, of the business plan upon which SADL proceeded, presumably, on approval by the Government of Manitoba, the Board of MTS, the Board of MTX and so on, and it has a flow chart that refers to the post-commercial registration operation.

In the flow chart it appears to me - and I'm not sure whether Mr. Provencher or whether legal counsel is the proper authority to answer these questions - but it appears to me as though the intention was that Datacom was going to be the company that would get the commercial registration number and operate over in Saudi Arabia as a 50-50 shared company. Is that correct?

MR. M. PROVENCHER: The reference on a post commercial registration flow chart you just indicated, where you see Datacom that is now SADL.

MR. G. FILMON: Yes. Yet - correct me if I'm wrong - there now exists still another company which is a subsidiary of Al Bassam International called Datacom as well. Is that correct?

MR. M. PROVENCHER: Mr. Chairman, this flow chart was prepared in an April 1982 time frame, I believe. We were not fully knowledgeable at that point as to the restrictions relating to the Datacom Articles of Association. It was based on our best knowledge at that time. Subsequent to this, we did find out that we had to continue with the Datacom Division of Al Bassam International in order to import.

MR. G. FILMON: For what reasons did you have to continue with the operations of Datacom Division of Al Bassam International when originally you didn't think you needed to?

MR. M. PROVENCHER: Originally we thought we could operate to Telecom, but based on advice from legal counsel and based on advice from the auditors who must administrate company law, the partners were advised that they had to continue with the Datacom Division of Al Bassam International.

MR. G. FILMON: So, in effect, you set up the temporary company, Datacom, a division of Al Bassam International, to operate temporarily before you could get your Saudi registration for the 50-50 company, and that was originally intended to be collapsed into SADL, but you found for a variety of reasons that you had to keep Al Bassam's division called Datacom to do certain

things that maybe originally you thought were going to be done by SADL, one of them being the direct sale of equipment over there. Is that one of them?

MR. M. PROVENCHER: Mr. Chairman, we are preparing for the benefit of the committee a paper on the relationships between MTX, Al Bassam, Datacom and SADL, and I would like to defer answering any of those questions till we've had the opportunity to fully review those relationships, document them and read them into the record on a proper basis.

MR. G. FILMON: Quite frankly, Mr. Chairman, I am astounded that three years after it's all happened you have to put together a paper to convince me or yourself as to why these companies have operated in the way they have.

But from looking through numbers of pieces of evidence along the way, it seems to be coming clear to me that the original intention was that Datacom, the division of Al Bassam International, was to be the 50-50 partnership after registration.

I say that because on one of the affidavits there's a business card on which the people are seen to be employees of Datacom, a division of Al Bassam International, and invoices were coming over from there for the professional services to MTX; yet at some point in time you made a decision not to just collapse it one into the other but rather to keep one operating, the Sheik's company operating, to do something that originally you thought could be done by SADL.

I really want some explanation of this because it seems to me to be the key to a variety of different things that we may be able to pursue.

MR. M. PROVENCHER: Now, Mr. Chairman, the interim agreement, I think there is a clause that says basically that the interim operations for Datacom would cease. When we wrote that, we weren't knowledgeable as to the need to continue, and we have undertaken to provide a complete paper on the relationships between the various parties because it is a very complicated item.

MR. G. FILMON: I want to go back to that and ask perhaps if legal counsel, whoever is responsible and I think it's probably Mr. McGuire, could explain the reasons why Datacom needed to continue in Al Bassam's hands.

But just before I do, I wonder if one very quick item, if Mr. Provencher could indicate whether or not at the October meeting that ultimately ratified - October or November of '83 - that ultimately ratified the \$1.5 million loan to the Sheik's company, whether or not it was pointed out clearly that the loan violated the Articles of Association.

Did MTX's reps on the board make a clear statement that they were concerned that it clearly violated the Articles of Association?

MR. M. PROVENCHER: Mr. Chairman, I don't have a legal background, but in my own view they may have violated Section 16(e) and Article 24, Section 9. My view on that is that all the board members that represent the shareholders were informed at the transaction and

none objected to, in my simple view, constituted approval of the shareholders.

MR. G. FILMON: So clearly after the fact, the shareholders gave their approval despite the fact that someone had proceeded contrary to the Articles of Association, and I agree with Mr. Provencher in my simple legal mind as well.

Article 24 says, "... resolutions of the shareholders dealing with the following matters shall only be valid if adopted unanimously by all shareholders, whether present at the meeting or not." And No. 9 of those matters is, "... loans, guarantee or investments from or in another company or person."

So you are saying, though, that despite those concerns which I would assume you had, you gave retroactive approval to it?

MR. M. PROVENCHER: That's correct.

MR. G. FILMON: All right. One other matter, and I'm not sure whether Mr. Provencher or again Mr. McGuire is the proper person to answer this.

Who was responsible for checking out the financial capability and stability of our partner, Al Bassam International and the Sheik, prior to recommending the 50-50 joint venture?

MR. M. PROVENCHER: That was before my time so I will have to defer that question to someone else.

MR. G. FILMON: I wonder if the Minister could indicate whether there is anybody here who is prepared to answer that.

MR. G. HOLLAND: My recollection is that MTS representatives were provided with a list of telecommunications' firms in Saudi Arabia probably by the Canadian Embassy or one of the officers there, and that was the first encounter, but would presumably represent a reputable organization. That, however, is again based on six-year-old recollection and I would have to retrace that and see if there's any more information available.

MR. G. FILMON: I know that under normal commercial circumstances that people who are going to go into partnership, or become shareholders with others in a major venture, would have somebody check out whether it be a bank, or the financial stability, you know, an analysis would be done by somebody to ensure that the person with whom you were going into partnership was bonafide, in terms of their financial capability and stability.

Would there be on the record anywhere within the Telephone System, a record of such an analysis? Would you have a Dunn and Brad Street? They probably aren't applicable in Saudi Arabia, but some similar type of credit check or analysis on Al Bassam, or Al Bassam International, or the Sheik?

MR. G. HOLLAND: Mr. Chairman, Mr. Provencher has undertaken to provide a sum of relationships between MTS-MTX and the Al Bassam organizations.

That will date back to the first transactions probably in 1979. As part of that, we will illustrate the very sound

legal arrangements that were made, which were, I think, fair to both parties. And we will consider Mr. Filmon's question as part of that presentation.

MS. J. EDMONDS: Mr. Chairman, I wonder if Mr. Holland could speak up?

MR. G. FILMON: Mr. Chairman, a further question: when the commercial registration was officially received on the 7th of June, 1983, was full and complete authority for the company's operation, or did it require any further ministry approval beyond that point?

MR. G. HOLLAND: I would have to defer to Mr. McGuire.

MR. J. MCGUIRE: Mr. Chairman, it's my understanding that the commercial registration number obtained on June 7, 1983, was the equivalent of our letters of incorporation, or active incorporation, of a company established in Manitoba. In short, all of the legal requirements had been met at the issuance of that commercial registration number.

There had been various ministry approvals required prior to that time, during the chain of establishing that the corporation would meet all of the legal requirements as set out by the Government of Saudi Arabia.

MR. G. FILMON: So nothing further was required in order to ensure that we had full legal authority and status to operate there?

MR. J. MCGUIRE: That was my advice, yes.

MR. G. FILMON: I wonder why then, in the envoy message concerning the flogging incident, the final paragraph says - and this I might say was sent some time in July or August of '83 so I'll get the exact date on that in just a moment, but it was clearly after the 7th of June, 1983.

The final paragraph says: "Al Bassam are concerned that further publicity of the incidence could jeopardize the ministry approval of the commercial registration for the Joint Venture Limited Liability Company, Saudi Arabia and Datacom Limited, which was obtained June 7, 1983." That was one of the reasons given for keeping the flogging incident under wraps.

You already registered; you already had approval.

MR. M. PROVENCHER: I think what you'd have to read into the wording basically is that the company had just been newly incorporated and adverse publicity would possibly cause the ministry to revoke our licence.

To the best of my knowledge, there were no further approvals required after June 7, 1983.

MR. G. FILMON: Is Mr. Provencher indicating that the Saudi Arabian government, or the Ministry, wouldn't already know of the charges and the flogging incident, that this would not have been reported to them in the normal course of events?

MR. M. PROVENCHER: Mr. Chairman, my comment's not related to that. It's related to the publicity and the press, which most Saudi firms and the Saudi government don't look very favourably upon.

MR. G. FILMON: So notwithstanding the fact that the Ministry and the Government of Saudi Arabia would be well aware of the flogging incident and the charges that were laid by their religious beliefs, it was only if there was anything in the Winnipeg papers that they would be influenced on?

HON. A. MACKLING: Mr. Chairperson, I'm sure that the Leader of the Opposition doesn't want to ask a question that contains misinformation.

I believe the information that's been placed before the Committee is that there was an act of intervention of a religious group, that the information the Committee's received thus far is that they have no formal legal sanction, governmental sanction as police, and therefore when he refers to formal charges being recorded, and so on, I take it that he understands that the information that we've received thus far that hasn't been disputed is that there is no formality to that process, or what happened there; that it wasn't something that the government was involved in.

MR. G. FILMON: Mr. Chairman, is Mr. Mackling saying then, that the Saudi Government and the Ministry would be totally unaware of the action of the religious beliefs in the matter?

HON. A. MACKLING: No, I'm not saying that. But the honourable member was referring to charges, and that hasn't been established that there were charges. There certainly were, as my understanding was, there were no charges laid by a Saudi Government authority.

MR. G. FILMON: I understand that, that we're dealing with the religious beliefs. But did the religious beliefs not make any charges against these people?

HON. A. MACKLING: I don't know if the evidence has been clear on that. I know that the honourable member refers to there being charges and the Saudi Government being aware of them.

I intervened because I don't believe that has been the evidence to the Committee thus far.

MR. G. FILMON: Then if there were no charges and there was no problem, again I say, I'm surprised that there would be a concern about any revoking of commercial registrations in all that matter; but we'll leave that matter for the moment.

I wanted to ask a question of Mr. Holland, because he responded to this earlier today. It had to do with the fact that in November of 1984, I believe he said, the Sheik was asked to take immediate action to settle the outstanding matter of the \$1.5 million loan. I wondered what immediate action was taken with respect to that by the Sheik.

MR. G. HOLLAND: Mr. Chairman, Mr. Anderson and Mr. Provencher had met in the days preceding with Sheik Bassam. This matter was raised, or so I was informed, and the Sheik expressed surprise that it had not been completely resolved and undertook to do so immediately following that discussion.

MR. G. FILMON: How was it resolved?

MR. G. HOLLAND: Could I refer to Maurice Provencher on that?

MR. CHAIRMAN: Mr. Provencher.

MR. M. PROVENCHER: As I've previously said, it was involved through a reconciliation of the intercompany accounts. The reason that it took so long to resolve is that there were several outstanding issues that had to be resolved on both sides. One of them was the leasehold improvements and the payment of those invoices. Those invoices were being withheld from payment pending the completion of those leasehold improvements to the satisfaction of our general manager.

There were also bills that were being sent from Al Bassam that included a markup greater than 3 percent, which we wouldn't accept. Similarly there were invoices coming from MTS where there was some markup associated with some of our employees, which they wouldn't accept. Until all those items were settled between the two parties the agreements that were in place could not be finalized. The only way that we finalized that was with the discussions with Sheik Abdullah in the November 1984 New York meeting. Shortly thereafter he did settle those items with his people in Telecom and Datacom and we settled ours here, and we came to a mutual agreement to the satisfaction of both parties. That will be indicated in a reconciliation which we have yet to receive.

MR. G. FILMON: So, in effect, there was a reconciliation of accounts. The Sheik didn't really put up any money. Through paper transactions, perhaps, the Sheik's accounts receivable to us simply grew.

MR. M. PROVENCHER: Mr. Chairman, we've undertaken to provide and to give you a summary of the complete reconciliation. Until we've had an opportunity to review that reconciliation and to summarize it, I would not comment, because it would be based on incomplete and inaccurate information.

MR. G. FILMON: Another question out of the response of Mr. Provencher, he indicated that the auditors were unaware of equipment sales in Saudi Arabia prior to March 31, 1981 financial statements, or including March 31, 1981 financial statements. It was only in the March 31, 1982 financial statements that they made a note in their Audit Report. How could that be that the auditors were kept unaware of equipment sales to Saudi Arabia prior to the March 31, 1981 financial statement?

MR. M. PROVENCHER: Mr. Chairman, as I have indicated to the committee, I was not the comptroller or vice-president of finance for MTS at the time, I was in the general manager's office, but I'm quite familiar with the audit process. What I did indicate in my response to that answer is that Thorne Riddell did not have any indication in their working paper file, which would mean that their analysis of other income is done on a very high gross level. The level of revenues associated with the offshore sales were not significant enough for them to follow through and indicate their working paper file.

They also do an interim transaction, usually that's done by statistical sampling method. It's done by other transactional and flow charting methods. Those are meant to evaluate systems of internal control. If systems of internal controls are adequate, they don't proceed any further.

Based on those transactions, they then can form an opinion as to the fairness of the financial transactions for the year and the balance sheet items of a specific date. As a normal course, an auditor is not aware of every transaction that is undertaken by a corporation, just major transactions at this point in time. This was not a major transaction in relation to the other revenue bases in the Manitoba Telephone System. I would not expect under normal circumstances for any auditor to form any opinion or for management to bring it to their attention as an unusual item.

MR. G. FILMON: What would have been the approximate amount of equipment sales in that financial statement, that they wouldn't be aware of, to Saudi Arabia?

MR. M. PROVENCHER: Mr. Chairman, as I previously indicated in response to a question, there would have been three shipments: one for \$4,701; one for \$26,967; and one for \$83,710.00. If my additions are right here, that's \$115,378.00. That's all for the fiscal year 1980-81. For the fiscal year 1981-82, that increased to approximately \$182,000, as I previously indicated to the committee.

MR. G. FILMON: At that point, Thorne, through their normal checking - Thorne Riddell - became aware of it and they made a note on their financial statement and that triggered the comment of the Provincial Auditor, who indicated that it would require a change in the act for us to pursue this any further.

MR. M. PROVENCHER: Mr. Chairman, during that period, there are no notes of the financial statements relating to offshore sales. They were specifically aware of it in 1981-82, because that is the year that MTX Telecom Services was incorporated and transactions subsequent to January 6 or 7 of that fiscal year were carried out by MTX Telecom Services. So in their review of MTX Telecom Services, they would have been aware of it because it was the majority of the sales during that three-month period. So then they would have been aware that there were other transactions in MTS during that fiscal year. That's primarily because of their audit of MTX, not their audit of MTS.

MR. G. FILMON: Then subsequent to that year, they were replaced as auditors?

MR. M. PROVENCHER: I believe that's correct and were replaced by Arthur Andersen.

MR. G. FILMON: A further question: Mr. Plunkett, in his response today, indicated that the Saudi partner does accept 50 percent of the loss on equipment sales that are not carried through with overseas and the equipment is returned to Canada, to MTS-MTX in Canada. Is that what he indicated?

MR. M. PROVENCHER: My interpretation, as I see it, that is a SADL transaction. It is a loss on disposable fixed assets. It is indicated in the financial statements that have been presented to the committee as a loss and that loss is shared 50-50. That loss was taken up in MTX's statements as indicated in the notes that's been indicated to this committee. Similarly, Al Bassam take up one-half of their loss associated with that equipment.

MR. G. FILMON: Why did that equipment rest in SADL when we were told that SADL doesn't sell any equipment, that in fact SADL is just responsible for the technical support, engineering, installation and service maintenance, that SADL does not sell equipment? Clearly, looking at the Shareholders Agreement and its corporation articles and so on, it doesn't sell equipment. So why would that equipment be returned to SADL if it didn't sell it in the first place?

MR. M. PROVENCHER: Basically, Mr. Chairman, I believe it was because we had drawn down notes against SADL on it, and title rested with SADL. We did it in error and we did it in contravention of some of the information that we later received. It should not have been done that way.

MR. G. FILMON: So SADL did take responsibility for selling equipment over there in a back-handed kind of way then? Mr. Provencher is shaking his head.

But how could SADL be responsible for accepting the equipment back when it didn't sell it in the first place?

MR. M. PROVENCHER: Mr. Chairman, that equipment was used internally. There was one other system that was sold. It was value-added, and a lot of value-added programming associated with it, and that's within the Articles of Association.

MR. G. FILMON: All right. So we're now talking about the IBM System 1, is that right?

MR. M. PROVENCHER: We're talking about the Series 1's.

MR. G. FILMON: What about Timeplex, because my question was in reference to the Timeplex which was presumably sent over for use by a bank in Saudi Arabia? Would we get 50 percent of the loss back on that?

MR. M. PROVENCHER: Mr. Chairman, I haven't reviewed the transaction in total. I don't think there would be any significant loss associated with that transaction, but I'm not sure.

MR. G. FILMON: We haven't established yet whether or not there'll be a loss because we haven't sold it. It's still in the warehouse in Winnipeg. But should we sell it at a loss, and we've had to do that in previous instances on the IBM System 1. Why is SADL responsible for that equipment when it didn't sell it? It doesn't have the authority to sell it.

MR. M. PROVENCHER: My answer to that one, Mr. Chairman, if that equipment is on consignment and

the sales price is less, then we would pass the difference back.

MR. G. FILMON: Again, why would it be on consignment from SADL when SADL is not a company that has within its articles of incorporation the right to sell?

MR. M. PROVENCHER: I think, rather than confusing the committee and myself any further, I'll defer that question because, as I indicated, we have undertaken to provide a paper on the total relationships and that will establish clearly an answer to the present questions that you're asking.

MR. G. FILMON: I'll leave that along with the question about why Datacom had to remain in business as a division of Al Bassam International because there were certain things that only it could do and SADL could not.

Was anything to do with that, incidentally, the fact that one of the partners of Telecom, which we were told was a division of Al Bassam International, that in fact one of the shareholders in it was Chafe Abou Richeh? Is that correct, and is that part of the problem with respect to Telecom not being able to do what it was originally intended to do?

MR. M. PROVENCHER: To the best of my knowledge, Mr. Chairman, Al Bassam International is a 50-50 ownership between Sheik Abdullah and his son Tariq.

MR. G. FILMON: And Mr. Richeh was not a shareholder in the Telecom Division?

MR. M. PROVENCHER: To the best of my knowledge, that's correct, but may have shared financially on some basis relating to net income levels. I don't know.

MR. G. FILMON: Perhaps that could be part of the investigation that you bring back for the next . . .

MR. M. PROVENCHER: Mr. Chairman, I'd like to answer that. I think that is strictly a Saudi transaction, is the ownership of a company that we don't have any right to obtain proprietary knowledge. I don't think I can provide that to the committee on that because I think whatever arrangement that Sheik Abdullah had with Chafe Abou Richeh is private and is none of the business of the individual partners.

MR. G. FILMON: Was Mr. Richeh a Saudi national?

MR. M. PROVENCHER: Mr. Chairman, I've answered that question to the committee previously. I basically said at the time we entered the joint venture he wasn't, but he did obtain his citizenship at a later date.

MR. G. FILMON: Earlier today, Mr. Provencher indicated that he has no direct knowledge of any of the transactions that were referred to by him and others as kickbacks, one for which a senior official of Telecom was fired and another which he found in the books. He indicated that he has no direct knowledge and that it can't be gotten at because it's in the books and it

has to do with the transactions of the Saudi company. Is that correct?

MR. M. PROVENCHER: Mr. Chairman, I think what I said basically is I had direct knowledge of the one transaction that I found. I could not identify specifically to what period that transaction transpired. I was advised that it was the same transaction as we were advised at the partners meeting. I did further state that it's possible it may be one or more payments, but I don't have any direct knowledge of whether it is one or more payments.

MR. G. FILMON: Earlier Mr. Provencher had said that he had access to those books only because the partner allowed him to, because we had such a substantial accounts receivable owing from the partners' company, Telecom. Is that correct, that we had no legal access really but it was just being given as a result of the partner, in recognition of the major outstanding liability he had to us?

MR. M. PROVENCHER: That's correct, and I think it's a courtesy in a partnership relationship, and we will address that in the paper on relationships between ourselves.

MR. G. FILMON: Will that same courtesy be extended to Coopers and Lybrand in their investigations?

MR. M. PROVENCHER: I cannot undertake to determine that. That is, I think, up to Sheik Abdullah. I cannot specifically state on his behalf what he may answer to that question.

MR. G. FILMON: I wonder if the Minister could indicate whether that question has been asked of the Sheik.

HON. A. MACKLING: The answer is no. I haven't communicated with the Sheik. I am sure that pursuant to the terms of reference, Coopers and Lybrand will be making all of the necessary inquiries. If there is any difficulty in obtaining cooperation, I'm sure they'll let us know.

MR. G. FILMON: Is one of their mandates to examine the books of the related company in whose books any kickbacks, if they occurred, likely would be, because we've been given an indication by Mr. Provencher that if any of these kickbacks were taking place, they certainly weren't in the books of MTX and they certainly weren't in the books of SADL, but in fact they would have to be in the books of the Sheik's company?

Given the relationship in which the Sheik's company is the one that sells the equipment, yet, because MTX sells it to the Sheik's company, it's in our interest to ensure that sales are promoted and developed to the fullest possible extent that we have to get at where the kickbacks are taking place because they result in our sale of equipment.

HON. A. MACKLING: In respect to the concern about tracing any unauthorized expenditures, I'm certain that

not only will the management audit firm of Coopers and Lybrand have a role to play, but the paramount role in respect to any unauthorized payment would be the RCMP.

MR. G. FILMON: Will the RCMP have access to the Sheik's books?

HON. A. MACKLING: Mr. Chairperson, I am not conversant with the working relationships between the RCMP and Saudi Arabian police. I know that there is an interprovincial, or international police association called Interpol. There are working arrangements in that organization. I don't know how they're affected. I'm sure that if the RCMP call upon that organization for assistance, it will be obtained.

MR. G. FILMON: But to Mr. Mackling's knowledge, will they have direct access to the Sheik's books?

HON. A. MACKLING: Well, Mr. Chairperson, I am not able to confirm that. That's a matter that the police will certainly be charged with.

MR. G. FILMON: I wonder if any one of the staff can indicate or confirm that indeed MTX doesn't distribute or sell equipment in Saudi Arabia, nor does SADL, but that it's only being done through one or other of the Sheik's companies, either Telecom - I believe it to be Telecom for the most part - or Datacom. Is that correct?

MR. G. HOLLAND: Mr. Chairman, again an undertaking has been given to provide a complete record of the interrelationships between MTS-MTX, Al Bassam and those organizations and I think that we'd like to do that thoroughly and completely.

MR. G. FILMON: But surely the straightforward question of who is doing the direct sales of equipment over there is able to be answered.

MR. G. HOLLAND: The paper will be straightforward and complete.

MR. G. FILMON: Mr. Chairman, it appears as though we've reached the end of that line of questioning, subject to finding the answers to some specific questions.

So I would move committee rise -(Interjection)- I'm sorry, I had asked across the table of the Member for River Heights, but I'm quite prepared to sit and listen to her questions as well.

MR. CHAIRMAN: Mrs. Carstairs.

MRS. S. CARSTAIRS: Well, I think that everyone has had enough of this for today.

MR. CHAIRMAN: Committee rise.

COMMITTEE ROSE AT: 1:30 p.m.