

Honourable Thomas A. Hockin, P.C.

Thank you for letting me appear before your Expert Panel on May 29, 2008 and for your letter dated June 6, 2008. As a professional investor, I wish to add some ideas for your Panel to consider, rather than make a formal presentation.

In 2000, Egon Zehnder International published “Corporate Governance and the Role of the Board of Directors”. Condensed, section 2 page 12 states that directors must deal fairly with the following:

1. The Company – all connected
2. Customers
3. Suppliers
4. Owners
5. Society

Clearly, corporate governance is a state of mind rather than something that can be fully legislated. We have to rely on accounting for regulation, and therein lies the problem. As a serious student of corporate accounting and as an experienced investor, let us examine the components of an annual report.

Profit Loss Statement:

This is a contrived statement prepared under the rules of the taxation authority. It provides the much loved EPS (earnings per share) a measurement which is useless to the serious investor.

Cash Flow:

I believe it first appeared in the 1950s. It starts with the opening cash balance, then net profit and amortization and then each component of working capital. Then we have the financial changes and the last figure is closing cash. My matrix (see attached) starts and finishes with working capital, which eliminates the minor components and illustrates the direction of working capital, important in the context of growing revenue. The successful application of funds, generated and acquired, is what creates the true growth in value company. If

application exceeds generation over time, it will indicate a well managed growing company and an excellent investment.

The Balance Sheet:

The Balance Sheet, which is a snapshot in time, is a problem. Equity is the product of assets less liabilities. While liabilities are definite, ie. payables, debt, etc., assets, except cash, are indefinite. To the extent that assets are overstated or understated, equity is affected in the same way. Therefore calculations such as return on equity and price-to-book-value are meaningless. Intellectual assets most often mean that equity is understated. Equity is always a contrived amount. Several decades ago, the Canadian banks had an equity component designated the Appropriation Account. When they took huge losses from LDC's, this account was eliminated and the Tier One Capital measurement was substituted. Tier One Capital does not recognize good will. Several Canadian banks made major investments in U.S. funds when the Canadian dollar was at a discount. When the Canadian dollar rose towards parity, the OSFI decided that no write off was necessary if it was thought that the situation could reverse. Therefore Tier One Capital is generally ignored. Equity was overstated.

Some other thoughts:

Option Expense:

It does not exist. The credit is contributed surplus and the expense is not recognized by the CRA (Canadian Revenue Agency).

Flowing the change in Unrealized Capital Gain through the P/L:

This should be shown as a footnote. The amount is meaningless. Flowing right-offs through the P/L represents a change over time included in one financial quarter. Instead one should credit the assets and debit the equity, as illustrated in my notes.

EBITDA:

This is used to determine the number of times the interest expense is covered by cash generation. It must not be used in per share calculations.

MD&A:

Is very costly and time consuming for the company and a huge source of income for the CA's. The MD&A's are long winded and often badly written. The Order of CA's wants board audit committees to oversee disclosures of both known and unknown risks. Imagine discussing unknown risks.

I believe that my investing methods are sound, and the results over time have been good. I must confess, however, that my attempts to convert others have been poor. My views on governance cannot be put into legislation. The vast majority of the financial community generates its revenues from fees and commissions. Common sense is secondary. There are very few real investors to balance the scales.

Many years ago, I was a Crown witness in Crown versus Edmond Littler. The problem was insider trading but the charge was fraud. There was a conviction and a jail sentence. It appears that the RCMP is charging officials of two companies for offences dating back to 2000. If we have a national commission, it should be to assist the Justice Department, rather than laying charges itself.

Statements of shareholders equity is a make work experience for the auditors. It is contrived in the context of stock option expense and share buy back; of no use to an investor.

Long term investments is the euphemism for the asset that creates equity earnings of companies subject to significant influence. The difference between equity earnings and dividends received is added to long term investment. This is where minority shareholders are deprived of their rights. The best example of this was first with Allied Domeq-Corby's and then with Pernod Ricard-Corby's both to do with Tia Maria.

A further thought on Corporate Governance. The BCE-Teachers deal was poorly structured. The price was too high, the existing bonds have junk status and the banks will have huge losses if the present deal stands. The only good deals are when all parties are satisfied. Unfortunately, most don't turn out the way they were intended.

Consider CPR's purchase of Laidlaw or Canadian International Paper. I was indirectly involved with both and both were disasters at the start. Teachers with all its expertise could not do much with Moore Corporation or Canada Packers.

Please include my letter regarding MDA in my submission, which went to certain shareholders:

Aliant, a U.S. corporation made a bid of \$1.3 billion Canadian for the space assets of MacDonald Dettwiler and Associates (MDA). The majority of shareholders voted unanimously to accept. Those of us who have been shareholders of MDA for several years know that there was no growth for the company in this area as the U.S. market was restricted for U.S. nationals under Home Security. MDA's expansion plans had made the company the major supplier to the Home Information pack in the U.K. and had plans to provide software to liability insurers in the U.S.

Then, Industry Minister Jim Prentice stepped in and vetoed the deal on the grounds that the sale did not demonstrate "net benefit" to Canada.

What was to be sold was intellectual equity at a price that could not be justified in the existing circumstances. The proceeds would have been used to expand the information software business in the U.S. The total market capitalization of MDA is some \$1.3 billion. To deny the owners to run the business the way they want in the guise of economic nationalism is a shocking abuse of power.

If Canada is ever to have an effective Securities Commission it would have to have an office of Ombudsmen staffed by a small group of investors to protect the owners separate portfolios or funds. They could settle disputes with lawyers and auditors always with recourse to the C.R.A., an organization, which is both thorough and fair, thereby avoiding litigation.

In my experience, flawed accounting procedures counteract the intent of the Companies Act. Only an arbitrator can promote common sense in financial disputes.

I have enjoyed this exercise and will be happy to assist your Panel in any way I can, within my limited area of expertise.

Many Thanks.

Sincerely,

A. Scott Fraser