

The duties of the directors of a charity include decision making, investing charitable property, performing corporate governance and the active management and protection of charitable assets. The fiduciary duties of the directors go beyond furthering the charitable objects of the charity and the interests of the charity should be put ahead of the interests of any other individual or entity.

Trust law imposes on a registered charity's directors the obligation to properly manage the assets of a charity. While it is often difficult for directors to foresee whether an asset they propose to acquire on behalf of the charity will be a good investment, the rules of prudent administration require that they take reasonable steps to ensure that the investment is a wise one which will ultimately be favourable for the charity.

It is our view that the Organization did not acquire the Archon shares for investment purposes since 2,000,000 of the shares were held for a brief period of time (approximately 47 days). Furthermore, the Organization did not receive any financial compensation related to the disposition of the shares since they were gifted to another registered charity (Homestead) at \$1.25 per share, resulting in an \$800,000 loss to the Organization.¹⁹

A review of the Organization's Board meeting minutes and other books and records revealed that although the Board "accepts" the annual financial statements at its annual general meetings,²⁰ there was no indication of any discussions taking place at Board meetings regarding these material transactions before the transactions occurred.

Payments to non-qualified donees

The Organization disbursed \$85,588 to a non-arm's length corporation, Enabling Environment Endeavours Inc.²¹ We queried the purpose of these costs and have carefully considered your responses.²² Based on the responses you provided, it is our position that this \$85,588 distribution of the Organization's charitable resources was for the benefit of either Mr. Bromley's personal consulting business and/or the Government of China, both of whom are non-qualified donees.

The Organization also paid \$17,920 to Benefic Law Corporation, a non-arm's length corporation.²³ The invoice stated that it was "for professional services related to all dealings with Stu Blusson and transfer of income producing assets into Archon and issues

¹⁹ $2,000,000 \times (\$1.65 - \$1.25) = \$800,000$.

²⁰ No minutes recording acceptance of the 2014 financial statements was provided.

²¹ Enabling Environment Endeavours Inc. is owned 100% by Blake Bromley. This was an expense in the 2016 fiscal year; however the invoice was provided during the audit field visit so queries were made about this expense.

²² CRA queries were dated October 18, 2016, and the Organization's responses were received in January 2017.

²³ Benefic Law Corporation is owned 100% by Blake Bromley.

but was for the benefit of either Mr. Bromley's personal consulting business and/or the Government of China, both of whom are non-qualified donees.

We also explained that the \$17,920 paid to Benefic Law Corporation, a non-arm's length corporation (Mr. Bromley is the [REDACTED] was not the Organization's charitable expense.

Overall these payments were to non-arm's length non-qualified donees and did not further a charitable purpose nor provide a public benefit.

Organization's Response (copied as written)

"The Organization has purposes which authorizes (sic) it to carry on charitable activities. One of the charitable activities it wanted to carry on was to help China as it sought to draft a law to enable charities to operate legally in China. Creating a legal environment in Communist or post-Communist societies is frequently referred to as creating an "enabling legal environment" for charities. The Organization retained Enabling Environment Endeavours Inc. to carry on this charitable activity to assist China.

There is no doubt that helping a country create a legal environment to authorize citizens and social organizations to lawfully operate charities is a legitimate charitable purpose. The primary foreign expert whom China has relied upon was Blake Bromley. However, at some of the meetings on this proposed law China also invited the Director General of Charities Directorate and lawyers employed by the Department of Justice who advise Charities Directorate. Similarly, from England they invited [REDACTED]

[REDACTED] of the Charities Act passed by the English Parliament in 2006 and other charity lawyers who were recognized as experts in England such as [REDACTED]. Blake worked very closely with the English experts throughout this process in London as well as in China.

China was particularly interested in the impact of the evolution and impact of charity law in the former Soviet Union. Blake Bromley and [REDACTED] were listed as two of the 3 foreign experts relied upon by the Russian Duma in passing Russia's first charity law in 2003. However, the political environment in Russia regressed significantly thereafter and the activities of charities were greatly curtailed. Consequently, China was interested in the evolution of the charitable sector in the Baltic states which had continued to progress towards democracy during the period Russia regressed. Given his experience, they wanted Mr. Bromley to provide an updated current valuation of the law and operating environment of charities in Estonia, Latvia and Lithuania. This expenditure was for a charitable purpose on behalf of the Organization and is a legitimate payment to a non-qualified donee.

As previously set out in this submission, the Organization has a significant investment in Archon shares. There were opportunities to enhance the value of those shares by having Archon make a large acquisition of a Participating Interest in the [REDACTED] which Mr. Bromley was uniquely placed to advance. Consequently, the Organization sought to increase the value of its investment