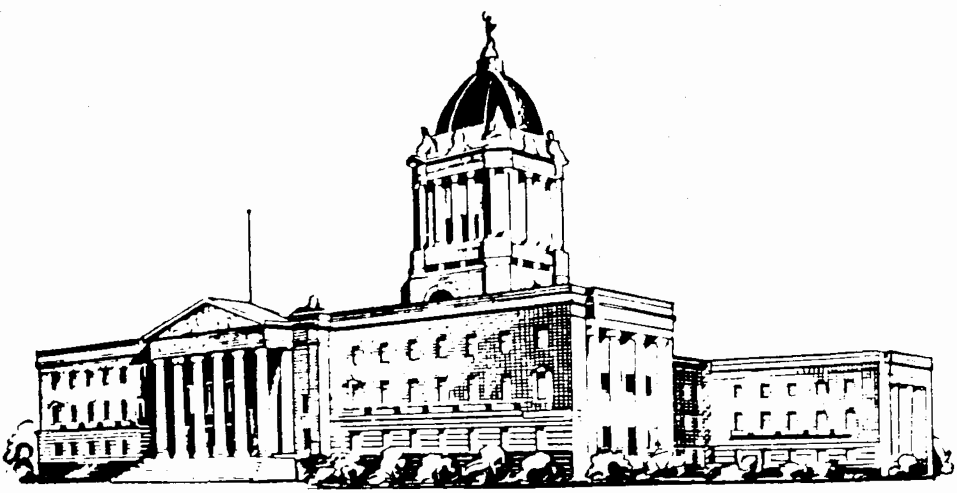
Legislative Assembly of Manitoba

HEARINGS OF THE STANDING COMMITTEE

ON

ECONOMIC DEVELOPMENT

Chairman
Harry Shafransky, M.L.A.
Constituency of Radisson



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THE LEGISLATIVE ASSEMBLY OF MANITOBA
STANDING COMMITTEE ON ECONOMIC DEVELOPMENT
10 a.m. Thursday, May 27, 1976

Chairman: Mr. Harry Shafransky

MR. CHAIRMAN: Order please. We have a quorum. We can proceed with the Annual Report from the Chairman of the Manitoba Development Corporation. I'm going to call upon Mr. Parsons to introduce his report. Mr. Parsons.

MR. S. J. PARSONS: Thank you, Mr. Chairman. Before the report, I'd like to hand out the material that we are going to be looking at.

MR. CHAIRMAN: Fine. Yes, the material is going to be handed out, we'll go through the Manitoba Development Corporation Annual Report for the year ended 1975 and then the top sheet gives you sort of an agenda that we'll follow, and that is the first sheet that you have. Is that agreeable? Let's proceed. Mr. Parsons.

MR. PARSONS: All right. The MDC report as of the 31st of March, 1975. During the fiscal year ended March 31, 1975, the sale of the assets of The Pas Forestry Complex to Manitoba Forestry Resources Ltd. was finalized. The net reduction of prior years' losses resulting from the sale of those assets was $30,973,000, including the recovery of the allowance of $29,811,000 which had been provided for uncollected interest on the loans to the Complex.

Basically, I'm reading a portion of my report that is enclosed on the front of the statement because these are quite substantial changes to our statement.

The completion of that transaction accounts in the main for the reductions which occurred in both interest income and interest expense for the year and also in total assets, $38,266,000 at March 31, 1975, compared to $185,066,000 a year earlier.

Subsequent to March 31, 1975, the share capital of the Corporation was increased to $50,000,000. This increase in authorized capital will permit the proposed conversion of the major portion of the Corporation's debt to equity. The reduction in interest expense which will result when the conversion is effected will eliminate the necessity of both further borrowing to meet that expense and further grants to cover the interest costs related to the Corporation's equity investments. The overall effect should be to place the Corporation on a much sounder financial basis.

The loan policy of the Corporation was changed subsequent to the year-end. It is no longer a requirement that the Corporation be a lender of last resort. However, in fixing the terms and conditions of a loan, the Corporation shall take into consideration:

(a) the requirements for the enterprise in respect of which the loan is sought;
(b) the risk involved;
(c) the terms upon which similar loans are normally made by lending institutions;
(d) the new employment likely to be created in the province by the enterprise in respect of which the loan is sought;
(e) whether the enterprise for which the loan is sought will produce products for export outside the province; and
(f) social significance, external costs such as pollution costs and the effects on income levels.

Operations under Part II of the Development Corporation Act involved the disbursement of $13,525,000 including $6,700,000 for Saunders Aircraft Corporation Limited. Subsequent to the year-end the Province of Manitoba set a limit on the amount of financing that would be provided for that company and arrangement were made for the closing down of its operations.

Now we have also included in the MDC report a much more comprehensive breakdown of the many figures contained therein in the notes to the financial statements. I've also given the committee an updated report on the equity investments - that's in your material this morning - and the loans and receivership as of the 31st of March, 1976. As you can see from this report many of the receiverships have been cleared up and the only major one remaining is Columbia Forest Products and we hope to have that cleared up within the year.

Now if you'd like to go through the report, as I said from previous experience

(MR. PARSONS cont'd). . . . . the committee have asked us for several reports. What we've done this year is really expanded the notes to the financial statements to explain each item in them.

MR. CHAIRMAN: Are there any questions at this particular time? Mr. Minaker.

MR. MINAKER: Possibly through you, Mr. Chairman, to Mr. Parsons, the question might be better raised later on in discussion of detail of the report but in your opening remarks, you indicated a new policy with regards to the loaning of money to various companies and now no longer being a requirement that it be a lender of last resort. I wonder, Mr. Parsons, if you could advise us what activity to date you've had with this new policy in terms of new companies which have received loans. We're looking at a report that's approximately what - five, six months old from these opening comments?

MR. PARSONS: Yes. The actual change hasn't changed our policy at all. We haven't been out actively seeking loans and actually our own portfolio is quite a ways down. We haven't gone out and used this as it may have looked we might have.

MR. MINAKER: Mr. Chairman, through you to Mr. Parsons, how many loans have been issued since December 1975, new ones?

MR. PARSONS: I don't have that exact number but I'll have it for you, I'll get it this morning.

MR. MINAKER: Yes, in the total dollars that . . .

MR. PARSONS: The number of loans since the 31st of March, 1975 in the total dollars - is that what you're asking?

MR. MINAKER: Yes.

MR. PARSONS: All right, we'll get that for you.

MR. MINAKER: The other question, Mr. Chairman, through you to Mr. Parsons, relates to the capital stock increase. There was a statement in the Manitoba Gazette, I believe it was around the 20th of September of last year, if I can find it. I just wondered how this $50 million was going to be shown into the accounting because at that time - yes, I'm sorry, November 22nd, in the Manitoba Gazette of last year - at that time showed the shareholders' equity of capital stock at $5 million and the reserve fund deficit, I think at that time, of $37.9 million approximately. Is this where the $50 million would come into . . .

MR. PARSONS: It would be increased. Yes, the $5 million would be increased to $50 million.

MR. MINAKER: Then would the reserve fund deficit be reduced accordingly would that be written off?

MR. PARSONS: No. No, we won't reduce that. Actually, what will probably happen when we take the $50 million in, we will reduce our borrowings from the province. If you look on the balance sheet, even this one, it shows Canadian Pension Plan - it's on Page 9 - you'll see that we have Bonds payable, Schedule 4, of $50 million. What we would do is pay those off and reduce our interest charges to the province.

MR. MINAKER: So Bonds payable under Schedule 4, Mr. Chairman, then would be reduced to presumably $5,400,000?

MR. PARSONS: Yes. Well they're down to $45 million now. . .

MR. MINAKER: Oh I see.

MR. PARSONS: . . . and they'll be down a like amount this year, so they'll be somewhat less than that.

MR. MINAKER: So they'll be in the neighbourhood of $40 million so, in actual fact, you'll have a surplus of $5 million?

MR. PARSONS: Well it could work that way although those other advances up above, you notice for $31 million, there won't be a surplus, it will be a reduction in liability.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Parsons, I have been using an example and therefore it's not any secret, I haven't used the names but I have been using an example of how the new policy or the new legislation could have in fact affected one advance that wasn't made rather than was made, and I just want to see whether you would concur with the example that I've been using. That a loan was applied for, a very substantial loan, I would think in the neighbourhood of $15 million, that the company that was applying for it could

(MR. GREEN cont'd). . . . . certainly not have got the money elsewhere on the basis of it alone being on the risk, that the board of directors of the Development Corporation would approve the loan only on condition that the sort of parent company was on the risk which would not really have been available to it under the previous Act since the parent company could have got that money from any financial institution.

MR. PARSONS: That's right, that has already been done.

MR. GREEN: The company then didn't apply for the loan, the company then didn't proceed with the loan. Under the old Act we could have been into a 15 million dollar loan with only the previous, the less solvent agency on the risk if proceedings had proceeded as they were in the past. I'm not saying that it would have happened, but that is a possibility.

MR. PARSONS: That's right.

MR. CHAIRMAN: Are there any further questions on this section at this particular time? Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I wonder if Mr. Parsons could just tell us if there has been any change in the status of any of the companies the Manitoba Development Corporation has under its auspices or that has lent money to since this report, or can we assume all the companies that are mentioned here the status, fiscal status and otherwise, is the same as they were as of March 31, 1975.

MR. PARSONS: I don't quite understand what you're asking.

MR. CHAIRMAN: Well, Mr. Axworthy, we are going to go company by company, that list that you have will be our agenda, so you can ask specifically in each case what the situation is. Right now, we have the introductory remarks and the Annual Report of the Manitoba Development Corporation. If there are any particular questions on this report directly, I will so entertain them. If there are no more questions then we can begin with the first, Alphametrics Ltd., for the year ended September 30, 1975, date of statement presented May 27, 1976. Mr. Parsons, I believe you have the financial statements before you and you can select that particular book and we can deal with it in that fashion. Is that agreeable? Mr. Parsons, do you have any statements at this time? Mr. Minaker.

MR. MINAKER: Sorry, Mr. Chairman, I did have one last question, I didn't realize you're sort of going right off MDC. I thought we were sort of covering it step by step after the opening remarks, but there is one relating question that would come under the report of the chairman. In that statement of income and expenses there's a net loss last year of some $20.6 million. I wonder if the chairman could advise what the total deficit to date has been for the Fund. I have a figure of somewhere around 76.9 million but I don't know whether that is correct or not.

MR. CHAIRMAN: Mr. Parsons.

MR. PARSONS: If you look on Page 9, your deficit is $46 million. The figure that you had was probably prior to the change in the CFI, Manitoba Forestry Complex that I mentioned earlier, that reduced that deficit down to 46.

MR. MINAKER: I see. But prior to that I believe it was somewhere around 56.3 million or something to that effect.

MR. PARSONS: Well it was more than that.

MR. MINAKER: So that the present status is - what was that figure you used here?

MR. PARSONS: 46.

MR. MINAKER: But I was asking what the total deficit, accumulated deficit to date would be.

MR. PARSONS: That's accumulated deficit. You see there was 29 reversed when we reversed. . .on my opening remarks there was 29,811,000 reversed, so that is maybe where you. . .

MR. CHAIRMAN: Can somebody move that the annual report be received and reported.

MR. GREEN: Mr. Chairman, I think what we should do is go through the statements and then there may be still another general question, there is no attempt to . . .

MR. CHAIRMAN: Okay. We can then go on with the Alphametrics Ltd.

MR. PARSONS: We have an up-to-date report along with the financial statements for you to look at. This is a company where we took equity to help three individuals start

(MR. PARSONS cont'd) . . . . . up a business. This is really their first year of operation. Sales in the year ended the 30th September, jumped to $279,564 from $71,000 the previous year and the company registered its first net profit of $35,804.00.

The successful operations were primarily due to: (1) Completion in the last quarter of fiscal 1974 of basic research and development projects and the concentration in fiscal 1975 of production and sales. (2) The addition to the product line of the self-serve gas station consoles used to record and relay pump sales data to the station operator. This product, developed by Henderson Petroleum Products Ltd., and manufactured by Alphametrics is enjoying sales to Gulf, Shell and Texaco. Continued growth in the self-serve field in Canada and the U.S. indicates a further growth for the company in this field.

Sales of products in the company's originally intended product line have been steady but have failed to achieve the volume and growth originally anticipated. As a result the company must rely on products such as the gas station console for sales volume and growth.

If you'd like to go through the statement, I'd say this company is really slow in its development stages. Are there any questions?

MR. CHAIRMAN: Any questions on the Alphametrics Ltd.?

A MEMBER: We're speed readers, Mr. Chairman, but I don't think we are that quick.

MR. PARSONS: I guess if you go to page 4 of the statement, it gives you the statement of the operations.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: We're not going to be able to adequately analyze these statements and ask any legitimate questions because when we receive them the same day as we are supposed to examine them, it's just not possible to do that sort of analysis. I think that if this procedure is going to work adequately from here on in, we're going to have to have these provided at least a few days ahead of the meeting of the committee.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, we've been through this before. It's not the intention that the committee conducts an operational analysis of each company that's funded by the MDC. They conduct an overview of the MDC's activities. They have the MDC statement, they have each statement as it comes forward, they can look at it, there will undoubtedly be another meeting - at the other meeting if there are questions that they have reserved and want to ask, that's fine. But I want to make it plain that I do not regard the committee as conducting an operational sale-by-sale, contract-by-contract of each company. I do tell the honourable member that if there is a problem, if he wants to come back to a statement at a later time, he can come back to it but the profit and loss statement is shown, the amount that the government has invested is shown, those are the basics that you are dealing with. If you want to ask the chairman how the company is operating, what the future looks like, he's always been willing to answer those questions, but there are numerous companies that are invested in by the MDC and the statements are here. That is something that we never used to get at all, we never used to have this meeting at all.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, there's no, you know, no convincing argument that since we never received them before - we have a Corporation's Act now that's coming in the Legislature that's going to require statements to be filed with the government for anybody that does over a certain amount of business, and these would all fall into that category of course. But the only thing you can see in Alphametrics is a quick look and say, well it looks like $35 million in the black as opposed to $70 million in the red the year before, but that's about as fast as you can read, on Page 4, until you go into it and find out whether there are some extenuating circumstances. But the Minister's answered himself in saying it may be necessary to go to a second meeting in order to adequately analyze these, but all I'm saying is that if we received them a day or two ahead of time, we would avoid the necessity of making the committee sit twice. We could ask legitimate questions and have them done. This way we're just shooting in the dark.

MR. CHAIRMAN: Mr. Johannson.

MR. JOHANNSON: Yes. Mr. Parsons, the company shows a profit for 1975 of

(MR. JOHANNSON cont'd). . . . .$35,000 as opposed to a loss of $70,000 for the previous year. Is this because of the increased volume of sales?

MR. PARSONS: Largely, the first year was really a development year, they only had 70,000 sales the first year. They're still developing although 279,000 is not that great amount of sales either, but they did make money.

MR. JOHANNSON: The statements here indicate an anticipated further development in sales. Can we look forward then to a probable increase in profit?

MR. PARSONS: Well that's what the management look for, yes.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Looking at . . .

MR. CHAIRMAN: Is that a point of order Mr. Green?

MR. GREEN: No.

MR. CHAIRMAN: Well I'll put you on the list. Mr. Minaker.

MR. MINAKER: Mr. Chairman, through you to Mr. Parsons, on Page 4 of the Statement of Operations, there is an indication that Other Income and Expense Research and Development Grants for $15,890 - where did this Research and Development Grant come from, was it a federal or provincial grant?

MR. PARSONS: I believe it's federal.

MR. MINAKER: In the Wage Assistance Grants for $15,200, were they federal grants as well?

MR. PARSONS: I'm not positive, I'll have to check that for you.

MR. MINAKER: I wonder if you would check those two items, please. That's all I have, Mr. Chairman.

MR. CHAIRMAN: Mr. Axworthy or Mr. Johnston, I just didn't catch. . . Mr. Johnston.

MR. G. JOHNSTON: Mr. Chairman, I was waiting my turn to speak on the next item which is William Clare.

MR. CHAIRMAN: Okay. Mr. Green.

MR. GREEN: Mr. Parsons, I'm looking at the Statement of Assets and Liabilities, and I notice that there are no start-up costs which are attributable to assets and which are being amortized through expenses. In other words this company has not allocated or there has been no allocation of that original. . .the first year was sales of $76,000, it suffered a $70,000 loss, but on the other hand there is no asset as a start-up cost which has been attributable to the beginning of the company and which is being amortized.

MR. PARSONS: No, it was all closed . . . the deficit in the first year.

MR. GREEN: So the $70,000 loss in the first year is not an unusual feature to expect in this type of operation especially when you're not attributing any of it to a start-up cost.

MR. PARSONS: No, it was all written off the first year.

MR. CHAIRMAN: Are there any further questions on Alphametrics Ltd.? Well, we can go on to the next one, William Clare (Manitoba) Ltd. for the year ended December 31st, 1974. Mr. Johnston.

MR. G. JOHNSTON: Mr. Chairman, through you to Mr. Parsons. This firm began in 1972 with moneys from the MDC, is that correct?

MR. PARSONS: Yes.

MR. G. JOHNSTON: And this will now be the fourth year of operations. I noticed that the company has cancelled one of its projects, the filmstrip program and in doing so they lost a fair amount of money. Did they have an agreement to sell that to anyone that you had in your possession or that you knew about or was this just an experimental program that you hoped to sell to someone?

MR. PARSONS: The filmstrip program itself was being sold to school boards, it was educational film strips that they had made and were actually selling.

MR. G. JOHNSTON: But when they presented the program to you, did they have any firm agreements that they could. . .?

MR. PARSONS: Firm agreements for sale?

MR. G. JOHNSTON: Yes.

MR. PARSONS: No.

MR. G. JOHNSTON: Well why did you advance money on that sort of an idea?

MR. PARSONS: I don't know that they specifically - it was a part of the program, the educational film program. When they came in and presented that, the filmstrips were well received by the Department of Education here and in Ontario. When in fact they got them produced, they were late into the market and they really didn't get the sales they anticipated.

MR. G. JOHNSTON: I was going to ask you why did they discontinue them then?

MR. PARSONS: It just wasn't profitable, it was too fine a margin.

MR. G. JOHNSTON: The accountants, Arthur Andersen and Company, is that the company accountants, William Clare accountants or were they employed by MDC?

MR. PARSONS: No, they're outside auditors.

MR. G. JOHNSTON: Who are they paid by - yourself or William Clare?

MR. PARSONS: William Clare.

MR. G. JOHNSTON: Upon reading over the statement to shareholders from Arthur Andersen, would you not be alarmed as a person who is lending money to that company?

MR. PARSONS: Yes.

MR. G. JOHNSTON: Yet you keep on lending to them. I notice March 31, 1975 you lent another, well by then you had lent another 200,000 in that year.

MR. PARSONS: Yes.

MR. G. JOHNSTON: Has there been any more money been lent since March 31st?

MR. PARSONS: There's more money to go out, we're working with Rand McNally. We've got another $185,000 to go out, and Rand McNally will be putting up roughly the same amount to complete the program.

MR. G. JOHNSTON: How much has Rand McNally put into William Clare then? How much have they put into the. . . ?

MR. PARSONS: They're putting in all the promotional expenses to sell the modules, I couldn't tell you in dollars. They're responsible for all the promotional material and all the selling.

MR. G. JOHNSTON: But they haven't put any dollars in as of this date, is that correct?

MR. PARSONS: There's no dollars by them into William Clare, no.

MR. G. JOHNSTON: Well do you have any agreement with Rand McNally? You said that they are coming in with some money.

MR. PARSONS: We have an agreement. They're going to produce and sell the modules. William Clare do the actual work in putting it all together, they have hired all the professors and then Rand McNalley will be doing the publishing and selling. So we have a royalty agreement with Rand McNally, yes.

MR. G. JOHNSTON: You have?

MR. PARSONS: Yes. Pardon me, William Clare has.

MR. G. JOHNSTON: Yes. Rand McNally, where is it located, the head office?

MR. PARSONS: Chicago.

MR. G. JOHNSTON: Chicago. Where is William Clare located?

MR. PARSONS: In Winnipeg.

MR. G. JOHNSTON: Their head office?

MR. PARSONS: Yes, head office is here.

MR. G. JOHNSTON: They were in Vancouver, is that not right?

MR. PARSONS: He had an office in Vancouver, it has now closed.

MR. G. JOHNSTON: So the only operations in Canada is in Winnipeg?

MR. PARSONS: Yes, in the offices of the MDC.

MR. G. JOHNSTON: In the offices of the MDC?

MR. PARSONS: Yes, there's no further work to be done here so Mr. Clare's contract is finished and all we have is the books and the accounts in the MDC office.

MR. G. JOHNSTON: So out of your office, I understand, you're operating the company known as William Clare, although William Clare is no longer around.

MR. PARSONS: That is right.

MR. G. JOHNSTON: How many employees has William Clare?

MR. PARSONS: Really none, we have one staff member looking after it.

MR. G. JOHNSTON: So the taxpayers of Manitoba have 1.6 million with more

(MR. G. JOHNSTON cont'd) . . . . .to go and nothing to show for it - no employment, no generation of business in Manitoba, and our partner is in Chicago. This is a very strange set of circumstances, don't you think?

MR. PARSONS: Yes. I thought that last year, too, but we can't stop it.

MR. G. JOHNSTON: Well do you know as manager of a financial institution when enough is enough?

MR. PARSONS: Well the program is moving along, it has to be completed. Rand McNally are very confident that they can get a good penetration in the U.S. market, and they're estimating that their sales will be between 50 and 60 million dollars. So the royalties out of that over the next eight to ten years will be somewhere at 2.5 to 3 million back.

MR. G. JOHNSTON: Well, Mr. Chairman, I'm at a loss to ask any more questions, actually I'm astounded. Do you know where William Clare is or what is he doing?

MR. PARSONS: Yes, he's working in Toronto.

MR. G. JOHNSTON: What did he get out of the company by way of salaries?

MR. PARSONS: All he got was his salary.

MR. G. JOHNSTON: Well how much did he draw from 1972 until you pushed him out?

MR. GREEN: Mr. Chairman, I think that the questions are legitimately put, but I think questions such as you pushed him out of the company are just designed to promote debate.

MR. G. JOHNSTON: I'll rephrase the question in order to please my friend.

MR. GREEN: No, but would you prefer that he still be on salary and not be doing anything, is that what you want?

MR. G. JOHNSTON: No.

MR. GREEN: Would that be more consistent with your line of . . .

MR. CHAIRMAN: Order please, let's proceed. Mr. Johnston, continue.

MR. G. JOHNSTON: Mr. Chairman, I thought the purpose of the committee was to examine the performance of the MDC, and in examining the performance of the MDC we must examine some of the actions of the decisions that they have taken in the past. And that's what I'm doing and if Mr. Green doesn't like it, well, it's too bad.

MR. GREEN: Mr. Chairman, I need no comments about Mr. . .

MR. CHAIRMAN: Mr. Green, I'll put you on the list.

MR. GREEN: On a point of order. I have no objections to Mr. Johnston's questions, I objected to his phrase, "you pushed him out of the company".

MR. G. JOHNSTON: Well then I'll rephrase the question in order not to spoil Mr. Green's morning. How did Mr. Clare come to leave the company?

MR. PARSONS: His contract was completed and his work was completed.

MR. G. JOHNSTON: With who?

MR. PARSONS: With William Clare. He was under a contract to work until the 31st of March 1976 and he was looking after organizing the professors and the writing of the manuals, that work was basically completed. There was another man that was doing part of that work, was finishing up and we just didn't renew his contract.

MR. G. JOHNSTON: So would it be true to say that Mr. Clare formed the company and he wrote his own contract with the company?

MR. PARSONS: What do you mean he wrote his own contract?

MR. G. JOHNSTON: Well who wrote the contract between Mr. Clare and William Clare (Manitoba) Limited?

MR. PARSONS: That was agreed to by the board of directors.

MR. G. JOHNSTON: Of MDC?

MR. PARSONS: No, the board of directors are listed there.

MR. G. JOHNSTON: Of his company?

MR. PARSONS: Yes.

MR. G. JOHNSTON: Well how much was he paid since '72, until he left?

MR. PARSONS: His last year was $24,000 a year. I think it was somewhere between $20,000 and $24,000, the last year was $24,000.

MR. G. JOHNSTON: But until he left was his office in Vancouver?

MR. PARSONS: Yes.

MR. G. JOHNSTON: And he left from there and you picked up whatever was to be picked up and put it into your office?

MR. PARSONS: That's right.

MR. G. JOHNSTON: In your employment, in your operations with running William Clare and the previous manager, Mr. Clare, how many Manitoba professors or teachers or academics were employed?

MR. PARSONS: Two.

MR. G. JOHNSTON: For how long, and what did they receive?

MR. PARSONS: They receive a royalty. All the authors are paid by the royalty route. They haven't received any money until the book is published and sold.

MR. G. JOHNSTON: So there really were no great amounts paid out by way of salaries or wages then?

MR. PARSONS: No.

MR. G. JOHNSTON: Where did the money go, could you give us a breakdown?

MR. PARSONS: Well I've pretty well got it right in here. This statement that the auditors have put together was covering two years. What more detail do you want, Mr. Johnston?

MR. G. JOHNSTON: . . . ten minute look at the statement. Well Schedule 1, Editorial expenses and salaries 248,323, yet you say that the two Manitoba employees were under contract or rather were being paid by royalty. To break down the 248,000 where did it go to - Editorial expenses and salaries?

MR. PARSONS: Well if you want that, I'll have to get it for you. I don't have a breakdown of that.

MR. G. JOHNSTON: Well if Mr. Clare received in the order of $24,000 a year and he had some office expenses and some office staff, that's a lot of money.

I notice Authors' expense $19,000; were you paying authors ahead of time before they wrote whatever they were writing or did you pay them on delivery or on performance?

MR. PARSONS: I think those are basically expenses, I don't think they are salaries.

MR. G. JOHNSTON: Authors' expenses, yes.

MR. PARSONS: There's travelling and so on. Remember this is over a two-year period.

MR. G. JOHNSTON: 1970-71. Travel, $47,000, travel for two years, I mean what would they be doing if they're not writing or putting together programs?

MR. PARSONS: Clare himself, and also Mr. Sheppard, travel back and forth across the country keeping these programs going. There's a lot of travelling involved in it.

MR. G. JOHNSTON: That's all, Mr. Chairman.

MR. CHAIRMAN: Any further questions? Mr. Green.

MR. GREEN: Mr. Chairman, yes, I think that part of the problem that Mr. Johnston is having is that he, from year to year, either was not at the meetings or did not know of the progress statements that have been made and I therefore want to review them because it leaves the wrong impression. Some two years ago, Mr. Parsons appeared before the committee, and I'm trying to recall, but was it not at that time indicated that the Clare operation was only going to be the finishing of a module program and then the marketing of that program?

MR. PARSONS: That is right.

MR. GREEN: That it would not involve any additional hiring, any additional staff, that it would mean completing the program and marketing it through Rand McNally?

MR. PARSONS: That is right.

MR. GREEN: And the reason for advancing the additional funds was that the best financial way of recovering or putting the MDC in its best position was to attempt to market what appeared to be a very acceptable product by Rand McNally?

MR. PARSONS: Yes.

MR. G. JOHNSTON: Somebody's happy.

MR. GREEN: Well, Mr. Chairman, it is not a question of being happy or sad.

(MR. GREEN cont'd) . . . . . Would the Member for Portage who is making snide remarks prefer that we lost the $18 million and did not attempt to market the product, is that the advice he's giving the MDC? Because the MDC board thinks differently. My impression is that they had roughly $1,200,000 in a program, that they could see that the publishing company did not merit further investment other than to conclude one single module program which is a very sophisticated educational procedure which has been accepted by Rand McNally and is being marketed through the United States. You reported this two years ago?

MR. PARSONS: Yes.

MR. GREEN: And last year again?

MR. PARSONS: Yes.

MR. GREEN: And that the best way of attempting to recover the moneys advanced, and that will depend on the success of the program, is to go ahead and finish the program, market the product and try to receive the royalties. Is that the philosophy that is now being proceeded with?

MR. PARSONS: Yes.

MR. GREEN: And that does not merit hiring people and having an office and a building and ten employees to prove to Mr. Johnston that the money that we are spending involves the hiring of staff. And that would indeed be a strange situation.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, through you to Mr. Parsons. I wonder, Mr. Parsons, if you can advise what additional loans will be required in order to complete and get to the final production schedule for the 40 modules. I'm particularly looking at your summary sheet here and it says that 16 modules have been printed, there's six modules printing in process, and at pre-printing stages there's 18 modules. Can you advise us what additional moneys would be required to complete this?

MR. PARSONS: Yes, Rand McNally estimate there will probably be another - between $150,000 and $200,000 to complete the program.

MR. MINAKER: And will the MDC be responsible for these costs?

MR. PARSONS: Yes.

MR. MINAKER: Can I then ask you, through you Mr. Chairman, why last year on April 17, 1975 when I raised a similar question and I will quote, it's on Page 55 of the Economic Committee Minutes, I asked the Chairman, "Through you, Mr. Chairman, last year in reply to a question to you, Mr. Parsons, from Mr. Asper, and I quote from the Economic Development Committee hearing dated March 19th, Page 20, Mr. Asper said - it was in regard to the commitment that MDC had with W. E. Clare. He said $1,350,000." And I repeated, "Did that sound right to Mr. Parsons?" Mr. Parsons replied, "Yes, it's right down here." "So your commitment is 1.35 million."

Now further to that Mr. Parsons said, "I see as of February 28th the commitment has now gone to $1,424,599." Mr. Parsons replied, "Yes, there was an additional 200,000 required of which the MDC board made the decision to go half of that with Rand McNally."

Now I raised this question, "Mr. Chairman, through you to Mr. Parsons, is that the last of the moneys required or what limits do you anticipate you'll have to exceed the original commitment of 1.35 million?" Mr. Parsons replied, "No, that should take us through. Rand McNally studies show that that should be adequate."

Well, Mr. Chairman, we now have before us a summary sheet that says the commitment to date, one year later, is now $1,660,499 and now we've had Mr. Parsons advise us that it looks like another $200,000 would be required to complete it. So I'm wondering what figures can we take as being realistic on this particular project because it's very clear, in three years running, it's all these extra moneys that are being added year by year.

MR. PARSONS: All right. Of the $1,660,000, there's $295,499 which is accrued interest and charges that we've added, so that takes it back to your $1,365,000. There was additional loans of $185,000 that are committed that haven't been paid out yet. The program was slower than anticipated and the costs are higher than they had anticipated but they're far enough down the program now that they know what the costs are going to be. I may have anticipated the extra couple of hundred thousand dollars required.

MR. MINAKER: Mr. Chairman, also back in 1974, I believe that at that time we were talking about 55 modules, and then it was reduced I believe to 48 . . .

MR. PARSONS: 40.

MR. MINAKER: . . . And now I understand that this has been reduced to 40?

MR. PARSONS: Yes.

MR. MINAKER: Is there any chance that it could be further reduced because I know, I'm going over the detailed explanation that you gave of the development costs at that time, you indicated there was three or four stages before you finally got on the desk where the student would use the module. I'm wondering does Rand McNally have the power and decision to decide if it only wants to use 30, it could use 30?

MR. PARSONS: I don't think they would. They've come down to 40 now. That is the program that they have laid on to carry the modules through.

MR. MINAKER: Then can I ask through you, Mr. Chairman, will the costs, it would look like 15 additional modules where different stages of development in writing were incurred, who will burden those costs? Is there any commitment on the part of Rand McNally to put forward a share of those costs because they rejected them?

MR. PARSONS: No, I don't think they rejected them, the program changed.

MR. MINAKER: Well, Mr. Chairman, it's a matter of debate whether they rejected them. They're not producing or going to sell them, is that correct?

MR. PARSONS: No, my understanding is there's going to be 40 modules in the group but, you know, when we started out and were talking 55, I think they've combined some of them. There's no outlay to the professors, the only way they get their money is by royalties.

MR. MINAKER: Well, Mr. Chairman, I appreciate that but we are concerned that there is some $1.6 million of taxpayers money involved in this and it looks like we're going to see another 200,000 or more involved which at one point we were advised was going to be somewhere in the neighbourhood of 1.3 million. I'm wondering, through you, Mr. Chairman, can Mr. Parsons advise is there any signed commitment with Rand McNally that they will in fact publish and produce the 40 modules. If there was a change in their plans, could they change that down to a smaller quantity if they so desired?

MR. PARSONS: I can't answer that, I'd have to . . .

MR. MINAKER: I wonder, Mr. Chairman, through you to Mr. Parsons, where are these books being published as far as the printing and process stage and the pre-printed stage? Is any of that work being done in Canada or is it all being done in the States?

MR. PARSONS: It's pretty well all being done in the States.

MR. MINAKER: And the actual control of the quality and the contents of the book, are they left in the hands of Rand McNally?

MR. PARSONS: Yes.

MR. MINAKER: I wonder, Mr. Chairman, through you to Mr. Parsons, you indicated that there's no one really working on this job now other than some man hours from the MDC being placed to look after the account. Is there any input at all from MDC in the say or the method of marketing of these books?

MR. PARSONS: No.

MR. MINAKER: So it's all left in the hands of Rand McNally.

MR. PARSONS: Right.

MR. MINAKER: What is the cost incurred by Rand McNally to date? I don't know whether that question was asked or not.

MR. PARSONS: Yes, it was and I can't tell you what the costs are. Their costs are all in the publishing and selling, and what they'd spent in sales time, I don't know.

MR. MINAKER: Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Parsons, I notice that the statement we have for William Clare is dated December 31, 1974. Is there any reason why we don't have a statement for December 31, 1975 in front of us?

MR. PARSONS: Yes, the audit wasn't finished.

MR. McGILL: Well this last audit, the letter enclosing it was dated March 14, 1975. Are the same auditors working on the account? Are the same auditors handling the account?

MR. PARSONS: I believe so.

MR. McGILL: And the size of the operation looks as if an auditor should be able to produce an annual statement in about two days work.

MR. PARSONS: That's correct. Normally it would have been but, as I say, the office was out in Vancouver and Mr. Clare did not have an accountant doing the books. When we gathered them all up they all had to be . . . up for last year, and we didn't receive those until March or April.

MR. McGILL: You mean Mr. Clare wasn't doing his work up to March 31st?

MR. PARSONS: He didn't have an accountant doing it. He never did do the accounting himself, he had a girl or hired an accountant to do this, but there was no further moneys being advanced to him and he just didn't keep the records up to date.

MR. McGILL: So there wasn't time to get an audit done by the time you realized that this wasn't proceeding according to the usual plan, eh?

MR. PARSONS: There wasn't time to get an audit done, we had to do the accounting ourselves.

MR. McGILL: Now the question is being asked, who was looking after accounts receivable and issuing cheques, accounts payable.

MR. PARSONS: Accounts payable? He was.

MR. McGILL: He was looking after that part of it and keeping that up to date.

MR. PARSONS: Yes. Mind you we were monitoring that but it wasn't being recorded in the books of account.

MR. McGILL: Did the auditors not bring it to your attention? If they were retained to look after the account . . .

MR. PARSONS: Yes, but they only go in once a year, and usually when they're called upon.

MR. McGILL: You mean they don't return each year after the year-end to get a cutoff from the accounts? Surely an annual audit has to have some auditor representation at the place of business immediately the year-end is completed, and did they do that?

MR. PARSONS: Not to my knowledge. I think we had moved in probably and closed the Vancouver office up and moved everything here before they had a chance to do that.

MR. McGILL: Well the whole thing sounds pretty loose to me. An audit firm with a responsibility somehow failed to discharge their responsibility at the appointed time and place?

MR. PARSONS: No, the auditor came up after the year-end. If the auditor phoned Mr. Clare and asked if the books were ready to be audited and he said no, the auditor wouldn't necessarily be that upset, that often happens within companies. You could have the books ready for them to audit so they wouldn't go in.

MR. McGILL: Is there a possibility that you considered that any message they'd have would be bad news anyway, so you weren't in a hurry to get the audit completed?

MR. PARSONS: No, that had no bearing on it.

MR. McGILL: I notice that there are two other companies here for which we don't have statements more recent than December 31, 1974, and one September 30, 1974. They are also not exactly your best performers either - Flyer Industries and Saunders Aircraft. Is there a tendency here to bring the good news and to delay the bad news in terms of statements?

MR. PARSONS: No.

MR. McGILL: Well why is, for instance, Saunders Aircraft, there is no audited statement available, audited statements not available. Surely when a firm is going through the kind of problems that it has gone through that you would want to be up to date on the financial situation, to know exactly what is happening. Why is there no statement for Saunders?

MR. PARSONS: The statement is almost completed for Saunders but because of them being shut down, the auditors are having a little problem with evaluation of the assets. When we have written off all the development costs down to nil and you know it's shut down, the plant's completely closed down, it's a matter of the auditors evaluating what to put on the statement and what the values are.

MR. McGILL: Well we know that's going to be bad news as well. What about Flyer Industries?

MR. CHAIRMAN: Mr. McGill, we're coming to that point. We're dealing with William Clare (Manitoba) Ltd. and let's stay to this particular point. We'll be coming to Saunders Aircraft Corporation and you can ask those questions at that time.

MR. McGILL: Well, Mr. Chairman, on a point of order, I'm trying to establish why it is that statements are not more recent than December 31, 1974 and I note that there are two other companies in the same category and I think the same point applies.

MR. CHAIRMAN: Yes, that was fine, but then you continued to go into the actual financial reasonings. Are there any more questions, Mr. McGill?

MR. McGILL: Mr. Chairman, I'd like to ask Mr. Parsons, what is the reason that Flyer Industries statement is not more up to date than December 31, 1974?

MR. PARSONS: Because they were unable to establish the inventory to the 31st December 1975, they're still working on it.

MR. CHAIRMAN: Mr. Adam.

MR. ADAM: Thank you, Mr. Chairman. I just have the one question to Mr. Parsons. On Page 2 of the notes on the consolidated and financial statements, the loans are secured by a floating charge on assets and an assignment of life insurance policies on the life of William Clare totalling 650,000. Do you have a breakdown for that, of what part of this amount is life insurance, and is that still in force?

MR. PARSONS: The life insurance was 650,000.

MR. ADAM: 650,000.

MR. PARSONS: Life insurance, yes.

MR. ADAM: I see. Is that still in force?

MR. PARSONS: No, not to my knowledge, no.

MR. ADAM: Why would that be . . .

MR. PARSONS: We had the life insurance on him while he was working on the program.

MR. ADAM: I see. So the assets is in addition to the 650?

MR. PARSONS: The assets are really the royalty agreement with Rand McNally.

MR. ADAM: I see. Thank you.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I just have a couple of questions for Mr. Parsons. In their report it indicates that the MDC and Rand McNally had each agreed that they would advance an additional $200,000 to William Clare and I notice from the MDC report as of March 31, 1975 that MDC has advanced its extra $200,000. Could Mr. Parsons indicate if Rand McNally has also advanced $200,000?

MR. PARSONS: Yes, they have on that part of the program.

MR. AXWORTHY: On that part of the program, so that they've both advanced.

MR. PARSONS: Oh, yes.

MR. AXWORTHY: Now in this report the auditor indicates that there was to be a repayment beginning on March 1, 1976, but this is going to have to be rearranged. Could you indicate what rearrangement has been made?

MR. PARSONS: Actually in the original agreement with William Clare they were supposed to start repaying their loan. If they didn't then William Clare forfeited his 20 percent of the shares, which has been done. So he has no interest in the company any longer. But also the program didn't get going in time, so we were still holding a debenture, but there's no payments been made on it and probably won't be for a year.

MR. AXWORTHY: I see. So Mr. Clare no longer has any interest in the company at all and MDC has assumed his shares?

MR. PARSONS: Yes.

MR. AXWORTHY: Any arrangements with Rand McNally would be directly with MDC, in this case?

MR. PARSONS: With MDC, yes.

MR. AXWORTHY: And do you have a written arrangement with Rand McNally in terms of the royalty payments and how much and at what schedule, and so forth?

MR. PARSONS: Yes.

MR. AXWORTHY: Could you describe what is involved in that . . .

MR. PARSONS: In the royalty agreement there's 20 percent on the first 3 million. Of that the authors would receive 11 percent. MDC's share would be 9 percent on the first 3 million of sales. On any sales over 3 million there's 15 percent royalty for which the authors get 9 and we would get 6. Actually Rand McNally's current projections have indicated sales over $50 million.

MR. AXWORTHY: Well, Mr. Chairman, I was going to ask Mr. Parsons, based upon that royalty arrangement where you're getting I believe 9 percent of the first 3 and then 6 on the following, what do you project in terms of amortizing the loan then to William Clare?

MR. PARSONS: Well this is over a 10 to 12-year period. As I said before there'd be probably between 2.5 and 3 million dollars coming back to the MDC in royalties if they reach the 50 million mark.

MR. AXWORTHY: If they reach the 50 million mark.

MR. PARSONS: They feel that is conservative. That's only 6 percent of the U.S. marketplace in that field.

MR. AXWORTHY: Mr. Chairman, I'd like to go back to some of the questions about how the initial investments and expenses of the company were spent. I was somewhat intrigued still by the comment again in the report that in 1974 the five highest paid employees was $73,000. Now who were these employees? Were these all in Vancouver? What positions did they occupy? I gather it was just Mr. Clare to begin with. But was there five, and what were they doing during this period?

MR. PARSONS: Originally Mr. Clare had an office here too. There was a lady running the office here. He also had a Toronto salesman. That would be the 1973 period. There was a Mr. Sheppard that lives in New York was on that program.

MR. AXWORTHY: Was Mr. Sheppard developing the film strip program or . . .

MR. PARSONS: No, no. He'd always been in the module, the advertising module program.

MR. AXWORTHY: I gather when you were answering the questions from the Member from Portage you indicated that this item of editorial expenses and salaries amounting to $248,000, we gather that is not money that is going to the office of the modules but is really developmental costs of the company somehow, and you had no idea what that would include.

MR. PARSONS: Well I can't give you the breakdowns. I said William Clare was on salary and he was travelling back and forth, so was Mr. Sheppard. Mr. Sheppard is still working for the company. They travel back and forth visiting this office and keeping the program going.

MR. AXWORTHY: Mr. Parsons, I just want to come back, Mr. Green seemed to insist that this whole thing was a logical exercise. Mr. Chairman, I'd like to . . .

MR. GREEN: Mr. Chairman, on a point of privilege, I did not try to build the logic of the enterprise, I indicated that the logic of the board of directors was, finish the program, have it marketed, and that's it. I did not say that the program to begin with, I didn't express any opinion on that, my opinions were expressed on the existing board's policy of finishing the program, marketing it and getting out.

MR. AXWORTHY: Well, Mr. Chairman, let's assume then that Mr. Green didn't see any logic in the beginning of the program but that's . . .

MR. GREEN: Mr. Chairman, again on a point of order. I expressed no opinion one way or the other on the board of directors' original decision for getting into the program. That was a decision made by the board of directors of the Manitoba Development Corporation at the time. I expressed no opinion on it one way or the other, and if the honourable member continues to make snide remarks of that kind I'm going to continue to interrupt with points of order.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Thank you, Mr. Chairman, I can make as many remarks and Mr. Green can interrupt as often as he is until we find out why . . .

MR. CHAIRMAN: Let's proceed, Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I am trying to proceed if we can maintain some proper questioning. I would like to ask Mr. Parsons really when you go back into

(MR. AXWORTHY cont'd) . . . . . the origins of this particular company and the purposes for which it was set up, it seems to me the only beneficiary of it is the Rand McNally Company of Chicago and perhaps some advancement in the mathematical module world of education, but there have been absolutely no value derived by the people of Manitoba. We will not receive any major profit, we have not received any employment, we have not received any economic stimulus or economic development. Now can you tell me why the company was started? What was the origin of it? What was the logic of the board, and why did we invest $1.6 million, or whatever the sum may be, and continue to invest through a government-owned investment company, development corporation, what was the purpose when in fact there has been almost zero value derived by the people of Manitoba, other than a lot of headaches?

MR. PARSONS: I wasn't general manager when this started, you understand that, so I don't really know what the thinking of the total board was. Reading back through it, they were hoping to establish a publishing business in Manitoba. It was written up that in the method that William Clare was going to come here and live here and its original agreement that he did this, set up an office here and establish a publishing business. I think it was desirous at that time to have a Canadian publishing firm here. That was the objective and the thinking behind it. It certainly hasn't gone that route.

MR. AXWORTHY: Well that's what I want to ask Mr. Chairman. Considering that Manitoba Development Corporation has always been a major shareholder in this particular company, why is it that there was not some effort made to have those objectives achieved, certainly that the majority of the shareholders - if that was the purpose of the company and a substantial amount of money was being lent to them for that purpose, why is it that the board throughout even to the point where we are now even making a deal with Rand McNally that we didn't attempt to secure some of the work and some of the benefits for this problem?

MR. PARSONS: Well we've got some of the benefits. There was quite a bit of the typesetting, and so on, done here, quite a considerable amount done by B. W. Typesetters, but you know you're talking maybe $250,000, $300,000 with an input from the people here, which is not that great. But I don't think anybody had the capability of putting it together here such as Rand McNally. You know, when you take a look at the marketing necessary to make that program go, I think it had to be somebody like Rand McNally.

MR. AXWORTHY: Mr. Chairman, I'd like to pursue that because we keep getting a little faint echo about in some ways. When the company was set up, where did the directions from it come? Was the Minister involved in making that decision that the company be set up? Was it a board decision of the corporation?

MR. PARSONS: It was an MDC board decision.

MR. AXWORTHY: It was an MDC board decision, and there was an agreement signed between them and William Clare about his establishing location here, a printing company, and so on. Now when you have gone through the minutes of this company and looked at its record, was there at any time questions raised or requests made to Mr. Clare that he live up to his obligations in terms of the purpose of the company, by the board?

MR. PARSONS: Oh, yes. They tried to get him to do. . . and he did live here for quite some time. Getting this mathematics program, I don't think it made much difference whether he lived here or anywhere, the only place he had. . . the authors basically were in the States to do this program. As I say there was only two involved out of 24 or 26 authors, there's only two here that were able to do it. So he was travelling about. He didn't need a big office here to do that.

MR. AXWORTHY: Mr. Chairman, if I can stop Mr. Parsons just on that point. Again if we go to the purpose of the company - and I'm trying to establish the way in which MDC monitors or manages its investments - if the purpose of the company was to establish a Canadian-based printing company located in this province, supply employment and economic stimulants for the economy of the province, when the decision comes along to develop this mathematical module program, which has virtually nothing to do with Manitoba, why was the decision made to continue advancing money on them? Why didn't you simply say that that may be an interesting program but it has nothing to do with the

(MR. AXWORTHY cont'd) . . . . . purposes of the company, if in fact there is to be no benefit derived from it, that we were simply acting as a jobber or a wholesaler for American academics and an American publishing company. You know, capital is a scarce item these days and presumably it could have been used for other purposes. There's always the replacement cost of any piece of capital you use. Why do we continue sort of, why did the board not say, okay, that's not what the company is set up to do, don't do it, and stop it at that point?

MR. PARSONS: Well, in retrospect, they should have, I suppose. I know I was never involved in the board of that company. If you're reading the minutes they tried to get it to go in that direction but by the time I became involved in it, as I say, we decided, the MDC board decided to take the program down to the end because it was the best way of realizing on the money we'd put in. I can't tell you why they didn't. As I said, I wasn't really involved in that board.

MR. AXWORTHY: Okay, Mr. Chairman, and without going into history, just the final question in relation to the position of Mr. Clare himself. When did he re-establish in Vancouver, and to what degree was there any attempt to either audit or monitor the activities of the company, or his performance, or the performance of the company in terms of who was being hired and what was the activity during that period?

MR. PARSONS: Because we were controlling the outlay of the cash so he was limited as to the number of dollars he had so we knew who was being hired and where the money was going but I think he went back to Vancouver about 18 months ago.

MR. AXWORTHY: Just one final question. . .

MR. PARSONS: He never gave up his home in Vancouver actually.

MR. AXWORTHY: Mr. Clare no longer has any association at all with this company.

MR. PARSONS: No.

MR. AXWORTHY: And I find that a little strange for someone who had invested all his time and effort to make the thing go that all of a sudden he would be terminated or leave the company. Now was there any circumstances that dictated that decision by the MDC board to have Mr. Clare absolve himself of any responsibility in the company?

MR. PARSONS: As stated before he was under a contract till the 31st of March, 1976 and his work was to be completed by that time and it virtually was.

MR. AXWORTHY: Now that's the question, Mr. Chairman, when you say contract, I gather . . . was he not president of the company?

MR. PARSONS: Yes.

MR. AXWORTHY: And he worked for the company but he was a member of the board of the company?

MR. PARSONS: Yes.

MR. AXWORTHY: But he's no longer even involved with the board of the company?

MR. PARSONS: No.

MR. AXWORTHY: Well even though his contract terminated wouldn't, considering all the investment he put into it, wouldn't there seem to be some lingering interest on his part of maintaining control of this . . .

MR. PARSONS: He didn't meet his obligations and get everything completed. He agreed to forfeit his shares by the 31st of March, 1976. He had pledged those for security.

MR. AXWORTHY: I see.

MR. PARSONS: And it just came to an end as far as he was concerned.

MR. AXWORTHY: Was this decision taken by the board to ask him to, in a sense, foreclose his interest in the company or was it on his own?

MR. PARSONS: That was done three years ago. We agreed on the program and he agreed . . .

MR. AXWORTHY: You mean as of three years ago it was decided that he would leave as of - what was the date?

MR. PARSONS: 31st of March, 1976.

MR. AXWORTHY: So that he would be all over . . .

MR. PARSONS: He would forfeit his share because that's when the debenture

(MR. PARSONS cont'd) . . . . .was supposed to be starting to be repaid and if he couldn't do that then he was willing to forfeit his shares. That agreement was made a long time ago.

MR. AXWORTHY: He agreed that he would just walk away from it.

MR. PARSONS: Yes, that's true.

MR. AXWORTHY: Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: No questions.

MR. CHAIRMAN: Any other questions? We can go on to the Cybershare Ltd. formerly known as the Phoenix Data Ltd. Mr. Parsons.

MR. PARSONS: I think you all know that it was Phoenix Data, we changed the name to Cybershare Ltd. during the year. This company is 100 percent owned by the MDC. I think you've got pretty well all the information on the operations of this company.

At the present time all loans and bank guarantees provided by the MDC have been retired. Bank credit has now been arranged without the support of the MDC. It is anticipated by the 31st of March, 1977, Cybershare will not have any bank loans. This year, ending the 31st of March 1976 - I'm sorry I do not have the auditor's statement, the auditors haven't finished this one either - our income is about 1.5 million and we're showing a profit of $170,000 for the year ending March, 1976.

The marketing, we've been stressing marketing in the private sector. The last three or four months we're getting 55 percent of our business from the private sector. We've expanded the company. We have terminals in Edmonton, Calgary and in Vancouver and next month we'll have a terminal in Toronto and we are getting good results in our marketing there and the business has been increasing. That is all the comments I have to make today. Are there any questions?

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: I think some of the questions have been answered, Mr. Chairman. I'm happy to hear that the company is doing so well. In particular I was interested in Mr. Parsons' comment that the -- (Interjection) -- Yes, as the Honourable Minister responsible for MDC has indicated, it is also in St. James. But besides that point, we noticed in your assets and liabilities that in Accounts Receivables there was something like 200,000 from the Province of Manitoba and Crown agencies and also from other outside sources. I wonder, Mr. Chairman, through you to Mr. Parsons, how will the Manitoba Telephone System Central Computer Services affect Cybershare's work with the government agencies? Are they proposed to be in competition with the government if that's physically possible or are they going to be cut off from this type of work? Ore are they going to be absorbed by the Manitoba Telephone System and purchased?

MR. PARSONS: No, there's probably two main programs that Cybershare do for the province. One is in the student aid field and the other is in the educational. Those systems are both programmed for CBC 6500. We don't anticipate that we'll lose the business. We are negotiating our contracts right now with the Department of Education to run the terminals in the schools. Those are run in conjunction with the MTS. We may eventually lose them.

MR. MINAKER: Mr. Chairman, the outside accounts that you are developing outside the province, are they too primarily in the education field?

MR. PARSONS: No they are not.

MR. MINAKER: I wonder if Mr. Parsons, through you, Mr. Chairman, can elaborate a little bit on the type of area . . .

MR. PARSONS: We're doing quite a fair amount of work with engineering firms, a good portion. We've taken over Calgary Water Computer Systems, they're on our terminal now and there are many engineering firms.

MR. MINAKER: Mr. Chairman, I notice that the payroll staff, I believe, had increased to 30. I wonder, Mr. Chairman, through you to Mr. Parsons, it looks like there's an average income of about $10,000 per employee if you subtract that new employee addition from last year's. I wonder if it's normal for a 20 percent increase in salaries, it looks like, when you compare the two figures, one from last year and

(MR. MINAKER cont'd) . . . . . one from this year. I shouldn't ask, I guess, how you run your company. I'm wondering since it is a Crown agency whether this is normal income.

MR. PARSONS: I can assure you that there was not an overall 20 percent increase in salaries. You're taking . . .

MR. MINAKER: The annual payroll on your summary sheet here, in 1975 it was $290,000 and now it's $359,000 with an increase of one employee. It works out to an average 20 percent increase.

MR. PARSONS: Yes, there's only one increase in employees but there is two or three staff changes. We have a new general manager that we are paying more than we were for our previous one and we've taken a full-time controller on there that we didn't have at all before.

MR. MINAKER: Mr. Chairman, through you to Mr. Parsons. He indicated that it looked like you would have a profit of $136,000 this year.

MR. PARSONS: $170,000.

MR. MINAKER: $170,000 which then would be applied to the deficit.

MR. PARSONS: Yes. As a matter of fact we have a positive cash flow of $335,000 for the year ending March 1976. That's why we were able to pay down the bank loan and also because of this type of cash flow we've now arranged with the bank - there's no MDC guarantees at all on the bank loans.

MR. MINAKER: Mr. Chairman, a very simple question. Can I ask why the change in name of the company?

MR. PARSONS: There's a Phoenix Data Centre out in Calgary and strangely enough when we opened up our office we were right next door and they didn't like us putting Phoenix up on the building. Their charter was older than ours.

MR. MINAKER: I see. Thank you.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Parsons, I am looking at the Income and Expense sheet and I note that depreciation taken is $163,581. That's depreciation of this year.

MR. PARSONS: Yes.

MR. GREEN: And you show a loss on this statement of $62,000.

MR. PARSONS: Yes.

MR. GREEN: Now, if we ignored several other items - and I really don't know how they work out - but if we consider that the depreciation is not a cash item, if you were using the language of the CFI reports for the last two years you could call this a Cash Profit. It is a term that I don't understand but nevertheless it is used. A Cash Profit of some $100,000, is that correct?

MR. PARSONS: In effect the cash position of the company did improve by over $100,000.

MR. GREEN: I didn't take into account other figures. But using the same terminology if you apply equal terminology to this statement as the CFI statement then you would have to say that there was a Cash Profit.

MR. PARSONS: Yes.

MR. CHAIRMAN: A ManFor.

MR. GREEN: ManFor. Excuse me. Now I also note that you have accumulated depreciation of $504,000.

MR. PARSONS: That is right.

MR. GREEN: Do you believe that your building has depreciated?

MR. PARSONS: No, actually they asked that we purchase the building and the computer was purchased for $1 million. Basically that property is probably worth that alone now.

MR. GREEN: And the computer is worth something.

MR. PARSONS: Yes.

MR. GREEN: What would it cost to buy the computer?

MR. PARSONS: Well you wouldn't buy one like that today but it was $3 million when Symbionics bought it.

MR. GREEN: So, Mr. Parsons, if you were looking at this statement on the assumption which I know I can't make, that the company is going to be able to generate

(MR. GREEN cont'd) . . . . . income, then this statement of accumulated loss is really a paper loss is it not?

MR. PARSONS: Largely, it's all depreciation, yes.

MR. GREEN: And the building has not depreciated and the computer is worth what you paid for it.

MR. PARSONS: Yes, the assets should be worth . . .

MR. GREEN: But you've taken a total of $504,000 for depreciation.

MR. PARSONS: Pretty well half of it is depreciation, yes.

MR. GREEN: Thank you.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Chairman, Mr. Parsons and I had an exchange on the question of the accumulated deficit last year. I asked Mr. Parsons at that time what the outlook for the coming year was and Mr. Parsons said we've done much better since the beginning of the year; we've had three profitable months. It's on the increase, we're making profits. Actually we had a positive cash flow, even with that, if you take a look at the amount of the writedowns and so on. I said, do you anticipate the company will show a net profit in the coming year? That's this year. Mr. Parsons said, it will be very close. I haven't got the figures, the auditor's figures aren't finalized. Mr. Parsons then said he had a preliminary figure for this year - that is the one that we're dealing with - it's very close to break even. I asked if the business appeared to be on the upswing and Mr. Parsons said, yes we've been out more actively and had much more contact and so on.

Mr. Chairman the results are somewhat different than what Mr. Parsons had anticipated at that time. The loss for the year was double what it was for the previous year and yet,Mr. Parsons, you anticipated that it was going to be almost a break even situation. Remember that the previous year seemed to have an extraordinary expense item that brought your net loss up to $32,000-some dollars and the extraordinary expense involved was $29,000 which is non-recurring and so really the results this year, as I read them in the statement, are very much less profitable than they were the previous year. Yet all the indications you had at that time were that things were really good.

MR. PARSONS: They were a lot better too, if you take into consideration there's $163,000 in depreciation off there.

MR. McGILL: Yes. Well I'm not about to argue with the auditors about what is proper in the balance sheet. Mr. Green has his ideas of how a balance sheet should be constructed and I think . . .

MR. PARSONS: Well, I'm not arguing about the balance sheet either but you know we did . . .

MR. McGILL: . . . depreciation here before . . .

MR. PARSONS: Yes.

MR. McGILL: So we're comparing figures that are comparable in the sense that they are established using the same methods. So that really your loss is double what it was the previous year and your income has not increased appreciably. It's up $44,000. I notice that your revenue from the Province of Manitoba is down but the same programs are being provided. Are they being provided at less cost to the province?

MR. PARSONS: Yes somewhat less. We were doing a fair bit of work for Hydro that we're not doing now.

MR. McGILL: Mr. Chairman, the point I'm making is that the optimism indicated by Mr. Parsons in his statements last year and his preliminary figures seem to be quite at variance with the actual performance for the years contained in this audited report.

Mr. Parsons, let me put the question again for next year so that we'll have it on the record. What do you anticipate the company's operating revenues or deficits will be? Do you have any unaudited figures this year for it?

MR. PARSONS: I gave them to you when I started out. Our income for the year ending the 31st of March, 1976, was $1,475,000; our Operating Expenses are $1,083,000; our Interest is $55,000; we took depreciation of $157,000 for expenses of $1,295,000. There is an audit adjustment I know that shows a profit of $180,000. There's an audit adjustment I know that's going to reduce that by $10,000 so it will be very close to

(MR. PARSONS cont'd) . . . . . $170,000 profit. That's after a $157,000 depreciation. So that's why I said we had a positive cash flow of about $330,000.

MR. McGILL: Thank you.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I just have a few questions for Mr. Parsons. When you do work for the Government of Manitoba do you do it on a tender basis or a bid basis or is it a negotiated contract?

MR. PARSONS: Basically we negotiate a contract on both the Student Aid and the Department of Education. I don't know if they could do it on a tender. I suppose they could but somebody else would have to build up the software system that we already have. Each year we negotiate a contract based on hourly usage.

MR. AXWORTHY: Would you be in a position where you would be providing any competition or offering any alternatives to the new Data Processing Program being put in by the Manitoba Telephone System?

MR. PARSONS: We could be. They quote on some things that we do.

MR. AXWORTHY: I wonder if we could be a little more definite on it. I mean is it the intention of the company to begin providing some form of competition or even divide the market up between you?

MR. PARSONS: No, we're not going to divide the market up. We're going to go after all we can and they are too.

MR. AXWORTHY: So you intend to compete with them?

MR. PARSONS: Yes.

MR. AXWORTHY: For example Student Aid, I know that in the last year of operation, the 1975 year which . . . in this audit year, that particular program ran into a great deal of difficulty and there was an enormous backlog of applications. Could you tell us first what the problem was and whether you incurred any extra expenses in correcting the problem in relation to the company or the province or was it just written off in some way.

MR. PARSONS: No it wouldn't be written off as far as we were concerned. The program was started too late in 1975. That's why it ran into the problems. This year it was all through and we got the information in time to run it properly. The year before it was started up too late. You run into computer problems when you do that. This year it was all programmed and ran through very easily. Any changes that they wanted made were made in the fall of 1975, so we worked them into the 1976 program and it went very smoothly.

MR. AXWORTHY: Mr. Chairman, I'd like to ask Mr. Parsons in a program such as Student Aid, how do you go about pricing that particular kind of contract? Do you have an escalating clause in it? Is it a year by year renegotiation?

MR. PARSONS: Yes. Year by year renegotiation. They pay by the hour. They pay the computer by the hour. They also have volume discounts when it gets up the same as every other customer does. If they want us to do programming for them we have rates for our programmers.

MR. AXWORTHY: What kind of rate do they pay now per hour?

MR. PARSONS: I couldn't tell you.

MR. AXWORTHY: Is it a competitive rate, let's say, with a private company?

MR. PARSONS: Yes.

MR. AXWORTHY: When there was a hearing of the Public Utilities Board for example, some of the private computer companies indicated that they could provide services much cheaper than the Government Data Processing. In this case they were talking about payroll arrangements. Would you say that Phoenix considered itself in the position to provide a cheaper service than the new Data Processing Program or . . .

MR. PARSONS: I don't know.

MR. AXWORTHY: Do they have any pricing or bidding on, for example, the payroll programs of the Government of Manitoba? Were you invited to make a bid on say the new payroll program that the Department of Finance introduced?

MR. PARSONS: No.

MR. AXWORTHY: You were not. So that was done totally in terms of the Manitoba Data Processing group from MTS, the sole . . .

MR. PARSONS: I don't know. I can't answer that. I know that we didn't quote on that.

MR. AXWORTHY: You didn't quote on it.

MR. PARSONS: Cybershare didn't. No.

MR. AXWORTHY: Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Turnbull.

MR. TURNBULL: For clarification of the point that the Member for Fort Rouge was alluding to, that Payroll Computer Program was set up on the Manitoba Government Computer System before MDS was established and the whole thing . . . the whole process of rationalization and centralization.

MR. CHAIRMAN: Mr. Craik. Mr. Axworthy.

MR. AXWORTHY: That's not really quite a clarification because the Premier indicated that there was a brand new program introduced last year for which we paid $700,000, I believe.

MR. CHAIRMAN: That has nothing to do with it.

MR. AXWORTHY: That's why I'm asking. The question I'm asking, though, is that when you set up a new - if there is a new program. Well the question I was asking was, were they asked this, and the answer was no. Is that correct?

MR. PARSONS: Pardon me, not to my knowledge, I don't think that we were asked this.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Well, Mr. Chairman, I wanted to ask Mr. Parsons about this matter of depreciation. In this report before depreciation it shows a profit, and after it shows a loss, and I notice that in some other statements there is no depreciation taken into account. In your next report we come to, Dawn Plastics, does not show any significant depreciation other than on automobile and furniture. You show here out of your cumulative depreciations, $381,000 - my question would be whether or not it's something like a computer, it really does outdate itself pretty rapidly because of the changing technology that after ten years - I don't know how old this system is now, the CBC system, you probably would not go back into that type of a system after ten years of operation. The other question is whether or not the depreciation that you've shown is in fact even high enough, because it seems to be more in this business, much more a real factor than it is in something like a pulp mill or a plastic manufacturing business.

MR. PARSONS: Well, all computer equipment that we have is written off in seven years, fully depreciated in seven years. If you look at our program under the notes of the Financial Statement, you'll see that the computer hardware and everything is written off in seven years.

MR. CRAIK: Where you show this year $163,000 depreciation, depreciation of $163,000, what year are you in, are you beyond the seven years yet?

MR. PARSONS: No, no. No, we've only had the company for four years.

MR. CRAIK: But it was in existence prior to that.

MR. PARSONS: Yes, we had nothing to do with it.

MR. CRAIK: You're depreciating it from - you took it on as $1 million, didn't you?

MR. PARSONS: That is correct.

MR. CRAIK: So you're depreciating it down. This represents roughly somewhere in the vicinity of one seventh - do you take this straight line depreciation?

MR. PARSONS: Yes.

MR. CRAIK: Well the question is, in a thing like a computer, the depreciation that you show is probably a realistic depreciation, because at the end of that period of time your asset is actually of much less value than when you bought it; whereas if that asset were a pulp mill or a piece of manufacturing equipment that does not outdate itself, your depreciation may not be realty factor, in fact it may be worth more at the end of seven years than it is at the start. Or if you want to be more direct here, your building that you show some depreciation on, you show $36,000 depreciation on your building, but in actual fact your building at the end of seven years is probably worth more than when you bought it.

MR. PARSONS: Yes, when we valued this land and building, you see, it was

(MR. PARSONS cont'd) . . . . . only put on at about $270,000, it has a market value today of $750,000.

MR. CRAIK: That's more than doubled, despite the fact that you . . .

MR. PARSONS: That's because we want to put the largest cost in the computer to depreciate it over seven years.

MR. CRAIK: Probably, realistically it has gone up in value, but realistically your computer, the depreciation shown is really probably very accurate.

MR. PARSONS: If you want to be realistic, we probably didn't value it right on Day One, because the building was worth a 1/2 million then, and the computer and other equipment will probably be worth that type of discredit. So we chose to put the larger value on the computer and write it off over seven years rather than put it into the building and write it off over twenty.

MR. CRAIK: But you would agree that the computer is after seven years, or whatever period of time, is worth significantly less than what you bought it at.

MR. PARSONS: Certainly it is.

MR. CRAIK: Whereas your building would be up in value.

MR. PARSONS: Yes.

MR. CRAIK: So you can't really compare a computer facility to another type of a business, when you . . .

MR. PARSONS: Well basically when you're taking depreciation on any business, on any manufacturing equipment, you should base your depreciation on the useful life. The useful life of a computer we deem is seven years, that's why it's being written off over that. But if you're in a manufacturing company, you may depreciate over twelve years or whatever the useful life is. So I think your argument that depreciation is more real in this company than others really isn't a factor, it should be real in each one. Now throughout real estate there has been an appreciation going on more than a depreciation, but basically in equipment they should depreciate, it should be realistic.

MR. CRAIK: At the end of your depreciation period, would you estimate that the computer will be outdated at that point and you'll have to replace it?

MR. PARSONS: Not necessarily, it's outdated today.

MR. CRAIK: Will it be so inefficient though at that point in time that it would be uneconomic to continue operations?

MR. PARSONS: I don't believe so. There's computers that have been on the market that are working very efficiently. There's new technology comes in, and there's higher speed, that the computer will still do a good job.

MR. CHAIRMAN: Any more questions? Well that finished Cybershare Limited. Go on to Dawn Plastics Ltd. for the year ended May 31, 1975. Mr. McGill.

MR. McGILL: Mr. Chairman, just on a point of order now, we're going through these statements, and there may be other items that will occur to us. When we come to the final review of the annual report of MDC we will be able I presume to deal with any items that have to be dealt with. Is that correct?

MR. CHAIRMAN: Yes, that was the understanding. As I said, we're just going through these financial statements, and if there is need to return to it at any particular time, I believe we have agreed we can do that. Let's go on to Dawn Plastics Limited. Mr. Parsons.

MR. PARSONS: Thank you. This is another - MDC owns 100 percent of this company, the loans are all outlined and our investment on the information sheet that you have. Actually this company is in the blow molding business, I don't know whether you gentlemen noticed the bottles up on display we put up, just for your interest, of the various companies, the bottles there of Dawn Plastics are also up on that board, so that pretty well all your Prestone and so on that you're buying today is bought in a Dawn Plastics' bottle. The operation wasn't successful. In our opinion the equipment that we were operating out there was outdated and didn't do a particularly good job; we show a loss in May of '75, and in the fall of '75 in analyzing the company we decided that we would go more fully into the business. We bought two new blow molding machines, we've expanded our lines. At the present time all available production is purchased by four main customers, Union Carbide, Robinson & Webber, Interprovincial Co-ops and CIL. Our total production is sold out. The company is operating three shifts.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, this is a case here. You have a company, that your loss for the year is $68,000. That doesn't include any depreciation to speak of. The only depreciation I see is shown on Schedule 2, is one automobile at $695 and an office . . .

MR. PARSONS: If you look on Schedule One, there is depreciation, machinery and equipment of $25,734 in 1975 and 27,757 in '74. Then if you go over to the one you're talking about, GNA expenses where your automobile is - we take the regular depreciation on that. It's in two places.

MR. CRAIK: Your $68,000 loss then includes $26,000 of depreciation, so without that you would have lost $40,000. Your new equipment that you purchased that you just mentioned, the two new machines, there wouldn't be any carrying costs for them then included in the statement, that'll show up as interest charges in next year's statement.

MR. PARSONS: They will next year, yes. No, they're not in this statement at all.

MR. CRAIK: When you're in a competitive manufacturing business like this and you're losing money even though you're running at more or less full production, running three shifts, doesn't it occur to you that you should be thinking about selling the company; if it's going to consistently run these deficits, $68,000 on an asset of a quarter million, you have to be thinking whether it's even worth continuing it on even if you're running at full production.

MR. PARSONS: Yes. We took a good indepth study. We either had to go one way or the other, either sell it off or make it profitable. There is a good demand for the product. We're the only ones actually blowing bottles - well, there's one place in Edmonton, but basically we're the only ones blowing these types of bottles, so there's a good demand for the product. We had to get more efficient machines to do it. You know, if you don't have an efficient machine you can run around the clock and never make a dollar with it. That was the problem, they're working hard and not producing enough to make a dollar. In this type of business you have to have modern up-to-date blow molding equipment to do it, and they're relatively automatic now.

MR. CRAIK: Well if you have that sort of a monopoly on the market geographically in Canada, have you then studied what the effects would be if you raised your price to a point where you could break even?

MR. PARSONS: We have done that.

MR. CRAIK: And what's your conclusion?

MR. PARSONS: Well, since we put the new machinery into production which came on the end of January, we've made money each month. Our production is up and our costs are down because of the increased production.

MR. CRAIK: Have your prices gone up as well?

MR. PARSONS: There's slight price increases, yes.

MR. CRAIK: This hasn't affected your share of the market by increasing your prices at all?

MR. PARSONS: No, we didn't price ourselves out of the market, we're getting a good price.

MR. CRAIK: Well, are you saying then that on the basis of the changes you have made, that in this company you're predicting a turnaround in the operating statement?

MR. PARSONS: Yes, by the 31st of May 1977 we'll be showing a good profit I think. We won't show a profit for May 1976, which is our year end.

MR. ?: I'd like to ask a question. Where is it located.

MR. PARSONS: It's on Seel Avenue.

MR. ?: Fort Garry.

MR. PARSONS: Fort Garry.

MR. CHAIRMAN: Any other questions? Mr. Craik.

MR. CRAIK: You also received - no, last year - additional financing from the MDC of $455,000. Have there been additional loans taken out for the new equipment?

MR. PARSONS: That was it.

MR. CRAIK: That was it.

MR. PARSONS: Yes.

MR. CRAIK: Okay.

MR. PARSONS: Actually we didn't draw that much because we got a DREE grant, so we didn't draw the 450,000 from MDC.

MR. CRAIK: What did the DREE grant amount to? Oh yes, here it is. Okay. How many people do you employ?

MR. PARSONS: How many people? 25, 26.

MR. CRAIK: If there are no more questions on that, could we move on to . . .?

MR. CHAIRMAN: Mr. Johnston.

MR. G. JOHNSTON: Mr. Chairman, to Mr. Parsons, in the statement by the Provincial Auditor's office at the beginning of the report, a statement is made that the corporation does not maintain a cost accounting system of a kind which makes possible for conclusive substantiation of the particulars shown in the statement of cost of goods manufactured and sold. My question now relates to all of the companies that MDC has either majority control or wholly owns. Why do you not have a cost accounting system when you're in business, because you used to be a straight lending agency. Now you . . .

MR. PARSONS: We have a cost accounting system in - are you talking about Dawn Plastics?

MR. G. JOHNSTON: I'm talking about MDC when you examine the books of . . .

MR. PARSONS: I don't know what he's referring to. In our manufacturing companies we certainly have a cost control system.

MR. G. JOHNSTON: Well perhaps you could refer to the statement and explain what it means, the Auditor's statement, which is on Page 1, the second paragraph.

MR. PARSONS: Yes, we put in a new cost accounting system which he is talking about here. There was always a system of sorts there, we had all the costs shown in the statements. I don't really know what he's looking for in this statement.

MR. G. JOHNSTON: Well, you have a unit in your office for example that goes to a smaller firm such as Dawn Plastics for so many days per year, and perhaps maintains a number of personnel at a place like Flyer Industries where there's a large investment on the cost accounting fees, sort of a watchdog operation that I would think you would maintain. How many people do you have in your cost accounting system?

MR. PARSONS: I don't understand what you're getting at. In Dawn Plastics we have one accountant.

MR. G. JOHNSTON: He's on your payroll and responsible to you?

MR. PARSONS: No, he's on Dawn Plastics' payroll and we have an investment officer that goes out there as well.

MR. G. JOHNSTON: What is Mr. Ziprick talking about when he says the corporation does not maintain a cost accounting system of a kind which makes possible for a conclusive substantiation of the particulars shown in the statement of cost of goods to manufacture.

MR. PARSONS: I think what he is saying is probably they thought it should be better. You can substantiate all these figures in here and he already has.

MR. G. JOHNSTON: What does he mean when he says the new management recognizes a lack of cost information and has indicated that they will establish effective cost accounting and . . . system as soon as possible. Is he talking about you?

MR. PARSONS: No, no. He's talking about Dawn Plastics. This is Dawn Plastics' report. He's not talking about the MDC accounting in this, he's talking about the Dawn. In the cost accounting we didn't have a good unit costing out there. There was a cost accounting system but it wasn't as accurate as it should have been.

MR. CHAIRMAN: Thank you. That finishes Dawn Plastics Ltd. Go on to Dormond Industries Ltd. Mr. Parsons.

MR. PARSONS: Dormond is a wholly owned subsidiary. It's a manufacturer of high quality doors, built to architectural specifications and primarily for commercial, institutional. This was a company that was owned by Columbia Forest Products. When it went bankrupt we separated and kept this company running. We settled with the court at a value of $200,000. A debenture was issued to MDC on July 1st, 1975 and there is now a balance outstanding of $198,000.

MR. CHAIRMAN: You will notice that you have for the year ended December 31, 1974 and for the year ended December 31st 1975. Last year it was indicated at that

(MR. CHAIRMAN cont'd) . . . . . time that they did not have an up-to-date report. Are there any questions? Thank you. Mr. McGill.

MR. McGILL: We'd like to have a moment or two here, Mr. Chairman, to look at the statement.

MR. G. JOHNSTON: Mr. Chairman, while members are looking at the statement I'd like to ask a general question.

MR. CHAIRMAN: Mr. McGill, are you ready to proceed?

MR. McGILL: When did the company commence operations, Mr. Parsons?

MR. PARSONS: You mean as an MDC company?

MR. McGILL: Yes.

MR. PARSONS: It was operating under Columbia Forest Products . . .

MR. McGILL: Oh yes I know. What was the date of your takeover of the operation?

MR. PARSONS: I think it was the fall of 1972. We took it over the fall of 1972 and the distribution by the courts was in September of 1973.

MR. McGILL: Has the labour force and production been fairly stable since that time?

MR. PARSONS: It's a cyclical industry. It's been up and down. Employees average between 20 and 25. Sales remain fairly constant.

MR. McGILL: What would you say the long term outlook is for this operation, Mr. Parsons?

MR. PARSONS: It's a small company. As I say it specializes in building doors. There'll always be a demand for their product. They basically sell to people like Brown & Rutherford, these people, on specialty items and to contractors.

MR. McGILL: Is there an expectation of a gradual turn-around in the affairs of the operation?

MR. PARSONS: A turn-around? Well it's making money now. As of December it went from a $30,000 loss to a $90,000 gain. This five months of this year, it's shown a profit each month on the monthly statements. It's never going to make a big profit. I think it's going to probably stay in the $600,000 - $750,000 sales field.

MR. McGILL: What I was really trying to get at was: your view is that this kind of production can be maintained and the long-term outlook is reasonably promising.

MR. PARSONS: Yes. They are well established in the market, they have a good product and steady customers. But it's going to go up and down depending on how building is and so on.

MR. McGILL: Related very closely to the amount of construction.

MR. PARSONS: Right.

MR. CHAIRMAN: Mr. Johnston.

MR. G. JOHNSTON: This is not to do with the industries on the list but I wanted to ask a general question: if any companies who have loans but MDC does not have equity investment and the companies who have loans which are in arrears or default, do you have their financial statements? I'm thinking of Misawa Homes or Crocus Foods.

MR. PARSONS: Do we have their financial statements?

MR. G. JOHNSTON: Yes.

MR. PARSONS: In some cases we do. Misawa Homes, we get annual statements from them.

MR. G. JOHNSTON: The Legislature are not entitled to those statements. Is that right? I'm not sure.

MR. PARSONS: No, we can't give you statements of . . .

MR. G. JOHNSTON: Okay.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Where is the Dormond plant located?

MR. PARSONS: St. James.

MR. CRAIK: Do you use raw supply material? How come it's associated with Columbia Forest? Did it depend partially on products from Sprague?

MR. PARSONS: Not really. As well as making and selling doors they were distributing particle board that was made. So there was a tie-in with them. Basically all the lumber they use comes from B.C.

MR. CRAIK: On the basis of the statement here, this appears to be one company that this year has shown a profit or a most substantial profit based on its assets.

MR. PARSONS: Yes.

MR. CHAIRMAN: Any other questions? Well that concludes the questions on the Dormond Industries Ltd. for the year ended December 31, 1974, December 31, 1975. We'll go on to Electro-Knit Fabrics (Canada) Ltd. Mr. Parsons.

MR. PARSONS: This will probably be the last time we report on this company. We have 10,000 shares in the company that we acquired at the time we made the loans. The loans total $2.5 million and were made to this company during 1968-73 to finance partially the cost of the construction and latterly expanding the company's knitting, dyeing and printing facilities at Selkirk, Manitoba. This year the company refinanced and MDC no longer have any outstanding loans with Electro-Knit. We have 10,000 common shares that we have valued on the MDC statement at $1.00. The actual market value is stated on the information sheet as somewhere between 50 and 60 cents.

MR. CHAIRMAN: Any questions? Mr. Craik.

MR. CRAIK: Mr. Chairman, the report says that this industry is going through a difficult period but the company is apparently out-performing its competitors. Do you infer by this that the competitors are losing more money than Electro-Knit is?

MR. PARSONS: Yes.

MR. CRAIK: Is that what you mean by out-performing? Or is it out-performing in the size of its loss?

MR. PARSONS: I didn't mean that particularly but the industry has been down in the last year.

MR. GREEN: Mr. Chairman, just for Mr. Craik's benefit, if he'd look at the statement of the President, October 31, 1975, he says that Electro-Knit Fabrics has come out far better than the average in the knitted industry. Now I don't know whether the MDC statement is then echoing Mr. Lupu's statement but that's what Mr. Lupu said. Have you got that, Mr. Craik?

MR. CRAIK: Yes.

MR. CHAIRMAN: Everybody has that. --(Interjection)--

MR. PARSONS: Do we still have the shares? Yes. --(Interjection)-- That's correct.

MR. CHAIRMAN: Any other questions?

MR. CRAIK: No, I gather you're not in a position to make any statement about this year's or next year's, the current year's operation.

MR. PARSONS: No. Actually other than owning the 10,000 shares we don't have any interest in . . .

MR. CHAIRMAN: Mr. Green.

MR. GREEN: . . . held privately by Mr. Lupu and whoever the other shareholders are, that really there's no point going into his operations in a meaningful type of way. It's not going to be of assistance to him or to the public. We don't have a debt interest now.

MR. PARSONS: No. I don't think this should even come up next year.

MR. GREEN: And we're out. We're out clean?

MR. PARSONS: It was all paid out. Anyway the reason it was brought forward is because it was shown in our Annual Report as a company that we had an equity interest in.

MR. CHAIRMAN: Any further questions? That completes Electro-Knit Fabrics (Canada) Ltd., May 31, 1975. Go to Evergreen Peat & Fertilizer Ltd., March 31, 1975. Mr. Parsons.

MR. PARSONS: Evergreen Peat are in the business of harvesting and processing, packaging and selling peat moss. The MDC owns 50 percent of the shares issued by the company, 50 percent, for an investment of $275,000. We also have a loan advanced to them of $45,000. There's information there on the production.

Actually the company are looking to substantially increase their production this next year. There's quite a good demand for peat moss. It's largely in the States. The largest buyers are located in Texas, Oklahoma, Indiana, Iowa, Missouri, Michigan, Minnesota and North Dakota and 95 percent of the sales are down there. The company

(MR. PARSONS cont'd) . . . . . operates from a peat bog that's 15 miles east of Beausejour. It owns 800 acres of peat bog and holds leases from the Crown on an additional 1,700 acres. These are renewable leases. The company also pays a 25 percent per ton royalty to the Mines Branch for this lease. Roughly 37 people employed.

MR. CHAIRMAN: Any questions? Mr. Craik.

MR. CRAIK: Is the remaining 50 percent owned by one party?

MR. PARSONS: No.

MR. CRAIK: Does the MDC then have controlling interest effectively?

MR. PARSONS: No. We didn't want to control it actually. When the group came to us they requested that we participate to the extent of 50 percent. There's five other shareholders and they were going to provide the management. They are listed on the front of your sheet there as Directors, I think, Mr. Craik. Mr. Perron is the President, Richard Shead is lawyer and Paul Szymanski was one of the originals in the business. There's also two other chartered accountants that are shareholders.

MR. CRAIK: Was this company operational before the MDC became involved?

MR. PARSONS: They had started up. They had started to develop the bog, yes.

MR. CRAIK: How long would they have been in existence? Twenty years?

MR. PARSONS: No, no. It was only a couple of years when they were developing.

MR. CRAIK: Did they have a loan from the MDC in advance of you becoming involved?

MR. PARSONS: No.

MR. CRAIK: So you went straight into equity as well as the loan amount outstanding here?

MR. PARSONS: Right.

MR. CRAIK: So the operation statement reflects then probably only the second or third year of operation.

MR. PARSONS: Second year.

MR. CRAIK: Second year of operations. Well with it being a young company are you satisfied that it's on the right course? You have pretty stiff competition in that same area do you not?

MR. PARSONS: Well we've always been involved with Western Peat, yes, and they've been very successful.

MR. CRAIK: Western Peat is your competition though is it not?

MR. PARSONS: Well they are but there's no problem in selling the product. There's more demand than there is product so really Western Peat are selling as much as they can move out and so will we. There's a good demand down in the States.

MR. CRAIK: What size of company is this in comparison to Western Peat?

MR. PARSONS: Western Peat have more than the locations in Manitoba. They're right across the country.

MR. CRAIK: But they're Manitoba operations pretty largely, are they not?

MR. PARSONS: Yes. We're quite small compared to them. The production development costs - it was May 1, 1974 the company entered commercial production.

MR. CHAIRMAN: Mr. Blake.

MR. BLAKE: Mr. Chairman, I would like to ask Mr. Parsons, has a feasibility study been done on this company with regard to markets? You say they can market more products than they can produce.

MR. PARSONS: Yes. I said marketing wasn't any problem. The demand is higher than they can produce.

MR. BLAKE: All right. Is it a problem in getting the peat moss out and getting it dried and prepared? Is this the problem?

MR. PARSONS: Yes.

MR. BLAKE: The facilities aren't large enough, or you're producing at full capacity, let's put it that way.

MR. PARSONS: No we're not. But their capacity is increasing, they're buying more equipment.

MR. BLAKE: What are they forecasting for sales? Do they have any target of how big they want to be, or will they be coming back next year for another $500,000 to

(MR. BLAKE cont'd) . . . . . buy more equipment to service more sales? Do the company have a forecast plan of operations?

MR. PARSONS: Yes.

MR. BLAKE: What do they anticipate in . . .

MR. PARSONS: They're looking roughly about 3 million cubic feet per annum.

MR. BLAKE: Which would give them annual sales of . . .

MR. PARSONS: Well it would be 3 times as high as it is now.

MR. BLAKE: Around a million, eh?

MR. PARSONS: Yes.

MR. BLAKE: They sold $325,000 last year so they're looking for about a million in sales?

MR. PARSONS: Yes.

MR. BLAKE: And they can handle this with the equipment they have now?

MR. PARSONS: No, they'll have to get some more.

MR. BLAKE: They'll have to invest in - what type of capital expenditure would they be looking at?

MR. PARSONS: Somewhat less than $100,000.

MR. BLAKE: Would it be drying equipment or . . . ?

MR. PARSONS: No, basically it's equipment to get the bog in the mill, and bagging equipment.

MR. BLAKE: I see. Would this entail hiring any more employees or would they be able to handle this with their twenty-some employees that they have now?

MR. PARSONS: Oh, at times of the year they'd probably have a couple more than that. It goes up and down too.

MR. BLAKE: With their cash flow figures, would you feel the company under its present management will be able to handle this type of an operation? Their debt ratio doesn't look all that good. Their current assets are 114,000, current liabilities are 257,000. They might have some working capital problems, I wondered if they'd give them cash flow projections and . . .

MR. PARSONS: Yes, they have cash flow, that shows that they're going to need more money this year.

MR. BLAKE: They will need more operating money? There's a management fee paid to Angionne Investments. Do we know who Angionne Investments are or what services they provide for that $20,000?

MR. PARSONS: That's Paul Szymanski.

MR. BLAKE: He's one of the directors, eh?

MR. PARSONS: Yes. And he was also the Manager.

MR. BLAKE: Of the original company?

MR. PARSONS: Yes, instead of paying him we were paying his firm.

MR. BLAKE: I see. Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Chairman, I'd like to ask Mr. Parsons, what were the circumstances at the time that MDC were invited into the firm in the purchase of equity? Was the company in a financial problem at that time?

MR. PARSONS: I don't know whether they were really in a financial problem. Five shareholders came to us, showed us all their projections and asked us to consider coming in on an equity investment with them. Are you asking me whether they could have raised money elsewhere?

MR. McGILL: Well really, yes, I'm wondering . . .

MR. PARSONS: Well I think they probably could have. Mr. Perron, Mr. Shead, Mr. Gordon, these fellows are all pretty well known in the business world. I can't answer your question really. They came to us for equity, maybe they couldn't have got a bank to go with the equity, I don't know.

MR. McGILL: I notice that you gave them a loan on March 1, 1976, is that right, first of March 1976, and they're paying you 2 percent more than the prime bank rate. Was that because they couldn't get that money at the bank?

MR. PARSONS: No, they put up $45,000 as well, the other partners did, EDAM put up 90,000.

MR. McGILL: You see, they have a bank loan there at a rate lower than the one you're charging them.

MR. PARSONS: Yes.

MR. McGILL: You mentioned that the company needed . . .

MR. PARSONS: This is longer term, that's the difference.

MR. McGILL: You mentioned that there's some new equipment to be bought. What are the plans for financing the purchase of the equipment? Will it be through MDC?

MR. PARSONS: Not necessarily. Right now they're financing part through the Federal Development Bank.

MR. McGILL: So you haven't been asked to participate in the purchase of the new equipment?

MR. PARSONS: I don't know whether they've asked our directors or not. They would have to come to us if they were going to, to get permission to do it.

MR. McGILL: The new equipment is pretty key to the future of the company I take it.

MR. PARSONS: If they're going to expand the sales as they wish to, yes.

MR. McGILL: Is this not an issue then that your MDC Board has already considered and is prepared to act?

MR. PARSONS: The MDC Board or the Board of Evergreen?

MR. McGILL: Well anticipating that MDC may . . .

MR. PARSONS: They've come forward and are considering right now.

MR. McGILL: You are considering now financing the purchase of this equipment?

MR. PARSONS: Yes. As soon as they get their statements off, then the MDC Board will be taking a look at it.

MR. McGILL: I see. I understood you to say a minute ago that IDB were the people involved.

MR. PARSONS: IDB are involved in it so, you know, they may go to that group. They would still have to get MDC permission to do that. Under our loan agreements if they are going to go out and borrow other funds they have to come back to us, like if they have the capital expansion they would have to get our permission.

MR. McGILL: You would prefer them to get it from IDB, but if they don't, you are prepared to . . .

MR. PARSONS: I didn't say that I prefer them to, I said that they are now, so it's quite possible that they could go back and combine that equipment with what they already have with IDB or FDB.

MR. CHAIRMAN: Any further questions? Thank you. That concludes the questions on the Evergreen Peat & Fertilizer Limited, March 31, 1975. Now do you wish to proceed with Flyer Industries Limited or should we go on to Macey Foods Limited?

MR. SPIVAK: Mr. Chairman, I wonder, I appreciate . . . and it may very well be that it would be desirous for the committee to rise, but I have one question that I would like to pose based on the information supplied to Mr. Parsons and I think by posing it now he will be in a better position to answer it tonight. It's just a question of trying to give him some time.

MR. CHAIRMAN: Yes, Mr. Spivak, if that's agreeable.

MR. SPIVAK: Mr. Parsons, you produced information for us which we've received for the first time. I wonder if you can indicate why there appears to be a discrepancy between the information supplied on the equity investment of Flyer Industry and that shown in the audited statement of the Manitoba Development Corporation. There is a substantial variation between the figures shown for February 28, 1975 of investment and loans with the information supplied and audited as of March 31, 1975. It may be that you're not in a position to answer . . .

MR. PARSONS: Yes, we converted part of the loans to shares during the year.

MR. SPIVAK: No, let me . . .

MR. CHAIRMAN: Do you wish to pose a question?

MR. GREEN: I don't know if these can be dealt with with the regular questions on Flyer. Mr. Spivak has indicated to Mr. Parsons what he wants to know but he says he's not starting a question. There was a change in the equity position.

MR. SPIVAK: . . . Mr. Parsons that the information supplied to the committee is dated February 28, 1975.

MR. PARSONS: Right.

MR. SPIVAK: The information in the schedule attached to the Manitoba Development Corporation is as of March 31, 1975, which is a month later. The conversion obviously took place before the year-end, yet the year-end does not show the conversion.

MR. CHAIRMAN: Do you wish to proceed with this?

MR. GREEN: I would suggest that we meet at 8 o'clock tonight. This is what I was told the committee would be prepared to do.

MR. CHAIRMAN: Order please. Do we have - just for the information of the Clerk - do we have a report on the basis of the completed annual statements for this afternoon or do we wait for the completion of the whole Manitoba Development Corporation? Okay. Committee rise. We meet at 8 o'clock.