



**Legislative Assembly of Manitoba**

**HEARING OF THE STANDING COMMITTEE**

**ON**

**ECONOMIC DEVELOPMENT**

**Chairman**

**Mr. D. James Walding  
Constituency of St. Vital**



**MONDAY, May 16, 1977, 8:00 p.m.**

ME: 8:00 p.m.

I. CHAI Mr. D. James Walding.

I:

**MR. CHAIRMAN:** We have a quorum, gentlemen. The committee will come to order. The item on the agenda for this evening is consideration of the Report of the A.E. McKenzie Company Limited. Mr. Evans would you introduce the Chairman, please.

**MR. EVANS:** Yes, Mr. Chairman. It is my pleasure to once again introduce to the members of the Economic Development Committee of the Legislature, Mr. Robert Clement, Q.C., a very well known lawyer and solicitor in Manitoba, a very well known Brandon businessman and one who has devoted a lot of time and attention to community affairs in the province and particularly in the City of Brandon. We are very pleased that Mr. Clement is providing his talents and skills and energy to this very important task. I want to take this opportunity to extend our thanks to him for his services rendered during the past year.

It is my pleasure, Mr. Chairman, to call upon Mr. Clement at this time to give his report.

**MR. CHAIRMAN:** Mr. Clement.

**MR. ROBERT CLEMENT:** Mr. Chairman, members of the Committee, thank you, Mr. Evans. In the colorful brochure which you have there are two loose pages which is a resume of the operations of the company for last fiscal year. It is rather brief and I would like to read it to you while you are having the opportunity of looking at it or looking at the statement which is attached.

The A.E. McKenzie Company Limited, Canada's largest garden seed distributor, ended its 1976 fiscal year reporting a profit from operations of over \$200,000.00. Adjustments on the disposal of fixed assets and investments and prior year's sales adjustments reduced this profit to \$21,320.00.

In 1976, the company announced that it would no longer stock or sell bulk quantities of unblended grass seeds. This was considered to be a speculative market and not compatible with the company's consumer packaged horticultural lines. This action, together with the lower market price levels of grass seed, resulted in a reduced level of sales revenues over the 1975 figures. Sales of packetseeds and onion sets continued to expand.

The company now services over 19,000 accounts from coast to coast in Canada and maintains a large and growing portion of the Canadian market for packet seeds, onion sets, onion multipliers, packaged lawn grass mixtures and flower bulbs. There are approximately 15 other major competitors in the Brandon market.

During the year, substantial reductions were achieved in the company's operating costs. The cost of production was reduced from over 46 percent to under 43 percent of the gross revenues. Other costs were reduced by over \$250,000 and it is anticipated that further reductions will be achieved in the present operating year. Interest expense still remains a heavy burden for the company. In 1976, interest charges and guarantee fees paid to the Bank of Montreal and the Government of Manitoba amounted to over \$900,000 being 13.7 percent of the gross revenues. During the year, the Bank of Montreal reduced its guarantee requirement by \$2 million.

The company has, at peak season, 270 employees. The large majority of these employees is located at Brandon where the company operates a plant and warehouse of over 130,000 square feet in the downtown area. The payroll of the Brandon plant amounts to over \$1,700,000 per annum in salaries and benefits. Property and business taxes paid to the City of Brandon in 1976 amounted to over \$40,000.00.

With over 6 1/2 months of the present operating year and 80 percent of the present selling season now over, the company is confident that the 1977 financial statements will reflect higher sales and reduced operating costs which will result in increased profits.

That is a brief resume of the operation of the provincially owned company and its subsidiaries.

**MR. CHAIRMAN:** Are there any questions on Mr. Clement's general remarks before we go into the age by page? Mr. McGill.

**MR. MCGILL:** Yes, Mr. Chairman. I have not had an opportunity really to examine the financial statements that have been handed to us but I am pleased to note that Mr. Clement expects the coming season to be one of greater profits in McKenzie Seeds. I recall, Mr. Chairman, there was some discussion a year ago about the first six months of that operating year and of the optimistic views which the company had at that time of increased profit. I think, Mr. Chairman, Mr. Clement indicated that he was confident that the net profit of the company would be between \$300,000 and \$600,000 for the year and while we were able to show a profit, it was considerably less than that amount, some \$21,000.00. I wonder, Mr. Chairman, if Mr. Clement could indicate just what it was that happened in the last six months that reduced that profit projection.

**MR. CLEMENT:** Well, my prediction was based on an operating profit and, as you will note, the profit this last year from operations — you see this on Page 4 — net earnings from operations for the year \$200,688, which is not too far from what we expected it to be and then from our net earnings from

**Economic Development  
Monday, May 16, 1977**

these operations we paid some disposal items, which are bookkeeping items listed below, we sold warehouse in Regina and are using a rented warehouse. That's the Loss and Disposal of Fixed Assets which carried on our books at \$15,000 more than we got for it, but it will be a substantial saving operation because it was costing us more than rent would normally be to pay taxes and look after maintenance of it.

The disposal of other investments was a tidying up of our Brett-Young sale. Some items there that were finished and this year there will be a corresponding balance from credit items that are coming still from the sale of the Brett-Young Company.

The extraordinary items were from past year's operations and they are explained in Note No. 8 the Financial Statement.

**MR. MCGILL:** Mr. Chairman, Mr. Clement has again pointed out that very great difficulty that company has in meeting the annual interest expenses and the drain that that puts upon the liquid position of the company. I wonder if he could indicate to the committee just what solution he sees for this ongoing problem. Is the Company taking any steps to relieve the operation from this annual interest charge on bank loans? Is there any solution in the offing for that problem?

**MR. CLEMENT:** You are quite right, Mr. McGill, I think the normal business probably expects that 1 or 2 percent of its revenues would be devoted to interest charges. In the case of McKenzie's there are over 13 percent of our operation devoted to interest charges and that's because we largely operate on borrowed money, partly from the bank and partly from the government through the Manitoba Development Corporation.

The solution is not in the company's hands and I think you would have to ask the shareholder if would intend to inject further capital in the company. I think that's the only solution that the company could suggest other than sale of the company. It is now more than paying its way. The indications from our first six months' business is that this trend is going to continue. The only suggestion the company has is that it can support those interest charges at the present levels, but it would be able to do a better job if it had an injection of capital.

**MR. MCGILL:** Mr. Chairman, the shares are now all owned by the Province of Manitoba?

**MR. CLEMENT:** I believe so. The company has signed its final agreement, and I believe that Brandon University has signed its final agreement, and the shares are all owned by the Province of Manitoba.

**MR. MCGILL:** The question of the transfer of those shares and the money which would be paid for them, if any, was the subject of our discussions of a year ago' and I think at that time the Minister of Industry and Commerce said that an announcement would be made. There was some problem introduced into the debate by the government representatives at that time, that this matter was not one for discussion during the consideration of the annual report, but rather would be dealt with when the announcement was made. I wonder if we are now nearer to some public statement being made in the circumstances and agreements that have been made with respect to the transfer of the shares?

**MR. CLEMENT:** Mr. McGill, I deliberately try and avoid operating the government or having an suggestion about it. It's enough of a job to try and operate McKenzie, so I don't know. . . I know about the mechanics on the part of the Brandon University, and McKenzie's have been fulfilled, but I really don't know what the government position is on it.

**MR. CHAIRMAN:** Mr. Evans.

**MR. EVANS:** Mr. Chairman, I might add in answer to Mr. McGill, that matter is indeed in process. I'm not sure . . . I believe some of the legal technicalities are still to be cleared up, but it's true as Mr. Clement has indicated, certain documents have been signed by the university, and by the company. I believe there is nevertheless still some legal work to be completed, but the matter is in process, and when a decision is made on this matter — I agree with you, I think everybody agrees that there is a question of the proper or appropriate equity ratio to be concerned with. Of course if we did provide some equity, it, Sir, would be more bookkeeping item than anything else, because it still wouldn't affect you know the income, the net earnings of the company before these other deductions. In other words what I'm suggesting, Mr. Chairman, is that the company has shown great improvement in the past year on its operations, and whether we change this particular situation or not, it is not as important as seeing that great improvement in the operating side of the company, which is there and is here for us to see. But in answer to your question directly, I simply report that the matter is in process, the matter is in hand, and when a decision is made it is a government decision as the shareholder, and when the policy has been made the decision will be announced to the public and to the Legislature.

**MR. CHAIRMAN:** Mr. McGill.

**MR. MCGILL:** Well, Mr. Chairman, I think as the Minister says, it's rather important to record this historically for all future generations to read the beginning of the A.E. McKenzie Trust on behalf of Brandon College, and later Brandon University, and then finally to see how this matter was terminated and the propriety with which the agreement was made. So I hope that that announcement will be made, and that there will be an opportunity for the public to be informed.

**Economic Development  
Monday, May 16, 1977**

I note that in the Public Accounts the province lists a trust, the A.E. McKenzie Trust with the value some 330-odd thousand dollars. Will this value of the trust as recorded in the accounts be a consideration in the final settlement of this transfer?

**MR. EVANS:** Yes, well that matter too has to be attended to. This, I'm assuming here, would be part the final agreement, the clearing up of the trust fund.

**MR. MCGILL:** Mr. Chairman, If I may return to Mr. Clement's presentation. Annually I think we enquire as to the status of the Mexican venture. Last year no change had occurred. Is there some considerable sum in the hands of your former representatives in the Caribbean? Has any recovery been effected?

**MR. CHAIRMAN:** Mr. Clement.

**MR. CLEMENT:** Mr. McGill there has been a change in the situation during the past year. Our Mexican partner was killed in an aeroplane crash, so we no longer have a living partner down there, and we have instructed our Mexican attorneys to collect whatever funds are collectable. So I think that clearly could perhaps be written off in the next year, depending on what they collect from them.

**MR. MCGILL:** I presume then, that the A.E. McKenzie Ltd. has filed a claim against the estate of the deceased?

**MR. CLEMENT:** It has instructed its attorneys in Mexico to file the claim. The Mexican Court don't cognize anything from Canada unless it's filed through a Mexican attorney. We have so instructed them. I'm informed the probate of the deceased partner has not yet been made in the Mexican Courts it when it is made our claim will be filed.

**MR. MCGILL:** Just one final question, Mr. Chairman. The decision to get out of the unblended grass seeds in bulk — what was the background for that decision? Was this an area in which the company was regularly failing to meet its expenses, or was there another reason for that? It seemed to me that the company had developed over the years a reputation in that field for the supplying of grass seed in bulk.

**MR. CLEMENT:** Well about three years ago, I think it was Mr. McGill, there was a very blank market in grass seed and the price escalated to an extent that indicated extreme speculation in the world market in grass seed, and most of the grass suppliers around the world endeavoured to protect their local customers by purchasing sufficient at these high prices for their needs. And it was noted that when these high prices had obtained for a short time, colloquially speaking, the bottom fell out of the grass seed market, which indicated a degree of manipulation in the market. McKenzie's were not adversely affected in that as we were able to dispose of all of that grass seed which had been acquired during that market period. But we had a very close look at that operation and decided that it was of a much more speculative nature than any of the rest of our operation and that for a very small margin of profit which was in it, there was too much risk. So we simply eliminated that phase of the operation, although we do still sell the packaged mixtures of grass seed, which complement our other package seeds.

**MR. MCGILL:** Mr. Chairman, the employment levels at McKenzie's are at peak season around 270. With the anticipated increase in sales in the coming year, is it anticipated that employment opportunities will increase with the company or be maintained at the same level?

**MR. CLEMENT:** I wouldn't expect that there would be an increase in employment on our package seed operation. I think our increased sales can be handled with more efficient production methods which have been placed in order and that we have an excellent staff there now. They are working very efficiently, the full-time people, and we're fortunate in having a large number of employees who wish to work part-time and do work part-time, but they do it year after year after year, so they are quite skilled in the operations they are required to perform.

What I do see is an increased employment opportunity and a judicious entry into an expanded form of merchandising which will use our chain store displays a longer period of the year. We are already doing some of that in our Dutch bulb sales which are going into stores, some of them going in the fall for winter work and we are now looking at expanding our operation into more of a year-round operation, but we are going to do it on a very limited experimental basis to make sure that the market will respond to our efforts and up to it, that we won't have a large stock on hand of unsold products.

I might say that some of these so-called convenience products that we endeavoured to use for winter sales programs in other years and found that in the chain stores and in the independent stores, they were not being sold in any great quantities. We now find that we have another sales organization operated coast to coast that use a door-to-door selling technique, something like the Girl Guide cookies and the chocolate bars that are sold by groups going door to door. Some of these convenience products are being handled that way and we've had to restock this particular item, having found out how to stock.

**MR. MCGILL:** Thank you.

**MR. SPIVAK:** I would just like to establish a couple of things first. Does McKenzie Seed pay taxes?

**MR. CLEMENT:** It pays property taxes. Is that what you were saying?

**Economic Development  
Monday, May 16, 1977**

**MR. SPIVAK:** It's not required to pay any tax? So that really, when we deal with the statement terms of your presentation with respect to a profit in operations of over \$20,000, really, in analyzing this operation, which in effect is a government operation, albeit in a peculiar way it arrives to become a government operation, there is one basic difference between this Crown corporation and others, that you do not pay taxes. Do you pay property taxes?

**MR. CLEMENT:** Yes, we pay property taxes.

**MR. SPIVAK:** And the sales tax is collected, you are a collector for sales tax?

**MR. CLEMENT:** Yes.

**MR. SPIVAK:** Okay, so that in the only area that . . .

**MR. CLEMENT:** Our general manager tells us that we pay sales tax but we don't collect it. The retailer collects it.

**MR. SPIVAK:** Then in terms of analyzing this, because I think this is important because this is one of the few Crown corporations that can realistically appear here now and indicate both a substantial volume, with their head appearing to be above water, but the reality is you still don't pay taxes. To that extent, in terms of analyzing this statement, and there's nothing hidden in it I'm not suggesting that that it is still a factor in the determination of the relative economic position of the corporation because it really has a privilege that private corporations do not have.

**MR. CLEMENT:** I would just say that with a private company that had losses for several years, they are entitled to carry those losses forward and they would not be paying income tax this year probably for two or three years on McKenzie Seeds.

**MR. SPIVAK:** I know, I appreciate that, but I want to establish the basis for what may happen in the future with respect to the company, as I said, one at least is on the critical path, which appears to be superior to other Crown corporations. That's one situation. The other thing is, can you tell me how many board of directors meetings were held?

**MR. CLEMENT:** We have a normal practice of meeting once a month and we usually skip July and August and hold a two-day meeting in the spring for budget purposes. They run eleven to twelve meetings.

**MR. SPIVAK:** There were eleven to twelve meetings. The director's fees and expenses were \$8,996.00. Do you have a breakdown of what the expenses were as opposed to the actual remuneration and can we be given the basis for remuneration for the directors?

**MR. CLEMENT:** The directors are paid \$100 a meeting.

**MR. SPIVAK:** \$100 a meeting. So there are approximately meetings, that will be \$1,200 a year. Okay.

Can I ask, with respect to your breakdown of your sales, if that is your expenses, with respect to the sales? Dealing first with the selling expense which is \$1,677,000, can you indicate how much of that was automobile and travel?

**MR. CLEMENT:** In 1975, the comparison year, automobile and travel was \$237,829.00. In 1976 last year, it was \$260,548.00.

**MR. SPIVAK:** How much of that is automobile and how much of that is travel?

**MR. CLEMENT:** We don't segregate it on the statements that I look at.

**MR. SPIVAK:** Well, the board of directors, do they have an analysis of how much is really . . . Well excuse me, that wouldn't include an automobile allowance for salesmen, plus specific travel for employees? You don't have a breakdown on that?

**MR. CLEMENT:** No, we use air travel, automobile travel, bus travel, rail. This bulk figure includes part-time people who are brought in to do special jobs. It doesn't seem out of the way to the directors so . . .

**MR. SPIVAK:** That would represent approximately between a fifth and a sixth of your selling expenses. And what are the commissions themselves?

**MR. CLEMENT:** We don't pay commissions; everybody is on salary.

**MR. SPIVAK:** On a salary . . .

**MR. CLEMENT:** But we have a bonus, an incentive bonus.

**MR. SPIVAK:** What are the salaries themselves in the selling? In your selling expense, what are your total salaries?

**MR. CLEMENT:** Again, in 1975, the salaries and employee benefits were \$625,800 and in 1976 they were \$649,812.00.

**MR. SPIVAK:** That would be approximately about a 3 to 1 ratio as far as — no, maybe not — 2 1/2 times? It's too much, maybe I shouldn't use that.

**MR. CLEMENT:** Our sales are \$6,623,000. . .

**MR. SPIVAK:** No, no, no, I am trying to equate the salary as part of your selling expense, your salaries as opposed to your automobile and travel.

**MR. CLEMENT:** Well, all I can say to that really is that it's a rather unusual company because we have, you might say, one shot at the market once a year and if we don't sell our product in one year we don't have another chance until the next year to do it.

Now, the automobile and travel expenses include both the costs of going out and booking the orders and then the pick-up trucks that are used after the sales period is finished, and the salesmen themselves go around and pick up the unsold consignment goods and bring them back so that they can be analyzed to see if they are still of germination quality and whether they can be used again, or whether they have to be destroyed. This is one of the very difficult things about the packaged seed business. The fact that in Canada, we have one growing season and that we have to look after the germination quality of our product because it bears our name and The Canada Seed Act makes the person whose name is on the packet as the owner of the packet, responsible for the germination quality of the seed. McKenzie's are very proud of that reputation but it is an expensive thing to do with expenses going up, salaries going up, truck costs going up, gasoline costs going up. I am sort of rather amazed that we've been able to contain our costs and still use this rather expensive way of merchandising. The only way I can excuse it to myself is to look around the world and find that every other major seed house in the world uses this same method because you have to be sure that the seed, when it's planted will germinate and the only way that you can do it is to pick it up because there are a lot of very fine retailers who don't have the facilities of caring for seed that might be left over and keeping it dry and cool so that it won't start germinating during the winter. So we pick it up, pass it to the end before it goes out, or destroy it if it is not of high quality.

**MR. SPIVAK:** In reality, your selling expenses are only \$50,000 higher from 1975 to 1976, although your volume is less. Your dollar sales are less.

**MR. CLEMENT:** Yes, but our package sales are substantially more because we don't have the bulk grass seed sales and they were largely sold over the telephone so that the expense of selling them isn't . . . they weren't handled like the packaged seeds. But I am not trying to frustrate you, but I think it is a complicated business to . . .

**MR. SPIVAK:** No, what I am basically asking you with respect to the operation is that your dollar volume is down by some \$600,000.00.

**MR. CLEMENT:** Yes.

**MR. SPIVAK:** Your actual selling costs are up by about \$50,000.00. The basic component of your selling costs — it's not entirely the component — but at least over half of it is made up of salaries, employees, employee benefits and automobile and travel. Realistically it's over the 50 percent mark. There doesn't appear to be any adjustment considering the fact that there is realistically almost a 10 percent reduction in dollar volume.

**MR. CLEMENT:** I don't know whether you've had an opportunity to read Paragraph 2 of the resume which I had read when we opened. There is a little two-page resume in here. This really is the explanation of that, that the year you're comparing it with was the year in which we sold very high dollar quantities of bulk grass seed and we made very little on it, and our selling expense was very little. Most of the cost was buying it and reselling it so that really, what we did we sold more packaged seeds than we did a year ago, and our selling expense in a percentage way was considerably less.

**MR. SPIVAK:** During your administration, can you tell me what your seller's employee benefits were, the cost please, of the administration?

**MR. CLEMENT:** Well, the salaries of the . . .

**MR. SPIVAK:** No, what I wanted is if you had the breakdown of the actual, not as a whole, just the actual amount.

**MR. CLEMENT:** Yes, I have it here.

**MR. SPIVAK:** And could you also give me the automobile and travel?

**MR. CLEMENT:** Yes, we could. In the administration area, in 1975, the administration's salaries and employee benefits were \$344,519 and in 1976, they were \$334,350.00. The automobile and travel in 1975 was \$17,368 and in 1976, \$22,443.00.

**MR. SPIVAK:** Your overall administration was reduced then by approximately, well, almost 200,000, and that realistically, came out of where, salaries?

**MR. CLEMENT:** Quite a bit of it was more of a skillful handling of our collection procedures.

**MR. SPIVAK:** Let us go back to your salaries that you gave me before of 1976 and 1975.

**MR. CLEMENT:** They are was about \$10,000 less than salaries.

**MR. SPIVAK:** That's all?

**MR. CLEMENT:** Yes.

**MR. SPIVAK:** So you were able to reduce it by \$200,000.00. All right, now let us just look at that breakdown. Where did you save the money in terms of administration? In bad debts?

**MR. CLEMENT:** Well, that was the largest item. We were more effective in collecting our accounts and collecting them promptly.

**MR. SPIVAK:** What were your bad debts in 1975 and 1976?

**MR. CLEMENT:** In 1975, bad debts were \$120,636 and in 1976, they were \$48,619.00.

**MR. SPIVAK:** That would account for what, about \$80,000.00. What I don't understand with respect to administration is where the actual saving was.

**Economic Development  
Monday, May 16, 1977**

**MR. CLEMENT:** Well, there was \$10,000 in office supplies and postage.

**MR. SPIVAK:** You've still got \$100,000 to go.

**MR. CLEMENT:** Our equipment rental was about \$50,000 less. Instead of renting a large computer, and renting space on it, we purchased a small computer.

**MR. SPIVAK:** That came under administration; that didn't come under plant overhead, then?

**MR. CLEMENT:** No. Equipment rental — historically we are in administration.

**MR. SPIVAK:** When did you computerize it?

**MR. CLEMENT:** A year and a half ago. We went to a computer at the time we took over Steel Briggs. That's about four or a little over four years ago, and about a year and a half ago, we went to small in-house computer which is working very well.

**MR. SPIVAK:** What were your professional fees in 1975 and 1976 under Administration?

**MR. CLEMENT:** In 1975, they were \$54,654; in 1976 they were \$24,248.00.

**MR. SPIVAK:** Can you tell me what those professional fees were for?

**MR. CLEMENT:** Mostly for accounting work. In 1975, we had the assistance of our chartered accountants in setting up the new computer system and helping us with the systems. Last year, we were able to largely dispense with any special services. We were able to do all our accounting work in-house. There were maybe a thousand or two thousand dollars of legal fees in connection with the Brett-Young sale. I would say it was very reasonable.

**MR. SPIVAK:** Can I ask a couple of things with respect to the directors? The kind of analysis that I'm just dealing now with you which is very superficial and I acknowledge that — that's done by the Board of Directors, that is the analysis, the determination, with respect to the basic breakdown of the statement, not the audited statements presented here but its breakdown. Is that correct?

**MR. CLEMENT:** Yes. We have a monthly statement every month with all our costs on it, our sale and all our costs and we examine it every month.

**MR. SPIVAK:** And that's presented to the Board of Directors?

**MR. CLEMENT:** The Board of Directors at every Director's meeting. We now have the accounting facility to do this and we have confidence in it because at the end of the year, it squares with the audit.

**MR. SPIVAK:** And so you are satisfied with respect to the breakdowns of the basic component that make up your central heading of expenses and plant overhead, selling and administration?

**MR. CLEMENT:** No, I'm not. We're going to do a lot better than that this year.

**MR. SPIVAK:** But you are at least satisfied with the accuracy of the statements and the . . . the ability they . . .

**MR. CLEMENT:** They are accurate but I'm not satisfied with them, no.

**MR. SPIVAK:** Well, Mr. Chairman, my only comment would be to Mr. Evans. I wonder if he could indicate how many other Crown corporations are in the basic same position as A.E. McKenzie to be able to have the chairman say to this committee, as he just has, that in effect the directors meet; that there's a breakdown of the expenses for the analysis, that in effect, they are going to do better but they understand it. To my recollection, this is probably the first Crown corporation to present itself in this way.

**MR. CHAIRMAN:** Mr. Patrick.

**MR. PATRICK:** I have a question to Mr. Clement. I am looking at the Financial Statement of the McKenzie Seed and subsidiary companies and, of course, the loss from 618 to approximately 21 is extremely . . . you know, somebody must have done a pretty good job. But, still looking at your sales and then costs of sales — and I don't know what's included in the cost of sales but it's \$2,838,000 which is perhaps the total labour and so on, and then again, when we go into expenses, we have another item which was mentioned by the Member for River Heights, another \$1,677,000, another charge to selling. So is there any cost of sales included in that first item which is cost of sales? If there is, then it would appear that maybe it's quite heavy in the way we're either promoting or using a course of action that we're taking in the selling. Is there any cost charge to selling as well in that cost of sales or not?

**MR. CLEMENT:** I presume you are looking at the Consolidated Statement of Earnings sheet in the statement.

**MR. PATRICK:** That's right.

**MR. CLEMENT:** The top line on it in 1976 is our total sales \$6,623,000.00. Then, 42.85 percent of that is our cost of sales which is the cost of the product we buy — we don't raise the seed or grow the seed that we sell, we buy it — and that's what the cost of sales is.

**MR. PATRICK:** I see.

**MR. CLEMENT:** Buying it and getting it into our plant.

**MR. PATRICK:** So then the total selling expenses would be under the expenses and . . .

**MR. CLEMENT:** Yes. Yes.

**MR. PATRICK:** . . . which is 1.6.

**MR. CLEMENT:** And included in the selling is delivering it to the customer, the freight out of our plant.

**MR. PATRICK:** In the cost are the transportation charges as well.

**MR. CLEMENT:** Yes.

**MR. PATRICK:** I see.

**MR. CLEMENT:** And picking it up again and bringing it back to our plant because, again, we are living with a perishable product. We can't . . . at least we don't feel yet that we can leave this duct for a year on the retailers' shelves without radical change in the way the retailer would store or keep the product. We may be able to do that someday but we can't yet.

**MR. PATRICK:** Is that reasonable cost compared to some of the other corporations?

**MR. CLEMENT:** I think we are the only company that makes a public statement or confession, as the case may be, of our operation but we do buy a lot of seed from an American company, Northrup-King, and they were really surprised that our selling costs were as modest as they were because theirs were about 3 percent higher in the United States so that is one basis of comparison. Being in the United States, they are able to sell in a much more concentrated market and one would have thought that their costs of selling would have been less but actually it is more than ours.

We instituted a fairly rigid discipline with our salesmen. They don't stay at the \$32.00 a night hotels they have about \$12.00 to \$14.00 a night hotels to stay in so we don't ride the prestige crest with our selling costs.

**MR. PATRICK:** Would your staff have a certain area or certain accounts that they have to call on?

**MR. CLEMENT:** Yes, it's regionalized across Canada. There is a group from British Columbia; a group in Alberta and Saskatchewan; another group in Manitoba; the biggest market is in Ontario; the most profitable market is in Quebec because our Quebec people do a wonderful job for us there; and we also have a Maritimes and Prince Edward Island selling group.

**MR. PATRICK:** That's all.

**MR. CHAIRMAN:** Mr. Minaker.

**MR. MINAKER:** Well, staying on that subject about the sales in Quebec. Do you have a French-produced catalogue as well, Mr. Clement?

**MR. CLEMENT:** All our printing that goes into Quebec is bilingual. We don't have a French language catalogue as we have no catalogue customers in Quebec. Our catalogue, the McFadyen catalogue you have there is mainly distributed in the Prairie Provinces and to some extent, Ontario. We are working on expanding this because if it is well handled, the catalogue sales program of a magnitude we should be able to mount, would be profitable for the company.

**MR. MINAKER:** Mr. Chairman, I wonder if Mr. Clement could comment on the fact that he mentioned that it is necessary to pick up the unsold packages of seeds at the end of the year and to bring them back and to check to see if they still had germination capabilities. I wonder if Mr. Clement could advise us what the normal shelf life of the seeds would be. Is it two years, five years, indefinite or how many times they can recycle them?

**MR. CLEMENT:** The average is between four and five years but there are extreme variables because we sell quite a variety of seeds and some store a lot better than others. It also depends on the conditions under which they are on the shelf and when you say "on the shelf" really the retailers don't keep them on the shelf once the growing season is over. They would put them in a warehouse or probably down in the basement and that might be the worse place in the world for seeds to be in a basement if it was damp. What they need to have is cool, dry, well-ventilated storage to prevent any change in germination. If that's possible, many seeds will last eight to ten years and in first-class order at the end of that time. McKenzie's name is stamped on every seed packet and we don't want to take a chance on any substandard seeds being sold the following year so we pick them all up and put them back again in the selling season if they are still good. We destroy any unusable seed.

**MR. MINAKER:** Mr. Chairman, I wonder does that we mean that we guarantee to take back any unsold seeds at the end of the year after . . . like, the salesman goes out to sell a certain number of dollars of seeds, then these are taken back. Is it guaranteed we take all the unsold ones back?

**MR. CLEMENT:** Well, we have two programs. One of the programs is a guaranteed sales program and it has been mounted with some of the larger retailers like the chain stores and in this case, they are given a special discount because they pay cash for all the seed we place in their store and then, at the end of the selling season, we buy back everything they haven't sold. This provides us initially with the whole amount of money for this seed and we would like to see our whole program on that basis but the retail trade does not accept this selling program generally. A large proportion of our sales are still in consignment, that is, the stands of packet seeds are placed on order, consigned order, in the retailer's store and then at the end of the season, the retailer pays for what sold out of that package and we take the rest of it back.

We are finding that there are more efficient ways each year of handling this because we have accumulated information as to the exact quantities of seed sold by every retailer in our connection and we are now sizing the size of the displays to fit with what they normally sell, whereas, originally we had about two sizes. Our display was too big for most retailers and the second size was also too



**Economic Development  
Monday, May 16, 1977**

big for the smaller retailers so we now have more sizes and they are able to sell more with tying up the seed in an unsold condition.

**MR. MINAKER:** Mr. Chairman, I wonder would there be a normal percentage of seeds that are destroyed annually? Is there sort of an average figure that's coming forward that when they are brought back that there's five percent or four or two or a general known value that is being destroyed?

**MR. CLEMENT:** Normally it's about 8 percent. That's 8 percent of what comes back. We place say, 100 percent of our expected sales out in a year and we get back usually just under 50 percent returns. Now, one of our main management objectives is to reduce that return factor because it has terrific implications both on our interest charges, our capital requirements, and our whole operation if we can narrow that down. We are narrowing it down and this is why our statement is beginning to look better.

There is also the fact that we are having to pay more and more for our seeds and our cost of product so that every few years we have to increase the price of seed in a packet. When we do that, we have been in the habit of ripping all the packets and emptying the seeds out and making a wholesale test of everything so that we have our annual testing and then we have our price changing testing. We are now going on to a program where we will change prices on a few products each year so that the ups and downs of these changes will not be so noticeable each year.

**MR. MINAKER:** Well, Mr. Chairman, then I wonder if Mr. Clement could advise, the 8 percent that are destroyed, would they come under cost of sales? Is that where that figure would be entered?

**MR. CLEMENT:** Yes.

**MR. MINAKER:** Then, the next question would be, the time of evaluating the destroyed seed when would that be, after October 31st or prior to October 31st?

**MR. CLEMENT:** Ok, it's usually prior to October 31st. The seed comes back usually in August and it is handled during those last couple of months.

**MR. MINAKER:** So then both of these particular figures in 1975 and costs of sales, both of them had the destroyed cost of the seeds deducted, or added to them.

**MR. CLEMENT:** Yes, annually.

**MR. MINAKER:** With regard to the Accounts Receivables, you indicated that you take into account that sales are made and you have accounts receivables and then there is a rebate if people haven't sold the product. When is the accounts receivables taken with regard to that? Is that prior to the year-end as well, that anything that is returned is subtracted from the accounts receivables and added presumably to part of the cost of sales as they are destroyed?

**MR. CLEMENT:** Yes, our year-end is October 31st each year and that was designed to see the end of the one year's operation so far as was possible to do so and then, after that, we start packaging and getting ready for the next year's business.

**MR. MINAKER:** Mr. Chairman, I wonder if Mr. Clement can advise why the general increase of inventory as compared to 1975. I understand that it's now increased by something like \$890,000 approximately or \$889,000, if you look on Page 2. What might be the reason for that increase, Sir?

**MR. CHAIRMAN:** Mr. Clement.

**MR. CLEMENT:** Our inventory consists of some seeds that isn't packaged, that has just been bought, and also fully packaged seed and in 1975 we didn't have as an efficient packaging year so that our made-up inventory, to which the cost of the printing and the labels and everything was added, as we did in 1976. In 1976 we had more finished product ready at year end ready to ship so that it was more valuable. It doesn't mean that there is more inventory, it means that there was more work-up on the inventory of seeds that we had in stock.

**MR. CHAIRMAN:** Mr. Minaker.

**MR. MINAKER:** Mr. Clement, there was at one time — I can't remember the name of the company — when we dealt with the sale of — I don't know whether it was Brett Young or Maple Leaf — some agreement where they took a percentage of the sales or profit. I'm trying to remember the name of the company — unfortunately I didn't have the previous year end report. I was wondering, does that still exist or has everything been settled on that? I notice there is \$100,000 payment on purchase agreement to Maple Leaf on Page 5. I was wondering if that was one of those arrangements that we had in the past?

**MR. CLEMENT:** Well, that was the final purchase payment for Maple Leaf but it wasn't a percentage or a cost-sharing thing. We are not on a percentage arrangement with anybody except if we give discounts for large purchases or prompt payment, that's on a percentage arrangement but that's with our customers.

**MR. CHAIRMAN:** Mr. Minaker.

**MR. MINAKER:** So there isn't any outstanding agreements like there was say, two years ago, with companies that were sold . . .

**MR. CLEMENT:** No, we've got a very tidy operation.

**MR. MINAKER:** I wonder if maybe Mr. Clement could comment on Note 8 with regard to extraordinary items. It says prior year's sales adjustment which amounts to some \$113,000. I wonder

**Economic Development  
Monday, May 16, 1977**

---

it these are made up or what they are?

**MR. CLEMENT:** On Note 8, the two items, the second one was of all people, our accountants in't billed us for services they had rendered by our year end and we accepted, finally, the ement they gave us and paid it, but it was for services that . they had performed in the prior year, t was a \$12,000 item.

On the \$113,000 item, prior year's sales adjustments, they were largely returns from various npanies that had been under negotiation or disputed or guaranteed sales where we hadn't npleted our settlement, and this figure is the final determination of those settlements over the rns of seed and the payment of moneys for rebates on guaranteed sales.

**MR. CHAIRMAN:** Is the committee prepared to deal with the report page by page? Mr. Minaker.

**MR. MINAKER:** I've finished.

**MR. CHAIRMAN:** Mr. Banman.

**MR. BANMAN:** Mr. Chairman, through you to Mr. Clements, some of the questions that I was out to ask was answered by the Member from St. James so I won't go into them.

I notice that there is an increase in bank advances. Is that mainly due to the higher inventory that u are carrying?

**MR. CLEMENT:** What page are you looking at?

**MR. CHAIRMAN:** Is the committee prepared to go page by page through the report?

**MR. CLEMENT:** Now that's related to our inventory item as well. We pushed the production ason forward so we had more product made up by the year end and therefore we borrowed the oney from the bank to pay our employees and pay for it and then that is recovered again.

**MR. BANMAN:** I notice there is \$50,000 due on this Sabetha Seed Company. Is that \$50,000 this ar and \$50,000 for the next year?

**MR. CLEMENT:** Well, the present standing of that is there is \$70,000 coming from Sabetha Seed, are is \$35,000 of it due this year and \$35,000 of it due next year. And so far he's paid every payment thin two days of the due date.

**MR. BANMAN:** I wonder, the figure on Page 6, as far as Notes Receivable are concerned, it dicates \$100,000. Is that the total that Sabetha owes us?

**MR. CLEMENT:** It was at that time. It's been paid. This statement is October 31, 1976, since then y has paid down to \$70,000.

**MR. BANMAN:** You mentioned your Accounts Receivable before and I notice they are down quite bstantially, about \$150,000. Is that because you are collecting a little harder now?

**MR. CLEMENT:** Partly that and partly our accounting people, I think they know what they are ring and the invoices go out and everything matches up and there's hardly ever any reason for a rson to dispute an account. While we were putting together the two companies, the Steele-Briggs Toronto and the McKenzie operation in Brandon, there were a number of disputes over accounts hich had to be settled before we could have the accounts paid and that did build up an Accounts ceivable. Now they have all been dealt with and caught up and that's the reason for our present ccounts Receivable being in good order.

**MR. BANMAN:** Would this basically be 30-day accounts. You mention that when you bring out eds to a particular company they pay you and then when you go to pick up the seeds, let's say, at e end of the season you will re-imburse them for the seeds that they did not sell. So are we looking t 30-day accounts here or what would we be looking at?

**MR. CLEMENT:** The average is a 30-day account, but some of our accounts pay them more ickly in order to earn a small discount. There are some customers whose computer automatically rints a cheque if a discount is offered, so we offer a small discount to those people and we get paid mmediately, not 30 days but immediately the Accounts Receivable computer reads it and sends a heque back for it. But that \$881,000 of Accounts Receivable has all been paid as of now except for 30,000 of it. That was what was owing October 31st but it has all been paid except \$30,000 and I think here is only 11 accounts represented in that amount and there are only one or two minor disputes bout balances so that we think we have that part of the operation well in hand. What we will be orking away at in the coming months is to keep our costs of selling down to the minimum ercentage figure that we can achieve and still service our product and still get back.

**MR. CHAIRMAN:** Mr. Banman.

**MR. BANMAN:** That's fine, thanks.

**MR. CHAIRMAN:** Take the report page by page. Mr. Evans.

**MR. EVANS:** I would like to ask a question, just to have it on the record. Mr. Chairman, I would like o ask Mr. Clement whether the company has received any write-offs or interest forgiveness by the anitoba Development Corporation?

**MR. CLEMENT:** That wasn't whether we had asked for it or not? No, we haven't.

**MR. EVANS:** No write offs.

**MR. CLEMENT:** We paid the standard rate. At least we were told it's the standard rate.

**MR. EVANS:** Well this is my question, do you have any preferential interest rate from the money

that you borrowed from the MDC. Do you pay any preferential interest rate?

**MR. CLEMENT:** No. No, we do not.

**MR. CHAIRMAN:** Mr. Evans.

**MR. EVANS:** Well, no, I think I made the point, Mr. Chairman, that there has been no special treatment given by the MDC to this company.

**MR. CHAIRMAN:** Page 1. Mr. Minaker.

**MR. MINAKER:** No, I'm sorry, it's Page 2.

**MR. CHAIRMAN:** Page 1—pass. Page 2, Mr. Minaker.

**MR. MINAKER:** Just a curiosity. I was wondering why the page wasn't signed or was that a typographical error?

**MR. CLEMENT:** The signed copies are in our safe in Brandon and I think this was duplicated before the signatures were on it but there are signed copies, exactly the same as this.

**MR. CHAIRMAN:** Page 2. Mr. Minaker.

**MR. MINAKER:** I'm sorry. Page 1, I was wondering, with regard to the Inventory, the \$4 ½ million approximately, on Page 1 there, what would that be in terms of bulk seed? Percentage or value. Is it mostly all packaged?

**MR. CLEMENT:** Mr. Moore tells me that there is approximately \$1 million worth of bulk seeds that hadn't been packaged at that period and about \$300,000 worth of bulk onion sets that's not packaged.

**MR. CHAIRMAN:** Mr. Minaker.

**MR. MINAKER:** Mr. Chairman, I have no idea of the seed market, how the prices fluctuate and how far, but are they pretty well stable to what they were — I presume that the bulk seed you would value them at the market value at that time at close off. Is it pretty well stable or has it come up?

**MR. CLEMENT:** We, as the note on the statement shows, we value the made up merchandise whichever is lower. Either what it costs us including the product and the work on it or the net realizable value.

**MR. MINAKER:** But how are the market prices on the bulk seed as compared today. I was curious as to whether it is a fluctuating market or is it generally stable?

**MR. CLEMENT:** The market seems to be going up now. There was a period when seed was very short and commanding very high prices but there seems to be more than ample supplies of seed now. Three years ago all the growers anticipated people would grow more and more gardens in apartments and homes and the growers put in acres and acres more of seed in response to the high prices and, like everything else they overdid it so that there is more seed on the market and this has made us able to get good stocks of seed at reasonable prices.

**MR. CHAIRMAN:** Mr. Minaker.

**MR. MINAKER:** Thank you.

**MR. CHAIRMAN:** Page 2—pass. Page 3—pass. Page 4. Mr. Adams.

**MR. ADAMS:** Mr. Chairman, Mr. Clement, on Page 4 we have, down at the bottom of the page Other Items which are shown on the double sheet. Do you anticipate anything in the coming year as far as other items that will affect your . . .

**MR. CLEMENT:** Well, we are negotiating on the sale of some buildings and it may well be that they might be sold. That would be the only thing, would be a conversion from a wholly owned building to renting space in a seed warehouse for distribution and in many instances, since we've changed and got away from this bulk seed business, we don't need the great big warehouses that we did need years ago. So when we find a good market for a warehouse, we are likely to sell the warehouse and then just rent space in a broker's warehouse for a limited time.

**MR. ADAM:** How many warehouses do we have yet that aren't utilized?

**MR. CLEMENT:** Well, there's one in Winnipeg, one in Toronto, one in British Columbia, and one in Quebec.

**MR. ADAM:** Are these rented?

**MR. CLEMENT:** No, these are owned by McKenzie.

**MR. ADAM:** I mean, do you rent them out? Are you receiving any income?

**MR. CLEMENT:** If we have surplus space we rent out space in it where we can and also a couple of these we just rent space in. We have the warehouse facility there in those cities and we use them as distributing points.

**MR. ADAM:** So if you don't have this type of a situation on your next income, your profit could be between \$200,000 or \$300,000.00? Would that be a fair estimate?

**MR. CLEMENT:** Well, Mr. McGill reminded me earlier that I'd made a forecast of profitability that wasn't completely accurate so perhaps I could beg off this time.

**MR. CHAIRMAN:** Mr. Evans.

**MR. EVANS:** Just a general point. The point was made by Mr. Spivak that, you know, as a Crown agency the company does not pay income tax on its profits, and of course this is no different from any other Crown corporation anywhere in Canada, whether it be Federal or Provincial. But is it not the case that if you were in a sufficiently profitable position whereby — you know, much stronger than

**Economic Development  
Monday, May 16, 1977**

— while it is true you would not pay income tax, is it not true that you would be paying all of those fits to the government, to the Crown, as does the Manitoba Telephone System, for example?

**MR. CLEMENT:** I think, Mr. Chairman, as far as the company is concerned, the company would prefer to pay profits from the company on equity investment to the government for the people of Manitoba, rather than paying it out in interest to the bank or in income tax to the Federal Government.

**MR. CHAIRMAN:** Page 4—pass. Mr. Minaker.

**MR. MINAKER:** Mr. Chairman, I wonder if Mr. Clements can advise. . . he indicated that when you calculate their sales, that they have subtracted all of the returned items for stock. What has the percentage of returned items been running from year to year on these packaged goods, is it 10 per cent, 20 or what?

**MR. CHAIRMAN:** Mr. Clement.

**MR. CLEMENT:** I'll just check with. . .

**MR. MINAKER:** Well what I was wondering was what roughly is your bookings a year and. . .

**MR. CLEMENT:** On the packet seeds, it was 50.1 percent in 1975, last year in 1976, it was 45.3.

**MR. MINAKER:** So in actual fact then, Mr. Chairman, when they initially booked the sales, you're bringing probably around \$12 million worth of sales, and then you subtract your inventory that you've coming back to get this \$6,600,000 figure?

**MR. CLEMENT:** What the retailer books is, is a rack of a certain size with a retail value of packets of He books a rack of that size, and then when we come around and count what he has sold, we bill him, and that's all he buys, just what's sold off there. So we don't count that as a sale until it's been sold off his rack on the consignment sales. On the guaranteed sales the retailer pays us for all the seeds that are ordered, and then if he doesn't sell some of them, we buy it back from him. So it wouldn't be exactly double, it could be something less than double.

**MR. MINAKER:** But I would think, Mr. Chairman, you must have some kind of a book value even on these consignment ones, that there's an understanding that if you get a signature from the people that take it on consignment that they'll be paying you for that year's, so that you must have somewhere in your computer a figure of the value of goods that are out on the shelf to prior to collection date.

**MR. CLEMENT:** Well this is true during the year, but at the time that the statement is made up there are no seeds out on shelves at all, they're all back in the plant again and this statement is made up on the sales we know, and the inventory we know, if it's back in the plant. So this statement is completely accurate in that regard because there isn't anything out on the shelves. October 31st is not a garden time in Canada.

**MR. MINAKER:** And all the seeds have been checked for germination qualities by that date and it back on the shelf or storage in your area?

**MR. CLEMENT:** Well most of it is. It is usually tested for germination just before it's packaged, and the inventory listed there is packaged, but there is also about \$1 million worth of bulk seed that hasn't been tested because it's done just before it's packaged.

**MR. MINAKER:** When would it be packaged?

**MR. CLEMENT:** It's done continuously. It's usually finished by the middle of February.

**MR. MINAKER:** So that in actual fact, would there be an 8 percent loss on that million dollars in bulk, or is that not in that?

**MR. CLEMENT:** No, that wouldn't come about until the next fall when the testing was done on the seed that was brought back into the plant. It's just one time of year that seed is destroyed, and that's when it comes back in the fall if it's not up to standard. Our new seed is tested as is purchased, and it's mixed and blended with. . .

**MR. MINAKER:** I see, okay. Thank you very much.

**MR. CHAIRMAN:** Mr. Spivak.

**MR. SPIVAK:** What would your payables be over 90 days?

**MR. CLEMENT:** Zero.

**MR. SPIVAK:** That would mean that your capital tax, if you were paying it, would be between 16 and 18 thousand dollars, which is another benefit that you have.

**MR. CLEMENT:** We do pay Manitoba capital tax.

**MR. SPIVAK:** You do pay capital tax?

**MR. CLEMENT:** We are not exempt.

**MR. SPIVAK:** Not exempt. Where is the capital tax shown? In your salary?

**MR. CHAIRMAN:** Order please. Mr. Clement I wonder if you would answer the last question so that it will appear in Hansard.

**MR. CLEMENT:** There are no accounts payable over 90 days other than. . . well the ones shown on the Maple Leaf Milling, it's been paid.

**MR. CHAIRMAN:** Mr. Spivak.

**MR. SPIVAK:** Well, I wonder if through you, Mr. Chairman, to the Minister, can we establish. . .

Do all Crown corporations pay the capital tax?

**MR. CHAIRMAN:** Mr. Evans.

**MR. EVANS:** I am a little leery to answer that question. There may be some differential depend on what the nature of the Crown corporation is. I think the Workers' Compensation Board classified as a Crown corporation, for example, legally. So, I am not really sure, but you know could find that out. I would be glad to find that out, but I really couldn't answer McKenzie's requirement that tax because it is considered to be a normal commercial operation.

**MR. CHAIRMAN:** I wonder if we could restrict our questions to Mr. Clement on the item that before us and not get into the broader topic of Crown corporations.

**MR. SPIVAK:** I think, Mr. Chairman . . .

**MR. EVANS:** Mr. Chairman, I don't have the answer.

**MR. SPIVAK:** Well, I think, through you because we will be dealing with the other Crown corporations, it would be important to know whether they do, in fact, pay the capital tax, whether Hydro pays a capital tax, the Telephone System pays a capital tax.

**MR. CHAIRMAN:** I am not sure that they are particularly relevant to A.E. McKenzie Company.

**MR. SPIVAK:** Well, I am quite surprised that they pay the capital tax, because if you say that they shouldn't pay income tax because the money goes to the people, then I can't understand the rationale for capital tax. I accept that . . .

**MR. EVANS:** The federal law says that a Crown corporation doesn't pay income tax, federal, and therefore, doesn't pay provincial, but this is a provincial capital tax and it has been deemed that McKenzie's, as a commercial operation, shall pay this tax. We don't like it but we pay it. I can't answer your other question, but that could legitimately be put to the Minister of Finance and he could give you the rest I am sure. I don't have the information.

**MR. CHAIRMAN:** Page 4—pass; Page 5—pass; Page 6—pass; Page 7. Mr. Spivak.

**MR. SPIVAK:** I refer to the Auditor's Report, and this is the last page. I wonder, through you to Mr. Clement, whether he can indicate whether on any occasion the Provincial Auditor has been requested or asked to assist or participate in any of the activities of A. E. McKenzie, or examination of any activities.

**MR. CLEMENT:** Not as far as I am aware.

**MR. SPIVAK:** There was never an occasion in which there was a request made to him or a request from him through the Minister to you?

**MR. CLEMENT:** He may have had some look at the statement with regard to the evaluation of shares and the negotiations with Brandon University, but so far as the Management of McKenzie's concerned, we have had a local firm do the audit for years, and he is not only very well acquainted with the operation of McKenzie's but is quite helpful in bringing forward methods of handling computer work and accounting work, so that we rely on him both for experience and for expertise.

**MR. EVANS:** Mr. Chairman, just for clarification, it is correct, Mr. Clement's answer was correct, was the shareholders who asked the Provincial Auditor for an opinion with respect to the negotiations that have been going on with Brandon University, *vis-a-vis* the Trust Account, and for an independent evaluation and appraisal of the share value. But, as I understand, as Mr. Clement has said, this has been a long time, this is a well established Brandon firm which has been used for many years — how many years is it?

**MR. CLEMENT:** Oh, 15 years anyway.

**MR. EVANS:** It is the same company that has been used for about 15 years I understand.

**MR. SPIVAK:** To whom does the Provincial Auditor report his findings? The shareholders? The University of Brandon?

**MR. EVANS:** Well, yes, we asked him on this one specific issue to give the . . .

**MR. SPIVAK:** Who? The university or the government?

**MR. EVANS:** Well, it is to the government, but that information would be made available to the university too.

**MR. SPIVAK:** And he presented a report.

**MR. EVANS:** Yes, a very brief opinion as to the value. Only with regard to this one specific question of the trust fund and the acquisition of the shares by the government.

**MR. SPIVAK:** And that report was satisfactory with respect to all the things that were represented or was there any recommendations . . .

**MR. EVANS:** Well we didn't ask him to provide this . . . to the company.

**MR. SPIVAK:** No, no, I am not asking, but were there any recommendations on his part or was it just an acceptance of the . . . ?

**MR. EVANS:** Yes, I believe, as I recall, Brandon University wanted to be satisfied with the arrangements that were being suggested and we asked for the Auditor to give us an opinion on that and he gave us an opinion. It wasn't on the operation of the company or on the validity of the statements.

**MR. SPIVAK:** What was his opinion?

**Economic Development  
Monday, May 16, 1977**

---

**MR. EVANS:** What was his opinion? His opinion was — I don't know whether I can paraphrase it, it been some time since I read the statement and it was very brief, and I have given it to somebody to analyze — but, as I understand it the gist of it is that the agreement, the payment that we want make or are hoping to agree with the university, you know, was an adequate payment. Again I am a bit hesitant to answer because I would like to read the statement and answer you because I don't want to give you any misleading information. He clarified to the satisfaction of the university what the shares were worth of the company. I think there was some opinion among the Board of Governors of the university that the shares had a certain additional value which we maintain they did not, given the economic situation that the company was in and he gave us an opinion on that which was made available to the Board of Governors.

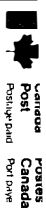
**MR. SPIVAK:** Well, the only thing disturbing about the Minister's statement is the fact that he is analyzing it. You know, if the Provincial Auditor has given him a statement, that or someone from that department is analyzing it I find it a little bit strange.

**MR. EVANS:** Well you didn't hear my answer.

**MR. SPIVAK:** Yes, I was listening. Well, no but even so, I think it is peculiar that it has to be interpreted.

**MR. EVANS:** It is not that complicated that it has to be interpreted, it is just a matter of administrative procedure. I like certain other people to tell me that they are satisfied with what the memorandum said to us, and I think I am satisfied with it.

**MR. CHAIRMAN:** Page 7—pass; Report be received. (Agreed) That being the only item on the agenda this evening, I thank you, Mr. Clement. Committee rise.



Canada Post  
Postes Canada  
Postleitzahl Postcode

**Third Troisième**  
**class classe**  
**8260**