LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT
Thursday, 7 May, 1981

Time — 10:00 a.m.

McKENZIE STEELE-BRIGGS SEEDS

CHAIRMAN — Mr. Morris McGregor (Virden)

MR. CHAIRMAN: Call the Committee to order of Economic Development and I'll call on the Honourable Minister for his opening statement.

HON. DONALD W. CRAIK (Riel): Mr. Chairman, the meeting this morning deals with the Report for the year end October 31, 1980 and I'll just turn it over directly to the Chairman of the Board, Mr. Ed Mazer and he and Mr. Moore, the Chief Executive Officer can address themselves to any questions you might have, so Mr. Mazer if I can just call on you to present your report.

MR. CHAIRMAN: Mr. Mazer.

MR. ED MAZER: Thank you Mr. Minister. I have with me today the President and General Manager of McKenzie Seeds, Mr. William Moore, who may be answering any questions dealing with the operations or technical questions involving the financial statement and also with him, Mr. Charles McEachern, the comptroller of the company.

A. E. McKenzie Co. Ltd. ended its 1980 fiscal year, reporting after debt- servicing charges, a loss from operations of $103,608, compared with a loss of $744,853 for the same period last year. During the year 1980, sales increased by $1,426,962 over 1979; and 1981 sales are materializing very favourably and are estimated to be approximately $12,500,000 by year-end.

In 1979 the Company changed certain accounting policies to facilitate consideration of refinancing, partnership or other arrangements and also to clarify as clearly as possible the most current status of the company. In 1980 accounting practices in some operations were altered accordingly, therefore the financial statements reflect extraordinary items which have a significant negative impact on the bottom line figures for both years.

In the 1980 financial statement the company has recorded an extraordinary item of $1,484,644, which may be interpreted as an additional expense of a non-recurring nature but which is a direct result of those accounting changes which were first adopted in 1979 and first implemented in 1980.

This amount reflects the cost of implementing changes in pricing and inventory valuation policies which in the past would have been accounted for in a different fashion. In this financial statement the company has made the decision of taking as a loss in 1980 all costs resulting from instituting the new policies, rather than having spread those costs over the years in which resulting benefits will be experienced. In future years provision will be made in accordance with new company policy to annually account for the cost of required price changes and to include not more than one year's overhead costs in the annual evaluation of inventory. In summary, all the accounting changes adopted in 1979 have now been implemented and the extraordinary book losses should not recur in future years.

On the other side of the ledger I am happy to report that past decisions are also having a positive effect on the operations and profits of the company. Decisions made in 1980 are now bearing fruit in 1981. For example, there has been the adoption of a marketing management study from which new products and marketing approaches are being developed. This study was produced by Dr. Robert Cooper, one of Canada's leading authorities on marketing.

The implementation of new marketing concepts has allowed us to streamline our inventory handling options and is expected to result in substantial profit increases. With the co-operation of the company's auditors, Meyers Norris Penny & Co. and the Provincial Auditor's Department, management has maintained and developed further, modern and proper management information systems. A cohesive management team including a new vice-president in charge of national sales continues to regularly monitor and test the flow of new ideas.

With almost seven months of the present operating year and 75 percent of the selling season now over, the board of directors and management of the company are confident that the 1981 fiscal year will record significant operating profits in spite of the heavy debt servicing charges.

With continuing high interest rates, the cost of servicing the companies substantial debt remains an ever increasing burden. In 1980 interest charges paid to the company's bankers and to the Government of Manitoba amounted to almost $1,400,000 which amounts to 15.6 percent of gross revenue, an increase of $266,000 over the previous year. These costs are expected to increase to $1,600,000 in 1981.

Aside from that negative factor which undoubtedly affects the whole business community, McKenzie Seeds should continue to experience healthy sales and operations during 1981. Employment is expected to peak at 240 persons including personnel outside Brandon with an annual payroll of approximately $2,500,000.00. The company's share of the market in all product lines is either holding or improving and the company continues to be a leader in product development in the home horticultural market.

MR. CHAIRMAN: Committee, there probably are some questions. Mr. Evans.

MR. LEONARD S. EVANS (Brandon East): First of all, Mr. Chairman, I would like to welcome Mr. Mazer to the Legislative Committee on Economic Development. I think many members of the committee may have met Mr. Mazer, and I know he is relatively new in the job. For many a year we heard presentations by Mr. Bob Clement who is now retired and at any rate, I am very pleased with some of the comments that Mr. Mazer made. I believe it shows that there is a positive approach being taken by the chairman and the board and the management and there are a number of interesting developments to which he referred in his statement.

I have a number of questions I would like to ask, some of which had been touched on in the statement about which I would like to get some elaboration, but first of all I'd like to know if we could be advised as to the current membership of the Board of Directors of McKenzie Seeds. I'd like to know the names of the board members and what their occupations are.

MR. CHAIRMAN: Mr. Mazer.

MR. MAZER: Yes, I'll be doing this from memory. I don't have a list right at hand. There is myself as Chairman and I'm a farm equipment dealer in the City of Brandon; there is Mr. Andy Wilton, who is part of a family business organization and his primary responsibility is also in the farm equipment business in the City of Brandon; Mr. Frank Collyer, who is from Killarney, Manitoba and his business involves the sale of cars and trucks and farm equipment; Mr. Conrad Christianson who is at this point in time, retired — he was a businessman involved in the farm equipment business; Mr, Craig Stewart in the insurance business in Minnedosa, Manitoba; Mr. Henry Rempel who was employed in the past by a steel fabricating firm and is now employed primarily as part-owner of Canadian Brownsteel Tank in Brandon; and Mrs. Kathleen Roberts, who is daughter of the former Chairman of McKenzie Seeds and the founder of McKenzie Seeds. Also the most recent appointments: Mr. Hugh Jones, the Director, I believe, of the Manitoba Development Corporation and Mr. John Burns, the Director of Crown Investments; and also Mr. Keith Lewis, who is a chartered accountant in the City of Brandon.

MR. EVANS: Thank you.

Mr. John Burns, Director of Crown Investments, is that a private company or is that a government department. It sounds like a government department.

MR. CHAIRMAN: The Honourable Minister.

MR. CRAIK: Perhaps I can answer that, Mr. Chairman. Mr. Burns is a special assistant to myself as the Minister; is Director of Crown Investments; sits on, I believe four of our Crown Investments, one of them being A.E. McKenzie.

MR. EVANS: Thank you, Mr. Chairman.

In other words, Mr. Burns is more or less the Minister's representative on the Board.

MR. CRAIK: That's correct.

MR. EVANS: One person I notice is not mentioned, I'm rather surprised because he's been a long-time member, has been a civil servant for the Province of Manitoba for many a decade and that's Mr. Blicq of the Department of Economic Development. It would seem to me, of course this a government decision, but it would seem to me that it makes eminent sense to have a representative of that department on a company because it does give you a direct feed-in to the various services that the Department of Economic Development could offer.

MR. CRAIK: Perhaps I could indicate, Mr. Evans, that while A.E. McKenzie and MDC reported to the Minister of Economic Development, or whatever the Minister may have been, Mr. Blicq was from that same department so with the switchover to the MDC and therefore A.E. McKenzie reporting to myself as the Minister, Mr. Burns replaced Mr. Blicq.

MR. EVANS: Mr. Chairman, I don't believe, but I'll ask the Minister this — I don't believe there's any legal limit, is there, on the number of persons that need be on the McKenzie Board. My recollection is that there is no numerical limit. Is that correct?

MR. MAZER: The bylaws of the company do define the number of persons who would be appointed to the board and in accordance as well the quorums and so on that make up the board. Just most recently, the bylaws were amended by the Board of Directors of the company to expand the number of board members from nine to eleven. Am I correct on that?

MR. CHAIRMAN: Mr. Moore.

MR. MOORE: Mr. Chairman, that's not quite correct. What you say is correct, but also it's by Order-to-Council, the number of appointees to the Board of Directors.

MR. EVANS: Yes, the board is legally appointed by the shareholders; namely, the Government of Manitoba or the Minister responsible. We developed a practice where the Minister responsible would recommend to Cabinet the appointment of the board. As a matter of fact, I believe the original legislation makes no reference — I don't believe it makes any reference to how the boards may be appointed. So before 1969, I believe the boards were simply appointed by the Minister and there tended to be a very small board.

The Chairman mentions eleven people. I can only count ten that he's told me about.

MR. MAZER: I'm sorry, it is ten.

MR. EVANS: I don't want to make an big issue of this; in fact, I don't want to make any issue of it. I'm rather surprised —(Interjection)— Well, you know, the Member for Radisson says good. I would like to remind, through the Chairman to the Member for Radisson, we are dealing with a very important company and one that is very vital to the interests of Brandon and I intend to ask as many questions as I please, as a member of the Opposition, to get as much information for the people of Manitoba via the media and via members of this Legislature.

MR. ABE KOVNATS (Radisson): Mr. Chairman, on a point of order.

MR. CHAIRMAN: Mr. Kovnats, on a point of order.

MR. KOVNATS: On a point of order, to the Honourable Member for Brandon, there was no intention at all as to him being limited as to the amount of questions he could ask. I find that this is also a most important subject to be discussed and that's the reason that I am here. There was no inference at all. The reason that I said good when you said that you weren't going to prolong the matter on that particular item, because there was, in my opinion, enough discussion on it. There was a small point to be discussed, whether there were ten or eleven members. It was cleared and that's the reason I said good. It wasn't because I thought that there was going to be any limit in the amount of discussion on this particular subject.

MR. CHAIRMAN: I'm not sure if it's a point of order but certainly it's a point of clarification and we'll return to Mr. Evans.

MR. EVANS: Mr. Chairman, through you, I accept the member's apology, or explanation.

MR. KOVNATS: Mr. Chairman, on a point of order, it certainly wasn't an apology and certainly I had no intention of apologizing. I just brought it up as a point of clarification and I hope that the honourable member will not get too excited and lead the stampede out of here like I've seen some of the other groups when they leave committees when they get a little bit excited. I'll get excited and I'll speak my piece and I won't stomp out of here.

MR. EVANS: Mr. Chairman, what the Member for Radisson doesn't realize is I'm not debating whether 10 or 11 is a good number. My point of debate, and I don't care whether the Member for Radisson realizes it or appreciates it just as long as he keeps quiet, and that is the lack of a very senior civil servant who served the board well. It's the government's decision. I don't really, as I said I don't really want to make a point of it, but I recall Mr. Blicq as a very sharp individual, asking the rights questions and keeping the Board and the management on its toes over many, many years and I think that that's a loss to the Board.

The statement read by the Chairman refers to certain operating losses and makes comparisons with the previous year. I have the clipping with me somewhere, but it'll take me a while to find it; therefore, my question, Mr. Chairman, is, is this the same figure or approximately the same figure of a loss that was made public through the media by the former Minister responsible for McKenzie Seeds, the Minister of Sports and Recreation, last fall sometime? I believe that Minister did make a public statement late last year, which got quite a bit of publicity in the Brandon papers at least, on the amount of loss of the company. My question is, is that the same information that we are being given this morning?

MR. MAZER: If you would have the figure that you're referring to from last year then we might indicate which figure is comparable this year.

MR. EVANS: Well, Mr. Chairman, as I said I have the clipping someplace, but it would take me a while to find it. I notice the Minister is here, but I just wanted to know whether there is much deviation from the statement made by the former Minister responsible for A.E. McKenzie from the statement that was made today.

MR. MAZER: It might assist in referring to page 4 of the Financial Statement that's been presented. On each column referring to both 1979 and 1980 there is indicated the various operating profits or losses before and after interest and before and after special provisions and extraordinary items.

MR. EVANS: I notice the Minister is a member of the Committee. I wonder if the Member for La Verendrye or the Minister of Sports could indicate whether this is more or less the loss figure that he announced last fall. Either that or if the Committee would adjourn for 10 minutes and I'll go and find the report, but I don't want to take that time.

MR. CHAIRMAN: The Honourable Minister.

MR. CRAIK: Perhaps, Mr. Chairman, Mr. Evans could be a little more specific; which figure on page 4 is it that he wanted to get the estimate? Do you want to know actual vs. estimate?

MR. EVANS: I just wondered whether these figures that we are being presented with today are more or less comparable with the announcement made by the former Minister responsible for McKenzie Seeds late last year on the net loss for the year. Here is the figure here, $1,588,000.00.

MR. CHAIRMAN: I see the Honourable Mr. Banman was wanting to . . .

HON. ROBERT (Bob) BANMAN (La Verendrye): I believe they are more, Mr. Chairman.

MR. CHAIRMAN: Would the honourable member repeat that?

MR. BANMAN: Mr. Chairman, I believe these figures are higher than the ones I quoted.

MR. CHAIRMAN: Mr. Mazer.

MR. MAZER: Maybe again, as a point of clarification, I think what we must report in the sense of the actual profit or loss for the company, including cost and extraordinary items after base operations are looked at, is the actual bottom line on Page 4. If there was an announcement last year, the actual loss for the company was as recorded, $2,407,173, after extraordinary items and special accounting changes. In comparable terms this year, as you will note, the bottom line loss is $1,588,252, in comparison.

MR. EVANS: Do the 1979 figures reflect the changes in accounting that you refer to in your statement, or is it only the 1980 figures that are affected by that?

MR. MAZER: The figures referred to in paragraph one of my prepared statement deal with the operations portion of the company. That is the part that, as a Board of Directors and as management, we are primarily interested in, in the sense that indicates the actual operation's position for the year. However, in both accounting practices and in a business sense, we cannot ignore other special provisions or extraordinary losses that must be taken into account for determining the profit or loss for the year. So there are two different figures in regard to profits or losses from operations, and profits and losses after all special items and accounting changes are taken into account.

MR. EVANS: Extraordinary — unfortunately this wasn't tabled in the House earlier so we haven't had a chance to study it — but extraordinary items, Note 9 — I guess that therefore refers only to 1980, does it? It doesn't reflect 1979. But there were extraordinary items in 1979 of just over $.5 million dollars, but what you're saying therefore, if I could put my understanding forward, Mr. Chairman, the change in accounting procedure that the Chairman talked of really only reflects extraordinary items, is reflected in 1980, not in 1979.

MR. MAZER: Both years. Both years had instances of accounting changes in extraordinary items, both 1979 and 1980, which again are indicated in the bottom portions of the figures shown on Page 4 and they begin, for instance, at the provision for inventory obsolescence and continue on down to the net loss for the year in each year.

MR. EVANS: Does the Chairman expect any extraordinary items next year?

MR. MAZER: As was indicated in my prepared statement, at this point in time, no. We think as a board and as management, that past accounting practices and the methods of valuation of inventory and the method of handling inventory have now been changed where, by fiscal end 1981 we should not have to experience any extraordinary write-off or special provision.

MR. CHAIRMAN: Mr. Green is wanting in Mr. Evans. If it's a series of sequence I'll continue with you . . .

MR. EVANS: I have some later but I'll ask a couple more, then maybe the Member from Inkster.

Looking at the sheet then on Page 4 the sales are up considerably by about $1.5 million. The cost of sales are actually down so that the gross profit is up quite substantially which is encouraging but then the expenses are up about a half million. But nevertheless your earnings before interest are very substantial, roughly 1.3 million. It's obviously — therefore the interest charges which are obviously hurting the company and we do live, I believe, in a time of extraordinarily high interest rates so that therefore, the loss figure is the bottom line at that point, not the bottom line, the profit is not a profit, it's a loss of 103,000 at that point and then of course when you add in the extraordinary items.

This brings me to the major point and that is with regard to refinancing the company. Has the board of McKenzie Seeds made a proposal or has it considered the matter of refinancing of the company? Now, I don't believe it's necessary to explain what we mean by refinancing because there has been considerable discussion of that subject over the years and I wonder if the Chairman could indicate what their position is? I think it has been agreed in the past that the company has a lot of debt but very little equity.

MR. MAZER: Yes, the board of directors has considered this problem in conjunction with management and we have made a recommendation, recorded in the minutes of the company that it would be beneficial to the operations of the company if it were to be refinanced to the extent that the debt load that the company is now suffering under would be alleviated and the cash drain that current interest expenses are causing would also be alleviated. That of course would be as in any other business operation, if you can get rid of some of your debt it can't be anything but beneficial to the operations of the company. It leaves more funds freed up for other purposes but like any other company we are recognizing that the debt is there and we have to live with it. But we have made the recommendation that if the shareholder should see fit it would assist the company to have a refinancing proceed.

MR. EVANS: It wouldn't concern me so much if all that interest was being paid back to the MDC alone but the fact is that a great percentage of that interest is paid to the bank. What percentage of the interest, of that amount that's shown here would have been paid to the bank approximately?

MR. MAZER: Approximately two-thirds to the bank.

MR. EVANS: Two-thirds of that amount is being paid to the bank. In other words about $800,000 roughly would have been paid last year to the Bank of Montreal — I think used to be your banker, it doesn't matter. If it were all coming back to the Manitoba Development Corporation or the Department of Finance or something I would be less concerned. But at any rate, has the — perhaps I should ask this of the Minister then, is the government now actively considering refinancing of the company as the board apparently would like to see?

MR. CRAIK: Mr. Chairman, yes, the government has from time to time actively considered refinancing of McKenzie. At this point in time, what would be happening of course and I think it's recognized that for the size of company here that a capitalization of the amount that's on the books is unlikely to show a return in traditional terms of being a satisfactory return for other than a Crown held company. So that it's realized that the amount of debt that's shown here, which adds up to close to $10 million, is higher than what a company like this could sustain other than having a shareholder backing behind it such as the government. So, consideration has been given to it. Obviously there hasn't been any decision made. Effectively what you'd be doing though is if you did that you'd just be transferring the interest charges to the government rather than to the company.

MR. EVANS: Well, of the 10 million I believe a portion of that would be working capital which one would not expect to refinance. In other words every business has a certain amount of, a line of credit from its banker and I wouldn't think that amount would be should be considered for refinance but rather the long-term or overhead debt.

As we've said before and as the Member for Inkster has said in the past, you know in many ways we're talking about where a number is placed on the balance sheet. I think the most important observation to make here and one that encourages me is that: 1. sales are going up. 2. expenses are not going up extraordinarily and we do see a considerable profit before interest $1.3 million, earnings before interest. And I think that is to the credit of the company. It shows that there is viability there. I don't know what the cash flow situation is but maybe the Chairman could mention this as an aside now. Are there any cash flow problems in the company?

MR. MAZER: The cash flow situation is tight, especially in our periods of the more active times of the year when the cash outlay requirements are the highest, we must carefully judge our cash flow. But to this point in time we've managed.

MR. EVANS: So, basically the company is viable. It's providing jobs. It's providing income flows into the province and I particularly note that as the national package seed company that we have I would imagine just by population distribution that probably 95 percent of the output is sold outside of the Province of Manitoba. Manitoba has a little under 5 percent of the Canadian population. I would suggest that as the national package seed company that the vast majority of the sales are outside of Manitoba. So this is a company that generates income for the Province of Manitoba and I think it's, for me at least, it's particularly valuable in that sense that it's bringing in — it's like exporting its services, exporting its product, exporting its value added and bringing in income flows into the province.

But the problem is that every year because of the high interest payments we show these losses and I think it tends to be discouraging and I think people get the idea that the company is on its last legs, sort of thing. I think that if — while it may be bookkeeping, there may be some value in changing this about. And as I said the other thing is we're paying out $800,000 to the bank that we could pay back to ourselves in a sense, remembering that the rate of interest that the company pays to MDC is higher than the MDC borrows from the Crown. In other words there is a differential. Sure the Crown has to obtain the money someplace but I believe — and maybe I should ask the Chairman this, what is the rate of interest that you pay to the MDC?

MR. MAZER: 18.5 percent.

MR. EVANS: 18.5 percent paid to the MDC. That, in my opinion, is no bargain from the MDC. Are you not paying, Mr. Chairman, I'd like to ask Mr. Mazer, is this not the going commercial rate that all — and if the MDC were lending to commercial private companies, is that not the rate of interest that they would charge according to their method of operation?

MR. MAZER: It is prime that were paying — prime rate.

MR. EVANS: The prime rate. Okay. Maybe I should ask this of the Minister, or Mr. Jones is not here but what is the rate that the government pays for that money? What does the government pay today for money?

MR. CRAIK: With the scene moving so fast I don't think I can give a precise answer to that. It's probably not much difference, perhaps a little under that. You're talking about day-to-day money at the bank. This is demand loan money which is quite different from long-term money.

MR. EVANS: I would not imagine this is day-to-day money we're talking about. This is long-term money.

MR. CRAIK: I think that would have to be answered by the . . .

MR. CHAIRMAN: Mr. Mazer or his staff.

MR. MAZER: The MDC loan we don't look upon as sort of an operating loan. It doesn't fluctuate. It's fixed at this point in time at $3 million. I understand that this is a Part 2 loan under The MDC Act and that the rates that apply are set from time to time by the Minister responsible.

MR. EVANS: But my understanding, from past practices, Mr. Chairman, from what I can recall is that the MDC charges 1 or 2 or whatever points above or even more above what the government has to pay for the money. What I want to know is — is this more than what the government pays and if so how much more? Maybe Mr. Jones can help us.

MR. CHAIRMAN: Mr. Jones.

MR. HUGH JONES: Mr. Chairman, this, as Mr. Mazer has said, is a loan under Part 2 of The Development Corporation Act and in those circumstances the MDC itself doesn't have any power to set the interest rate. It's set by the Department of Finance. Certainly the MDC normal lending rates, or they were when we were active, were considerably lower. So we're getting closer to the standard prime rate when we're dealing with a Part 2 loan.

MR. EVANS: Do you have any idea as to what the differential is between what the government borrows the money at and the rate at which the MDC charges the McKenzie Seeds?

MR. JONES: Mr. Evans, off the top of my head a few years ago I think it was something like a 2 to 3 percent spread. But the MDC does not borrow from Finance at the present time so I'm . . .

MR. EVANS: You're not familiar.

At any rate my impression has been and unless it's corrected otherwise is that the company does not receive the subsidized rate of interest and that therefore as long as that happens it is earning some money for the Crown through that differential.

At any rate I go back then to the Minister. For whatever reason whether it be a matter of changing the appearance to make it look better and cause less concern or whether it be to funnel interest back to the Crown whether the government would at this time — is it prepared at this time to consider the refinancing of the company? I know the Minister related to previous consideration but let me put it this way — are you at the present time looking at the refinancing of the company?

MR. CRAIK: Mr. Chairman, we certainly haven't put it out of the question. There have been some progressive moves made in the last two or three months. One was to increase the guarantees to the company so that they could extend their line of credit with the regular bank; the other was along with the Board of Directors to approve certain renovations to the plant and to upgrade it without direct support from the government of course but simply to make some changes in the plant operations. The question of refinancing continues to be under consideration.

I want to point out though, again that to recapitalize the company and to convert some of this debt that's shown here into equity — and let's assume for instance that you were to convert say the $3 million that's shown here in current liabilities, convert that into equity. What it means really is that the government then which is borrowing at the bank in this day and age on a short-term line of credit itself rather than going into the long-term bond market would effectively be borrowing at the bank to cover off that kind of an action. All you'd do is replace yourself as the government at the bank instead of it being McKenzie. Then the only question is, can the government borrow on those short-term rates at a better rate than McKenzie could? And perhaps the government could. It wouldn't be a spread of 3 percent though, it's more likely to be closer to 1 or 1.5 percent.

MR. EVANS: Yes. Does the government not borrow on a long-term? Obviously it does. Could it not consider a long-term source of funding because this would be obviously a long-term investment.

MR. CRAIK: Yes, that's possible. I just point out for the last — it depends what money you want to look at. But the government itself because of the uncertainty in the bond markets that has existed for some time now has carried a fairly large line of short-term credit at the bank. And effectively if you compare the two what you're simply doing is replacing the government as the borrower instead of McKenzie. It might be valuable on this question to get the picture completed, to find out what kind of interest rates McKenzie pays on the bank loans that they have that are guaranteed by the province.

MR. MAZER: That also is 18.5 percent.

MR. CRAIK: Both the loans, the MDC and the bank rates are at the same rate.

MR. EVANS: Just a comment on that, the bank must have some faith in McKenzie's to give them a prime rate. It pays its bills, it's a good customer; it has been for some years.

MR. CRAIK: Just to finish that, Mr. Chairman, it gets a prime rate at the bank by virtue of the fact that the government does provide certain guarantees, otherwise the rate would be higher than 18.5.

MR. EVANS: At any rate, it's the position of the board that the company be refinanced. The government has considered it; it's not out of the question but it hasn't made a decision on this. The Minister referred to a reference to authorizing the company to spend $225,000 to replace and repair McKenzie Seeds buildings in Brandon — this was on Wednesday, April 15th in the Brandon Sun. The Minister said something which seems to contradict what the story said. The story infers that the province will spend these moneys. I thought the Minister made some statement a minute ago that the government authorized the company to spend the money. What I'd like to know, by way of clarification, is the province at this point prepared to give and has it announced that it will give $225,000 to the McKenzie Company for these repairs, or is it simply telling the board, "We, the shareholders, tell you, the board of directors, if you so desire you may spend $225,000 of your funds wherever you may find them for these repairs, including roof repairs and the elevator and so on"?

MR. MAZER: The company has been authorized by the shareholder, the government, to proceed with the repairs from our own cash flow. As was mentioned by the Minister, the loan guarantee level from the MDC has been increased just recently and would, as a result, cover any additional cash outlays or borrowings that would be required to finance the amounts but there is no grant involved.

MR. EVANS: In other words, it's a continuation of the policy of more or less having the company stand on its own two feet as much as it can to operate in a normal commercial way. Okay, that's not quite what the story conveys so I'm glad that has been clarified.

Just one further question at this time and then maybe some other members would like to ask questions; I may have some later on. But the continuing saga of the possible sale of the company, I'd like to ask the Minister whether the government is still actively looking for a buyer for this company?

MR. CRAIK: No, Mr. Chairman, we're not actively looking for a buyer. We've determined at this point in time that the company ought to move ahead as aggressively as possible under its present structure and we'll support it as best we can, give it as much encouragement as possible.

MR. EVANS: Mr. Chairman, is this then a policy change on the part of the government, or is it a position where they're saying, "Well, at this time we're not actively seeking a buyer but at some point in the future we're not averse to selling the company"? Are you now saying that we are prepared to have McKenzie's continue as a public corporation or a Crown-owned corporation as a matter of policy?

MR. CRAIK: Just to review the history of it and perhaps for others who've been closer to it than I was but there was an effort made to determine whether there were better opportunities for the company by having it operated as a private-sector company with the government selling its interest in the company. The efforts that were made did not yield what the government felt was a better alternative or a picture that would offer certainty that was satisfactory to the government that the operation would have security and be able to expand its present base and the total goal, of course, was to be able to have the company expand its present base and if, by association with a company that was in the packaging business, or a business that was relevant to the business that McKenzie is in that would give them an opportunity to get into other market areas, that would be the type of proposition that would be attractive in selling the company.

Out of the ones that were reviewed there wasn't sufficient evidence came back to indicate that we could, with assurance, make that kind of a move with the various propositions that were made so we are not actively at the present time pursuing it. What may happen in the future, I suppose, can't really be determined. If there were a good opportunity at some point in time which is not foreseen at the present time, of course, that possibility could not be excluded but it would have to be one that would guarantee a better future for the company.

MR. GREEN: Yes, Mr. Chairman, I'd like to get to Extraordinary Items, Note 9. The company destroyed all the old price commission packets. Does that reflect $1,400,000.00? Is that the extraordinary item, $1.5 million?

MR. MAZER: That extraordinary item of approximately $1.5 million is made up, roughly speaking, of one-half of that amount having to do with the write-off of accumulated overhead costs that had been valued into inventory over previous years accounting systems. It was not what you would call an irregular accounting system but was the one in use and as a result this accumulated cost was evolving and so approximately one-half of that amount or $750,000 amounts from taking that cost that had been accumulating, but with no real asset value resulting and writing it off.

The other half is, by reason of the fact that in 1979 and 1980 the policy was developed and the practice pursued of instituting an across-the-board price increase on all McKenzie Seed packet products which had not been revised in price for a number of years. That of course involved all the returned product or unsold product that was on the market of having to be non-recycled because the old prices were stamped on the packets and, of course, it would have been a totally uneconomical venture to try to recycle all the minute amounts of seeds into new price packets. So again the fact that a significant amount of inventory that remained unsold and was not returned was not recyclable. That write-off amount of again another approximate $750,000 was required.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: The first item is simply a change in accounting — that $750,000 — and it reflects a cost which was continually provided for but which no asset could be shown for. Would it be the reverse of a depreciation, that if the company was taking depreciation on its buildings and they weren't depreciating, you could stick in an extraordinary gain by taking the appreciation on the building which you had shown to be depreciated?

MR. CHAIRMAN: Mr. Craik or Mr. Mazer, I'm at mercy of the two. Mr. Green.

MR. GREEN: No, I'm asking the chairman, as in accounting what you've done is you've taken an item which has been shown as an item which has continually been reflected in the books which should have had an asset covering it which didn't and therefore you've now shown it as a loss of $750,000.00. Is that right?

MR. CHAIRMAN: Mr. Mazer.

MR. MAZER: The second part of your question would require me to speculate whether the reverse would be true. But as far as the actual function itself of arriving at that written-off amount, I might refer you over to the president of the company who has worked with this continuously over the last while and might explain it in a clearer fashion.

MR. CHAIRMAN: Mr. Moore.

MR. MOORE: Mr. Chairman, in the past the cost of making a price change or other changes that were required under federal regulations — because the company does operate under federal regulations as far as the packaging is concerned — those costs would have been amortized over the years of benefit, future years of benefit. The change in accounting policy was such that when changes were made and the assets suddenly became no longer an asset, the cost of destroying that asset was written off right there and then, and that's what has happened.

MR. GREEN: And that's the $750,000.00.

MR. MOORE: That's the $750,000.00.

MR. GREEN: Now I'm asking you in accounting terms, is it analogous to the reverse situation? If you've never depreciated a building of if you had been depreciating it for, let us say, income tax purposes but the value of the building has really not gone down but has indeed gone up, that if you suddenly wanted to reflect it you would have an extraordinary gain by virtue of reversing that depreciation and putting it in at its present day value. Would that be analogous?

MR. MOORE: Mr. Chairman, the Institute of Chartered Accountants would not accept that. However, if you were to refer — and I don't have a copy with me, I don't think — to last year's financial statement, you will see that there is a note in that statement that says that the company's properties were worth somewhere in the region $1.5 million more than they were actually on the books at.

MR. GREEN: I am not impressed that much with the Institute of Chartered Accountants not wanting it. What you're telling me is that fixed asset which we showed, $644,000, are worth $1.5 million and despite the fact that the Institute of Chartered Accountants says that you write $1.5 million at $644,000 if I was considering my value of it I would say $1.5 million, and damned the accountants. Now is that $644,000 worth 1.5 million? Well, I'm asking — you just said it was.

MR. CHAIRMAN: Mr. Mazer.

MR. MAZER: That's right, it's basically the marketplace to determine what those assets are worth. We did have an instance in this current fiscal year that could well be reported on later where we have disposed of a piece of property where the book value in actual fact was in excess of the realized value, so that it was the reverse of what you are referring to now and it all ultimately amounts to what the marketplace says. As far as comparing a fixed asset such as a building with things such as obsolete inventory or expenses that have been carried in a different fashion in the past, I wouldn't equate the two in my own mind.

MR. GREEN: In my mind if I was the owner of McKenzie Seeds and I happen to be one-millionth an owner of it, I can look at this statement and say, yes, but I know those fixed assets which are shown as 644, if I wanted to sell them, then my best knowledge about market value is 1.5 million. Is that right? I can calculate that in my head and therefore this extraordinary item of $750,000 which the bookkeepers have seen fit to show as an extraordinary loss, if I wanted to I could offset that in my mind by knowing that my building is worth 1.5 million. That's more than $750,000.00. Is that correct?

MR. MAZER: I suppose you could in your own mind if you are valuing the company for your own purposes. But what we are looking at as the board and as management, we're looking at the operations of the company and trying to make adjustments to, so to speak, clean the slate as far as evaluations of our inventory and other operations.

MR. GREEN: Right. Then what you have done and I am valuing it for my purposes and for the other 999,000 people who are equal partners with me. I say, yes, the bookkeepers have told me that I'm to reduce my income by $750,000 because of an item but during the same years that has been happening, my building has been going up and it's more than offsetting that particular item in my own mind. Would that be fair?

MR. MAZER: I couldn't comment. That would be your own interpretation.

MR. GREEN: All right, you as being one of my partners, since you are a resident of this province, am I wrongly coming to the conclusion that I have a building shown on the books at 644 but which is worth 1.5 million? Fixed assets, it's not a building but the entire fixed assets.

MR. MAZER: Well, I'm not too sure what the president referred to earlier in the way of value. Like there again, values are such nefarious items, you can certainly want to interpret it that way but it would be very much to what you'd want to put those assets to. Whether the assets are worth that much, for instance, as a going concern as opposed to pure real estate value or personal property value would change the valuation very easily, one point of view to another. That's all I'm saying.

MR. GREEN: Mr. Mazer, I didn't advance that figure, it was advanced to me. Your president said that last year and the chartered accountants now advanced it, not me. If we're going to believe in the chartered accountants and I believe my chartered accountants, he said that last year there was a note showing that the fixed assets were worth 1.5 million. So if I have a note showing that the $640,000 represents a depreciated value and if I'm trying to figure out what my total situation is, is it fair that I know that the fixed assets have been looked at, at being worth $1.5 million and I can consider that. If I was selling it, I would consider it, would I not?

MR. MAZER: Yes.

MR. GREEN: So that takes care of half of this extraordinary item, if I'm trying to figure out my bottom-line position. Now the other half you say, is a failure to recycle packets where there was going to be a price increase and therefore — and I'm trying to make sure that I know what you are saying — that if a thing said 30 cents on it and it's going up to 50, that package wouldn't be sold and $750,000 has been written off in that way?

MR. MAZER: Yes, again, I'll refer this question to Mr. Moore who could explain it from an operation's point of view.

MR. MOORE: Yes, Mr. Green, Mr. Chairman's understanding is correct. Packets in Canada, indeed, throughout the world are sold on consignment. In Canada specifically there's a federal Act that almost makes it impossible to sell packet seeds any other way and, of course, when they are brought back if they are going to be recycled the packet itself would have to be destroyed if indeed there was a price increase coming in future years. So those packets that empty or filled were destroyed.

MR. GREEN: Well, how much did you make on this price increase?

MR. MOORE: The price increase, Mr. Chairman, of course, goes on for virtually all time.

MR. GREEN: I know, but how much would you make on the price increase on the ones that you destroyed? In other words, you had packages with 30 cents so you destroyed them; you charged 50 cents for the same number of packages. How much did you make on the price increase?

MR. MOORE: First of all, Mr. Chairman, the price on the packet if we use Mr. Green's figures said 30 cents, right? —(Interjection)— We'll just use your figures and we sold them for 50 cents. Those would be retail prices you are talking at for a start. They are just kind of dying of course to the retailer and of course we don't sell them all; we only sell every other one; there's roughly a 45-percent return factor. So the price increase was such that the company would more than recover, over the anticipated two-year life period of the new prices, would more than recover the cost of destroyals.

MR. GREEN: More than recover.

MR. MOORE: Yes.

MR. GREEN: Now can you tell me what would have been the situation if you left these seeds in the same packages and had them go out at the 30-cent figure and let the consumer have a bargain on that 30-cent package and have the price increases go out at the same time so that people who happened to catch the old package were able to buy it at 30 cents and the people who didn't catch an old package paid 50 cents, how much money would you have lost?

MR. MOORE: Substantially more than the 100,000 we lost from operations and we would have lost money again this year.

MR. GREEN: You've lost 750,000 on the . . .

MR. CHAIRMAN: Mr. Green, could I just bring to the attention of the Committee that the question should be addressed through the Chair. As past experience will show if you come through the Chair both ways then I think everything if on fair ground?

Mr. Green.

MR. GREEN: Without saying, Mr. Chairman, each time I am now giving you notice that every question that I ask is directed through to you. I am asking you, you said that you would have lost more than $100,000 which is what we've lost this year after taking off all of the normal expenses and interest charges. You said if we had done what I said you would have lost more than $100,000.00? Would you have lost $750,000.00?

MR. MOORE: Over the period of the two years, Mr. Chairman, most certainly more than the $750,000.00.

MR. CHAIRMAN: Mr. McGill or Mr. Green, if you're still a sequence of the . . .

MR. GREEN: No, I'm continuing, Mr. Chairman, I'm sorry. I would very much appreciate it if the gentleman here would give me, if I may get it, an analysis to show me that by leaving it in the old package and not destroying it, permitting it to be sold at the face figure and changing all the new prices in any event, and presuming that all of those packages or the normal number were sold of the old packages and the new packages the normal number were sold, I would appreciate very much receiving an analysis to show me that you would have lost more than $750,000 which you are now saying. Would that be possible?

MR. CHAIRMAN: Mr. Mazer.

MR. MAZER: Possibly to clarify the point on the handling of those old price packets. It's normally, in fact, they haven't in the past stayed out in the marketplace by reason of the consignment type of sale procedure that the seed business goes through. The seeds are not like one would look at in any other product, whether sporting good or whatever, that go out and then are the property of the retailer to dispose of as he sees fit in accordance with the prices he's paid. With the consignment nature of the seed business the seed goes out and if it is not sold then it is returned to the company and there is a cost entailed in returning it to the company. Then there's an additional cost if that seed is recycled to repack and resort and ship out that same seed again. In the instance where we're referring to that old price product and having it sort of put on sale in the marketplace, it simply would not have fit into the type of operations that both McKenzie's and the retailers who buy from us follow. So it would have been totally out of character to have left them out there and been disposed of. That just doesn't happen in a normal course of operations. In addition, we took into account that by reason of the size of the price increase that a fresh issue of new product would more than compensate at the new prices for the cost of recycling the old product. If you would like to expand on that Mr. Moore.

MR. CHAIRMAN: Mr. Moore.

MR. MOORE: Mr. Chairman, to answer Mr. Green's question specifically. I do not have an analysis here but I can assure the Committee that a very detailed analysis was completed; right? And was gone through with the company's auditors and indeed has been reviewed by the Provincial Auditors in reviewing the company's operations from time to time and that analysis showed that the action the company took was the most beneficial to the company's operations.

MR. GREEN: Mr. Chairman, I would like very much to have that analysis and I wonder whether it could be forthcoming. There's no requirement on it but I am interested and I wonder whether it would be available to me.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, I think, Mr. Green, it might be helpful to Mr. Moore if he could be more specific about his question.

MR. GREEN: Mr. Moore understood my question. I believe that Mr. Moore understood my question entirely and gave me the answer that there was a thorough analysis gone over with the accountants, gone over with the Provincial Auditor showing that to eliminate $750,000 worth of inventory and packaging and having a general price increase, it was more beneficial than dealing with that package goods on the basis of ultimately selling it out and increasing the price in the meantime. He understood the question, I believe and I've asked, could I get the analysis? —(Interjection)— Whoever. He said the company accountant and the Provincial Auditor, that's what he said.

MR. MOORE: Mr. Chairman, it's not of course for me to hand out internal memorandum that is really made for the Board of Directors and certainly if the Board of Directors wish to pass the information on to Mr. Green I would have no objections, subject to total and complete assurances that information was not going to become a public document. I mean we have to remember that we are operating out there with 19 competitors and it's really not in the company's interest to distribute internal documentation.

MR. GREEN: Mr. Chairman, I don't believe I'm asking for something which is dealing with competitors or is dealing with something that we are going to be in competition on the market with. The company made a decision that — and by the way according to this memo it's not $750,000, it's 1.5

million — and your auditors if it's not a 1.5 million then they should be more careful because I will read you Note No. 9. I am a shareholder of this company and the people of the Province of Manitoba are shareholders of this company and at a shareholders meeting it says "extraordinary items and the extraordinary items shown on the balance sheet is $1,480,000.00".

"In order to facilitate a general price increase the company destroyed all the old price commission packets, the cost of which has been reflected in the 1980 financial statements in keeping with the policy established in the previous year". It says nothing about any other item except the destruction of these packets. If I were reading this as I read the English language, that's $1,500,000 and I as a shareholder would be entitled to know that there was an analysis done — and don't forget we've done an extraordinary thing — it's an extraordinary item and it's an extraordinary thing. We've taken good things and destroyed them. I say I want to be certain that having put those things on the market and let them be sold even at the old price and what Mr. Mazer has described is not an extraordinary item because he said we never sell them all, they come back. He said that the normal practice is that they're out on consignment, they come back and that happens every year, that's not an extraordinary item; that's a normal item. But this time he said that they weren't recycled, they were all destroyed and I still read that as $1.5 million. Now, Mr. Moore has told me that the auditors have not told you the truth, it's not $1.5 million. Mr. Chairman, he says that 750 of that has not to do with the old price commission packets.

MR. MOORE: Mr. Chairman, a financial statement, you cannot take one note out of it and read it on its own, you have to read all the notes together. There are other notes there that point out that there were applications of overhead to inventory changed as well. There is more than one change included in there. There are general notes that apply to the whole statement and then there are specific notes that apply to specific parts of the statement.

MR. GREEN: Mr. Chairman, I have read balance sheets and I have read accountants statements and I have read notes and I have no difficulty in saying extraordinary items Note 9 — $1,484,000 — Note 9 which is identified as being that item. "In order to facilitate a general price increase the old packets were destroyed" and I'm entitled to attribute that extraordinary item Note 9 to that inclusion. If the auditor was intending that extraordinary item includes more than that he could say, and other items, except I would then think that is the bulk of it, it turns out that you're now telling me that half this item, a full $750,000 is not attributable to the destroying of packets and that the extraordinary item is — and I say it without any difficulty — improperly identified. Now I want to say that if it's $750,000 that we've destroyed of seeds, rather than have them go out to the consumer at the old price which is what we've done in order to make money, then I want to know that we made money by doing it. I know that we lost $750,000.00, how much did we make?

MR. MOORE: Mr. Chairman, I again say that the cost of replacing right? Or the cost of destroying the actual cost of the packets and the seed was $750,000.00. The rest of the money, the write-off of $1,484,644 includes not only direct costs but overhead costs which have built up over a period of years under the previous method of costing as indeed is mentioned in Note 2, Application of Overhead and Inventory.

The system has now changed whereby no more than one year of overhead allocation will be included in inventory at any one time. This new system allows for the write-off of one year's overhead every year through the cost of sales. It also means that when obsolete inventory has to be destroyed in the future, only the direct costs will have to be provided for. $750,000 were the direct costs, $750,000 were the indirect costs that had been attributed to that inventory. If it hadn't been attributed to that it would have been to something else; that's just a means of allocating your overhead and it happened to go to those things.

MR. GREEN: Mr. Chairman, Note 9 dealing with an item of $1.5 million as shown on the balance sheet — not Note 5 but Note 9 Extraordinary Items — "in order to facilitate a general price increase the company destroyed all the old price commission packets, the cost of which has been reflected in the 1979-80 financial statements in keeping with the policy established in the previous years", that note comes out to $1,480,000.00.

MR. MOORE: Mr. Chairman, again Mr. Green asked what was the value of those seeds. What was the cost that we threw in the garbage? The cost that we had to spend to replace those if you want to take it that way, was $750,000.00. The other $750,000 are the normal overheads that are distributed to inventory in general which would amount to $2 million a year but 750,000 happened to be distributed to the packets that we had thrown in the garbage and that won't happen again. The system we have changed is that one year's overhead will go out with the cost of sales.

So you have to read Note 2 along with Note 9. Note 2 is a general note to do with all of the inventory. Note 9 is specific to that part of the inventory.

MR. GREEN: Yes, Mr. Chairman. I understood what Mr. Moore said and I say that the note is not correct; that is my view and I'm not going to argue with him. He then indicated that at $750,000 my request was, would the company show me that the analysis shows it was better to destroy rather than have these things go on the market and gradually find their way to consumers at perhaps say at bargain price even with the new price increase coming in, that you would have lost more money doing that than the $750,000.00. That was my request.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: I just want to make one point, Mr. Chairman, in that Mr. Moore is being put in the position of defending a report that has been put together by the accounting firm, Meyers Norris & Penny. Also it's taking that course now, Mr. Chairman, where Mr. Moore is being really requested to explain why an accountant says something a certain way and he's doing an interpretation on behalf of the accountants that presented it.

I think if there was some way that the corporation could address Mr. Green's question in a general way without compromising their position in relation to their competitors in the field that in some way if that was possible to be done, then perhaps that could be given consideration by the board.

MR. CHAIRMAN: Mr. McGill has been waiting for quite some time. Mr. Mazer.

MR. MAZER: Yes. On that point we certainly will make a confidential report available to you.

MR. GREEN: I must say, Mr. Chairman, to the board that I am an owner of this company and I don't want to help my competitors. As distinct from the previous partial owners when I was in operation who did want to help the competitors and drive the company out of business. I am interested in this company making money. I'm an owner. I don't want to help the competitors. So if there's anything in it which will help the competitor I don't want to see it.

MR. CRAIK: Well, Mr. Chairman, just for clarification purposes if an assessment is going to be done and reported back it should be a public document if it's coming back to a member of this committee because this is a public committee.

MR. GREEN: If there is anything that will help the competitors, as distinct from save face of the present management, I don't want it. But if you're just trying to have present management save face that's not something that I'm concerned with, nor was I concerned with previous management saving face.

MR. CHAIRMAN: Mr. McGill.

MR. GREEN: No, Mr. Chairman, I have some questions. Mr. Chairman, I waited a considerable period of time while somebody else was questioning, you didn't interrupt that person. I have some pertinent questions.

Mr. Chairman, dealing with the equity position, it is indicated by the board, in answer to Mr. Evans, that an improvement in your equity position would improve the operations of the company. Now, my knowledge of these things is that the way you improve the operation of the company is that you increase sales and you reduce expenses; that there is no way of improving the operations by taking capital funds that are loans and turning them into equity; that the operations will be exactly the same.

MR. MAZER: Well, there is no question that the operations are sales as opposed to cost of sales in the operations and overheads that fall in between and most certainly I believe that current management and the board is most concerned about that part of the business. Our resolution, as I maybe incorrectly inferred earlier, was not to say that the operations would change but that like any other business if our debt load was lesser than it currently is and our interest payments monthly were lesser than they currently are that would free up more ready cash both for current operations, development projects and so on and in that sense is the way I meant it if it wasn't said that way.

MR. GREEN: Thank you, Mr. Mazer. If I am the shareholder and I say to you don't worry about your cash advance position, if you need more money we will provide it and you don't have to worry about the cosmetics of your balance sheet, will your operations be just as satisfactory if I tell you that don't worry the debt is being looked after and your cash needs are being looked after and I'm not worried about the cosmetics of your balance sheet. Is there any point in changing loan to equity?

MR. MAZER: As far as items such as sales go, cost of administration of the business and so on and the overheads applied to the operations I would say I agree with you, no, there wouldn't. But it would, as I have mentioned, assist in carrying out renovations, projects and otherwise taking advantage of special buys which are important in the seed business, as in any business, and having that ready capital to do it and that's the only difference.

MR. GREEN: Mr. Chairman, I've asked you Mr. Mazer if I told you that for those purposes you will be given more capital so that you needn't be concerned with whether it's available, would it make any difference? Would you carry it as a loan or equity and the company needn't look at those things?

MR. MAZER: Just as at present the company is carrying along under its current debt load.

MR. GREEN: So, provided that the backers, who are the people of this province, were not concerned then the change from capital to equity, if it's the same backer, would be cosmetic and have no other effect?

MR. MAZER: No effect as far as their equity position other than the company's position as to how much they must pay out monthly in the way of interest charges semi-annually or annually.

MR. GREEN: Mr. Mazer if I am one of the backers, together with 99,000 other people, and I say that if I change this 3 million loan that I've given you to equity and then you don't pay interest to me but I then pay interest to the bank, are we not exactly back in the same position?

MR. MAZER: I would say yes.

MR. GREEN: Financially nothing has happened except the entries have been made in a different place. Isn't that correct?

MR. MAZER: That could be said yes.

MR. GREEN: So that your job as a board, provided that you know that you're not being squeezed by your backers and that they will facilitate loans and I'd be very interested to know if they don't facilitate them because then I will raise hell about that, but your job is to improve your sales position and keep your expenses as low as possible and if you did that then the change from capital to equity needn't have any effect on the company. Is that correct?

MR. MAZER: As far as the management and the board goes that is correct.

MR. GREEN: Now, Mr. Craik has told you that only a Crown Corporation can do this, to operate with this type of balance sheet. Is it a fact, Mr. Mazer that from your knowledge of the private sector, that it is not uncommon, indeed it is very common, for the backers to provide interest-free equity to the extent of at least 40 percent, or that 40 percent would not be a large figure, and that many many private companies operate on interest-free capital to the extent that it's equity capital with its backers depending on the growth of the business rather than on getting interest back immediately. Is that correct from your knowledge of the private sector?

MR. MAZER: That's certainly part of the system that equity capital is provided. As to in what proportions and so on, well that varies with each instance, yes.

MR. GREEN: And that therefore this company, rather than standing up as having an advantage, rather than having advantage as being a Crown Corporation, has been placed under the most stringent financial position possible, namely, that nine-tenths, fully nine-tenths of its operating capital is in the form of shareholders or other advances with very very little equity and that is not the position of most private corporations. Is that correct?

MR. MAZER: The current proportional debt load on the company is not normal.

MR. GREEN: For instance, as distinct from my holdings in the, well let's take one that everybody knows about — Inco. When I buy shares in that company they pay me no interest on the shares; they pay me a dividend if the company makes money. But when I buy those shares I'm depending on the strength of the company and its possibility of growing and paying dividends ultimately and I get no guarantee of any interest on my shareholdings, isn't that right?

MR. MAZER: That's right.

MR. GREEN: But in this company the shareholders have advanced money to the company only on the basis that they get interest every year immediately and that's a very difficult obligation to put on a company. Is that not right?

MR. MAZER: As I mentioned it strains our cash position sometimes, yes.

MR. GREEN: As a matter of fact if you will look at another company in which the Crown holds the shares, in connection with Churchill Forest Industries, $52 million in capital was written off so there is no interest payable on that. Another, I would think at least 50 million was changed to share capital which meant that over half of the capital advanced was shown as non-interest equity in the company and it still loses a lot of money and the directors continue to come back and refer to a cash profit. Now, if you had operated that way — because they call a cash profit before the payment of interest charges — this Crown Corporation which reports to the people in the same way keeps talking about the cash profit that they earn and they calculated that by saying that before interest charges, that on that basis, if we take it before interest charges, the company earned a cash profit of $1,296,000 without any capital in the company. Isn't that right?

MR. MAZER: That's correct.

MR. GREEN: Some people say that Churchill Forest Industries, you know, I hear polititians of another stripe saying that Churchill Forest Industries is making a profit. But your company without any capital in it has made $1,296,000 on that basis. Is that not correct?

MR. MAZER: That's right.

MR. GREEN: Now, if the same consideration was given by the Conservative government. Excuse me, by the New Democratic party government, by the auditors, contrary to our wishes but if the same consideration, if they changed $5 million of this shareholders advances to equity then I suggest to you that this company would have made, not a cash profit but an operating profit almost every year of its operation. Is that correct?

MR. MAZER: Not necessarily. Again there have been many special provisions and write-offs over the last number of years and it's difficult to judge as to when a profit would have actually been made or not been made on that bases. But talking about this particular year we've already referred to what we paid in bank charges both to the bank and to the MDC and it can be deduced what the position would have been in the way of interest costs had we not been paying a certain portion of that.

MR. GREEN: Mr. Chairman, Mr. Mazer, I can recall only one year, and you will correct me of course if I'm wrong and I certainly could be, in which our losses have exceeded half a million dollars. I can only remember one year and I believe that was last year. I'm talking before extraordinary items. Would that be correct?

MR. MAZER: I don't have the past figures in front of me but Mr. Moore indicates that his recollection is that it would be a correct assumption.

MR. GREEN: I'm correct and therefore if we know that $500,000 a year could have been saved by bookkeeping entries and interest charges then, given the standard of normal private operations, this company has made money every year except one year.

MR. CHAIRMAN: Mr. McGill.

HON. EDWARD McGILL (Brandon West): Thank you, Mr. Chairman. I just wanted to ask either of the representatives of the company whether they are satisfied that as a result of the extraordinary adjustments that were made that the inventory, as represented and as valued in the financial statement, is a true value according to accepted accounting principles, not necessarily the principles that are accepted by all members of the Committee, but at least those principles that have applied for many many years in the production of financial statements. Are you satisfied now that inventories which previously, I gather, had accumulated a certain amount of water by reason of the way in which inventories were valued previously in statements, that this has now been brought to a very realistic inventory value in the current statement? Is that essentially so?

MR. MAZER: Yes, I think the board is quite satisfied with that proposition.

MR. McGILL: What we're looking at here now and from this date forward probably will be a very real value of inventory I assume at cost or market, whichever happens to be the lower, and that your fixed assets are valued in the same way and that they don't vary from time to time as perhaps markets for buildings may vary? Is that essentially the case in respect to these values?

MR. MAZER: Yes, I would agree with that.

MR. McGILL: Mr. Chairman, just on one other matter. There were announcements made with respect to improvements or did you say replacements to your plant in Brandon. I wonder if perhaps Mr. Mazer could just give us a brief description of what is intended in respect to the Brandon plant in the way of improvements or replacement.

MR. MAZER: The primary capital outlay or project that the board and management were concerned with was the sizable freight elevator that is in the old section or the old building of the McKenzie Complex. It's an integral part of the physical operations of the plant, dates many years back and was due for replacement. As opposed to simple repair, it had basically run its life course. So that is the first item that is being done at approximate cost $125,000 which will be a brand new elevator and should serve the company for many years to come.

The second portion of the spending will be toward fixing in a functional way the roof and portions of the building that again were ready for repair, nothing in the way of dire need, but the roof again would require some repair over time. So that is being done and in the process a general facelifting of the building, the exterior, brick-face and so on, glazing of the windows, etc., will also be done for another approximate $100,000 cost.

MR. McGILL: Mr. Chairman, with respect to this super structure of the old original plant which has been a landmark in the Brandon area for 80 years or so, I wonder is it intended to remove that? I gather that it's no longer functional and has not been functional since the company got out of the field seed business. Is that correct and do you intend to remove that top structure?

MR. CHAIRMAN: Mr. Mazer or Mr. Moore.

MR. MOORE: Mr. Chairman, that top structure in the building was last used about 1969 or 1970. It was used at one time after the company went out of the field seed business to produce an animal feed mix under contract for an eastern operation where the blending was done in that plant. Part of that feed mix included salt and the salt has caused some corrosion in the rafters up in that area. At some time in the future that structure would have to be taken down and it is really better to do it now than to turn around and reskin the structure and then 10 years from now have to take it down because of corrosion.

MR. McGILL: Gentlemen, I'm not clear. Did Mr. Moore say that they intended to remove the structure this year?

MR. MOORE: Whether it's actually done this year or not, we now have the approval of the shareholders to go ahead with that work. It is out for tender and the board has not specifically approved that portion of the work as yet.

MR. McGILL: Mr. Chairman, can I ask Mr. Mazer or Mr. Moore if any consideration has been given by the board to a return to the field seed business? Are there any opportunities now in the field seed business which have not apparently existed over the past decade or two?

MR. MOORE: Mr. Chairman, the present management of McKenzie's is totally unqualified to be involved in the field seed operations. It's really a type of industry that one has to almost grow up into and it's a type of industry whereby brokers buy and sell the same field of grass seed or grain many many times and it's not the type of business that we're in. Management certainly has no intention of suggesting to the board that we get into it.

MR. McGILL: One final question, Mr. Chairman. With respect to the physical assets of the company, I gather and you have explained and described the changes and repairs that you intend to make to the present plant, is there any intention or any consideration being given by the company to any additional plant area or building area in the Brandon region?

MR. MAZER: Annually, the company does undertake to rent warehouse space within the City of Brandon as we do at other major points in our operation. At this point in time the board has just recently given approval to finalize negotiations in the rent of a particular building in Brandon which at this point in time I couldn't name. But that's right, we would be renting that on a standard lease basis.

MR. McGILL: Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Evans.

MR. EVANS: Thank you, Mr. Chairman, just on this matter of $225,000 worth of repairs that are obviously needed, where does the company expect to find this money precisely? I wasn't clear on the Chairman's earlier answer. How are you going to find $225,000 and I state this question because I'm rather concerned about the Chairman's earlier remarks about a tight cash flow situation and obviously the phenomenon of very high interest charges and high interest payments. Just how are you going to manage to handle that $225,000.00? Because when I first read the statement, I thought well, the government's giving the company a grant and fine, you can proceed, sort of like a DREE grant sort of thing but this is not the case. So how are you going to finance that?

MR. MAZER: The sales of the company we anticipate this year will be very favourable. So far they are materializing quite well and of course a good deal of cash flow is generated from payments both coming in now and that will be coming in later. Our cost of production to a great extent for this current fiscal year is behind us and now to a great extent it will be a matter of realizing a positive cash flow and to the extent that it is possible, these renovations will be financed from that cash flow. If the cash flow is insufficient to cover that, then additional borrowings would be required in which case we have additional MDC guarantees to cover those additional borrowings.

MR. EVANS: The estimate of profit that you referred to in your statement for next year — you make a reference to a better profit position and so on — what rate of interest did you use to make that statement? Because what I'm suggesting is of course if the rate of interest in Canada rises even more extraordinarily than it seems to have in the past, if it becomes 21, 22, 23 percent, it could happen, it happens elsewhere in the world, would that wipe out our profit? But to get back to the specific question, what rate of interest are you assuming? No changes in interest rates or what?

MR. MAZER: 18.5 on the average we've estimated in our current budget and, yes, in accordance with the current trends it appears that interest rate may not be available in a short time and of course anything in addition to that amount and, again, knowing our current debt structure one would be able to assume that amount would come out of expected profits for the year.

MR. EVANS: Therefore if the average rate of interest did exceed the 18.5 percent anticipated in your projections, then your profit situation would obviously deteriorate. But as Mr. Green has pointed out and as I have over the years, when you look at the sales figures, when you look at the expenses of operation and you see the fair amount of profit that has been earned before interest, I would come to the conclusion that it is on an operational basis a viable entity. I note that the Provincial Auditor's Department has been involved. There was some reference by the Provincial Auditor it seems to me in his last report on the company and I wondered if the Chairman could comment on that. Has the Provincial Auditor passed any judgment on the viability of the company because there has been some considerable debate on whether it has viability, whether it should be sustained by government or sold and got rid of sort of thing?

MR. MAZER: My recollection of all the readings of the various Provincial Auditor's studies and reports to the company have not included a conclusion regarding its viability. For the most part, the kind of studies undertaken by the Provincial Auditor very much centre around management systems and so forth. It's, again, the viability of the company as an asset value or whatever, no conclusion has been drawn that I can recall now, unless you came up with anything different, Bill.

MR. MOORE: Mr. Chairman, the Provincial Auditor in his written report to the Legislature — I guess the last one which he presented — indicated that he felt the company was viable. Of course, the new discussions that we have had with them are of a type as Mr. Mazer suggests and he has not made any comment on at all in his most recent letter to us about its viability.

MR. EVANS: Well, this is what I was referring to. I recall reading the Provincial Auditor's Report which is tabled in the House each year and there was a reference to McKenzie's. I was rather surprised because Meyers Norris & Penny have been the auditors all along and the Provincial Auditor has not been actively involved to my recollection. But be that as it may I was rather pleased from what I recall but I wasn't sure exactly what the statement was but it seemed to be favourable with regard to the ability of the company to sustain itself in a commercial way.

I'm also interested in the Chairman's remarks about refinancing could perhaps help the cash flow position. I have been a proponent of refinancing, not necessarily because that's the only way to save the company, because I think the company is basically viable, but I felt that refinancing would give the company some additional scope of action so that you could perhaps look towards more diversification and additional work, additional jobs for the city. I wondered if the Chairman could comment on that. Is there an opportunity because the report does talk of product development, new marketing approaches and so on, is there a possibility if you had additional capital with which to work that you could engage in further activities that could lead to a greater presence in the City of Brandon, that could lead to a larger company in the province?

MR. MAZER: At this point in time, we've not been constrained in any area of our projects or operations by reason of a lack a cash. I suppose again the Board of Directors and management simply look upon the area of refinancing as allowing a little more freedom in the area of the handling of cash and various projects and special purchases and so on. But to this point unless management could give me an instance, I'm not aware of any instance personally where we have been constrained or prevented from following any particular course or project by reasonable lack of cash.

MR. EVANS: The company therefore has no plans for additional work or additional product involvement which would involve greater sales which would involve perhaps more employment in the company?

MR. MAZER: We are always looking to expand our sales numbers and market penetrations and so on but for the most part I think we view the area of sales as self-financing. If you can go out there and create a little bigger market then you create a little bigger cash input from that expanded market and that's the way we have been approaching it.

MR. EVANS: Yes. I'm basing this on some statement I read at some time but I was under the impression that there was an opportunity for additional expansion by the company and past statements have alluded to certain new products and market development and so on.

In that respect are there any developments? Are you attempting to sell outside of Canada? Obviously you're sustaining the competition not only from the so-called small regional companies but from the American imports. It seems to me that's maybe your greatest area of competition from what I recall is always the potential threat of American imports.

MR. MAZER: For the most part again I think the company, both management and the board, are proud to say that we are maintaining our position well within Canada. It is a common fact that Ferry-Morris one of our major competitors in the eastern market left the market over the past year which opened up a new area of sales development for McKenzie Seeds. Otherwise, I can say that we are always looking at new markets or sources of markets but that anything we are considering right now would be, in the competitive sense, confidential and only to say again we're working in various areas concerning sales.

MR. EVANS: I guess then getting to the matter of refinance then the Chairman has given us an explanation but he's at the same time agreed with Mr. Green that basically it wouldn't change the operation; that the operation has to stand basically on (a) the ability to sell and the revenues derived from those sales and (b) the ability to contain expenditures so that the expenses of operation are below the revenues received so that you end up with operating profit as the company has, in most years that I can remember, and that even though the interest is there making for a negative bottom line, making for a net loss, that as long as you have the backing of the shareholder that in effect it's not negative on your operations. This seems to be a consensus that the Chairman arrived at with the Member for Inkster.

But it seems to me that there is a need for refinancing based on some other comments made, that I think the Chairman made, giving the company more flexibility. But perhaps also from the point of view of the public perception of the company which I think is also important being a public company because people seem to have the impression that it's a dead loser because it shows losses every year, whereas CFI — I've had people say oh CFI makes money now. But as the Member for Inkster can tell you it was over $50 million written off and then another $50 million were changed from bonds to shares. The Chairman of CFI or ManFor can come here and say look we've made all this money this year and the bottom line is black and that's good for morale and so on. I think if nothing else there may be an argument for refinancing for the morale and the public perception of the McKenzie Company.

At any rate I just want to say, in conclusion, unless perhaps other members have questions, that I want to congratulate the Chairman of the Board and his board and the management and all the employees for doing a fine job. You are a very important company in the Province of Manitoba and obviously a very special company in the City of Brandon. I want to wish you well in the year ahead and I hope that your projections of profit will come true and that we will be sitting here a year from now looking at some black figures. Thank you.

MR. CRAIK: Mr. Chairman, it seems that we're pretty well wrapping up here unless there are further questions. In that event I want to extend my thanks to Mr. Mazer and to Mr. Moore for their presentation here today. Mr. Mazer has come on as the Chairman within the last year, he's been there entirely during the period that I've been the Minister reporting for the corporation. I have to say that the corporation is showing some encouraging signs at the present time but I'm reminded of the fact that hope springs eternal at McKenzie Seeds and it has shown signs before and signs look even a little better this year. I wish your board well and I want to than them for their contribution of time and effort that's going into McKenzie.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Do you need a motion, Mr. Chairman, that report be received?

MR. CHAIRMAN: Yes. It would be proper.

MR. McGILL: So moved.

MR. CHAIRMAN: You've heard the Motion. Agreed? (Agreed).

Committee rise.