Legislative Assembly of Manitoba

HEARINGS OF THE SPECIAL COMMITTEE

ON

ECONOMIC DEVELOPMENT

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

10:15 a.m., Thursday, April 17, 1975.

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ECONOMIC DEVELOPMENT COMMITTEE
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CHAIRMAN: Mr. H. Shafransky.

MR. CHAIRMAN: Order please, we have a quorum. . . . with the report from the Manitoba Development Corporation, and Mr. Parsons you are on.

MR. PARSONS: Mr. Chairman, gentlemen, the Clerk is giving you further information on our investment companies. Before we get into those there were some questions from the last committee meeting that I took as notice and I think I would like to clear those before we get into our company statements.

Mr. Spivak had asked me what companies had gone into bandruptcy. Actually there was only four companies that went into bankruptcy and they were all with the Churchill Forest Industries Complex. So there were no other bankruptcies since our statement.

Mr. McGill had asked me for an up-to-date statement outlining the dates in advance as under Part I and Part II of A.E. McKenzie. I now have that, approved under Part I, December 22nd, 1971 there was a bank guarantee of $2, 300, 000; March 14th, 1972 a bank guarantee of $1 million; December 1972 there was a bank guarantee of $1 million; February, 1973 bank guarantee $1 million; March '73 a bank guarantee of $300, 000; February '74 a bank guarantee of $700, 000, for a total of $6, 300, 000 under Part I. Under Part II, July '74 a loan of $1 million; December '74 a loan of $1 million; and February '75 a loan of $1 million, for $3 million approved under Part II, for a total outstanding of $9, 300, 000.

MR. CHAIRMAN: Mr. McBryde.

MR. McBRYDE: . . . by the Chairman, he mentioned four companies who went into bankruptcy, all related to CFI. I have trouble counting four and I wonder if he could name them.

MR. PARSONS: There was Churchill Forest Industries Manitoba Limited, M.P. Industrial Mills Limited, River Saw Mills Company, and James Bertram and Son (Canada) Limited. They are the four in the complex.

MR. CHAIRMAN: Are there any other questions in the matter that was presented? Mr. Banman.

MR. BANMAN: I had asked a question, Mr. Chairman, of Mr. Parsons with regards to Microcom Electronics Limited . . .

MR. PARSONS: Yes, I haven't finished answering . . .

MR. BANMAN: Oh, I'm sorry.

MR. PARSONS: I've still got . . . yes I have yours, Mr. Banman. Mr. McGill I think that answers your question. I'll carry on.

Mr. Axworthy asked me a question on when the loan was made to Prairie Foundry and who were the officers at that time. The loan was approved by the MDC Board on October 5th, 1964, in the amount of $525, 000. All of the issued common shares, 600, were in the hands of a Mr. Max Freed, Mr. Max Schnier, Mr. David Corne. At the time the company was put into receivership on February 6th, 1974, Mr. Max Freed was President, David Corne Vice-President, Max Schnier was the Secretary but he had resigned on January 1974 and had not been replaced at the time of the bankruptcy. There was guarantors, ten guarantors in the amount of $10, 000 each, and they have all paid their guarantees. We have collected $100, 000. I don't think I need to give you the names of those, I wasn't really asked. Mr. Axworthy isn't here but I think that answers his question.

Mr. Banman, are there any other companies? - and he was referring to Microcom that appears on the '72-'73 statement, and all of a sudden we don't see what happened to them. I indicated at that time that there were no others such as that, and we have since checked that and there were no others. Mr. Banman asked me if he could have more information on Microcom and what the loss was. Microcom ceased operations as a result of their inability to penetrate their markets. Without the appropriate sales Microcom were unable to service the . . . The IDB is first mortgagee on the building called their loan and actually locked the company out at that time. At that point the principals ceased the operation - no receivership was involved and no bankruptcy had been declared. We've attempted unsuccessfully to negotiate payment in full from the principals and guarantors. Statement of claims are now being issued. However, it is expected that we will probably lose $48, 000 as a result of the limited network of the individuals involved. I think that pretty well . . .

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Another question along the same line, Mr. Chairman. What about Omnitheatre? I notice that was the only other one that I could find that appeared on the '73 statement, and I can't find it in the '74 . . .

MR. PARSONS: Well that was all closed out.

MR. BANMAN: Closed out?

MR. PARSONS: Yes. I think I reported that a year ago, what we've done with the Omnitheatre one.

MR. CHAIRMAN: Okay. Then possibly we can proceed with the financial statement of Equity Investment Accounts presented to the Legislature Committee on Economic Development in '75, starting with Alphametrics Ltd. Is that right, we will? Okay, we can proceed on that basis.

MR. PARSONS: I think I'd like to on that basis proceed and go through each company individually and take the questions as we go through them. I think that probably will . . .

MR. CHAIRMAN: Fine.

MR. PARSONS: . . . be a little easier. All right? The Alphametrics account is moving along quite well and right on program. We have given you an up-to-date- sheet along with the statement showing the amount of investment and basically our comments on the financial statement. The company projected the losses that they have shown for the first two years. They are in the fourth quarter of '74, which is really the first quarter of their new fiscal period. They are right on their budget and they feel that they will achieve their 300, 000 in sales that they have projected for the 74/75 year, and that they will make a profit of somewhere over $40, 000. I think basically that's all I have to say on it. The statement is fairly well presented and well explained. Is there any question on Alphametrics?

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, through Mr. Parsons, when you indicate a profit of $40, 000 is that gross profit? Or are you . . .

MR. PARSONS: No, that would be net profit.

MR. MINAKER: On $300, 000 sales?

MR. PARSONS: Yes. That would be for their year ended in 1975.

MR. MINAKER: I wonder, Mr. Chairman, if Mr. Parsons could just briefly advise us what markets, you know, where these markets are that the company is selling to, with the product they have.

MR. PARSONS: I don't know where their basic markets will be. I'll have to take that as notice, Mr. Minaker, because I'm not positive where their large markets will be.

MR. MINAKER: It's just that, Mr. Chairman, we understand that they manufacture some type of photo-electric device and, you know, we were wondering . . .

MR. PARSONS: Yes. Scientific equipment, and I'll have to take that as notice.

MR. CHAIRMAN: Okay. Are there any more questions on Alphametrics Ltd? Mr. McGill.

MR. McGILL: Mr. Chairman, just on Mr. Parsons' comment that he anticipates a profit, a net profit of $40, 000 for this year: the accumulated deficit at the moment is $147, 245, so he's going to turn that around into a net profit of $40, 000?

MR. PARSONS: No, no. They will make a profit in the year, 30th of September, 1975 of somewhere over 40, 000, which will reduce that.

MR. McGILL: Oh, I see. We'll get back then to about $100, 000 deficit . . .

MR. PARSONS: Yes. A little less . . . yes, there will still be a deficit position, yes.

MR. CHAIRMAN: Okay. All right we can proceed to the next one, William Clare (Manitoba) Ltd.

MR. PARSONS: Yes. This company is still proceeding along the same budget. We went into it pretty thoroughly last year. There are no changes in this operation. It is still moving ahead on schedule with Rand McNally, the modules, the mathematical modules are on line and we have shown in the additional information sheet the projected publications. We have checked with Rand McNally and they're right on schedule. I don't think there's anything else. The statement is a year old but we've brought you up to date with the information sheet. As I say it is still a developing project and there are no revenues until the sale of the modules will bring in royalties.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Yes, Mr. Chairman, through you. I wonder last year I recall when

(MR. MINAKER cont'd) . . . . . we discussed William E. Clare that I believe one of the comments made was that the corporation felt that it was in the interest to try and maintain a publication industry in Canada, and I was wondering, Mr. Chairman, if Mr. Parsons could advise, has W.E. Clare proceeded to be involved in any further publications other than the present commitment?

MR. PARSONS: No.

MR. MINAKER: Would Mr. Parsons advise us how many permanent employees there presently are being employed by W.E. Clare in Manitoba?

MR. PARSONS: Permanent employees, really, the authors are really not permanent employees. William Clare is the only proposed time employee, the rest are on . . .

MR. MINAKER: Well, Mr. Chairman, where would Mr. Clare reside at the present time?

MR. PARSONS: He's still residing in Vancouver.

MR. MINAKER: The other question is: I believe there was an indication that there was a number of authors involved in the mathematics module; how many of these authors are presently residing in Manitoba?

MR. PARSONS: It's 12. Twelve of them.

MR. MINAKER: Yes, I think I read a report of that.

MR. PARSONS: Yes, there's 12 in Manitoba that they're using.

MR. MINAKER: Also, of the total dollars spent to date, I wonder if you could advise us what that figure is at the present time?

MR. PARSONS: Yes. It shows February 28th, 1975, the total is 1,424,599.

MR. MINAKER: How many of those dollars would have been spent in Manitoba?

MR. PARSONS: We haven't got that. I haven't got that but I'll develop that for you if you wish.

MR. MINAKER: The other questions, Mr. Chairman, are: Is W.E. Clare now sort of dormant, waiting to see what will result with the sales of the modules and the royalties brought back from . . . ?

MR. PARSONS: No, they're not really dormant. They're still developing the - they're still working on developing all these modules . . .

MR. MINAKER: What would that . . .

MR. PARSONS: . . . there's continuing work going on with the authors. Clare is co-ordinating all that.

MR. MINAKER: Then, Mr. Chairman, all of the modules have not been completed and have gone to press, is this correct?

MR. PARSONS: No. No, they're not all completed. The schedule - if you look on the information sheet that's been passed out - no, it's on the information sheet, not the statement.

MR. MINAKER: On the information.

MR. PARSONS: It shows you the schedule of the modules now. That's what Rand McNally are planning on the publication.

MR. MINAKER: The other question, Mr. Chairman, is: I wonder if Mr. Parsons could advise who the filmstrip inventory was sold to?

MR. PARSONS: It was an eastern firm. I don't have the name of that. We'll get it for you.

MR. MINAKER: I wonder if you could also check to see if it was the same firm that they had on commission sales . . .

MR. PARSONS: No, it wasn't.

MR. MINAKER: It wasn't, eh?

MR. PARSONS: No.

MR. MINAKER: The other question is: Is the MDC paying for the insurance on Mr. Clare?

MR. PARSONS: Well, William Clare Ltd. is. Indirectly, I guess they are paying it through the advances that we had put into the company.

MR. MINAKER: So that the advances going into the company are paying for the life insurance on Mr. Clare.

MR. PARSONS: Yes, which is assigned to us.

MR. MINAKER: How much is that costing per year, do you know?

MR. PARSONS: No, I don't.

MR. MINAKER: I wonder, Mr. Chairman, if Mr. Parsons could find that out; also how long a term is it, the life insurance?

MR. PARSONS: It's term insurance.

MR. MINAKER: Yes, I realize that, but I mean for how long a term is it set up for, five years, ten years?

MR. PARSONS: I'll find that out for you; I think it is a yearly . . .

MR. MINAKER: If I understand you correctly then, Mr. Chairman, through you to Mr. Parsons, then the salary of the staff today is primarily W.E. Clare, located in Vancouver and some part-time authors in Manitoba?

MR. PARSONS: No, the authors will be paid out of royalties. They're not being paid.

MR. MINAKER: So what would be the total salary, staff salary, at the present time then?

MR. PARSONS: I'll have to get the breakdown for you. Mr. Clare's salary is 24, 000. He had two other people during 1974. It was cut back as the program went on.

MR. MINAKER: And these two other people were located in Manitoba that were on last year?

MR. PARSONS: One was - looking after the office here. That has since ceased.

MR. MINAKER: Has W.E. Clare got any contractual commitments with any particular companies or people other than Rand McNally that we're committed to?

MR. PARSONS: No. There's only the one . . .

MR. MINAKER: No professional advisers or authors or anything?

MR. PARSONS: Well, there's a commitment to the authors in that they get paid royalties once the program is under way.

MR. MINAKER: Also, Mr. Chairman, I think under Schedule 1 there's indication of Printing, $135, 000. . . . to find that myself .

MR. PARSONS: Yes, B.W. Typesetters do most of that right here in Winnipeg.

MR. MINAKER: Yes. That's what my question was, where was this work done?

MR. PARSONS: Yes. That is done here.

MR. MINAKER: All the hundred . . .

MR. PARSONS: I can't tell you whether the total was, but the majority was done here.

MR. MINAKER: Then under . . .

MR. PARSONS: As a matter of fact as an aside to that, Rand McNally after seeing B.W. work have had the principals down there to do more work for them, they're sending work back up here that they were previously doing in Chicago, which is a plus.

MR. MINAKER: The other professional is under Schedule 3, the Printing - or correction, the Professional Fees - what was that for, or what does that cover?

MR. PARSONS: It's probably the legal and audit fee but I don't know. We'll have to get you a breakdown if you want that. Is it the $14, 000 you're referring to?

MR. MINAKER: Yes. I just wondered in general terms what that would have covered.

MR. PARSONS: The majority are probably legal fees.

MR. MINAKER: I see. There wasn't any professional fees for authors or advisers, or things like that?

MR. PARSONS: No, no.

MR. MINAKER: This would be more for the accounting and . . .

MR. PARSONS: No, probably the legal fees, and the majority of it will be that.

MR. MINAKER: Then my next question, Mr. Chairman, is that the $60,285 - I believe you've answered that, or partially - how many people would that cover?

MR. PARSONS: In '73 there were about five, William Clare being the largest one, and we had a man in Toronto working on the filmstrip at that time, too. As I say, that's been cut right back now. There's Mr. Clare and I think one girl on staff now.

MR. MINAKER: And she's in Vancouver.

MR. PARSONS: Yes.

MR. MINAKER: Yes. Okay. Thank you, Mr. Chairman.

MR. CHAIRMAN: Okay. Are there any further questions on it? Mr. Spivak?

MR. SPIVAK: I wonder, just on the question of the insurance whether we can establish whether Mr. Clare had an insurance policy which was then assigned, or whether it was part of the loan requirement . . .

MR. PARSONS: It was part of the loan requirement.

MR. SPIVAK: . . . that insurance be placed.

MR. PARSONS: Yes.

MR. SPIVAK: And can I ask you, is the premium being paid by the company, or is it being paid by Mr. Clare personally?

MR. PARSONS: I believe it is being paid by the company, but I am not positive and I will check that.

MR. SPIVAK: Yes. I don't know Mr. Clare's age, so - I don't know whether he's a young man . . .

MR. PARSONS: Mr. Clare would be in his middle forties.

MR. SPIVAK: Well, assuming that it's a term policy that we're talking about - we're talking about a substantial payment for a $700, 000 policy, Mr. Parsons - did the board when they provided this as a security requirement - I am assuming that that's what happened - did they consider this to be part of a subsidization for the development of this industry at all?

MR. PARSONS: I don't know whether you'd class it as a subsidization really. It is part of the expense of operating the business because they wanted him . . .

MR. SPIVAK: It's a common practice to have insurance placed on the life of the principal . . .

MR. PARSONS: Yes.

MR. SPIVAK: . . . then to have it assigned as security . . .

MR. PARSONS: Yes.

MR. SPIVAK: . . . but I don't think it's common practice to have the lender essentially provide the funds for that security, and I think that this is the unusual feature in this particular situation. Without knowing what the actual figures are it would seem to me that we're talking of probably a very substantial figure for $700, 000 of, I would assume, term insurance.

MR. PARSONS: Yes.

MR. SPIVAK: And I just wonder . . .

MR. PARSONS: Well, it was paid by the company. We lend the company money. That is basically what is happening in every case.

MR. SPIVAK: Yes I know, but the company starts out with essentially the Fund's money.

MR. PARSONS: Yes.

MR. SPIVAK: So the Fund is really securing this or protecting itself, but paying directly - the lender itself is essentially providing the funds for it . . .

MR. PARSONS: Yes, it is.

MR. SPIVAK: . . . and it's not being taken as income by the person involved -- (Interjection) -- No I don't think so, there's no income . . .

MR. GREEN: I think the person has to take it as income . . .

MR. PARSONS: No.

MR. SPIVAK: No.

MR. PARSONS: No, he wouldn't when it's paid back. It's paid by the company and the loss is payable to ourselves.

MR. SPIVAK: The point here is that in effect, you know, it's again the question of both the requirement of security, which I understand, and the question of business judgment and business practice with respect to this transaction. And without getting involved with yourself, because I think this is something that we can discuss more properly in the House as to the judgment that is to be made as to whether this was or was not something that should come within the terms of reference of the Development Corporation as an undertaking, and I don't want to get involved with that with yourself; I'd rather deal with Mr. Green on that more appropriately, and others.

MR. GREEN: I didn't make that decision.

MR. SPIVAK: No, no, but I would rather deal with that. What my concern would be is to understand the judgments that are made. Would you not acknowledge that it really is not common practice for a lender to provide the funds for insuring a principal who is in fact providing insurance on his life as security for funds that have been advanced?

MR. PARSONS: No I don't think it's that abnormal. We will be getting the money back in the form of royalties. It's true that the company is paying out of funds that we have given it, because that's the only funds it has, but basically they owe the funds and will be paying them back as the royalties come in. So it is part of a loan. I don't think it's unusual for a company to pay the insurance on a principal when it's assigning that as security. It is a requirement.

MR. SPIVAK: No. I think it's unusual if the principal doesn't take that as income. I think the issue here really . . .

MR. PARSONS: I don't think the . . . Why would the principal take it as income and pay tax on it when the loss is payable actually to the company and they have assigned it to us.

MR. SPIVAK: Because normally when a principal borrows money from an institution and it's required to give security, one of the securities he would offer would be the insurance that would be available on his life . . .

MR. PARSONS: That's true.

MR. SPIVAK: . . . and he would then provide that out of his own resources. In effect what really is happening here . . .

MR. PARSONS: Yes. It could be both ways though. He could have it personally and also we can ask the company to supply us with that.

MR. SPIVAK: Yes, but the company's money . . .

MR. PARSONS: He didn't carry that much.

MR. SPIVAK: It's not as if the company generated any money, the money is coming directly from the loaning institution.

MR. PARSONS: That's correct.

MR. SPIVAK: So I'm suggesting that the loaning institution itself is really protecting itself, which is really what's involved.

MR. PARSONS: Yes.

MR. SPIVAK: I think it would be important for the record to know what information is, you know, available with respect to what that premium . . .

MR. PARSONS: Yes. I said I would get that.

MR. SPIVAK: Can I ask on this - and I may be wrong, it may have been covered before in last year's session - but your reference is that there can be a repurchase of 56 shares, which would be 56 percent of the company I would assume, under certain terms and conditions. Were those terms and conditions ever given to this committee before?

MR. PARSONS: Yes. I think that they were last year. If they weren't I will supply them again. I thought we went through that last year because it was exactly the same. But if not, then we will get you the terms and conditions.

MR. SPIVAK: Oh I see. Oh you may have provided it to the committee last year, but not verbally. You may have provided it afterwards, is that right?

MR. PARSONS: Yes, because we were asked that question last year and I thought I had provided it, but it is no problem to get it for you again.

MR. GREEN: I don't remember.

MR. PARSONS: It's no problem, we can get it.

MR. SPIVAK: Dealing with the question of the Rand's penetration studies, just so I'll understand what that really says, does that indicate the penetration in the market of the potential of royalties that will be received, or the probability? Are we dealing with potential or probability in the presentation that's been given?

MR. PARSONS: I think there it would be classed as probability because the potential is larger than that. The Rand McNally feel that they have been very conservative in their estimate of the amount of royalties. So that is more of a probability than a potential.

MR. SPIVAK: Okay. Then based on the probabilities for this coming year, how much money will be generated, and will any of the loan be . . .

MR. PARSONS: Not for 1975, because there's not a big enough volume. If you look at the schedule of modules really we hadn't programmed any royalty return until 1976. I think if you look in the proceedings last year it was 1976 before any royalties would start to come back.

MR. SPIVAK: Did you have the Rand's market penetration studies at that time?

MR. PARSONS: We had their estimate last year, yes.

MR. SPIVAK: So that in effect your projections of when royalties would come are really based on their studies. Is that it?

MR. PARSONS: Yes.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Chairman, I would like to ask Mr. Parsons about the Board of Directors of William Clare. I notice there's a vacancy on the board as of March 21st, 1975. Has that been filled?

MR. PARSONS: No, it has not been filled. There's still three and three, and one vacant.

MR. McGILL: And MDC has an 80 percent interest as compared with the 20 percent interest of the other shareholders.

MR. PARSONS: Yes.

MR. McGILL: At the moment then on the board you don't have a majority position.

MR. PARSONS: No, but on the other hand there's really nothing that the board is needing - or they're not dealing with any problems because the program is all set and it's just moving right along on the program. So we have had no problem with any decision with the board of directors since last year.

MR. McGILL: But you're not in a very good position if something unforeseen should occur at a directors' meeting.

MR. PARSONS: We still control it, and we call the meeting.

MR. McGILL: The second question would relate to the date of the statement we're considering here. It's December 31st, 1973, that's about 15 months old.

MR. PARSONS: That's right. We hoped to have the audited one ready for this but we haven't. We may have it in the next . . .

MR. McGILL: Do you have any interim statements?

MR. PARSONS: No, other than the - really there is no interim statement. We've given you the cash flow right up to February 28th, 1975, which shows the . . .

MR. McGILL: The loan position.

MR. PARSONS: Yes.

MR. McGILL: The accumulated loan position to February 28th.

MR. PARSONS: Yes. Right.

MR. McGILL: But there is nothing additional to the December 31st, 1973, statement in respect to the operating position or deficits.

MR. PARSONS: No. You could pretty well - if you take it from March, 1974, to February, 1975, which is a year, that's about the amount of the R. and D., that's where the money is going. There's no income other than the sale of the filmstrip which was $45,000.00. So other than that it's all expense.

MR. McGILL: The statements that were provided this morning, additional to those that were provided at the previous meeting, still leave us short Misawa Homes and Flyer. Is that correct?

MR. PARSONS: Yes.

MR. McGILL: Are those not available?

MR. PARSONS: No they're not.

MR. McGILL: When do you anticipate having those for the . . . ?

MR. PARSONS: The auditors are in both companies at the present time and they probably will not be available till almost the middle of next month.

MR. McGILL: Thank you.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Through you, Mr. Chairman. Last year in reply to a question to you, Mr. Parsons, from Mr. Asper, and I quote from the Economic Development Committee hearing dated March 19th, Page 20, Mr. Asper said - it was with regard to the commitment that MDC had with W.E. Clare. He said, "$1,350,000, does that sound right? I'm reporting what Mr. Clare himself said in an interview last week, $1,350,000." And Mr. Parsons replied: "Yes, it's right down here. Yes. So your commitment is $1.35 million." I'm wondering, Mr. Parsons, I see as of February 28th the commitment has now gone to $1,424,599. Who made the decision to exceed the original commitment? Did it fall under the new criteria that the Minister indicated commenced or existed last fall, where there was additional moneys required that it would have to be reported to his Department for approval?

MR. PARSONS: Yes. There was an additional $200,000 required, of which the MDC Board made the decision to go half of that with Rand McNally. That decision, after we had made that, was sent over for approval of the Minister and it was approved.

MR. MINAKER: Is that the last of the moneys required, or what limit do you anticipate you'll have to exceed the original commitment of $1.35 million?

MR. PARSONS: No, that should take us through. Rand McNally studies show that should be adequate.

MR. MINAKER: Can I ask you why Rand McNally agreed to share in the extra commitment?

MR. PARSONS: I'm sorry, would you repeat that?

MR. MINAKER: I was just asking, Mr. Chairman, I wonder if it could be explained why all of a sudden Rand McNally agreed to share in 50 percent of this additional commitment when they haven't, up until now in the original commitment of $1,350,000, they haven't split 50-50.

MR. PARSONS: Well, we went down and visited with them and requested they do this. Basically they were into the program and there was an overrun, and we requested that they come along with us in putting the dollars in, which they agreed to do.

MR. MINAKER: Did you renegotiate your contract with them on the sharing of the royalties?

MR. PARSONS: No.

MR. MINAKER: The original contract is still intact.

MR. PARSONS: Yes. The original contract still exists.

MR. MINAKER: And you feel that this is adequate now that . . .

MR. PARSONS: Well, over and above that, over and above the $100,000, there's another $200,000 that may be used. So our total involvement would be a million and three-quarters if they use all that.

MR. MINAKER: And they in addition will put up 100,000.

MR. PARSONS: Yes.

MR. MINAKER: So it would be 1.8 million all told.

MR. PARSONS: Oh they're putting up more than that. They would be putting up a total of $200,000.

MR. MINAKER: I see.

MR. PARSONS: If they use that.

MR. MINAKER: So now instead of the $1,350,000, we are now looking at $1,750,000 to complete the project.

MR. PARSONS: Yes.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Well, Mr. Chairman, when the figure is given at $1,750,000 does that include interest as well?

MR. PARSONS: Yes, we're . . .

MR. GREEN: So part of the increased commitment that Mr. Minaker is referring to would merely be the accruing of interest which is not paid when no money is coming in. Or is that not correct?

MR. PARSONS: That's basically correct, yes.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, through you to Mr. Parsons. I believe that you haven't changed the schedule of production, have you not, in your completion of the Modules.

MR. PARSONS: We have changed?

MR. MINAKER: You haven't changed. It's still on schedule?

MR. PARSONS: Yes, as shown on our sheet here.

MR. MINAKER: Then, Mr. Chairman, I would also presume that there would be interest costs built into the original projection, would there not?

MR. PARSONS: Oh yes. You know, it's increasing.

MR. MINAKER: So I can't quite understand Mr. Green's comments that these would include interest costs.

MR. PARSONS: Well they do include interest, yes.

MR. MINAKER: Yes, but I think the original figure of $1,350,000 I would hope, because of your schedule set-up, would also include those interest costs.

MR. GREEN: The point that I'm making, Mr. Chairman - and if I have incorrectly deduced it then that's fine - that when we are talking about a commitment of $1,700,000, is it an additional $400,000 in commitments which is made by the MDC or is it practically the accumulation of interest costs? And I see Mr. Minaker's question - he says that if the original commitment included the interest as production was proceeding, then there should be no rise merely due to interest costs.

MR. PARSONS: Yes, either way we're paying interest and there is an over-run. That's why it's gone up that high.

MR. GREEN: But when we are talking about a 1.7 million, are we talking about an additional 400,000 MDC commitment or is that split 50-50? I am not sure.

MR. PARSONS: No, it's an additional . . .

MR. GREEN: An additional 400,000 by MDC.

MR. PARSONS: Yes. There's an additional 400 . . . MDC's position will go to a million and three-quarters. At that time, Rand McNally will have put in 200,000.

MR. MINAKER: So that the cost of the project would be somewhere in the order of about 1.95 million, of which we're committed or MDC's committed to 1.75 million.

MR. PARSONS: Yes. There'll be a lot more invested by Rand McNally as the program develops, because they are doing all the sales programming that they're paying for now, and all the module printing and inventoring, so they will have quite a sizeable investment in it.

MR. GREEN: Mr. Chairman, I was going to get to that. My recollection is that at the point when it was decided that the module program would be taken to its completion as the best means of recovering the . . . My recollection is that at the point that the decision was made to carry the module program to its completion, that there was about $600,000 invested and approximately 600,000 requested, and that the judgment of the board was to invest the additional $600,000 but to confine the investment to recovering, through the module program, the previous 600,000 plus the new 600,000 that was being invested. And at that time, the Rand McNally people indicated their investment in the program, their end of the program, not the MDC end, would be of a certain amount or in the neighbourhood of a certain amount of money. Are you able to give us what it was indicated they would be spending on the same program?

MR. PARSONS: Not in specific amounts. They have indicated that they will have much more, almost double the amount, in the program by the time it is finished than we will have. That is their estimate.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Is Mr. Green finished?

MR. GREEN: Yes.

MR. MINAKER: Mr. Chairman, could Mr. Parsons advise, is Rand McNally going to do all the marketing of the finished product? In other words, after W.E. Clare has completed basically the type work and the modules, will Rand McNally be the marketing body that will look after this?

MR. PARSONS: Yes.

MR. MINAKER: Do they have it for all the North American continent?

MR. PARSONS: I believe so. I don't know whether Mexico is included in that or not. They have it in Canada and the United States.

MR. MINAKER: My next question is: I asked if W.E. Clare was dormant and you said no, that they would continue to finish these modules. My next question is: has Mr. Clare got a firm contract with the company? The company that MDC owns the majority of shares. Does he have a firm contract? My question leads up to this, after the completion of the modules, what is Mr. Clare going to be doing for us, or for the company?

MR. PARSONS: His job will expire.

MR. MINAKER: Will the company expire?

MR. PARSONS: Basic employees. There won't be any employees. It will just be getting royalties. We have no ongoing program after this module.

MR. MINAKER: So at the present time it would appear this is what the plan is, for W.E. Clare, to sort of expire the company and hopefully bank the money.

MR. PARSONS: Yes.

MR. MINAKER: Thank you.

MR. CHAIRMAN: Okay, that finishes the William Clare (Manitoba) Ltd. We proceed to the next one, Dawn Plastics Ltd.

MR. PARSONS: Yes. Dawn Plastics is a small blow-molding operation. It was originally part of a lighting fixtures plant in Fort Garry; the blow molding is still carried on in that same building. It is quite a small operation. We had hoped it would have done better during 1974, but they were restricted on the amount of raw product they could get, so they were limited and pretty well held down to the same sales program for their year ending in May, 1974, as they were in 1973, because they couldn't get a raw product to increase their sales. It suffered a small loss. It has done slightly better this year, probably do better than break even. As I say, it's a very small operation.

MR. CHAIRMAN: Any questions? Mr. Spivak.

MR. SPIVAK: There's one sort of basic question with respect to this and a number of other companies, and that has to do with the Provincial Auditor being the auditor of this company.

MR. PARSONS: Yes?

MR. SPIVAK: In other cases you have private firms, private accounting firms, and in some you have the Provincial Auditor. Can you give me some understanding of who arrives at the decision as to who the auditor should be, and what is the basis on which the Provincial Auditor is instructed to become the auditor and in other cases the private companies.

MR. PARSONS: The ones that we own 100 percent of the shares, we get the Provincial Auditor. Now, that isn't true in all cases because we have got the Provincial Auditor for one or two others that we don't have full control. Basically Saunders and Flyer are outside auditors and they are the auditors that were involved before we had an equity investment.

MR. SPIVAK: But can I ask you again? The instructions for the Auditor, is that given by the Fund or by the board of directors of the company?

MR. PARSONS: The board of directors of the company appoint the auditors, but where we have control, when we own 100 percent of the company, we appoint the Provincial Auditor.

MR. SPIVAK: Has the Provincial Auditor indicated that, with respect to his audit of these companies, that his position is that the audit is an audit that he would normally complete, or he would complete in a normal way with respect to Crown corporations, and that there is no basic requirement that it necessarily follow that kind of audit that would be undertaken in a commercial way by private firms?

MR. PARSONS: From the reports that I have reviewed with the Provincial Auditor, I think he goes in much more depth than possibly would be done with an outside auditor. He audits it pretty well as a Crown corporation. He looks at . . .

MR. SPIVAK: I want to make this point, because in my discussions with him, and he's been very clear to me on that and this is probably one thing that we can discuss at Public Accounts, he takes the position where the government is involved that the requirement of auditing as a commercial audit would be undertaken in terms of his certification. Now I'm not talking in terms of his procedures but in terms of his certification. It's very different, because in fact the government is behind and therefore the government has the resources that are available to ensure that there will be protection and -- well . . .

MR. GREEN: Mr. Chairman, on a point of order. My problem is that sometimes Mr. Spivak could misinterpret, I could misinterpret, and I do not think that Mr. Parsons should be put in a question which depends on something that Mr. Spivak said the Auditor said to him. And I'm not saying that Mr. Spivak is not correctly interpreting the Auditor, but he would hear one thing, the Auditor might say another. I think that Mr. Parsons should be asked his questions not based on what Mr. Spivak says Mr. Ziprick said to him but on what Mr. Spivak's question is.

MR. SPIVAK: Mr. Chairman, I was only trying to indicate the basis for the question I was going to ask Mr. Parsons, and my purpose is to ask Mr. Parsons that question and I'll ask it. But I wanted him to understand the reasoning for the question so that it would be clear.

In the discussions with the Provincial Auditor by the Manitoba Development Corporation, and you as chairman, with respect to the audits undertaken by him of Crown corporations that are in the commercial field, does he see his role or has he discussed it with you, that his certification will be in the general normal course of a commercial certification that will be given, or does he see his role as a Provincial Auditor auditing and certifying as he does in a conventional role for government, which is very different?

MR. PARSONS: Yes. I would say that he basically looks at these as a Crown corporation. He goes into much more depth than he would -- all right. Am I misinterpreting your question?

MR. SPIVAK: Well no.

MR. PARSONS: I'm sorry.

MR. SPIVAK: Well no. If that's the case, then you're saying that he sees it as a Crown corporation of government, which is very different than the commercial and that's the . . .

MR. PARSONS: Yes, I think he . . .

MR. GREEN: He says he goes into more depth.

MR. PARSONS: He goes into much more depth because he looks at it as a Crown corporation than he would as if he was doing it in his role as an outside auditor.

MR. SPIVAK: But his position is with a Crown corporation, that the government would always stand behind it.

MR. GREEN: Well you say that. He didn't take that position with regard to the MDC statement. He said it's not a good statement because it's . . . The fact that the government is behind it doesn't mean that it can continue to show these deficits. Let him explain that, not you.

MR. SPIVAK: Well he should.

MR. GREEN: Well on the MDC statement he said that this is not a statement which is done on a commercial basis.

MR. SPIVAK: But in the certification of Public Autopac and the Public Auto Insurance Corporation, he said he didn't have to certify on the commercial basis simply because the government would be there to stand behind it. So I'm just asking -- well there's obviously a difference of position and what I'm simply trying to inquire from the Chairman is whether there has been a discussion as to that certification.

MR. GREEN: How did the private auditor . . . ?

MR. SPIVAK: Well I'm asking the Chairman . . .

MR. GREEN: I'd like to know how the private auditor certified the $3 million loss of the auto insurance industry, private industry, in this country this year.

MR. SPIVAK: You know, that's not even the issue.

MR. GREEN: They certified it. Yes. Sure. They said that they had this loss . . .

MR. SPIVAK: Yes, they acknowledged there was a loss. His acknowledgement . . .

MR. GREEN: And they're not worried, because it will be made up by the insurance industry or the people of this country.

MR. SPIVAK: Mr. Chairman, I would hope that Mr. Green and I will discuss the Provincial Auditor's role and what he says etc. . . .

MR. GREEN: Exactly. That's what I don't . . .

MR. CHAIRMAN: I would like you to direct your questions to Mr. Parsons.

MR. SPIVAK: I'm asking the Chairman whether in his discussion with the Auditor, if he says there's been no discussion, there is no understanding, there is no undertaking, then that's fine, but I'm asking him specifically whether he audits on the normal commercial way or he audits it as a Crown corporation and the certification is on the basis of a Crown corporation.

MR. PARSONS: I think you'll have to ask the Auditor how he does it but, based on my discussions with him, I would say that he looks at it as a Crown corporation. He goes into much more depth than he would if he was an outside auditor.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Yes. Mr. Parsons, you, I take it, were an accountant by profession?

MR. PARSONS: Yes.

MR. GREEN: Do you find that the Provincial Auditor, in dealing with the books that he is dealing with for the Crown corporations, is any less meticulous than a commercial accountant would be with regard to a commercial corporation?

MR. PARSONS: No, I would say he delves into it deeper and spends more time because of his position.

MR. GREEN: Thank you.

MR. SPIVAK: Mr. Parsons, I appreciate the fact that you've given an opinion, but have you ever examined with him any of the books that he's examined of the companies that he's auditing?

MR. PARSONS: He gives us an audit report on deficiencies in records or areas that he believes can be improved, his audit report goes to the board of directors, and we take action to bring our records into better condition. If he makes recommendations to us that he sees part of our records could be in better condition, or he sees a system that would work better within these companies, then he reports it to the Board of Directors and we take action on it.

MR. SPIVAK: He's done that with respect to the Crown corporations that are in the commercial field that he is now auditing?

MR. PARSONS: Yes he does.

MR. SPIVAK: He's brought that to your attention.

MR. PARSONS: Yes he does. He brings it to our attention and he also does it with the MDC.

MR. SPIVAK: And it's on that basis that you provided the judgment that he's more meticulous than a normal auditor.

MR. PARSONS: I would say yes.

MR. SPIVAK: It's not normal for a normal auditor or a commercial auditor to bring that to a board of directors or general manager?

MR. PARSONS: Oh I didn't say that. They do, yes. But I would say that he does it more so because of his position.

MR. GREEN: Well, Mr. Parsons, you receive audit reports from private auditors in connection with Saunders, in connection with Flyer. Are the reports that you receive from those auditors materially different or done with a different philosophy than the one you receive from the Provincial Auditor? I mean, you have a very sound basis of comparison.

MR. PARSONS: Oh I think the outside auditors do an in-depth job too, and they report to us, but I think the question was . . . I think the Provincial Auditor, when he's doing these companies, spends more time in other particular areas than an outside auditor would when he reports to us.

MR. GREEN: But the philosophy of their audit?

MR. PARSONS: The philosophy of the audit is the same.

MR. CHAIRMAN: Okay. Are there any questions? Mr. McGill.

MR. McGILL: Mr. Chairman, when Mr. Parsons was explaining the situations where the Provincial Auditor was called in, in other words where there was a 100 percent-owned company you would normally use the services of the Provincial Auditor, then you went on and in the same vein mentioned Saunders and Flyer. Has there been any change in the equity positions in those companies? I understand you don't have 100 percent equity in either of those companies and I was wondering why you mentioned them after you had made the statement on the others.

MR. PARSONS: They had outside auditors and those same auditors have continued to do the audit for continuity purposes. We could, because of our control position, appoint the Provincial Auditor, but because of continuity we have maintained the outside auditors in both cases.

MR. McGILL: So it was merely to show you haven't deviated from that principle of . . .

MR. PARSONS: That's correct.

MR. McGILL: . . . using the Provincial Auditor only in 100 percent circumstance.

MR. PARSONS: That's right.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, with your permission, I had one more question on W.E. Clare. I wonder if we could ask - it's not a long one. I had meant to ask it before.

MR. PARSONS: Go ahead.

MR. MINAKER: In the $200, 000 commitment from Rand McNally to complete the project, is that in writing?

MR. PARSONS: Yes.

MR. MINAKER: Thank you.

MR. CHAIRMAN: Any more questions on Dawn Plastics Ltd?

MR. MINAKER: Yes, I have one.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, on Schedule 1 at the back of the Auditor's report it shows a management fee of $21,000 in the overall operation of about $98,000. It looks like about somewhere in the order of 23 percent for management fees. What did that go to? I noticed on the back page . . .

MR. PARSONS: It goes directly to the Manitoba Development Corporation.

MR. MINAKER: Is that not somewhat high for management fees for a company with an overhead of 90,000?

MR. PARSONS: Yes, but that's the cost of the management that we supply. We charge it to the company.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, with regard to Dawn Plastics. Were there interest

(MR. GREEN cont'd) . . . . .charges to the Development Corporation on Dawn Plastics against their operating statement? I see interest and bank charges 1974, Schedule 2, $14,485.

MR. PARSONS: Yes, MDC is charging interest on their long term debt too. It's included in there.

MR. GREEN: Included in there, and I note depreciation. Is there depreciation other than office furniture and automobile? There's no building involved here.

MR. PARSONS: No, there's no building but if you look under fixed overhead . . .

MR. GREEN: Depreciation, machinery and equipment 1974, $27,000.00.

MR. PARSONS: That's correct. That's on machinery and equipment.

MR. GREEN: So if we take the interest charge of $14,000 and depreciation charges of $27,000 we will be up to $41,000 in expenses on those two items?

MR. PARSONS: Yes.

MR. GREEN: If we ignore those expenses which Mr. Spivak selects to do in calculating profit, this company made a profit of $40,000. Is that correct?

MR. PARSONS: Could make a lot more if you want to ignore other expenditures too, but I don't think, Mr. Chairman, it's relevant.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: I would just like to check on one . . .

MR. GREEN: That's the way CFI made a profit.

MR. McGILL: . . . statement that Mr. Green made and Mr. Parsons agreed with, that he was including a certain amount of depreciation. How much? As a cash expense item?

MR. PARSONS: There's $27,000 in - well it would be over 28,000 actually with your depreciation on machinery and equipment plus your automobile and furniture. That's expense.

MR. McGILL: You expensed it in terms of cash expense?

MR. PARSONS: Well no. It's not a cash expense. The company had a positive cash flow. It shows a loss . . .

MR. McGILL: Depreciation is usually accumulated and shown as a deduction from the asset position of the firm.

MR. PARSONS: That's correct, it is.

MR. McGILL: But not in income and disbursements.

MR. PARSONS: Well certainly the expensed, that's the other side of the entry.

MR. GREEN: Absolutely.

MR. PARSONS: It shows in expense.

MR. GREEN: It's an expense . . .

MR. McGILL: Depreciation is not a cash expense.

MR. PARSONS: No, it isn't a cash expense.

MR. GREEN: Of course not.

MR. PARSONS: Now is there a source application of funds? Yes, there is on Statement C.

MR. GREEN: You'll see the calculation of a $7,000 loss. They have taken $27,000 off depreciation.

MR. McGILL: Right.

MR. PARSONS: Look on Statement C, Mr. McGill. It shows you Source of Funds from Operations, the loss is shown as $7,863.00. Then you have your non-cash items. Depreciation, machinery and equipment, $28,900.00. So really we have a positive cash flow in the company but business . . . show a loss of $7,000.00.

MR. GREEN: But if you will ignore the depreciation and ignore the interest, we made $40,000.00. We don't choose to ignore it, some people do. Conservatives do, through their Leader.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Mr. Speaker, further to this point that we are making here I would like to comment on this too. When we're looking at equipment versus buildings, when you depreciate buildings, in the inflationary trend that we're involved in right now buildings tend to appreciate instead of depreciate and I realize that most companies are, if it's a brick building, depreciating it 10 percent. But with equipment it's a different story again because equipment depreciates at a much more rapid pace than a building would.

MR. PARSONS: That's correct. It has a different depreciation rate.

MR. BANMAN: I mean it does make a difference.

MR. GREEN: We're getting more Conservative accounting. That building really appreciated - let's say it appreciated by $20,000 instead of depreciated by $27,000 which Dawn Plastics has shown, then you have a profit of not $34,000 but $54,000 and that should be the statement of Dawn Plastics and I assume that you will then be saying it's a wonderful Crown corporation that has made $54,000.00. But we don't keep our books that way. We haven't done so.

MR. PARSONS: But actually you're getting back to buildings Dawn Plastics do not own.

MR. BANMAN: Doesn't own a building.

MR. PARSONS: No.

MR. BANMAN: No, that's what I thought.

MR. PARSONS: The building is owned by - we own the building but we rent part of it to Dawn Plastics. That shows as rent. -- (Interjection) --

MR. GREEN: It's not by my calculations, Mr. Minaker, it's by your calculations.

MR. MINAKER: I correct that. I don't believe I've ever made any statement to that effect.

MR. GREEN: I accept your Leader as being your Leader too.

MR. CHAIRMAN: Order please. That concludes Dawn Plastics Ltd. Proceed with Dormond Industries Ltd.

I would like the members of the press to mind their own business and listen and I don't need any assistance. -- (Interjection) -- Pardon? Well I keep hearing comments from behind every so often and I would really prefer that they would restrain themselves.

MR. GREEN: Is it more interesting than what you're hearing up here?

MR. CHAIRMAN: Dormond Industries. Are there any questions? Mr. Banman.

MR. BANMAN: Thank you, Mr. Chairman. I have certain questions with regards to this company as it holds equity participation in the recently sold Manitoba Development Corporation company, Columbia Forest Products. And I wonder in an equity statement provided for us in March, 1975, it refers to several preferred and common shares, and then also on the back of the statement we go into more detail with regard - Advances to Columbia Forest Products and Contingent Liabilities with regard to Columbia Forest totalling - this company apparently co-signed a note payable of $700,000, and another debenture for $200,000 payable on demand. I wonder if Mr. Parsons could explain the connection between this company and Columbia Forest.

MR. PARSONS: At one time it was a part of Columbia Forest. These notes that they co-signed are all to the Development Corporation and these will all be closed out when we close out the receivership.

MR. BANMAN: As close as we could find out in checking the amounts owed by Columbia to the Manitoba Development Corporation was I think in excess of $5 million. That's not taking into account the $900,000 we got back from the fire insurance on the plant. Would this be over and above?

MR. PARSONS: No. Over and above the amount?

MR. BANMAN: Right.

MR. PARSONS: This is an inter-company. No, it's not over and above, it's part of that. It was an inter . . .

MR. BANMAN: Why the interplay between the two companies? Is there a reason for it? You understand . . .

MR. PARSONS: Yes, I know what you're saying. You see this goes back when the companies were both operating and the parent company loans money to the subsidiary. In order to keep the records straight the subsidiary showed it as a loan which is shown here now. But basically any money that was borrowed was borrowed through the parent company, which is Columbia Forest Products.

MR. BANMAN: So looking at the statement here: Advances from Columbia Forest Products Ltd., in receivership - $300,408. Was that money taken from Columbia and put into this company then?

MR. PARSONS: Yes. That's why it shows as a loan.

MR. GREEN: Yes, but Columbia will show a receivable.

MR. PARSONS: Yes, Columbia would show a receivable. That's why I say we will eliminate -- when the whole thing is wound up, this advance really from Columbia to Dormond will probably be eliminated because this company cannot pay it back and inasmuch as we are the total debenture holder we will accept the shares of this company.

MR. BANMAN: I still don't understand why this company got involved, but . . .

MR. PARSONS: Well this company was involved quite a long time ago. As a subsidiary, Columbia Forest Products . . .

MR. BANMAN: This company, do I understand correctly, this company was a subsidiary of Columbia Forest?

MR. PARSONS: Yes. It was owned by it. Instead of ceasing operations we took it over and we have been operating it, when Columbia Forest Products went into default.

MR. CHAIRMAN: Any further questions? That concludes the Dormond Industries Ltd. Mr. Minaker.

MR. MINAKER: Mr. Chairman, what was the total moneys loaned to Dormond Industries from Columbia Forest Products? Was it $300, 408? That was it? Is that the maximum advances that Dormond Industries received from Columbia Forest?

MR. PARSONS: The maximum advances? No, that's the balance as of the day of the statement.

MR. MINAKER: That's the amount that they have not paid back?

MR. PARSONS: That's correct. I don't know what the maximum was. That would probably go back quite a few years.

MR. MINAKER: So the amount that would be written off in Dormond Industries relating to Columbia Forest Products will not exceed $300, 408?

MR. PARSONS: That is correct.

MR. MINAKER: Okay, thank you.

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

MR. BANMAN: I wonder, Mr. Chairman, in light of Columbia surfacing at this time and the press release that was handed out this morning, I wonder if we could ask several questions with regards to that company at this time, Mr. Chairman?

MR. CHAIRMAN: Which?

MR. PARSONS: With regard to Columbia Forest Products?

MR. BANMAN: Right.

MR. PARSONS: I'm willing to deal with it now if you wish.

MR. CHAIRMAN: Okay.

MR. BANMAN: Mr. Parsons, with regard to the sale of the company, was that company offered for sale by tender about a year ago?

MR. PARSONS: We've been trying to really negotiate a sale for that for well - at least the Receiver has, not the MDC, the Receiver advertised it and has been negotiating for the past 18 months. We couldn't get a suitable buyer in our opinion and some of the offers the Receiver had we probably could have broken up if we didn't want to keep an industry down there a year ago and sold it piecemeal. Our objective was though to sell it so it would be an ongoing business down there. We've even estimated that we probably - it's quite probable on a breakup that we might have got slightly more than our $350, 000. We don't know that but what we wanted was to keep an ongoing business down there. We sold it to the - we got people down there, there's four of the principals in this new deal that actually live down there. It was part of our objective to get the people down there. As shareholders they are part of the new Sandiland Forest Products, there's four of the principals that live there along with Dycks Containers. They have purchased it for $325, 000. Some of the equipment that they weren't going to use we are selling separately. We have sold another piece for $20, 000; we hope to get another 20 to 25 thousand for another piece, which would show our selling price in total of that properties down there probably $350, 000 to $375, 000, somewhere in that order.

MR. BANMAN: You mention Dycks Containers. Do they at present have an MDC loan?

MR. PARSONS: No, they don't Dycks Containers do not have an MDC loan at the present time.

MR. BANMAN: No, but they did -- in other words it's been paid off?

MR. PARSONS: I don't know that they ever did have.

MR. GREEN: The only thing that I . . .

MR. PARSONS: You asked me if they had an MDC loan now? No, they do not at the present.

MR. GREEN: The only point that I'm making, Mr. Chairman, is I understand that the sale was sold for cash and . . . and to the extent that Dycks Containers is a partner . . .

MR. PARSONS: Well Dycks Containers will not have the loan, Sandiland Forest Products will have a loan . . .

MR. GREEN: Some people do not make that distinction therefore I want to make sure that it's made.

MR. BANMAN: In the press release this morning it says you stated - or it states that you sold the land, buildings and sawmill inventory equipment for $325, 000 and that $225, 000 of the sale is being financed by the MDC. Is there a DREE grant involved? Has the DREE grant application been processed or . . .

MR. PARSONS: My Director of Investments says they have made application. I don't know what the status of it is.

MR. BANMAN: Would we be able to find out how much that DREE grant would be for?

MR. PARSONS: Well we would have to check - that's nothing to do with us. I don't know, that's a federal grant, whether they would tell you or not.

MR. BANMAN: Okay.

MR. PARSONS: You see once it goes through they publish that.

MR. BANMAN: So the sale wasn't conditional on the DREE grant.

MR. PARSONS: No, not at all.

MR. BANMAN: Okay. It also states the repayment is $35, 000 per year. Would you be able to tell us at what interest rate these people . . .

MR. PARSONS: Eleven percent. That's our current interest rate.

MR. BANMAN: Once the transaction is done will these people be able to sell the - they'll have complete control of the company and I guess once the transaction is finalized they would be able to resell the company if they so wished within a matter of six months.

MR. PARSONS: I presume they . . . I don't know whether . . .

MR. BANMAN: Would you be able to tell me the stumpage fees. Columbia Forest Products received a concession as far as stumpage fees is concerned. Has this been passed on along with the company?

MR. PARSONS: No, we have no right to pass that on. They had to make their own arrangements with the Department. I can categorically say that they did not get the timber rights passed on because we did not have the right to do that.

MR. BANMAN: So the timber rights and stumpage fees will have been renegotiated on a new . . .

MR. PARSONS: That's correct.

MR. BANMAN: I understand that the timber rights have been negotiated for 1990, is that right?

MR. PARSONS: You'll have to get that from the Department. We had no input in that. They told us that but I haven't seen any agreement, nor are we a part of it.

MR. CHAIRMAN: Any further questions on this matter dealing with the Sandilands Forest Products Ltd?

MR. BANMAN: Would you be able to tell me roughly what amount of inventory as far as lumber and that was involved in the sale?

MR. PARSONS: The total dollar?

MR. BANMAN: Just a rough figure.

MR. PARSONS: Is probably in the area of $50, 000-$75, 000.

MR. BANMAN: And the sale then would have included - there were several homes I believe involved in . . .

MR. PARSONS: There was three houses on the property down there. That's included, yes.

MR. BANMAN: That's included?

MR. PARSONS: Yes.

MR. BANMAN: Together with the sawing equipment?

MR. PARSONS: Yes.

MR. BANMAN: And the land I imagine that it sits on?

MR. PARSONS: Yes. Total assets.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: Mr. Parsons, just so I understand. The actual loss then is about $4 million after the sale, taking in insurance, is that more or less?

MR. PARSONS: Should be less than that. Yes, it would be close to that.

MR. SPIVAK: So that's the actual loss itself. Was there any undertaking given or commitment to be given by the principals in purchasing the assets for minimum numbers of employment.

MR. PARSONS: No.

MR. SPIVAK: No commitment at all. Were there any conditions at all with respect - was an outright purchase unconditionally as far as the Fund was concerned; other than normal loaning, or not normal but whatever loaning provisions there would be.

MR. PARSONS: I can't answer that specifically, I'd have to check the agreement to see if there's any abnormal conditions in it.

MR. SPIVAK: The problem of the social development of the area which was always a consideration - was obviously a consideration of the board in arriving at a decision.

MR. PARSONS: Yes. Yes.

MR. SPIVAK: Did the board arrive at the decision with respect to the social development area in consultation with the Minister and the Cabinet or independent and then come to them with a proposal?

MR. PARSONS: I don't think it ever went to the Cabinet. As a board of MDC we've been interested in trying to keep that operation functioning down in the southeast - our board gave us the direction that we were not to sell it piecemeal, to sell it as a business in order to maintain a business there, so there is an economic and social function involved in that decision.

MR. GREEN: Mr. Chairman, I know that Mr. Spivak would not want a memory lapse or something like that to be interpreted as something else. I would not be able to say exactly when but approximately a year ago a proposal with regard to the sale was referred to me under the guidelines that a disposition of a Crown asset be dealt with, and it was dealt with by Cabinet Committee in terms of trying to discuss what the best arrangement would be, but the ultimate decision to sell to these particular people was a decision of the board which I believe was approved of by myself in accordance with the guidelines.

MR. PARSONS: Yes.

MR. SPIVAK: So in effect what really happened is that the Board arrived at a decision that this proposal was the best proposal for the realization of the best price on the assets and for the consideration of the social development of the area itself.

MR. PARSONS: Yes.

MR. SPIVAK: Aside from the question of value of assets what specific study or research did the board have for its consideration with respect to the social development in the area by any of the staff or by any of the departmental people that may have been called in to assist in reviewing the impact of the continuation of this business?

MR. PARSONS: I don't think you could class it as a study. Two or three of our board members had been down there and looked at the area. We have a staff report on the area, the amount of business in the area and what this was doing for the economy down there, there was an economic study done per se.

MR. SPIVAK: On this particular proposal?

MR. PARSONS: On this particular proposal.

MR. SPIVAK: There was an economic study in which the total economic impact on the community . . .

MR. PARSONS: No, I say we did not have.

MR. SPIVAK: So the Board in effect in assessing the social development of the area really was motivated by a general desire to see a business continue as opposed to evaluating, you know, the specific impact that the continuation of the business would have and the details and the number of employees, etc. In other words, I don't know how many employees this business can undertake, and I don't want to get involved in that, but if they operated with five people that was all right. There's no concern about the board about its impact other than the continuation of the business per se?

What I'm really trying to get at, is I want to understand this point, how the board in arriving at a very complex situation and with a past history in which the present board members and others have been involved, how they arrived at the social development aspect of the decision making that had to be undertaken. Was it just a guts feeling that we want to continue on or was it arrived on some basis which had facts, figures and presentation in research in front of them?

MR. PARSONS: Well we knew how many people of course were employed in the plant, what their annual payroll was. This is not quite the same operation as it was under Columbia Forest Products because of the Chip Mill burning down. So therefore we were looking at a lesser operation but we had people from the area coming in and visit with us and tell us the

(MR. PARSONS Cont'd) . . . . . impact that this had on their town and the number of people that are involved in cutting and selling their timber through Columbia Forest Products. I'm not quite sure what kind of an economic study you have in mind when you say . . .

MR. SPIVAK: Well this is probably one of the few areas that there's been an admission by yourself as Chairman, that there was a social development aspect that was considered.

MR. PARSONS: We had two alternatives in this. When the plant burned down and we were left with a basic sawmill and of course the company was in receivership, the receiver at that point, if we had given him instructions and we were pretty well the sole creditor, if we had given him instructions to just wind it all up he would have advertised the equipment sold at piecemeal because he couldn't get a total buyer. So we advised him because of the impact that we saw in the area, we advised him that we wanted to sell it as an ongoing firm and not sell it piecemeal. So this was the instructions that the receiver received. Then as a staff function we actually went out and found the buyers and put the thing together.

MR. SPIVAK: Then maybe I could put it another way. Was this really the first case in which the social development aspect was a significant consideration in the decision to proceed in the way in which you proceeded?

MR. PARSONS: I don't know whether it's the only case. It certainly was in this case because we looked at it and we thought just to wrap the whole thing up and eliminate it from the area there certainly was an impact and the number of dollars weren't that different so there was definitely a social impact.

MR. SPIVAK: I appreciate that but in your past comments you indicated in other . . .

MR. PARSONS: Yes, but this was a business that was already going.

MR. SPIVAK: That's right, I understand it.

MR. PARSONS: So that is different. Now my other comments on this that we look at each application on a businesslike basis rather than social and economic, that is true when we're making a loan. This was a situation that had been long going . . .

MR. SPIVAK: Was in trouble.

MR. PARSONS: . . . and it had been in trouble for a long time.

MR. SPIVAK: I want to understand correctly your position. Your position is that you look at a loan on the basis of the commercial criteria that normally apply and extensions on that loan on that basis, but in a situation as in this one where we have a receivership and problem areas, the social development aspect then becomes a factor. Now that's basically what you're saying I understand.

MR. PARSONS: Yes. I think it's definitely true in this case because we could have . . .

MR. SPIVAK: Is it the only case in which the social development has become a factor?

MR. PARSONS: This is the only case we've had like this. I would think that if there's a company - and in some of these companies that we have acquired we have taken a look at the social aspect rather than just wind them right up and eliminate them.

MR. SPIVAK: But that really is sort of an individual consideration, it's not just a specific . . .

MR. PARSONS: Right. It's not a specific.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Just a further question to Mr. Parsons here, and I just want to get this clear in my mind. With regards to the stumpage fees and that, that was negotiated by the new owners at the time of sale? I just might say that Mr. Hebel, who is one of the principals in the purchase has said that the company will have the same timber concessions which were available to the MDC owned company.

MR. PARSONS: When he's talking about concessions I think he's talking about the timber rights not of the amount of dollars. What they negotiated for - there's timber limits down there that Columbia Forest Products held. On those timber limits there was a stumpage rate established with Columbia Forest Products. They went and negotiated for those timber rights. Now you're talking about areas. They negotiated for the ones that Columbia Forest Products had and they negotiated their own rate. They basically took over - when he says concessions I presume he's talking about the timber limits more than the dollars that are put on the stumpage.

MR. BANMAN: I mean the two are very integrated, I mean we're putting them apart now but . . .

MR. PARSONS: They naturally in order to run the business had to negotiate to get timber limits.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, I know that Mr. Banman wants the answers to these questions. I don't think that he can base the answer on what Mr. Hebel said in the newspaper. He will be able to get the answer but not from Mr. Parsons. Mr. Bostrom is the Minister who is involved in that particular area and I would think that he should put the questions to Mr. Bostrom. The word concession and how it was used by him in talking to a newspaper reporter, we can't dissect it and determine what he meant when he said it. But the answer will be available.

MR. PARSONS: Yes. We were not a party to those negotiations.

MR. BANMAN: No, all I'm trying to say is that in the negotiation of the price the timber rights of course are a very very strong consideration.

MR. PARSONS: Yes.

MR. BANMAN: Because I don't think you would have got that kind of money if it wasn't for the timber rights.

MR. PARSONS: We didn't sell the timber rights. We had no way of doing that. We sold the assets. They carried on their own negotiations for the timber rights.

MR. BANMAN: Yes, but all I'm trying to say is you wouldn't have sold the company for what you did if they hadn't got those timber rights along with the sale.

MR. PARSONS: If they had no timber rights the company wouldn't have been any good to them.

MR. BANMAN: That's right, that's correct.

MR. CHAIRMAN: Mr. Banman you can ask those questions to the Minister responsible, Mr. Bostrom.

MR. BANMAN: No, I think it's important that the timber rights are an integral part of the sale of this particular plant.

MR. PARSONS: If they couldn't have got timber rights they possibly would not have bought the plant, that's right.

MR. CHAIRMAN: Okay. Dormond Industries concluded. Proceed to Electro-Knit Fabrics Canada Limited.

MR. PARSONS: Yes, we have a very small holding in this corporation, 10, 000 shares that were given to us as a bonus when the loan was taken out.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: Well, just on the 10, 000 shares that were given as a bonus, was that requested by the Fund or the Corporation or was that offered by the . . .

MR. PARSONS: It was negotiated.

MR. SPIVAK: It was negotiated. It was a condition then of the loan I would assume, or an increase in the loan, is that correct?

MR. PARSONS: It was part of the offer, yes.

MR. SPIVAK: Part of the offer by the corporation to the principals or to the company.

MR. PARSONS: Yes.

MR. SPIVAK: And my understanding, those shares would be in the company that has both an operation in Montreal or in . . .

MR. PARSONS: It's in the overall company, yes.

MR. SPIVAK: Overall company. Is this a public company or private company?

MR. PARSONS: Public.

MR. SPIVAK: Public. Controlled by the principals of family . . .

MR. PARSONS: . . . yes.

MR. SPIVAK: What percentage shares would they have, do you know? That is, the percentage shares of the family itself. If it's known. If it's not known, then . . .

MR. GREEN: Let's say we know it. Let's say we know it. There are certain things which the Act says should not be the subject of question at a committee, and that is what is contained in a loan application. Let's say we know it from the loan application. Should we give that information of his shareholdings in this company?

MR. SPIVAK: If it was a public company . . .

MR. PARSONS: If it's a public company they have to be listed.

MR. GREEN: Not at all, Mr. Chairman. With respect, the directors have to be listed, not the number of shares that they have, and the shareholders are listed on the books of that company, but I don't think that the public company, every shareholder, is public information.

MR. SPIVAK: Okay. Then let me read another question. The shares that were requested were requested from the company or from the principals?

MR. GREEN: Were the shares issued out of Treasury or . . . ?

MR. PARSONS: Those shares were given to us by the principal. They were not issued out of Treasury.

MR. SPIVAK: Not issued out of Treasury, it was issued by the principal. Does he have a right to the re-purchase?

MR. PARSONS: No.

MR. SPIVAK: So there's no conditions at all with respect . . .

MR. PARSONS: We could sell those on the open market. This is not abnormal. Now, I think if you look back in the first Tantalum agreement when we retained an option, we took an option on shares there that we sold; it was 10, 000 shares in that company. As soon as we received them I sold them, but that was given as a bonus or a sweetener or whatever you . . .

MR. SPIVAK: What would those shares be on the open market today?

MR. PARSONS: Which?

MR. SPIVAK: Electro-Knit.

MR. PARSONS: Electro-Knit? They're quoted here at 65 to 75 cents as the current market value, on that information sheet that we handed out.

MR. SPIVAK: That's right. I'm sorry.

MR. CHAIRMAN: Any other questions? We proceed to Flyer Industries Limited.

MR. PARSONS: Flyer Industries, we do not have a statement to table. Their year end is 31st of December and their statement isn't prepared. We tabled the one from last year. I can tell you that the Flyer plants are back in production. Since we came back off strike we've completed about - yes, we've completed 16 buses since we came back off strike. Basically what that did was clean out our lines. We have changed the production lines around and we are actually back in production. At the present time, there's about 316 employees in the two plants. Last week was really the first start-up of the lines. We produced 4 buses last week; we'll produce 4 this week. We'll probably be up to one a day next week and we'll be two a day hopefully within a month. The new plant is going along much more efficiently now with our changes. We feel that we've overcome a lot of our production problems and a lot of the inefficiencies that had developed. Our order position: we have 540 trolley buses on order and 174 diesels, for a total of 714 vehicles. The total dollar value is about $48 million. We have not been quoting or taking any more orders, and we will not till we know exactly what our production can reach.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: The standard diesel bus, how many is that?

MR. PARSONS: 174 diesels.

MR. MINAKER: 174, for a total of . . . ?

MR. PARSONS: 714 vehicles. It's 540 trolley, 174 diesel, total dollar values 48 million. And those deliveries are scheduled through till 1977 on our quotes.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, through you to Mr. Parsons. Have you lost any bus orders other than the City of Toronto ones since the strike occurred?

MR. PARSONS: We did not lose the City of Toronto one, just to make that correction, and we have not lost any bus orders, no. The City of Toronto, we had bid and then we withdrew our bid, with their permission, because we could not promise delivery. They were very strict on the delivery clauses and when the strike was coming about we knew that we weren't going to be able to meet their delivery, we told them that and we withdrew our bid. There was no order ever issued from Toronto, and we have not had any order cancellations.

MR. MINAKER: Mr. Chairman, could Mr. Parsons advise, of the 714 buses ordered, is that a fixed price on each bus or is there any installation clauses?

MR. PARSONS: No, they're basically all fixed price. When we bid these, we built in an inflation factor, or a price factor, for the time. There are no escalation clauses per se.

MR. MINAKER: How far behind schedule are you now?

MR. PARSONS: Our diesel buses are the ones basically behind schedule. We're not behind on the trolleys because we don't start delivering those until next fall. We're anywhere six to nine months behind on some of them.

MR. MINAKER: Would this not absorb most of that escalation, or exceed it?

MR. PARSONS: Exceed it in some cases.

MR. MINAKER: So that we're committed to certain contracts where we know we will obviously not be covered. Is this correct?

MR. PARSONS: That's right.

MR. MINAKER: Are you at liberty at this time to say what the estimate loss will be for the contract?

MR. PARSONS: No. No, I'm not, because we don't . . . We hope, with our increased efficiency in the plant, that we'll recover a lot of that, but at this point I couldn't give you an answer.

MR. MINAKER: Mr. Chairman, also, with regard to the cash flow or capital required in order to keep up your accounts payable, what kind of dollars are we looking at for the company?

MR. PARSONS: On your information sheet, it shows you 23. 5. We don't anticipate at this point too much more. The inventories . . . We are shipping, of course, and collecting for buses now. A lot of this money was to cover the cost of inventory build-up. We may have to put in some more while we're getting over that hump. Basically, that should start coming back in because we will be reducing our inventories this year.

MR. MINAKER: Have you any idea, a ball park figure, of how much more has to be put in?

MR. PARSONS: We may have to go another million dollars to carry us through this inventory build-up.

MR. MINAKER: Mr. Chairman . . .

MR. PARSONS: We haven't completed our cash projections for the next six months, but it could be another million dollars on the build-up of inventories until we get into production.

MR. MINAKER: When can we expect that the City of Winnipeg orders will be delivered or are they partially delivered at this time?

MR. PARSONS: No, and I don't have that schedule. I could get it for you. We have all those scheduled now.

MR. MINAKER: Okay. Thank you.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Well, Mr. Parsons, is the City of Winnipeg aware of their schedule?

MR. PARSONS: Yes. Oh yes, we've advised - I don't think we've given them firm dates at this point, but we've given them estimated dates. This depends on our build-up of production, but we're just really getting back into that area now that we'll be able to firm up those dates within the next month.

MR. GREEN: Mr. Parsons, of the $23 million that has been advanced to the corporation, my understanding is that two million of that was advanced, which was formerly a line of credit that was given to you by a bank.

MR. PARSONS: That's correct.

MR. GREEN: And did the bank cut off its line of credit during the strike?

MR. PARSONS: Yes.

MR. GREEN: That was the line of credit of $2 million.

MR. PARSONS: Yes.

MR. GREEN: You are aware of the commercial world in other areas. Do you know of a bank's cutting off lines of credit during a strike?

MR. PARSONS: No, and we felt it was most unusual. Normally in the commercial world when you're on strike you would expect your banker to support you more, not call your loan.

MR. GREEN: Which bank was this?

MR. PARSONS: It's the Mercantile.

MR. GREEN: Thank you. Are you going to continue to do business with that bank?

MR. PARSONS: I'd rather not answer that question.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: Mr. Banman has a question and then I'd like to follow him.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Mr. Chairman, the shells sold to American Motors or the Washington order, have you been paid for that order?

MR. PARSONS: Not in full.

MR. BANMAN: Are there some problems with the shells that the Washington transit authority is experiencing?

MR. PARSONS: Yes, they have had problems; not from our workmanship that we have been advised. They are withholding funds at this time because of delivery dates. American Motors have had a problem. But not to do - that we are knowledgeable - they have not reported that it is because of our workmanship.

MR. BANMAN: But you are not receiving certain funds because there are complications.

MR. PARSONS: Yes. They have held back funds right now because of late delivery dates. We don't accept the fact that we delivered late. They delivered late to Washington and Washington are withholding funds from them. So they have held a percentage of that back from us. But we feel that we will recover that because our delivery dates were not out of line, totally out of line.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: I take it Mr. Parsons what you're essentially saying is that everything is sort of back on the tracks now and things are going to go reasonably well and that the cash flow will be such that you're going to be in a position to keep managing and you're going to get your production up to a point where you will either experience a profit or your losses won't be that great.

MR. PARSONS: Yes.

MR. SPIVAK: I'm not trying to put words in your mouth but that's . . .

MR. PARSONS: No, basically we are starting . . .

MR. SPIVAK: I wonder really how accurate that impression - because it's an impression that you're giving and I don't think you said it in the specific way that I have - how really accurate that is. Now I'm not faulting you for any enthusiasm or desire to try and see this thing turn around; but I am interested and I think that we, as members of this committee, have an obligation to obtain as much information as can be accurately given and impressions and inferences that can be obtained from the facts that we have. Now last year you indicated that you were aiming at total sales of $17 million.

MR. PARSONS: Yes.

MR. SPIVAK: Can you give me some indication of what those sales were - and I recognize the strike has come into it - but even up to that point, proportionately, what were the sales for last year?

MR. PARSONS: I don't have that. I'll have to get that figure for you. I don't want to guess at it.

MR. SPIVAK: What production levels did you achieve last year? What were your highest production levels last year?

MR. PARSONS: Oh probably in the beginning of the year in January and February, over a three or four week period we were producing five shells and five buses.

MR. SPIVAK: A week.

MR. PARSONS: Yes. That lasted for three or four weeks, then from there on it diminished.

MR. SPIVAK: How much were you losing a day and a week on that basis of production?

MR. PARSONS: I don't know. I don't have that figure.

MR. SPIVAK: Would you acknowledge that even at that stage you were still losing money.

MR. PARSONS: No, I don't think if we could have carried on at that basis throughout the year, of two a day, that we would have lost money. But we didn't, which is a fact.

MR. SPIVAK: Was there not an acknowledgement that there was in fact, to you, a loss and this was the requirement and the necessity for additional funding by the Fund, the request for more money simply because the production levels were not sufficient?

MR. PARSONS: Oh yes. The production levels were not sufficient to make a profit or generate enough cash. That's quite true.

MR. SPIVAK: So you're acknowledging that there wasn't a profit.

MR. PARSONS: Oh there wasn't a profit last year, no.

MR. SPIVAK: But you're not sure whether there was a loss or not.

MR. PARSONS: Oh I know there was a loss. I don't know the amount.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: I'd like to find out. . question whether there was a loss on the year and then Mr. Spivak introduced that you were losing when you were producing two shells, one bus and one shell a day.

MR. PARSONS: No I differentiated. I said if we were able to carry on throughout the

(MR. PARSONS cont'd) . . . . . year on that production basis I don't think we would have lost money. But we did not carry on throughout the year on that basis and we did lose money.

MR. SPIVAK: You don't think you would have lost money. Would there have been additional demands made on the government for more money if you would have kept on production?

MR. PARSONS: If we could have kept on that production schedule, no.

MR. SPIVAK: Well I suggest to you that you have a Stevenson Kellogg report that shows exactly the opposite to what you just said, and that that's within your knowledge and within the possession of the Fund.

MR. PARSONS: The Stevenson Kellogg Report shows . . .

MR. SPIVAK: Yes, basically suggests that if the production that you have talked about was maintained then in fact there would have had to have been substantial demands for more money and then in effect you were losing $150,000 a week.

MR. PARSONS: Are you asking me whether there's a report?

MR. SPIVAK: Well the Stevenson Kellogg report I believe was a management report that was commissioned I guess by Flyer and I'm suggesting that that report indicates the information that I've indicated.

MR. PARSONS: Yes.

MR. SPIVAK: And it's really in opposition to the position that's been taken here and the information that's been given.

MR. PARSONS: Well, it's quite possible that it's in - I have many reports that show them a lot more going too but . . .

MR. SPIVAK: No, but Stevenson Kellogg report was a report commissioned by the Flyer board of directors.

MR. PARSONS: Yes.

MR. SPIVAK: And that report itself deals with the problem areas of the company.

MR. PARSONS: And we had to take certain steps to correct, yes.

MR. SPIVAK: Yes. But that report indicates, I think and I want to be as accurate as I can . . .

MR. PARSONS: Had we not taken any corrective . . .

MR. SPIVAK: No, but I want to make this point if I can, Mr. Chairman. I asked you whether with respect to the production that was taking place at the time, you know, (a) whether there was a loss, (b) whether there would be a requirement for additional funds. And you have sort of indicated that had everything continued, that wouldn't have taken place. I suggest to you that before the strike even took place that in the hands of the board of directors was a report which indicated that Flyer was at that point in need of $150,000 a week.

MR. PARSONS: It needed more efficiencies.

MR. SPIVAK: Well, but it was a need in terms of pouring in of cash of approximately $600,000 a month in effect that really did take place because the government or the Fund at least had to pour the additional moneys in . . .

MR. PARSONS: That wasn't all losses, part of that was build-up, if you read the report. It wasn't total losses. . .

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, I'm trying to see whether there is a difference of opinion or a difference in dimension. Is the honourable member saying that when they were producing two buses a week that at that level the Stevenson Kellogg report said that at that level and with that continued production that they would still have lost $150,000 a day? Because that's the only -- (Interjection) -- $150,000 a week.

MR. SPIVAK: No, I think, Mr. Chairman, this is fairly important in terms of understanding this committee and understanding our function. I really would like to sort of clarify this because I think there's been a great deal of confusion that has been created about how we are supposed to operate here. I do not expect Mr. Parsons or the representative of the Fund who may speak to say or present anything that would be misleading or inaccurate. We are dealing with a pretty complex issue and an issue which has certain ramifications and Mr. Parsons' presentation was such to give an indication that things generally were fairly rosy and I'm trying to . . .

MR. PARSONS: No, I didn't say that.

MR. SPIVAK: Oh yes. Now if I can finish my remarks and then Mr. Green can address himself to me.

MR. GREEN: Well but, Mr. Chairman, on a point of order. The fact is that the honourable member has said that Mr. Parsons said that things were fairly rosy.

MR. SPIVAK: Well he indicated that at the production level that would be maintained, if it had been maintained through the year, that there would have been no problem and probably no loss and . . .

MR. GREEN: That was only with regard to a year ago in January when he said that they were producing a bus a week and a shell a week. What I heard him say about the present situation had nothing to do with rosiness.

MR. SPIVAK: Well, Mr. Chairman, you know he talked about it last year and he said if last year had continued throughout the year without the strike he believed . . .

MR. GREEN: No. He never said that. He said that the production diminished after it had been a bus a week and a shell a week, that it dininished before the strike, and that that's when they found out - that's when they were in trouble. And that had it not diminished he doesn't think they would have been in trouble.

MR. SPIVAK: You know he's . . . one bus a day . . .

MR. GREEN: That's right. And he said it went down from there. He said that it didn't stay but that was much before the strike. I think he said that that occurred in January and February.

MR. PARSONS: Yes.

MR. CHAIRMAN: Mr. Spivak, are you . . . ?

MR. SPIVAK: Well now let me understand . . .

MR. GREEN: And then Mr. Spivak said -- you see this is the point where I must say that one statement is being put up as a contradiction to a report which referred to another statement. The report that you're referring to, and I'm asking because I want to know, did it say that we were losing $150,000 a week even when we were producing a shell a week and a bus a week, because that's the only point at which Mr. Parsons said that he thinks if that would have continued it would have been all right.

MR. : You mean five a week.

MR. GREEN: Five a week. Excuse me, a day.

MR. PARSONS: It's per day not a week.

MR. SPIVAK: Let me understand . . .

MR. GREEN: That's the only point at which he said that everything was all right.

MR. SPIVAK: All right. Let's understand something, Mr. Parsons, so we understand clearly what we are talking about. You say that if five buses a week and five shells a week had in fact been produced you would not be in the position to have been losing money and it should have been able to carry itself. Now am I correct?

MR. PARSONS: If they were produced efficiently. There was a problem that we knew, that's why we got the report commissioned in the first place, we knew we had problems in the plant. You know our build-up of labour was . . .

MR. SPIVAK: I want to follow this through if I may, Mr. Chairman.

MR. PARSONS: All right.

MR. SPIVAK: You now say that you're producing two - all right, what is your production today?

MR. PARSONS: We produced four buses last week, we'll produce four this week, we'll . . .

MR. SPIVAK: Four buses and four shells.

MR. PARSONS: No, no, buses. We're not producing any shells.

MR. SPIVAK: Four buses.

MR. PARSONS: Four buses, correct.

MR. SPIVAK: How does that relate to your five buses and five shells?

MR. PARSONS: Well a complete bus would take twice as long as a shell. As I say we're shooting for ten complete buses.

MR. SPIVAK: All right. But you're also saying that you're not going to require any more cash flow from the MDC, that is Flyer will not.

MR. PARSONS: I said there might be an inventory build-up, in my reply to Mr. Minaker, there may be a million . . .

MR. SPIVAK: About a million dollars.

MR. PARSONS: Yes.

MR. SPIVAK: That's all you're suggesting you'll need, yet on the other hand during the

(MR. SPIVAK cont'd) . . . . . period of time of last year when your production was at one level of five and five and reduced, you were literally needing globs of money.

MR. PARSONS: No, no, not then. We didn't get the money - we didn't run into this cash crunch until beyond the middle of the year.

MR. GREEN: I think it was August that we gave the first . . . I can't remember . . .

MR. PARSONS: Well I gave you the dates.

MR. SPIVAK: When did you first find out that you were going to require additional money from the Fund? When did Flyer find out? From January on of last year, when did they know that there was going to be a cash shortage?

MR. PARSONS: I'd have to look back because we've discussed that.

MR. SPIVAK: Well I'm suggesting that you knew there was a cash shortage much earlier than August.

MR. PARSONS: Oh yes.

MR. SPIVAK: And I'm suggesting as well that you knew that you were losing money on the production levels that you had.

MR. PARSONS: Oh, certainly we did.

MR. SPIVAK: And I wonder, based on that, how you can come to the committee and in all seriousness suggest that you're not going to require additional cash requirements to continue on.

MR. PARSONS: We put the money in and there's going to be - we've built this inventory position up considerably since last year. We hope while we're producing - those inventories are far too high now so as they're coming down that frees up cash.

MR. GREEN: Mr. Chairman, just so that there is no misunderstanding because Mr. Spivak has now used the month of August -- (Interjection) -- No, Mr. Parsons didn't say it, I said it, and it was said from memory as the time that we gave the money, not when they found out that they were going to need it. And even then I may be wrong. But these are things that are a matter of record, it's not something that I would try to mislead on, but I would like to know when the advance was requested just so that now I check my memory, when did the Fund advance money in 1974 to Flyer Industries after, let us say, February of that year? When was the advance made?

MR. PARSONS: Well there was more than one advance so we would have to give you a schedule.

MR. GREEN: Well when was the first advance made? It would be in the Gazette in any event. There may have been an earlier one but my recollection was around the time of the seminar, although there may have been an earlier one.

MR. PARSONS: Yes. See we do in April and May. If you look at this, this is when we started our management changes. This is when we knew we had a problem.

MR. SPIVAK: I guess the other comment is the fact that you mentioned something about if you run efficiently . . .

MR. PARSONS: Right.

MR. SPIVAK: That was not the comment you made before. Well what is efficiently? Is it . . . ?

MR. PARSONS: We know that under the previous management there was certainly inefficiencies and I think these were mentioned by the union as well. We are endeavouring to correct those. We're doing more in time studies in the plant; we've got a more efficient assembly line now, we have changed the line around. This all came about because of that report that you're talking about. We knew there were inefficiencies. The plant was overstaffed; their material flows were not efficiently handled. The plant grew of course as you know from about 150 people to 550, and during that expansion their systems were not followed through. There was a systems breakdown, and we've reported on that previously. With these corrections we hope to become much more efficient than we were.

MR. SPIVAK: The Stevenson Kellogg Report that was commissioned, was it commissioned with your knowledge?

MR. PARSONS: With my knowledge? Yes.

MR. SPIVAK: So at the time that it was commissioned it was obvious to you, and it must have been to the members of the board, that there were problem areas of management.

MR. PARSONS: Oh yes. Severe problems.

MR. SPIVAK: Did you feel an obligation to indicate that to the committee when you were

(MR. SPIVAK cont'd) . . . . . present before the committee last year?

MR. PARSONS: I don't know whether it was mentioned or not.

MR. SPIVAK: No, I know. The problem is it may not have been mentioned by us in questioning but I'm now asking you as Chairman, did you feel any responsibility to indicate to the committee here that in fact there had been a consultant hired . . .

MR. PARSONS: Commissioner . . .

MR. SPIVAK: . . . or commission, to deal with the problems of production, the problems of . . .

MR. PARSONS: No, I didn't feel obligated to mention it. This was the management . . . at that point I don't think we knew that there was a . . .

MR. SPIVAK: Was there any concern from your point of view that the pricing on the buses had not been correct? That is the pricing for sale had not been accurate?

MR. PARSONS: Was there a concern on my part that it wasn't accurate?

MR. SPIVAK: Yes.

MR. PARSONS: Specifically no. They made up costing reports. Myself as a director looking at them there was some things that we questioned in their costing, for instance the number of hours that they were using to build a bus.

MR. SPIVAK: Well when the report was commissioned was not one of the considerations to determine whether there had in fact been a realistic approach to pricing? Wasn't that one of the terms of reference and concerns?

MR. PARSONS: It was a concern, I don't think it was a specific . . .

MR. SPIVAK: Well then again, when you were before the committee here giving information with respect to this particular company - and I admit that at that time there may not have been questions asked of you directly - did you not feel as Chairman of the corporation any obligation to indicate management problems, problems of pricing, problems of personnel, or do you consider those as just simply administrative and not responsible . . . ?

MR. PARSONS: No, I don't think at that time we knew the depths of our problem. You see that was before this. We knew there were problems but they didn't . . .

MR. SPIVAK: Well you were behind practically on every order you had at that time.

MR. PARSONS: Oh yes. We knew we had a problem but we didn't know how deep that problem was, or how long it was going to take us to correct it. I don't think it was - we reported that we were behind in orders at the committee meeting. We were trying to take positive steps to correct that, that's why the report was commissioned.

MR. GREEN: Mr. Chairman, let me make it quite clear so that it's not Mr. Parsons' responsibility but the government's responsibility. The government has said that Mr. Parsons will be made available to committee to answer questions of committee members. Mr. Parsons does not report to the committee as his board of directors. He will answer the questions and some he will find that he cannot answer. But that is what he is presented for, and he is obliged to deal with his internal problems to his board of directors, who in turn from time to time deal with them with the financial agent, namely the government.

MR. SPIVAK: I must say to Mr. Green that I think this is a matter more appropriately discussed and we will be discussing it . . .

MR. GREEN: Well that's fine. The only thing is that I . . .

MR. SPIVAK: But I'm asking Mr. Parsons; if Mr. Green is announcing that as a policy that was not my understanding here of the Chairman as an example. And I'll give you another example. I believe that during the committee hearings, or prior to the last committee hearing Mr. Parsons had received the financial report of Flyer. Now he did not have to present it to the committee, a managerial report for the last fiscal year, he didn't have to present it to the committee. We didn't know that it . . .

MR. GREEN: That's not correct, Mr. Chairman. I have told Mr. Parsons that he should not only present the last report but he should give up - and I announced this in the House as a policy - that he should give the members as far as he can information not only as to the report but up to the present time which he has done in every statement. The only point that I am making is if you are questioning Mr. Parsons on his responsibility, he has been told by the government that his responsibility is to report to committee as to the details of the MDC loans, and to answer questions insofar as they do not interfere with the commercial security of the companies.

MR. SPIVAK: Just on the point of Mr. Green. Can you tell me, Mr. Parsons, did you not receive the Annual Report on Flyer on April 18th, 1974?

MR. PARSONS: Did I not receive it?

MR. SPIVAK: Yes.

MR. PARSONS: I don't remember what date we received it.

MR. SPIVAK: Well on May 9th you appeared before the committee of last year and you answered questions on Flyer and no indication was given at that time that the report was available or it had been completed.

MR. PARSONS: Did we not . . . ? We tabled Flyer's Report last year. Are you saying that the 1974 statement was not tabled?

MR. SPIVAK: Yes. Well on May 9th when you appeared and questions were asked with respect to Flyer the report at that point had not been tabled.

MR. GREEN: No, but he would have answered the questions. You would have answered any questions up to the time.

MR. SPIVAK: What date? What date? As of what year?

MR. PARSONS: 1973, for December 31st, 1973.

MR. SPIVAK: No, I'm talking about December 31st, 1974. Your report of December 31st, 1974 . . .

MR. PARSONS: Oh we haven't got the report of - that's this year.

MR. SPIVAK: Oh I'm sorry, 1973, no I'm sorry.

MR. PARSONS: We tabled the 1973 report of December last committee meeting.

MR. SPIVAK: Which committee meeting?

MR. PARSONS: Last year.

MR. SPIVAK: On May 9th?

MR. PARSONS: I don't know what date it was but we tabled it when we got it.

MR. GREEN: He appeared several times and some of the report was not tabled the first time but it was tabled the second time.

MR. PARSONS: The same as I did this time. I tabled three more this morning.

MR. SPIVAK: No, you've indicated today that you do not have the statement for 1974.

MR. PARSONS: That is correct.

MR. SPIVAK: But with respect to the meeting of May 9th when questions were answered and my assumption - if there's no point in my proceeding with this I'll go back and be able to bring this again to the attention - but my impression was that you had within your possession the Annual Financial Statement which was not dealt with at that - or had not been brought . . .

MR. GREEN: Well, Mr. Chairman, I don't want all of the sinister aspects of this. If Mr. Parsons did not table it on May 9th because he had just received it and maybe not looked at it and did not know it and I don't know for what reason; he indicates that it was tabled last year for the members who could question him on it. And if he received it on April 18th and did not table it on May 9th but tabled it on the 23rd then I don't think that that is a factor for sinister questioning. He has nevertheless tabled it.

MR. PARSONS: Mr. Spivak, you're going by the date in the audit report? Is that the April 19th that you're . . .

MR. SPIVAK: Yes, probably, if it's when . . .

MR. PARSONS: Because you know that's the date that the auditor makes his report but it could take up to a month before we get it.

MR. SPIVAK: All right. Let me . . .

MR. PARSONS: That date really isn't the date that I receive it.

MR. SPIVAK: Well again I come back to something very basic here and I think this is the problem area we have and it may be that there is some inaccuracy either on my part or even in the specifics of the timing.

MR. PARSONS: Right.

MR. SPIVAK: My point, Mr. Parsons, is that the company was in serious problems; there was obviously going to be a request and would have to be a request for some additional funding from the government. There obviously had been a cash loss; there was a question of whether the pricing of the buses had been correct and the impression one would have from reading Hansards and from your appearance here last year was again that the situation was far more rosier than it actually was.

MR. GREEN: Well, Mr. Chairman. . .

MR. SPIVAK: Let me finish if I may, Mr. Green, and we'll argue about this afterwards. I'm suggesting to you that the company was in dire financial position last year; that

(MR. SPIVAK cont'd) . . . . . its management position was very bad; that there was serious questions as to the obligations that it had undertaken; that there were problems of cash flow because there were commitments that were made and in which there would have to be fulfillment of the contract before funds would become available, or cash flow would become available, to provide the opportunities for the company. The impression that was left was that we were in a much better position than we actually are. And the problem is that some of the - maybe the management decisions that should have been made, some of the decisions that the MDC should have taken, would probably have been taken more likely had that information been presented here, then in consequence of a number of other things and a strike having to occur and the representations taking . . .

MR. PARSONS: No.

MR. SPIVAK: . . . place on the part of the principals in the strike that the management was wrong and that in fact there were problems on the assembly line and problems in the whole operation.

MR. PARSONS: No. We started taking corrective . . . in May and June.

MR. GREEN: Mr. Chairman, on a point of order. The point that Mr. Spivak is making is that he was left with an impression that things were rosy. If the Chairman of the coproration has answered a question improperly then both he and I and the committee would be wanting to know about it and I'm sure Mr. Parsons would want to know about it. But for him to say that he got a general impression and that what Mr. Parsons was supposed to do was to come to the committee and say we're in trouble; we need money; we've got a manager who is no good; we're reinvestigating the plant . . .

MR. SPIVAK: Well . . .

MR. CHAIRMAN: Order, Mr. Spivak.

MR. GREEN: . . . Mr. Speaker, I am suggesting not the role of the Chairman nor is it the role of any commercial enterprise. He is to answer truthfully but I say it here now that it is not his terms of reference as far as I'm concerned to come to committee and report in every deal where there are problems with the running of Crown corporations. It affects creditors; it affects bankers; it affects everybody else and he is entitled to the same degree of liberty - not the same degree because in commercial corporations they outright lie about what their position is - he is entitled, provided he gives true answers to the members of committee, to deal with his commercial operations in the same way as anybody else.

MR. CHAIRMAN: Mr. Minaker. Mr. Spivak, you have further questions?

MR. SPIVAK: Well the point that Mr. Green has mentioned is something that I intend to debate in the House today and I . . .

MR. GREEN: Fine, sure.

MR. SPIVAK: . . . think that we'll have that opportunity and I really don't think at this point that . . .

MR. GREEN: Well then why bring it up?

MR. SPIVAK: Well but I made the point to Mr. Parsons because I think . . .

MR. GREEN: No, you're making it as a debating point.

MR. SPIVAK: No, I'm not making it as a debate. I make it again because I want him to review the statements that he's made with respect to this coming year based on all the projections that have been made and based on the past experience and the obligations and the likely cash flow and the obligations to perform part of the contract before money would be forthcoming.

MR. GREEN: He's given you that.

MR. SPIVAK: Well I'm just putting all of those and I'm asking him again whether he suggests at this point that all he's going to require from the government, or from the MDC as Flyer, will be another million dollars.

MR. PARSONS: Yes. And I have replied to that that I think because of the inventory build-up that took place, as we go forward in our production that inventory is going to drop down. As it is dropping down there is cash becoming available. I said to Mr. Minaker that there possibly will be another million dollars needed. But we haven't finalized - until we know exactly what the production we can get up to, then I would just be guessing because we don't have a true good cash flow position outlined.

MR. SPIVAK: I think to be true, you know, to be accurate on this thing when you talk in terms of a million dollars are you talking about this fiscal year or are you talking really for the next period of time, for the completion of these orders.

MR. PARSONS: No, I was talking about this fiscal period. But I don't foresee that there will be an increase after we get into production.

MR. SPIVAK: All right. In this fiscal year how many buses will you be delivering to San Francisco if you start in September, how many . . .

MR. PARSONS: I don't know.

MR. SPIVAK: Well is it not a fact that San Francisco will not be paying you until 90 percent of the contract is completed?

MR. PARSONS: Till 90 percent? I don't know the terms.

MR. SPIVAK: Well I believe the Stevenson Kellogg report will indicate that 90 percent of the buses have to be completed and I wonder how you intend to finance some 350 buses without having to come back to the MDC.

MR. PARSONS: I would hope that we find a banker that will help us finance, from a Flyer point of view. Right now . . .

MR. SPIVAK: But based on your banking experience . . .

MR. PARSONS: Flyer doesn't have any bank funds now. But I think a normal bank, a normal commercial, I would think that they would finance receivables.

MR. SPIVAK: Without the government's guarantee?

MR. PARSONS: Yes.

MR. GREEN: They do in other cases, receivables.

MR. SPIVAK: Mr. Green has already demonstrated that in a particular case one bank acted what he considered improperly. You're of the opinion that . . .

MR. GREEN: I didn't say improperly. I said they acted high-handedly.

MR. SPIVAK: Well I guess that's terminology, that's the terminology . . .

MR. GREEN: It was perfectly proper. And it indicates a certain degree of how the bank will treat the public as against treating their private enterprise friends.

MR. SPIVAK: Well with the possibility of the penalty clauses being invoked in the San Francisco contract, and with the impossibility of being say paid until 90 percent of the order is completed, do you really believe that you're going to be able to finance through a bank and not have to come back to the government for substantial sums of money to finance the order?

MR. PARSONS: If we don't get any banking help at all we may have to come back.

MR. SPIVAK: So that the one million dollar estimate could be 20 million dollars.

MR. PARSONS: If we had to finance the whole thing.

MR. GREEN: We'll make the interest instead of the bank. If it's receivables; it's good.

MR. SPIVAK: Well that's interesting but the question here is to try and determine the kind of cash flow and public involvement of moneys that are going to be involved in the process. Can I ask you, Mr. Parsons, are you in a position really to indicate that, as an example on the San Francisco contract and the other contracts to complete, that any profit whatsoever will be realized even if you were capable of reaching targets of production that you sort of felt were the ones that last year would have carried you through without a loss?

MR. PARSONS: No.

MR. SPIVAK: So there's going to be a substantial loss.

MR. PARSONS: I didn't say that. I didn't say that - I'm not in a position to say either way at this point.

MR. SPIVAK: Have you any information by any in-house undertaking or by the external consultants of what the likely loss will be?

MR. PARSONS: No.

MR. GREEN: Well, Mr. Chairman, again the honourable member asks a question and then proceeds on an assumption. He says: are you able to indicate a profit at this time? The answer is no. So he says: then there will be a loss. And the answer is again no. And he says: on the basis of this likely loss can you tell us what it will be? It has been indicated by the Chairman that he is unable to indicate at this point that there will be a profit or a loss. So then the Chairman has not said that there will be a likely loss. If the member wishes to indicate that he is saying that there will be a likely loss, that's different but he shouldn't say that the Chairman has indicated a likely loss.

MR. SPIVAK: Did the Stevenson Kellogg report indicate a likely loss?

MR. GREEN: That I don't know.

MR. PARSONS: Did you ask me a question?

MR. SPIVAK: Yes. Did the Stevenson Kellogg indicate a likely loss?

MR. PARSONS: On the San Francisco order?

MR. SPIVAK: No, just generally on the . . .

MR. PARSONS: Oh generally if there weren't corrections made, yes.

MR. GREEN: Now he's talking about the San Francisco order.

MR. SPIVAK: No, I talked in terms of the San Francisco order before and then I talked generally about the completion of the other orders.

MR. GREEN: It's difficult keeping up with him.

MR. SPIVAK: Well what you're basically saying at this point then, as I see it, is that corrections have taken place with respect to production. You don't know at this point precisely whether there will be a profit or not.

MR. PARSONS: That's correct.

MR. SPIVAK: You don't know particularly whether - well you may be and you're hoping at least to finance through means other than the Manitoba Development Corporation because I think you've acknowledged that funding is going to be required . . .

MR. PARSONS: Yes.

MR. SPIVAK: Substantial funding, and at this point . . .

MR. GREEN: Again, Mr. Chairman, again. He did not acknowledge. He said that if it is correct what you say, that 90 percent of the orders have to be delivered before there is payment, which he did not - he wasn't able to answer as I understood it, then he would need funding.

MR. SPIVAK: Well you know I think the question of the 90 percent of the orders having to be paid for is a pretty substantial question.

MR. GREEN: Well that's right.

MR. PARSONS: You asked me that question. I can't answer that. I don't -- is it 90 percent? Where did you get that because I . . .

MR. SPIVAK: It's contained in the Stevenson Kellogg report.

MR. PARSONS: It's contained in the Stevenson Kellogg Report on the San Francisco order.

MR. SPIVAK: Yes. And if that's the case it would seem to me that in some measurement of the financial requirements of this company and the cash flow that's going to be required and the involvement of the government that as Chairman of the Fund you would have some idea of what the implications of that would mean.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, through you to Mr. Parsons. How many buses are involved in the San Francisco order?

MR. PARSONS: Three hundred and forty-three I think it is.

MR. MINAKER: And what is the total dollar value of the order?

MR. PARSONS: Approximately $24 million.

MR. MINAKER: Half of the order is in the house.

MR. PARSONS: Yes.

MR. MINAKER: Then, Mr. Parsons, are you suggesting that the Flyer Industry Company accepted a contract for $24 million, half the order's in the house and you aren't aware of whether or not the contractual agreement called for 90 percent of the buses to be completed before any payment?

MR. PARSONS: I don't know that that is the correct figure.

MR. MINAKER: In other words the management even, you know, with a $24 million order wouldn't indicate to you of this commitment?

MR. GREEN: Mr. Chairman, I think that there is a series of questions being asked on the basis that there is indeed that commitment. Before Mr. Parsons is subjected to questioning based on that assumption he should be able to check whether the assumption is correct.

MR. MINAKER: Yes. Well, Mr. Chairman, I agree but I'm saying in the capacity of such a large order and such a commitment on the part of a company I would think that any particularities of a contract would be known.

MR. GREEN: Well if he doesn't know it doesn't mean that it's there.

MR. MINAKER: Mr. Chairman, I wonder when was the Stevenson Kellogg report commissioned?

MR. PARSONS: I don't know the exact date. I don't know the date.

MR. MINAKER: When was it received? Completed.

MR. PARSONS: I don't know that date either.

MR. MINAKER: Mr. Chairman, I wonder . . .

MR. PARSONS: It will be in the report though if you have a copy of the report.

MR. MINAKER: . . . Mr. Parsons, at any time did management indicate to you back in the spring or even earlier than that that the company was having a cost accounting problem, that it wasn't in control of the cost accounting of the company?

MR. PARSONS: No, I don't think the management per se reported to us that they were having a problem. Through our own checking we felt they were having a problem.

MR. MINAKER: Then when was it you were aware that there was a cost accounting problem at Flyer? The board.

MR. PARSONS: April, May, June. In that area was when we were discussing it.

MR. MINAKER: And so that prior to that there was cost accounting problems.

MR. PARSONS: Well there was cost accounting problems. You asked me when the board became cognizant of it and I said in the spring.

MR. MINAKER: So that prior to that obviously there must have been cost accounting problems in the operation of Flyer.

MR. PARSONS: Yes. They had a cost system set up, we're operating under a costing system.

MR. MINAKER: My reason for questioning, Mr. Chairman, is I'm wondering how the company arrived at prices for bidding.

MR. PARSONS: They had costing on all their parts. They were all listed and costed and so were all outside purchases. The area of most concern was the number of hours they were using to produce a bus. They were using a standard cost system. A standard cost system incidentally doesn't always give you accurate costing.

MR. MINAKER: What would be the percentage of labour component in the cost of the production of buses?

MR. PARSONS: They were using a figure of about 1,150 to 1,200 hours. The industry standard is probably 950 so they felt there was a fair margin there. They were actually taking longer than that to produce a bus, which at that point didn't look that bad because in the start-up of a plant there's a learning curve. The problem was the learning curve wasn't coming down rapidly enough but with our plant today we hope to be able to get down to less than 1,200 hours per bus. But I don't know how long that will take either.

MR. MINAKER: Based on two buses per day what will be the hourly manhours per bus in that type of production?

MR. PARSONS: Well as I say - and here again we're into a labour build-up so I can't answer that correctly. We're up to about 350 people now. We hope to get that down to below 1,500 hours within the next period. As your efficiency goes we should be able to get that down to . . .

MR. MINAKER: So if we're on an eight-hour day is it out there?

MR. PARSONS: Yes.

MR. MINAKER: And how many people? Three hundred and . . . ?

MR. PARSONS: Three hundred and fifty.

MR. MINAKER: So we're talking . . .

MR. PARSONS: Yes, but that's not all production labour. That 350 is total employment.

MR. MINAKER: But I would think, would you not in the overhead, etc., the source of your revenue for the plant is in the sale of the bus so I would think it would go into the manhours of the bus. Would that not come out at 1,400?

MR. PARSONS: No, your overhead is applied after as a percentage. Of the 360 of them that we have working there now there's only 200 are production.

MR. MINAKER: And that's all that would be shown in the . . .

MR. PARSONS: In the labour of a bus, yes. It's your production labour that I'm talking about. You apply an overhead factor to cover your salaries. -- (Interjection) -- Yes. That's too high.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Chairman, to Mr. Parsons. You gave us some figures just a second ago on your employment at Flyer now.

MR. PARSONS: Yes.

MR. McGILL: Two hundred hourly employees, roughly 160 on salary?

MR. PARSONS: Yes.

MR. McGILL: Now during the period we're discussing you've had quite a few labour problems. and the strike was mentioned.

MR. PARSONS: Yes.

MR. McGILL: You've also had some management problems.

MR. PARSONS: Yes.

MR. McGILL: Could you just chronicle for the committee the sequence of events in management that related to this general problem in the plant?

MR. PARSONS: I'm not sure quite how you want this question answered. We knew there was a management problem in April and May. This is when we started taking corrective measures.

MR. McGILL: When did the strike start?

MR. PARSONS: The strike started in the fall. It was the seventh of October.

MR. McGILL: Seventh of October, 1973 or 1974?

MR. PARSONS: 1974.

MR. McGILL: 1974. And you knew that management problems existed in April or May.

MR. PARSONS: Oh yes and we were starting to - we were taking corrective action, well, much before that.

MR. McGILL: When did the changes in the management personnel take place? There were a series of changes that were made.

MR. PARSONS: Oh yes. Right from August through - well up until the time of the strike we were changing management. We were making changes right through that time. And there was problems and there was problems in the labour staff too, not only in management.

MR. McGILL: Yes. So from October on you had a combination of a strike, labour problems and management problems.

MR. PARSONS: Yes.

MR. McGILL: Now, Mr. Parsons, it's been said by Mr. Green that the action of the bank was high-handed in cancelling out your line of credit there. And he said that he thought because they'd had a strike that this was done.

MR. PARSONS: Yes it was and that's why the bank stated their reason for calling that loan. As a matter of fact they also stated that once our strike was over and we were back in production they'd renew our loan. And that was the reason they gave and I related that to Mr. Green. I'm sure that's why he said that.

MR. McGILL: I'm sure that - I am not here defending any banks and I have no particular sympathy for banks but I think it would be reasonable and fair to include on the record the fact that your management situation was in a state of disrepair at the same time and isn't that more likely the . . .

MR. GREEN: That's not the reason they gave.

MR. PARSONS: No, quite frankly the bank called our loan which was $2 million and the MDC had to put up the money and their reason was that the plant was on strike and we were not producing and therefore they called the loan. They also stated that once we became productive and were producing buses again that they would reinstate our line of credit. And that was their reason, in writing. They did not say it was because of management or because of any of those other types of problems, they stated it was because of the strike and we weren't producing.

MR. McGILL: Well strikes are not uncommon in industry.

MR. PARSONS: No, and I think it's . . . of a bank to call a loan because of a strike.

MR. McGILL: But a combination of a serious strike and a bad management situation makes for rather a pretty difficult situation.

MR. PARSONS: I'm not disagreeing with that. You asked me the reason and the reason they stated was it was because of the strike. Not because of management or anything else. We weren't hiding the fact that we had management - they knew of the management changes probably before anyone else knew they were taking place. So they were right up to date on that.

MR. GREEN: They didn't call Chrysler Corporation when the union blamed the strike on bad management. Our account is as good as theirs. The bank knows we'll pay.

MR. McGILL: No, Mr. Chairman, I think possibly Mr. Parsons is getting some information on the series of events that took place in management at the plant. Can you give me that now?

MR. GREEN: No, he's getting other information.

MR. PARSONS: No.

MR. CHAIRMAN: Mr. Parsons, possibly you can conclude with that information and we can call the . . .

MR. PARSONS: There is one thing I would just like to put into the record. Mr. Spivak was asking me about the 90 percent that was not due until it was completely delivered. The normal payment terms on all the units - we've just got this - is 30 days after delivery. There is a 10 percent holdback on some of the last delivered units. There should be no major financing problem.

MR. SPIVAK: Mr. Chairman, just so that I can quote for the record. May I quote from the Stevenson Kellogg report, Page 5?

MR. PARSONS: Yes.

MR. SPIVAK: Dealing with the San Francisco order it says . . .

MR. PARSONS: I will table that at our next committee meeting if you wish.

MR. SPIVAK: Let me quote from Page 5 of the . . . "On the other hand your San Francisco order carries a heavy penalty of $20.00 per day on delayed delivery with the whole of the $30 million sale held for payment until there is 90 percent completion of the order."

MR. : Has that been renegotiated?

MR. SPIVAK: Well it may have been renegotiated but based on the Stevenson Kellogg report as of July of 1974 it states that 90 percent . . .

MR. PARSONS: I don't remember that specifically. I'm not sure that they - that may be the way it reads. Anyway I will give you the terms at the next meeting.

MR. CHAIRMAN: Committee rise.