

**MEETING STATUS: PUBLIC**

**LEGISLATIVE ASSEMBLY**

**SESSION: 62/2**

**PRINCE EDWARD ISLAND**

**Motion No:**

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**VERBATIM TRANSCRIPT OF  
HOUSE COMMITTEE PROCEEDINGS**

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**COMMITTEE: STANDING COMMITTEE ON PUBLIC ACCOUNTS**

**DATE: Tuesday, January 18, 2005**

**SUBJECT(S) BEFORE THE COMMITTEE:**

Consideration of the 2004 Report of the Auditor General to the Legislative Assembly and Polar Seafoods Audit.

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**NOTE:**

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**COMMITTEE**

**MEMBERS PRESENT:** Ronald MacKinley, Chair  
Jim Bagnall, Vice-Chair  
Wayne Collins  
Wes MacAleer  
Cletus Dunn  
Dr. David McKenna  
Hon. Robert Ghiz

**MEMBERS PRESENT:** Richard Brown

**MEMBERS ABSENT:** Wilbur MacDonald

**GUESTS:** Colin Younker, Auditor General  
Allan Moore, Auditor General's Office  
Jane MacAdam, Auditor General's Office

**STAFF:** Marian Johnston



**STANDING COMMITTEE ON PUBLIC ACCOUNTS**  
**Tuesday, January 18, 2005**  
**10:00 a.m.**

**Ron MacKinley (L) (Chair):** We'll call the meeting to order. Since the last meeting, we have got a copy of the Auditor's Report on Polar International. Does anyone know how to get rid of this phone?

**Jim Bagnall (PC):** If I can see it for two seconds, I'll show you how.

**Ron MacKinley (L) (Chair):** . . . turn it off, it's hooked up to my house, it's \* something. Does anyone know, is it \*72.

**Jim Bagnall (PC):** Just turn it off.

**Ron MacKinley (L) (Chair):** I can't turn it off. I'll try \*66. Alright, I'll call to order, sorry for the interruption there. Consideration of the 2004 Report was what we had agreed to meet on last meeting. Since then, the Leader of the Opposition has requested that we bring the Audit Report and discuss it at their earliest possible convenience. Now in order to discuss this report before we continue on, we'd have to have a motion or agreement among the committee to do it that way.

**Jim Bagnall (PC):** Mr. Chair.

**Ron MacKinley (L) (Chair):** I move that we, due to the importance of the Polar Foods International Audit, that we forgo the number two on our list today and move directly to the Auditor General's Report on Polar Foods.

**Honourable Robert Ghiz (L):** I'd like to thank the honourable member for accepting my suggestion on that and it's much appreciated.

**Ron MacKinley (L) (Chair):** Now have we got agreement to that? AGREED. That's what we'll do.

**Honourable Robert Ghiz (L):** Mr. Chair.

**Ron MacKinley (L) (Chair):** Yes.

**Honourable Robert Ghiz (L):** I'd like to go over some ground rules perhaps before we start,

hearing from the Auditor General. (Phone Ringing)

**Richard Brown (L):** Throw that through the window.

**Ron MacKinley (L) (Chair):** I'm trying to, it won't go silent.

**Jim Bagnall (PC):** I'll stop it. Put it on the floor. Give it to one of your members to take upstairs to your office or something.

**Ron MacKinley (L) (Chair):** I'll put it out here. Anyway continue with the ground rules.

**Honourable Robert Ghiz (L):** I'll just wait for the chair to come back.

**Ron MacKinley (L) (Chair):** No, go ahead.

**Honourable Robert Ghiz (L):** Okay, I think there's some things that we have to discuss here before the outset of hearing from the Auditor General on this and the first one would be terms of reference for a forensic audit. Everyone has now, I believe, had the chance to review the report from the Auditor General on the Polar debacle and I believe that everyone realizes that the Auditor General has called for a forensic audit for a certain time frame.

As everyone knows, the Auditor General is a mechanism of the Legislative Assembly. For anything along these lines to be approved has to go through—especially an increase in budget—would have to go through the Legislative Audit Committee and I'd like to hear from the Auditor General first perhaps if he can, give us the terms of reference on what he's looking for the forensic audit and perhaps a budget and then we can send that back to the Audit Committee to then be approved.

So the first thing I would like to address and perhaps we can discuss it here first or maybe the Auditor General already has a copy of some terms of reference for forensic audit but believe, and I've

heard from I guess, the government has indicated that they believe everything in here should be approved in the Auditor's Report. But now that the Auditor General is perhaps going to have to hire another accounting firm which I believe would probably increase his budget, and the Auditor General tells us that he has got that already worked into his budget, I believe we should have a look at the terms of reference for the forensic report.

**Cletus Dunn (PC):** Mr. Chair, I'd suggest that in dealing with Report No. 10.10 recommendation, I think—I agree with what you're saying but I think it should be dealt with in the report as it appears.

**Honourable Robert Ghiz (L):** Oh, this could take us a month to get through though and the Auditor General wants to get to work right away on this forensic audit and get it out of the way as soon as possible. I don't think, if we have to wait till that point to deal with when we're going to talk about the forensic audit—we all know what's in there. We all know that the government has said that they needed to go ahead. We all know that the Auditor General has said they needed to go ahead. So I think we should get the terms of reference in order and find out if the Auditor General perhaps needs an increase in his budget to get this underway because it's not government that gives out the Auditor General's budget, it's the Legislative Assembly and the Legislative Audit Committee.

**Ron MacKinley (L) (Chair):** Before we get going any farther, is it okay if the chairman addresses or people addresses you by your name rather than your district?

**Members:** Sure.

**Ron MacKinley (L) (Chair):** In agreement? Alright.

**Jim Bagnall (PC):** Mr. Chair.

**Ron MacKinley (L) (Chair):** Yes.

**Jim Bagnall (PC):** Have you started anything on the forensic audit as of yet?

**Colin Younker (Auditor General):** No, we haven't. We haven't—other than a submission contact with a firm in town, I haven't done any terms of reference or done any quotes or that type

of thing. We're looking at what the budget would be.

**Jim Bagnall (PC):** When do you anticipate you can start it?

**Colin Younker (Auditor General):** Well we're start it as soon as we can arrange it and we'll get somebody to do it.

**Jim Bagnall (PC):** Because I think it's very important that this get done and done immediately and as fast as possible, this forensic audit gets started.

**Colin Younker (Auditor General):** We've made the initial contact but we haven't gone the next step.

**Jim Bagnall (PC):** And you got a deadline that you think that you can get started by?

**Colin Younker (Auditor General):** I don't have a deadline today. We'll do it as soon as we can.

**Honourable Robert Ghiz (L):** Who does—a forensic audit, that would have to be done I guess, by an accounting firm?

**Colin Younker (Auditor General):** It can be an accounting firm, yes.

**Honourable Robert Ghiz (L):** I would presume to find an accounting firm on Prince Edward Island that hasn't had dealings with Polar Foods, that hasn't had dealings with Ocean Choice; that has not had dealings with the Government of Prince Edward Island on this file; that has not had dealings with the Bank of Nova Scotia on this file; perhaps that has not had dealings with one of the many shareholders that was involved in Polar Foods, I presume is probably going to be difficult given our size here in Charlottetown. Perhaps you can correct me on this, but just from some of the research I've been doing on it, it will be difficult to find someone who has no ties to this. I'm just wondering, perhaps you have to go out of province to find someone to be able to do this forensic audit?

**Colin Younker (Auditor General):** I have initially contacted one of the firms in town and they do have a conflict. I've asked them for a list of names and the comment from them is that I will

probably will have to go out of province to get the work done.

**Honourable Robert Ghiz (L):** So would that be—and within your budget, like we were discussing here, will you need an increase in your budget to be able to pay for this forensic audit?

**Colin Younger (Auditor General):** We'll need an increase in our budget to pay for it.

**Honourable Robert Ghiz (L):** So we should, I guess as a committee, ask. . .

**Jim Bagnall (PC):** That would have to go back to Legislative Management, I would believe.

**Honourable Robert Ghiz (L):** . . . the Legislative Audit Committee.

**Jim Bagnall (PC):** The Legislative Management authorizes expenditures of money. I don't think the Audit Committee does. It can do for it to go ahead but as far as budget, it has to go through Legislative Management because all budget figures go through Legislative Management, in which you're a member of.

**Ron MacKinley (L) (Chair):** Well, the way it would work, if this committee decides, we'll make recommendations to the House or the Management Committee, but it will have to come from the committee as a majority. A question - how many hours did you spend on this report that we got done?

**Colin Younger (Auditor General):** It was about 2,500 hours.

**Ron MacKinley (L) (Chair):** Twenty-five hundred, so does that put a –2,500 hours seems like a lot of hours for your department. Is that counting what Wayne Murphy did in 2002?

**Colin Younger (Auditor General):** No, that's from the time we started till now.

**Ron MacKinley (L) (Chair):** Yeah, so it's just not you did it, it's going back to Wayne Murphy.

**Colin Younger (Auditor General):** No, no, just from when we started this spring.

**Ron MacKinley (L) (Chair):** Oh, and how many hours have you got on this report is work, like 2,500 is more than a person works in a year, one auditor.

**Colin Younger (Auditor General):** We had a number of staff working on it.

**Ron MacKinley (L) (Chair):** Yeah, but how many hours staff have you got? Like how many hours do you have, 5,500, 8,500 hours to work?

**Colin Younger (Auditor General):** We have about, for value for money audits, we have about 9,500 hours each year.

**Ron MacKinley (L) (Chair):** So this has already taken over 30 per cent of your budget to do this one. Anyway. . .

**Honourable Robert Ghiz (L):** Will you need an increase in your budget to. . . ?

**Colin Younger (Auditor General):** Yes.

**Honourable Robert Ghiz (L):** . . . so I guess the best mechanism to do that is for the Auditor General to send a letter to the Chair of Public Accounts and then the Chair of Public Accounts can refer that to the committee if it's necessary. Perhaps your letter goes to the Speaker?

**Ron MacKinley (L) (Chair):** No, no, the letter goes to the Chair of the Public Accounts Committee which we then, in turn, take that letter, discuss it here and make recommendations whether we agree or not and then it's got to be turned over to the Speaker or the Committee of Legislative Management.

**Honourable Robert Ghiz (L):** Okay.

**Jim Bagnall (PC):** So Mr. . .

**Ron MacKinley (L) (Chair):** Mr. Bagnall.

**Jim Bagnall (PC):** Mr. Auditor, so you're going to need extra funds?

**Colin Younger (Auditor General):** As far as I know, I'll need extra funds. I have to get an idea of what their terms of reference will be.

**Jim Bagnall (PC):** So will you do up a request for this committee then, to this committee?

**Colin Younker (Auditor General):** I can do it through this committee if that's what they like. Our budget is normally, I guess, under the Legislative Audit Committee.

**Honourable Robert Ghiz (L):** It is the Legislative Audit. It's not Legislative Management.

**Jim Bagnall (PC):** Okay.

**Honourable Robert Ghiz (L):** And I'm the only member here who sits on the Legislative Audit but I'm sure that I'll be making sure that you'll be able to get that increase in your budget.

**Ron MacKinley (L) (Chair):** Mr. Brown.

**Richard Brown (L):** Yes, Mr. Chairman, just to clarify, under the *Audit Act*, which I think we should all read and that's the act that governs the conduct in the Auditor General's Office. It's quite a powerful act and so it should be.

The Auditor General shall submit annually to the committee which is the Audit Committee, an estimate of the sums required to be provided by the Legislative Assembly for the carrying out of the functions of the Auditor General under this act during the fiscal year.

I have one question too, to the Auditor General is that under section 12 of your act, it says the Auditor General may, subject to the approval of the committee which is the Audit Committee, engage the services of such counsel, consultants, accountants and other experts that he considers necessary in order to carry out the functions of this act. So will you be making a submission to the Audit Committee for the forensic audit?

**Colin Younker (Auditor General):** Yes, I'll have to make submission for the budget for it.

**Richard Brown (L):** Okay, and for the hiring of the outside consultant because it says here, the Auditor General may, subject to the approval of the committee.

**Colin Younker (Auditor General):** And that would include—get the terms of reference (Indistinct)

**Jim Bagnall (PC):** We just discussed that.

**Honourable Robert Ghiz (L):** No, you thought it was the Legislative Management—we're just correcting.

**Richard Brown (L):** So that is the Speaker, the Provincial Treasurer and the Leader of the Opposition will approve that committee. Thank you.

**Ron MacKinley (L) (Chair):** Mr. Collins is next.

**Wayne Collins (PC):** Thank you, Mr. Chair. Just a couple of quick questions. I wonder for the edification of all present and members of the general public as well, if the Auditor General would give us his definition of what is a forensic audit. I'd like him to tell us why he recommended one in 10.10 and why for the specific period mentioned.

**Colin Younker (Auditor General):** A forensic audit is a more detailed audit, much more work than we would do and there would be interviews and go back to the records of the company during that period of time. We set that date for a couple of reasons and I think it's discussed in 10.10. One is that's from the time entered the marketing arrangement, that was one issue. Some of the things we found near the end with inventory and accounts receivable, you'd have those things clarified and the largest loss was in the final year and there was an adverse audit opinion in the last year. The other years had an audit opinion so I've set those as the initial guidelines.

**Wayne Collins (PC):** I wonder if you could just elaborate a little bit further. I think the connotation many people have of forensic audit is it's the sort of automatic assumption that some wrongdoing has occurred or something fraudulent in nature. Is that necessarily the case or is a forensic audit to be interpreted in a more generic fashion?

**Colin Younker (Auditor General):** It's to determine if there is a problem. It's more to determine if there is a problem, then we have to go the next step. My understanding of a forensic audit is that it gets enough information that if you have to go to court, you can go to court. That's the way I understand forensic audit.

**Ron MacKinley (L) (Chair):** Like right now you don't have enough information, say to contact the

RCMP on this matter.

**Colin Younker (Auditor General):** We have some items to be cleared. There's items to be cleared is our feeling on the file.

**Ron MacKinley (L) (Chair):** Yeah, but have you—you don't have enough information to contact. . .

**Colin Younker (Auditor General):** No.

**Ron MacKinley (L) (Chair):** But a forensic audit means you could go one step forward to the commercial crime section of the RCMP or to court or whatever. Mr. Ghiz.

**Honourable Robert Ghiz (L):** Thank you, just back on some of the things—ground rules that I think we should also go over is we should also discuss if we're going to—since this committee has subpoena rules if we're going to, which witnesses we will be subpoenaing or asking, I guess, first before you'd have to issue a subpoena to come before the committee. I know from myself, I'd like to hear from a lot of the perhaps deputy ministers that have been involved in this file, perhaps the former head of B.D.I

**Ron MacKinley (L) (Chair):** Former ministers.

**Honourable Robert Ghiz (L):** Former ministers - there's a lot of different people. Perhaps the receivers on the issue, perhaps the bank on the issue when they first got involved with it. I think there's a lot of different groups and organizations and individuals that I would like to hear from so I'm wondering if we could perhaps now discuss a proposed witness list to come before the committee, Mr. Chair.

**Ron MacKinley (L) (Chair):** Is it up to the committee?

**Cletus Dunn (PC):** Mr. Chair. I think it's kind of premature to look at that before we even look at the report. I think we'd be even more astute in going through the report and find out exactly who we want to determine who's going to be here. I think by creating a list before we even start is presumptuous.

**Honourable Robert Ghiz (L):** I'd like to go—if the members want to wait until this is over, or until we

hear from the Auditor General and then perhaps discuss who we would like to have in then, I guess we could do that. It's—I'd like to do it now but if the committee recommends that we wait till after, I guess we can wait until after.

**Jim Bagnall (PC):** My thinking is we should go through the report because I imagine there will be people that we might want to ask to come before our committee or we may not, depending on what we hear while we're going through the report. So I think that we should go through the report first and then decide who and if or what or how many people we're going to call in at that time.

**Honourable Robert Ghiz (L):** Okay, Mr. Chair.

**Ron MacKinley (L) (Chair):** Yes.

**Honourable Robert Ghiz (L):** Then it's not a bad point that the honourable members make, but since they make that point, I'd also like the committee to consider or perhaps the honourable member from Charlottetown-Spring Park has already considered it. He is potentially one of the major witnesses to come before this committee. He was—the Auditor General was very specific in this report on the setting up of Polar Foods and a lot of the oversights that were made at that time by the Premier and Executive Council and I believe, that along with the Premier, his prime architect for this Polar deal was his Minister of Development at the time who happens to be sitting on this committee now.

So perhaps as a future witness that we're going to have before this committee, the member from Charlottetown-Spring Park should excuse himself from proceedings that might be happening while the Auditor is before the committee. So I believe that the honourable member from Charlottetown-Spring Park, not that I know he wouldn't have good questions or anything, but he is a potential witness. I don't think anybody can argue that. He did play a major role in the Polar issue and might have some information that would prove useful to this committee and to Islanders and by being here, might be able to perhaps influence things along the way. So I think for perhaps the best interests of the committee and for the member from Charlottetown-Spring Park, he should excuse himself from these committee hearings.

**Ron MacKinley (L) (Chair):** Mr. Ghiz, under the

Rules of the Legislative Committees, the only people who have to excuse themselves or can't sit on it is Members of Executive Council.

**Honourable Robert Ghiz (L):** I'm just asking himself, perhaps he wants to excuse himself from it.

**Jim Bagnall (PC):** I don't think there's any need. I think the member is entitled to ask the questions and I'm quite sure if this committee wants to direct any questions to the honourable member, I'm sure he'll answer them to the best of his ability.

**Honourable Robert Ghiz (L):** So we can ask questions to the honourable member then while we're asking questions to the Auditor General?

**Jim Bagnall (PC):** If this committee should decide that that's the way we want to go.

**Ron MacKinley (L) (Chair):** The way we should have questions to the honourable member, as being chairman, is we should give him notice that in a few days and then we'll go through the committee and the honourable member would have to sustain from voting whether he comes before us and it would be decided by the majority of the committee.

**Honourable Robert Ghiz (L):** How does the honourable member feel? Are you comfortable in sitting here, having known that a lot of the issues in here, you've been one of the main architects and very much involved in this process?

**Wes MacAleer (PC):** Mr. Chairman, I'm not comfortable sitting here knowing that this situation exists but am I prepared to do that? Yes. I don't feel—I think that the public interest here has to be served and I'm prepared to take the heat, if that's necessary.

**Honourable Robert Ghiz (L):** I think the honourable member should be taking the heat though from the—as a witness, not asking questions.

**Ron MacKinley (L) (Chair):** We can't do that. We can—like if the honourable member sits there, I'm just talking the way the House Rule works—if the honourable member sits here—if we decide that you want him as a witness, as a committee, then the honourable member would not be able—he'd

have to sustain from voting on whether he comes before us or not. Then it would be up to the committee and what would take place then as he's being a witness, they have an opportunity to replace him for that particular day of the meeting. That's the way the House Rules work.

**Honourable Robert Ghiz (L):** Okay, so if the honourable member is comfortable with being here, I don't think it's appropriate but that's up to his decision to make.

**Jim Bagnall (PC):** Okay, have you got anything else before we move on?

**Honourable Robert Ghiz (L):** Yes, the last issue is—and perhaps the Auditor can let us know about this—with regards to—I found a list of who you interviewed along the way here and I'm wondering if we could have a list of the people that were interviewed for this process to find out where, in fact you received the majority of your information and that could help us perhaps after you're done presenting to help us make up a witness list on where the information, the people that you interviewed to receive the information, if that's okay with committee members.

**Jim Bagnall (PC):** If it's permissible with the Auditor General to give the information, I think we should have it.

**Ron MacKinley (L) (Chair):** Anyway we're out of here at 12:00 with the Auditor, 12:30 I guess today with the Auditor so if we could start the report now, would that be okay? How would you like to start the report? Start at Number 1 - Introduction.

**Richard Brown (L):** Read it.

**Ron MacKinley (L) (Chair):** Agreed? Start the report.

**Colin Younker (Auditor General):** I'll start with the Introduction. On May 11, 2004, Executive Council issued an Order in Council requesting the Auditor General to undertake a review of government's financial support to Polar Foods International Inc. as well as steps taken by government throughout its relationship with the company to protect the interest of taxpayers. Under section 14(d) of the Audit Act, the Auditor General shall undertake special assignments or

investigations at the request of the Lieutenant Governor in Council. In addition, the Standing Committee on Public Accounts passed a motion requesting the Auditor General to carry out an audit on the financial affairs of Polar Foods International Inc. and report back to the committee in his 2004-2005 Annual Report.

On February 27, 2004, government purchased all security held by the Bank of Nova Scotia and provided by Polar Foods International Inc. (Polar Foods) for the sum of \$49.5 million. An additional \$2 million was paid to a private corporation to acquire security on one of the processing plants bringing the total payout to \$51.5 million. Government appointed a Receiver to manage, protect and liquidate the assets to the benefit of the province. On March 24, 2004, government signed an agreement of purchase and sale whereby a substantial portion of these assets were sold to Ocean Choice PEI Inc.

**Honourable Robert Ghiz (L):** The \$2 million paid to a private corporation, what was that private corporation?

**Colin Younker (Auditor General):** Babineau Seafoods.

**Honourable Robert Ghiz (L):** Okay.

**Jim Bagnall (PC):** That's for the plant in Souris?

**Colin Younker (Auditor General):** The Souris plant, yes.

**Honourable Robert Ghiz (L):** And why was that paid out? I think you might go into this later on but . . .

**Colin Younker (Auditor General):** We talk a bit later on in the section but just briefly, it was a separate mortgage, a separate security on that plant when it was transferred into the company.

**Honourable Robert Ghiz (L):** So that would have been a deal that would have been made back in 97, 98 with the formation of Polar Foods that there was kind of an escape clause there. This would go into probably, I guess, some of the shareholders being good negotiators at the time.

**Colin Younker (Auditor General):** This was negotiated, this part of the deal at the time.

**Honourable Robert Ghiz (L):** You did that, Wes? You did that? You negotiated that \$2 million mortgage.

**Wes MacAleer (PC):** I'm sorry I was looking at something else.

**Honourable Robert Ghiz (L):** Well the \$2 million mortgage, this was negotiated back prior to the deal being done. You negotiated that \$2 million?

**Wes MacAleer (PC):** I didn't personally but I assume my department did.

**Honourable Robert Ghiz (L):** So you weren't involved in the file right from the beginning?

**Wayne Collins (PC):** (Indistinct) question the Auditor General.

**Honourable Robert Ghiz (L):** We also agreed that we could ask the honourable member questions along the way.

**Cletus Dunn (PC):** We didn't agree on that.

**Jim Bagnall (PC):** No, we did not.

**Honourable Robert Ghiz (L):** I think. . .

**Ron MacKinley (L) (Chair):** Just to get the Rules straight and not to have the same thing as we had last year, if we want to ask the honourable members questions, Wes MacAleer, I can use his name, we'll have to put it through the committee and he'll have to come as a witness. We can't have people asking Wes this or that.

**Honourable Robert Ghiz (L):** Sorry, I was just going by what the vice-chair said.

**Jim Bagnall (PC):** No, the vice-chair didn't say that.

**Ron MacKinley (L) (Chair):** Anyway, he was a little mistaken. The reason is if Wes wants to talk after and that, but the Auditor General is here right now and his people and that's who we're going to ask the questions of. If we want Mr. MacAleer to come before us, there will be a motion made and a vote taken on it and that's when that will be done.

**Honourable Robert Ghiz (L):** He'll be well prepared for those questions then.

**Ron MacKinley (L) (Chair):** Continue Mr. Brown.

**Richard Brown (L):** Thank you, Mr. Chairman. So the private corporation, Babineau Fisheries got a mortgage on the property with the corporation. They leaned a mortgage. They filed a mortgage. Did the government file any mortgages with their loans? Did they require, you know, if this private investor is filing a mortgage, we should file mortgages also in order to protect our investment. Was there any mortgages filed at that time in order to protect the government's investment?

**Colin Younker (Auditor General):** There was a collateral debenture originally which would put them second in line to the security held by the bank. . .

**Richard Brown (L):** And that's registered, you can bring us a copy of that?

**Colin Younker (Auditor General):** We can bring a copy of that.

**Richard Brown (L):** So it was a second mortgage, not a first mortgage.

**Colin Younker (Auditor General):** It would have to be a second.

**Richard Brown (L):** So we put up the bulk of the money but we took second fiddle, more or less, to the investment. Okay.

**Honourable Robert Ghiz (L):** So only if the company went bankrupt and the Bank of Nova Scotia was going to receive all the money back that they (Indistinct) then could the government start to receive some of their money back.

**Colin Younker (Auditor General):** The bank was in first position on the mortgages and Babineau's in first position, Babineau Seafoods was in first position on the \$2 million mortgage.

**Honourable Robert Ghiz (L):** So even before the Bank of Nova Scotia.

**Colin Younker (Auditor General):** Before the

bank, it was separate.

**Richard Brown (L):** So just to get the receivership right, could you just go through that initial stage there, like you know, we understand those meetings at 10:00 o'clock, 12:00 o'clock at night with the banks and a decision was made at the last minute to take out the bank's \$51 million. Can you explain what happened during that period of time with the \$49 million and the \$51 million, how it proceeded just before that? What I understand is that the bank called its loan and said if you don't have it ready by such and such a date, if you don't have me the money on such and such a date, I'm going to call the receiver in. And then what happened at that point in time?

**Colin Younker (Auditor General):** The bank called the loan, it was February 16<sup>th</sup>.

**Honourable Robert Ghiz (L):** Sorry, could you repeat that?

**Colin Younker (Auditor General):** February 16<sup>th</sup>.

**Honourable Robert Ghiz (L):** This was when they gave ten days or something?

**Colin Younker (Auditor General):** A ten days notice at that time to respond. I think that's under the legislation. So then at that time, the government could have let the bank go ahead and put the company into receivership. They had two options. They could do that or they could buy out the debt and sell the assets themselves. The decision was made to do that, to buy the assets, to sell them, to appoint a receiver and sell them in order to try and get it done before the lobster season opened and hopefully, that they would do a better job in getting the money, get as much money for the assets as they could.

**Richard Brown (L):** So what you're saying is the bank wouldn't have followed through at a quick pace to liquidate the assets. They would have taken years? The bank would have said, look, we got \$51 million owed to us. We'll just take our time in liquidating this?

**Colin Younker (Auditor General):** The bank, the way I understand that the security, the bank had been paid up front by the government anyway and then liquidate the assets after.

**Richard Brown (L):** So they would have went after the government and said, you owe us \$26 million?

**Colin Younker (Auditor General):** Yes.

**Richard Brown (L):** And then they would have started the liquidation. How long would that have taken?

**Colin Younker (Auditor General):** I'm not sure. We had some discussions with the receiver and he felt this was a quicker way to do it, is to do it this way, the way that the government did it.

**Richard Brown (L):** But if it would have went through the receiver, the bank receiver, it would have been more of a public process. It would have been filed by the courts and the courts would have issued orders and the public--would have been more of a public open process.

**Colin Younker (Auditor General):** It would have taken a longer time to do it. That's the feedback from the receiver, anyway.

**Ron MacKinley (L) (Chair):** Wayne.

**Wayne Collins (PC):** Thank you Mr. Chair. But gentlemen, isn't it also true that if they had gone the route of the bank in the beginning and appointing its own receiver that the process, I mean, takes a great deal longer and given that at that particular time of February, a month and a half or so before the start of the lobster season or two months before the start of the lobster season on Prince Edward Island, is it not likely that very little would have been achieved in time for a successful lobster season?

**Colin Younker (Auditor General):** That was one of the concerns that the government had.

**Wayne Collins (PC):** Absolutely.

**Richard Brown (L):** Concern of the government.

**Wayne Collins (PC):** I mean it would take the banks and I don't mean to put the banks down but I mean the receivership on a private thing like that could take a number of weeks even just changing the locks on the doors to get things rolling so there's sort of an imperative here. I just want to

point that out. Thank you Mr. Chair.

**Honourable Robert Ghiz (L):** It wouldn't helped Anglo or Howard's Cove.

**Richard Brown (L):** Yeah, at the end of the day, those plants shut down.

**Wayne Collins (PC):** Who's to say the banks would have done any better?

**Richard Brown (L):** Who's to say they wouldn't?

**Wayne Collins (PC):** Do you think the banks have an interest in whether or not Howard's Cove is open or closed?

**Richard Brown (L):** Yes.

**Wayne Collins (PC):** I don't think so.

**Richard Brown (L):** They would have sold it as a rolling stock. They would have sold . . .

**Jim Bagnall (PC):** I think your comments should be to the Auditor General instead of around and around this committee.

**Richard Brown (L):** Thank you, Mr. Chairman.

**Jim Bagnall (PC):** Let the Auditor General proceed.

**Colin Younker (Auditor General):** 11.3 - This was a very challenging assignment for our office. Polar Foods is a private company and not under the direct purview of the Auditor General as mandated under the Audit Act. Government did, however, provide financial support to the company in the form of loan guarantees by the Department of the Provincial treasury and PEI Business Development Inc. which reached a high of \$26 million in 2003. In addition, BDI, a Crown corporation, had a direct investment of \$7 million in the preferred shares of the company.

**Richard Brown (L):** Mr. Chairman.

**Ron MacKinley (L) (Chair):** Thank you Mr. Chairman.

**Richard Brown (L):** Can you just lead us up to the \$26 million? Like when this corporation was

started, there was an initial guarantee of \$7 million and \$7 million in preferred shares and I know when I was in the Legislature and we asked questions about this in 98 and 99, we were accused of ruining the fishing industry and all that. But can you just bring us—how did we get to \$26 million from the initial seven.

**Colin Younker (Auditor General):** The best place is probably on page 45. There's a chart on page 45 and I'll do it briefly. We'll be going through it in more detail later on. The chart, Exhibit 6.1 shows the dates when guarantees or security was given. In March 98, it begins with the preferred shares.

**Richard Brown (L):** Page 23.

**Colin Younker (Auditor General):** Oh I'm sorry, page 23, my apologies. I have some notes in mind so—Exhibit 6.1 on page 23, we had preferred shares of BDI at 7.0 and then the term loan guarantee, the original \$7 million in March of 1998, for a total of \$14. Then in August 98, it goes to 14.5 and July 1999, it goes to 18. In December 2001, 21 and then 2002, it was 21. In March 2003, it goes back to 19 and then in July 2003, it's up to 33 which is the 26 plus seven.

**Ron MacKinley (L) (Chair):** Mr. Auditor, when you were getting those figures, did you come across where the Development Agency Minister, Mike Currie, was subsidizing interest rates for this company too?

**Colin Younker (Auditor General):** There was a request for interest subsidization. . .

**Ron MacKinley (L) (Chair):** And it went through.

**Colin Younker (Auditor General):** . . . I think in March 2003, and there was no funds paid out on that.

**Ron MacKinley (L) (Chair):** I thought there was 200 and some thousand paid out.

**Colin Younker (Auditor General):** There was an earlier one but it was refused.

**Ron MacKinley (L) (Chair):** They approved it to me as I was in the House and I asked the question in the House and they said that was subsidized

interest on Polar Foods. I don't have it right here with me.

**Colin Younker (Auditor General):** There was one approved in March 2003, but there wasn't any funds paid out on it at that time.

**Colin Younker (Auditor General):** The initial investment and ongoing guarantees included numerous terms and conditions, as well as capital restrictions which the province had a right and responsibility to enforce. It is on this aspect of the file that we focused our review and where BDI was expected to receive and monitor certain information from Polar Foods, we looked for compliance.

We did not conduct a financial audit on the books and records of Polar Foods. The company had been subject to a regular annual financial statement audit. We did, however, probe into certain records that supported the operating line of credit when the bank decided to call its loans on February 16, 2004. These records have a direct bearing on the proceeds from disposal of the assets assigned to the province and the resulting loss on the project.

Throughout our review we received cooperation from senior management of BDI and Provincial Treasury. We would also like to acknowledge the assistance and cooperation of the Receiver.

**Ron MacKinley (L) (Chair):** Mr. Brown.

**Richard Brown (L):** Can you just elaborate on section 1.4 where it says the province had a right and a responsibility to enforce? What do you mean, responsibility to enforce?

**Colin Younker (Auditor General):** Well under the agreements they had with Polar—preferred share agreements and the guarantee agreements, there was conditions in those agreements that government had a right to enforce and responsible to get information under.

**Richard Brown (L):** Mr. Chairman, can I ask the committee if we can get a copy of those agreements? And to see what in particular are in those agreements the responsibility to enforce?

**Ron MacKinley (L) (Chair):** Mr. Collins.

**Wayne Collins (PC):** Is it not the fact that further on in your report, Auditor General, you do talk about some of these terms and conditions? So I don't know if it's necessary to go to the actual detailed original agreement because you talk about sort of the monitoring by BDI that was due to take place and the various things that they were to look out for in terms of payroll figures and shareholders and directors fees, et cetera. So these are things that I think would be a waste of time.

**Honourable Robert Ghiz (L):** Well we'd like to see them—it shouldn't be a waste of time. He's reviewed them and he has them. He just has to bring them back to a committee. I'd like to see those, yes.

**Ron MacKinley (L) (Chair):** Yes, the Auditor has already agreed to get them.

**Jim Bagnall (PC):** The committee hasn't agreed that they bring them forth though.

**Ron MacKinley (L) (Chair):** The committee didn't object to it. I didn't hear any objections.

**Jim Bagnall (PC):** The question was never put to the committee.

**Ron MacKinley (L) (Chair):** I looked at you.

**Richard Brown (L):** I went through the chairman.

**Wayne Collins (PC):** I was trying to make a point that . . .

**Honourable Robert Ghiz (L):** We're asking for a document.

**Ron MacKinley (L) (Chair):** They're asking for documents and unless there's major trouble to get the documents and some major finance involved, you don't have to have the committee agree to what people want to ask, the same thing if you want to look for something and the Auditor has it in his possession, I don't think it's up to Robert Ghiz or Richard Brown to decide whether you get to read it or not or the chairman for that matter. Like this is getting a little ridiculous. But if it's a major issue, then the committee would look at it or major expenses.

**Jim Bagnall (PC):** Under the Rules of the Committee, the procedure is that any one person has to ask the committee. It's the decision of the committee whether—and the question was never put to the committee by the chair or anybody else whether we wanted this to happen. That's the only point I made.

**Richard Brown (L):** Again Mr. Chairman, I ask the committee then, through you, to ask the Auditor to release those documents?

**Ron MacKinley (L) (Chair):** Carried? CARRIED. I mean the thing is, we don't want to get into every little detail.

**Jim Bagnall (PC):** Well yes, we do.

**Ron MacKinley (L) (Chair):** I know you're . . .

**Jim Bagnall (PC):** We have no problem with this at all. We have a problem with the way the committee is being run. The chair is supposed to ask it. If the chair is not going to ask it, the committee. . .

**Ron MacKinley (L) (Chair):** I asked it. I already asked it. I don't know what your problem is. I mean, if you didn't hear me—I read out the Rules for Mr. MacAleer.

**Honourable Robert Ghiz (L):** Every time we look for a piece of paper, we got to . . .

**Ron MacKinley (L) (Chair):** Yeah, we got to go through it. We're going to be here a long time. It's no wonder the Auditor spent 2,500 hours.

**Jim Bagnall (PC):** We could be here a lot longer if you don't follow the Rules.

**Ron MacKinley (L) (Chair):** Mr. MacAleer.

**Wes MacAleer (PC):** I think it's important that we get all this information.

**Ron MacKinley (L) (Chair):** Yes.

**Wes MacAleer (PC):** But the problem we have is that you're going to have a number of different requests so can I suggest that what you do is if the clerk would make a list of these items. . .

**Richard Brown (L):** No.

**Wes MacAleer (PC):** . . . and then when we're done, we can decide if these or this information might be better if it came out in the form of a formal request to a certain party or certain parties.

**Honourable Robert Ghiz (L):** This is what created the mess in Polar Foods right here in the beginning so we shouldn't be taking any advice from this member.

**Wes MacAleer (PC):** No, no, (indistinct) and maybe your meeting worthwhile.

**Ron MacKinley (L) (Chair):** I'm trying to make it worthwhile, so anything minor. . .

**Honourable Robert Ghiz (L):** The Auditor has two staff (TOO MANY SPEAKING AT ONCE).

**Ron MacKinley (L) (Chair):** Could I get some order here? I mean we're going to be the laughingstock of the country.

**Unidentified:** You already have.

**Ron MacKinley (L) (Chair):** Just listen now. Under the Rules of the Committee, that if it's something minor like the Auditor has information there, he could even have it with him. If some committee member wants to see that in detail, I can't see anything wrong with that. But if it's a major piece of item that it's going to cost 100 or two or \$300 to go and get it, then I think, yes, then it would have to go to committee. But I mean if you guys are going to, you know, if you want to bog this thing down, you can bog it down, I don't care.

**Jim Bagnall (PC):** We're not bogging it down.

**Honourable Robert Ghiz (L):** The Auditor just said he'd take. . .

**Jim Bagnall (PC):** (Indistinct)

**Ron MacKinley (L) (Chair):** You don't have the floor.

**Wes MacAleer (PC):** Mr. Chairman, I'm just trying to expedite a meeting that would run smoothly.

**Ron MacKinley (L) (Chair):** Well I'm just. . .

**Honourable Robert Ghiz (L):** That's what you did with Polar. Look what happened.

**Wes MacAleer (PC):** Mr. Chairman, I'm addressing you and not the member to my left. I'm asking you simply to carry on the meeting in a fashion that will expedite it in a way in which we can. . .

**Ron MacKinley (L) (Chair):** Well I want to find out, I'd like to find out. . .

**Wes MacAleer (PC):** I'm not suggesting that you ignore the person's request or that we don't fill it. I'm just saying this is a process which we can follow and it will eliminate the necessity of arguing over each individual item.

**Ron MacKinley (L) (Chair):** Well then you're going to have it all then.

**Wes MacAleer (PC):** You just make a list and then we can vote on the list. It could be that the Auditor could bring it forward in a meeting or if he could hire somebody on to get the information or whatever.

**Richard Brown (L):** (Indistinct) the information, hire somebody—\$31 million.

**Ron MacKinley (L) (Chair):** Mr. Ghiz, Mr. Leader.

**Honourable Robert Ghiz (L):** This is a very simple issue and it happens all the time in committees, but the Auditor General has two staff with him today. We asked to look at something that he indicated he could get. Let's just move on. If someone at the committee has a problem with us receiving some information, I don't know what the big deal is.

**Ron MacKinley (L) (Chair):** Bring it up at the end of the meeting.

**Honourable Robert Ghiz (L):** . . .he's got two staff. He just has to go grab it out of the file and make a photocopy and bring it back to the committee the next day.

**Ron MacKinley (L) (Chair):** Anyway, we've

already been on this for ten minutes. Would you continue, Mr. Auditor?

**Jim Bagnall (PC):** Well hold it now, we didn't—what's the story on his request?

**Ron MacKinley (L) (Chair):** His request? We're going to discuss it and bring it up on a later date under or we can. . .

**Honourable Robert Ghiz (L):** It's a request.

**Jim Bagnall (PC):** Let's move on.

**Ron MacKinley (L) (Chair):** Let's move on. We're not going to hear you argue here all day. I know you guys like to shut the committee down and get out of here but we're staying and that's it. So continue.

**Colin Younker (Auditor General):** 2.1, Section 2.1 - The business failure of Polar Foods cost Island taxpayers approximately \$31 million. How could investment in one company result in such a substantial loss? In this report, we present findings and recommendations related to government's management of this file, from the initial investment and the additional requests for assistance, to the buyout of the bank debt and sale of the assigned assets.

**Ron MacKinley (L) (Chair):** Robert.

**Honourable Robert Ghiz (L):** The \$31 million number, that's the minimum number, is it not?

**Colin Younker (Auditor General):** That's the number we have up until around November from the Receiver.

**Honourable Robert Ghiz (L):** Okay.

**Colin Younker (Auditor General):** And the \$31 million includes a present value number for the balance of the money due from Ocean Choice of the \$8.2 million that is included as part of the calculation of the \$31 million.

**Honourable Robert Ghiz (L):** That's the—what about receivables? Have you started—did you see—it was, supposedly there was a lot of lobster

left over after it was purchased. Has the government sold that lobster and received the funds for it now?

**Colin Younker (Auditor General):** Yes, the proceeds from the lobster is pretty well all in, all the inventory, and most of the accounts receivable. There's still some ongoing negotiations with Fishery Products International and their receivable.

**Honourable Robert Ghiz (L):** So can you—and their receivables with Fishery Products International? What receivables do they have?

**Colin Younker (Auditor General):** They sold some products for the Receiver.

**Honourable Robert Ghiz (L):** Fishery Products International sold product for the Receiver?

**Colin Younker (Auditor General):** Right.

**Honourable Robert Ghiz (L):** And they're waiting to receive those cheques?

**Colin Younker (Auditor General):** They've, I've got most of that money, there's still some reconciling items to finish it.

**Honourable Robert Ghiz (L):** Can you bring us back any receipts that you have with regards to how much we received back from the receivables? I notice somewhere in the report, I think it's \$29.1 million estimated receivables and I'm wondering if you could—we'll wait to get to that section but I'll just give you heads-up in case we don't get there today. I'm looking for a breakdown of that \$29 million, exactly who's paying money back to the Province of PEI left over from the Receivership and so on. Because I notice I didn't see a breakdown in there of the \$29 million, and it says estimated net proceeds.

**Colin Younker (Auditor General):** We can provide the breakdown.

**Ron MacKinley (L) (Chair):** Alright, you're going to provide that.

**Richard Brown (L):** Just, Mr. . .

**Ron MacKinley (L) (Chair):** No, just one second now. You see, there's two ways. I just want to kind of explain this. The honourable leader just asked for a breakdown. He's going to have to take the information back. I don't think personally, now it's going to be up to the committee, that it should go through the committee whether that information can be brought back or not because he could ask the Auditor General to know every bit of information when he comes back in his head or his people that are with him and you keep them here until you get that information. But if it's something major, then we got to go through the committee. Continue.

**Richard Brown (L):** Mr. Chairman.

**Ron MacKinley (L) (Chair):** Yes Mr. Brown.

**Richard Brown (L):** Approximately, and you put approximately \$31 million, so the final figure hasn't been tallied yet.

**Colin Younger (Auditor General):** That's what I say and part of that calculation is the money that's to be received from Ocean Choice.

**Richard Brown (L):** So when do you think we will get the final figure?

**Colin Younger (Auditor General):** The Ocean Choice Agreement runs over a period of a number of years so until it's done, we won't know the final numbers.

**Richard Brown (L):** So from your perspective, until the Ocean Choice deal is done in ten years, the \$31 million is still approximate?

**Colin Younger (Auditor General):** Yes, that will be the final calculation.

**Richard Brown (L):** So where do we get the \$31 million? That just goes on net debt, does it?

**Colin Younger (Auditor General):** Yes, \$31 million was—\$6 million was expense in 2003. . .

**Richard Brown (L):** So that would have been put on the net debt at that time?

**Colin Younger (Auditor General):** Yes.

**Richard Brown (L):** Okay, because we're in deficit in those times.

**Colin Younger (Auditor General):** The estimated loss this year is around \$17 thousand which would go through the 2004, \$70 million, I'm sorry

**Richard Brown (L):** So that goes on net debt?

**Colin Younger (Auditor General):** That goes on the net debt of Public Accounts. The preferred share investment has been written down over a number of years.

**Richard Brown (L):** And as that is written down, that goes on net debt.

**Colin Younger (Auditor General):** It is in net debt now. It has been written down, and \$6 million is on net debt as well as of March of 2003.

**Richard Brown (L):** So we can assume \$31 million was added to the provincial net debt of the Province of Prince Edward Island?

**Colin Younger (Auditor General):** Yes.

**Unidentified:** It's already in there.

**Richard Brown (L):** Yeah, so how do we pay that? How do we pay that back, that \$31 million? How do taxpayers pay that?

**Colin Younger (Auditor General):** When you pay back, you pay back your debentures.

**Richard Brown (L):** So now we have to go out and get a debenture on that \$31 million, correct, or consolidate the debenture?

**Colin Younger (Auditor General):** Some kind of . . .

**Richard Brown (L):** Yeah, so in essence when we go out and borrow \$31 million under a debenture, the government is basically—and correct me if I'm wrong here—the government has

issued debentures last year and this year at around 6.5 per cent, 5.5 per cent over 30 years. That's the normal debenture call—so I did a mortgage calculation on that and you know, we have to pay down that debt and we have to pay interest as we're paying down that debt. Like anybody that buys a mortgage for their house, they just don't go to the Bank of Montreal and get \$100 thousand loan and have to just pay \$1000 payments until the debt—they have to pay interest. And correct me if I'm wrong, I did a little mortgage calculation, that's going to cost us over the normal period of \$31 million principal payment, we have to pay about \$195 thousand a month on that payment and the total interest cost on that \$31 million over 30 years which is a normal debenture, which is our normal rate is another \$39 million. So really at the end of the day . . .

**Jim Bagnall (PC):** Thirty million

**Richard Brown (L):** No, 39, the total interest cost is \$39 million on \$31 million. So at the end of the day when our mortgage is paid out on this and the loan is paid out, we're looking at approximately \$70 million.

**Colin Younker (Auditor General):** Yes, that's true, all the debt. . .

**Richard Brown (L):** Thank you, so this is really a \$70 million loss.

**Ron MacKinley (L) (Chair):** Mr. Collins.

**Wayne Collins (PC):** Yes, thank you Mr. Chair, and since everyone is so quick to slap out numbers here this morning, I thought I'd just add to it a little bit and talk a little bit about the sales of Polar before the amalgamation, \$65 million combined with the six plants. Those sales went to \$158 million. The payroll was \$6.9 million. That payroll rose to \$13.5 million. The annual employee Income Tax was over \$1 million, \$1.148 million. The annual employee and corporate sales tax. . .

**Ron MacKinley (L) (Chair):** Where are you getting that information?

**Wayne Collins (PC):** These are figures that I have done some research on. And it's 1.389 million. The total annual benefit if you include property tax is over—almost \$3 million annually.

**Honourable Robert Ghiz (L):** (Indistinct)

**Wayne Collins (PC):** The direct revenue to provincial government over six years is over \$16 million. The \$75 million in wages during that time of Polar's existence, so there's a great deal of positive things that have occurred as well.

**Honourable Robert Ghiz (L):** Did it come from Peter McQuaid, or Mike Currie?

**Ron MacKinley (L) (Chair):** The thing is but you got to realize, Mr. Chairman, you're broke. You lost \$31 million.

**Wayne Collins (PC):** No, I didn't ask for a response from the chair. I just wanted to put this into the record.

**Ron MacKinley (L) (Chair):** Well I'm giving you a response. I'm giving you a little bit of a response.

**Wayne Collins (PC):** To make it clear that there's a lot of positives that happened and the lobster industry remained intact.

**Ron MacKinley (L) (Chair):** You're broke, you're broke.

**Honourable Robert Ghiz (L):** You're still spinning out the positives on what happened with Polar Foods.

**Wayne Collins (PC):** I'm just trying to tell you that the interest rate was eventually maintained.

**Honourable Robert Ghiz (L):** Is that what you're doing? Trying to tell us it was a good deal, like the minister says?

**Ron MacKinley (L) (Chair):** Do you know what, Mr. Chairman, or Mr. Collins. . .

**Wayne Collins (PC):** Thank you, I appreciate the promotion.

**Ron MacKinley (L) (Chair):** . . .do you know what, if they have of amalgamated Polar, they probably still would have been operating and hiring and paying taxes and the lobsters could all get processed. But anyway,

**Wayne Collins (PC):** That's not what the report says.

**Ron MacKinley (L) (Chair):** The report doesn't say that they would have went broke or anything. We don't know that. Mr. Brown.

**Honourable Robert Ghiz (L):** Still defending him.

**Richard Brown (L):** It's good that the defense of this corporation is continuing, Mr. Chairman, but it's a shame that basically what we're saying here today is our co-operatives throughout the province, North Lake, Acadien and Royal Star couldn't pick up the slack there, Mr. Speaker, Mr. Chairman. It's pretty sad that the insult that these members are giving are co-ops on PEI. By saying that without this corporation, the co-ops couldn't have handled it and couldn't have expanded themselves, Mr. Chairman. It's an insult to the co-ops. I respect the co-ops and these co-ops do a great job, Mr. Speaker. They have never lost this much money in their lifetime, Mr. Speaker, and I think it's a shame.

Now to get onto, if we want to get on to the financial statements of Polar. . .

**Wes MacAleer (PC):** I'd just like to point out, Mr. Chairman, that the co-ops are also assisted financially by government.

**Richard Brown (L):** Not to this. . .

**Wes MacAleer (PC):** I would say that (Indistinct)

**Richard Brown (L):** Well table it.

**Wes MacAleer (PC):** We can

**Richard Brown (L):** So is that, will that be coming forth?

**Honourable Robert Ghiz (L):** Is he going to be a witness or is he going to be a committee member? This is where I have the problem with the honourable member from Charlottetown-Spring Park being here.

**Ron MacKinley (L) (Chair):** Let's try and get—it's irrelevant really for the both of you talking about—just wait now.

**Jim Bagnall (PC):** (Indistinct)

**Ron MacKinley (L) (Chair):** Just Mr. Vice Chairman, just wait. . .

**Richard Brown (L):** We never had to call any loans on any co-ops.

**Ron MacKinley (L) (Chair):** Try and direct your questions to the Auditor General. Mr. Collins, if you want to defend it on your own time outside this committee. They'll probably do an interview with you afterwards on how good a deal it was and you defend it. We're at a Public Accounts Committee now, let's try and direct our questions to the Public Accounts auditor and his staff.

**Richard Brown (L):** I think the co-ops did a great job, do a great job.

**Ron MacKinley (L) (Chair):** Well the matter is, you lost \$31 million plus the interest which is about \$40 some million and that's the reality of it. And this isn't the place whether you should be defending it or not defending it. Ask the questions to the auditor under New Business, then you can defend it or not.

**Unidentified:** Is there a gag on, Mr. Chair?

**Ron MacKinley (L) (Chair):** No, there's no gag on it but I'm just telling you. . .

**Jim Bagnall (PC):** (Indistinct)

**Ron MacKinley (L) (Chair):** Well if you want to defend it, defend it at a later date. We have the Auditor here. I don't care. You can defend it all you want. I mean if you want to hold up your time to defend it, I mean, the thing is we're not getting into the cooperatives or—they're still running. I mean, try and keep it focused to the Auditor General. Let the cabinet put the spin on to defend it and you guys will have to defend it if you lose the next election so let's continue with the Auditor. Keep your questions to the Auditor, if you could.

**Colin Younker (Auditor General):** 2.2 - Our review disclosed a number of weaknesses in the processes in place for approving assistance. Government's risk was high from the beginning. The owners bore some risk when they transferred in their plant assets but, without personal guarantees, their risk was limited. A number of

factors contributed to the high exposure on this file. The original business plan did not address the well documented overcapacity problem in the seafood processing industry. The decision not to rationalize the number of plants was a factor in the value of the capital assets brought into Polar Foods, and impacted on the amount of the initial preferred share investment and the loan guarantee. In addition, government did not review the financial statements of the companies that were included in the amalgamation.

**Ron MacKinley (L) (Chair):** Mr. McKenna is first.

**Dr. David McKenna (PC):** My question is back under the personal guarantees, were personal guarantees asked for by BDI?

**Richard Brown (L):** Should have been, they were kind of big.

**Colin Younker (Auditor General):** We don't recall, no they weren't asked for in the beginning.

**Dr. David McKenna (PC):** At the beginning, but they were asked for later on, were they?

**Colin Younker (Auditor General):** Yes.

**Dr. David McKenna (PC):** And they were not given, never were given.

**Colin Younker (Auditor General):** Never given.

**Dr. David McKenna (PC):** Can you give me any reason why they were never given?

**Ron MacKinley (L) (Chair):** Why would you if you got all that money up front.

**Colin Younker (Auditor General):** It was felt that they wouldn't, as a group, give personal guarantees, that was the feeling.

**Ron MacKinley (L) (Chair):** Are you done?

**Dr. David McKenna (PC):** Yes, thanks.

**Ron MacKinley (L) (Chair):** Mr. Ghiz.

**Honourable Robert Ghiz (L):** So they were not

asked for personal guarantees at the beginning? Why weren't they asked for, for personal guarantees at the beginning? Was there any reason given? They just thought that they'd give them a sweetheart deal or was there incompetence involved?

**Colin Younker (Auditor General):** Our understanding is that they felt that they wouldn't get them, so they didn't ask for them.

**Honourable Robert Ghiz (L):** They thought that they wouldn't get them so they never asked, so they never asked for them. Yet as you say here, government risk from the beginning was very high. Now if the risk from the beginning was very high, why wouldn't they have asked for personal guarantees because they didn't think—why did they go into something if even the shareholders—it just seems ludicrous that you would go into a deal where the shareholders have no confidence whatsoever in being done. In fact, they have so little confidence in what is being done by the province that they won't even put their own money behind it. Is that not true?

**Colin Younker (Auditor General):** They didn't put their personal guarantees on it, no.

**Ron MacKinley (L) (Chair):** They were never asked to put them on it.

**Honourable Robert Ghiz (L):** And this government didn't ask because they didn't think they were going to get them. So basically, this was a bad deal right from the beginning with incompetence but also in this paragraph, you talk about the original business plan did not address the well documented overcapacity problem in the seafood processing industry. And we've heard a lot about overcapacity and I think. . .

**Richard Brown (L):** There wasn't any.

**Honourable Robert Ghiz (L):** . . . the problem that we had is this government talked about overcapacity when they were closing down all the plants up west and that was their excuse is for allowing themselves to take over the Polar debt and not allow anyone to bid on Anglo or bid on Howard's Cove or bid on Gaspereaux with lobster processing license because they complained about an overcapacity. But this overcapacity, according to this document, in section 2.2 existed

back in 97-98 then, is what you're saying?

**Colin Younker (Auditor General):** There's a couple of reports there. It was a 1994 Fish Processing Capacity Study done and in 1997 there was a Baker Report done, both which talked about capacity in the industry.

**Honourable Robert Ghiz (L):** Did it mention anywhere in the documents that you reviewed in the formation of Polar Foods why they refused to deal with the overcapacity problems?

**Colin Younker (Auditor General):** No, there was nothing I can recall or bring to mind. . .

**Honourable Robert Ghiz (L):** So they just ignored the overcapacity problem that they had reported saying that there was and they didn't ask for any collateral from the shareholders because they didn't think they'd get any but they still thought that this was a good deal?

**Colin Younker (Auditor General):** When the business plan came forward, there was no talk of rationalization of the industry. The idea was the six plants or the plants would continue on as was.

**Honourable Robert Ghiz (L):** Do you have a copy of the business plan with you, by any chance?

**Colin Younker (Auditor General):** Not with me here, no.

**Honourable Robert Ghiz (L):** Can you take a copy back to the committee? Thank you. Now the decision not to rationalize that the number of plants was a factor in the value of capital assets brought into Polar and impacted on the amount of the initial preferred share investment and the loan guarantee. So the loan guarantee and the preferred shares was based on how much they thought the Polar amalgamation would be worth?

**Colin Younker (Auditor General):** Yes.

**Honourable Robert Ghiz (L):** And what was that original number?

**Colin Younker (Auditor General):** The original appraised value of the plants was \$25 million.

**Honourable Robert Ghiz (L):** And how did that number come about?

**Colin Younker (Auditor General):** We talk about the appraisal a little farther on but there was an appraisal done on the assets.

**Honourable Robert Ghiz (L):** Who did the appraisal?

**Colin Younker (Auditor General):** The appraisal was contracted by the processors.

**Honourable Robert Ghiz (L):** By the companies themselves, is that normal practice to—like if I'm going into business with perhaps, let's say you, and you want to sell me something, I'll say, okay why don't you tell me how much your assets are worth. Wouldn't I send out somebody to find out how much your assets are worth?

**Colin Younker (Auditor General):** Well if I was selling you something, as part of my package, I would put in an appraisal . . .

**Honourable Robert Ghiz (L):** Of course, you would.

**Colin Younker (Auditor General):** Yeah.

**Honourable Robert Ghiz (L):** Because you're going to want it spin your way but I'm not going to go out and say, oh of course, you're right, I agree with everything you say. Wouldn't I do my due diligence and hire somebody to go out and find out exactly what I think it's worth?

**Colin Younker (Auditor General):** If you question the numbers or look at the statements, you should question the number that was there, you could get your own appraisal done, yes.

**Honourable Robert Ghiz (L):** Yes, so do you think that the government at the time made a mistake by not sending in someone to look over these documents or look over the appraisals?

**Colin Younker (Auditor General):** The first problem was they didn't look at the financial statements of the companies and that would be the starting point.

**Honourable Robert Ghiz (L):** They did?

**Colin Younker (Auditor General):** They didn't look.

**Honourable Robert Ghiz (L):** They didn't, okay.

**Colin Younker (Auditor General):** And that would be the starting point, that would give you an idea of what assets were in there and what value there on the books.

**Honourable Robert Ghiz (L):** Who was the minister at the time?

**Colin Younker (Auditor General):** Mr. MacAleer.

**Honourable Robert Ghiz (L):** So I guess, weren't you a business man?

**Ron MacKinley (L) (Chair):** Anyway, we—Mr. Cletus Dunn.

**Cletus Dunn (PC):** A question about the appraisal. Was the appraisal done as a working institution or a liquidation appraisal?

**Colin Younker (Auditor General):** It was done as it is called a—I'll just find the page and use the right word—the appraisal was done on a method known as the market value in use.

**Cletus Dunn (PC):** So it wasn't liquidation?

**Colin Younker (Auditor General):** It wasn't liquidation value, no.

**Cletus Dunn (PC):** My second question is too, was some of the appraisals given to some of the plant operators that felt they were too low?

**Colin Younker (Auditor General):** I don't (Indistinct) that done on how the owners felt about the appraisals. They had a number of negotiations amongst themselves in determining the value of each shareholder. They used the appraisals as part of that negotiation amongst themselves.

**Honourable Robert Ghiz (L):** Their own appraisals. I'd like to do that when I'm selling my house, here's how much it is worth (Indistinct).

**Richard Brown (L):** Mr. Chairman.

**Honourable Robert Ghiz (L):** Do you have anymore—how do you know this information? What's that?

**Jim Bagnall (PC):** I heard that.

**Honourable Robert Ghiz (L):** Oh, you've heard that. Like where did you hear that? From the fifth floor? Is there more information out there? Do you know what, how everything was formed and that there was certain shareholders not happy?

**Jim Bagnall (PC):** The Auditor.

**Honourable Robert Ghiz (L):** He didn't say that. You just said that. Is there more information out there? (Inaudible comments) You read that, okay, anyway.

**Ron MacKinley (L) (Chair):** Mr. Brown.

**Richard Brown (L):** Just normal business practices here that we should of been, government should have been following at that time is a personal guarantee, correct? That's a normal business practice in a thing like this?

**Colin Younker (Auditor General):** In most loans, personal guarantees.

**Richard Brown (L):** Like I know if I go to the bank, it's always personal guarantees because that indicates your commitment to the project and if you're not committed to the personal guarantees, then that shows a lack of commitment on your part, correct?

**Colin Younker (Auditor General):** Most loans ask for personal guarantees.

**Richard Brown (L):** Most—is it anywhere in the documents, like you've indicated a number of times now that the initial income and income statements or the balance sheets of the companies that were being amalgamated were never reviewed by the department or by the minister who was putting this deal together. Is there a copy of the initial income statements and balance sheets on file? Did they even ask—they might have not reviewed it but did they say, bring it in and we'll put it in the file? Was there any—did you see the initial income statements and balance sheets?

**Colin Younker (Auditor General):** No, we haven't seen any.

**Richard Brown (L):** Okay, so there's been comments in the media that—so we don't know what was the cash, the inventory and the net equity of these corporations going in. We don't know what the accounts payable was. I know I'm getting a little technical so the comments that are being made by certain parties today saying that the money that was paid to the shareholders went to pay off accounts payable in those corporations. We don't know that.

**Colin Younker (Auditor General):** No, we don't know.

**Richard Brown (L):** We don't know what. . .

**Colin Younker (Auditor General):** We'd have to have the statements to know that.

**Richard Brown (L):** And not only that, those balance sheets at that time could have had cash in the bank, those companies could have had cash in the bank and a networking capital available that we didn't even ask for.

**Colin Younker (Auditor General):** They could have had a broad range of assets and liabilities.

**Richard Brown (L):** Have you asked for those initial income statement?

**Colin Younker (Auditor General):** We haven't asked for the initial statements, no.

**Richard Brown (L):** In future, you think that government must ask for these statements if we're going to get into these deals from now on.

**Colin Younker (Auditor General):** Definitely.

**Richard Brown (L):** So in your review of BDI, are they doing that with other companies? Have they asked for initial statements and projections? I know ACOA, for example, you go on their website and you have to put 12-month projections, two and three-year projections in. Is BDI doing that? And have they done it in the past? Is that a standard procedural thing?

**Colin Younker (Auditor General):** I'll double

check that, Richard, double check some of our (Indistinct).

**Richard Brown (L):** So in their initial plan that you're going to table to this committee, was there projections over the five years? Was their budgets? How we're going to make money on this?

**Colin Younker (Auditor General):** Yes, there was projections in it.

**Richard Brown (L):** Okay, and that will be in the plan coming forth. Was that checked out by anybody? Who checked that initial plan out to say, let's look at this. I have a rough time here because if I didn't look at the history, if I didn't say, if somebody—if this was a new company, I could understand and a new idea. You know, we're going to start making something that was never made before, then we'd have to take the projections. But if it's something we've done in the past and we're refinancing and reorganizing, then we look at the sales and costs of sales and all that of the previous corporations, so none of that was done. Like to say, you're saying right now you're going to spend \$100 million, the cost of goods sold is going to be 85 per cent of costs or sales. Let's look at your statements beforehand and see what the costs of goods were.

**Colin Younker (Auditor General):** No, the statements weren't looked at.

**Richard Brown (L):** Okay. Was the industry looked at to see what cost margins were, like to say, okay Polar, you're telling me your cost of goods sold is going to be 85 per cent of sales.

**Colin Younker (Auditor General):** I'm not sure.

**Richard Brown (L):** Was there any industry standards done there to say this is—was there any due diligence done there to say this is what the cost of goods should be sold? This is how a company like this, their percentages would work out.

**Colin Younker (Auditor General):** I'm not aware if it was done or not.

**Richard Brown (L):** So that wasn't even done, to say you know, on an industry standard here is what a company of this magnitude should make.

So these guys came in with a plan and said, we're going to sell a billion dollars worth of lobsters or whatever because we don't have the report yet, those lobsters are going to cost us \$100 million and we're going to make \$900 million gross profit. Like, yet nobody reviewed it and nobody looked at the standards in the industry, then those initial projections meant nothing.

**Colin Younker (Auditor General):** Now there would have been an initial review done of the plan but our point is, is that they didn't have the original six processors' financial statements to see what financial position they were in at the time.

**Richard Brown (L):** But they did have the experience of giving out loan guarantees to the co-ops and to the other minor companies in the past like—did they review that to say, this is the normal growth profit margins that are there. These check off and that. Like the co-ops make this on their growth margins so yes, we check off on.

**Colin Younker (Auditor General):** We're not sure if they compared them or not.

**Ron MacKinley (L) (Chair):** Well I think the chairman hits the nail on the head from, not the chairman, well the chairman too and also the chairman of the Public Accounts Committee or the Auditor, the Auditor when he said these were shrewd business people that they dealt with and basically, we didn't have anybody in government that can handle themselves in the business situation. Like this isn't new to this government. Look at the money you lost in the golf courses and many other and I remember questioning the Premier in the House and saying, when these people come before you, Mr. Premier, it's no offence not to be able to deal when you're dealing with these people. They're business people. They're there to make a buck, but call in professional help and like, if the money is gone, it's lost.

The question is, Mr. Auditor, how could a government protect themselves, like the Liberals could be in and given the same mess or the NDP or whatever, how can a government protect themselves when they're up against shrewd business people, what do they need to do in order to protect the taxpayers of the Province of Prince Edward Island? What would you suggest should have been done in this case that you audit in order

to have a cushion softer if they went out of business?

**Colin Younker (Auditor General):** I think you have to negotiate tough and you have to have all the information that you need to make those negotiations.

**Wes MacAleer (PC):** Mr. Chairman, I want to point out. . .

**Ron MacKinley (L) (Chair):** Mr. MacAleer, go ahead.

**Wes MacAleer (PC):** . . . an accounting issue here that I'm sure that the Auditor can further clarify. When you purchase a company, you can do it through two ways. You can purchase the shares of the company or you can purchase the assets. If you purchase the shares of the company, you purchase everything that the company represents and the one of the difficult items to evaluate when you purchase the whole company is an item which we call an intangible asset called goodwill. And in the cases of these companies, some of the owners would have been in business most of their lives, thought that the goodwill was of considerable value.

The other approach I mentioned was that you could purchase the assets, the assets being tangible assets. Some of those assets could be current assets or some of them could be fixed assets.

**Ron MacKinley (L) (Chair):** Worth fairly little.

**Wes MacAleer (PC):** Well in order to be able to define the value of those assets, you would have to bring in a party, a neutral party to evaluate them and had the government decided to purchase the shares of the company, the evaluation would have included intangible assets. The decision was to evaluate the assets, the tangible assets of these companies and to put a value on them based on a value which would consider them in terms of an ongoing asset.

In other words, it was assumed that the assets that these six or eight companies would put into the larger entity would be utilized in the processing industry and in terms of what the new company would represent. That was the reason for the decision to go with an independent expert

appraiser who brought to the table a value of those assets. There was no need to look at the financial statements of the companies because that item was not being purchased. It was just those items which were being transferred into the company.

**Ron MacKinley (L) (Chair):** But the thing comes back to the problem and I know that. . .

**Honourable Robert Ghiz (L):** That whole plant obviously worked quite well.

**Wes MacAleer (PC):** Well for five years, Mr. Chairman, it worked quite well.

**Honourable Robert Ghiz (L):** No, it lost money every year except for one.

**Richard Brown (L):** It lost money.

**Honourable Robert Ghiz (L):** Well you kept claiming how well it was working.

**Ron MacKinley (L) (Chair):** The point is the matter, there's \$31 million lost here. One of the major reasons is the inexperience in people that's working for government or ministers or whatever or deputies that when it comes to dealing these type of deals, they're not capable of handling it. They're used to pushing papers, putting up taxes and a few things like that, or doing a few trips. But this is the major investment in the province, we've got a lot of money has been lost here and it's going to come out of our children and our grandchildren to pay for it. And that's why taxes are going up.

Now I think that—and I'm trying to protect the day when Robert, if you become premier, you could have the same problem and we got to make sure that we listen to the Auditor here and people like him. Like it could be me—I'm not saying like but when you get in over your head, you got to bring professional people who know what they're doing and this government has lost millions of dollars in many investments. Some of them, just every time you turn on the paper, Mike Currie has broken something else. His business plan fell through, something else is costing taxpayers money. Mr. Collins.

**Wayne Collins (PC):** Mr. Chair, your advice to the opposition leader was well taken because indeed his father, the Ghiz Liberals from 86 to 96

certainly had wide experience with assistance to the fish processing industry on Prince Edward Island. And if you add it all up, the Ghiz Liberals in those years had grants that totaled over \$16 million, over 16 million, write-offs that totaled over 14 million; and if you put it into today's dollar figures with the inflation factor in there, you'd be looking at over \$42 million and this is during the Ghiz Liberal years from 86 to 96 - 16 million in grants, 14 million in write-offs.

So this is nothing new to provincial governments, Liberal or Conservative, assistance to the fish processing industry is long and . . .

**Honourable Robert Ghiz (L):** The problem. . .

**Ron MacKinley (L) (Chair):** Mr. Collins, if you want to get into the debate. . .

**Honourable Robert Ghiz (L):** . . . history lesson. . .

**Ron MacKinley (L) (Chair):** If you want to get in—but under the Ghiz government years. . .

**Honourable Robert Ghiz (L):** (TOO MANY SPEAKING AT ONCE)

**Wayne Collins (PC):** Those are the facts. Those are the facts.

**Honourable Robert Ghiz (L):** . . . If you had of been asking the right questions when they formed Polar, they wouldn't be in this situation today but then you weren't doing your job properly so we are in this situation. (Indistinct - TOO MANY SPEAKING AT ONCE).

**Ron MacKinley (L) (Chair):** I was there, Mr. Collins, for your information. . .

**Wayne Collins (PC):** That's an historical concept.

**Ron MacKinley (L) (Chair):** Mr. Collins, for your information, I was, listen I was there in them days and that's the days that things were good in the Province of PEI and that's the days that—sure there were some grants go out to help business but many businesses were helped and times were booming. You guys are losing the money now. One business is gone. You took those businesses that was created in Souris and under the previous

Liberal government, the plant at Babineau's in Souris and you had to pay him \$2 million just to get the rights of the plant after he was done dealing with you. Mr. Collins, you guys have made your mistakes. You should stay in the ports and if you can't travel with the crows, stay in the ports and that's what should be done. No, but that's what you should do. (Inaudible comments)

No, but you get into business deals, no when you get into a business deal like stay home in the ports and get some professional help in there to help you, the same as the Auditor is telling you. Under the days that Mr. MacAleer already mentioned that there were other plants that got grants and everything, but those plants are running but you're still giving them plants grants plus you lost \$40 million.

So I mean, that's not the point we're here for. The point we're here is find out if there's any criminal stuff went on here, if there were any wrongdoing, if there's anyway we get any money back and we all know your government made a mistake so we really don't have to hammer on that, but try to get back and see what we can do for the taxpayers here and try to get some sanity in that cabinet that this doesn't happen again. So Mr. Brown.

**Richard Brown (L):** Thank you, Mr. Chairman. The initial investment, the initial business plan, okay I can understand that these businessmen came down and said, here's our business plan. Here's what we're proposing. Did government hire any outside expertise in this field in order to advise them on this file, at that initial stage? Like what I'm trying to get at is, I can understand the member from Charlottetown-Rochford Square, he was in the fish business at the time, Spring Park, and this proposal came forward, did they hire anyone on the outside to say, look, take a look at this. Does this look alright, someone that knew the industry?

**Colin Younker (Auditor General):** No.

**Richard Brown (L):** No one was hired from the outside?

**Colin Younker (Auditor General):** To look at this business plan? No.

**Richard Brown (L):** Yeah, no independent person was brought in to say, look it guys, I think

you should get the financial statement. Number two - the member is correct in saying, there's two ways to buy a business. Either you buy the common stock of the company and take it over that way or you buy the assets. Do we know on the initial investments, that there was any loss carried forward in Income Taxes in these companies? Because why I say that is I've been in—a lot of the companies that were purchased, are purchased sometimes is purchased with their loss is carried forward, is that not correct, for Income Tax purposes?

**Colin Younker (Auditor General):** There was some loss carried forward initially. I'm not sure the amount. I don't think it was that large.

**Richard Brown (L):** Okay, so and the other thing is when a detailed analysis of this magnitude is done, is there not like a cash flow analysis done? Like we can all know that we can buy everything. We can buy whatever we want to buy but if we don't at the end of the day have the cash to pay for the principal payments and the mortgage payments, the company is no good at all. You can buy a \$20 million building and say look at the company I got, \$20 million, isn't it wonderful? And never make a nickel on it and within five years, you're bankrupt anyway. Was there a detailed cash flow analysis done? An analysis by an independent person to be able to say, look I don't think the cash flow is here, in order to make this happen?

**Colin Younker (Auditor General):** No.

**Richard Brown (L):** No? So prudent business—what gets me—amazing here Mr. Chairman, is that no business principles like there's. . .

**Colin Younker (Auditor General):** Just to clarify, but you're talking about somebody within government doing a cash flow?

**Richard Brown (L):** Yeah.

**Colin Younker (Auditor General):** Or the government hiring somebody?

**Richard Brown (L):** Yeah, they didn't have the expertise in the business. So if I was going to buy a business that I had no familiarity with, I would say look, like Donald Trump, he'd get an advisor in

to say, okay you know this sector. You tell me are these projections right before I make my investment.

**Colin Younker (Auditor General):** No, the government didn't hire anybody outside to evaluate.

**Richard Brown (L):** And no cash flow, no detail cash flow analysis was analyzed.

**Colin Younker (Auditor General):** Just what was done in the business plan.

**Richard Brown (L):** And no one reviewed that as an independent person to say that, yeah, take a look at this. . . So your recommendation—have you got a set of procedures that they can follow from now on—could you recommend? Like this is Business 101. This is Business 101 at UPEI. I took it and the first thing they tell you is . . .

**Cletus Dunn (PC):** Did the banks buy too?

**Richard Brown (L):** Buy what?

**Cletus Dunn (PC):** The business plan.

**Richard Brown (L):** No, the banks didn't have to buy any business plan.

**Ron MacKinley (L) (Chair):** (Indistinct) first mortgage.

**Richard Brown (L):** Did the banks sign off on this business loan, on this business? So what we heard—that's a good point, thank you. The Premier has indicated and the people have indicated the banks have signed up. So were the banks advised and were the banks brought into BDI and said, this is the proposal we're coming out with, the Bank of Nova Scotia, approve it? Did they sign off on it? Did the banks sign off on the initial business plan?

**Colin Younker (Auditor General):** The banks would have their own loan approval process. I'm not sure what the process they went through.

**Richard Brown (L):** But did they in any letter sent to government saying, we approve this loan? Or we approve this concept?

**Colin Younker (Auditor General):** I guess by approving the loan that the structure of the loan and the guarantee at the end of the day, I guess that would be—they would have gone through their own process and their approval with agreeing to do the loan.

**Richard Brown (L):** Yeah, the initial balance sheet that they forwarded a \$4 million loan.

**Colin Younker (Auditor General):** They had \$11 million loan, \$7 million guarantee of that was guaranteed by the province, and \$4 million. . .

**Richard Brown (L):** But they had \$7 million in preferred shares

**Colin Younker (Auditor General):** Seven million was guaranteed by the province and the fixed assets. There was a balance of \$4 million was guaranteed by the fixed assets.

**Richard Brown (L):** And the first mortgage, the bank had the first. . .

**Colin Younker (Auditor General):** That's what I'm saying the guarantee by the fixed assets is the first mortgage.

**Richard Brown (L):** So the banks looked after themselves.

**Honourable Robert Ghiz (L):** that's a good deal.

**Colin Younker (Auditor General):** So the bank was secure basically.

**Honourable Robert Ghiz (L):** Yeah, the bank was secure. The taxpayers all . . .

**Richard Brown (L):** Oh just one other question, Mr. Chairman. A very important point was brought up earlier here today about grants. Can you bring back a list—since 1997, all grants and all write-offs to the fishing industry that were made since 1997.

**Colin Younker (Auditor General):** We'd probably have to request that through BDI?

**Richard Brown (L):** No, but I'm requesting it, Mr. Chairman, like I'd like to know that.

**Ron MacKinley (L) (Chair):** What?

**Richard Brown (L):** How much did—since 1997, how many grants were issued? How many loan guarantees were issued since 1997—because it's an interesting point.

**Wayne Collins (PC):** Could we extend that to 86 onward? (TOO MANY SPEAKING AT ONCE)

**Ron MacKinley (L) (Chair):** The question is this, just wait. Mr. Auditor, have you got that information readily available to you?

**Colin Younker (Auditor General):** We don't have that.

**Ron MacKinley (L) (Chair):** You don't have the information? He doesn't have the information. At a later date, I'll entertain a motion by both sides to go back to whatever year you want but we should be calling in the Minister of Development for that question. We really should keep to the Auditor and what's in the scope of the Auditor here and whether it's 1986 or like it's been so long since Ghiz was in before, the Liberals, I hardly, I forget myself when it was. I mean, if you have to go back that far, Mr. Collins, you have a problem.

**Wayne Collins (PC):** (Indistinct)

**Ron MacKinley (L) (Chair):** You have problems (TOO MANY SPEAKING AT ONCE). You got major problems.

**Richard Brown (L):** Mr. Chairman, I also want to know, like if those loans are redundant, if it was through the federal government too. Because if the federal government gave the province money and the province gave, I want to know that too.

**Ron MacKinley (L) (Chair):** But the thing is here what we're trying to do, we're focusing on this mess here and I'd like to keep both sides to the mess that's in front of us rather than get into—well getting into the other stuff is foolish.

**Richard Brown (L):** Mr. Chairman, I just want to make the one comment here that . . .

**Ron MacKinley (L) (Chair):** But we can call in witnesses, Mike Currie. . .

**Richard Brown (L):** . . . there's some concern about the chair, the chair does not meet with us before these meetings. The chair does not get together with us, no.

**Cletus Dunn (PC):** I didn't say that.

**Richard Brown (L):** I can verify personally that this chairman takes really responsibility to this committee and I've asked to meet with him sometimes over the committee and he says, no, you do it through the committee, so.

**Ron MacKinley (L) (Chair):** Well I just want to keep it focused. We've already put 2,500 hours here at \$200 an hour is 50,000 bucks it's caused this Legislative Assembly so far to get this part done and we're not even done yet plus the other stuff that's going on as a government, they haven't been able to audit and the mess is down there. I mean, so it could cost us over a million dollars just on this audit here when you figure the mess that they're not catching up with the government's already doing now that we don't know anything about. So let's continue on in the report that's here. And if you want to bring up this other stuff, bring it up . . .

**Wayne Collins (PC):** (Indistinct)

**Colin Younker (Auditor General):** 2.3 - As the company incurred losses and experienced working capital problems, government's exposure increased and attempts to mitigate this greater risk were largely unsuccessful. The monitoring on the file was not commensurate with the risk. We identified limited monitoring as an issue in an earlier audit on PEI Business Development Inc. - Grants and Contributions, which was reported in our 2002 Annual Report.

Polar Foods was a major player in the seafood processing. . .

**Honourable Robert Ghiz (L):** I got a question.

**Ron MacKinley (L) (Chair):** What have you got/

**Honourable Robert Ghiz (L):** It says, government's exposure increased and attempts to mitigate this greater risk were largely unsuccessful. Like what attempts did they make to mitigate. . .?

**Colin Younker (Auditor General):** Mitigate things like the personal guarantees (Indistinct) shares, additional security for the government.

**Honourable Robert Ghiz (L):** So that's all they did was they just went . . .

**Colin Younker (Auditor General):** Attempts to mitigate. . .

**Honourable Robert Ghiz (L):** . . . to the shareholders and say, we know we didn't ask at the beginning but now we want some personal guarantees. So after the fact they figured out what a good business plan was. What year did they go back and start to ask for personal guarantees?

**Richard Brown (L):** I'd say about a month after they got set up.

**Honourable Robert Ghiz (L):** No, it might have been right after Wes decided to—they got rid of Wes out of that portfolio is what I was thinking.

**Colin Younker (Auditor General):** I'll have to check that.

**Honourable Robert Ghiz (L):** Can you come back with a date on that in which they started to—maybe get their head around this a little bit better?

**Richard Brown (L):** Just one quick question - was there any person in charge of this file, one person? To say, this is your file, you monitor it. Or did it just float around government, you know it was in a filing cabinet and everybody just—like I know if I would have been down there, I'd say I'm not touching that file. Was there anybody that you could go to and say you are responsible for this file from day one or just the management of the file, not responsible for it?

**Colin Younker (Auditor General):** I'd have to check, Richard, and get back to you. There was some different staff involved with it. I'll check that.

**Ron MacKinley (L) (Chair):** Well there was what—Paul Jelly, Kent Scales—they'd be the two top.

**Colin Younker (Auditor General):** Like they were there, not from initial time.

**Ron MacKinley (L) (Chair):** Not at the beginning then?

**Colin Younker (Auditor General):** You'd have to go back—who was the deputy minister at the time?

**Richard Brown (L):** Leo Walsh, wasn't it?

**Unidentified:** No.

**Colin Younker (Auditor General):** Jim Johnson was deputy at one point.

**Ron MacKinley (L) (Chair):** So Jim Johnson. So he's the one that was there? He was also the one that was involved in MacGowan Motors too, the tractor place.

**Colin Younker (Auditor General):** Jim was there, I think, at the initial time.

**Ron MacKinley (L) (Chair):** Anyway, continue.

**Richard Brown (L):** As a witness, I've got him. . .

**Colin Younker (Auditor General):** Polar Foods was a major player in the seafood processing industry and it became increasingly difficult for government to reduce its financial support without having substantial impact on employment and resource markets.

In the end, the business failure of Polar Foods forced a restructuring of the lobster processing industry. Our report makes a number of observations on the management of government's involvement with Polar Foods throughout the period of its operations. We also provide information on payments to shareholders. There are, however, some unresolved issues that are beyond the scope of this review and we have recommended that government take further action to address them.

**Honourable Robert Ghiz (L):** Can you let us know what some unresolved issues that are beyond the scope of this review might be?

**Colin Younker (Auditor General):** We're referring to the forensic audit.

**Honourable Robert Ghiz (L):** Just the forensic

audit? There was nothing else?

**Colin Younger (Auditor General):** There's some payroll information. We didn't get all the payroll information as well so we recommended that BDI get that information.

**Honourable Robert Ghiz (L):** Okay, payroll information.

**Richard Brown (L):** But under your act, the Audit Act, you have public inquiry powers?

**Colin Younger (Auditor General):** Yes.

**Richard Brown (L):** So no one can refuse you that under that act? Of if there's any special thing that we have to do or the Legislature have to do to further that?

**Colin Younger (Auditor General):** Well the issue with the payroll and it was an ongoing issue through the fall was the CCRA Privacy of Information Rules.

**Richard Brown (L):** So you can't verified the payroll that was paid?

**Colin Younger (Auditor General):** No, we have some payroll information. We can't verify it all.

**Richard Brown (L):** So when we hear all this amount of payroll that was paid out, somebody has documents that you don't have and it amazes me that some people can come here and poke figures at how much payroll is paid out and you yourself, the Auditor General of the Province of Prince Edward Island with public inquiry powers can't know what payroll was paid out. Maybe you should ask the members where they're getting their information.

**Jim Bagnall (PC):** That will come out in the forensic audit?

**Richard Brown (L):** No, accordingly we already have the payroll.

**Jim Bagnall (PC):** I'm not asking you the question.

**Richard Brown (L):** Thank you.

**Colin Younger (Auditor General):** We recommended that the payroll information that PEI should have had in the first place that they should get that information.

**Honourable Robert Ghiz (L):** That they should have had in the first place.

**Richard Brown (L):** And really will this payroll be able to say like how much pay for family members of the corporation got?

**Colin Younger (Auditor General):** The breakdown of the payroll required information was the gross payroll as filed with Revenue Canada less the shareholders' remuneration or their family members or any extraordinary bonuses.

**Richard Brown (L):** And that's where the 3.3 million is?

**Colin Younger (Auditor General):** That's the breakdown that was supposed to come with the payroll information.

**Richard Brown (L):** And you didn't get that?

**Colin Younger (Auditor General):** We haven't got that complete, no. We have some shareholder payroll information.

**Richard Brown (L):** Yeah, the T4's and T4A's?

**Colin Younger (Auditor General):** Yes.

**Richard Brown (L):** Okay, but that's only shareholders, not family members.

**Colin Younger (Auditor General):** Not family members.

**Richard Brown (L):** Like it could have been \$100,000 salaries went out.

**Colin Younger (Auditor General):** We have no idea at the moment.

**Richard Brown (L):** Well maybe you should ask some of the members of the government side because they have the payroll information like they told you three or four times so far. You can't get it but they can get it.

**Jim Bagnall (PC):** Could you let the Auditor General proceed there, please?

**Honourable Robert Ghiz (L):** According to Mr. McKenna, he knows exactly who had problems at the beginning of the deal as well. I'd like to know how they have this information.

**Richard Brown (L):** Mr. Collins has been quoting payroll figures.

**Jim Bagnall (PC):** Could the Auditor General proceed?

**Richard Brown (L):** The Auditor General (Indistinct) the same information that they had. Auditor . . .

**Jim Bagnall (PC):** Honourable Member, would you let the Auditor General continue, please?

**Richard Brown (L):** Thank you, Mr. Vice Chairman. You guys have the information, table it for them.

**Ron MacKinley (L) (Chair):** Mr. McKenna would have that being that it falls under Treasury.

**Richard Brown (L):** Will you table that?

**Ron MacKinley (L) (Chair):** He can't, he's sworn to secrecy.

**Jim Bagnall (PC):** Continue Auditor General.

**Colin Younker (Auditor General):** The Seafood processing industry is an important component of the PEI economy. It is a labour intensive industry that provides significant employment throughout the province particularly in rural communities with limited employment options. Information gathered by staff of the Department of Development in 1997 indicated there were over 2,500 seafood processing workers on PEI at that time.

**Honourable Robert Ghiz (L):** I have a question. Did you get any word back and I know you just said you had trouble with payroll, but maybe some years you were able to get the payroll information. I'm just wondering, at the max capacity, how many employees did Polar Foods have?

**Colin Younker (Auditor General):** We'll have to

check that, Robert, the information we got, it's not in here.

**Honourable Robert Ghiz (L):** It's not in them, but you'd be able to get that information for me?

**Colin Younker (Auditor General):** Yes.

**Honourable Robert Ghiz (L):** I'm just going to mark that down.

**Colin Younker (Auditor General):** Over a period of many years, governments have provided financial assistance to the Island's seafood processing sector. Consultants' studies have indicated that during the 1970s and early 1980s, several economic initiatives undertaken by governments were directed at the processing industry, primarily aimed at developing and increasing processing infrastructure. At the same time, the federal government introduced measures to control resource harvest rates. The result was excess capacity in the processing industry.

**Unidentified:** What page are you on?

**Colin Younker (Auditor General):** Five - A report on the industry prepared by the Department of Development indicated that the surplus of plant capacity relative to available raw material supply led to severe competition for lobster and low margins for lobster processors.

In 1994, the Prince Edward Island Fish Processing Capacity Study was completed for the Department of Agriculture, Fisheries and Forestry. It found that the average utilization of processing capacity during the lobster season was only 22 per cent. A 1997 report on the industry commissioned by the Department of Development supported the contention that overcapacity was a major industry problem.

**Honourable Robert Ghiz (L):** Well if they had this information, why then would they go out and create Polar Foods?

**Wes MacAleer (PC):** Well I think, Mr. Chair. . .

**Honourable Robert Ghiz (L):** No, no, I'm asking the Auditor.

**Colin Younker (Auditor General):** That's part of the question, really, is. . .

**Honourable Robert Ghiz (L):** Like why would they—there's overcapacity. There's certain plants and I'll even agree with the member, David McKenna, for one second. I've heard a lot of rumours too but I've heard rumors that not all these shareholders wanted to come together. Only a couple of them came to the government and said, we're in trouble here. We need some help. And then finally, I guess, Pat Binns and Wes MacAleer decided that why don't we bring in some other companies in. There were some companies that didn't want to come in to be involved in this and they were forced to come in and the government continued the overcapacity to go on. So would you say that the government knew that there was problems with too much capacity because there's two reports here but they refused to acknowledge that information?

**Colin Younker (Auditor General):** They didn't take it into consideration when Polar was formed.

**Honourable Robert Ghiz (L):** Oh they didn't take it into consideration, so they just kind of overlooked it?

**Colin Younker (Auditor General):** But the reports were there at that time about capacity.

**Ron MacKinley (L) (Chair):** Mr. MacAleer.

**Wes MacAleer (PC):** I guess my question to the Auditor, you admit in your report here that your review of this whole issue does not consider the background in any detail. In other words, the conditions within the industry and I think you admitted that and I think that's quite acceptable. And my next question to the chairman is would it be of value to understand the conditions within the industry that existed that would have justified the formation of Polar Foods? Would that be important information for this committee to receive? And would it be acceptable to read into the records some of the comments that might shed some light on that?

**Ron MacKinley (L) (Chair):** That's alright.

**Honourable Robert Ghiz (L):** On no, when he becomes a witness because there's different witnesses. . . (TOO MANY SPEAKING AT ONCE)

**Ron MacKinley (L) (Chair):** Alright, hold it, hold it, hold it. You're going to make a few statements?

**Wes MacAleer (PC):** Well I can. . .

**Ron MacKinley (L) (Chair):** Well, let's let him make a few statements here when we've got the Auditor here.

**Jim Bagnall (PC):** I agree.

**Honourable Robert Ghiz (L):** No, no, no.

**Ron MacKinley (L) (Chair):** Let it go.

**Honourable Robert Ghiz (L):** Mr. Chair, can I just make a point here?

**Ron MacKinley (L) (Chair):** What? Make your point.

**Honourable Robert Ghiz (L):** We had all along now and you were Leader of the Opposition for many years and did a great job and you asked a lot of questions in the Legislature about Polar Foods.

**Ron MacKinley (L) (Chair):** Yeah, but not of Wes.

**Honourable Robert Ghiz (L):** No, no, no, and just what was happening, okay, with Polar Foods. And yet this government got up and said, everything's find with Polar Foods. Don't ask any questions of Polar Foods. They claim, the Premier himself claimed that shares were not being written off yet. The former Auditor General said the shares were being written off. They claimed that there were 1,500 people working for the company when in fact, there's no proof that there was 1,500 people working for the company. We asked questions of whether or not Polar was in financial trouble. We were accused of fear mongering, Mr. Chairman.

So now we're going to allow one of these same people to come here and give their version of the story without having anyone else here. I think he should wait until he comes a witness and we can have someone to collaborate exactly what he's saying because quite frankly, Mr. Speaker, I've been appalled on how much this government has continued to not provide the necessary information so that we can know exactly what is going on. They continue their own spin. They continue to manipulate the facts and quite frankly, Mr. Speaker, all we're going to received from this

member right now is that same spin and those same manipulation of facts.

**Ron MacKinley (L) (Chair):** How long, Mr. MacAleer would you take? Five minutes?

**Honourable Robert Ghiz (L):** No, but he's just going to say things from his point of view.

**Jim Bagnall (PC):** (Indistinct)

**Wes MacAleer (PC):** Well it is.

**Honourable Robert Ghiz (L):** Exactly. I want to wait until he's a witness. We already decided here that he's not going to be able to make. . . I asked if I could ask questions before, Mr. Chairman, and I was told, no, I wouldn't be able to ask any questions. I'm not going to be allowed—I'm not going to allow him to come up of defense of this. That's where he should be sitting over there when he's not defense of that, when he'll be taking questions from this committee. No, he cannot sit here and defend himself. That's why he's in a conflict of interest, to begin with here.

**Jim Bagnall (PC):** Are we trying to find out what's going on here or not?

**Honourable Robert Ghiz (L):** We are.

**Jim Bagnall (PC):** Okay, then let the minister speak.

**Honourable Robert Ghiz (L):** We're asking the Auditor General questions right now.

**Jim Bagnall (PC):** Listen, does anybody tell you what you can say or what you can't say to the committee?

**Honourable Robert Ghiz (L):** I'm a member of the committee. I'm asking questions to the Auditor General.

**Jim Bagnall (PC):** So is Wes, don't forget that.

**Honourable Robert Ghiz (L):** No, he wants to make a speech.

**Jim Bagnall (PC):** He can say whatever he wants, like you are, you've been . . .

**Honourable Robert Ghiz (L):** I'm asking questions.

**Jim Bagnall (PC):** Why are you trying to cut down a member of this committee? You can't do that. He has (UPROAR) he has the same privilege as anybody else on this committee.

**Honourable Robert Ghiz (L):** He's a vital witness to this committee. He's a vital component, in my opinion. . .

**Jim Bagnall (PC):** Let the man speak, what are you scared of?

**Honourable Robert Ghiz (L):** . . . one of the major problems that the Auditor General had was the setting up of this whole document.

**Jim Bagnall (PC):** What are you scared of?

**Honourable Robert Ghiz (L):** And this member here refused at this—he was the only member at that time. . .

**Jim Bagnall (PC):** So you're the only guy that thinks you can speak on this committee, is that what you're saying?

**Honourable Robert Ghiz (L):** No, I'm not.

**Jim Bagnall (PC):** Okay, then why don't you want the member to speak?

**Honourable Robert Ghiz (L):** I'm saying he is a potential witness to this committee. To allow him to offer his testimony now as a member of this committee is quite inappropriate. He is here to represent and to ask questions of the Auditor General. He is not here to defend himself before this committee.

**Jim Bagnall (PC):** Who said he was defending himself?

**Honourable Robert Ghiz (L):** That's what he wants to do.

**Jim Bagnall (PC):** He asked the committee. . .

**Honourable Robert Ghiz (L):** He wants to come out and explain what happened.

**Jim Bagnall (PC):** Are you done?

**Honourable Robert Ghiz (L):** No, he wants to come out and explain. . .

**Ron MacKinley (L) (Chair):** The chairman of the committee has already ruled that Mr. MacAleer could speak.

**Jim Bagnall (PC):** Thank you.

**Ron MacKinley (L) (Chair):** The chairman—it will be up to the committee—no more than five minutes.

**Honourable Robert Ghiz (L):** But can I ask questions?

**Ron MacKinley (L) (Chair):** We'll see after the meeting is over. We'll let him speak and give a little brief breakdown of the part that we're missing. Were you, Mr. Auditor, ever interviewed Mr. MacAleer on this situation?

**Colin Younker (Auditor General):** No.

**Ron MacKinley (L) (Chair):** Do you think now that you would of, seeing that he was the brainchild behind it, like to get the background? But anyway, let's, go ahead.

**Jim Bagnall (PC):** Go ahead.

**Ron MacKinley (L) (Chair):** Go ahead, let's do it.

**Honourable Robert Ghiz (L):** This is ridiculous.

**Richard Brown (L):** I know he's willing to table the backup information of the comments he's going to make.

**Honourable Robert Ghiz (L):** Oh look, he's got it here.

**Jim Bagnall (PC):** Go ahead, Mr. MacAleer, I'm dying to hear what you have to say.

**Honourable Robert Ghiz (L):** This is a press release. This is totally unacceptable that a member of this committee can make a presentation like this.

**Ron MacKinley (L) (Chair):** Did you give a copy to the chairman?

**Honourable Robert Ghiz (L):** Can we please move him down to this end of the table now, Mr. Chair?

**Ron MacKinley (L) (Chair):** Yeah, vote on it.

**Honourable Robert Ghiz (L):** He's not on—this makes absolutely no sense. He cannot be here defending what happened within government as a member of this committee.

**Jim Bagnall (PC):** Go ahead, Mr. MacAleer, we're waiting.

**Honourable Robert Ghiz (L):** Mr. Chair.

**Jim Bagnall (PC):** It's already been ruled on.

**Ron MacKinley (L) (Chair):** I'm sorry it's been ruled on, let him go ahead. There's nothing we can do about it.

**Richard Brown (L):** Mr. Chairman. . .

**Honourable Robert Ghiz (L):** I'd like to take a vote. I believe this is totally inappropriate that this member is in conflict of interest. This is totally ridiculous that a member of the committee is now going to defend the government on an issue. Can we please have a break, Mr. Speaker, Mr. Chair, so that we can please study exactly what the Rules are in this committee. Mr. Chair, can we please have a five-minute break? I'm requesting a five-minute break.

**Ron MacKinley (L) (Chair):** We have the Rules.

**Honourable Robert Ghiz (L):** No, I'm requesting a five-minute break, Mr. Chairman.

**Ron MacKinley (L) (Chair):** We give him five minutes.

**Honourable Robert Ghiz (L):** Can we please have a five-minute break?

**Jim Bagnall (PC):** We can have a recess, it's no problem.

**Ron MacKinley (L) (Chair):** Is it up to committee to take a five-minute break?

**Honourable Robert Ghiz (L):** No, it's up to the chair.

**Jim Bagnall (PC):** It's up to the committee.

**Honourable Robert Ghiz (L):** No, this is absolutely no sense. I don't believe that this is the proper procedure to be undertaking here.

**Jim Bagnall (PC):** That's your opinion.

**Honourable Robert Ghiz (L):** We're asking a member of this committee now to use the time of the committee when we're supposed to be asking the Auditor General questions, to be able to defend himself before this committee? That is why he is one of the major potential witnesses of this committee.

**Jim Bagnall (PC):** You've already ruled three times.

**Ron MacKinley (L) (Chair):** The question is, are you here then as a witness?

**Jim Bagnall (PC):** No, no, he's here as a committee member.

**Ron MacKinley (L) (Chair):** If he's here as a committee member, he can't make a document statement like this but if he's here as a witness, he can because you got to be able to ask questions afterwards.

**Honourable Robert Ghiz (L):** Exactly, he's got a document here.

**Jim Bagnall (PC):** No, he's here as a member of our committee.

**Honourable Robert Ghiz (L):** Well then what's he doing with documents here of his presentation?

**Ron MacKinley (L) (Chair):** You see, I thought he was going to give. . .

**Honourable Robert Ghiz (L):** This is not the role of the committee.

**Ron MacKinley (L) (Chair):** When I made the

ruling that he could speak, that meant that we could ask him questions afterwards so he would be here as a witness. Like you can't be (TOO MANY SPEAKING AT ONCE) That's the way it is.

**Dr. David McKenna (PC):** That's not what you said.

**Ron MacKinley (L) (Chair):** That's the way I took it and this here is a document.

**Richard Brown (L):** And we should be able to question him. (TOO MANY SPEAKING AT ONCE)

**Honourable Robert Ghiz (L):** I have no problem with him speaking but. . .

**Ron MacKinley (L) (Chair):** He will have to entertain questions.

**Honourable Robert Ghiz (L):** He's making a witness testimony here. Can we please have a five-minute to caucus on this please, Mr. Chair, you can check with the clerk on whether or not there's any precedent even for this to be going on?

**Ron MacKinley (L) (Chair):** Well the clerk already checked on it. If he's here as a witness.

**Jim Bagnall (PC):** He's not here as a witness, he's here as a committee member.

**Honourable Robert Ghiz (L):** This is why the honourable member from Charlottetown-Spring Park is in a conflict of interest. There is no doubt in my mind on this issue.

**Jim Bagnall (PC):** Mr. Chairman.

**Ron MacKinley (L) (Chair):** Well number one is, it's not a conflict of interest that he's a witness. Number two is, the only people that can—the only person that can't sit on this is a cabinet minister. Anybody else can sit on a committee, the same as Richard. Richard can sit in here and ask questions or whatever.

**Richard Brown (L):** He was a cabinet minister when this was going on.

**Ron MacKinley (L) (Chair):** That doesn't matter. He's not in cabinet now. Like it doesn't

matter because nobody can even remove anybody from this committee period, because that's the Rule.

**Honourable Robert Ghiz (L):** Well I think the whole. . .

**Ron MacKinley (L) (Chair):** Now listen to this, the Rules of the Committee are this, the rules are this - the member asked to present this. If it's up to the chairman, which I said he could talk for five minutes. This looks like it's going to be more than five minutes and . . .

**Jim Bagnall (PC):** Nope, it won't be more than five minutes.

**Ron MacKinley (L) (Chair):** . . . and I assume and when Robert asked if he could—Robert said to me, well can he ask questions and Wes nodded that he would so I assumed he would. That would put him as a witness, not as a committee member.

**Wayne Collins (PC):** I didn't receive the nod and I didn't hear it.

**Ron MacKinley (L) (Chair):** Well whatever.

**Honourable Robert Ghiz (L):** Are you saying you don't believe the chair?

**Jim Bagnall (PC):** Mr. Chair. . .

**Ron MacKinley (L) (Chair):** Well wait, just to finish it up. Now the final decision will come down to the committee. The final decision then comes to the committee if they want him in as a witness.

**Honourable Robert Ghiz (L):** Exactly.

**Ron MacKinley (L) (Chair):** You know what I mean, now or at a later date. So why don't we go through the issue and then the last 15 minutes of our time, at a quarter past 12, we'll refer to Mr. MacAleer if the committee decides to put him on as a witness?

**Jim Bagnall (PC):** No, I believe that this committee is muzzling Mr. MacAleer for making him speak.

**Richard Brown (L):** No, if he wants to sit there. (TOO MANY SPEAKING AT ONCE)

**Jim Bagnall (PC):** Every committee member is allowed to speak. There's nobody to be cut off and if Mr. MacAleer wants to speak, that's fine.

**Honourable Robert Ghiz (L):** I've been cutting you guys off all day.

**Ron MacKinley (L) (Chair):** I can allow him to go to one or two pages but I can't allow him to do all that. (TOO MANY SPEAKING AT ONCE)

**Honourable Robert Ghiz (L):** This is a presentation before a committee, Mr. Chairman.

**Ron MacKinley (L) (Chair):** I'm the chairman.

**Honourable Robert Ghiz (L):** This is unbelievable.

**Wayne Collins (PC):** Mr. Chairman, may I make a few comments. Am I recognized? Can I have the floor for just. . .?

**Ron MacKinley (L) (Chair):** Yes, you're recognized.

**Wayne Collins (PC):** Mr. Chairman, I believe that what Mr. MacAleer is about to do and I hope he will is nothing more than what I was trying to do earlier only when I was trying to put this issue into some kind of historical context, and all we're about to hear right now is the historical context of this member who I think brings a great deal more knowledge to the inception of this company than certainly I could do but I was trying to put the fish processing industry in some kind of a historical perspective when I spoke about the government's support for this industry over the years. You know, and I went back to the years 86 and all we're doing right now is getting some context and background in terms of the formation of the company at that time.

So it's nothing more than that, it just happens to be on a piece of paper and that's got everyone all upset. If Mr. MacAleer had come here this morning and wanted to give us this presentation extemporaneous fashion with no paper, there would be no one to say anything because he'd be a member and allowed to speak at committee. So as far as I'm concerned, he can read it into the record and the Auditor can hear what he has to say as well.

**Ron MacKinley (L) (Chair):** But the thing is this, you got to remember this is if you get into 86, Wayne, when you get into 86, 96, 86, those years, when you get into those years like we can't get into all that stuff here. If you want to do it at a later date, that's fine. If you look over Mr. MacAleer's presentation here, is there anything of value in this debt where you made the mistake, Mr. MacAleer? Like you were the minister that was responsible from day one. Is there anything in there. . .

**Richard Brown (L):** I think it's great.

**Honourable Robert Ghiz (L):** He should of made his presentation to the Auditor before.

**Ron MacKinley (L) (Chair):** . . .is there anything in here? No, basically, it's going back to 86, I guess, 96, 86, 96. It's even back to . . .

**Richard Brown (L):** When the Polar deal was done.

**Ron MacKinley (L) (Chair):** He's even got it back to 1970.

**Richard Brown (L):** But does he explain all the Polar deal? I guess we'll find out.

**Honourable Robert Ghiz (L):** This is like witness testimony though. This is not like—we're here to ask questions of the Auditor General.

**Ron MacKinley (L) (Chair):** Like you can't make a statement and then all of a sudden, not answer questions. That's all I'm saying. It becomes (TOO MANY SPEAKING AT ONCE)

**Wayne Collins (PC):** (Indistinct) on any issue or topic.

**Ron MacKinley (L) (Chair):** No, Wayne, you're. . .

**Jim Bagnall (PC):** Mr. Chair, you have never, and the committees have never cut anybody off from speaking. Are you going to say that you're going to cut any member of this committee off from speaking? Because if you are, then our committee may as well leave right now.

**Ron MacKinley (L) (Chair):** We're not cutting him off.

**Jim Bagnall (PC):** Okay, then let the man speak. He's asked to. . .

**Honourable Robert Ghiz (L):** He just said he realizes he wants to be a witness.

**Ron MacKinley (L) (Chair):** Yeah.

**Honourable Robert Ghiz (L):** Do you want to be a witness or do you want to make this presentation . . .?

**Wes MacAleer (PC):** Whatever the committee wants.

**Ron MacKinley (L) (Chair):** Alright, the thing is if he's going to make a prepared statement like this is a prepared document, he can become a witness, yeah. So we'll let him do it. But then he'll answer questions on it. He's agreed to answer questions on it. That's correct?

**Wes MacAleer (PC):** Sure.

**Ron MacKinley (L) (Chair):** Yeah, he's agreed to answer questions on it.

**Honourable Robert Ghiz (L):** At 12:15 then, I'm willing to allow Mr. MacAleer time to. . .

**Ron MacKinley (L) (Chair):** Mr. MacAleer, proceed, we've already wasted ten minutes. Proceed, go ahead.

**Honourable Robert Ghiz (L):** Oh, this is preposterous. This is unprecedented.

**Wes MacAleer (PC):** Well Mr. Chairman, the objective here is not to judge people for what they've done. It's simply to put some facts on the table with respect to the historical context that the industry was facing at the time of our forming Polar Foods and adding some justification.

**Honourable Robert Ghiz (L):** Great PR stuff.

**Richard Brown (L):** Oh yeah.

**Honourable Robert Ghiz (L):** Great PR stuff.

**Wes MacAleer (PC):** And you know, the Auditor in his report, I think deals with the Polar operation from the period of its formation till its collapse and

I think that has a very valuable contribution to this exercise. But if you want to understand why we formed Polar in the first place, you have to understand the conditions that existed within the industry and the factors that the government were facing at the time.

In order to do that, you have to understand the reports that had been done in 1994 and 1997, indicated that government should take a leadership role in dealing with the challenges and opportunities experiencing in the processing sector and that's exactly what we did in 1996 and 1997. Now you have to understand that from a historical perspective the fish processing sector on Prince Edward Island had been helped by both provincial and federal governments dating back to studies that we reviewed in the 1970s and 1980s and that the assistance provided was in the form of helping individual processors to modernize their plants, to market their product and to develop their own individual strength as companies. In present day terms, for example, between 1986 and 1996, the governments of the day probably both Conservative and Liberals put millions of dollars into the industry.

Now at the same time that the provincial government and the federal government were striding to improve the sector, the federal government were reducing the resources, the harvest breaks and the result was that there was simply overcapacity in the industry. Now that overcapacity could be dealt with in two ways. You could close plants or you could try to develop ways in which those plants were more highly utilized. And one of the problems that Island companies were facing at the time was the competition in the bigger marketplace and in the bigger marketplace, it was being dominated by companies from Nova Scotia, New Brunswick and Newfoundland who had greater resources both in terms of their financial resources and access to the raw product.

Now you also have to understand that in the corporate field throughout the 1980s, there was considerable efforts made to merge and consolidate companies throughout North America and the result of that it was that companies were larger and therefore, the purchaser required larger volumes of the product and over longer periods of time. An example, was like Red Lobster is a restaurant. It required—to make a large order of tonnes of lobster that had to be delivered over the

whole year and the Island companies couldn't meet those requirements and there are reasons for that. And the reasons for that was partly government policy that kept these companies separate and individual and the logic for that was that if you kept these companies going as individual entities, you provided for a number of buyers at the wharf and if you had a number of buyers at the wharf, you kept the price of lobster up and therefore, the fishers benefitted from that competition.

**Honourable Robert Ghiz (L):** Did you figure that out yourself?

**Wes MacAleer (PC):** Where the problem exists is that when those same companies went to compete against the larger companies on the mainland, they couldn't compete and therefore, the government of the day was faced with two options. One of the options was that all the reports indicated that one-third of the lobster landings, as high as 36 per cent, were being shipped to off-Island processors.

**Richard Brown (L):** The Auditor told you that.

**Wes MacAleer (PC):** One of the options was to legislate a requirement as they did in Newfoundland that all the product should be processed on Prince Edward Island. That particular solution would have brought retaliation from both New Brunswick and Nova Scotia and it would have run counter to the Agreement on Interprovincial Trade.

**Richard Brown (L):** So why are we doing. . . ?

**Wes MacAleer (PC):** So the other option was to create a corporate entity which in fact could compete with these large corporate entities in other parts of the Maritimes or Atlantic Canada that were involved in the lobster processing industry. So that gave rise to the idea. The problem was then how were you going to form. . .

**Honourable Robert Ghiz (L):** That's five minutes, Mr. Chair.

**Wes MacAleer (PC):** . . . how were you going to form a company of that size and who would be a part of it. We brought together voluntarily. . .

**Honourable Robert Ghiz (L):** Mr. Chair, Mr.

Chair.

**Ron MacKinley (L) (Chair):** I hear you. Just continue for a couple of more minutes.

**Wes MacAleer (PC):** Do you want me to stop, Mr. Chair?

**Honourable Robert Ghiz (L):** Is he a witness or is he not a witness?

**Ron MacKinley (L) (Chair):** He hasn't really, to tell you the truth, as chairman, he hasn't basically said anything but a filler, he hasn't said much of anything.

**Honourable Robert Ghiz (L):** He's making a presentation as a witness and I wish he would please take his position as a witness.

**Ron MacKinley (L) (Chair):** Well, the thing is I think we will move on to—we can get this at a later date. We can read it. There's nothing, it's just a background. He's just giving us a background of it which basically has been over and over and over. There's nothing new here.

**Richard Brown (L):** (Indistinct) . . . the co-ops . . .

**Ron MacKinley (L) (Chair):** Let's continue with the Auditor. The time's up. I thank the member for his presentation. Let's continue on with the Auditor.

**Richard Brown (L):** (Indistinct) didn't even negotiate with the co-ops, didn't even talk with co-ops.

**Ron MacKinley (L) (Chair):** Let's continue with the Auditor. We'll catch you at a later date. Thank you very much for your time.

**Colin Younker (Auditor General):** 3.4 - In 1997, prior to the formation of Polar Foods, a report prepared on the industry indicated there were 16 major lobster processors on PEI. In 2004, after Polar Foods ceased operation, there were 12 processors issued with primary processing licenses as listed in Exhibit 3.1.

In addition to plant capacity, another industry issue is the export of live lobsters from PEI to be

processed in other provinces. In 2003, 36 per cent of canner lobsters landed on PEI were shipped off Island. PEI maintains an open door policy to buyers and buyer licensing. We were advised that independent buyers drive up prices in an already competitive market, making input costs of raw materials for processing very uncertain. In any of our interviews with industry stakeholders, concerns were expressed regarding the role of independent licensed buyers and the overall effect on the industry.

**Richard Brown (L):** Mr. Chairman.

**Ron MacKinley (L) (Chair):** Yes.

**Richard Brown (L):** Was there anything in the initial report where the formation of Polar that said, okay we're bringing these companies and plants together. We have two reports now on file by the department. One is 1994 stating overcapacity and a prior report of 1997 stating overcapacity. Was there anything in those reports that indicated, yes we should form Polar. We put these companies together. We have seven plants but we should rationalize and shut down some of those plants. Was there anything in the initial stages, look we have overcapacity. For this plan to work, we should shut this plant and this plant and this plant down. Was there anything in there that indicated that?

**Colin Younker (Auditor General):** You're referring to the reports we're talking about?

**Richard Brown (L):** No, the business plan put forward by Polar. Was there anything in there that said, and we're going to get a copy of that business plan, was there anything in there that said, we have overcapacity. Our plants are working at 22 per cent efficiency, very inefficiently run. We should rationalize and as a part of our business plan, we propose to shut these plants down in order to bring up the economic scale there.

**Colin Younker (Auditor General):** Let me double check, I refer to it in the report here. In section 5.8, The business plan stated that all plants would continue to operate at least in the short term, however, government in evaluating the project should not have relied only on appraisals which assumed that all plants would continue to operate in the long term. That was the initial

business plan.

**Richard Brown (L):** So the business plan said you should rationalize.

**Colin Younker (Auditor General):** The business plan said all plants would continue to operate as part—that was part of the business plan.

**Richard Brown (L):** And with 22 per cent capacity.

**Colin Younker (Auditor General):** Yes, that's what was in the plan that all plants would continue to operate.

**Dr. David McKenna (PC):** Mr. Chair, was the intent there that with a larger company they may be able to get more market share out there in being able to process more lobster? Was that the whole idea of that? Does that come out in the report?

**Colin Younker (Auditor General):** I think the hope was that they would increase the capacity and increase the sales volume.

**Dr. David McKenna (PC):** Which they did do that over time.

**Colin Younker (Auditor General):** It did increase the sales, yes.

**Dr. David McKenna (PC):** But it still didn't work.

**Richard Brown (L):** Did at any time during the business plan, like we're seeing here the previous minister has indicated that they talked about this. They talked about overcapacity as an industry as a whole. At any time, were the co-ops asked for their advice and for their input into this business plan, to say here is what we're thinking here? We have the co-ops on one side run by the fishermen and run by the communities of Prince Edward Island. They have their stake in it because of—they have put their personal guarantees up, the co-ops. Was there any discussion with the co-ops to say this is what we're thinking about, do you guys want to come in on it to make one big, big company on PEI? Was there anything done along those terms?

**Colin Younker (Auditor General):** Not that I'm

aware of. . .

**Richard Brown (L):** So we divided the industry between the co-ops - we said, we're going to put the co-ops over here and we're going to put private sector over here or we're going to divide the processing in PEI at that time, their decision was made. Well it appears the decision was made. So we left the co-ops out to fend for themselves and then we went in and give tonnes of money to this. Thank you.

**Ron MacKinley (L) (Chair):** Mr. Bagnall

**Wes MacAleer (PC):** (Indistinct) that's not (Indistinct)

**Ron MacKinley (L) (Chair):** Mr. Bagnall and then Mr. MacAleer.

**Jim Bagnall (PC):** Thank you, Auditor, I guess the 22 per cent that we were talking about there, the per cent of, sorry, the 22 per cent of capacity that we were operating at when the other companies before Polar happened, was that the figure that these companies were operating at that period of time?

**Richard Brown (L):** We don't know. We don't have their financial statements.

**Jim Bagnall (PC):** I didn't ask you.

**Colin Younker (Auditor General):** This is in the 1994 report, the Fish Processing Capacity Study and it found the average utilization for processing was 22 per cent.

**Jim Bagnall (PC):** When you dealt with or looked at their proposal, after I know that we were dealing with approximately \$70 million or \$58 million at that time and I. . .

**Richard Brown (L):** We don't know, we don't have their statements.

**Jim Bagnall (PC):** . . . know it went to like 158 million, that percentage by putting the company together, did that percentage increase? The capacity increase from 22 per cent?

**Richard Brown (L):** Now look at this, the Bell curve.

**Colin Younker (Auditor General):** The 22 per cent refers I think, to the industry itself. It was a 1994 study.

**Jim Bagnall (PC):** Yes.

**Colin Younker (Auditor General):** You're talking two different things. You're talking the six plant capacity versus . . .

**Jim Bagnall (PC):** Polar.

**Colin Younker (Auditor General):** . . . what was done in the 1994 study. It refers to the industry.

**Jim Bagnall (PC):** Like I know the study said that we were—before it was 22 per cent. What I'm saying, after Polar took in as a company, did that percentage not increase to about 55 per cent or 60 per cent? Because the dollar sales and product not moving at that time increased that much.

**Colin Younker (Auditor General):** The feedback we had is that Polar as a group, they were probably up to about 50 per cent capacity at 158 million sales.

**Jim Bagnall (PC):** Alright, so it jumped from like 22 to 55 per cent.

**Colin Younker (Auditor General):** No, the 22 refers to the industry, I think as a whole.

**Jim Bagnall (PC):** What do you mean? Like explain that.

**Colin Younker (Auditor General):** All the plants, the whole province.

**Richard Brown (L):** During peak season.

**Jim Bagnall (PC):** Okay.

**Colin Younker (Auditor General):** This was the 1994 study done on the capacity for all the plants on PEI.

**Jim Bagnall (PC):** Okay.

**Ron MacKinley (L) (Chair):** Mr. Brown, did you—Mr. MacAleer.

**Wes MacAleer (PC):** Mr. Chair, I'm just

commenting on Mr. Brown's comment that the co-ops were not a part of this issue. If he's referring to the North Lake Fisheries Co-op and the Acadian Fishermen's Co-op, I'd just like to point out that these co-ops were having their own problem at the time and government was dealing with those problems on an individual basis.

**Richard Brown (L):** But we sliced up everything. We divided everything, that is my concern. If we were so concerned about the industry as a whole, shouldn't all of the industry been brought in at the discussion table. You know, that's my concern is we have two reports here that think major problems exist. But with what I see at that time, we divided the industry and we didn't consult them all. Like as minister, you should have taken them all in and said, look it, how can we resolve this? At the end of the day, we're all going to lose if we all don't work together.

You set private sectors up that compete against the co-ops. Why didn't we at the time try to get the government to say, look, that's my concern is like now you set this very powerful corporation up called Polar to take on the co-ops because where were they going to get their products? From the co-ops. They went out and upped the prices to the co-ops. They effected the co-ops. These little—North Lake, Acadian Fisheries, Royal Star, now they had to compete against this big conglomerate, this big company that you guys set up and they said, no.

**Ron MacKinley (L) (Chair):** Wayne, Mr. Collins.

**Richard Brown (L):** Where did they get their \$158 million worth of lobsters? From the co-ops.

**Wayne Collins (PC):** Just a quick question here and I don't know if the Auditor General can answer this or maybe Mr. MacAleer can answer this. But in reference to consultation with industry, you're certainly trying to bring industry into the inception of Polar decision. Was there not money allocated to the Prince Edward Island Fishermen's Association at the time, I believe, at their request to try to again study where they would sit in relation to Polar as a major company on Prince Edward Island? I stand to be corrected on that but I do believe that the government did allocate funds to the PEIFA at that time to study their position in

the Polar era.

**Ron MacKinley (L) (Chair):** Mr. Bagnall, or Cletus Dunn, I mean.

**Honourable Robert Ghiz (L):** So we have a copy of that report, the PEIFA?

**Wayne Collins (PC):** I don't know if there was a report done on it, to be honest with you.

**Richard Brown (L):** Was in 94?

**Wayne Collins (PC):** There was monies given to the association.

**Honourable Robert Ghiz (L):** PEIFA?

**Wayne Collins (PC):** Yes. Am I right on that, Cletus?

**Cletus Dunn (PC):** There was one done in 94 about the fishing processing capacity.

**Richard Brown (L):** Yeah, that was done by government.

**Cletus Dunn (PC):** That was done by the Fisheries Association.

**Wayne Collins (PC):** The point I was trying to make and I was looking for some confirmation from others at this table perhaps that at the time of the Polar inception, there was concern among Island fishers about where they would stand . . .

**Richard Brown (L):** Yeah.

**Wayne Collins (PC):** . . . you remember that?

**Richard Brown (L):** Yeah.

**Wayne Collins (PC):** And I believe that a request was made and I believe government agreed with the request and did give them some funding so that they too, could study their position on the future. And I stand to be corrected on that but I do believe that there was that effort made through the financial assistance to involve a wider section of the industry.

**Honourable Robert Ghiz (L):** Well there was a lot of fishers at the time that I spoke to that

thought Polar was a horrible idea right from the beginning.

**Wayne Collins (PC):** Well they wanted to study it, that's part of it.

**Cletus Dunn (PC):** Until they got on the wharf and prices went up. (Indistinct) didn't change their tune but a lot of the fishermen did.

**Dr. David McKenna (PC):** They benefitted.

**Wes MacAleer (PC):** One point, Mr. Chairman, is that the government's intention here wasn't to divide the industry in any fishing processing unit that approached the government for assistance, I would say probably got that assistance.

**Richard Brown (L):** So why (Indistinct)

**Wes MacAleer (PC):** Well I think they were asking for a different set of systems. Well no, each individual co-op. Co-ops don't operate. . .

**Richard Brown (L):** They're all the time.

**Wes MacAleer (PC):** Well it would be a good thing if they did but. . .

**Richard Brown (L):** At the time, was there any thought about look it, let these plants process and we'll set up a simple marketing agency for Prince Edward Island for lobsters. Set up the central bureau and market it under one name. Like we're doing now with the food trucks. Was there any discussion at that time for that?

**Wes MacAleer (PC):** Yes there was.

**Richard Brown (L):** And do you have backup information that can show that that was a bad idea? Can you table that?

**Ron MacKinley (L) (Chair):** I think we should direct questions to the Auditor until we get Mr. MacAleer . . .

**Colin Younker (Auditor General):** 3.6 - Island lobster processors have faced strong competition for raw materials. The uncertainty of the price for raw product impacts on the processors' willingness to invest in research and development. During our interviews, we were also advised that PEI

processors experienced some difficulties in obtaining sufficient Island workers for their processing operations.

Several of the documents we examined during our review have made recommendations to government to provide leadership for the industry. The study commissioned by the Department of Development in 1997 made broad recommendations for industry improvements with changes to be spearheaded by government. The study conducted by Ernst & Young Inc. in 2002, referred to later in this report, also made general recommendations requiring government to take a leadership role in the industry. Our review was not intended to be a study of industry issues and problems. However, the concerns raised during our interviews and review of industry reports should be addressed.

**Honourable Robert Ghiz (L):** Mr. Auditor, so basically what you're saying is that the leadership role that government stepped into after Pat Binns and Wes MacAleer got a hold of the ship was Polar. Would that be what you can take from that that they heard the recommendation, they had to step up to the plate so they came up with Polar? Or did they ignore all those recommendations and just came up with the Polar idea themselves?

**Colin Younker (Auditor General):** Polar was the major project that they did at the time.

**Honourable Robert Ghiz (L):** Okay, so they thought that they were taking a leadership role at the time.

**Colin Younker (Auditor General):** There was other assistance done for other processors.

**Honourable Robert Ghiz (L):** But where you say here, the department made broad recommendations for industry improvements with changes to be spearheaded by government. So the changes then would be (Indistinct).

**Colin Younker (Auditor General):** That's—there was recommendations to government to take leadership at that time.

**Honourable Robert Ghiz (L):** Yeah and within that report, did it say that there should be taking six lobster processing plants together? Or in that report, did they talk about overcapacity?

**Colin Younker (Auditor General):** Not specifically, I'd have to go back and double check what's in the report.

**Honourable Robert Ghiz (L):** So the idea for Polar didn't come from that report is what I'm trying to get at.

**Colin Younker (Auditor General):** No.

**Honourable Robert Ghiz (L):** Okay.

**Jim Bagnall (PC):** There was nothing there that. . .

**Colin Younker (Auditor General):** During the period in which Polar Foods was in operation, government provided financial support not only to Polar Foods, but also to the Island processors. The seafood processing sector is important to the economy of PEI and further requests for financial support can be expected. The business failure of Polar Foods forced government to make a number of changes including a reduction in the number of lobster processing licenses and the plant capacity of Island processing. This problem is only one of a number of issues that have plagued the industry for many years and is indicative of the need for government to take the lead role in preparing a strategy. . .

**Ron MacKinley (L) (Chair):** Mr. McKenna.

**Dr. David McKenna (PC):** So you're saying here other processors got money in that period of time and some of them would have made a profit as well. Do you know you got the money?

**Richard Brown (L):** No, we asked for it.

**Colin Younker (Auditor General):** We're going to get. . .

**Dr. David McKenna (PC):** Oh I'm sorry.

**Colin Younker (Auditor General):** . . . it's been asked for.

**Ron MacKinley (L) (Chair):** Are you done? Mr. Ghiz.

**Honourable Robert Ghiz (L):** Thank you, Mr. Chair. So during this time frame here then that

Polar was in operation, when it got formed in 97 or 98, there was a report saying that there had to be a rationalization in the industry because there was overcapacity. You mentioned that earlier in your report.

**Richard Brown (L):** (Indistinct)

**Honourable Robert Ghiz (L):** Yeah, which they ignored. And then by the time Polar's debacle came to an end, we got to where we should have been back in 1998 but it ended up costing us perhaps \$31 to \$70 million depending on how you do the calculation. So really it took us, Polar Foods, to realize where we should have been?

**Colin Younker (Auditor General):** Polar resulted in rationalization.

**Richard Brown (L):** At any time during. . .

**Ron MacKinley (L) (Chair):** Mr. Brown.

**Richard Brown (L):** Thank you, Mr. Chairman, at any time during the period of Polar, was there any time that the board of directors of Polar came back and said, look we have to shut some of these plants down?

**Colin Younker (Auditor General):** There was a submission to Treasury Board, I think, to shut down some of the plants.

**Richard Brown (L):** So the industry itself knew that rationalization had to be done. The recommendations to government said that rationalization had to be done. A submission to Treasury Board was made saying let's do this rationalization and was it approved?

**Colin Younker (Auditor General):** No, there was no reduction at that time.

**Richard Brown (L):** And when was that submission to Treasury Board done? At what particular date?

**Colin Younker (Auditor General):** I refer to that in 6.20.

**Richard Brown (L):** Yeah, when was--what date, 20?

**Colin Younker (Auditor General):** In 2000, information was provided to Treasury Board indicating that. . .

**Richard Brown (L):** What date in 2000?

**Colin Younker (Auditor General):** I don't have the exact date.

**Richard Brown (L):** Can you get us the exact date in 2000?

**Colin Younker (Auditor General):** Yes.

**Richard Brown (L):** Because there was an election that year. It seems that every time there's an election, there's a Treasury Board. . .

**Colin Younker (Auditor General):** (Indistinct)

**Richard Brown (L):** There was an election in April of 2000, so I just want to know if the industry said, look we got to rationalize. Government said, no, we have an election coming up, we'll forgo this rationalization.

**Honourable Robert Ghiz (L):** Exactly.

**Ron MacKinley (L) (Chair):** Did you, Mr. Chairman or your staff interview any of the directors of Polar for this?

**Colin Younker (Auditor General):** Yes.

**Ron MacKinley (L) (Chair):** Who did you interview, how many?

**Colin Younker (Auditor General):** We interviewed Ken MacDonald CO, and we also interviewed the chief financial officer of the corporation.

**Ron MacKinley (L) (Chair):** Who was that?

**Colin Younker (Auditor General):** Paul Evoy.

**Richard Brown (L):** Who were the auditors of the corporation?

**Colin Younker (Auditor General):** MacPherson Roche.

**Richard Brown (L):** From day one on.

**Colin Younker (Auditor General):** Yes.

**Richard Brown (L):** And they did the business plan?

**Colin Younker (Auditor General):** Yes.

**Richard Brown (L):** So you're going to get me the date in 2000 that the Treasury Board submission was made to rationalize the industry at that time again? Thank you. Will we be allowed to copy the Treasury Board submission? Will you table that?

**Colin Younker (Auditor General):** I can table that.

**Richard Brown (L):** Great.

**Honourable Robert Ghiz (L):** (Indistinct)

**Richard Brown (L):** But my point is there were attempts made to rationalize?

**Colin Younker (Auditor General):** Yes, there was a presentation at that time.

**Richard Brown (L):** You've also indicated in your report that they said, I think they said no, we won't shut down any plants but we'll give you money to expand plants. Was that the result of Treasury Board?

**Colin Younker (Auditor General):** That was the response.

**Richard Brown (L):** So we had a report in 94 saying we're overcapacity. We had a report in 97 saying we're overcapacity. We have the industry coming back and saying we have to rationalize and we have government saying you have to expand?

**Colin Younker (Auditor General):** That was the response, it was not to reduce capacity.

**Richard Brown (L):** Thank you.

**Wayne Collins (PC):** All Star Foods was also created at a time when overcapacity was an issue on Prince Edward Island as well.

**Ron MacKinley (L) (Chair):** But that was Bobby

Morrissey (Indistinct)

**Richard Brown (L):** But what we're discussing though (Indistinct)

**Wayne Collins (PC):** It just added to the overcapacity, it did (TOO MANY SPEAKING AT ONCE)

**Richard Brown (L):** (Indistinct)

**Wayne Collins (PC):** You don't like to hear these things, do you?

**Richard Brown (L):** I don't mind (Indistinct)

**Wayne Collins (PC):** You don't like to hear them because (Indistinct)

**Richard Brown (L):** No, but when you tell a child once to do something, you're forgiven. When you tell a child twice to do something, it may be forgiven. But third, and fourth and fifth time, you start. . .

**Unidentified:** . . . talk to your mother.

**Richard Brown (L):** No, I obeyed my mother after the first time, but obviously this government didn't.

**Wayne Collins (PC):** You got to stop breaking windows, Richard.

**Richard Brown (L):** You know, you have the industry asking for help of government, yet industry is saying we are in trouble. We are in trouble. We're going to lose money here if we don't rationalize at this point in time, we're going to lose more money. Government, make a decision. Treasury Board, make a decision. If you continue to force us to do this, you're going to lose a tonne of money here. And what did you say in 2000, by the way, election year? No, you're going to continue to run. You're going to continue to run it with all these plants open.

**Honourable Robert Ghiz (L):** Expand and hire more people.

**Richard Brown (L):** And we're going to give you money to expand. That's all I'm saying is, you know, what time? We had several times through

this history that major recommendations were made to government and they were ignored. At the end of the day, what did we end up with? An industry with plant closures up west, by the way, all up west which. . .

**Ron MacKinley (L) (Chair):** He just went after Royal Star.

**Dr. David McKenna (PC):** Yeah, there was one in the east. There was two in the east.

**Richard Brown (L):** What were the two?

**Dr. David McKenna (PC):** Morell and there's one in Gaspereau.

**Richard Brown (L):** Yeah but I know, that plant's back open up again.

**Honourable Robert Ghiz (L):** Paturel's.

**Honourable Robert Ghiz (L):** And I want to know how much money was given to that plant to open back up. That includes, yes, we want to know how much money was given to that plant to reopen its doors.

**Ron MacKinley (L) (Chair):** Alright, would you continue on with the Auditor.

**Richard Brown (L):** Oh, I'm telling you the truth, three or four times you were told.

**Ron MacKinley (L) (Chair):** Mr. MacAleer has the floor.

**Wes MacAleer (PC):** If you recall the principles that the Charlottetown-King Square member is advocating here, I think, we could carry it to the point where he could rationalize Prince Edward Island and put it out of business because we don't make any sense either. You know, there's two ways you can handle a problem. You can either handle it in the form of a negative approach or a positive approach. A negative approach is you can shut down all the plants on Prince Edward Island and they wouldn't probably be missed by anybody except the people on Prince Edward Island. Or you can take the approach that there are a certain attributes and characteristics of the Island that you want to preserve and we're prepared to fight for it. And we will put our energy and moneys behind it and try to compete and

that's what we did with Polar.

**Honourable Robert Ghiz (L):** But not to the (Indistinct)

**Richard Brown (L):** You didn't bring them in initially, you didn't bring them in as a partner.

**Ron MacKinley (L) (Chair):** Anyway, you got 15 minutes left, if you continue on with the Auditor and you guys can argue your politics afterwards. Continue on with the Auditor here for now.

**Colin Younker (Auditor General):** 3.10 -

**Cletus Dunn (PC):** 3.9 -

**Colin Younker (Auditor General):** Oh I'm sorry, 3.9 - Government in conjunction with industry representatives, should develop a long-term strategy for the lobster processing industry on Prince Edward Island.

**Cletus Dunn (PC):** A question, should government be involved at all or should it just be industry? I know the report of 97 said that government should take a lead role. I'm beginning to wonder now with all the investments from 25 years of investment in the processing, maybe government shouldn't be involved, maybe let the chips fall where they may and the industry survive on its own?

**Colin Younker (Auditor General):** That's a policy decision government would have to make.

**Cletus Dunn (PC):** But it says here the recommendation is that they should develop a long-term strategy in conjunction with the industry. Maybe it's time to step back and let the industry stand on its own.

**Colin Younker (Auditor General):** Well it depends on what the strategy is.

**Cletus Dunn (PC):** That could be part of the strategy.

**Jim Bagnall (PC):** So why do you say government should form a strategy and not the fish industry?

**Colin Younker (Auditor General):** Well we're

saying in conjunction with the industry representatives, they should.

**Richard Brown (L):** Which I said in 97 if you would have brought the co-ops in, the strategy could have been made at that time but we chose to leave the co-ops out.

**Colin Younker (Auditor General):** And we're making that as a result of the number of issues that just as we were doing interviews were brought to our attention.

**Richard Brown (L):** So has there been any long-term strategy or a remnants of one or discussions of one? It seems like government in conjunction with the industry should develop a long-term strategy. That wasn't done before the formation of Polar as a part of Polar formation? Was there no strategy in place when Polar was born?

**Cletus Dunn (PC):** Strategy, not the industry. .  
.

**Richard Brown (L):** Again, you left the co-ops out of it. Again, you left the co-ops out of the strategy. You had one strategy.

**Colin Younker (Auditor General):** There was just a number of issues identified when we were talking, Richard, and that's why we made the recommendation.

**Richard Brown (L):** But from your analysis over the last five or six years, there was no. . .

**Colin Younker (Auditor General):** No, it's not in these issues we've raised here.

**Richard Brown (L):** And you know, there's comments made about the 1994 study was done. Yeah, there was a study done and there was some work done on it. But remember - we lost the election and this government took over.

**Cletus Dunn (PC):** You had a chance.

**Richard Brown (L):** No, we didn't have a chance to implement our study because you guys took over and ruined it.

**Colin Younker (Auditor General):** In the

summer of 1997, a group of processors approached government requesting additional financing and indicating their operations were at risk if financing could not be obtained.

**Honourable Robert Ghiz (L):** A question - do you have a list of those processors?

**Colin Younker (Auditor General):** Yes.

**Honourable Robert Ghiz (L):** Do you know them now off the top of your head?

**Colin Younker (Auditor General):** The original six were Ken MacDonald, Ed Babineau. . .

**Honourable Robert Ghiz (L):** One sec, sorry, so you're saying that Ed Babineau then approached government on his own?

**Colin Younker (Auditor General):** Can I just finish the list?

**Honourable Robert Ghiz (L):** Okay sorry.

**Colin Younker (Auditor General):** Garth Jenkins, Jack Quinn and Milton MacKay and Dewis Cook and also Mariner Seafoods and Summerside Seafood Supreme were also involved in some initial discussion as well. So I'm not sure of the order that they came in. These are the people that were involved in the initial discussion and there ended up being six original investors. At some point in point, I'm not sure how they started the conversation, but they were meeting back in the fall of 97.

**Honourable Robert Ghiz (L):** So you don't know who the first ones to come to government?

**Colin Younker (Auditor General):** I don't know the first ones.

**Honourable Robert Ghiz (L):** Okay, so you just know that there were six that ended up having, going into Polar Foods. You don't know who first came up with the idea, whether or not it was perhaps, let's say two processors in the Premier's riding came in and said, we need help?

**Colin Younker (Auditor General):** Yeah, we don't know, we're not sure of that.

**Honourable Robert Ghiz (L):** You don't know that.

**Ron MacKinley (L) (Chair):** That would be a question directed to Mr. MacAleer later.

**Richard Brown (L):** Was there any letters? Have you found any letters during this time from processors saying, hey you know, we got problems?

**Colin Younker (Auditor General):** We referenced back to the business plan itself where it refers to that.

**Richard Brown (L):** I guess I'm trying to get pre-business plan there. Did these guys just meet at the end of Queen Street and say, let's get together?

**Colin Younker (Auditor General):** I'm not sure of the process, Richard. We started with the business plan with (Indistinct)

**Richard Brown (L):** Thank you.

**Colin Younker (Auditor General):** Government advised that it was looking for the industry to develop an overall strategy to address the problems rather than a piece meal approach to support for the lobster processing sector. Government engaged an independent consultant to review the problems in the industry and identify policy options. The report made a number of recommendations including the establishment of a marketing consortium. A small task group of staff from the Department of Fisheries and what was then Enterprise PEI identified the pros and cons of the establishment of industry-wide marketing and procurement consortiums.

At the same time, a group of processors. . .

**Honourable Robert Ghiz (L):** . . . was that published, that report?

**Colin Younker (Auditor General):** The Baker Report is the one we're referring to that talks about the marketing consortium and then there was within the department itself they did some work.

**Honourable Robert Ghiz (L):** So that is public. Okay.

**Colin Younker (Auditor General):** At the same time, a group of processors continued to meet and discuss the possibility of an amalgamation of their operations. In November 1997, government approved financial assistance to allow this group to retain legal and accounting advice to continue to explore this option.

**Honourable Robert Ghiz (L):** One sec here. In November 1997, government approved financial assistance to allow this group to retain legal and accounting advice to continue to . . . So government then said, we'll help you set up the business. So they gave them the money so that they could come back to government and basically take advantage of the Premier and Wes MacAleer to get the sweetheart deal. So we gave them the money to come back with the great deal that they had?

**Dr. David McKenna (PC):** To see if it was worthwhile.

**Honourable Robert Ghiz (L):** No, no, this is just-we gave them the money to come back with the plan that you said that they had a good plan and we weren't as top negotiators as we should have been.

**Colin Younker (Auditor General):** Yeah, government gave them assistance to put together to explore the options.

**Richard Brown (L):** Who did they give it to?

**Colin Younker (Auditor General):** The 250?

**Richard Brown (L):** No, oh it was \$250 thousand was the assistance?

**Honourable Robert Ghiz (L):** So that was \$250 thousand. . .

**Richard Brown (L):** Over a million dollars, we're getting there.

**Ron MacKinley (L) (Chair):** Who was the accounting firm?

**Colin Younker (Auditor General):** It was MacPherson, Roche and Smith.

**Richard Brown (L):** They gave it to them to do

the study? Or did they give it to Eddie Babineau or Ken. . . who did they give it to?

**Honourable Robert Ghiz (L):** Do you know who they gave it to?

**Colin Younker (Auditor General):** They provided it through the group back to do the work.

**Ron MacKinley (L) (Chair):** The group.

**Honourable Robert Ghiz (L):** Who was in the group at that time? All those people you list or were just some of them in that group at that time? Because my understanding is some of the—this is just heresy, like David McKenna said. . .

**Colin Younker (Auditor General):** I'd have to check the timing on that, who was involved at that time. Because there was some. . .

**Honourable Robert Ghiz (L):** Because I understand some came in at the end. There was a proposal that went to somebody and said look, here is the deal. If you're not in, you're going to be left out here on your own.

**Richard Brown (L):** We didn't see that money in the 1998 budget.

**Colin Younker (Auditor General):** I'll clarify the timing on that.

**Richard Brown (L):** \$250 thousand - there's nowhere in the budget to indicate that.

**Colin Younker (Auditor General):** Who was there at that time.

**Honourable Robert Ghiz (L):** Okay, but I just want to get this down because basically then what happened was, we gave these people with Polar Foods, supposedly that own multimillion dollar operations. . .

**Richard Brown (L):** Yeah, with good balance sheets, good balance sheets.

**Honourable Robert Ghiz (L):** . . . with good balance sheets and lots of assets, \$250 thousand so that they could figure out a way that they could amalgamate so that they could even make more money off of government?

**Richard Brown (L):** They didn't have enough money to do their own study.

**Honourable Robert Ghiz (L):** No, they didn't have enough money to do their own study. So. . .

**Richard Brown (L):** So we wanted to—they didn't have enough money to do their own study.

**Honourable Robert Ghiz (L):** It was a good move, Wes.

**Ron MacKinley (L) (Chair):** A great government (indistinct)

**Richard Brown (L):** We don't have enough money to do our study but our assets are worth \$25 million.

**Ron MacKinley (L) (Chair):** A great government, just throw out money whenever you want it.

**Richard Brown (L):** But to get back to the marketing study, what's the conclusion on the marketing consortium here? When did that go by the wayside?

**Colin Younker (Auditor General):** I'm not sure what the decision-making process on that study was when it was done. Just that we had a brief look at the study and that was one of the recommendations in it.

**Richard Brown (L):** Did it go to Treasury Board? Did it go to cabinet?

**Colin Younker (Auditor General):** I'm not sure how far it went.

**Richard Brown (L):** So at that time, we're going down the road. We had a recommendation, let's set up a marketing corporation and let's get all our processors together, co-ops included, and let's market PEI lobster. Like Malpeque Oysters, let's use that strategy. Okay, at that time, government said, no.

**Colin Younker (Auditor General):** Right.

**Richard Brown (L):** We're going to go the private sector route and we're going to give these corporations \$250 thousand to form.

**Colin Younker (Auditor General):** That's as far as that study went. . . Government emphasized that its role would be limited to responding to requests for financial assistance should the group decide to proceed.

The province provides. . .

**Honourable Robert Ghiz (L):** We could have just lost that \$250 thousand if the group decided not to proceed, that \$250 thousand would have been just a waste.

**Colin Younker (Auditor General):** It would have been spent to do it. . .

**Honourable Robert Ghiz (L):** But government itself was being told that they have to rationalize and take the leadership role according to reports that they commissioned. This is a high level of incompetence going on at this time. Like it almost doesn't even make sense. But anyway, that's why I'm looking forward to getting in perhaps some other witnesses here so to clarify where the stop process was coming from.

**Colin Younker (Auditor General):** The province provides economic development initiatives primarily through BDI, a Crown corporation. Financial support is also provided to businesses through PEI Lending Agency, Island Investment Development Inc., both also Crown corporations, and occasionally directly through the Department of the Provincial Treasury.

**Richard Brown (L):** Do you think, Auditor, that we have too many bureaucracies down through this to consolidate or look at this kind of—like you just listed three or four corporations here. Are they overlapping and fighting with each other? And the economic development of PEI is suffering because we have a Lending Agency saying, no? We have a BDI saying, yes. We have other Crown corporations, Island Investment Development saying this. Is there fighting going on? And at the end of the day, Islanders are losing out because of it? Because of all this structures?

**Colin Younker (Auditor General):** Different question—I think in our Crown corp. . .

**Richard Brown (L):** Oh, it's actually referred to a corp. . .

**Colin Younker (Auditor General):** One of the recommendations in there is that the Crown corporations' reports and finances be reviewed by a Legislative Committee and if that was done in some of these issues, it might come up at those meetings.

**Richard Brown (L):** But if you were running government, you would think, well we have people going to the Lending Agency, BDI, we have them going to IIDI.

**Colin Younker (Auditor General):** Each has a different purpose.

**Honourable Robert Ghiz (L):** The \$250 thousand, was that added on? Is that on your total?

**Richard Brown (L):** No, it's not on the total.

**Honourable Robert Ghiz (L):** The \$250 thousand is not on the total?

**Richard Brown (L):** The loss.

**Honourable Robert Ghiz (L):** The loss, okay.

**Cletus Dunn (PC):** The Auditor recommends (Indistinct) but the pieces that the Auditor mentions here is that they do have specific roles to play, that's why they would have amalgamated. But what was the recommendation of the previous Auditor General to amalgamate?

**Colin Younker (Auditor General):** 3.13 - In March of 1998, Executive Council gave approval for BDI to make a \$7 million preferred share investment and an initial \$7 million term loan guarantee, later increased to \$7.5 million. . .

**Honourable Robert Ghiz (L):** Oh happy days are there.

**Colin Younker (Auditor General):** . . . for a new amalgamated company. From the establishment of the company in April of 1998, to its receivership in February of 2004, government was intricately involved in providing financial support and was subject to varying levels of financial risk.

**Honourable Robert Ghiz (L):** Mr. Chair.

**Ron MacKinley (L) (Chair):** Yes.

**Honourable Robert Ghiz (L):** It's just for our record, or just for the record of the public really, in March of 1998, Executive Council gave approval. Executive Council would be who?

**Colin Younker (Auditor General):** That's cabinet.

**Honourable Robert Ghiz (L):** That's cabinet. Okay, so cabinet—it wasn't bureaucrats here deciding let's give out this money. This was cabinet deciding to give out this money. This was Pat Binns and his cabinet sitting around after just being elected and they decided to give out this money. And it says here also - From the establishment of the company in April of 1998, to its receivership in February of 2004, government was intricately involved in providing financial support and was subject to varying levels of financial risk.

I find that when you say that government was intricately involved—was that like Cabinet, Executive Council was intricately involved in approving this? Like I'm just wondering, was some of this money approved by the bureaucrats of the department or was all of it approved through Executive Council.

**Colin Younker (Auditor General):** The difference—there's a schedule in the report showing the approval levels for the different guarantees that are put in place, initial preferred share investment.

**Honourable Robert Ghiz (L):** And who was that done by?

**Colin Younker (Auditor General):** It was either by Executive Council Order or by Decision of Executive Council.

**Honourable Robert Ghiz (L):** And what's an Order and Decision?

**Colin Younker (Auditor General):** An Order is a public document. A Decision is not a public document.

**Honourable Robert Ghiz (L):** Sometimes they approve money in secret? If you could say that.

**Richard Brown (L):** Well the decision is secret.

**Colin Younker (Auditor General):** It's not public, it's not made public. That's on page 43.

**Honourable Robert Ghiz (L):** Do you think that's good practice for government to be able to just loan out money without the general public being able to know about it? Like in your opinion as an Auditor General?

**Colin Younker (Auditor General):** We think they should be consistent in the way that it was done. It was done in two different. . .

**Richard Brown (L):** Yeah, around election times, it went secret and out of election times, it went Order-in-Council.

**Colin Younker (Auditor General):** It should be done consistently.

**Honourable Robert Ghiz (L):** It shouldn't be done— so it should be—Executive Council should be making these recommendations but they should be making them public. Oh, I'm just looking at the chart now on page 43. So the \$14 million that was given out just six weeks before the election, Decision in Council. And Decision in Council means that it was done in secrecy. It wasn't a public document.

**Colin Younker (Auditor General):** It's not a public document.

**Honourable Robert Ghiz (L):** Okay, that's interesting.

**Richard Brown (L):** So why wouldn't everything be done Decision in Council? Like I've never heard that term, Decision in Council.

**Colin Younker (Auditor General):** I can't answer that question.

**Richard Brown (L):** Like I go to the Executive Council Act, there's nowhere it says Decision in Council. Is this—this a new one they made up? We're in trouble here, boys, let's change it from an Order in Council to a Decision in Council.

**Honourable Robert Ghiz (L):** Just one last quick question here. You've got Order in Council

and Decision in Council. One's a public document; one's a secret document, and we know that secret documents were the big ones before the—or was the big one before the 2003 election? But both those have to be approved by Executive Council? In other words, Pat Binns and his cabinet made the decision to make these—whether it was an Order in Council or Decision in Council?

**Colin Younker (Auditor General):** Yeah, both are approved by Executive Council.

**Honourable Robert Ghiz (L):** By Cabinet, okay, thank you. So when somebody goes to try and blame the bureaucrats for this, well the bottom line is cabinet is making the decisions.

**Cletus Dunn (PC):** Would the direction come from the department?

**Colin Younker (Auditor General):** There would be submission from the department

**Cletus Dunn (PC):** Submission would come from the department, that's my understanding.

**Ron MacKinley (L) (Chair):** Anyway, time's up for the Auditor.

**Richard Brown (L):** You did a great job, see you later.

**Ron MacKinley (L) (Chair):** The questions I have for the Auditor, next Tuesday, at what time? Next Tuesday at 1:00 o'clock, can you come next Tuesday at 1:00 o'clock?

**Colin Younker (Auditor General):** I'm out of the province next Monday, Tuesday, Wednesday and Thursday of next week.

**Ron MacKinley (L) (Chair):** What about this Thursday, the 20<sup>th</sup> at 1:00 o'clock?

**Colin Younker (Auditor General):** Yeah, Thursday's fine.

**Ron MacKinley (L) (Chair):** So we'll go with this Thursday.

**Honourable Robert Ghiz (L):** I think that I might be only available between 1:00 and 3:00 on Thursday. I might have to be somewhere—is that

usually how long we go for, is a two-hour period?

**Ron MacKinley (L) (Chair):** Yeah, 1:00 to 3:00. 1:00 to 3:30, Thursday afternoon 1:00 this Thursday until 3:30.

**Richard Brown (L):** What time do we start?

**Ron MacKinley (L) (Chair):** 1:00 o'clock.

**Richard Brown (L):** A great meeting.

**Ron MacKinley (L) (Chair):** And you're out of province, what days did you say?

**Colin Younker (Auditor General):** Monday to Thursday of next week.

**Ron MacKinley (L) (Chair):** Is there anything opened for Friday of next week?

**Marian Johnston (Committee Clerk):** The 28<sup>th</sup>?

**Ron MacKinley (L) (Chair):** Friday, how about—what I'll do is—you're available not this Friday but the following Friday. What we'll do is we'll meet here Thursday afternoon and the committee then can decide at that time if they want to meet on Friday.

**Jim Bagnall (PC):** We have caucus planned from 1:00 until 2:00. . .

**Ron MacKinley (L) (Chair):** Well that's what we'll discuss at the next meeting. Thank you, Mr. Auditor and the staff for coming before us.

**Marian Johnston (Committee Clerk):** So just the committee on the 27<sup>th</sup>?

**Ron MacKinley (L) (Chair):** No, we're not sure if we're going to meet on the 27<sup>th</sup> or not. We'll decide that Thursday.

**Marian Johnston (Committee Clerk):** Okay, got you.

**Ron MacKinley (L) (Chair):** Because they got caucus.

**Marian Johnston (Committee Clerk):** There is a lunch next door.

