

The Assembly met at 2 p.m.

Prayers

ROUTINE PROCEEDINGS

ORAL QUESTIONS

Suspension of Employee from Saskatchewan Housing Corporation

MR. SHILLINGTON: — Thank you very much, Mr. Speaker. My question is to the minister responsible for the Saskatchewan Housing Corporation. It deals with the bizarre series of events surrounding your decision to fire a female employee of that public company.

Yesterday your employee was told she had been fired because she placed a union sticker on a portrait of you in her office and because she had written a rude note to her supervisor, even though that note was only discovered after the supervisor rummaged through her brief-case and her personal mail.

Since yesterday, Mr. Minister, you've backed down slightly and have suspended the employee for two weeks without pay. Can the minister explain to this House, and to the employee, why any disciplinary action should have been taken, considering the circumstances?

HON. MR. DUTCHAK: — Mr. Speaker, I have some difficulty dealing with the question since it's hypothetical. Number one, I did not fire any employee at Sask Housing; number two, there was no employee at Sask Housing fired. There was an employee that was suspended for two weeks, and I was briefed this morning on the reasons for the suspension. There is some difficulty between the employee and management. It's been an ongoing difficulty since July of 1985.

Unfortunately, the member is reading from a press release issued from one Larry Brown, and it's unfortunate he didn't look beyond the contents of the press release to research his question.

However, in saying that, Mr. Speaker, I will explain further that management originally was going to fire the employee; however, met with the union representatives in the Saskatchewan Housing Corporation, and upon discussing the issue, decided that a suspension would be fair. At that point, Mr. Speaker, the union representative also believed that a suspension would be fair. However, upon the intervention of one Larry Brown, it was deemed to be unfair, resulting in the press release which the member read from.

I do not intend to get involved in that particular dispute between that employee and management. The issue, I hope, is in no way related to the present difficulties Mr. Brown is having with his union negotiations.

MR. SHILLINGTON: — New question, Mr. Speaker. I guess I've missed something. I thought the Premier had appointed that member from Prince Albert-Duck Lake as a minister of the Crown to answer questions in this Assembly with respect to the activities of that Crown corporation. It's a new day, Mr. Speaker, in parliamentary practice when a minister can say he doesn't answer for the Crown corporation.

Mr. Minister, from that question, are we to assume that you are condoning the actions of a supervisor who goes rummaging through his employee's personal belongings, including personal mail? Does the minister not recognize this kind of action is an unjustified invasion of privacy and could well result in legal action. Are you and your political management at SHC so paranoid that you will stand here and support that kind of activity, Mr. Minister?

HON. MR. DUTCHAK: — Well, Mr. Speaker, my information again is contrary to the information

just provided to the House by the member. The information is that certain information was found on the front desk of the corporation, not in the personal area occupied by the employee. However, other than that I have in my possession a letter which was written to the employee indicating various reasons why this suspension would be necessary, including falsification of sick leave; secondly, tardiness; lack of respect for her superiors in the housing corporation.

Mr. Speaker, there are mechanisms to deal with disputes of this type. It's unfortunate that Mr. Brown and the member wish to bring this to the legislature. We have a grievance procedure in place meant to resolve issues such as this in the work place, and I am very satisfied with that procedure, and I hope that that procedure will settle the issue satisfactorily.

MR. SHILLINGTON: — Mr. Minister, supplementary. Are you denying in this House that a supervisor at SHC went through that employee's personal brief-case and found a note uncomplimentary to himself? Are you denying that in this Assembly?

HON. MR. DUTCHAK: — Mr. Speaker, I do not intend in this Assembly to get into an argument with the member opposite about who did what. Mr. Speaker, the member may not realize it, but I have a responsibility to the employee who may have been aggrieved as well as a management. And in saying that, Mr. Speaker, I am relying on the grievance procedure that's available to the employee to find out what happened.

I don't intend to assume that information read by the member opposite, provided to him by Mr. Larry Brown, is accurate. And I don't intend to do that. And I intend to allow the procedures in place to deal with the issue satisfactorily.

I am more concerned, Mr. Speaker, with the work that has to be done by the housing corporation. I am more concerned with interruptions in services to seniors, for example, that happen when we have issues such as this. And that's why I'm anxious to have the matter cleared up. And I've advised management that that is my wish, this morning.

MR. SHILLINGTON: — New question, Mr. Speaker. Mr. Minister, I am not relying on any press release issued by anyone. Members of my staff took the time to interview this woman, something I assume members of your staff have not, Mr. Minister.

My question, Mr. Minister, is again: are you denying that a supervisor at SHC rifled through this woman's personal brief-case and found a note which he found offensive, and thereafter proceeded to tell her she was fired? Are you denying that?

HON. MR. DUTCHAK: — Mr. Speaker, I do not know what really happened. And I don't intend to personally investigate to find out what happened between the two parties, namely the management personnel and the employee. There is a procedure in place to issue a grievance. That procedure determines who was right in this matter, and it will determine who was right.

I have before me the copy of the letter issued to the employee indicating certain things such as falsification. To me that looks very serious, but I don't intend to take personal action against the employee because there is a procedure in place for this sort of thing. I therefore will leave it at that, Mr. Speaker, and I'm sure it will be dealt with quite promptly.

I also note the union representative originally agreed with management that a two-week suspension was fair. It was only until Mr. Brown became involved that suddenly it's deemed to be unfair, and obviously now the opposition is involved, and they're interviewing people involved in a dispute of this sort. I think, Mr. Speaker, that is extremely appalling behaviour on the part of the members opposite to get personally involved in a dispute between an employee and a manager in the Saskatchewan Housing Corporation. I'm extremely surprised that they would do so.

MR. SHILLINGTON: — New question, Mr. Speaker. We are talking about basic human rights in what is supposed to be a western democracy. Mr. Speaker, we do not live behind the iron curtain.

This is supposed to be a western democracy.

Mr. Minister, since you have not denied that the supervisor rifled through this woman's personal brief-case, since you haven't denied that, I take it to be an admission that, in fact, that happened, because if it hadn't happened you would have denied it.

Mr. Minister, have you considered disciplinary action against the supervisor in question, since he went through the personal brief-case of this employee? Surely the minister is not so arrogant and so egotistical that you'll try to get someone fired for slapping a union sticker on his official portrait. Is that the kind of penalties which your government now stoops to? Are you that paranoid?

Mr. Minister, why don't you spend more time worrying about the housing policy in this province which is in a shambles and a disgrace, and less time worrying about whether or not somebody has put a sticker over top of the official portrait of the minister?

HON. MR. DUTCHAK: — Well, Mr. Speaker, the question is silly; however, I will deal with it. I did not make the decision for any suspension of that employee, Mr. Speaker. That was done by management, and there's a process to deal with it. However, the member raised a number of serious allegations, and I will now go into the letter which is provided to the individual, which I believe answers his allegations to the satisfaction of this House.

The letter dated December 4th to the employee indicates that at 8:30 . . . and this letter is from the director of organizational development at the Housing Corporation, namely, management:

At 8:30 this morning I met with you in the presence of union representatives and your supervisor about a number of incidents admitted by you. The most serious of these was a blatant, insubordinate, and obscene note towards your immediate supervisor. This note was the culminating incident of your continuing negative attitude and disrespect for management.

I spoke to you on September 18th, 1985 and issued you a verbal warning regarding your negative attitude towards management and the corporation. I clearly indicated to you the importance of displaying a positive, pleasant image on the front desk, and I expected you to do so.

On at least two separate occasions, Mr. Besler, your immediate supervisor, issued verbal warnings to you, once on July 9, 1985 for your falsifying of sick leave; and secondly, on November 1, 1985 for your continued tardiness in attendance to work.

The letter goes on, Mr. Speaker, to indicate the problems that management had with attitude. I had wished that this issue would be dealt with in the grievance procedure which is properly designed to deal with disputes of this nature.

I think it's unfortunate that we have to debate who was right or who was wrong in this legislature because there are individuals that, I'm sure, would like to do good work for the corporation that are involved in this dispute. It's unfortunate that this issue seems to be becoming a political issue, where it shouldn't be.

MR. SHILLINGTON: — New question, Mr. Speaker, in the view of many people you fired the wrong person.

Mr. Minister, have you considered — since you now admit, Mr. Minister, since you now admit 12 minutes into the question period that in fact the supervisor did rifle through her personal brief-case and find the note — since you now have that admission, Mr. Minister, which you earlier refused to give us, will you now tell us whether or not you condone the actions of that supervisor in invading this employee's privacy?

HON. MR. DUTCHAK: — You know, Mr. Speaker, the opposition really hasn't changed after being in opposition for awhile. They still just take all of this information from Mr. Brown and assume that no one else could be right except Mr. Brown. What's been quoted to this House is really from the press release of Larry Brown.

Now I have not taken a side in this issue, Mr. Speaker. I don't know if management is providing all the intricate detail to me, and I also don't know for sure what the employee's position is. And I'm sure there are arguments on both sides.

I know, Mr. Speaker, that as minister I will support the procedure in place, namely the grievance procedure, to determine who was wronged in what happened in the last few days. We have an allegation, a falsification of sick leave, and so on, and that's serious, as well as the allegations made by the employee.

I look forward to allowing the grievance procedure to take its course. The member opposite mentions legal action, and that's another procedure that may be available. I'm not sure how it could be, under the circumstances, but if that's what either party chooses, that's their right. But, Mr. Speaker, I will not personally interfere and condemn either management or the employee for causing the conflict which apparently has been brought to us by Larry Brown and the member opposite.

MR. SHILLINGTON: — Supplementary, Mr. Speaker. I'm simply going to repeat the question I asked and see if you have the courage to deal with it, Mr. Minister. The question is: since you now admit that the supervisor in question rifled through a brief-case of the employee, do you condone a supervisor rifling through the personal brief-case of any employee? Do you condone that action, Mr. Minister?

HON. MR. DUTCHAK: — Mr. Speaker, obviously, as I indicated before in answer to a silly question, I don't condone anyone rifling through personal property of anyone else. However, the details that are provided to me tell me the other side of the coin, Mr. Speaker. I don't intend to be a judge on this issue. I'm surprised that the member opposite is suggesting that I should be.

I would also suggest that the opposition should stop interviewing people in relation to this incident. That's clearly not in keeping with our situation in Saskatchewan, our grievance procedures, and so on. I think it's a sad day when the opposition becomes involved in a labour dispute and starts interviewing people.

Status of Oil Upgrader at Lloydminster

MR. LINGENFELTER: — Mr. Speaker, my question is to the Deputy Premier, in the absence of the Premier, and it's regarding the status of the oil upgrader at Lloydminster. The minister will know that the Mulroney government has had this important industrial project under review for a number of months.

My question to the minister is: have you met personally with any of the federal ministers or federal people to see where and when this project will be announced?

HON. MR. BERNTSON: — I have not met personally with federal ministers since considerable time ago. However, my colleague, the Minister of Energy, may be more enlightened than I am, so I'll turn the question over to him.

HON. MR. SCHOENHALS: — Mr. Speaker, we are in relatively constant communications with our federal counterparts in the federal Department of Energy and Mines. We do not have specific dates. I would anticipate that the two governments, Husky, and the federal people will get together. If I were venturing a guess, I'd say within the next two weeks.

MR. LINGENFELTER: — Mr. Minister, I will address it to the Minister of Energy and Mines, a

supplementary, seeing it's been handed off to him. The question that I would have is: in the agreement that is being arranged, what guarantees are you getting that Saskatchewan content, in terms of employment and contracting, will be involved, and what percentage are you shooting for in those agreements?

HON. MR. SCHOENHALS: — Part of the agreement that is being worked on has to do with non-fiscal issues. Those types of things are well under way. As soon as that is completed, we'll release that information.

MR. LINGENFELTER: — Well the minister skirts around the issue, and I have here a quote from the Premier of the province in June of '84 where he says, 'The single largest job creation project in Saskatchewan's history,' referring to the Lloydminster project. What I would like to know from you, sir, is: what content, what percentage of Saskatchewan participation will there be when this project is announced? In the negotiations that you're doing at the present time, what are you insisting on Saskatchewan content to be in terms of workers and contracts being let?

HON. MR. SCHOENHALS: — Mr. Speaker, obviously that's a complex issue. We will be maximizing Saskatchewan content in terms of labour, and in terms of acquiring materials, engineering, and whatever, and that, as I indicated, when those agreements are worked out, they'll be released, and I'm sure that everyone in the province will be well satisfied with the measures we've taken.

MR. LINGENFELTER: — A supplement to the minister. The 'trust us' slogan that you have tried to live on for three years is wearing thin. I'll ask you one more time: what percentage of Saskatchewan content are you trying to get? What are you negotiating for? Are you trying to get 100 per cent, 50 per cent, 25 per cent? Because that would seem to be fairly important. And let us know now what percentage do you think or are you trying to achieve in that area?

HON. MR. SCHOENHALS: — Mr. Speaker, as I indicated, we are attempting to maximize Saskatchewan content. We will do that. It's difficult to pick a percentage in some specific trade. We won't have enough people in Saskatchewan to fill it. We are working, we are negotiating with the Government of Alberta and the federal people, and we will have an agreement in place that I believe will satisfy everyone in Saskatchewan, and we will, in fact, work very hard to maximize Saskatchewan content.

MR. LINGENFELTER: — New question to the minister. I have here an internal document, a study that was done for the Department of Economic Trade and Development, the major project division, dated November 19, 1985. And in this document, which outlines the percentage that will in fact accrue to the people of Saskatchewan, and I quote:

The contract for the primary upgrading process technology: Saskatchewan content, zero. The contract for the design of the primary upgrading plant: Saskatchewan content, zero. The contract for the design of the secondary upgrader: Saskatchewan content, zero. The contract for the design of the hydrogen plant: Saskatchewan content, zero.

Now you, Mr. Minister, have stood here and said that you are trying to get the utmost Saskatchewan content. In light of this document — this internal document — can you stand here and explain how you keep your job as a minister when we're talking about zero per cent Saskatchewan content in four major areas?

HON. MR. SCHOENHALS: — Mr. Speaker, if we take that a step further in the NewGrade project, for instance, the major vessels have been ordered. They can't be made in Canada. Canadian content, zero. They have to come from either Japan or Italy. We have contracted for them in Japan. There will be elements in the engineering components, which is what he has referred to, where there is no opportunity for Saskatchewan content at that stage. There will be many other areas where there will be, and they will be packaged in such a way as to allow Saskatchewan content.

The reason that it's difficult provide the percentage numbers he wants is because in those specific areas there is no Saskatchewan capacity to carry them out, so maybe we'll take a larger portion of the labour. And as I indicated, we're involved in negotiations of that type, and we will maximize Saskatchewan content on this project.

MR. LINGENFELTER: — well finally I would ask the minister: you have now agreed that in four major areas, based on your internal study, that there will be zero Saskatchewan content. Can you give us some idea overall what percentage of Saskatchewan content there will be, and how many jobs will actually come to Saskatchewan and not to other parts of the world, since you're guaranteeing many of the loans that are going to be involved if this upgrader goes ahead?

HON. MR. SCHOENHALS: — Mr. Speaker, once again, one of the advantages which has not been accrued to is that we will acquire technology in the province that we will have, and then it can be exported and can be used. That's a side benefit.

In terms of providing an exact percentage of this portion or that portion, obviously I'm not in a position to do that. We will negotiate and we are negotiating to maximize Saskatchewan content, Saskatchewan jobs, be they labour, be they in some of the other engineering areas, and we are doing that and will continue to do that to represent the people of this province. Thank you.

Changes in Staff of the Department of Finance

MR. KOSKIE: — Thank you, Mr. Speaker. I'd like to address a question to the Minister of Finance. Mr. Minister, it deals with the large number of changes that you have made in senior staff in your department since the disastrous April 10th provincial budget. On November 26th, the associate deputy minister of Finance, Lawrie McFarlane was moved to another department. Back in September, the former deputy minister of Finance, Michael Costello, was moved out of the department.

But I ask you, Mr. Minister, were these changes your choice, or did you, in fact, sit down and have a cup of coffee with the Premier and the changes, in fact, were made by the Premier of this province in light of your disastrous budget?

HON. MR. ANDREW: — Mr. Speaker, with regard to those two senior positions, I, in fact, am very encouraged by the work that both Mr. Costello and Mr. McFarlane will do. As the members opposite will know, both of those employees have served this government for a fair period of time and, I suggest, have served this government and previous governments very, very well.

SOME HON. MEMBERS: — Hear, hear!

HON. MR. ANDREW: — Dealing first with McFarlane, Mr. Speaker. He has been promoted as deputy minister of Advanced Education and Manpower, which we believe to be a very, very important department of this government and very, very important to the people of Saskatchewan. That was a promotion for that particular individual.

With regard to Mike Costello: Mike Costello has been moved, as have many deputy ministers of Finance to Crown corporations. Mike Costello is charged with the function of arranging the financing for the NewGrade upgrader, as well as working on the financing for the Husky upgrader, as and when that project comes on board. That is dealing, Mr. Speaker, with a great deal of money — a great deal of money, Mr. Speaker, and we have tremendous faith — myself, the Premier, and all members of this side of the House, in both of those individuals.

With regard to their replacements, Mr. Speaker, Mr. David Heron has been brought on as the new deputy minister of Finance, an individual who has served in an accounting profession, and in his profession, very well, and very professionally for the last 20 years in this province. I, the Premier, and the members of this side of the House have a great deal of confidence in Mr. David Heron as well.

MR. KOSKIE: — I'd like to ask a supplement. There's no doubt, on this side, we have respect for the senior civil servants that worked for the previous government for some 11 years, but what I want to ask you: are these changes of senior staff really an attempt to scapegoat them for the disastrous provincial budget, which your cabinet put together and burdened the people of Saskatchewan? Is it not, in fact, an attempt to save your own skin by an appearance of changing the inner circles of the bureaucracy of Finance and, in fact, the change should come by changing the minister, not the deputy?

HON. MR. ANDREW: — The answer to that question, Mr. Speaker, is no.

MR. KOSKIE: — Supplement. Few will believe you, Mr. Minister. I'd like to indicate, Mr. Minister, that your department, as you indicated, has gone through a massive change — the new deputy minister, a new assistant deputy minister, and a couple of new associate deputy ministers — four new senior staff. Can the Finance minister tell us which of these four appointments were his own personal choices, or were they, in fact, dictated by the Premier of Saskatchewan who has lost confidence in his Minister of Finance?

HON. MR. ANDREW: — Well, Mr. Speaker, in the case of both my department or the department that I hold responsibility for, and in the case of every other minister, when you are dealing with the appointment of deputy ministers or senior staff, the way this government functions is for the premier and the members of cabinet that are directly affected to sit down and discuss it. That's, in fact, what happened here.

I fully support and endorse the changes made with regard to the senior levels in the Department of Finance, and I suggest many of the senior people that I have talked to, that were here before, say that it's at least nice now that the Premier brings the cabinet minister in and consults with him. That was not the case before. It was ruled from on top by the previous premier of the province, and that minister had no input into it whatsoever. They support that change, and we support that change.

INTRODUCTION OF BILLS

Bill No. 131 — An Act to amend The Income Tax Act (No. 2)

HON. MR. EMBURY: — Mr. Speaker, I move first reading of a Bill to amend The Income Tax Act (No. 2).

Motion agreed to and the Bill ordered to be read a second time at the next sitting.

Bill No. 132 — An Act to Provide Heritage Grants to Certain Senior Citizens

HON. MR. EMBURY: — Mr. Speaker, I move first reading of a Bill to Provide Heritage Grants to Certain Senior Citizens.

Motion agreed to and the Bill ordered to be read a second time at the next sitting.

Bill No. 133 — An Act to amend The Vehicles Act, 1983 (No. 3)

HON. MR. LANE: — Mr. Speaker, I move first reading of a Bill to amend The Vehicles Act, 1983 (No. 3).

Motion agreed to and the Bill ordered to be read a second time at the next sitting.

POINT OF ORDER

MR. SPEAKER: — Before orders of the day, I would like to respond to a point of order raised by the member for Shaunavon with regard to remarks made by the member for prince Albert. I was in the

House at the time that the member was speaking, and I did hear the speech. I reviewed the record, and after reading the record, I find that the point of order is not well taken.

CONDOLENCE

HON. MR. BLAKENEY: — Before orders of the day, Mr. Speaker, I would like to take the opportunity to advise the House of some unfortunate news which reached us today with respect to the death of Mr. Auburn Pepper, the member of this legislature from 1964-1982, a member for the constituency of Weyburn. He will be known to many people. He was Deputy Speaker and served in many other capacities in this legislature. I know there will be another opportunity to state our sympathy with the untimely passing of Mr. Pepper.

HON. MR. BERNTSON: — Mr. Speaker, just to join from this side of the House with the Leader of the Opposition in an expression of condolences to the bereaved family and to indicate to the House that it is our intention to, on Monday, deal with the formal motion of condolences.

INTRODUCTION OF GUESTS

MRS. CASWELL: — Thank you, Mr. Speaker. I ask for leave to introduce guests because I think the highlight of any session is if you get students from your constituency in. Saskatoon is 163 miles away and sometimes it seems like 2,000. So I would certainly like to welcome the 45 students from St. Gerard School, in my constituency of Westmount. This is grade 7 and 8 students. Their teachers are Don Vogt, Greg Seipp, Kevin Yano. I will be meeting with you for pictures and discussion at 3, and I hope you will have some questions for me. I understand you are a French immersion school, and the questions and answers will be in English.

HON. MEMBERS: — Hear, hear!

MR. TCHORZEWSKI: — Because of a previous brief association with St. Gerard, I would also like to ask leave to welcome the students, if I may.

Mr. Speaker, I take pleasure in also welcoming the students from St. Gerard. My association with St. Gerard was a brief one. I was a practice teacher at that school between 1964 and 1965. It was a great school with great students, and I'm sure that that tradition still continues. I hope that their stay here is a beneficial one and a happy one.

HON. MEMBERS: — Hear, hear!

ORDERS OF THE DAY

MOTIONS FOR RETURNS (Not Debatable)

HON. MR. BERNTSON: — Mr. Speaker, I wonder if I could have leave of the Assembly to convert items number 1 through 26 inclusive to motions for return, debatable.

MR. SPEAKER: — The House Leader has moved that motions for returns (not debatable) debate.

GOVERNMENT ORDERS

SECOND READINGS

Bill No. 123 — An Act to amend The Provincial Court Act

HON. MR. LANE: — Thank you, Mr. Speaker. I rise to move second reading of Bill 123, An Act to amend The Provincial Court Act.

The Bill makes a number of changes to the existing provincial court Act. Some of those changes are of a housekeeping nature, some are charter-related, and the balance related to the pension plan for provincial court judges.

The housekeeping changes consist mainly of clarification, where the existing legislation has given rise to difficulties in interpretation. Several sections, as well, are amended to stipulate that they will not apply to future appointments. This is necessary because they were not intended to continue or to be of general application.

The charter-related amendments are designed to remove provisions which may be considered discriminatory on the basis of sex, marital status, or age. This initiative is in keeping with this government's policy of identifying and rectifying provisions which are not consistent with the charter of rights.

Mr. Speaker, the Bill makes provisions for the vesting of pension rights, which is provided at the request of the provincial court judges' association. Presently there is no vesting of such rights unless the judge has attained the age of 55 years. In future, his age will not have a bearing on whatever his pension rights are vested.

These amendments will also implement the concept of voluntary early retirement for provincial court judges who have served a minimum of 10 years on the bench. Currently provincial court judges cannot retire until, at the earliest, the age of 65 years, or in the case of judges who were appointed under the Magistrates' Court Act, 70 years of age. Payments will, of course, be actuarially reduced where the early retirement option is chosen. In addition, the one-time supplementary monthly allowance is being offered at this time. This will have the effect of providing a supplementary monthly allowance for judges who exercise the early retirement option before January 31st, 1986. Mr. Speaker, the early retirement option was at the request of the provincial court judges.

Mr. Speaker, it's my pleasure to move second reading of The Provincial Court Amendment Act, 1985.

MR. KOSKIE: — Mr. Speaker, we would like the opportunity to review the Bill in more detail and to review the comments made by the minister. Accordingly, I would beg leave to adjourn the debate.

Debate adjourned.

Bill No. 122 — An Act to amend The Heritage Fund (Saskatchewan) Act (No. 3)

HON. MR. HEPWORTH: — Mr. Speaker, speaking on second reading of this Act, I won't be a long time. I will just say simply that this Act or the amendment to this Act allows for a mechanism for making payments under The Farmer's Oil Royalty refund Act out of the agriculture division of the Heritage Fund. For example, other payments from the Heritage Fund go to the interest rate rebate program today has something in the order of 5,000 farmers enjoying benefits from that.

This, Mr. Speaker, as well, is consistent with this government's approach to expenditures from moneys gained from non-renewable resources. Our approach has been, as they become depleted, some of those revenues are set aside for the future when, in fact, those resources will no longer be there. As well, Mr. Speaker, moneys are set aside for the future — for those rainy days in the future that always come.

And, Mr. Speaker, our farmers today in Saskatchewan are going through a downturn. The rainy days, if you like, have come. The tougher times are here and just as we were not about to see the family

farm jeopardized by high interest rates, high interest rates and high land prices jeopardizing the intergenerational transfer of the family farm, and just as we sued the agricultural division of the Heritage Fund to provide low interest rate money for Saskatchewan farmers, today we are using the agricultural division of the Heritage Fund to tackle the number two farm input cost and that's high fuel costs.

The heritage in this province, Mr. Speaker, is the farmer — your parents, I suspect, as many other members in this Assembly. Our parents and our grandparents built this country and we are not about to let them down nor are we about to see those family farms that were established by our parent pioneers and the heritage that we owe to them that we today enjoy, we are not going to see them let down.

And so, Mr. Speaker, it is with great pleasure that I move second reading of Bill 122, An Act to amend The Heritage Fund (Saskatchewan) Act (No. 3).

MR. SHILLINGTON: — Thank you very much, Mr. Speaker. I want to say initially that this Bill marks an unprecedented decline in the prestige of the Minister of Finance. Earlier in this House, Mr. Speaker, we passed the Saskoil Bill, which affects this province's assets and revenue to the extent of 4500 million. This government is not interested in trifling sums like 5 million but one would have thought 500 million would have got the Minister of Finance's attention. He did not speak. Not only how is he not speaking on these Bills, he's not even bothering to move Bills that are assigned to his ministry.

MR. SPEAKER: — Order, please. The question before the Assembly is second reading of a Bill. It's not an open debate and I would ask the member to stay on the subject.

MR. SHILLINGTON: — Mr. Minister, we have the Minister of Agriculture moving a Bill which has the most profound effect upon the finances of the province, which ought properly to be moved by the Minister of Finance, and for which we have not heard from the Minister of Finance. I accept your ruling, Mr. Speaker. I've been a member too long to show disrespect for the Chair, but I may say that I would have thought the question as to who moved the Bill would have been a proper subject for discussion.

Mr. Speaker, having made those comments with respect to the Minister of Agriculture's involvement — in my view he should not be involved in this Bill at all, moving this Bill — having made those comments, Mr. Speaker, I beg leave to adjourn debate to give members on this side and, I hope, the Minister of Finance, an opportunity to take part in the debate.

Debate adjourned.

Bill No. 124 — An Act to establish a Dental Plan for certain Teachers

HON. MRS. SMITH: — Thank you, Mr. Speaker. I rise today to move second reading of a Bill, Bill No. 124, an Act to establish The Teachers' Dental Plan Act.

The teachers' dental plan is very much a part of the recently concluded two-year agreement for 1985 and 1986 — provincial collective bargaining agreement between our Saskatchewan teachers, our school boards, and the government.

Mr. Speaker, over recent years teachers have made some significant gains in working benefits, the most recent one being the 30 year and out retirement clause. And I say it was a major gain, Mr. Speaker, for it was the first one in Canada for the organization of teachers. Today, Mr. Speaker, we see another gain. Changing structures and economic times, as we all know, do not always dictate increases, but in recognition of the important role that teachers play in the education of our youth, approximately 11,000 teachers in this province will benefit from this plan. And I'm sure my new colleague and my new critic for education, the hon. member from Regina North East, who I welcome to this House as a past teacher, a former counsellor with the STF federation, and also as the

former minister of education, will agree that benefits for teachers do, in fact, deserve some recognition.

The Teachers' Dental Plan Act will establish a dental plan already in place for out-of-scope employees of the Government of Saskatchewan. And while the plan will be handled by an insurance company which will be selected by tender, I am pleased, Mr. Speaker, to announce that the administration and management of the plan will in fact be administered by teachers through the very capable Teachers' Superannuation Commission.

(1445)

Mr. Speaker, we, as government, are pleased today to present this Bill, and I respectfully move second reading of bill No. 24, an Act to establish The Teachers' Dental Plan Act.

MR. TCHORZEWSKI: — Thank you, Mr. Speaker. I want to indicate that I am aware, and the opposition is aware, that this Bill is a result of the agreement which has recently been signed and agreed to by teachers, trustees, and the government. It's an agreement that took a record time to settle — the first time in history that an agreement was not settled before the end of the school year. I think that there is a message in that and I will want to make some comments on this Bill eventually, as well as the process through which it was brought about.

The minister, in her comments, indicated that this is a major gain. Well, let me say that I agree. A dental plan is a laudable idea and something which teachers have been asking for some time, and certainly welcome that provision. But the minister failed to mention that in this agreement there is also a major loss — no increase for the fiscal year or the school year 1985. And I will have something to say about that when I continue the debate.

I want to take the opportunity, and I've already begun, to discuss this Bill and the dental plan with teachers and school trustees' association. I have made the contact. We will want to consider the Bill carefully in light of those consultations. At that time I will want to speak on it at greater length and ask some questions further to that in committee. But for the time being, I beg leave to adjourn the debate.

Debate adjourned.

Bill No. 127 — An Act to amend The Cancer Foundation Act

HON. MR. TAYLOR: — Mr. Speaker, I'm pleased to explain this amendment to The Cancer Foundation Act.

The Saskatchewan Cancer Foundation is established under the Act as a corporate body with its own board of governors. The foundation has broad statutory duties to operate facilities and programs for the diagnosis, prevention, and treatment of cancer.

Mr. Speaker, it is normal for bodies such as the Cancer Foundation to have the authority to borrow funds for the purpose of undertaking capital projects in a rational and effective way. For example, both the University Hospital board and the South Saskatchewan Hospital Centre board have this authority under their respective statutes.

However, Mr. Speaker, the borrowing powers of the foundation are currently limited to borrowing for the purpose of interim financing only. The foundation brought this limitation to our attention and requested that it be modified. The proposed amendment will simply bring the foundation's borrowing powers into line with those of similar organizations in the health care field and in other areas.

The amendment will be helpful to the foundation at this time in relation to the development of a new cancer clinic, which will shortly begin construction in Saskatoon.

Mr. Speaker, I'm very pleased to move second reading of this Bill.

MR. SHILLINGTON: — Mr. Speaker, it has become a hallmark of this government that ministers do not take the time or the trouble to listen to the public, and that includes the professional medical staff who have to work with these Bills. We saw that earlier in question period, Mr. Speaker. I don't intend to review those events. Suffice it to say that — and the Speaker is encouraging me along that path — the minister came without discussing it with his staff.

I have no confidence, Mr. Speaker, at all that the minister has turned over a new leaf and is finally starting to listen to doctors and nurses who are vehement in their complaints about the way this government is running our health system. The nurses have concerns about staffing and equipment, none of which, Mr. Speaker, are being listened to by this government. It is as arrogant in dealing with them as it is with dealing with anyone else.

Because, Mr. Speaker, I believe that this minister has not taken the time to discuss it with the professional staff in the cancer clinics who will be involved, I beg leave to adjourn the debate so that the opposition can perform that function which ought properly to have been performed by the minister, Mr. Speaker.

Debate adjourned.

COMMITTEE OF THE WHOLE

Bill No. 119 — An Act respecting Saskatchewan Oil and Gas Corporation

Clause 1 (continued)

MR. CHAIRMAN: — Good afternoon. The first item of business is item number 1, Bill No. 119, An Act respecting Saskatchewan Oil and Gas Corporation. This is a continuation of yesterday's debate.

MR. SHILLINGTON: — Thank you very much. Mr. Minister, yesterday afternoon we asked you, if my memory serves me correct, four different times how you were going to calculate the number of shares the Crown investments corporation would receive. By my calculation, those four questions elicited five responses.

AN HON. MEMBER: — Only five?

MR. SHILLINGTON: — Well I only counted five. In the confusion, I might have missed one.

Mr. Minister, I wonder since last evening if you have taken the time to read the Bill. The Bill is, I think, quite clear about what sum of money is being used to calculate the shares. The Bill says with considerable clarity that the loan of \$145.5 million is being converted into shares. I ask you, Mr. Minister: will you now admit that your comments at five to 5 last night were patent nonsense and that in fact it is the sum of \$145.5 million which is the sum that is used to calculate the common shares?

HON. MR. SCHOENHALS: — Mr. Chairman, the answer is no.

MR. SHILLINGTON: — Well I think the answer to that is the minister hasn't read the Bill and doesn't know. Mr. Minister, are you prepared to read the Bill and tell us how you're going to calculate the number of shares that CIC is going to get?

HON. MR. SCHOENHALS: — Mr. Chairman, the government shares will be the fair market interest of the government's interest in the company divided by nine.

MR. SHILLINGTON: — Mr. Minister, I wonder if you attach any significance . . . I may say I've seen some arrogant, confused performances in my time but this really takes the cake. Mr. Minister, I

wonder if you've taken the time to read on page 7, section 3(7)(a):

(b) the Crown Investments Corporation of Saskatchewan may agree with Saskoil to convert the loan of \$145,499,100 mentioned in clause (a) into fully paid common shares of Saskoil on those terms and conditions that are approved by the Lieutenant Governor in Council.

I wonder, Mr. Minister, if you can forgive us for attaching some significance to that clause of the Bill.

HON. MR. SCHOENHALS: — Mr. Chairman, that clause in the Bill is completely consistent with what I've been telling you.

MR. SHILLINGTON: — All right. Mr. Minister, what part does the fair market value of the oil fields, of the reserves, play then in calculating the number of common shares CIC is going to get?

HON. MR. SCHOENHALS: — Mr. Chairman, once again it's the fair market value of the government's interest in the corporation. That has nothing to do with the assets of the corporation. And that is the message that throughout this whole piece we have had a great deal of problem getting across to the opposition, that assets and equity are not identical.

MR. SHILLINGTON: — I take it the, Mr. Minister, that the loan of \$145.5 million, rounded off roughly, do I take it that plays no direct role in determining the number of shares which CIC will get?

HON. MR. SCHOENHALS: — Mr. Chairman, the number that appears here and we round off to \$145 million is the book value. The fair market value has yet to be determined and will be slightly higher.

MR. SHILLINGTON: — Can the minister take a wild shot at what the fair market value might be so that we can determine what the interest of the Crown will be in this company?

HON. MR. SCHOENHALS: — The interest of the Crown will be the fair market value which will be slightly more than the number indicated in the Act, 145 million plus.

MR. SHILLINGTON: — Mr. Minister, it is simply not credible for you to suggest in this House, four days before these shares go on sale, that you don't know what the fair market value is. That's just not credible, Mr. Minister. You must have an estimate. I ask you: what's the figure? What is the figure which you place on the fair market value of the Crown's interest in this company?

HON. MR. SCHOENHALS: — Mr. Chairman, one more time, the date is a target. We have no guarantee that the shares will in fact . . . that the final prospectus will be filed on Monday or Tuesday or when they will go on sale, as we have indicated. As well, the fair market value will be determined by the conditions in the market, which change on a daily basis, and can only be done at the last moment prior to filing.

MR. SHILLINGTON: — That, Mr. Minister, is unmitigated nonsense. That is unmitigated nonsense, Mr. Minister, and I'm amazed you don't know it. For someone who's preening himself to take over the Department of Finance, you're a fair fool when it comes to dealing with figures, Mr. Minister.

Mr. Minister, you had planned to have these shares on sale on December 9th. Mr. Minister, you must have a figure which you put on the fair market value of the assets which you say is going to be used to determine the number of shares the Crown has. What's your figure? Mr. Minister, you must have it.

HON. MR. SCHOENHALS: — Mr. Chairman, it almost causes me to ask the question whether my learned colleague, in his legal background, if this is the first time he's ever dealt with a securities commission prospectus. The point is, the day before — the day before — the final prospectus is filed, the pricing meeting will take place, and those determinations will be made. It's not done before. It will be done the day before it's filed. If we meet the target of next Monday, it will take place on

Sunday. If it's later, it will take place later.

(1500)

MR. SHILLINGTON: — Mr. Minister, that is not the way it is done, and I'm amazed that Mr. Minister hasn't figured that out before this.

Mr. Minister, I just ask you to think about a prospective investor who has not blind confidence in this government's management abilities. I think they can be forgiven for that, given the record of the department which you are apparently about to take over.

But, Mr. Minister, suppose the shareholder . . . Suppose a prospective shareholder does not have blind confidence in your management ability. He wants to know what the share is worth. That's a key question. What is the share worth? What's the company worth, and what percentage of those company's assets do I own? There is no way in the world you can figure that out from this prospectus.

Mr. Minister, I have a number of prospectuses with me. I would hold my personal files and just pull the number out at random. A float of Placer Development about two years ago; Western Pulp and Paper; Coenerco, this year's prospectus; Orbit Gas and Energy; Coenerco, the final prospectus; Seinna.

All of them, Mr. Minister, tell me two things: one, what the share structure looks like before the share float; the second thing it tells me is what it's going to look like afterwards. With that information, I cannot make any possible determination as to what share of the company's assets I'll own, Mr. Minister. You must have that information. It is just simply bizarre for you to suggest you don't know what the Crown's share in this is going to be.

HON. MR. SCHOENHALS: — Mr. Chairman, a couple of points. The numbers will all be in the final prospectus. The final prospectus will be filed, and no one will be purchasing shares until he has had the opportunity to review that to any degree he wants.

If there are people who wish to discuss Saskoil and its position and its value, as I indicated yesterday, we have here a number of Canadian oil companies of the same size, and you can do the calculations within that.

There are numerous ways that an investor can determine information. The point however, is — and I assume that the prospectuses that you have in front of you are finals — and Saskoil will have a final that will be filed. The pricing will take place the day before, and it will all be filed with the securities commission, and everyone who is interested will have the opportunity to study those when it's filed.

MR. SHILLINGTON: — Well, Mr. Minister, let me try and approach this from a different fashion then. We're dealing with a minimum of \$510 million worth of assets that the Crown owns here.

Mr. Minister, I took nothing other than the fields, which are relatively liquid assets and easily sold. I took the current assets and subtracted the current liabilities, and that figure came to around \$510 million, so that's about what we're dealing with in the most liquid of assets. It doesn't count the trucks and all the other stuff above the ground that Saskoil will own. It's still a fair chunk of money. You're asking us to vote on a Bill which will result in the disposition of those assets.

Do you not think, Mr. Minister, you owe it to this Assembly to let us know what we're voting on? Do you not think as a matter of courtesy you ought to tell us how many shares the Crown expects to own after this vote is through?

Let me ask you another question, Mr. Minister. Let me ask it in a different way. What is the maximum number of shares which the Crown could own after this takes place?

HON. MR. SCHOENHALS: — There are two possible methods to answer the question, Mr. Chairman, both of which have been given before. The Crown will own approximately 60 per cent of the shares of the corporation after the offering, if we can word it that way, or the Crown will own a number of shares that is equal to the fair market value of the Crown's interest in the corporation, divided by nine, which will be somewhere slightly over \$145 million

MR. SHILLINGTON: — How are you going to determine . . . By fair market value — do I take it we're speaking the same language — what you mean is: the value of the company's assets on break-up? If you sold the assets, asset by asset, is that what we're talking about? We're talking about fair market value. I want to know, Mr. Minister, because you and Mr. Nikiforuk have something startling . . . the different views on what the fair market value of this company's worth. Mr. Nikiforuk seems to be accurate. The liquid assets count for another 3 million. Now, Mr. Minister, how do you calculate the fair market value, as I don't take it to be anywhere near, anywhere near, \$500 million — I'm sorry, anywhere near \$145 million.

HON. MR. SCHOENHALS: — Mr. Chairman, once again, fair market value is determined on equity, not on assets of the company.

MR. SHILLINGTON: — So this is answer number eight by my count. We're now dealing with, not the fair market value of the assets, but with the Crown's equity in the corporation. Mr. Minister, will you give me the formula by which you determine the sum, which you say is somewhat in excess of \$145 million? Will you just give me the formula, Mr. Minister, and stop trying to explain it? Surely you can read the formula off the documents from some of your briefing papers?

HON. MR. SCHOENHALS: — Mr. Chairman, I am a little hesitant to be totally repetitive, but I will read into the record, again, exactly what I read into the record yesterday for the benefit of the member from Regina Centre. When a public offer of shares is made to the public, it is appropriate to use certain market investment criteria when determining the market value of the company. Three possibilities: price cash flow multiples; a price earnings multiple; or price net asset value ratios.

The multiples assigned to Saskoil's financial ratios are fair from the government's (company's) and investor's point of view. And I will give you some examples. In terms of price cash flow applied to Saskoil, 3.75 times to four times (not the term exactly) — the industry averages 3.9 times; price earnings applied to Saskoil, 6 to 6.5 times — industry average, 10.6 times; price net asset value, 55 per cent to 60 per cent in the case of Saskoil, and the industry average is 60 per cent.

I trust that adds some further information for the member, although as I indicated is an exact repeat of the information that I gave in this yesterday.

MR. SHILLINGTON: — Nor do I know at this point in time within \$100,000 how many shares the Crown is going to have. Mr. Minister, I just can't believe that CIC doesn't have a figure of the number of shares you expect to own on December 10th if this Bill passes when you hope it does. You must have that figure, Mr. Minister.

HON. MR. SCHOENHALS: — Mr. Chairman, once more the Crown will own approximately 60 per cent of the fair market value of the corporation, fair market value to be determined the day before the filing of the final.

MR. SHILLINGTON: — Do I take it, Mr. Minister, that the price at which the shares are being sold will result in a price earnings ratio of 6.5? Is that what I understood the minister to say?

HON. MR. SCHOENHALS: — That is certainly ballpark, Mr. Chairman, in that vicinity.

MR. SHILLINGTON: — Well, Mr. Minister, 6.5 is indeed fairly low. I've just asked the page to get me a copy of today's *Globe and Mail*. I would be surprised in this market if there are very many oil companies where the price earnings ratio is that low. Mr. Minister, why not sell them somewhere

more close to what they're worth? Why not sell them at a price which would have resulted, to use your figures, in a price earnings ratio of 10? Why sell them so cheap?

HON. MR. SCHOENHALS: — Mr. Chairman, once again, in responding to the member I indicated three methods that are often used to determine valuation. The fact is that in the case of oil and gas corporations, price cash flow and price net asset value are more appropriate than price earnings. And, as you will know from the figures I gave you, those are right on industry averages. In terms of this particular industry, those are the more appropriate mechanisms.

MR. SHILLINGTON: — Mr. Minister, for the moment I, for my part, am abandoning an attempt to get the picture of the share structure after this Bill is passed and after the float's completed. I have come to the painful conclusion, Mr. Minister, that you don't know. I can't think of any reason why you wouldn't give it to us. I don't suppose you're ashamed of it. I have come to the painful conclusion you don't know, and if you don't know, I don't suppose I'm going to find out by asking you.

Mr. Minister, dealing for the moment with the value of \$9, you say — and I have to take your word for it — that a \$9 share will result in a price earnings ratio of 6. That is really quite low. I wonder, Mr. Minister, why you didn't sell the shares at a price which would have been closer to their real worth. That is somewhere around \$10, or 10, I'm sorry; somewhere around a price earnings ratio of 10. I'll take your word that that's the industry average. Why sell them for 6 if the industry average is 10?

HON. MR. SCHOENHALS: — Mr. Chairman, once again the market, when considering oil and gas corporations as I indicated, primarily uses the price cash flow and the price net asset value. There are some reasons why the other price earnings is not the best method to use, and while we admit that that is slightly low in some ways, it does indicate the strong position of the corporation, but the other two mechanisms are more appropriate in discussing oil and gas companies.

(1515)

MR. SHILLINGTON: — Mr. Minister, will you admit the truth, that you priced these shares at an abnormally low value in an attempt to ensure that this brain-child of yours wouldn't fail and that they would sell? Isn't that the real reason why these shares are so low, Mr. Minister?

HON. MR. SCHOENHALS: — Mr. Chairman, the answer to that is no, but if you wish to spend a lot of time advocating that throughout Saskatchewan, you might take sales to an even higher level than they are now, if that's possible.

MR. SHILLINGTON: — Mr. Minister, I and my colleagues have no interest whatsoever in seeing this corporation, I suppose, succeed or fail. It's not our function here. Our function is to represent the taxpayers of Saskatchewan and to determine as best we can — and that's an exceedingly difficult chore, given the nature of the answers we've been getting — our function is to determine whether or not the taxpayers are getting a fair price for their shares. A price earnings ratio of six, unless there is something unusual, suggests that the taxpayer isn't getting a fair value for the assets, and that it ought to be considerably higher.

I ask you again, Mr. Minister, why you have priced these shares so far below the market average, which you admitted was an average?

HON. MR. SCHOENHALS: — Mr. Chairman, one more time. I think the member has asked this question somewhere in the area of 15 times. Once again, the reason, or one of the reasons that price earnings ratios are not used predominantly in pricing oil and gas companies is because, in the case of oil and gas companies, the levels of depletion and other write-offs that are part of the industry are so dependent on company-specific factors that it's often an unreliable indicator. As I have indicated several times — possibly more than several — the more realistic and the more used mechanisms are price cash flow and net asset value, and in the case of the ones applied to Saskoil those are right on.

I would simply repeat, Mr. Chairman, that it is the opinion of this side of the House, the opinion of Saskoil, that these shares are accurately priced and I suppose the only way . . . We can argue about this all day. The only way we will ever know is to watch their performance after they have been sold in the market and determine what happens.

MR. SHILLINGTON: — Mr. Minister, whatever formula your company, Saskoil, may use, and you're certainly successful in keeping it from us in determining this, whatever formula they may use, investors — and I do know a bit about investment — investors do use a price earnings ratio.

Mr. Minister, I have the *Financial Post* from December 7th, '85. I've looked at a number, and I'll read them to you if you like. I looked at a number of mid-sized oil companies . . .

AN HON. MEMBER: — What date is it?

MR. SHILLINGTON: — It is December 7th, '85. Yes, that's the date of the paper, today's paper. It's the December 7th edition that comes out a couple of days early. If the minister had any familiarity with the *Financial Post* you'd know that, like a magazine, it's usually dated a couple of days, sent out a couple of days in advance of the date of the paper.

Mr. Minister, I haven't found any oil companies with a price earnings ratio, which are mid-sized, with a price earnings ratio of that nature. Indeed, oil companies of a size of Saskoil, such as Bow Valley and so on — I pick a few which are approximately the same size — have a price earnings ratio several times six. Bow Valley happens to be 27, as a matter of interest.

But, Mr. Minister, the price earnings ratio which you just admitted suggests an abnormally low value on the shares. That, Mr. Minister, has been the gravamen of our charge against this government. It's not that you're getting rid of Saskoil. You may say you have a mandate to do that but, Mr. Minister, the gravamen of our charge against this government is that you're selling these assets at fire sale prices. The price earnings ratio which you just gave me, to my mind, Mr. Minister, proves just that — that you're giving away at absurdly low prices these assets.

HON. MR. SCHOENHALS: — Mr. Chairman, a couple of points. First of all Bow Valley is not a comparable company. I will give you a number if you wish that are comparable, and you can check them in the *Financial Times*. They'd be the ones that we gave yesterday. I would suggest to you Aberford, Alberta Energy, Bonanza, BP Canada, Canadian Occi or Canadian Roxy, Canterra, Chieftain, Dome Canada, Merland, Murphy, Norcen, Numac, Oakwood, Omega, PanCanadian, Precambrian, Sceptre. Those would be comparable.

You indicate that price earnings ratios, in your opinion, are reasonable and the proper mechanism to use in pricing corporation. My advisors suggest to me that that is not the case, that is not what happens with oil and gas companies. They suggest that price cash flow or multiples of price net asset value are, in fact, more common and are more reasonable. And I would suggest, once again, that you get the *Financial Post* out and check these companies, check those ratios, and see how the pricing that we've indicated compares.

MR. SHILLINGTON: — Mr. Minister, how did you arrive with the figure of \$9 then? Let me start back at the basics then.

HON. MR. SCHOENHALS: — Mr. Chairman, there are a number of market factors that go into determining what price we are going to charge for the shares. Or financial advisors went through the exercise and determined that a reasonable price, and I emphasize the word reasonable, was \$29 for the units. We, as the shareholders, determined that we wanted to sell this percentage of the corporation in units to convertible preferred shares and a common. The assessment was then done, and the price arrived at. The determination, as I indicated, is a combination of a lot of market factors which they have successfully provided to many other corporations. They were hired on the basis of their expertise and experience, and the pricing took place in that manner.

MR. SHILLINGTON: — Mr. Minister, that is a complicated, convoluted way of saying you priced them at \$29 because that is what Wood Gundy recommended you do. That's all you said in five minutes of stumbling around your desk. Mr. Minister, the last time that I looked around this Assembly, no employee of Wood Gundy had a seat in the legislature. There is no way that I can ask anyone from Wood Gundy to accept, in a parliamentary sense, any responsibility for this Bill. So I ask you, Mr. Minister, why did Wood Gundy recommend a figure of \$29 to you?

HON. MR. SCHOENHALS: — Mr. Chairman, the financial advisors to Saskoil did their market analysis, used the many factors I've indicated, and then they took the instructions of the shareholders — and they were very specific. We wanted to market a product that was available to the small investor of Saskatchewan. We wanted to give the Saskatchewan investor an opportunity to invest in Saskoil, to become involved for the first time ever, directly involved in the ownership of a Crown corporation. The intent was wide distribution in the province. Consequently we made sure that they were available through a number of outlets. We did the marketing program as indicated. And the price that was recommended was one that was (1) fair and reasonable; and (2) met the objectives of the corporation and the shareholder.

MR. LINGENFELTER: — Mr. Chairman, I turn for a moment to page 31 of the prospectus and one of the issues that a number of our speakers had concerns about, the issue of share options. I wonder if you could outline briefly for us the logic behind offering a share option to the, as you say here, the five senior officers, who will be allowed an option at \$9 per share up to February 28th, 1986, and that option would be a maximum of 50,000 shares.

As we mentioned in our speeches, our opposition to this is obviously that if the shares, as we believe, are underpriced, that they can buy them for 9, and the increase to what we believe they're really worth — 15. \$17, some would believe 20 — these individuals would be able to wait until February 28th, not risk any money, would have an option to go out and buy those shares at \$9, and sell them on March 1st for 17 or \$20, and, in the process, making a fairly significant amount of money with no risk, I say. If the price happened to go down, if we're wrong and the price of the shares goes down, they don't have to exercise their option; they lose no money.

I just want to get clear, for the people who are selling these shares, the people of the province who will be giving this away, in essence, why you're doing it, and what's the logic behind it?

(1530)

HON. MR. SCHOENHALS: — Mr. Chairman, a number of points here. I hope they satisfy the member opposite's concerns.

Saskoil, after this Bill is passed, will, in essence, become a private sector corporation. The provision that we have in the prospectus is very common amongst private sector corporations. In fact, in the most recent situation where a government provided investment opportunities for citizens in the PWA issue, there was a similar stock option included in it.

As a matter of fact, the stock option that we have in this prospectus is very modest, a very short term, relative to what is common in the private sector. And I think it's important to note that the officers of the corporation, who will have the opportunity to exercise that option, had no role, played no role at all in pricing of the shares.

MR. LINGENFELTER: — The point I think that many Saskatchewan residents will not grasp is why these five senior officers would stand to gain a windfall profit if the price of the shares does go up to, let's say, 15 or \$18. And let's use an example just for the record.

If you were to double the price of the share, let's take for example — and I use it only as an example — \$9 a share increase, and they exercised their option and bought the 50,000 shares and sold them a day later for \$18, having bought them for \$9, which the prospectus and you, sir, have agreed they

should and will be able to do, they would stand to gain almost half a million dollars, \$450,000 — not taken any risk. And I would say to you that purchasing an oil company that they already work for using the taxpayers' dollar to have built that company, I think is a great deal different than someone who's out in the public market working for a private company and putting plays together or putting companies together.

As you will see, these people have worked for Saskoil, for a public company, and have got, I would think, a reasonable income over the last number of years. And as part of their job they put together this deal which you asked them to. They're getting paid their salary. They have, I would imagine, expense accounts. I don't know and I won't go into that.

But here on top of that you're saying their salary isn't enough. And we can go into what their salary is. But you're saying that salary isn't enough and we have to give them more incentive, an incentive to sell off one-third of a Crown corporation, one that the people of Saskatchewan already own.

They're not going out on the market and finding an oil company bidding against other oil companies in a competitive market. They're taking a Crown corporation where there is no direct competition in purchase of this company, because no one else has any chance to get in and buy it as a unit. They're not taking any risk. They stand to lose no money.

The other thing in most private sector companies . . . The minister seems to take this all very lightly and he sits with his officials and they laugh about this offer. But I say to you, this is not funny, and it's one of the reasons you people are in the trouble you are politically, is that when people raise legitimate concerns with you, you and your officials laugh as if it's a little party. Well I can say that if you're going to be making that kind of money, then there should be a better explanation than you've given, because these people stand to make a great deal of money. They've taken no risk with any of their capital.

And I say to you again, in most private sector deals when they're given options they're also putting money into the deal at the other end. I don't believe there's any money being put into this deal by those people. They're getting a big salary; they've an expense account. You've guaranteed their job for a number of years, previous government possibly. What is the risk? Why are they being allowed to possibly make in this area — on the maximum side, I agree — in the area of half a million dollars with no risk being taken? And I say to you that the explanation you give simply isn't going to wash with the public.

HON. MR. SCHOENHALS: — Mr. Chairman, prior, as he introduced that long monologue, the comment was something to the effect that the public who invested in the corporation would not accept the fact that the executives had the opportunity of some windfall profit. I would remind the member that the people who invest will realize exactly the same windfall profit, if in fact there is a windfall profit, which I very much doubt. I think you will find these are reasonably priced and will respond reasonably in the market.

The point, however, that seems to completely evade you, the point is that the people who determine whether they want to invest in this corporation or not, for the first time in the history of this province will have a choice whether they're going to invest or not.

The fact of the matter is that you have exactly the same attitude you always had. You spent three years trying to convince people in this province that you've learned to listen, that you've somehow made this miraculous change, and the fact of the matter is every time you stand up and open your mouth everybody in the province knows there's been no change.

It's the same old party; it's the same old attitude; it's the same old control of people's lives. And for once people are going to have an opportunity to make a choice, and that choice is laid out in that prospectus and they can assess it and they will make those decisions. And I will suggest to you that the public will be well pleased with this offer.

SOME HON. MEMBERS: — Hear, hear!

MR. LINGENFELTER: — The minister is very comfortable in the House, surrounded by 55 of his members, and we've seen this for three and a half years. For three and a half years we've seen the minister and other ministers get up and do their cheerleading in the House, like they are today. But I can tell you that Regina North East, where you get out with the . . .

MR. CHAIRMAN: — Order, order! The item we are discussing is not Regina North East, and I would ask the member to stick to Bill No. 119.

MR. LINGENFELTER: — The chairman has allowed the minister to talk about the previous government and the last . . .

MR. CHAIRMAN: — Order, order! I believe members on both sides of the House at times have wavered from the Bill at hand. I'm asking the member from Shaunavon and all members to stick to the item of business, Bill No. 119.

MR. LINGENFELTER: — We will keep it in mind. And I would ask the minister, because the Chair has allowed him great freedom to rove and talk about many other issues and obviously doesn't allow us that same privilege, I would say to the minister that he need only look at what people are saying in the past three years about these kinds of Bills, where you bring them into the House with a great deal of arrogance, shove them through without proper debate.

And I say to you, when people ask legitimate questions, you laugh about it. I say that's not a proper way to debate a Bill. But you can carry on because the success rate that you've had in doing that I think is in our favour and will continue on, fumbling along as we have for the past three years.

But I want to get back to the issue at hand. The issue at hand is a share offering, an option on some share, 50,000 of them, being given to the five senior officers of the corporation. I want to go through it again, because you are saying if the shares go up, everyone will be happy, and there's nothing wrong with these people who have taken no risk in getting a windfall profit. Well, if the people who paid \$29 for their shares get a windfall profit, they've taken a risk. That makes sense.

The people I'm talking about and you're talking about, the five senior officers in this 50,000 share option, are not talking the same risk, because as I say, if the shares go up by February 28th, they can that day buy the shares and sell them the next day without any risk at all. And I'd ask you if you don't see a difference between someone buying them before they go up, and this offering which is being made, option that is being given, which gives them until February 28th to buy and then resell them.

HON. MR. SCHOENHALS: — Mr. Chairman, once more the point that we are establishing Saskoil as a private sector corporation. The provision that the member is alluding to is a very common provision in private sector corporations. The specifics of this share option are in fact very conservative. They are short term, relative to others, but they are consistent with what happens with what happens in other corporations.

The member would argue that the executives have not put any of their own money into the thing. Well once again, possibly the reason they haven't is because they didn't have the opportunity to put their own money into it.

We come back to the question of choice, which I have referred to several times in this House. The fact of the matter is, it is a common practice. This one is very short, modest terms, if you will, and I think reasonable. And as I indicated, investors will have the prospectus, will have the opportunity to consider that. If they feel it's unfair, there's nobody forcing them to invest.

HON. MR. BLAKENEY: — Mr. Chairman, and Mr. Minister, I wonder, referring to the options to senior staff, whether the shortness of the option isn't itself a matter to raise some . . . at least questions. The norm with respect to executive options are longer term options which give the chief executive or

senior executives an opportunity to make a substantial profit if the value of the shares goes up, and a sufficient period time is normally provided so that the efforts of the senior executives can influence the value of the shares. And that's why directors do it, because they want the shares to go up in value, and they want to give that kind of an incentive to senior officers, to have the shares go up in value, and they know that the efforts of the senior officers will contribute to the performance of the company.

Now would you mind explaining for the benefit of the committee what you expect the senior officers to do between now and February 28th, the term of the option, which is going to materially affect the value of these shares.

If it had been a five-year option, I would know what you were talking about. But you are talking about a very, very short-term option, which is clearly not here as an incentive to the senior officers to act so that the value of the corporation increases, but is here as some other kind of incentive, some other kind of benefit.

Would you again explain to the committee what you expect the senior officers to do between now and February 28th which may materially affect the value of these shares and the value of the company?

(1545)

HON. MR. SCHOENHALS: — Mr. Chairman, I suppose in the process of putting this prospectus together it was the determination that we wanted the executive share option. Considering the environment that we exist in here, we anticipated the questions that the member of Shaunavon has raised. Consequently, we chose the rather modest and conservative period of time. What we expect the executive members to do in that two- or three-month period is continue to run the corporation in the very efficient and excellent manner that they have run it since the corporation received its new mandate in mid-1982, and we would anticipate that that would continue that way.

I could mention, as well, that the new board of directors, once they have had their annual general meeting and the other investors have had an opportunity to place their members on the board, may choose to extend the share option element to the executive, and may in fact choose to extend it to a longer period, as you have indicated is not uncommon practice.

HON. MR. BLAKENEY: — Do I understand then that you feel the executive have performed their function, the senior executives have performed their function in a commendable way since at least 1982, and that you expect them to continue that, and that in order to induce them to continue that — what they have done for three years — for a further three months, you're going to give them this potential benefit flowing from an option that could be worth a great deal of money?

Did I pick up your meaning — that they have performed well for three years, that you want to induce them to continue to perform for three months, and in order to do that you're giving them this option?

HON. MR. SCHOENHALS: — I think that the comments from the Leader of the Opposition are not inconsistent. I suppose the proof of the pudding, if you will, in the performance of the executives, will in fact be the performance of the shares once they begin to trade in the market. So consequently, apart from what I may think about their performance, we will find out what the people think of their performance.

HON. MR. BLAKENEY: — Mr. Chairman, and Mr. Minister, that is not the case. The performance of the shares will depend upon the initial pricing. I used to chuckle when people talked about a successful offering of bonds when the bonds went up two or three points the day after you had your underwriting. That was evidence, not of a successful offering, but of an unsuccessful offering. You obviously priced them too low. Any time you want to sell something at too low a price, you can expect the price to rise. If you then take credit on the grounds that the price is rising, then you are

taking credit for the wrong thing.

I will come back to this question of option. But I want to turn to another issue you are raising. Yesterday . . . and I want to quote a little bit of what you said because I wasn't clear just what you were talking about. And now we're again talking about what I think is the key issue, is the value of the assets, the value of the shares, and whether or not the Crown is getting enough for this essentially 40 per cent of the undertaking which is being sold. You know our view that the price for the 40 per cent of the undertaking is too low. Your answer was:

There is a difference between sale of assets and sale of equity. We have tried to make that clear. I believe your Leader (referring to me) is beginning to grasp that. You can take industry average, if you will. I can go through some companies and what they are valued at, or trading at. Saskoil will be sold . . . they will be valued, I should say, at . . . 60 per cent of the price net asset value.

Now that was the phrase you used — price net asset value. And it is this phrase, price net asset value, which I want to explore a bit because I am not clear what you are talking about. And you are saying: 'All right, to go through some other very similar corporations just for comparison,' and you went through Aberford, 51 per cent; Alberta Energy, 60 per cent; Bonanza, 54 per cent. You went through a similar list today, and you included in your list, PanCanadian.

I would like to pick up on PanCanadian because I am not an acquaintance with that corporation but have some knowledge of it. You will recall that I mentioned PanCanadian in my remarks on second reading. Now would you take me through the pricing, the current pricing, of PanCanadian stocks based upon this concept to which you referred of a price net asset value?

HON. MR. SCHOENHALS: — Mr. Chairman, on the PanCanadian item, what I gave you yesterday, the table is simply a fact of the market. We were giving you the effects. Possibly I can try once more to separate the difference, and maybe in note form, technically, the equity is being offered in Saskoil on the basis of 50 to 60 per cent of net asset value — assuming a 20 per cent discount rate which is the discount rate applied under current market conditions. Equity offerings of Canadian oil and gas companies have always traded at some discount to net asset value.

Purchasers of assets are prepared to pay more than investors in equity because (a) a purchaser of assets can write-off annually 10 per cent of the purchase price of the assets on a declining balance; (b) the investor's share of a company do not have direct access to the cash flow of a company. Investors only have access to the cash flow to the extent that the board of directors declares dividends. Purchasers of assets are prepared to pay more for direct access to the cash flows. And thirdly, purchasers of assets can generally select the assets that they're prepared to buy. Investors in shares invest in the entire range of assets and to the extent that the mix is not optimal the investors are not prepared to pay the full price.

In addition, it is not appropriate to infer that the reserve table indicate the fair market value of the company's reserves. On page 8 of the preliminary prospectus, the following quote appears:

The following tables summarize Coles' evaluations of Saskoil's reserves. All evaluations of future net production revenue set forth in the tables are stated prior to provisions for income taxes and indirect costs and do not necessarily represent the fair market value of the reserves.

That's page 8 of the prospectus. The fair market value of the company's reserves would be determined in the market. And if I can try for the sake of anybody who is following this debate to put this thing in some type of perspective, I believe that the Leader of the Opposition is not attempting to make an economic argument. He is making a political argument. He wants to be able to say that Saskoil is being sold for less than it is worth. In fact, this is simply not the fact.

If you look at the various ways that something can be divested, if it was the intention of the

government to simply take Saskoil and get it out of the Crown sector, to have no more control over it, if we were not concerned who purchased it, if we were not concerned whether the corporation continued in its present form, whether it stayed in the province, we would tie the whole thing up in a bow and we would sell the assets. And what you are recommending in terms of pricing would be that type of a transaction and we would have to sell it to an Esso or some major who had money to purchase it. That would realize the largest return, if that were the type of divestiture we're interested in.

We are obviously not interested in that procedure. If it were the objective of this government to strip Saskoil and sell it off and simply acquire as much money as we could, and at the same time maintain some presence with a stripped-down version of the corporation, we would pare off the various assets and sell them individually. In that case we would not realize as much return as we would if we sold it all, but we would realize some substantial return.

What we want, however, is to have Saskoil to continue in its present form, to continue to grow, to continue to be centred in the province, to continue to be active, and to continue to have government involvement. What we want to do is provide an opportunity for the people of the province to invest in the corporation and become actively involved. It's basically a financing mechanism. When you sell equity then, which is the idea, you are selling shares in the corporation, as I indicated in what I just read, the entire corporation, and you may not realize quite as much.

But the assets and the equity, as you clearly know, are different items, and if the intention is to get something on the record that allows you to go out and say, they sold it for less than it was worth, I think we've been through that and you'll have to continue to say that. But obviously, we're talking about two different things.

HON. MR. BLAKENEY: — Mr. Chairman, and Mr. Minister, I will ask the question which I asked before and which, in spite of the length of your answer, you didn't answer. What is this concept that you refer to as price net asset value?

HON. MR. SCHOENHALS: — Mr. Chairman, the price net asset value is the market value of the equity of a company in the stock-market to the net asset value. And the numbers I gave you the other day were prices as of October 29th, the actual prices in the market. Does that answer the question? I hope.

HON. MR. BLAKENEY: — Mr. Chairman, and Mr. Minister, it answers the question and I assume that's what you meant, but I'll just pick PanCanadian because it's one that you mentioned. Who can give you any idea of what the net asset value of PanCanadian is? You are quoting a ratio, and I know what the price of PanCanadian is. I'd like you to tell me how you know what the asset value of PanCanadian is?

(1600)

HON. MR. SCHOENHALS: — Mr. Chairman, our financial advisors in this case, and it could be any investment dealers, any financial advisors, have research analysts who do in-depth detailed work, and whose companies are prepared to make information on reserves and any other information they need available, and consequently they arrive at the figures that we've indicated. I think that members of this House, and certainly, ourselves, can feel very comfortable with those numbers as we've provided.

HON. MR. BLAKENEY: — Mr. Chairman, and Mr. Minister, I think that's in part straight hocus-pocus. A price earnings ratio I can calculate from a balance sheet or from an operating statement; a price cash flow ratio I can calculate. I say to you that a price net asset ratio is calculated — it cannot be calculated from any public data and that investment houses do not do, cannot do, analysis of assets to the extent that will allow them to state the asset value of a corporation. This would have them doing a Coles Nikiforuk report on every oil company every year, and that's simply

not the case and the minister knows it.

And I ask you, coming back to PanCanadian, would you agree that PanCanadian is selling on a price earnings ratio of at least 12 times? And would you agree that PanCanadian is selling on a cash flow ratio of nine and a half times? And since it's one of the companies which you mentioned, would you agree that those types of ratios for earnings, price earnings ratio and a price cash flow ratio of 12 times the earnings and nine and a half for the cash flow, are reasonable? And do you agree that on that basis that you have grossly underpriced the value of the Saskoil shares?

HON. MR. SCHOENHALS: — Mr. Chairman, the answer to that question is no, we do not agree with the statement of the Leader of the Opposition. He cannot simply take one company out and do a comparison. You could have chosen Merland, where it's 2.6 times cash flow; or Sceptre, 3.8.

What you have to do, and I think he realizes that, is use the industry average. We have indicated that Saskoil will be 3.75 to 4, and the industry average is four times. And I think, as I indicated, taking one particular company is obviously not a fair comparison.

HON. MR. BLAKENEY: — Mr. Chairman, and Mr. Minister, I picked this PanCanadian: (a) because it's one you mentioned; and (b) because it's a CPR company that presumably will be well managed as will Saskoil be well managed, and which hasn't had a pack of legal problems like Merland has had and some of the others have had.

So you are still sticking to your theory that while it is fair for PanCanadian to be selling at 12 times earnings, there's no way that Saskoil would be worth 12 times earnings. That's what you're telling us. Am I right in saying that?

HON. MR. SCHOENHALS: — Mr. Chairman, once again, as I indicated before, it is not reasonable to pick 'a' company. You must, in fact, look at industry averages. In the case of PanCanadian, PanCanadian for instance is 20 times as large as Saskoil. PanCanadian produces an inordinately large amount of its production from freehold land, which obviously puts it at an advantage. You have to look at the industry as a whole. Basically, what you're asking us to do is prognosticate, if you will, at what will happen in the market-place when Saskoil shares are in there. I don't think that's a reasonable expectation. We have indicated what our financial advisers have indicated after looking at the industry, looking at Saskoil in depth, and we have confidence that the shares are, in fact, properly priced.

HON. MR. BLAKENEY: — Mr. Chairman, and Mr. Minister, we're not asking what you have confidence in, but the basis of your confidence. I don't want to argue the merits or otherwise of PanCanadian with you. I noted that of their 10 million acres, 8 million are in Alberta, and there's precious little freehold over there, but it may well be. I haven't checked out where their production comes from.

Now, I'll go back to your theory of a price net assets ratio, and you say that 60 . . . Bonanza is 60; Dome is 62; Chieftain is 70; Canterra is 65 and so on. Do you feel that you are getting 60? And if so I want you to take me through the mathematics of your 60.

HON. MR. SCHOENHALS: — Mr. Chairman, once again I'll have to deal in ranges since this has not been established in final form, but we're talking about the 3.75 to 4 times cash flow. Cash flow estimated at 60 to 65 million for 1985 gets you 240 to 250 million, which is 60 per cent of net asset value — and if you're confused, I'll try to go through it again — which gives you a net asset value somewhere between 375 and 400 million. Once more?

HON. MR. BLAKENEY: — I understood you were telling me that you were going to calculate the net asset value of the corporation with all of the advice you're getting from all of these investment dealers as to what every well is worth. I'm sure they all will know what every well is worth and they all do as much work as Coles Nikiforuk; that's what you're telling me.

Suppose that to be true. Take 60 per cent of it, put it in the balance sheet, and are you getting that much even? And I say you're not. Are you saying you are?

HON. MR. SCHOENHALS: — Yes, we're saying we will.

HON. MR. BLAKENEY: — Well just before we leave this point — and I'm coming back to this very point — we're talking about price earnings ratio. And with all the infirmities of price earnings ratio as a basis for pricing shares, they may well have some price earnings infirmities. But you have left the impression that somehow seven or eight times . . . price earnings ratio of . . . a price of eight times earnings is a good price.

AN HON. MEMBER: — I've just looked it up.

HON. MR. BLAKENEY: — Well I've got a few. My colleague has looked up a few in the *Financial Post*, and we looked up the ones you were mentioning, and British Petroleum is 18.6; Alberta Energy Corporation is 12.6; PanCanadian, I just calculated at 12 — 14.5 in the last one; Chieftain at 38.2; Dome at 18.5. Are you even getting 10 times price earnings ratio?

You're getting 6.5, and you're saying it's a great price. These are not things I'm pulling out of the air; these, I'm pulling them out of the Toronto Stock Exchange closing figures. And they are, as I repeat again: 18.6, 12.6, 14, 38.2, 18.5. How do you justify a price earnings ratio of 6 as an appropriate basis for pricing these shares?

(1615)

HON. MR. SCHOENHALS: — Possibly you could check that. There's some opinion that those might be based on quarterly earnings rather than annual estimates?

HON. MR. BLAKENEY: — My calculation of PanCanadian at 12 point something was on the basis of the annual estimate, but because I pulled that out of the annual report, which I have before me — and there's not much doubt about that one — and I have no reason to believe that BP, Alberta Energy, and Chieftain, and Dome would vary that much on a quarterly basis.

HON. MR. SCHOENHALS: — Mr. Chairman, I'm advised that that would not really be possible because annual reports will not give you cash flow. They'll give you working capital, and there's a difference. Consequently, when we're dealing in these type of numbers, we may have some inconsistencies, if you will.

HON. MR. BLAKENEY: — Mr. Chairman, and Mr. Minister, now the minister is jacking me around. We can talk on three bases. We can talk on price earnings; we can talk on price cash flow; or we can talk on price net asset value.

I said specifically, price earnings, and he's telling me price cash flow isn't in an annual report. I won't argue with that about him, but are you telling me that earnings aren't in the annual report?

HON. MR. SCHOENHALS: — Mr. Chairman, I would indicate that when the Leader of the Opposition suggests that he's being jacked around, that he is repeating information that we already provided a number of times to the member for Regina Centre.

We indicated three ways, as you said, in which we can evaluate. We suggested that price earnings in the case of the oil and gas industry is the least relied on and, in fact, the other two are the ones that investment people use, and I have repeated that several times to the member for Regina Centre. And we would suggest that the other two methods, price cash flow and the price net asset value, are more reasonably the ones that are used consistently in evaluating oil and gas corporations.

HON. MR. BLAKENEY: — Mr. Chairman, and Mr. Minister, I heard you say that and I understand your saying that, when we launch into a discussion with respect to price earnings ratio, I would

appreciate it if you wouldn't answer me in terms of price cash flow or price asset, because we have to carry on some sort of an intelligent discussion here.

Now I ask you again, sir, looking at the asset figure on the financial statement, the assets and liabilities statement, the balance sheet, on page 34. What value are you putting on the figure of \$211,658,000, which is the book value of property and equipment less appreciation and depletion? What value are you putting on that figure in the balance sheet?

You are presumably going to arrive at an asset figure and you are going to discount that by some amount. Do I understand you to say, sir, that you are not accepting the Coles Nikiforuk figures on page 10 which discounted it at 15 per cent, but you are going to say that you are going to discount it at 20 per cent, and having discounted it at 20 per cent, what you have left you're going to discount it at 260 per cent in order to get a value of the equity? At that rate, you will very soon have nothing left. If you want to take the value of the reserves, discount them at an annualized rate of 20 per cent, which is a very high figure, I suggest to you, and a 15 per cent figure is more likely. And then you're telling me that, having arrived at this relatively low figure because of discounting it by 20 per cent, you are then going to take only 60 per cent of that as an asset for equity purposes. Is that the calculation you're attempting to say is the appropriate way of valuing these shares?

HON. MR. SCHOENHALS: — Mr. Chairman, I repeat once more. Equity is being offered on the basis of 55 to 60 per cent of net asset value, assuming a 20 per cent discount rate which is the discount rate applied under current market conditions. And then I would repeat again, and this is in bold print in the prospectus so the investor understands, in addition — well this is not the quote; I'll come to the quote in a minute — but in addition it is not entirely appropriate to infer that the reserve tables indicate the fair market value of the company's reserves. On page 8 of the preliminary prospectus the following quote appears, and as I indicated, in bold print:

The . . . tables summarize Coles' evaluations of Saskoil's reserves. All evaluations of future net production revenue set forth in the tables are stated prior to provisions for income taxes and indirect costs and do not necessarily represent the fair market value of the reserves.

The fair market value of the company's reserves would be determined in the market.

HON. MR. BLAKENEY: — Mr. Chairman, I ask you again then, since you are telling me what you're not using, and you are telling me what values you're not using, would you kindly state — and I ask you to refer to page 34 of the prospectus and the balance sheet — kindly tell me what figure you are supplying in substitution for \$211,658,000, and tell me then at what rate you're discounting it for this theory you had that the equity is only worth 60 per cent of the assets.

HON. MR. SCHOENHALS: — Mr. Chairman, once more I am informed that the concept I am relating was one very similar to one that you introduced in your second reading speech. But the fact is that book value is not relevant to market value in an oil and gas corporation. Book values are historical costs. Market value is based primarily on some estimated future cash flows, and it would be, I think, misleading or inappropriate to substitute one number for the other, since we are basically dealing with an apple and oranges situation, and the comparison you asked for is not reasonable.

HON. MR. BLAKENEY: — Well Mr. Chairman, and Mr. Minister, I regard that answer as one which is just unfair to the committee. Let's take it one by one. Assets, cash including short term deposits. That's not relevant? That's only a historic value and would have nothing to do with today's value? Nonsense. That is a perfectly good . . . (inaudible interjection) . . . I will go through this, one by one.

The cash as an asset is as relevant today as it was yesterday and it could be transferred to a this-day's-value balance sheet; ditto for accounts receivable; almost certainly the same for inventories. Unamortized discount is a non-relevant item; it's too small. The other issues are equipment at 65 million and reserves at 145 million.

Now it is quite likely that the equipment is worth about its book value. It's unlikely to be worth less. And if you say that the equipment has a vastly different value than its book value, tell me that. I won't believe you, but you can tell me that — its market value will be vastly different. It may be somewhat higher, in which case you make my argument.

The only thing which is not sensible is give its book value in calculating today's market value is the reserves. That's why you went to Coles Nikiforuk; that's why you got a today's value for that; and that's why you came up with what I say the right value of \$484 million.

(1630)

You say that's too high. You say it should be discounted at 20 per cent and then it's only \$369 million. Even if I give you that, even if I concede that — even if I concede that, which I don't think is right — and insert the 369 in the place of the 145, we then will get a figure of 515 million as the today's current assets — today's value. And if there's anything wrong with that calculation, tell me what it is, give or take 5 million.

Now you say that I should discount that to 60 per cent. I say for some of those things, for cash and that sort of thing, I think that's a deep discount. I know you say that that cash isn't available to the equity shareholders; I know that argument.

But if I give you full concessions that the shares in the company are only worth 60 per cent of its basic assets — which I don't concede — but even if I accepted that the asset for equity purposes would be worth about \$290 million or thereabouts, anyway you slice it using all of your figures and giving you every benefit of all of these deep discounts, 20 per cent discount of the reserves, saying that the shares are only worth 60 per cent of their base assets the 40 per cent you're selling is worth more than you're getting for it. And if you can illustrate that that isn't true, using all of your assumptions, then I wish you'd illustrate it for the committee. The only thing you've got to rely upon is saying, well, Nikiforuk says, well of course you can't be sure that the reserves are worth my valuation because there are tax considerations and all the rest.

I suggest to you that all of those uncertainties which Nikiforuk may be alluding to in his reports are fully covered — are fully covered — by a discount of 40 per cent when you say that the equity is only worth 60 per cent of the basic assets represented in the corporation.

Are you telling me that when you value reserves, but with using a discount rate of 20 per cent — and then having arrived at an asset value, a very cautious asset value that way, then you discount that asset by saying that it's only worth 60 per cent for the purpose of calculating the value of the equity — that you have not accounted for almost every conceivable, almost every conceivable basis for discounting the value of the assets calculated as I have done?

HON. MR. SCHOENHALS: — Mr. Chairman, I don't want to be obtuse. Could we ask you to go through your numbers once more without all the statements. Just run down the numbers and let us have another look at it.

HON. MR. BLAKENEY: — We're operating on the basis of the balance sheet, and we're taking just the asset columns and we're ignoring the current assets because they are as surely . . .

My first calculation is to calculate the total assets, the figure represented by \$291 million. I'm including all of the assets at their book value except the reserves, which are worth more than their book value. I suspect some other things. I suspect the equipment may be worth more than its book value, but I won't pursue that point. I am saying of the reserves, which stand on that balance sheet at 145 million as you will note from looking at note 3, I am inserting a figure, and what I say is the most cautious figure that has been put forward of 369 million, which is Coles Nikiforuk on page 10, discounted at 20 per cent, which I say is simply too big a discount.

The effect then will be to add the difference between 369 million and 145 million, or 224 million by my scratches here before me, to the total assets. And the assets will then be 291 plus 224, or 515 — 515 million. And as I take 60 per cent of 515 million, I have \$309 million.

Now that, you tell me, is the value of the corporation for equity purposes. Here admittedly I am really engaging at this point in over-summarization.

But if you want to take the 309 and take off the current liabilities of 62, you get a figure. I say to you that when all those calculations are done, the figure you have set for the shares, for the 40 per cent of the value of the shares, is still too low. The \$100 million or thereabouts that you're getting for 40 per cent is still too low. I cannot make all of these calculations now because I don't have a calculator with me, but since I am not . . . (inaudible interjection) . . .

Look. Mr. Chairman, I know the member for Moosomin but wants to get into this discussion and I know that this will give us the benefit of his knowledge on this area, but I'd like him to take his turn.

Since I am not supposed to be answering the questions but asking them, would you tell me how you are setting up your balance sheet by which you are . . . because obviously you have to do that if you're calculating a price based upon asset ratio. You have to have a calculation of assets. That goes without saying. You cannot make a price assets ratio without a figure for assets. Now would you tell me what asset figure you are using for the purpose of calculating a price assets ratio, which you say is the basis upon which you arrived at the value of those shares.

HON. MR. SCHOENHALS: — Mr. Chairman, I'm relying very heavily on my advisers here, but what we get when we total the production equipment and the reserves, which appears on page 38, and then return to page 10 and, in fact, the total values . . . We estimate that the net asset value is in the range that's indicated, in the discount between 15 and 20. In other words somewhere between the 369 and 484. The final calculations, as we've indicated, will have not taken place, but in that range. The net asset value, 375 to 400.

HON. MR. BLAKENEY: — Thank you very much, Mr. Minister. And if we used a figure of 400 million — which I think is again too low because I think 484 is a reasonable figure — but let's take your 400, which is obviously, as you can see, 250 million more than their book value which is 150 million in round figures. So if we say 396,145,000, an extra \$250 million.

I suggest to you that if you factor that into the balance sheet, an extra \$250 million on a write-up with the value of the reserves, I suggest to you that you do that and then take 60 per cent of the value of the company, so calculated as you say for asset purposes, that the 40 per cent of what you have left is going to be worth more than \$100 million.

I think that those conclusions are inescapable and I don't think you can take anything else off because a discount . . . Saying that the shares are only worth 60 per cent of their base assets is already a very deep discount. We have to face the fact that some of these assets are straight cash. And the minister may be able to argue that if a company has nothing but \$10 million in the bank the shares are only worth \$6 million. The total of the shares outstanding are only worth \$6 million. That's what he asks us to believe on the grounds that it's shares and not assets, and they must be discounted to 60 per cent. I have a difficulty believing that and I think a lot of other people will have difficulty believing that. I know there is a discount factor with many companies because I know there is a difference between owning the shares and owning the assets. But to suggest that it represents 40 per cent is a very, very large discount.

(1645)

When you say that all the issued and outstanding shares of Saskoil are only going to have a market value of 60 per cent of the asset value of Saskoil, made up as some of it is of cash and some of it of accounts receivable, then I am not accepting that. But even if I did accept it, your price is too low. Will you not concede that on the simple figures?

HON. MR. SCHOENHALS: — Mr. Chairman, we have been trying to follow in the calculations, and I won't attempt to go through them, but the following, I think, are the pertinent figures. We've come up with a net asset value of somewhere around \$400 million, and 60 per cent of that figure will give us at least a range of the market value of the equity which we would put somewhere between \$240-\$250 million, in that area. We believe, in fact, that we will realize, by selling 40 per cent, we will realize 40 per cent of that.

MR. SHILLINGTON: — What do you calculate the cash flow from Saskoil will be before and after this float? Mr. Minister, would you give us your calculation of the cash flow. The last annual report we have is 1984. Would you give us the calculation of the cash flow for . . . The fiscal year is the calendar year? Okay. Give us the cash flow then, your latest estimation of your cash flow.

HON. MR. SCHOENHALS: — The latest estimation is 60 to \$65 million, in that range.

MR. SHILLINGTON: — That produces, Mr. Minister, a cash flow per share of \$2.40, a profit per share of \$1.60. The best you'll give us is this chase you've been leading us with respect to the number of shares. I calculate it to be 27 million shares. I have had no assistance from you in figuring out the number of shares we have, so I'm using 27 million. If you've got a better figure, I'd be delighted to get it from you.

I take the total number of shares to be 27.5 million. That produces a cash flow per share of \$2.43, and a profit per share of \$1.60. Am I right? That happens to reflect, purely by accident, we're very close to Alberta Energy. In their '84 annual report their cash flow was \$4.08 per common share; the profit was \$1.22. The difference, I suspect, is the difference between the fact that Alberta Energy pays taxes and this company hasn't.

I'm using these figures, Mr. Minister, because you felt that cash flow was a better measure of the value of an oil company than profit. So I'm using cash flow with all I have available, which is a couple of annual reports.

Mr. Minister, by cash flow, and comparing it with Alberta Energy, these shares are grossly undervalued, Mr. Minister. The profit share and cash flow per share is very close to Alberta Energy's. And the price, need I not say, is nowhere near close.

I ask you, Mr. Minister: if you want to use cash flow, by cash flow aren't these shares grossly undervalued?

HON. MR. SCHOENHALS: — Mr. Chairman, member for Regina Centre, I repeat once more that the number of shares will be determined the day before the filing of the final prospectus . . . (inaudible interjection) . . . That's not there.

Secondly, my understanding is that cash flow per share is not the same thing as price to cash flow multiples. You've got two different entities. My learned colleague, the Deputy Premier, has indicated, for example, to try to make it so simple that even you would understand it, if you had a dollar share with a cash flow of a dollar, that's a good deal. If you had a \$1,000 share with a cash flow of a dollar, that's not quite so good a deal obviously. So the comparison is not appropriate.

MR. SHILLINGTON: — Mr. Minister, the learned authors of the Alberta Energy Corporation . . .

AN HON. MEMBER: — He's getting his advice from the Deputy Premier now, too.

MR. SHILLINGTON: — Oh, I understand the problem. You're receiving advice from the member for Cannington. I thought this stupidity and confusion was something that you and your officials were getting between yourselves. I now see that we have the advice of the member of Cannington. Oh, oh, he's mad. He walked out.

Mr. Minister, I'm looking at Alberta Energy Corporation's annual report. They give a figure in the same paragraph, as a matter of interest, of the earnings per share and the cash flow per share. Purely by coincidence, they're fairly close to what Saskoil is making, and that's purely by coincidence. So if the cash flow is a determinate of a price of a share, and I agree it's very relevant with an oil company — these companies are building assets, not making money in most cases, and I hope the holders of the shares understand that — then, Mr. Minister, these shares are grossly undervalued, grossly undervalued, worth half of what Alberta Energy are so stratospherically high given their profits and the cash flow?

HON. MR. SCHOENHALS: — Mr. Chairman, the information on Alberta Energy is that the price cash flow multiple is 3 to 3.4. As we've indicated we are applying a 3.75 to 4 range to Saskoil, so a higher multiple, in fact, than Alberta Energy.

MR. SHILLINGTON: — I'm sorry. Would you say that again, Mr. Minister?

HON. MR. SCHOENHALS: — Mr. Chairman, once more I would indicate that we are dealing with the projections from '85, '86, not historical numbers which in fact are what the future projections would be, what the market would consider, and that price cash flow multiples for Alberta Energy Corporation is 3 to 3.4. For Saskoil we are saying 3.75 to 4.

MR. SHILLINGTON: — Apparently, the learned authors of this report — I assume to have been the corporate treasurer; I assume his signature's here somewhere although I can't lay my finger on it right at the moment. Mr. Minister, these figures have to be accurate. This company is listed on the Toronto Stock Exchange. If the figures aren't accurate, it is delisted. But the private world, Mr. Minister, doesn't tolerate the sort of circuses which we have to tolerate. Use inaccurate figures in the Toronto Stock Exchange and you get delisted from the exchange.

These figures, Mr. Minister, must be accurate. They contain the signature of the auditors, whose name I can't find quickly. Price Waterhouse. Price Waterhouse have put their name to these figures, and a cash flow of \$4 per common share produces a price of \$18. Cash flow of \$2.50 a share, let's say very roughly — it's rounded off to the nearest 10 cents — produces a price, in your view, of \$6. I say, Mr. Minister, if you want to use cash flow you are grossly undervaluing those shares.

I want to use your figures, Mr. Minister. You give me the price earnings ratio; I used that. Now that's not fair. You tell me cash flow's fair. Well I used cash flow. Suddenly it's not fair.

HON. MR. SCHOENHALS: — Mr. Speaker, I'll . . . Excuse me, Mr. Chairman. To the hon. member — nobody has indicated that the numbers in the annual report are not accurate. We're saying they're not appropriate. The market-place does not use historic data in establishing price. It looks at future projections. What I have given you is the multiples based on future projections. And that's all I'm saying. I'm in no way criticizing Price Waterhouse . . .

MR. CHAIRMAN: — Order, order! It being 5 o'clock I do now recess the House until 7 o'clock.

The Assembly recessed until 7 p.m.