

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT
Thursday, 30 May, 1985

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. C. Santos (Burrows)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Harapiak, Kostyra, Parasiuk,
Storie

Messrs. Enns, Eyler, Harper, Graham,
Johnston, Ransom, Santos

APPEARING: Manitoba Mineral Resources:

D.B. Gardave, Chairman
C. Malcolm Wright, President
Manitoba Oil and Gas Corporation:
Robert M. Silver, Chairman
John R. Sadler, President

MATTERS UNDER DISCUSSION:

1984 Annual Reports of Manitoba Mineral
Resources Ltd. and Manitoba Oil and Gas
Corporation.

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MANITOBA MINERAL RESOURCES LTD.

MR. CHAIRMAN: I call the Committee on Economic Development to order in order to consider the Annual Report of Manitoba Mineral Resources and later on, the Manitoba Oil and Gas Corporation. We invite the Minister to make his opening statement, and maybe introduce the members of his staff present here today.

HON. W. PARASIUK: Thank you, Mr. Chairperson. I don't have an introductory statement, but I would like to take the opportunity to introduce the senior officers of Manitoba Mineral Resources. On my left is Mr. David Gardave who is the Chairman of the Board and beside him, is Mr. Malcolm Wright who is the President of Manitoba Mineral Resources.

With that, I would like to ask Mr. Gardave to make remarks to the committee.

MR. CHAIRMAN: Mr. Gardave.

MR. D. GARDAVE: Thank you, Mr. Chairperson, and members of the committee. I am pleased to present to this committee Manitoba Mineral's Annual Report for the year ended December 31, 1984.

The board of directors remains the same as last year with the exception of Paul Brockington who became a director in December, 1984. Mr. Brockington, formerly a mining analyst with Richardson Greenshields of Canada Ltd., and now with the Department of Industry, Trade and Technology brings to the board a diverse financial background in the mining industry.

Throughout the period covered by the report, our main objectives have been twofold: first, to manage the company's 27 percent interest in the Trout Lake joint venture; and, second, to start exploration projects capable of attracting participation by the private sector and, conversely, to participate in worthwhile projects proposed by the private sector with a view to providing the province with an equity interest in any resulting discovery.

The net income from the company's share of the Trout Lake joint venture amounted to \$1.3 million, compared to \$10,000 in the previous reporting period. The significant improvement is due, in large part, to the production of a better grade ore. This is the first year since mining began in 1982 that the grade of ore mined approached the average grade of the ore reserve. Revenues in previous years were adversely affected by the mining of lower grade ore in the upper part of the mine.

Other factors contributing to the improved result were an effective cost reduction program, and I may add this has been a program that's been undertaken intensively at the mine, well over a two year period, to see that we could become more cost effective in producing the minerals that we are mining there.

We also had the advantage of better zinc prices, but primarily from the cost reduction program we were more than able to offset the lower copper, gold and silver prices that we have continued to experience in the marketplace.

In pursuing our exploration objective, we have continued to emphasize activity in the Lynn Lake area where the community is jeopardized by the planned closure of the Fox Mine in November, and uncertainty regarding a production decision on Sherritt-Gordon's Agassiz gold deposit.

Exploration activities in the past year covered 53 projects with total expenditures of 3.4 million, of which Manitoba Mineral contributed 2.2 million or 65 percent of the total. The balance, amounting to 1.2 million was contributed by the private sector. Manitoba Mineral's expenditures in the Lynn Lake area amounted to 1.2 million or 52 percent of its total project expenditures. Although no significant discoveries were made, a large inventory of drill targets was built up, and many of these will be tested in the current year's exploration program.

Now that significant revenue is being generated by Trout Lake, the company's overall profitability will depend to a large extent on the level of its exploration activity. In the period covered by the report, Trout Lake net income was \$1.3 million, compared with net

exploration expenditures of \$2.4 million, to produce net loss of \$1.1 million, and I may add that that's over a 20 percent improvement over the previous performance of Manitoba Mineral last year.

Mr. Chairperson, this concludes my summary of the report before the committee and I welcome any questions the members might have.

MR. CHAIRMAN: Before we do, I invite some guidance from the committee members. Shall we consider the report after all the questionings, page by page, or as an entirety? Is that agreed? Any questions from the members?

The Member for Lakeside.

MR. H. ENNS: Mr. Chairman, through you, and principally to the Minister and his staff people that are here responsible for this particular corporation, I will be attempting to basically get on the record some straightforward responses. I say that because it's very likely that this may be the last opportunity to have things put on the public record prior to perhaps another election call and having experienced a few elections, and even recalling the last one, rhetoric tends to flow freely during election call and I want to open my question to the Minister, or indeed to the chairman, for the commitment made by this government back in 1981 - "A Fair Share for Manitobans." Manitobans are the owners of this province's resources. We should be getting our fair share from mineral development and oil and gas exploration, mineral taxes in royalties will ensure Manitobans receive a proper share of the benefits. Looking at this report, Mr. Chairman, I ask either the Minister or the chairman of the corporation, what have Manitobans as shareholders of this Company received in this past year?

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: I think that I could answer that because there's obviously some values implicit in the question.

Obviously, we have received revenue in this last year from Trout Lake that has amounted to something in the order of \$1.3 million and we have also undertaken exploration programs in the rest of the province that have amounted to something in the order of \$2.4 million, I think.

What we have is a very exciting situation whereby we are helping to try and ensure that there is a long-term future for mining in this province. Now I guess we could become paralyzed or look completely backward and say that we would like to maximize our returns. We could quite easily discontinue an exploration program and make \$1.3 million. Next year, I believe we would make substantially more just off the Trout Lake investment, and then we could run out the Trout Lake Mine and quit. But I think that would be wrong; I think it's very important for us to try and have a balanced mining industry within this province.

There has been a lot of activity carried out in the Lynn Lake area. There is activity being carried out in the Flin Flon area. We believe that one can't predict these things with certainty, but if you have activity being carried out in those areas, I think there is a probability

that mines will be discovered. The other approach would be to not do anything. The other approach would be to, in a sense, turn our back on the mining industry.

We think that Manitoba Mineral Resources can perform and is performing a very useful function in working co-operatively with the private sector to extend mineral exploration in this province. So I think that it is a very good asset for the province.

MR. H. ENNS: Mr. Chairman, I want to make it very clear that I have no difficulty in accepting the fact that the government can, indeed, probably has put together some good people, expert people, who are capable of conducting this kind of exploration activity, . . . activity and co-operate through joint ventures with the private sector, in promoting mineral activity generally in the Province of Manitoba.

But I have a particular purpose, you see, Mr. Chairman. I do want to be honest in my election campaign material, and I want to be able to say precisely what it is that has been returned to the Manitoba shareholders. I want to be able to respond to the very firm claim that was made, for instance, by the government in 1981. Without taking away anything that the Minister said, I want to be able to know what has the Manitoba Mineral Resources Limited returned to the consolidated revenue in the year under discussion for purposes that can be shared as government decides to help keep my school taxes down, build some better roads in rural Manitoba, provide for some better health care, or other social services.

What net return has the Manitoba shareholder received from Manitoba Mineral Resources this year?

HON. W. PARASIUK: Well, if one wants to talk, yes, I think that obviously the Member for Lakeside lacks the patience necessary to fully realize the returns from mineral investment.

We have received \$1.3 million in profit from Trout Lake. It is anticipated that a great deal more will be received next year from Trout Lake. One should understand that last year Trout Lake made a profit of \$1.3 million on its Trout Lake operations when the copper industry is at its worst stage probably since the depression. Some people have been saying that copper prices are, in real terms, at a worse level than they were during the depression. So even in these most difficult of times, Trout Lake has realized \$1.3 million profit. Imagine what type of return we would be receiving if we were getting the \$1.30 per pound that existed as a high some years ago, or imagine what return we would be receiving if we were even getting \$1.00 per pound for copper. So I think that the potential of Trout Lake is very significant and its significant potential will increase dramatically if we have any increase in copper prices in the future.

In addition, we have had mining activity taking place in other parts of the province which we believe will help solidify steady development of the mining sector in this province. We think that is a very big return to the people of Manitoba.

If the member is saying, well, yes, but we haven't had any extra cash in our coffers over the last three or four years, I should point out to him that we are turning that around and we actually are on one

operation starting to derive a profit that in the longer run, if this continues, I believe that we will be in a position possibly at some stage in the future, especially with respect to the Trout Lake venture, of putting money into Consolidated Revenue Fund.

If we wanted to put money into the Consolidated Revenue Fund in what I would say a premature way, we could stop all exploration and take the return that we get from Trout Lake and put it into Consolidated Revenue Fund, but that would be very short-sighted and we certainly wouldn't take that approach. So we have a pretty long-term faith in MMR and the fact that it will contribute to the Manitoba economy significantly.

MR. CHAIRMAN: The Member for Lakeside.

MR. H. ENNS: Mr. Chairman, I'm not telling the Minister or the corporation how to run their mining corporation. I'm simply asking some basic information. When the chairman reports on the last page, the second-last paragraph, that the corporation recorded a \$1.1 million loss, is that a loss that the shareholders will have to pick up in the coming year?

HON. W. PARASIUKE: Yes, it is. We have a funding procedure for MMR that the member is aware of. I think it probably isn't out of line with losses that were suffered between 1977 and 1981.

MR. H. ENNS: Mr. Chairman, I'm well aware that even the mining giants such as Inco have suffered losses in recent years, the difference, of course, being that the people of Manitoba are not general shareholders of that corporation and they have to find their way out of it.

I just wanted to complete this one particular question. The Minister did indicate in his lengthy answer to my last question that no monies from this operation have been returned to the Consolidated Fund. That, I think, answers my question that I can stand up on a platform sometime the next 12 - 14 months in an election campaign and say, your mining company to date has not returned you any dividends. There may be potential. There may be great hopes when they're doing all things right, but since 1981, when your government said that they could maintain, reduce social services, help with the general taxation costs of the province by using the resources of our great mining and oil and gas industry for the benefit of all Manitobans, that that in fact has not taken place. As a matter of fact, just the opposite has taken place.

My constituents, the farmers in Woodlands, dairy farmers, the teachers, the other people working in my constituency have had to dig into their pockets to pay for this continuing operation to date. I just want to make very sure that that is a fair statement, Mr. Minister, and that I would not be in any way accused by anybody in the department or by the government or by the corporation of being anything other than honest.

HON. W. PARASIUKE: Well, I think one would certainly would have to put that in the context and I wouldn't want to accuse the member of sometimes presenting some position out of context because that possibly could be unfair; but one could say that people are

making investment in the long-term future of the mining industry in Manitoba, just as people are making investments in the long-term future of the agricultural industry in this province as well. So when he has concerns about people in his constituency, his farmers or other people digging into their pockets, then he also should point out that the miners are digging into their pockets to provide assistance to farmers, through a very difficult recession.

I hear the opposition getting up almost daily and saying that the province should be putting more and more into farming, and I think on a per capita basis, significantly more has been put into agriculture than into mining from tax coffers. I don't disagree with that, but when I think when one is talking to a rural audience, then one must be fair in putting forward all aspects in the proper context and I would be quite pleased, in fact, to have the opportunity, if there is an election called some time in the future, Mr. Chairman, to discuss this on platforms with the Member for Lakeside to ensure that all sides and all perspectives are properly put forward to the public.

MR. H. ENNS: Mr. Chairman, getting a little more specific. To date, if I read the report, we have some - and I beg to be corrected - some \$6.8 million in shareholders' equity in the corporation? Exhibit A.

HON. W. PARASIUKE: I'll turn that over to the president or the Chairman when we get to the specifics of the report.

MR. D. GARDAVE: Yes, that's right. The total invested capital on a share basis does amount to now \$6,800,000.00.

MR. H. ENNS: Okay, just so that this layperson can understand it, that means that \$6.8 million has been advanced to the corporation - at what cost, or is there any cost attached to those monies, to the corporation?

MR. D. GARDAVE: I think the response to that is, this has also created assets within the corporation and it's not necessarily strictly by the figures represented here on the balance sheet and that the value of the potential exploration programs and the interest in Trout Lake is much greater than the figure you see there.

In fact, we did a net present value calculation on the worth of our investment in the Trout Lake mine and I'll just turn to the president for a review of those details because he's been very intimately involved in the activities there and can predict and describe a little bit more the value that is represented by reflecting what this investment really justifies.

MR. CHAIRMAN: Mr. Wright.

MR. C. WRIGHT: Yes, on the balance sheet the value of the Trout Lake Mine is shown at \$1.1 million which is the cash money that the company put up as its share of bringing Trout Lake into the production stage. Most of the money was put up by Hudson Bay Mining and Smelting in earning a 44 percent interest in the project. Using current metal prices which are depressed and using current costs and considering only the proven

ore at \$4.6 million in the Trout Lake Mine, we estimate the net present value at a discount rate of 14 percent as \$17 million.

MR. CHAIRMAN: Are there other questions?

The Member for Turtle Mountain.

MR. B. RANSOM: Thank you, Mr. Chairman.

In the notes to the financial statement, Note No. 5, says that the company acquired interest in the Trout Lake Mine from the province effective December 31, 1983 without charge. How much would the province have invested in the mine prior to being turned over to Manitoba Mineral Resources and where would that cost have shown up in the books of the province?

MR. C. WRIGHT: If you look at the Exhibit A and the balance sheet, the province put in under Capitalized Exploration Expenditures, Trout Lake Mine, \$335,000.00. When Manitoba Mineral became the manager of the province's interest in the mine before it was converted over to Manitoba Mineral, the province advanced an additional \$2.8 million by way of a loan to Manitoba Mineral to take care of the province's interest in the mine. It was a peculiar arrangement.

Of that \$2.8 million, approximately three-quarters of a million was put in as the province's share of the capital expenditure to bring it into production. So, you add the two numbers together and that's the exploration development of Trout Lake Mine, 1.1 million.

The balance of the 2.8 is used as working capital. It's the 2.8 plus the 3.35 which is the province's investment in the Trout Lake Mine, which includes roughly 1 million, 1.5 million of working capital.

MR. B. RANSOM: It just slips my mind how that 2.8 showed on the books of the province at the time. Was that something that was written off as an expenditure of the Department of Energy and Mines, or does that show as Schedule A Capital that is self-sustaining and, therefore, repayable?

MR. C. WRIGHT: I can't answer exactly how it shows on the books of the province, but what has happened to the 2.8 million was that, although this says it was acquired by Manitoba Mineral at no charge, Manitoba Mineral issued 2.8 million worth of its stock in return for Trout Lake, and the loan disappeared.

MR. B. RANSOM: Well perhaps on the basis of those answers, I can check in Public Accounts and satisfy myself as to how that 2.8 million was handled there.

There has been a change also in how the province funds Manitoba Mineral Resources Ltd. Note 4 outlines that. Now up until this point in time, Manitoba Mineral Resources had shown each year the expenditures, the capital that the government had put in, and it was shown on a cumulative basis which allowed the public and members of the committee to have a running total of how much the corporation had spent on expenditures. We can look at the figure that is here in the report before us. I think, it was some \$11,637,421.00. One could make at least a rough calculation on that, that somewhere the government, the taxpayers of Manitoba are paying interest to carry that \$11 million which, of

course, doesn't show up in the books of Manitoba Mineral.

But there is now a change and the government, instead of advancing money, is going to take out shares. Now will the annual report continue to show that cumulative figure which appears in Exhibit B as the bottom line? Will next year's report show that same comparable figure, total exploration expenditures net from inception?

MR. C. WRIGHT: Yes, it will. The present report continues to show in Exhibit A the total amount of capital which has been injected into Manitoba Minerals through the two systems of funding. There is the 6.8 million through the shares, and there is 8.3 million through traditional grants. Those figures will continue to be carried forward.

MR. B. RANSOM: I have a request that I would make of the committee and of the Minister. I think the committee and the Minister are aware that I've raised for a couple of years now that the annual reports of these corporations could contain another figure that would allow us to have more complete information as to the costs to the taxpayers of Manitoba, relative to these Crown corporations.

We made a request to the committee with respect to A.E. McKenzie Company Ltd. two years ago to include a footnote in the financial report which showed the annual borrowing cost to the government of their investment in the corporation. That was accepted by the committee at the time, and it now appears yearly in the statement of A.E. McKenzie.

We raised this issue in Public Accounts a week ago and with the Minister of Finance. The Public Accounts Committee, although they did not pass a specific resolution, a specific motion asking for that, agreed that the Provincial Auditor should put that kind of information into the annual reports of corporations such as Manitoba Mineral Resources and Manitoba Oil and Gas Corporation.

I guess I would ask the Minister whether he would have any objection to the auditors treating it in the same way as they do for A.E. McKenzie.

HON. W. PARASIUKE: Before I make a firm commitment, I would certainly like to take a look at the transcript of Public Accounts. Secondly, I would like to see how the books are shown for private mining companies, especially smaller mining companies just to see whether, in fact, they show the books in the way in which the Member for Turtle Mountain would like.

I think it's important, because often people try and do comparisons of performance to determine how well or badly a Crown corporation is doing vis-a-vis a private one. I think that, if in fact one wants that, I certainly would endeavour to look at it. I have had a couple of discussions with some of the mining companies as to how they show their books.

But I know that the member has raised this last year. I think he's raised it in Public Accounts Committee, and I know he feels strongly of it. I think it's possible for someone to do calculations on their own as to what they think that opportunity cost is. So I would like to take a look at the transcripts and see. I don't have any

objection in principle, apart from wanting to treat this company the same way as other junior mining companies are treated.

MR. B. RANSOM: So this mining company is not the same as other junior mining companies, Mr. Chairman, so I don't know why the Minister would want to treat it the same. This is not a private corporation. It's owned by the taxpayers of Manitoba.

If I, as an individual, choose to make an investment in a private company, I will know how much money I've put into that corporation, and I will know what my cost is for that money if I borrowed it, or I will know what my alternative would be if I was to invest it elsewhere. I will be aware of that as a private individual, and the company doesn't have to put it in their books.

But as a taxpayer who has an interest in this corporation, I don't know that. That is why this situation should be treated differently than a private corporation one. The committee and the auditor has agreed that this kind of information was useful for A.E. McKenzie Company Ltd., and it has seen fit to include that cost in there at no great pain or embarrassment to anyone, but it simply provides additional information.

Manitoba Mineral Resources has gone a long way towards clearly accounting for the investment that the taxpayers of Manitoba have made here. The only thing that doesn't show is an interest cost. There is a cumulative interest cost, of course, on that \$11 million that's been spent. I'm sure if one calculated a cumulative interest cost on that over the years, one would find that it would at least equal the \$17 million evaluation that's put on Trout Lake Mine at this point.

But that's more than I am asking for. I'm just asking for on a yearly basis, if the taxpayers have 6.8 million of shares, how much is the borrowing cost of the province to have that 6.8 million of shares? If they have advances, how much is the borrowing cost on that?

I think if the Minister looks at the discussion that took place in Public Accounts and reads the response of the Provincial Auditor and of the Minister of Finance and sees the wishes of the committee, then I believe that he would agree that this kind of information could be put in the report. That then enables a fuller public debate on the merits of a particular corporation to the taxpayers when all of the figures are in front of people who are interested in seeking them out.

HON. W. PARASIUK: I undertake to do what the Member for Turtle Mountain asks, and I certainly think that before the next annual report is published, I will be in consultation with him on that.

MR. H. ENNS: Mr. Chairman, the report explains where and the amount of their exploration activity; they indicate particularly that a good portion, I believe some 50 percent, 52 percent, of their exploration activity was undertaken in the general area of Lynn Lake. Lynn Lake is, of course, a mining community of particular concern to the residents of Lynn Lake, indeed to all Manitobans, in view of the potential difficulties that single industry community faces.

Does the corporation have any promising things to tell us about their activity, their expenditure of some 52 percent of their exploration dollars in that Lynn Lake

area that would offer some promise for the people of Lynn Lake?

MR. C. WRIGHT: Since we started accelerating activity in the Lynn Lake area in 1982, we have been principally in the business of building drilling targets. We completed that at the end of 1984, and have a large inventory of drill targets to chase, many of which will be pursued in '85 and then on to '86.

So far this year, we've had a few sniffs and smells here, but that is common in this business when you have a major drilling program going. There is nothing to report at this point in time which would give anybody great hope that we have a mine around the corner.

MR. H. ENNS: Has the corporation acquired any substantial increase in properties in that general area where this exploration is taking place?

MR. C. WRIGHT: We have had a two-phased program of land acquisition in the Lynn Lake area, the first phase beginning in 1982 and '83 where we acquired land which we thought held potential between the Fox Mine and the Lynn Lake area. In the last five or six months, we have moved our focus of land acquisition activity over now from between Lynn Lake and more toward the Ruttan area. It's just a matter of working our way through the first package and starting on the second package, which are in progress now.

MR. H. ENNS: Are these exploration activities and land acquisitions being undertaken solely by the corporation, or are they in concert with some joint venture group with other private mineral organizations?

MR. C. WRIGHT: The initial activity was undertaken by the corporation on its own and subsequently some joint ventures were formed on that ground. There are still some which are wholly owned, which we have been unable to attract partners. The second phase of land acquisition, I would say that roughly 80 percent of it has been with a joint venture partner.

MR. H. ENNS: Could the president identify the joint venture partner?

MR. C. WRIGHT: You mean in this last round of activity?

MR. H. ENNS: Yes.

MR. C. WRIGHT: That would be Hudson Bay Mining and Smelting.

MR. CHAIRMAN: Are you ready to approve the report?
The Member for Lakeside.

MR. H. ENNS: Just some final details, Mr. Chairman. What is the staff complement now composed of in Mineral Resources Ltd.? First, do you have your full staff complement?

MR. C. WRIGHT: Yes.

MR. H. ENNS: What kind of people are we talking about involved in the operations?

MR. C. WRIGHT: I have the full staff complement of 14, which includes myself as the president, Mr. Neil Briggs as the vice-president, an office manager and a typist and a receptionist, which brings it to 10. The rest are all field geologists or a geologist in the office generating a project; there is one of those.

MR. H. ENNS: Mr. Chairman, just coming back to my original point and hoping, as the Minister expressed, that some day Manitoba Mineral Resources and Exploration Ltd. will, in fact, be returning not just potential or hoped for benefits directly to its shareholders, bearing in mind that the shareholders have put up some \$11 million, \$11.5 million cumulative to date. Would the president or the chairman care to forecast when, in the terms that I describe it, when cost recoveries for the shareholders are made of these advances, would the corporation be in a position to be returning some real dollars, some real dividends to its shareholders?

HON. W. PARASIUK: Well, I think I'll let them make a judgment on it. I think a lot depends on copper prices in the future because we've got a mine operating at Trout Lake right now. The question is whether the company should continue to undertake an exploration program, all of which has the risk element of not finding anything, but at the same time, you also have the other side of the coin where you may find a very substantial mine. But I certainly would see if either the chairperson or the president would like to hazard some guess.

MR. C. WRIGHT: This will depend basically upon the level at which the shareholder wishes the company to pursue exploration programs. The extreme case is, well, we cut out exploration immediately and begin to turn over Trout Lake profits on an annual basis to general revenues. The intermediate case is you spend within or up to the revenues you are receiving from Trout Lake. If you want to go beyond that for other reasons, then it will continue to show a loss.

I guess what I am saying is if you want to cut out exploration, you could have a dividend at the end of this year.

MR. H. ENNS: Well, Mr. Chairman, through you to the president and, indeed, the general manager, I want to assure them that my quarrel is not with the executive and the members of the Manitoba Mineral Resources Corporation. My quarrel is with the Government of the Day which holds out to Manitobans in clear and understandable terms that they will be receiving substantial benefits from this kind of activity.

What I have learned today is that we have a mineral exploration company that is no doubt doing all the things that a mineral company should be doing, particularly one that has the support of the general tax base to enable it to continue that exploration work which, no doubt, is very prudent to continue, but has not since its inception, and will not in the immediate future, return direct tangible benefits to the taxpayers.

So my quarrel is not with members of the corporation but with the Minister and the government that holds out in glossy election literature that somehow my taxes at Woodlands are going to be reduced because of the

profits that this corporation is returning to the consolidated general revenue.

HON. W. PARASIUK: I quite understand . . .

MR. H. ENNS: Yes, you should understand.

HON. W. PARASIUK: . . . the line of argument, and I think that it is quite easily defended. We heard that in the worst possible market conditions, we have a mine that is worth \$17 million in net present value. If we have any upturn in copper prices, that net present value will increase, and those are on a basis of a conservative estimate of reserves. So — (Interjection) — pardon? A conservative, a small "c" conservative.

Now a large "C" Conservative estimate would be entirely different and obviously say that there are zero involved, but the small "c" conservative estimate would say that we have a net present value of \$17 million. I think that's a very admirable position to be in, given these tough times. The question then is, which political party in this province has confidence in MMR and MMR's future and the future of the mining industry in this province?

One could, of course, take a different approach and become Margaret Thatcher and sell it. We could sell it and realize possibly \$17 million and be happy and then have nothing left. But that's an option that certainly may be food for thought for a political campaign.

MR. H. ENNS: Mr. Chairman, I am not wanting to pursue this endlessly, but the truth of the matter is that Manitoba taxpayers invested \$11,637,421 into Manitoba Mineral Resources. They tell us that optimistically, they have an asset of \$17 million in a mine which my friend, the Member for Turtle Mountain, said if we charged even government rates of interest on that \$11 million, it likely eats up the assets of that mine. Now if members opposite think that that is great arithmetic and great business, we will have to argue that out on the hustings.

But all I can say is - and that's really all I wanted to be able to say after this committee meeting - is that my constituents, the people of Manitoba, have not seen any tangible return on their \$11 million investment. I just wanted that on the record so that when I do say that, and when I print it in my literature, I am being factual and I am being honest and there is no distortion of the truth.

I am not talking about heritage funds that may or may not develop 16 years from now from some mythical pool of prophets. I am not talking about what may or may not happen. I am a practised and seasoned old politician that likes to deal honestly with his constituents. I want to be able to tell them, you have invested \$11 million in a mineral corporation and that you haven't received anything back.

Unless that is refuted by the Minister, then I will be able to take today's Hansard and just excerpt that into my literature for the coming campaign.

HON. W. PARASIUK: Would you also be prepared to indicate that for that \$11 million investment, you have a net present value of a mine of \$17 million? Would you add that into the literature if you wanted to be . . .

MR. H. ENNS: No, no.

HON. W. PARASIUKE: Of course, you wouldn't. I would quite expect that.

If one wants to paint a picture, then that's the way in which one would paint a picture of a mine.

MR. B. RANSOM: Let's just be technically correct on this, Mr. Chairman, that Trout Lake Mine is not related to the \$11,637,421; that was a separate undertaking by the government. And the figures, the presentation, of course, looks very good separately on that because there is the \$3 million-and-some investment and a net value of \$17 million. To a very great extent, that has to do with the negotiations that Manitoba Mineral undertook with Granges and with Hudson Bay Mining and Smelting to get the province into that position without the further expenditure. But, technically, the \$11 million is separate from the Trout Lake operation — (Interjection) — well, we'll ask Mr. Wright. I might be wrong, but my understanding is the \$11 million is not related to Trout Lake.

HON. W. PARASIUKE: That's true, the \$11 million was the exploration program of MMR. But if you want to talk about the value of the mining company which is what the Member for Lakeside was saying, then you would have to say that there is a value at least of \$17 million. If one wanted to do any type of evaluation of the properties that Manitoba Mineral Resources holds, one would attach some value to that as well. It just depends what picture one wants to try and paint of a corporation that I think is being a very useful instrument in the development of this province.

MR. H. ENNS: One final question, Mr. Chairman.

I direct this to the president of chairman of the corporation. I guess it's an expression of hope on my part, does the corporation foresee a possibility of any major announcement with respect to new discoveries say in the next five or six months?

HON. W. PARASIUKE: You want that to be a universal hope?

MR. H. ENNS: Well, it may have something to do with the timing of the next election as well.

MR. C. WRIGHT: I wouldn't be in this business that I'm in if I didn't have eternal hope. Everytime we drill a drill hole, I hope that we're going to get an announcement like that and we're going to be drilling a bunch of holes but I wouldn't guarantee it but I always hope.

MR. H. ENNS: Well, Mr. Chairman, just to conclude on that optimistic note, I would just hope then that the president would be permitted to make that announcement when he finds that good hole and not necessarily have it sat on until it's an opportune time for the Minister's to announce it.

MR. CHAIRMAN: Shall we approve the report? The Report of the Manitoba Mineral Resources Limited is approved—pass.

We are now about to consider the next report and we shall have a recess until the staff are in place.

RECESS

MANITOBA OIL AND GAS CORPORATION

MR. CHAIRMAN: We shall now consider the Report of the Manitoba Oil and Gas Corporation, the Annual Report for 1984.

Mr. Minister.

HON. W. PARASIUKE: Yes, Mr. Chairman.

This is the first time that the Economic Development Committee of the Legislature has considered the Annual Report of the Manitoba Oil and Gas Corporation, dealing with its first annual report.

Before introducing the chairperson of the board and the president, I would like to just say that I believe that one has to be prudent in starting up a corporation and proceeding with its activities. I think that the corporation has moved towards achieving its objectives in a very good way. I think it's achieved a good start and I think we should now hear the specifics on what it's doing so that the members of the Committee can form their own opinions on it.

I think that from my perspective I believe that they have achieved a good start and I would like to introduce Mr. Robert Silver, who is the Chairperson of the Board. To his left closer to the Member for Lakeside is Mr. John Sadler, the President of the corporation.

With that, I'll call on the chairman to make some introductory remarks.

MR. CHAIRMAN: Mr. Silver.

MR. R. SILVER: Mr. Chairman, I'm pleased to have this opportunity to present to you and to the Committee this first report on the Manitoba Oil and Gas Corporation. The Committee will note on Page 2 of our 1984 Annual Report where the Minister outlines the reasons for the establishment of the corporation and the expectations the Government of the Day has for this corporation.

These expectations are to act as a catalyst in the development of Manitoba's petroleum resources; to achieve profitability and financial self-sufficiency within a reasonable length of time; to provide a vehicle for stabilizing oil and gas exploration and development activities in the province during down-turns in the industry; to increase the participation rate of Manitoba Oil and Gas Companies, contractors and suppliers through joint ventures and other activities; and to operate without any special privileges.

It is from these expectations that the board has taken its direction in establishing more precise objectives and goals and in turn management has developed business strategies and programs. As of year-end the corporation had completed its organizational and start-up days and was fully operational. We are pleased with the calibre of people we have been able to attract.

We believe a good working relationship had been developed with a number of partners. It is our intention to provide competent, technical and managerial input to joint venture activities in addition to investment dollars. It is through making this full contribution - technical, managerial and monetary - that the

corporation will succeed and earn the respect of partners and associates.

Under The Manitoba Oil and Gas Corporation Act, the corporation is authorized to issue 200,000 shares for a maximum consideration of \$20 million. During the year, the corporation issued a share certificate to the Minister of Finance for 50,000 shares for \$5 million consideration. As of December 31, 1984, the corporation has received \$1,050,000 of equity financing in respect of these shares. The balance of \$3,950,000 is held in trust by the Minister to be advanced as funds are required to finance operations. Undisbursed funds held in trust are non-interest bearing to the corporation.

In 1984, the corporation had a loss of \$495,384 which in the main represented the costs of start-up and the overheads of the operation. This result in the first year of operation was about as expected. Early in 1984, we undertook discussions with the four applicants vying to construct a crude oil pipeline from Waskada to Cromer. All four applicants indicated they were prepared to offer the corporation a minor participation in the line. Accordingly, when Inter-City Gas Limited, Winnipeg was awarded the licence, negotiations commenced with them to acquire an interest in the project. Agreement in principle with ICG was reached in the summer of 1984 whereby ICG would construct and operate the line and have a 75 percent interest while Manitoba Oil and Gas Corporation would have a 25 percent interest in the joint venture.

The agreement was formalized September 1, 1984. Discussions between ICG and Omega Hydrocarbons, the major producer in the Waskada area, had been going on over this same period to have them also participate. We were pleased to see them come into the venture and in keeping with our fourth objective, that of acting as a catalyst to increase private-sector participation in the development of this sector, we reduced our interest from 25 percent to 10 percent to make room for them. ICG also gave up 15 percent. As a result, the corporation, as at December 31, 1984, had an investment asset in the Waskada-Cromer pipeline in the amount of \$388,000.00.

During the year, Manitoba Oil and Gas Corporation also participated in the drilling of three wells, one in each of the South Pierson and Virden fields and one near the Municipality of Broom Hill. Naturally, we would have hoped for some success in the three test wells. However, that was not the case, and our minor 15 percent to 30 percent interest was written off at year end.

We acquired three parcels of land in the October, 1984 Crown land sale and interests in a few more were earned through our three minor farm-ins. The first successful wells for the corporations were drilled on these lands. As of this date, the corporation has a 40 percent to 50 percent interest in four oil wells for a net production of about 40 barrels per day. Two additional drilling locations will be proceeded with shortly to fully develop these two parcels of land which are about 240 acres.

The corporation intends to participate in approximately 25 tests this year, at an average participation rate of 40 percent. A number of these tests will be made on prospects identified through a 100-mile seismic program undertaken this past winter in conjunction with Newscope Resources Limited. The

acquisition of freehold and Crown mineral rights for this program and future exploration and development activities is well under way.

Mr. Chairman, that concludes my opening remarks. I would introduce to the committee, the two staff persons assisting us at this committee, Mr. Dereck Longfield, who is the Resource Project Manager; Mr. Ken Neufeld, who is the Corporate Comptroller.

MR. CHAIRMAN: Thank you. Are there any questions from committee members?

The Member for Lakeside.

MR. H. ENNS: Mr. Chairman, as the Minister indicated and as the chairman and the president indicated, we're dealing with a very new corporation here, the first report that's being submitted to this committee, as such, is pretty basic and reflects precisely what the corporation has been doing, in terms of getting itself started.

I suppose again my initial comments would have to be more directed at the Minister and at the government, particularly when in the report's first page, the Minister makes the following comment, that the current competitive fiscal regime, i.e., royalties, taxes, etc., similar to other provinces, does not by itself guarantee a stable level of activity.

Mr. Chairman, again, it's not my contention that the government cannot find capable people, as I'm prepared to acknowledge they have found, to run an oil company and to explore for oil. The question that has to be asked, the question that the opposition has asked at the time the Manitoba Oil and Gas Corporation was formed was as to its necessity and whether or not that statement that the Minister puts into the annual report indeed accurately reflected what was going on in Manitoba.

The Minister surely can't avoid the fact that it was precisely because of tax regimes, royalties, etc., that we're badly out of line with competitive and neighbouring jurisdictions, that for a number of years kept Manitoba's oil exploration, gas exploration activity well below that of our immediate neighbours, principally Saskatchewan and North Dakota; and I remind the Minister that this was taking place, this dates back to the year 1973, when the world received the energy shock of excessively escalating energy prices as a result of the OPEC nations move. While the oil and gas industry was gearing up and getting into full swing in Saskatchewan and North Dakota, this was passing us by in Manitoba and it was precisely bringing our taxation regimes, royalties, etc., into line, that then in a very short while spurred on the kind of activity that now the Minister describes in his news releases as being very satisfactory in our relatively smaller oil patch in the southwest part of the province.

So I take exception to the Minister's statement that it was required to establish a publicly owned company to bring about the kind of activity that the Minister now seems to be satisfied with.

Again, Mr. Chairman, through you to the Minister, it would not be to prove any particular point if I simply put on the record the fact that the Manitoba Oil and Gas Corporation this year has returned no benefits to the Manitoba taxpayers who have, in the first instance, put up \$5 million, and I understand that, and that's

not meant to be a critical comment of this corporation. I question very strongly how many years it will be before that takes place.

I think my colleague would want to make much the same kind of request with respect to this corporation in the way they set up their books that he made just a few moments ago with respect to the mineral exploration company. My colleagues opposite seem to think that when the general purse hands out monies in big chunks - in this case, it's \$5 million, that that money just comes from nowhere and doesn't really have to be accountable and the first dollar that the Crown corporation earns will be a net return to the shareholders, the taxpayers of Manitoba, that put their dollars in the first instance.

All that we had from this relatively meagre report, the start-up report of this Corporation is that, to date, it has cost Manitoba taxpayers about \$500,000 to own an oil company and for which they have received nothing in return, far less than what was promised in 1981 - that this company was going to reduce my Medicare costs; that this company was going to reduce my education costs; that this company would build me a better highway through the constituency of Lakeside; that this company would build a senior citizens' home in Lundar. That's what was promised. I say this, it's certainly not to these gentlemen saying to my immediate right, I say that to the Minister.

Again, I want to be able to say and I want to be able to say clearly and factually and honestly on any platform that I will be travelling through Manitoba, that ManOil has only cost the taxpayers of Manitoba; has not produced one single cent and I will say that honestly and I want it on the record because I want it clearly stated so that I can wave today's Hansard on the record and the Minister of Energy responsible for ManOil has not and cannot refute that statement.

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: To begin with, in trying to deal with the member's self-stated desire for honesty and accuracy, I think it should be clearly put on the record that it's not \$5 million that has been spent on Manitoba Oil and Gas Corporation to date, it clearly states that it's \$1,050,000 and that's a substantial difference that I think needs to be clarified right off the bat.

Secondly, I certainly undertake to make the same type of commitment with respect to looking at the way the books are presented with respect to this corporation as I did to the Member for Turtle Mountain when we were reviewing the Manitoba Mineral Resources Limited. A more general response I think that, in a sense, yes, it is a meagre report because it's the first annual report and they're just starting.

I do commend the people who put the annual report together for I think trying to put some good background information on the oil business in Manitoba; some of the geological information, a cross section; Provincial Economics; Operations; Land Holdings; Typical Timing and Sequence of Oil Development - since this is a new corporation that is being reviewed for the first time by a legislative committee. I think it was an honest attempt to provide background information on the oil industry and put it at the end as a Glossary of Terms. So I commend them for doing that.

Secondly, get down to the larger matters - I guess you could call them, in part, philosophical - raised by the Member for Lakeside when he says that in my Minister's Message on Page 2 where I say, "The current competitive fiscal regime does not by itself guarantee a stable level of activity." Given my experience in dealing with all of the oil companies in Manitoba, or people who have land holdings in Manitoba but are located elsewhere, I have found that some of them - and these are the smaller entrepreneurs - have been aggressive and I think quite entrepreneurial in trying to chase down their theories of where oil is in southwestern Manitoba. They generally are cash-short; they have good ideas; they're quite entrepreneurial and I think it's they who have been successful.

On the other hand, we have a number of large companies who have large land positions in Manitoba, who have tended to be in search of the big elephants and have decided to date, that our geology is such that we don't have the big elephants. These are entities that have high overhead costs that, in a sense, when it comes to looking for oil in Manitoba, they aren't as competitive as the small companies.

So you have a situation on the one hand where you have large land positions held by large private companies that don't pay that much attention to Manitoba because they don't believe the big elephants are there; or if they have some of their people trying to put forward a drilling program to the head office and they're talking about possibly drilling eight wells in Manitoba when the corporation is talking about drilling 800 wells, one can quite easily determine which wells are the ones that are cut back if indeed there is any type of cutback to an exploration and drilling program. That has been recounted to me by major firms located in Calgary. The question then is, is there any way in which one might proceed with some of these developments on some of the large land holdings? I'm hopeful that in the future, there might be some way in which Manitoba Oil and Gas Corporation may indeed participate with some of the large corporations. I think the ball is in their court.

With respect to the smaller companies, they do find themselves always running on a tight rope and I think that having the opportunity of farming in with Manitoba Oil and Gas Corporation or having Manitoba Oil and Gas Corporation in a position to farm in with them, enables the smaller companies who aren't necessarily located in Manitoba anymore, headquartered elsewhere, to carry out substantial programs in Manitoba.

I think that another point that should be noted is that we have an oil company that has its headquarters in Winnipeg; that is developing a knowledge on the Manitoba oil situation and is domiciled here. I think that's a good thing for us in the long run. I think it's a good thing to have expert people who are living here. I think that that will augur well in the long run for the oil industry. We've had some other companies who, when they find oil in Manitoba, want to move on to larger fields and their head offices get transferred from Manitoba to other provinces where they believe that the prospects are bigger, because historically there have been larger oil pools, or larger oil plays.

I think it's important for us in Manitoba to be a bit like Avis and try harder and try and do everything we

possibly can to ensure that we don't have a boom and bust with respect to the drilling activity in Manitoba, but rather we have a sustained level of activity over a period of time.

I certainly have never downplayed the role that the royalty system has played and that royalty system was brought in by the previous administration. It was retained by this administration. There were some other factors called new oil reference pricing which greatly enhanced pay-backs and that was a very major factor.

Let's not discount something called Lady Luck because when people tell me about the origin of the Waskada play it was in part a lot of hard work and I think ingenuity on the part of the companies, but also there was a bit of good fortune because one of the wells was almost abandoned and people took another crack at it and found a way of, I guess it's called fracking (phonetic) in getting oil that they didn't expect to be there. All those factors come into play in a balanced way.

I certainly think that Manitoba Oil and Gas Corporation should and has started off in a slow steady way, I think being involved in something in the order of 25 tests in this coming year is a good thing. I think that when the member says that he can go out and say that we haven't received a penny yet on the oil wells, in one sense, that is correct. At the same time, he should say that we also have had four oil wells out of five drilled this year which is a pretty good percentage and secondly he might say those oil wells have a worth that I think probably exceeds the \$1 million that has been forwarded to the Manitoba Oil and Gas Corporation to date. I know that there hasn't been any type of net present value attached to those, but I certainly could ask Manitoba Oil and Gas Corporation to undertake that type of analysis and I could bring it back to the Legislature and present it at some opportune time to the member, so that he could get that information.

MR. CHAIRMAN: The Member for Lakeside.

MR. H. ENNS: Well I know, Mr. Minister, that we can pursue this at some length and have indeed in the House. I just want to assure the Minister and the members of the corporation that it is not an ideological question with members of the Conservative Party. It's a question of what, in fact, was taking place. I have no hesitation and have been privileged to be part of a government that intervenes directly in commercial areas where a need is demonstrated. Members of this Committee who don't remember those years, it was the Conservative Party that felt that the insurance industry, for instance, wasn't doing its job with respect to providing adequate insurance for farmers in agricultural crops, that moved very boldly into that private sector domain and created the Manitoba Crop Insurance Corporation.

It was at the same time that it was another Conservative administration that felt the private banking institutions were not doing an adequate job for agriculture and established their own bank, the Manitoba Agricultural Credit Corporation.

Mr. Chairman, I want to tell the Minister, if, in fact, we knew that there was oil in the southwestern

part of the province and nothing was happening and we had done what the Member for Turtle Mountain did in '78-79 and brought our tax and royalty regimes into competitive range and still nothing happened, then it might well have been, yes, a Sterling Lyon Government that would have formed a ManOil Corporation.

Members laugh because they think this is an ideological matter. It is not. This has been the one area of commercial activity in Manitoba that has consistently performed extremely well through some difficult times. Yet, this is a government that has imposed all manners of taxes on people, still running \$500 million deficits, increased sales taxes, increased unique and punitive items like payroll taxes, tax on jobs, has had its credit rating dropped twice in this last year, which by the Minister of Finance's own admission likely will cost the province some \$7 million.

I'm simply saying, and at the same time having to increase all manner of user fees, whether it is people living in personal care homes, Pharmacare costs or suggesting that people in hospital now might have to pay for their meals, gas tax and running a deficit of \$500 million and is this a time to set aside some further board money, whether it is the \$5 million now set aside, and I acknowledge only \$1 million has been used to date, to do something in a field of commercial activity that is doing very well. The Minister has repeatedly in the last few years been able to cite glowing reports about how well things are going in Manitoba's oil industry. I could read back his press releases from them. So it's not the question, Mr. Chairman, of having a potential there and private sector closing a deaf ear to it or turning away to other places. No, indeed, they were coming along very nicely.

I simply question the priorities of this government in having to allocate very hard-to-find dollars in a field that is adequately being served by the private sector. I acknowledge and I thank the Minister for enabling me to tell my constituents that they have yet to receive a red cent from this operation.

HON. W. PARASIUK: Well, given some of the rhetoric we've just heard, I just realized that we are within 35 days of June 25. I've been getting little notes from the Member for Lakeside asking whether me, in fact, the election was going to take place on June 25 and I think he's been involved in a good election speech just now when he starts talking not only about Manitoba Oil and Gas Corporation but a number of other things. I can appreciate that it's a good-sounding speech from the member's point of view and one that, again I think, is quite easily defended against. I don't want to take a lot of time with the Committee getting into all the other aspects of whether, in fact, we're in a good financial position or not a good financial position. I just would like to point out to the Member for Lakeside that a number of industrialists, financiers, businessmen were at a two-day conference over the last two days where they were saying extremely glowing things about the prospects for Manitoba and how good our economic future looked. I say that they, I think, were trying to put a fairly objective view to the proceedings that they were partaking in. There are, of course, two different ways of painting a picture and that's what politics in part is about, in painting that picture.

I do come down to the bottom line of saying that it is possible for us and I will ask the Manitoba Oil and Gas Corporation to undertake the analysis to give us an estimate of what they think those four oil wells are worth right now and to indicate what type of a return they might receive in the future on that, so we can tell the people of Manitoba that we have some confidence that this thing will indeed work and that it will be successful and that if one has sufficient patience, because I believe that one requires patience in this type of activity, one can indeed achieve significant benefits for the people of Manitoba.

I don't think we're doing anything that is that unusual. I know that the oil industry supposedly has done quite well in Alberta and I know that the Alberta Government has established interests in oil operations. They indeed have and had one in the past that was instrumental in helping nobody get started. They have a position in the tar sands. There is a situation right now where the private sector is saying that they need a significant injection of public funds, in a co-operative manner, to have the heavy oil upgrading plant take place in Lloydminster; and I see these people, and the oil industry is supposedly one of the great bastions of private industry and yet I see a number of public initiatives being quietly accepted by the industry, while at the same time, some spokespeople within that industry say that we don't need any type of public sector involvement.

I think that it's possible to have a type of window on the industry to participate, to provide some balance, to I think provide some greater leverage for some of the small groups in Manitoba, while at the same time achieving profitability over a period of time; and I think that the Manitoba Oil and Gas Corporation has made a modest but significant start that I believe shows great promise.

MR. H. ENNS: Mr. Chairman, I notice throughout the year, the corporation advertising for different staff positions. My question to the president or chairman, have those positions more or less been filled? In other words, is your staff complement pretty well in place?

MR. R. SILVER: Yes, the positions have been completely filled.

MR. H. ENNS: What does the staff component of Manitoba Oil and Gas consist of, in terms of numbers of people?

MR. R. SILVER: We have the president, John Sadler; we have a Resource Development Manager who has been introduced to you; a Comptroller; we have a Land Manager and we have a Chief Geologist and they are identified on Page 20 of the Annual Report, for your convenience; and Barbara Poruchny is the Administrative Assistant, and that is the entire staff.

MR. H. ENNS: Thank you.

MR. CHAIRMAN: The Member for Turtle Mountain.

MR. B. RANSOM: Thank you, Mr. Chairman. I note that the Minister commented in passing that he would

give consideration to the footnote in the annual report here, relative to the cost of the government's investment which, up to the end of December, '84, was \$1,050,000.00. I'll take that as something that we expect the Minister to do.

Mr. Silver indicated that the loss of \$495,000 for the first year was approximately as expected. What is the expectation for the year that we are now in?

HON. W. PARASIUK: Can I just get clarification? I didn't hear exactly what you said at the beginning. Did you say there was 150,000 or 1,050,000.00?

MR. B. RANSOM: 1,050,000.00.

MR. R. SILVER: Without getting too specific in the response, because the specifics might engender some infringement on a corporate strategy, I think the corporation has some ambitions to approach a break-even position this year.

MR. B. RANSOM: On Page 9 of the annual report, it shows land holdings, as at the end of December 31st, '84, net of 532 acres. What would the figure be today on land holdings?

MR. J. SADLER: The figure today is 7,820 net acres and I might add, just by way of comment, that we believe that the competitive situation in Western Canada is going to warm up considerably; with the Western Accord; with the shift from offshore back into Western Canada; and from a strategic point of view we really feel that it's important for us to get a good healthy land position.

MR. B. RANSOM: Could I just have a rough indication of where this land is? First of all, is it all in Manitoba and, very roughly, in the field shown on the map on Page 9, what the distribution of that would be?

MR. J. SADLER: Yes, it's all in Manitoba and just to describe it generally, it would be a fairly close in development type prospective land on the fringes of the daily Virden and Pierson fields where we are seeking to extend those fields and find the outside fringes of them, if you like.

MR. B. RANSOM: The objective with this land holding is basically to see how far existing fields extend, as opposed to finding something new, on its own.

MR. J. SADLER: Yes, the early years in the corporation, again our strategy is to try and achieve some reasonable cash flow in the early years from which then we could step out and do more wildcat exploratory drilling, so that is the strategy that's implicit in our approach.

MR. B. RANSOM: I know that there'll be some public interest in what the government has to pay to get top quality people to run their corporations these days. Can the Minister advise the committee of the salary and benefits package of the top three employees of the corporation?

HON. W. PARASIUK: I won't do it here, but I know that the Premier is providing, getting some of that

information and it shall be provided in due course and I certainly would undertake to have that provided then.

MR. CHAIRMAN: The Member for Arthur.

MR. J. DOWNEY: Thank you, Mr. Chairman. I have a few questions dealing in general terms and when I look at the objectives of the corporation, I find it hard to see that the Minister is still so gung-ho when I read Page 7 of his annual report in the Mineral Resource Division of Mines and Energy. When we look at the oil and gas exploration, it showed a dramatic increase in his words of his report. Over the preceding year, during the 1983 period, we have 247 wells drilled in Manitoba and the highest number in 27 years and a 27 percent increase over 1982. It is that kind of background that I'm sure that my colleague from Lakeside has posed his questions as to living up to the objective of what he initially set out to do.

The second point on that page is oil production, value increased for the second consecutive year. Provincial revenues from the oil and gas industry increased to 21.7 million from 17 million in 1982. The Crown sales to private companies were to sales of Crown oil leases and exploration reservations during the year generated 1.1 million in revenue to the province. So it is that kind of background that we're still seeing that Minister carry on to compete in that area for some reason with the use of taxpayer's money.

He makes reference to another private sector investment. During the year the Oil and Gas Conservation Board approved a plan to construct a gas recovery plant in the Waskada area. So I think the initiatives and the incentives that are following upon the initiatives by the Lyon Government; my colleague from Turtle Mountain as Minister was in fact accomplishing the objectives that we as Manitobans, I think would like to see carried out in the province, particularly the constituents in the area in which I represent. So I just wanted to substantiate further the argument my colleague from Lakeside had put forward.

Specifically with the report and the information that was tabled by the Chairman this morning, there were a couple of questions. He indicates we have four wells that are producing 40 barrels a day. Is that roughly 10 barrels each? Is that how that is being calculated, or what is that, and are we at 40 to 50 percent participant in 40 barrels or is that the corporation's total revenue from it? A further explanation would be helpful.

HON. W. PARASIUK: There will be an explanation. The first thing that the member raised though, he quoted at length from the Mines Annual report, and indeed I think was accurate in saying how much the activity had increased in the years 1983 and 1984 and that is true. I don't know how one can establish causality, but you see, you should remember what you were saying in the 1981 election campaign. You said that if the New Democratic Party got elected and if we proceeded with plans to establish a Manitoba Oil and Gas Corporation, that if we were in office, we would establish the wrong climate for oil development and there would be no activity taking place in Manitoba, that we would scare everyone away, that there would be nothing happening here and you said that over and over and over again.

Now, just take a look at what has happened. I think that we said we would come in with an overall package, we have, and I'd be very pleased to have the Member for Arthur come forward and say that things have gone along quite well over the last few years and we, in fact, agreed.

I believe there is a question that could be answered though in terms of . . .

MR. CHAIRMAN: There is a point of order being raised.

MR. H. GRAHAM: On a point of order. The Minister is quoting Conservatives as saying, "over and over and over again." I don't know where he was hearing those comments. Can the Minister identify the source of those comments?

MR. CHAIRMAN: That is a point of inquiry.

MR. H. GRAHAM: We've got what you said and put your signature in print. You show us what we said . . .

HON. W. PARASIUK: If you want, I can go into my files and bring out massive files pointing out what you said back in 1977, pointing out what you said in 1981 and let me assure the people that it would be very surprising reading for them.

MR. CHAIRMAN: Mr. Silver would like to answer some questions from the Member for Arthur.

MR. R. SILVER: The member's question dealt with the rate of production of the four wells that we've commented on. Our share in those wells varies between 40 and 50 percent and that 40 to 50 percent earns Manitoba Oil and Gas about 40 barrels of oil per day, that is MOGC's share.

MR. J. DOWNEY: As well, Mr. Chairman, I think must be just an incorrect statement here. They made reference to the Municipality of Broomhill. Would they not be making reference to the Village of Broomhill, rather than the municipality?

HON. W. PARASIUK: That is correct.

MR. J. DOWNEY: Mr. Chairman, as well, the Member for Turtle Mountain asked the acreage that is now held by Manitoba Oil and Gas as far as their holdings, what is their intention to drill this year on those holdings? Do they have a drilling program planned for this coming year?

MR. R. SADLER: Yes, as indicated earlier, we plan to drill 25 tests in conjunction with other partners this year and that would likely all be done on the lands that we have acquired. Certainly the inventory, if you like, that we have acquired is far more than the 25 tests. We have in mind having a good land base for our next year program. The amount of Crown lands that are now going to be available will be not that great in the next year. As you may know, only about 20 percent of the prospective lands in the southwest part of the province are owned by the Crown and the rest is free hold.

MR. J. DOWNEY: Well, the Manitoba Oil and Gas Corporation, though, some of this land they have acquired is free-hold land as well as Crown land, is it not?

MR. R. SADLER: Yes, it is.

MR. J. DOWNEY: Mr. Chairman, what is the current projected cost of the full development of a well now by the corporation? What do they calculate a well to production would cost?

MR. R. SADLER: As noted in the annual report on Page 7, we have indicated - just at the bottom of the graph, a completed well costs \$250,000.00. Our experience this year has been somewhat less than that. It's still very competitive out there.

MR. J. DOWNEY: At what percentage would be the average participation? Would it be 50 percent that the corporation is involved with this year?

MR. R. SADLER: This year it would be 40 to 50 percent.

MR. J. DOWNEY: So there would be an additional requirement of funds from the Provincial Treasury to carry out that drilling program?

MR. R. SADLER: Yes.

MR. J. DOWNEY: Mr. Chairman, I have another question in that regard, the participation of the joint ventures, are they with one, two or more companies? Is it generally with one company that they're carrying out the activity?

MR. J. SADLER: It varies. We have undertaken a fairly large program with Newscope on the seismic program which they may farm some of their interests out, but we're in it for 50 percent and they are initially in it for 50 percent. In others, there have been as many as three or four partners.

MR. J. DOWNEY: Mr. Chairman, dealing a little bit more with the pipeline matter, and my colleague from Virden may have some questions as well, I was just interested to note the agreements that initially were entered into at 25-75 with Inter-City Gas. How was their negotiated participation worked out and what was the reason for the government wanting 25 percent, not more not less? How was that figure struck, and I ask that of the Minister?

HON. W. PARASIUK: Those negotiations were carried out by the corporation, not with the Minister. The corporation carried out negotiations with Inter-City Gas, so you could ask the corporation.

MR. J. DOWNEY: Mr. Chairman, the question is then, to the Minister, why would he want the province to be involved in any way in the building of the pipeline when he had full authority to tax, to regulate? What was the purpose of the government wanting to participate in any way at all?

HON. W. PARASIUK: We thought that when the various companies indicated that they would be happy to have a Manitoba Oil and Gas Corporation as a participant in the venture, I certainly felt it was a wise thing to do. A pipeline almost acts as a public utility and it's important to have, in a sense, some window on how that utility is operating to ensure it is being fair to all parties, while at the same time realizing the objectives of the people putting up the money to make a reasonable rate of return. That means that it has to provide, in a sense, pipeline accessibility not only to the producers in an area, but also to those people who might be smaller producers. So there is a fair opportunity. We thought that was a good way of doing it and we think that there is an opportunity to make a reasonable rate of return and achieve those types of objectives.

MR. J. DOWNEY: Mr. Chairman, when the pipeline was constructed, was there any agreement with the producer as to whether or not there would be any oil committed to the pipeline?

HON. W. PARASIUK: That would be a question that would be best directed to Inter-City Gas that did the negotiations with the various producers in the area.

MR. J. DOWNEY: Well, Mr. Chairman, the provincial taxpayers are being asked to fund a percentage or a portion of the pipeline from Waskada to Cromer and the question is, on behalf of the taxpayers who are making an investment, was there a commitment from the producer to flow oil through or to use the oil pipeline that was being constructed? Well, the Minister, I would think either he or the corporation would have an answer. He says it should be of Inter-City Gas. I'm asking on behalf of the taxpayers of the Province of Manitoba who have an investment in the Manitoba Oil and Gas Corporation, who have spent 330-some-thousand dollars in an investment in a pipeline, was there an agreement?

HON. W. PARASIUK: As I said quite clearly, that is something that is best to ask of the operator of the pipeline — (Interjection) — No, we are the operator of the pipeline. We are a shareholder of it but Inter-City Gas acts as the operator.

We have instances like that if you want and we can go ask Hudson's Bay Mining and Smelting a whole set of questions as to how they operate. If you want to do that, I guess we can start doing that with joint ventures. We have minority positions in joint ventures where someone acts as an operator and they undertake those negotiations and discussions.

MR. J. DOWNEY: Well, Mr. Chairman, all I'm asking is that we as taxpayers, the taxpayers of the Province of Manitoba, have an investment in a pipeline. When the pipeline was built, I'm asking if there was an agreement to put oil through that pipeline to generate revenue with the producer. I'm sure that he could answer as the Minister responsible for the taxpayers' money that was invested in the Manitoba Oil and Gas Corporation. If he can't, the president or the head of the Oil and Gas Corporation could. I'm asking if there

was, in fact, an agreement to flow oil through it by the producers?

HON. W. PARASIUK: Again, I don't think there are agreements, as such. What one does is make your operation competitive vis-a-vis other forms of transportation. There are many pipelines that operate on that basis.

MR. J. DOWNEY: Mr. Chairman, then I go on to the next question as to why was the operator involved in the ownership of the pipeline after the initial plan and the announcements were made to carry out the performance of oil transport if it was a good investment for the taxpayers of the Province of Manitoba at 25 percent? Why was it reduced to 10 percent and why did Inter-City Gas then reduce their ownership? What was the purpose for the reduction in the Provincial Government's share of ownership — (Interjection) —

HON. W. PARASIUK: That obviously was the right result of negotiations that took place between Inter-City Gas and one of the major producers in the area. That's part of a negotiating process.

MR. J. DOWNEY: Mr. Chairman, was it because, prior to that, there was not an agreement with the operator to flow their oil through the pipeline and the province would have been an owner in a pipeline that would not have been used for any purpose at all? Is that not what happened in the negotiations?

HON. W. PARASIUK: Not necessarily at all. You have an opportunity of being competitive and you're there providing a service and one could get a return on it that way.

MR. J. DOWNEY: Mr. Chairman, what is the cost - there are several operators in the southwest area of the province - of transporting oil through the pipeline system from the Waskada inlet to Cromer at this particular time?

HON. W. PARASIUK: That is a subject, a negotiation and since ICG is the operator, I believe that would be commercially confidential.

MR. J. DOWNEY: Mr. Chairman, in view of the fact that the provincial taxpayer, through Manitoba Oil and Gas Corporation, have an investment of some \$300-and-some thousand in the pipeline, would it not be their right to know what revenue is being generated from that investment?

HON. W. PARASIUK: Certainly it's their right know. If it is their right to know; they know; but that is commercially confidential information.

MR. J. DOWNEY: Mr. Chairman, the Minister says they have the right to know. The taxpayers of Manitoba own a portion of a pipeline through the Manitoba Oil and Gas Corporation. I've asked what the revenue is, what it costs to operate it and he now says they have the right to know but they aren't going to know. Why would

they not be given the information as to what they're earning from the money they have invested in the pipeline?

HON. W. PARASIUK: The company can certainly give you the gross numbers.

MR. J. DOWNEY: In other words, the Minister is not going to provide the investors in the pipeline, namely, the taxpayers who have an investment, as to what revenue they are generating from that investment.

HON. W. PARASIUK: I said we would provide that on a gross basis and we are prepared to provide it on a gross basis.

MR. J. DOWNEY: On a gross basis? What is the Minister referring to, on a gross basis?

HON. W. PARASIUK: Total revenues and total expenditures with respect to the pipeline.

MR. J. DOWNEY: Mr. Chairman, I'll just submit that the Province of Manitoba with the taxpayers' money proceeded to build a pipeline from Waskada to Cromer without having a contract with the producers of oil in the southwest area of the province. After they saw that they couldn't get the oil to flow through the pipeline, they had to give up a portion of that pipeline investment to encourage the producer to flow the oil. Now the taxpayers do not have the opportunity to find out what that is returning to them, whether it's a good investment or whether it's a bad investment. Really, it's just a coverup of the incompetence of the Minister of Mines and Energy who made a decision without having any knowledge of where he was going with taxpayers' funds.

HON. W. PARASIUK: I find that the member's attack is an attack on, I guess, Bob Graham and Inter-City Gas and I believe that Inter-City Gas and Bob Graham have a million times the ability of the Member for Arthur, because it's they who are the operators; and I will certainly pass on the Hansard of what he is saying with respect to the pipeline to them, because they would be quite amused at your statements.

But I think we can provide the numbers because it has been left on the record that we wouldn't provide the gross records.

MR. J. DOWNEY: Mr. Chairman, my attack is not on Inter-City Gas or any personnel of any companies. My attack is on this Minister and his government for entering into a project where he didn't know what we were going to end up with. He's got taxpayers' money invested in it, and all I'm asking for and he said he would give it, is what kind of returns we can expect on it, Mr. Chairman.

MR. J. SADLER: So far, to the end of May, which is tomorrow, our estimated revenue for our 10 percent share of the pipeline is \$66,000; offsetting that are pipeline operating costs of \$12,300.00. The pipeline went into operation about mid-January.

MR. J. DOWNEY: I'm sorry, I missed the date on which the pipeline started operating - the middle of January?

MR. J. SADLER: Yes.

MR. J. DOWNEY: On approximately what volume of oil would that be?

MR. J. SADLER: I think that it's the rate that we felt was commercially confidential and so if we had the precise volume of oil, of course, we could both do the computation. I don't have the precise volume, I'm sorry.

MR. J. DOWNEY: Mr. Chairman, I just have a further question. I still notice that there are some oil trucks on the road. I'm just wondering, the utilization factor, is it one producer only or are there several producers using it? Is there still a fair amount of . . . just say, more than one producer using the pipeline in service at this time?

MR. J. SADLER: Yes, as you know, Omega is the largest producer down there and they're on. I believe NuScope is on and we are wanting to get as many others as possible connected up over the balance of this year. ICG, the operator, are putting together plans to try and get as many on as possible.

MR. CHAIRMAN: The Member for Swan River.

MR. D. GOURLAY: Thank you, Mr. Chairman. I have a couple of questions. What compensation do directors receive, directors of the corporation?

MR. R. SILVER: Fees paid to members of the board of directors are set at a per diem rate of \$200 plus expenses. I would point out to the committee that only one director receives this remuneration and that cost during 1984 totalled \$1,126.00.

MR. D. GOURLAY: I notice that one of the directors is a lawyer. Is he retained as a legal counsel for the corporation or does he just serve as a director?

MR. R. SILVER: He serves as the director.

MR. D. GOURLAY: Does the corporation have legal counsel?

MR. R. SILVER: I'm looking for the answer. Mr. Thomas Frohlinger of Buchwald Asper is the corporate lawyer.

MR. CHAIRMAN: Are we ready to approve the report?
The Member for Virden.

MR. H. GRAHAM: Mr. Chairman, the Minister indicated in press releases quite some time ago that there were four bidders for the right to construct the pipeline. They were Inter-City Gas, Consolidated Pipe, Pembina Resources and Simmons Pipeline.

I asked the question in the House quite some time ago if the Minister would indicate or give us the tender prices of the various bidders in that particular thing. That question is still unanswered. Could the Minister indicate now whether he intends to answer it or not?

HON. W. PARASIUK: When I took that question as notice, I had to unfortunately leave the country on

government business and I have not had a chance to take up the matter fully. I certainly will have it taken up by the time my Estimates come before the Legislature.

MR. H. GRAHAM: Mr. Chairman, we're dealing with the report of the Manitoba Oil and Gas Corporation and I think the activities are certainly germane to this particular subject matter at this time. The Minister's shaking his head and I can understand maybe there is a reluctance on his part to answer the question.

MR. CHAIRMAN: The Member for River East.

MR. P. EYLER: Thank you, Mr. Chairman. I see today that the Member for Lakeside has been practising his campaign speeches for the next election. I notice that his leader has gone on the record officially as being in favour of abolishing ManOil after the next election. I notice also the Member for Turtle Mountain has also gone on the record as favouring the abolition of ManOil. So, it seems to be a fairly consistent theme through the two various factions of the Conservative Party.

I wonder if the Member for Lakeside, as the official opposition critic for Energy and Mines, would care to practise a campaign speech and promise to abolish ManOil here? It's a good opportunity to get some press coverage in an otherwise lacklustre committee meeting.

MR. CHAIRMAN: The questions should be directed to the Minister.

Are we ready to approve the report?
The Member for Virden.

MR. H. GRAHAM: Mr. Chairman, when the tenders for the various companies for the construction of that pipeline, they were submitted to the Oil and Natural Gas Conservation Board. Could the Minister indicate the membership of that board?

HON. W. PARASIUK: Yes, Mr. Chairman, I'll certainly be prepared to get into that subject in depth when I discuss my Estimates, which is the proper area for Estimates discussion.

MR. H. GRAHAM: Mr. Chairman, it appears as though the Minister is unwilling to answer any questions today. If that's the case, I'll continue until maybe I can find a question that he might answer.

Can the Minister, previously he said that this pipeline was very much like a public utility and yet it has not been declared to be a public utility. Can the Minister indicate why?

HON. W. PARASIUK: Very simply. I raised this matter with the industry. I asked whether, in fact, this is done in other provinces as a matter of a public utility and they said that it isn't but that conceivably one could have done that. We decided to see whether, in fact, the private sector could work in a responsible manner between pipeline conduits and the producers. We think that it's working. Is the Member for Virden implying that we should somehow put it under the Public Utility Board?

MR. H. GRAHAM: Mr. Chairman, under the oil and pipeline legislation of this province, unless a pipeline

is specifically excluded from being a public utility, all its applications for rate structure have to appear before the Public Utilities Board. Was that the reason why the Minister did specifically exclude this pipeline from being classified as a public utility?

HON. W. PARASIUK: I'll have to, in fact, go through my files and I think that again that's a matter that's properly discussed in my Estimates. It's not a matter of avoiding questions, Mr. Chairman, it's a matter of dealing with the matter before a committee which is a corporate activity. He's asking me questions that he knows full well, as a former Speaker, he used to admonish me if I would ever raise matters outside of the proper area, but I guess he's suffering from selective amnesia today.

Indeed I have said quite clearly that I am prepared to deal with this matter. — (Interjection) — I'd take you with me, but I don't think you'd be that productive.

MR. H. GRAHAM: Mr. Chairman, as a former Speaker and one who knows the rules very well and one who might very well at this time admonish the Minister for refusing to answer questions regarding a pipeline in which ManOil is a participant and public money is involved, and he is saying now that when the examination of this report is before this Committee, we are not allowed to ask questions about the operation of his own activity in the formation of a gas and an oil line, I think that the Minister is the one who is abusing the rules in this particular case.

HON. W. PARASIUK: Well, the incoherence of the Member for Virden is quite obvious just now. He's obviously asking what my involvement was and what the departmental involvement was. We have said clearly that when we come to Estimates discussion, obviously this is a precise matter for discussion at Estimates. Mr. Chairman, I think we have to follow the rules that we usually follow in this Committee.

MR. CHAIRMAN: Are there other questions?
The Member for Virden, relevant to the report?

MR. H. GRAHAM: Mr. Chairman, relative to the activities of ManOil, the Minister in press releases

announced that ManOil as going to have a 25 percent interest in a pipeline and this was announced in a press release in March 2, 1984, where it was a recommendation of the Oil and Natural Gas Conservation Board which answers directly to the Minister, that Inter-City Gas be awarded the contract. At the same time, the Minister who is responsible for the operations of ManOil might very well have been in a conflict of interest position in the awarding of that contract because the Oil and Natural Gas Conservation Board reports directly to the Minister. According to the schematic that he has, it shows they report directly to the Minister.

I would suggest, Mr. Chairman, that it may very well have been a conflict of interest that the Minister was in when the award of that tender to Inter-City Gas was awarded by the Oil and Natural Gas Conservation Board. So that makes the Minister suspect in the eyes of some members of this Committee and certainly in the eyes of the public of Manitoba. We do have great difficulty in approving this report at this time because the Minister has not answered questions about that or his activity in that. So, it makes his whole actions in this somewhat suspect.

HON. W. PARASIUK: Mr. Chairman, the whole approach of the Member for Virden has and still is suspect and I thought he would have known better.

MR. CHAIRMAN: Shall we approve the report?

MR. H. GRAHAM: Nay.

HON. W. PARASIUK: Pass.

MR. CHAIRMAN: Shall the report be approved? As many as are in favour of approving the report, say Aye. As many as are opposed, say Nay. The Ayes have it. The report is approved.

What is the pleasure of the committee?
Committee rise.

COMMITTEE ROSE AT: 12:10 p.m.