



# Legislative Assembly of Manitoba

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HEARINGS OF THE STANDING COMMITTEE

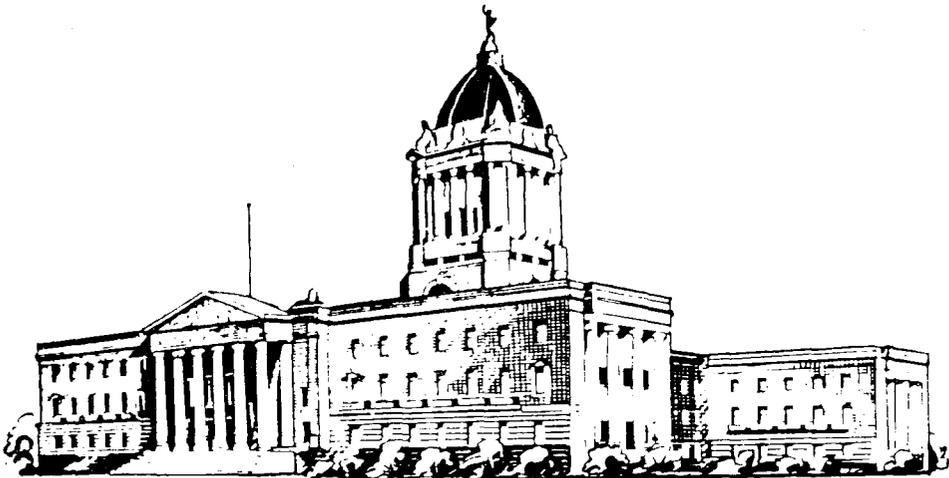
ON

ECONOMIC DEVELOPMENT

Chairman

Harry Shafransky, M.L.A.

Constituency of Radisson



10:00 a.m., Tuesday, May 27, 1975.

## ECONOMIC DEVELOPMENT COMMITTEE

10:00 a. m. Tuesday, May 27, 1975

CHAIRMAN: Mr. Harry Shafransky.

MR. CHAIRMAN: Good morning. The Committee will come to order. This morning we are to hear the Annual Report for the Manitoba Forestry Resources Ltd. I am going to call upon the Minister responsible to introduce the Chairman of Manitoba Forestry Resources Ltd. Mr. Green.

MR. GREEN: Well, gentlemen, I want to call on Mr. Leif Hallgrimson who is the Chairman of Manitoba Forestry Resources Ltd. I think that it would be appropriate for me to introduce Mr. Hallgrimson as a man who was faced with a challenge entirely different and I hate to deal with the weight of it but certainly in terms of the public exposure, much different than that which he had bargained for when he was working as a senior law officer of the Crown in the Department of the Attorney-General.

Late in 1970, Mr. Hallgrimson was approached to accept the responsibility of being the Receiver of the assets of what has come to be known as the Churchill Forest Industries Complex. He undertook that responsibility and I think handled it in a way which has evoked nothing but praise from all who have been associated with him, and subsequently was asked to be the Chairman of the new corporation which would receive the assets from the Receiver and operate under the Natural Products Corporations Act. Mr. Hallgrimson has assumed those responsibilities, has been Chairman of the Board since the advent of the corporation. I believe this is the first annual report as a corporate report other than as a Receiver's report and I think that the public has a debt of gratitude to Mr. Hallgrimson for the manner in which he has performed his services both within the Attorney-General's Department and since his association with this forestry complex. With those words, I'd like to call Mr. Hallgrimson.

MR. CHAIRMAN: Thank you. Mr. Hallgrimson. Possibly it might be advisable to have Mr. Hallgrimson give his general introductory report and then rather than go page by page right from the start, we'll allow questions as they will be generated on the whole report. And then after that we can proceed page by page and if there are any questions that are related to specific pages, we will stop at that time to have those answers given. Mr. Hallgrimson.

MR. HALLGRIMSON: Thank you, Mr. Chairman and Mr. Minister for your kind comments. You have before you, gentlemen, a report which is our first Annual Report, as the Minister stated, for a full year of operations. Our fiscal year ends on September 30th so what you have before you is the report for the year ended the 30th of September, 1974. We commenced operations on the 1st of October, 1973.

This report is basically composed of the financial statements which have been prepared by the Provincial Auditor. I have prepared a short summary of about three or four pages - four or five pages I guess it is at the beginning. I don't know whether you want me to go through this. This is mainly a comparison of figures, last year's figures with the current figures; whatever your wish is. I could proceed through here at least in some summary fashion to outline that to you.

MR. CHAIRMAN: I believe it would be advisable to have you give this particular summary so we will be . . .

MR. HALLGRIMSON: Thank you. I am pleased to report for the first year of its operations the Company generated a cash profit, before interest on long-term debt and depreciation, of \$9,950,000. To this figure was added \$944,000 of interest earned on the DREE moneys in trust. And at this point I might mention that as you are probably aware we received a grant from the Department of Regional Economic Expansion of approximately \$12 million which was paid into the trust division of the Consolidated Fund and is still there but we expect that at any time that these moneys will be released free of any trust conditions, and that this is the interest on those moneys. Anyway the interest on those moneys plus the \$9.9 million figure totals \$10.8 million.

Now charges as reflected in these statements amount . . . charges against this sum amount to \$4.1 million for depreciation and \$3.1 million for interest on the long-term debt to the Government of Manitoba leaving \$3,577,000 which was applied against start-up and development costs. The cash profit from operations for the year, of \$9,950,000 is a marked improvement compared with the preceding twelve month period ended the 30th of September, 1973 when the cash profit from operations was \$1,200,000.

(MR. HALLGRIMSON cont'd)

As a word of explanation, the start-up and development costs of \$11,381,000, as shown on the balance sheet, were the net losses incurred by the receivership during the start-up period which was considered to be the 7th of January, 1971 to the 30th of September 1973. The reduction of this balance during the current year was therefore not a cash expenditure of \$3,577,000. The moneys in fact remained within the company.

Agreement has been reached with the Government of Manitoba and the Manitoba Development Corporation establishing the consideration to be paid by the Company for the assets which were taken over by the Company. Exact details are provided in the balance sheet and in notes 3 and 6 thereof. I would comment that from an overview position the present debt equity relationship, although high by industry standards because of the historical aspects of The Pas Complex, should however give a reasonably realistic yardstick from which to measure our performance relative to other companies in our industry. We are confident that over the long-term the Company will be a viable entity based on that capitalization, capable of providing a reasonable return to its shareholder - the Government of Manitoba.

Sales for the year ended the 30th of September 1974, with comparative figures for the twelve-month period ended the 30th of September 1973 in brackets, were in total \$45,915,000 as opposed to \$28,153,000 in the preceding year. This figure is made up of paper sales of \$35,754,000 as compared to \$19,270,000, and lumber sales of \$10,161,000 as compared to \$8,883,000.

Production, with comparative 1973 figures in brackets, was 128,373 tons of unbleached kraft paper in 347 production days for an average of 370 tons per day, compared to 101,000 tons in 340 days for an average of 298 tons, and 74,904,000 board feet of lumber in 245 production days for an average of 306,000 board feet per day. The comparative figures were 52,349,000 board feet in 235 1/2 days for an average of 222,000 board feet per day.

In order to achieve the production figures as provided above a total of 296,000 cords of wood were harvested and delivered to the plant site in 1974. This compares to the 1973 figure of 259,000 cords.

Capital expenditures during 1974 were six million dollars. The major items were: roads \$850,000; mobile equipment for wood harvesting at \$1,500,000; Woodlands camp \$350,000; fence post project \$220,000; ballast in the mill site wood storage area \$160,000; two dry kilns \$210,000 in the sawmill; a reject log chipping system for \$105,000; and an air make-up in the B sawmill for \$134,000; mobile equipment for pulp and paper division \$200,000 and the power boiler \$235,000. The power boiler actually is more than that, that represents the payments in that period of time.

The financial statements disclose that \$9.6 million of DREE moneys were received by the Government of Manitoba and placed in trust for the Company prior to the 30th of September 1974. Since that date we have complied with the terms of the DREE agreement and the balance of the DREE grant, in the amount of \$2.4 million, has been placed into the trust. We have now met the terms of the agreement related to removal of the trust provisions and it is anticipated that the trust conditions will be lifted within the next month.

In April of 1974, I reported to you that we were in full production with total employment averaging 1,026 employees and that includes 115 employees on contractors' payrolls and a gross payroll of \$13.5 million. Those figures have been changed by increased employment due to the increased harvesting of wood, the fence post plant, and the utilization of machinery plant facilities. Payroll costs have also risen as a direct result of inflation. The figures for 1974 are 1,084 employees including 122 employees on contractors' payrolls and a gross payroll of \$14.8 million.

The machine shop facilities in the Bertram plant were moth-balled as of the date of receivership, that is on the 7th of January 1971. During the intervening years various government agencies and companies from private industry have studied possible alternative uses for the facilities. Unfortunately these studies produced negative results and the facilities were turned over to the Company. We are now making limited use of the plant with 32 people currently being employed, and project that within the next year a cash break-even on operations will be achieved. A DREE grant has been applied for in connection with those facilities.

In our cutting area there are extensive stands of mature jackpine which are small in diameter and of low height. These trees, which are too small for pulp or sawlogs, have stopped growing because of the density of the stands. In order to utilize this asset, we purchased a used

(MR. HALLGRIMSON (cont'd) . . . . fence post plant from British Columbia and relocated it at the plant site at The Pas. Schedule 8 of the attached financial statements discloses that this project, while in operation prior to the 30th of September 1974 year-end, was not in full production. Projections for the current year are that we will produce and sell 1,426,000 posts for a sales value of \$1.5 million. The capital cost of this project to date was \$291,000. Forty jobs were created with an annual payroll of half a million dollars.

During the past year, we commissioned a report on the feasibility of expanding our pulp and paper capability. The draft report was received and considered by the Board of Directors. Because of the high interest rates and the recession, a cautious attitude was adopted. We are continuing to review the feasibility of various alternate expansion possibilities and, in particular, the cost of wood as being the key to any expansion program. When it is determined that an expansion would be economically feasible, the details will be forwarded to the government and authority requested to proceed.

The projection for the current year ended the 30th of September 1975, is not as favourable as were the results for the year ended the 30th of September 1974. As you are aware, the decrease in housing starts in both the United States and in Canada had a drastic effect on the demand for and the selling prices of lumber. We currently have one sawline shut down with the other two sawlines in a one shift per day, five days a week basis. I should add that just within the last week we did add another shift because the market in lumber has improved considerably in the last month. Likewise, the current recession has decreased the demand for unbleached kraft paper to the point where we were forced to take a two-week shutdown in April of this year. Despite the foregoing however, we still project sufficient cash earnings from operations to meet our interest obligations to the Province of Manitoba.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Mr. Chairman, I would like to say to Mr. Hallgrimson that we would like to congratulate him on the results that he has presented to us here today. As you are probably aware, Mr. Hallgrimson, we don't often have an opportunity to review a statement that shows a cash profit of \$10,984,000 and I think that demonstrates that you are developing a profitable enterprise in The Pas area. I hope that the Minister accepts the way in which you have stated your cash profit position because we've had a little difficulty, you know, from time to time trying to convince the Minister that these operations at The Pas are proceeding in a way in which indicates that this whole enterprise is a very . . .

MR. GREEN: That's incredible. . . . statement like this, you would have me thrown out of the House.

MR. MCGILL: Well.

MR. GREEN: That's right.

MR. MCGILL: This is the point I make.

MR. GREEN: Let us then ask Mr. Hallgrimson, have you included the interest on the hundred . . . ?

MR. MCGILL: Mr. Chairman, I haven't quite completed the statement.

MR. GREEN: Well, that's incredible.

MR. CHAIRMAN: Order please.

MR. MCGILL: We anticipated, Mr. Chairman, that there might be some contrary opinion from the Minister in this respect but nevertheless the results do indicate that the progress of the whole industry in The Pas area is proceeding in a manner that indicates that it is going to be a permanent and useful and viable industry in that area.

I wonder, before the Minister proceeds with his contrary views, if you could tell us whether there are any changes in the directorate of the board since the last time you reported to the meeting. I think you did give us at that time the names of the directors serving. Are there any changes or additions to that list at this time?

MR. HALLGRIMSON: I believe I reported to you in April of 1974. Yes, there have been two changes. Mr. W. D. Stothert resigned on the 1st of June, 1974. Mr. J. B. Hansen died in early January of this year, I believe it was on the 4th of January 1975. We have had an addition to our board of Mr. Leon Mitchell, Q. C. on the 18th of December 1974, and that's how the matter stands at the present time. There are eight directors.

MR. MCGILL: Thank you Mr. Hallgrimson. Now you did mention in your report the plans and the efforts that are being made to get the Bertram plant into active and useful operation. You are using it at the moment but not in its full capacity I take it.

MR. HALLGRIMSON: That is correct. It's a very limited capacity as I stated. We have 32 employees. What happened there was that, as I stated in my report, to a major extent various government departments and other agencies tried to enlist somebody or enlist the interest of somebody in operating the plant for a number of years - actually I guess, over a period of about two years. This proved unsuccessful. What we faced then was a question of whether we would dismantle the plant and sell the machinery piecemeal or whether we would make some attempt to operate it although not in the manner in which it was originally intended. We, in no way, could justify on our operations what was of course spent on that plant, even at inflated costs which was over \$10 million. So we're just trying to make the best of a situation. We don't know just how it will turn out but we're making an attempt to do so.

MR. MCGILL: Last year we discussed . . . I think the original intent was to use this plant to produce paper-making machinery.

MR. HALLGRIMSON: That's correct.

MR. MCGILL: No doubt that has been investigated fully and at this point in time then there doesn't seem to be a reasonable prospect of this primary intention being fulfilled.

MR. HALLGRIMSON: No. I don't want to go into the historical aspect of it. I think that this, of course, was one of the most farfetched concepts of the whole scheme at The Pas, to establish a very sophisticated plant of this nature in that location.

Number 2. At that time the pulp and paper industry was very depressed. I'm not aware of that many expansions that have taken place in the last three or four years that, you know, would have provided any great amount of work for this plant. Now because of the increased costs of establishing facilities, I think one of the considerations in the whole industry is the fact that there isn't very much new capacity coming on because of the increased capital costs. But we have certainly no intention of trying to develop that concept.

MR. MCGILL: Mr. Hallgrimson, what is the total number of jobs that are related to your operation in The Pas area? How many jobs does your operation provide in that . . .

MR. HALLGRIMSON: I believe the figure I gave, Mr. McGill, was - this fluctuates, especially Woodlands, it goes up and down - but the figure I gave you was something around 1,000 - 1,084 including 122 so you'd have to deduct from that 122 which would be something over 900 jobs. I can give you a better breakdown of it here. I have a comparison here on an annual basis. It would probably go from a low of 816 to a high of 1,237. At a high point, there would be about 466 people in the Woodlands division, in the harvesting aspect; 90 contract people who are not our employees. The Pulp and Paper division employs about 350 employees; the sawmill 280; the Bertram plant we have here down at 25 plus a construction division of about 40 people. There are 10 of what we call corporate people and there is one person in the real estate division.

MR. MCGILL: You mentioned in your report that you had entered into the production of fence posts. Has that proven to be a reasonably profitable satellite operation to the main operations of your plant?

MR. HALLGRIMSON: Could you repeat that? A permanent what?

MR. MCGILL: Has the fence post operation, as a satellite operation to your main operations, has it proven to be a profitable development?

MR. HALLGRIMSON: Well it's really just getting off its feet now. We didn't produce any fence posts during the winter. It's an open operation and furthermore there is treatment facilities and we suspended operations for the winter and it has just started up. But we have reason to believe that it will be a fairly successful operation, there's surprisingly quite a good market in this. But like every other aspect of the whole operation, it's cyclical and varies from year to year. We can't be too confident about our market in any given year.

MR. MCGILL: Within the last week or two, there was an announcement made and I believe the details of it are contained in your report of the way in which the operation is now capitalized.

MR. HALLGRIMSON: Yes.

MR. MCGILL: You had some misgivings and some problems relating to the debt load of the corporation in your last statement. I wonder if you would comment on the way in which this has been set up now. Do you consider it to be in a form that will enable you to sort of have a reasonable prospect of producing a net profit position from year to year under the present arrangements?

MR. HALLGRIMSON: Well I think this relates back to the Minister's comments. Obviously, as we are presenting these figures now on our balance sheet, it doesn't reflect the original cost of the enterprise. But on what I would consider to be a reasonable cost, I personally feel that it will be a viable enterprise. And the way it's set up on the balance sheet, certainly if it were reflected on the balance sheet as being \$150 million I would say, as I said last year, I am confident that under no circumstances could the operations justify such a cost. And I think that's reinforced with what transpired in this year that you have before you which undoubtedly has been a high point in the pulp and paper industry. And we certainly, even on the basis of those figures, couldn't justify \$150 million, a return on \$150 million, but I think that based on what is set out in the balance sheet which is as I pointed out - and I would like to emphasize is set out on the basis of what is considered to have been a reasonable cost of establishing those facilities and which, in fact, really represents the cost as incurred eliminating what has been considered by everybody who has looked into this - as being exorbitant fees and recycling of moneys. That on that basis we have in our hands an enterprise which I am sure will prove to be profitable over the years.

Now we have right now, as stated in my report, a downturn in our business. It so happens that it appears that the lumber market is improving but the paper market is very poor. We've had a shutdown; we're continually trying to develop new markets for paper and trying to scratch for orders and so far have been successful in carrying on. And we hope that we will be able to do this because there is every indication that this is a short-term thing, that perhaps by fall matters of the economy will have turned around.

We produce actually a commodity which is directly related to consumer spending and very related to the construction industry. We produce an unbleached kraft paper which is used - it has two purposes. One is in check-stand bags. There hasn't been too much of a drop in this because people are still eating despite the recession. But the other is for multi-wall bags and this is cement bags and other commercial bags where you have a number of layers of paper. There has been a dramatic fall-off in this and this is because of the downturn in the housing starts, which to a great extent is determined by the U.S. market, where housing starts went from 2.4 million starts in 1973 to, in the current year, something under a million, eight to nine hundred thousand. I'm sorry, I've rambled on here. I don't know whether I've . . .

MR. MCGILL: Well that's quite all right, you're discussing the general terms of your present production. And what I really wanted to get at was whether or not you, as the operator who has the responsibility of carrying on the business from year to year and achieving some kind of a profitable operation, you are reasonably satisfied the way in which it is now capitalized, that you have a prospect of . . .

MR. HALLGRIMSON: Yes, I am reasonably satisfied as it is reflected on these statements.

MR. MCGILL: Just one final area, Mr. Hallgrimson. Last year when the paper market was on the upswing and you were discussing the possibility, or it was discussed at least, whether or not it would be feasible to double the capacity of the paper plant. This possibility, I think, is not really dealt with in the report. I assume that because of the present situation in the paper market that you are not now thinking in terms of an additional capacity in the plant. Would you care to comment on that?

MR. HALLGRIMSON: Yes. We commissioned a feasibility study. The matter is still under active consideration and I believe the words I used that we are adopting a more cautious approach. I don't think it's anything that we want to rush into. There were certain aspects of it that we felt that should have a closer look and in particular the wood study. I might say that there is no question about the fact that there is sufficient wood in the area but this wood is spread out over a considerable area, in fact our whole cutting area is 40,000 square miles. So if we have to reach out or if we have to increase the amount of wood that we cut we have to reach out further and this means that the question arises as to what this is going to cost. So we want to have a very good handle on that before we embark on any ambitious program to expand the facility.

The other thing is, too, this study is pretty well directed to a doubling of this output. The question also arises whether there may be some more profitable manner in developing . . . Questions arise as to whether we should maybe be producing something else rather than the same commodity.

MR. MCGILL: I see,

MR. HALLGRIMSON: But the matter is not dead. It's under advisement. The Board of Directors as I see it, the way it will develop, we will hopefully be in receipt of a completed feasibility study within another month or two. The Board of Directors will have to make up its mind as to whether they're going to recommend that something be done or not. Depending on that recommendation the government of course in the final analysis, considering the fact that this is a wholly-owned corporation by the Government of Manitoba, will have to put its blessing on whatever is decided.

MR. MCGILL: I think last year we had a projection indicating that in terms of the resource and the renewability of that resource that you could go to almost a double capacity of pulp.

MR. HALLGRIMSON: That's right.

MR. MCGILL: You don't have any doubts about the correctness of that projection at the moment? Was that what you were saying that you were looking again at the . . . ?

MR. HALLGRIMSON: This is what I am saying, Mr. McGill. There is no question about the availability of the wood. It's there. No, they have conducted a very thorough inventory of the whole - what we called a "specified area" - and we're told that the allowable cut in this area could be as high as 900,000 cords a year. We are now cutting just something over 300,000 cords.

MR. MCGILL: One final question. We talked about turnover in your employees at The Pas and I think the information you provided us with last year was that it was quite low in relation to other industrial enterprises in the northern part of the province. Does this still apply? Are you finding that your turnover of employees is . . . ?

MR. HALLGRIMSON: I don't have any figures with me but it's certainly no worse than it was last year. It would be better.

MR. MCGILL: Better than last year. Thank you.

MR. HALLGRIMSON: Although we did, I might say - well this doesn't relate to turnover - we are having difficulty in Woodlands to attract people to work there but I think this is industry-wide. People don't want to go out and work.

MR. MCGILL: You mean that there are job applications and job opportunities remaining unfilled on a sort of a permanent basis up there, that you always have job availabilities?

MR. HALLGRIMSON: Well in Woodlands - I'm not sure right at the present time; I think because of decreased wood cutting activity, I'm not sure that there are unlimited opportunities but certainly last summer there were. We were short of cutters.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Thank you, Mr. Chairman.

MR. CHAIRMAN: I would ask the gentlemen to use the microphones. It makes it difficult for the people transcribing sometimes to pick up all the words. So if you'd keep that in mind. Proceed Mr. Minaker.

MR. MINAKER: Yes, Mr. Chairman, through you to Mr. Hallgrimson. Like my colleague, I'm happy to see that the plant is operating and appears to be operating fairly efficiently. I'm wondering with regards to the capitalization that is being proceeded with, I believe that figure is somewhere in the neighbourhood of \$152 million, is it not Mr. Hallgrimson? \$152,800,000?

MR. HALLGRIMSON: Yes. That is the figure that was being carried on the books of the Manitoba Development Corporation and under the terms of agreement, we issued securities up to that amount.

MR. MINAKER: Now on, I think it is Page 5 relating to the capitalization at the back of the report, Item 6, if I understand the report and I may be wrong and I hope you will correct me if I am and I'm sure you will - I just have had a chance to look at it today - and it shows that there was \$88 million advanced to the owners and then lien payments and interest charges giving 119 million-plus. Now this advance to the Receiver for \$34 million. Can you expand on that, what that covered?

MR. HALLGRIMSON: Yes, I can. To begin with this includes interest. Yes, the first figure would be \$11 million for start-up, you know, the start-up costs. And then that figure would include \$5 million in interest.

MR. MINAKER: You're individually itemizing them now. The start-up cost was \$11.4

MR. HALLGRIMSON: I'm breaking down the \$34 million.

MR. MINAKER: Okay. \$11.4 million for the start-up.

MR. HALLGRIMSON: Right. And the difference would be capital which would be approximately 18 million.

MR. MINAKER: And you had 5 million for interest?

MR. HALLGRIMSON: 5 million for interest. These are rounded out figures.

MR. MINAKER: Mr. Hallgrimson, the 18 million would then go for the completion of the site, is that correct?

MR. HALLGRIMSON: That's right, yes.

MR. MINAKER: And I'm wondering, Mr. Hallgrimson, I think there was some \$7 million - I believe the report to the inquiry stated - that you had spent for completion of the pulp and paper mill. Is that correct?

MR. HALLGRIMSON: Well I couldn't be sure. I don't recall off the top of my head, I mean, of how the breakdown of the 18 million between the two different projects.

MR. MINAKER: It's my understanding that in the Commission's Report it was indicated that there was \$7 million that was required to complete the pulp and paper mill and then - I'm just wondering - it was my understanding also that there was approximately a million and a half dollars required for completion of the sawmill.

MR. HALLGRIMSON: I would take issue with that. It's much higher than that.

MR. MINAKER: How much was it? And I believe that the Bertrams was moth-balled so there wasn't any money spent on that. So I'm wondering where the other 10 million has gone into.

MR. HALLGRIMSON: Well, we can give you the information. These reports have been filed from Day One. They're audited statements. There's also an infusion of working capital too.

MR. MINAKER: Mr. Chairman, while the gentleman is looking for that detail, in addition then, you still have the \$12 million for the DREE grant to pick up. Is that correct?

MR. HALLGRIMSON: That's right.

MR. MINAKER: So that I'm wondering why, if it shows here that you have \$154 million on Page 5 here, and you have \$12 million coming from the DREE grant, why you would require \$152.8 million for capitalization?

MR. HALLGRIMSON: Where is that, Mr. Minaker?

MR. MINAKER: On Page 5 here, it looks like your total capital expenditures or commitments would be somewhere in the neighbourhood of \$154 million and I would presume that includes your working capital. The bottom of Page 5 in your . . .

MR. HALLGRIMSON: The bottom of Page 5? \$154 million?

MR. MINAKER: Yes.

MR. HALLGRIMSON: . . . per year? Yes.

MR. MINAKER: Now if that is what you've been committed to and you have \$12 million coming back from DREE, why would you require the 152.8 that's being capitalized at this time?

MR. HALLGRIMSON: Well the DREE moneys are taken into consideration on the balance sheets. They're deducted. They're shown as an asset. Don't forget the DREE moneys . . .

MR. MINAKER: Is that included in that 154 million, the 12? As your capital commitment?

MR. HALLGRIMSON: What you have set out on Page 5 is the actual out-of-pocket or advances made by the Manitoba Development Corporation. They advanced \$88,031,000 to the owners.

MR. MINAKER: Right.

MR. HALLGRIMSON: And there were lien payments of 6.2 million; there were interest charges of 25 million, then they advanced \$34 million to me. And this is what I was giving you a breakdown on. And that all totals \$154 million. Now if you carry that over to the balance sheet on Statement 1, if you total all these - I'm not an accountant - but here you will find that the securities, as I stated to you, we had issued securities to the government covering this amount, less the \$12 million which is shown as an asset on the other side.

We have the assets here and I must point out that the assets are shown here as totalling \$110 million. I mean we are not showing the assets at their inflated value.

MR. MINAKER: Mr. Chairman, if I can simplify it more. If there is a commitment of \$154 million to MDC and 12 million has come from another agency, why would you require 152 million of capitalization if the 12 million is a grant? -- (Interjection) -- It's my understanding you still have that 12 million in trust that you could turn over as soon as you have

(MR. MINAKER cont'd) . . . . proven ownership, etc. and met the commitments. Then you would give the 12 million, would you not, to MDC and then you'd end up with 142.

MR. GREEN: They need the 12 million, they're not paying the 12 million back.

MR. HALLGRIMSON: No this money - I guess the Government of Manitoba, being the shareholder, could ask once it's freed up to reduce the figure here, the junk figure, which amounts to \$53 million. The fact is that we, on a continuing basis, Mr. Minaker, need capital funds and I think you are probably aware of the fact that we have already borrowed again from the Government of Manitoba, borrowed about two or three million dollars of the DREE moneys.

MR. MINAKER: Mr. Chairman, so far it would appear that in that 34 million that there is 10 million somewhere there too, as well; because if you needed 7 million to complete the pulp and paper mill, and if you have your 5 million interest and your 11.4 for start-up, you're still looking for some \$10 million or \$11 million. Is that what it cost to complete the sawmill? Which reportedly, Mr. Chairman, which reportedly, in a letter to the Premier back at the time of Receivership or at December 31st from the Honourable Minister of Industry and Commerce, indicated that only one and a half million dollars would be required for completion of the sawmill.

MR. HALLGRIMSON: In a letter from whom?

MR. MINAKER: This is a letter that went from the Minister of Industry and Commerce to the Premier on December 31st indicating the general conditions of the complex and . . . many dollars were needed for completion. And at that time, it indicated in the letter, and I believe it was presented as a document to the Inquiry, that one and a half million dollars would be required for completion of the sawmill. So now when we add up all these figures, it looks like we're missing about \$10 million.

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

MR. GREEN: Mr. Chairman, I'm really trying to be helpful. The letter that Mr. Minaker refers to was a letter sent by Mr. Evans to the Premier before the Receivership. And Mr. Hallgrimson says, that despite Mr. Evan's letter, he believes it cost much more which shows that sometimes your estimated completion costs are not your actual completion costs. And if we are waiting for the actual completion costs, we should wait for them. Mr. Hallgrimson also indicated that there was a certain amount of operating capital infused in that \$32 million which was needed because they were not making profits.

MR. HALLGRIMSON: Well, we are just trying to dig up these figures. I didn't know that we were going to get back to detail involving the Receivership costs because this has been filed in the court, it's been filed with you people here and . . .

MR. MINAKER: Mr. Chairman, I think that the reason why I raise it is that it's now come before the Legislature that the company or complex will be capitalized and we're asking for capitalization of 152 million-plus, and I think it's in the interests of the public to know, you know, what that money is going for and so forth.

MR. CHAIRMAN: Where do you get that figure of 152?

MR. MINAKER: I think it's 152.8, if I added it correctly, and I got confirmation from Mr. Hallgrimson to that effect. I think, based on the share and debenture breakdown that the Premier gave us in the Legislature, I think it totalled to some 152.8 million.

MR. GREEN: Mr. Chairman, again if Mr. Minaker will not object to it, I believe that I could simplify it - and maybe I'll cause complications - but I'll try. The capitalization of 152 million represents the money that was given by the province through the Development Corporation to the Complex. It's given back in shares, loans, debentures, income debentures, etc. Twelve million dollars was given to the Complex as a grant. They have taken that grant and they have used it for their operations. It is not shown as a debt; it is not shown as a debenture; it is not shown as a share because some governments think that it's nicer to show it as a grant. You don't lose money that way. But the 12 million is in the complex, it's on their balance sheet, they use it for their operations and if they use it for interest, whatever charges are used, that 12 million is used, but it is not part of the capital because it is neither a loan nor a share nor a debenture. Now I hope that that is right.

MR. HALLGRIMSON: I have some further breakdown on the . . .

MR. MINAKER: Mr. Chairman, if I might Mr. Hallgrimson, excuse me. Then can I ask this question. Of the 154 million that has been given out by the MDC to the Complex, in addition to that you require the \$12 million DREE grant, is that correct? So that we're talking about \$166 million in actual fact, if I understand the Minister correctly.

MR. HALLGRIMSON: If it stays with us that would be right.

MR. MINAKER: And it is not the intention of the Complex to credit their debt with or commitment to MDC with the 12 million DREE grant. Is that correct?

MR. GREEN: I'd love that.

MR. HALLGRIMSON: But before we get into that . . .

MR. MINAKER: Is that correct, Mr. Hallgrimson?

MR. HALLGRIMSON: Well if it remains with us, it's an open question, I guess, as depending upon our capital needs. It's something that we could resort to.

MR. MINAKER: Well, Mr. Chairman, if I understand the Minister correctly, there is no intention of the money coming back, the \$12 million DREE grant, as a credit to their loan commitment with the MDC. So I would presume then, that in actual fact, there has been \$166 million used to date in total moneys for the Complex. Is that correct?

MR. HALLGRIMSON: Could I answer first the question dealing with the \$34 million because you alluded to that and I want to clear that up before we get into this greater figure. because that involves myself as Receiver and as I stated before Touche, Ross have issued financial statements over this. This has been available to you and to anybody else that cares to inquire into it and I object to any inferences that somehow \$34 million disappeared or something during . . .

MR. MINAKER: Mr. Chairman, I'm not inferring anything of such sort. I'm just trying to find out where the money has gone.

MR. HALLGRIMSON: I just want to point this out now. I have, and as I say, I didn't know that I had to present this out dealing with the current situation.

If you want a breakdown of the 34 million, there's the start-up of \$11 million, there's interest of \$5 million and capital of \$18 million. Now let's break down the 18 million. There is more than the pulp and paper mill in the lumber division, there is also a Woodlands division which required an infusion of capital. Pulp and paper is 7.3, lumber division is 6.2, the Bert-ram plant cost us \$200,000 despite the fact that it's moth-balled - we had to heat it and do various things there - and Woodlands is 4.3. Now that comes close to \$18 million but if you want we can give it down to the last nickel.

MR. MINAKER: That's good. Thank you.

MR. HALLGRIMSON: I don't know what correspondence passed prior to Receivership. All I can say is when I came there on the 10th of January that mighty building was pretty empty and we spent 6.2 million on that.

MR. GREEN: Mr. Chairman, just again so that there be no misunderstanding between myself and Mr. Minaker. My understanding is that the Complex's projections require the 12 million to be used in the Complex. If they don't need it they would, I presume, would like to repay some of their debt and have less interest charges, but I'm not sure. My understanding is when we capitalized it that they needed the 12 million and they also needed a waiver of interest for about a year which is also included in the agreement which you haven't calculated yet.

MR. MINAKER: Mr. Chairman, then through you to Mr. Hallgrimson. Is that correct then that it's the intention of the Complex to retain the 12 million DREE grant when it is made available?

MR. HALLGRIMSON: Yes, I think that would be the projection. I would point out in that connection and so that there's no misconception here, when you have a facility of this nature every single year is a substantial amount of money required to be spent on capital, I understand in the nature, as a rule of thumb, about 5 percent. So that if you have a \$100 million facility, you're going to have to spend at least \$5 million a year. We have had normal costs in Woodlands as far as roads are concerned, and we have a number of projects which are - I mentioned the power boiler which costs, was projected to cost \$3.9 million - which is in the process of construction. We require moneys from time to time to meet that.

MR. MINAKER: Mr. Chairman, in the capital expended on Woodlands and Lumber Division which amounts to some ten and a half million, was that to complete the original contract and concepts of the Complex or was there a change in thinking on the operation of the Complex and could see that by putting an extra effort in this area that maybe you could assist in the efficient operation and profitable operation of the Complex.

MR. HALLGRIMSON: You're now talking about Woodlands?

MR. MINAKER: Yes, I'm talking about in that 34 million, the 10.5 million was spent on the Woodlands and well, 4.3 for the Woodlands and 6.2 for the Lumber. Was this just to

(MR. MINAKER cont'd) . . . . complete the previous contract or was there additional work expended in capital to change possibly the Complex structure to make it a more efficient operation.

MR. HALLGRIMSON: No, I think it was. When we came there, they had one Woodlands camp. I mean they were really high-grading, they were within about 40 miles of the Complex. We could see that we would have to reach out further and we did establish a camp close to Wabowden at Conlin Lake. We have established just within the last year another camp at Kisseynew Lake which is just north of Cranberry Portage. We have spent a considerable amount of money on mechanization in Woodlands and frankly the previous owners, I don't know that they had infused the capital, I don't know what they intended to do or how they intended to operate, but this is what we found necessary in order to establish this on a continuing basis. And we will face further expenditures.

MR. MINAKER: Okay.

MR. HALLGRIMSON: We're building roads all over the place to get to the wood. Now the Lumber Division, as I explained to you, when we came there there was a planer in there, there was a few dry kilns, there were no saw lines. They had enough bandsaw lines to, you know, I don't know cut what? But we found that we could only proceed with one and that's not even active anymore because for the size of what we have a band saw line is not appropriate. If you know of anybody who wants to buy some band saw lines then let them get in touch with me.

MR. MINAKER: Maybe Saunders.

MR. HALLGRIMSON: Maybe we can sell them to Kasser's next project.

MR. MINAKER: Mr. Chairman, I have other questions but I'll turn the mike over for now.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, I am rather flattered that Mr. McGill and Mr. Minaker are suggesting that a corporation that reports through me to the Manitoba Legislature is earning \$10 million a year in profit and I thank them for their congratulations of my operations of this company as they have condemned me for operations which don't make money. But before I upset my track record of losses, I'd like to deal with the statement just so that there be no misunderstanding because I believe that what you accomplish with bookkeeping should not be mistaken as an accomplishment other than through bookkeeping. I understand that the Manitoba Government has put \$152 million into that Complex in direct loans or shares or debentures. Is that about the right figure, \$150 million?

MR. HALLGRIMSON: That the MDC has . . .

MR. GREEN: The Manitoba Government through the MDC.

MR. HALLGRIMSON: Yes, has expended on this project.

MR. GREEN: I understand that there's another 12 million that was put in by DREE on which you have collected interest.

MR. HALLGRIMSON: Right.

MR. GREEN: You show an interest figure of \$900,000, I believe, that that's part of your profit. That you have made \$900,000 on this grant from the Federal Government.

MR. HALLGRIMSON: That is correct, yes.

MR. GREEN: And I understand that in the agreement that there is a waiver of interest, that in the agreement between the government and the Complex that there is a waiver of interest amounting to some \$7 million thereabouts. Can you remember the figure? There is a period on which no interest has been charged.

MR. HALLGRIMSON: That would be the interest payable by the MDC. You forgave the MDC that amount of money.

MR. GREEN: No, I understand that there was an interest forgiveness in the agreement between the Complex and the MDC.

MR. HALLGRIMSON: Yes, but under the agreement the Complex didn't have any obligation to pay the interest, it would be the MDC.

MR. GREEN: Exactly. So that the Complex had an interest forgiveness.

MR. HALLGRIMSON: But it would be the interest on these moneys after a certain length of time.

MR. GREEN: Yes, and I can't remember the period, it's from one period to another. My recollection - but if we don't want to mix that up since we're not definite about it - my recollection it's somewhere in the neighbourhood of \$5 million but if I'm wrong, I'll leave that out and say that there's \$164 million invested in the Complex. Take the DREE grant and the Manitoba Development Corporation . . .

MR. HALLGRIMSON: Yes.

MR. GREEN: And on those figures which applied last year, we are showing on interest indebtedness, an interest charge of \$3 million. \$3,150,000. Is that correct?

MR. HALLGRIMSON: Well not on that figure, on the \$45 million.

MR. GREEN: I understand that. I understand that the figures have been changed, but on the \$164 million that has been put into the Complex, we are having a total interest charge of \$3,150,000. Some magician took interest of \$16 million, roughly if we take it at 10 percent - that's high, make it \$15 million - and translated it into \$3 million as against last year when you were paying interest on all of the moneys advanced.

MR. HALLGRIMSON: Last year?

MR. GREEN: Last year when you were before Committee you indicated that you were paying interest on the entire . . .

MR. HALLGRIMSON: No, I don't believe I was doing that because I think I was asked if we had to justify what the MDC had paid into it. But as Receiver I was under no obligation to pay interest to them. The only thing that I was under an obligation to pay or they could charge me was interest on the advances to me after Receivership.

MR. GREEN: After Receivership. Well there were interest and advances to you and there were interest on advances to the Complex. But let's put it this way and I'm not wishing to become argumentative about it. What I am suggesting is that last year all of the moneys advanced to the Complex was expected to bear interest and this year all of the moneys advanced to the Complex is not expected to bear interest. I'm not arguing with that, I'm agreeing with it that that is the fact.

MR. HALLGRIMSON: Well, I don't want to argue the point either but the \$1.2 million figure didn't include the interest on the full indebtedness.

MR. GREEN: \$1.2 million.

MR. HALLGRIMSON: It would only show interest on the advances after Receivership. The net figure that we were bandying about last year as being the . . .

MR. GREEN: All right, Mr. Hallgrimson. Again, if you had to pay interest on the total amount of moneys advanced, it would be roughly \$16 million, if it was at 10 percent. But we are paying interest at the rate of \$3 million and that is accomplished by the following activities.

We convert -- (Interjection) -- Pardon me?

MR. MINAKER: Even if it breaks even, it will be better than most . . .

MR. GREEN: Oh it won't break even. I wish it was. You know, I sort of am happier if it's making money than if it's losing. But I really do not like to make money merely by book-keeping, I like to make money because you're making money. And in this case what has happened here, I mean I'm not really objecting to . . . Page 5. Excuse me. I have to go back to the balance sheet.

There is now \$25 million in common stock which there wasn't last year on which no interest was paid. Is that right?

MR. HALLGRIMSON: Yes. Well I don't want to relate it back to last year.

MR. GREEN: Okay, forget about last year.

MR. HALLGRIMSON: But in the current report, that's true.

MR. GREEN: Yes. There is \$20 million, excuse me, in common stock on which no interest is paid. There is \$28 million in income debentures on which no interest is paid.

MR. HALLGRIMSON: That's only so long as the start-up costs haven't been satisfied. Once they've been satisfied then that would go to the . . .

MR. GREEN: Right. But there is no interest in your present . . . of the \$3,150,000 none is chargeable relative to the income debentures.

MR. HALLGRIMSON: Right.

MR. GREEN: There is no interest chargeable on the \$12 million from the other grants. As a matter of fact, you made interest on it.

MR. HALLGRIMSON: That's right.

MR. GREEN: So there is \$60 million on which no interest is charged because of the capitalization alone. There is \$52 million on which no interest is charged because that is a capital deficit. That has been attributed as a capital deficit. So there is \$112 million of which roughly \$10 million a year because of capitalization, because of other figures represents money that has been put into the Complex on which no interest is charged. By the way, I'm not disagreeing with this. I said last year that there should be some capital. But there is that amount

(MR. GREEN cont'd) . . . . on which no interest is charged. Now if interest was charged on those figures then you would have to show another \$10 million in interest - in expenses. And that would put me back in the red like I am with some of the other corporations.

MR. MINAKER: Do you feel more comfortable there, Sid?

MR. GREEN: No I don't. I really think, Mr. Chairman, that I feel quite comfortable either way as long as the facts are stated. But for somebody to suggest that this corporation is profitable and the others are not makes me wonder what form of standard is used. If the Manitoba Development Corporation had, of its \$150 million that are advanced, if it was all capital and there was no interest paid and it was grants and forgiveness and capital deficit it would have a much nicer balance sheet. But it wouldn't change anything. And you know for the Provincial Auditor to say that this is businesslike and the MDC statement was not prepared in a businesslike fashion to me suggests that "businesslike" is to camouflage and "not businesslike" is to tell the truth because that is what is being suggested here. Now I think that this corporation is doing a good job but I regret to say that by standards of profitability that I understand in the business world we have not yet got there. I hope we do.

MR. HALLGRIMSON: Well, Mr. Minister, I can assure you that if it gets to the stage where we would have to pay \$16 million, then I'm afraid you'd have to hire a magician to run the company.

MR. GREEN: But we have done that you see. We hired you and we hired the Provincial Auditor and myself and we sit down and . . . make money.

MR. HALLGRIMSON: All I stated was that I feel that, as it is stated here, I think that these are reasonable figures and I think that it's important that from an ongoing standpoint that this be set straight so that you people will be able to judge whoever is running this corporation whether or not they are doing a good job. On the one hand, you haven't handed it over without any obligations, it has obligations like other corporations do and you're in a position to judge whether or not it's being run properly.

MR. GREEN: Mr. Hallgrimson, I don't know, I can't argue with anything that is being suggested. I believe that you are perfectly right. I believe that there is a double standard being used by the members of the Conservative Party to judge profitability. When they judge the profitability of CFI they use one standard and when they judge profitability of everything else that the government is doing they use another standard. And that is not your concern. The government entered into this agreement for re-capitalization so we understand the CFI problem. The one figure that I do not agree with and I must indicate my disagreement, regardless of the position of the board or of the Provincial Auditor, I do not agree that the \$150 million that was paid out should not be listed as the price of the Complex at cost, not at value. Because value is a subjective thing and we are using Mr. Stothert's values, that it should be listed at cost and that would mean that your fixed land and buildings would be shown at what we paid for them rather than what they are valued at. The Provincial Auditor disagrees, I disagree with him. I say that putting them in at cost would be perfectly reasonable, perfectly justified but if they are putting it as value as long as nobody tells a wrong story, in other words saying that this is what it cost us rather than this is what they are valued, then I believe it is good practice. But I believe that it would be preferable, seeing that there is argument as to what it's worth, to be objective rather than subjective and list it at cost rather than at evaluation. However that really is beside the point. It doesn't change your operations. I think that the board and Mr. Hallgrimson are doing an excellent job. I think that they have to have this type of balance sheet in order to be able to feel that they can make the thing viable which has been said. But it doesn't mean that the standards now being used to judge profitability have been applied universally by the members of the committee.

MR. CHAIRMAN: Mr. Johnston.

MR. GORDON JOHNSTON: Mr. Chairman, I was going to ask questions about capitalization but I think it's been fairly well explained. I have a few other questions not related to that.

Mr. Hallgrimson, does the company operate under the original agreement? For example, do you pay the original stumpage agreement and royalties and are you building, you mentioned roads, but you're building roads as per the original agreement? And also do you have a monopoly on the 40,000 square mile area as per the agreement, the original agreement?

MR. HALLGRIMSON: Yes, that's correct. We are paying the stumpage rates as provided in the agreement. The road program, as far as the sharing of costs, is pretty well exhausted. The roads we are building now we are building completely out of our own funds.

MR. G. JOHNSTON: And the monopoly, do you have a monopoly?

MR. HALLGRIMSON: Yes, we have the specified area.

MR. G. JOHNSTON: So there's been no change whatsoever when you took over. You didn't get any special breaks from the government.

MR. HALLGRIMSON: No.

MR. G. JOHNSTON: The DREE grant - is it based on the numbers of people projected that you will employ? For example, is it something like \$3,000 per permanent job? Is that part of the agreement?

MR. HALLGRIMSON: Well I can't, Mr. Johnston, give you the exact formula because they've changed it on a number of occasions. It's a combination of things. I think capital cost enters into it plus the number of - you have to have a certain minimum number of jobs. But in any event we qualified for this although our agreement was subject to a special agreement between the two levels of government which was ratified by Order-in-Council.

MR. G. JOHNSTON: What about the employment of Native people? How many of the 1,084 are Indian or Metis or do you keep that record?

MR. HALLGRIMSON: I believe it's against the law to keep records on that basis.

MR. G. JOHNSTON: How do you know if you've employed them then?

MR. HALLGRIMSON: Pardon?

MR. G. JOHNSTON: How do you know if you're employing any? Well answer the question in the best way you can.

MR. HALLGRIMSON: I'm just saying that the figure that I have had is about 30 percent of our employees. Now this varies in divisions. In fact I was at The Pas on Friday and Saturday and I was talking to the sawmill manager and he was telling us that it was up to about 40 percent in the sawmill.

MR. G. JOHNSTON: So overall would you say there's 300 Native people employed out of the . . .

MR. HALLGRIMSON: I would say that that would be a good . . .

MR. G. JOHNSTON: That's all.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, first of all, I wanted to get a little more information on the capitalization. On Mr. Green's comment I think some sort of suggestion here that there's a double standard of interpretation being put on the different companies as we see them. My understanding though in looking at it is that on an operating basis that is satisfactory capitalization which now I'm hopeful you're at. On an operating basis, you're a self-sustaining company or it would appear that you are whereas if on an operating basis we apply the same set of yardsticks to Saunders and Flyer which I presume we are talking about - the other major companies of the involvement of the MDC - there's no capitalization structure that's anywhere near the sort of thing ManFor is operating under that would put them on an operating, self-sustaining operating basis. -- (Interjection) -- Well you have to continue to capitalize it whereas in this case here now the capitalization is done and presumably you're on to a self-sustaining basis. I think that distinction is the difference in the approach in our suggestion here that is . . . double standards. We're saying that the others are not self-sustaining on an operating basis, ManFor is self-sustaining on an operating basis. -- (Interjection) -- Well if you want to bring this down to the operating statements here, I wonder if you could, Mr. Hallgrimson, under Interest Charges that you're previous statement showed - \$3,150,000 - do you have any sort of estimate of what that figure would be or will be under the new capitalization.

MR. HALLGRIMSON: Well this is it, this is the . . .

MR. CRAIK: Well this would be September 30, 1974 and that would not reflect though the capitalization structure that you're now operating under.

MR. HALLGRIMSON: Yes.

MR. CRAIK: Oh, it does.

MR. HALLGRIMSON: Yes, we worked it right back to the beginning.

MR. CRAIK: I see. So you were, at that time, were aware then of what possibly would take place in the recapitalization of your company?

MR. HALLGRIMSON: Oh, I wouldn't say that. I mean the fact was it wasn't, you know, finalized till (when was this agreement signed?). It was in February and March I guess that things . . .

MR. CRAIK: Well anyway what you're saying is for the year ended September 30, 1974, you took this present new structure and worked it back and that's how you arrived at the 3 million . . .

MR. HALLGRIMSON: In order to draw up financial statements, we had to.

MR. CRAIK: I realized you'd have to use something but I had no idea of what you use. So in all probability that figure entry in your operating statement will be the same next year, roughly.

MR. HALLGRIMSON: It will be the same next year, yes.

MR. CRAIK: Well under those conditions then and being roughly two-thirds of the way through your present fiscal year, what does it look like to you at this time.

MR. HALLGRIMSON: Well as I stated, Mr. Craik, we are not, unfortunately, experiencing the same year that we had last year because of the depressed conditions. We are hoping that we will be in a position to meet the interest payment but the market is still very low and I wouldn't want to make any definite commitments.

MR. CRAIK: Well the interest payments, you know, is only \$3 million which is pretty small, well relatively small compared to your last year's profit. You would have some carry forward from last year with that sort of profit or did you pay off more than . . . Your books show a nine million - some dollar profit.

MR. HALLGRIMSON: That's right. A cash profit, you know . . . This is before interest and depreciation and we've allocated the \$3.1 million for the interest and the depreciation is slightly higher, \$3.3 million.

MR. CRAIK: Well depreciation is to some extent an artificial thing that is used by companies filing income tax.

MR. HALLGRIMSON: Well it remains in the company.

MR. CRAIK: It remains in the company as cash available to your operation.

MR. HALLGRIMSON: We used a lot of that money for capital last year, we didn't borrow any from MDC. We financed a great deal of our own capital expenditures out of our own resources.

MR. CRAIK: Wouldn't it really amount to the fact that, well before depreciation then if you haven't used it as capital, you really are working away from about a nine million dollar cash profit last year - less your interest payments. So you would have a carryover of actual cash, including depreciation, somewhere around \$6 million.

MR. HALLGRIMSON: That's right. If you ignore the \$944,000 interest earned on the DREE moneys, we had a cash flow of about \$9.9 million. If you deduct 3.1 from that, it's about 6.8 left. Then you have your depreciation. That stays in the company and in fact, as I say, we didn't borrow money from any source last year to finance capital purchases. We did that through these moneys, the \$6.8 million. As I pointed out to you, the moneys which would under normal conditions be payable under the income bonds stayed in the company because under the terms of the agreement, until the \$11 million is recovered for start-up, we don't pay anything under the income bonds. So we had about 6 million-odd for capital to cover our capital needs which I think was sufficient, was around \$6 million. Whether we'll generate the, and I say the interest payment, we're hopeful that this will be the case but our figures are down this year considerably. I guess I can give you - I have figures, unaudited figures. For the seven-month period to April 26, our cash flow would be \$3.2 million, that's for seven months, 3.2 million.

MR. CRAIK: How does that compare?

MR. HALLGRIMSON: That would be comparable to the 9.9 million figure for 12 months.

MR. CRAIK: I'm more interested in your gross sales probably as a yardstick. Your gross sales last year were \$45 million, you know, pulp and lumber, pulp, paper and lumber.

MR. HALLGRIMSON: Well for the seven-month period, they are \$22 million, \$22.3 million. Prices are down so it would be something under that probably this year.

MR. CRAIK: You say that the lumber part of it is picking up . . .

MR. HALLGRIMSON: Well just in the last month, it's remarkably up.

MR. CRAIK: And the pulp and paper is down?

MR. HALLGRIMSON: Still down, yes.

MR. CRAIK: Did you also say that you actually were shut down part-time . . .

MR. HALLGRIMSON: For two weeks.

MR. CRAIK: For two weeks on the pulp and paper.

MR. HALLGRIMSON: In April, early April.

MR. CRAIK: Are you running now?

MR. HALLGRIMSON: Running now, yes.

MR. CRAIK: How many shifts do you run?

MR. HALLGRIMSON: Well the paper mill is a continuous thing, 24 hours.

MR. CRAIK: So you're either operating full capacity or you're shut down.

MR. HALLGRIMSON: That's right. Well some mills have gone over to a five-day week and that, but we're hoping that we can continue. We're running to order, but we're not by any means alone in this respect. There are closures all over the place. I have here before me a release by the Canadian Pulp and Paper Association, it shows that Bullwaters in Newfoundland, Cornerbrook, will close for 33 days starting May 21st. Warehouse in Kamloops, B. C. will stop production there for a period of three months but that's a sawdust pulp operation. Reed Paper in Dryden is experiencing another one-week closedown of its No. 3 kraft paper machine. So the whole industry is experiencing difficulties at the present time. But hopefully if the economy turns around then this will . . .

MR. CRAIK: It's the economy rather than the natural cycles that the pulp and paper go through that appears to be the trouble now?

MR. HALLGRIMSON: Well I guess it's a question of what you attribute the cycles to. I think the reason it's a cyclical business is because it depends on the economy, our economy is always cyclical too.

MR. CRAIK: But the growth curve on pulp and paper in probably the last several decades has always been, you know, generally up. It's sort of a ratchet-shaped growth curve.

MR. HALLGRIMSON: It still is and I think maybe this is what may be a significant factor is that in the past, of course, there's always been new production coming on to more than, you know, offset that growth curve but there isn't that much new production coming on.

MR. CRAIK: So it's not a case of a whole lot of new production being available, it's just a slowdown of consumption generally. And this is not probably as easy to predict then as it would be if it was just an over-expanded business.

MR. HALLGRIMSON: No, I guess it's as good as your economists, you know, can predict how the economy is going to hold up.

MR. CRAIK: What are the small timber operators doing in the area of the sawmills? Are they still operating with their rights, their cutting rights?

MR. HALLGRIMSON: Yes. They were excluded out of the agreement and there are a number of operators in there, some of whom are selling to us, others are not.

MR. CRAIK: Are they still operating on the basis of taking out saw timber or are they clear cutting or how do they operate?

MR. HALLGRIMSON: Well I don't know how they conduct their cutting operations but there are some small sawmills in the area. I've seen a few of them around. I can't give you the details of it but some of it goes out of the area, up to Roblin and places like that, Swan River.

MR. CRAIK: I think some of the agreements that existed with these operators were fairly short term agreements in terms of very few years and I am just wondering if they are in the position now of renegotiating them. You know, they are not agreements in perpetuity or something like that. They are fairly short term agreements.

MR. HALLGRIMSON: Well you know would probably be more aware of that than I am and I think that under the Forest Act, don't they get these licences pretty well in perpetuity . . .

MR. CRAIK: We may have to check this out again but it seems to me that they were in the position of having them renegotiated, you know, some time in the fairly near future after the start-up of your operation.

MR. HALLGRIMSON: That could be, I'm not familiar on just when they expire.

MR. CRAIK: I wanted to get some idea partly along the lines of the question asked by Mr. Johnston with regards to your employment. You are around a thousand. Around 30 percent of that would be Indian people from that area. -- (Interjection) -- Would they be primarily in your Woodlands operation?

MR. HALLGRIMSON: No, I'd say that the bigger part of them are in the sawmill.

MR. CRAIK: A larger part in the sawmill?

MR. HALLGRIMSON: That's right.

MR. CRAIK: Not in the pulp mill?

MR. HALLGRIMSON: No, not as many in the pulp mill.

MR. CRAIK: Is this because of their particular training or just their own personal likes and dislikes or . . . ?

MR. HALLGRIMSON: Well I think part of it is that, you know, in the pulp and in the paper and in the paper mill of course . . . This of course is changing, I guess, and as time goes on, there are a number of people in there who are being trained. But initially of course a number of people had to be brought in, papermakers, in order to operate the facility. You couldn't rely on local talent for that. It was a little different and actually we had to do it in the sawmill and as a result there were difficulties initially in overcoming this because a lot of these people, some of them have never had a job before in their lives let alone in an industrial enterprise.

MR. CHAIRMAN: Mr. Green, clarification.

MR. GREEN: Well I just want, if Mr. Craik will permit this in relation to his own questions. There are people employed in the Woodlands who are not employed by CFI because - such as Moose Lake Logging. There are suppliers that they buy timber from who are not employed directly by their own Woodlands division so that that is not included in the thousand - like Moose Lake.

MR. HALLGRIMSON: I don't mean to say that we don't have Indian people in the Woodlands operation. I think this arose out of the comment that there's a higher percentage probably in the sawmill than in any other place.

MR. CRAIK: Well this is why I asked the question. I think there was a pretty strong position taken by the Native community in the original instance, they didn't want to be just hewers of wood, if you like, alone. They wanted to get in on the new technology.

MR. GREEN: They wanted to get in on the drawing of water too.

MR. CRAIK: The drawing of water as well, the drawing of pulp. How much of your requirement is developed yourselves and how much is contracted for your Woodlands operation?

MR. HALLGRIMSON: I can't give you a precise figure, I'll have to undertake to give that to you later but, you know, the predominant part of our wood is cut by company operators.

MR. CRAIK: Are you still contracting with Moose Lake?

MR. HALLGRIMSON: I believe they are now back in operation. They were closed down for quite some time but I understand they are now back. -- (Interjection) -- Yes, I think so. They were closed down for quite some time.

MR. CRAIK: You don't rely to any large extent on outside contracts for your supply though, I gather.

MR. HALLGRIMSON: Oh, yes, we do, and we'd like to encourage it because we don't want a completely company operation. It's good to have a little competition. It gives us some idea as to whether or not we are efficient or not. So we'd like to have more actually wood cut by independent contractors.

MR. CRAIK: In the operation of your facilities, say the sawmill, do you try and tailor your operations so that you can adapt people like the Native people into it, you know, with job description and so on that will particularly give them more opportunity or are they competing on the market for that job.

MR. HALLGRIMSON: Is this in relation to any particular operation?

MR. CRAIK: I'm thinking most of them are in the sawmill operation and I'm referring mainly to the sawmill area. Do you try and tailor your jobs to suit these people or are they competing for these jobs on the same grounds as they would be if they were . . .

MR. HALLGRIMSON: I would say that they're competing, you know, with everybody else and I think that's the most healthy approach to it in that. This is proving out. We have people of Indian extraction who are foremen, etc., who are doing very well. The head of our planer operation is a person of Indian extraction.

MR. CRAIK: So there's not special programs that you are actually operating to provide Native training and opportunity. It's a natural outgrowth.

MR. HALLGRIMSON: Not on an ethnic basis, you know. There are training programs but not discriminatory in that sense. We feel that it would aggravate the problem to suggest that they had special problems as others do. In fact a lot of the problems that we sometimes attribute to them are equally applicable to white people.

MR. CRAIK: Is there lower numbers in the pulp operation due to the higher technology requirements there?

MR. HALLGRIMSON: I would say so.

MR. CRAIK: So they suit the sawmill operation better than . . .

MR. HALLGRIMSON: The sawmill is quite sophisticated if you've been in there. But still it doesn't require the expertise that say operating the paper machinery does. But there are people on that floor of Indian extraction too, it's just a smaller percentage. I must say in

(MR. HALLGRIMSON (cont'd) . . . . this regard that I have had a minimum amount of complaints. I think the local Indian band up there are quite satisfied with our performance and that we're doing as much as possible in attracting people to work there and I've never had a complaint from the Chief.

MR. CRAIK: One final question, Mr. Chairman. On the earlier remarks on the expansion plans, do I gather you have a feasibility study that you're going to be looking at shortly?

MR. HALLGRIMSON: It's being prepared, it's been worked on.

MR. CRAIK: And your decisions will probably be influenced, I gather, by the market conditions rather than the production end of it.

MR. HALLGRIMSON: Well this is true but on any expansion in this type of activity, of course, you have to project ahead, you can't really do it on today's market because if we were to decide to double the capacity of that mill, it wouldn't be onstream for  $2\frac{1}{2}$  to 3 years. So you can't really decide it on the current conditions. You have to have some faith in the future.

MR. CRAIK: Are you looking at a site other than where you are as well?

MR. HALLGRIMSON: No, we are confining ourselves to The Pas.

MR. CRAIK: So you've decided that's it as far as any expansion plans are concerned, it's simply an expansion of the existing facility.

MR. HALLGRIMSON: That's right, yes.

MR. CRAIK: Was there not consideration of another plant further east of you some place at one stage of the game or was this prior to your . . .

MR. HALLGRIMSON: Well that would be prior to my involvement. I think from time to time there was . . . I read through the history of the whole attempt to set up an industry there that there were other areas - was it Arnot or some place that was considered. I could give you a figure, Mr. Craik, on the cords of wood cut by our own operators. This is for this current year. This would be for seven months up to the 30th of April, 1975. Our own forces cut 195,000 cords and we purchased, under contract, 41,000 cords. So that would be about 20 per cent.

MR. CRAIK: Yes. That's all, Mr. Chairman.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Mr. Chairman, my comments were pertaining to the remarks of Mr. Green, some time ago, and I think that some of the answers that I had intended to make have already been made during the questions and answers by Mr. Craik. I think it's rather an unusual situation here where we, on this side of the table, seem to generally be able to receive this statement and to point out its strong points, and the critical aspects have come more from the government side it seems to me. So that makes it a rather different review.

I'd just like to refer Mr. Green to the statement on Page 2 of Mr. Hallgrimson's remarks where he says, "We are confident that over the long term the company will be a viable entity capable of providing a reasonable return to its shareholder, the Government of Manitoba." So that I think that certainly the present operation has confidence in the future and the ability of the company to pay its own way and to operate in a manner that will provide a reasonable return. I think that that in my estimation really is the answer to your overall criticism of the way in which the whole operation is presented to us today.

MR. GREEN: Mr. Chairman, I did not criticize the way in which it was presented. I am critical of one remark only and that is putting in the fixed assets at the valuation figure rather than at their cost. I think that any company, in a similar position, would show its fixed assets at their cost. But Mr. Hallgrimson has already indicated that confidence . . . the long term will be a viable entity comes after taking the \$52 million capital deficit and capitalizing the company with \$20 million in shares and \$28 million in non-cumulative interim debentures. The reason that I am certain of that is that this is what the company urged on us; that otherwise as Mr. Hallgrimson said, no magician could make a profit on the basis of the moneys that have been put into it. That's what he has said. And I agree with him. But the fact is that the Conservative Party when dealing with McKenzie Seeds, which makes much more money on that form of capitalization than CFI, has adopted a different standard as they have on the MDC. The MDC they have insisted that we regard all of the interest charges payable by the government - by MDC to the government - as a proper operating charge of the MDC. And if we didn't and capitalized it at \$150 million and wrote off \$50 million as a capital deficit, the MDC would have a nicer statement too but you people would be up in arms with me as was the news media when I suggested that the bookkeeping could change things but I don't intend to do it through bookkeeping.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, getting back to the report. Mr. Hallgrimson you have indicated the amount of cords of wood that were harvested in 1974. I'm wondering, would you have the breakdown in the total cords that were used by the pulp mill and those that were used by the lumber mill?

MR. HALLGRIMSON: It would be available. I just would point out one thing.

MR. MINAKER: Just a ballpark figure. I would imagine . . .

MR. HALLGRIMSON: It is an integrated operation. The pulp mill is dependent on chips from the . . . but we could give you the saw logs.

MR. MINAKER: I'm wondering, would you have a figure of the yield efficiency that the pulp mill is producing, in other words the cords per ton of pulp?

MR. HALLGRIMSON: A rough figure would be two cords per ton.

MR. MINAKER: It is two, eh?

MR. HALLGRIMSON: Well I mean that's just a rough figure.

MR. MINAKER: How would that compare to the rest of the industry?

MR. HALLGRIMSON: I understand that it is favourable.

MR. MINAKER: But it is in the order of about two cords per ton then.

MR. HALLGRIMSON: Yes.

MR. MINAKER: How many cords are needed to produce 1,000 board . . .

MR. HALLGRIMSON: I'm sorry, Mr. Minaker, I'm told it's 2.2.

MR. MINAKER: 2.2! How many cords of wood would you need for 1,000 board feet in the sawmill? Do you know offhand?

MR. HALLGRIMSON: I think we'd better get that information for you.

MR. MINAKER: No, I just was curious to know.

MR. HALLGRIMSON: I've heard it but I can't recall it.

MR. MINAKER: I would gather then . . .

MR. HALLGRIMSON: It's quite high.

MR. MINAKER: . . . with the approach that your Complex has taken in the fence post business that you are trying to do proper husbandry of the cutting. Is this correct? But you're not selective or the cutters aren't selective in the trees that they're cutting and more or less high grading, that they are trying to make full use of the stumpage area when they're clearing it out. Is this correct?

MR. HALLGRIMSON: Well we're clear cutting, you know, and we have to clear cut and we're subject to the supervision of the Department of Mines and Natural Resources in that regard. I imagine that some of our wood for the fence post operation would come from those areas. In other cases, I'm sure that we would . . . you know there are probably acres and acres of wood, and you've seen it if you've been up to The Pas, where there would be nothing but this type of wood. But it would complement our operation.

MR. MINAKER: So that the fence post business wasn't implemented because of husbandry, more so it's because of the economic potential of it.

MR. HALLGRIMSON: Yes, that's right.

MR. MINAKER: Mr. Chairman, through you to Mr. Hallgrimson. Back about a year ago I raised a question in the House with regards to your marketing of the paper product in Eastern Canada - and at that time we were in a boom I believe in the paper industry - that there was a large demand for different paper products. And I was wondering - I noticed that the figures you gave, it would appear at present that your cash flow is down about 45 percent. I'm wondering have you or are you still using your same sales agents in Eastern Canada as you had last year at this time?

MR. HALLGRIMSON: There are two questions there. You've made a statement that our cash flow was down 45 percent?

MR. MINAKER: Yes. I did a quick calculation based on cash flow of I think it was \$9.9 million and relating what . . .

MR. HALLGRIMSON: Oh, yes.

MR. MINAKER: Well, that average would be on a seven-month period . . .

MR. HALLGRIMSON: The figure I was giving you was on a seven-month . . .

MR. MINAKER: Yes, well I related it on a seven-month basis and I think seven months last year on that flow was about \$5.8 million.

MR. HALLGRIMSON: I'm sorry, I didn't know that you were comparing . . .

MR. MINAKER: You compare the \$3.2 million and it looks like it's about 55 percent so it would appear at the present time you're down about 45 percent. I am wondering would any of that be contributed to the fact of lack of interest possibly on the sales agents if in fact . . .

MR. HALLGRIMSON: Well, as far as sales agents are concerned, as you know we have - if I could just review that for a moment - on paper we have or had two agents last year: Price and Pearce, for the United States market and Consolidated Bathurst in Canada. Our agreement with Consolidated Bathurst expired at the end of the year and we did not renew that and we hired a sales manager to handle our Canadian sales. We have expanded in this last while our sales offshore, outside, and we've used a number of agents in trying to effect those sales.

MR. MINAKER: So that at the present time then, Mr. Hallgrimson, your main marketing organization is just your sales manager for all Canada?

MR. HALLGRIMSON: We have a sales manager.

MR. MINAKER: But no other people in the marketing division at the present time?

MR. HALLGRIMSON: Well he has an assistant.

MR. MINAKER: An Assistant. And then you are trying with these two individuals to set up agents throughout . . .

MR. HALLGRIMSON: No, they're handling the sales in Canada, Mr. Minaker, and they also handle contacts with agents with respect to other sales.

MR. MINAKER: So that it is just the two individuals right now looking after all of Canada?

MR. HALLGRIMSON: Yes.

MR. MINAKER: Is there any intention of expanding that organization at this time or are you at liberty to say or . . . ?

MR. HALLGRIMSON: It might be but I don't envisage that we would need really a large organization. This is the type of business you don't have too many customers. Really, you wouldn't have ten salesmen running around. We only have maybe 15 customers in Canada. They'd get tired of seeing you if you . . .

MR. MINAKER: I'm in the sales business.

MR. HALLGRIMSON: Yes.

MR. MINAKER: Mr. Hallgrimson, I'm wondering are you at liberty to say how the backlog looks right now? I know there was concern, particularly at the Community of The Pas when there was the shutdown that occurred back some time ago, and I'm wondering is there adequate backlog at the present time to more or less indicate within the next six-month period that you will be able to continue at at least some production level rather than a clear shutdown?

MR. HALLGRIMSON: Well that's a very difficult question to answer because if I could predict exactly, you know, when the market was to improve I guess I would have some extraordinary powers but we have, since the shutdown, run to order and I wouldn't want to, by that, imply that we have a great backlog of orders. I don't know that I would like to disclose exactly here publicly, you know, how many days we have ahead of us. We have contingency plans. We can run some paper into inventory. We also have a capability on the machine to run pulp which we have never done. And if we ever get to a situation where we feel that we can't stockpile any more paper then I think that we would have a try at pulp in order to try and round out our production schedule in order that we might keep the machine going. I look forward to an improvement by September.

MR. MINAKER: We were encouraged when you said that the lumber market had picked up. I'm wondering of the 1,000 plus employees, would you have a breakdown of the different divisions where they would be employed like in the pulp and paper mill and sawmill.

MR. HALLGRIMSON: I gave that.

MR. MINAKER: I'm sorry. If you gave it earlier then that's fine, I can pick it up. I wasn't sure whether you had given an actual breakdown. I knew you had indicated there was some 300 Native people of the 1,100.

MR. HALLGRIMSON: This would be a high figure at our high point of 1,237. There are 466 people including the fence post project in the Woodlands division; there are 90 contract people in the Woodlands division. Pulp and Paper division 350. Sawmill division 280. Forty people in the engineering and construction division and 10 people in the corporate division, what we call the corporate division. That comes to around 1,200. That would be a high.

MR. MINAKER: The 32 people mentioned at the Bertram shop, they would be included under what, engineering and construction?

MR. HALLGRIMSON: Yes.

MR. MINAKER: And what are they doing? Are they just primarily looking after internal maintenance of the Complex?

MR. HALLGRIMSON: No, no. They are doing some work. They're doing some machine work.

MR. MINAKER: You are now contracting out machine work?

MR. HALLGRIMSON: Yes. I don't want to overstate this because it's not all that big but we have had some work from companies here in Winnipeg. We also have some work from mining companies. Then we have a lot of internal work, maintenance in our own - you know, working on our own rolls and things like that.

MR. MINAKER: Mr. Chairman, I wonder, the equipment that was loaned to Saunders I think some time ago, I think there was . . .

MR. HALLGRIMSON: There was one machine.

MR. MINAKER: . . . a machine. Is it still at Saunders or is it being loaned to them or has it been returned?

MR. HALLGRIMSON: No, it's still there.

MR. MINAKER: Is it being rented out to Saunders or . . . ?

MR. HALLGRIMSON: I don't know that the exact terms are all that definite. It was a piece of equipment that we don't have any present need for.

MR. MINAKER: You don't know the value of it.

MR. HALLGRIMSON: About \$20,000.

MR. MINAKER: I'm also wondering, Mr. Chairman, you're operating I think you said an average of 370 tons per day. When you were running full tilt last year what was your down time? 90 percent or . . . just ballpark.

MR. HALLGRIMSON: Your figure is correct as far as the tonnage per operating day. We were down for 18 days - planned and unplanned.

MR. MINAKER: What was your total planned operating time? I mean is that based on 365 days or just your . . . 18 days of planned maintenance.

MR. HALLGRIMSON: It would be a little over a day a month.

MR. MINAKER: Mr. Chairman in the report to Mr. Hallgrimson you indicate that you had received the feasibility study, the draft report and had considered it by the board of directors. Have you any idea of the dollar value of that recommended report or of the expansion and the form of expansion they were proposing or are you at liberty to indicate at this time?

MR. HALLGRIMSON: Well I think it would be better - I used the word "draft" - I think a better word would be a "preliminary" report. Some of the work we are doing ourselves. The woods aspect is being done by our own Woodlands department and they have had to do some further work on that and that's been completed. The other aspect is being done by Stothert Engineering and between the two I would expect that it would cost around \$120,000.

MR. MINAKER: Well I meant not the cost of the study itself, the cost of the estimated expansion that was recommended at that time.

MR. HALLGRIMSON: Well we haven't received definite figures. All I can say really is that it goes up every day I guess; every month it costs more with inflation. Maybe there has been some holdback on that now, I don't know but I can't really say other than that it would be a substantial investment.

MR. MINAKER: I understand there's \$5 million in capital for ManFor Industries this year that was approved in the capital estimates. I was wondering is there any major additional equipment being bought to improve the quality or what type of equipment is being proposed to be purchased at the Complex.

MR. HALLGRIMSON: There are some major things. There's a salvage rewinder . . . salvage paper to make special sized rolls \$580,000. Automatic ash handling system \$450,000. \$320,000 to install steam heat in the Bertram plant to replace temporary oil burners which are worn out. A hog blower system \$130,000 - am I going too fast for you?

MR. MINAKER: No, I was just listening.

MR. HALLGRIMSON: An office building of \$250,000 to replace temporary trailers; portable chipper \$95,000; conveyor \$74,000; log storage area \$50,000; sundry fire fighting equipment, etc. \$51,000; new rolls for the paper machine \$470,000. Here we have roads \$735,000 - this would be Woodlands again; Woodlands mobile equipment, camps, rail sitings

(MR. HALLGRIMSON cont'd) . . . . \$1,300,000; and some other major repairs to the pulp and power equipment \$400,000; miscellaneous \$73,000 - making a total of \$5 million.

MR. MINAKER: Thank you very much. Mr. Chairman, I wonder, then there isn't any moneys capitalized for any pollution control equipment.

MR. HALLGRIMSON: Nothing further.

MR. MINAKER: That has all been completed and we're satisfying the Federal Government's standards on pollution?

MR. HALLGRIMSON: Well we are but then this is a continuing thing. I wouldn't want to mislead you into thinking that we wouldn't, at some time in the future, require some further expenditures on pollution control because they're continually in touch with us. But the current budget does not contain anything.

MR. MINAKER: Mr. Chairman, I was led to believe that the Complex had a special licence from the federal agency with regards to pollution in their effluent going into the river and I believe that particular licence expired on January 31st of this year, was it - or December 31st of last year? I was just wondering did you meet that deadline as far as the refinement of your effluent from your plant? Is everything satisfactory now between both agencies?

MR. HALLGRIMSON: Well as far as I know everything is satisfactory. As I say they are continually testing and, you know, our production has gone up. We are hoping that some of the changes that were authorized last year - I believe there is a new evaporator and a new washer that's coming on stream very shortly - that this might help the situation. But as far as I know, we have a good relationship with them. We have no knowledge that there is anything in particular wrong. The particular agreement that you refer to, I'm not completely aware of that, I cannot give you any information on it. We built a clarifier there right after and of course the owners had made no plans. There was a clarifier built immediately. It may be that we have to spend more money on that.

MR. MINAKER: Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Thank you, Mr. Chairman. I was looking through the statement here. As far as the fixed assets are concerned, I understand there was a company that came in 1971 when the Receiver, when you took over there. Those particular figures contained on Page 3 - I think in the back of the statement - are they fairly accurate do you think as far as the evaluation of the plant is concerned?

MR. HALLGRIMSON: Page 3?

MR. BANMAN: Yes. It refers to the fixed assets.

MR. HALLGRIMSON: Yes. That's right.

MR. BANMAN: This would compare fairly favourably to anything built elsewhere in the pulp and paper industry?

MR. HALLGRIMSON: That's right, yes. This is what's considered to be reasonable.

MR. BANMAN: So the January 1971 report that this particular company gave out and the assessment that they have done will be the fixed assets that will be carried on by the company, and that, I imagine, it's on those particular fixed assets the depreciation and that will be taken.

MR. HALLGRIMSON: That's right. This is carried over to the balance sheet.

MR. BANMAN: A question with reference to that particular fixed asset sheet. You have your Bertram plant which I would imagine is your machinery plant, described as a machinery plant, and you say that usefulness, you've adjusted that. Basically, I understand, you've written off about nine and a half million dollars on the Bertram plant and you say that the usefulness is about \$500,000. I also understand there's some fairly expensive lathes and that type of thing in that plant and I think last year at committee meetings we also mentioned that Saunders had purchased one of those for a dollar.

MR. HALLGRIMSON: No.

MR. BANMAN: No.

MR. HALLGRIMSON: It's on loan to Saunders.

MR. BANMAN: Are they paying any money for that?

MR. HALLGRIMSON: It's a \$20,000 machine - Mr. Minaker was asking about it before - it's worth about \$20,000.

MR. BANMAN: Is there any other equipment that has been loaned out to any other government agency?

MR. HALLGRIMSON: No.

MR. BANMAN: So other than that one particular item everything is intact.

MR. HALLGRIMSON: That's right. It's intact whatever was there when we came there. There's been major items that we haven't obtained as yet; some super lathes which, I believe, there was reference to them in a newspaper the other day. But we haven't . . .

MR. BANMAN: These computerized lathes or whatever it was.

MR. HALLGRIMSON: No, they're about 500-inch lathes or something like that. Some extraordinary capacity.

MR. BANMAN: Would you say then the equipment in that plant is worth about \$500,000 at a fair value?

MR. HALLGRIMSON: Probably on a break-up value it's worth no more than that. I think this is true; you've hit on a good point. The Bertram facility is dealt with differently in the sense that - and it's because of the fact that in trying to use it we couldn't in any way support a capitalization which was anywhere close to what it originally cost.

MR. BANMAN: Well, in effect, what you've done is you've . . . written off the whole thing, I imagine . . .

MR. HALLGRIMSON: Correct.

MR. BANMAN: . . . because it has no usefulness to you.

MR. HALLGRIMSON: Except on a break-up basis, yes.

MR. BANMAN: The other thing is, last year - and I appreciate the paper prices were very strong - the newsprint people, whether it be newspapers in rural Manitoba and all over, I think were having a real hard time getting newsprint. Has that situation changed at all?

MR. HALLGRIMSON: Well, of course, we don't make newsprint.

MR. BANMAN: No, no. I appreciate that.

MR. HALLGRIMSON: I think maybe the newsprint situation is a little stronger than our situation but I think that they have experienced some difficulties. There's been some fall-off in demand.

MR. BANMAN: The existing facility or the expansion of anything, you would not be taking newsprint into consideration as part of the operation?

MR. HALLGRIMSON: Not as yet, no, we haven't given it any thought.

MR. BANMAN: You have the materials. Of course, the pulp and that you use could be converted to newsprint, too?

MR. BANMAN: Oh, we could make it, yes.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Yes, Mr. Chairman, I had one question I forgot to ask. Early in your remarks, Mr. Hallgrimson, you mentioned that there had been two changes on the board of directors and I was wondering how does one get appointed to that board? Is it done by the Minister or what?

MR. HALLGRIMSON: Yes, it comes from the Minister who is responsible.

MR. MINAKER: So the Minister has jurisdiction to appoint whoever he wants to the board.

MR. HALLGRIMSON: Well, yes, through his being the representative of the shareholder.

MR. MINAKER: It doesn't have to go through order-in-council or anything?

MR. HALLGRIMSON: No.

MR. MINAKER: That's just the Minister's prerogative to appoint who he wishes?

MR. HALLGRIMSON: Well I wouldn't say that. I don't know who he discusses it with.

-- (Interjection) -- No, no.

MR. MINAKER: So it's just at the Minister's discretion, by letter or whatever.

MR. HALLGRIMSON: Well he would indicate to us that he would like Mr. Minaker to be on the board and . . .

MR. MINAKER: Highly unlikely.

MR. HALLGRIMSON: . . . and then we would issue a share to you and have you endorse that as a trustee for the Province of Manitoba and then as a shareholder you would be eligible to become a director.

MR. MINAKER: Thank you very much for the information.

MR. CHAIRMAN: I believe we can proceed with the page by page passage. Page 1 . . .

MR. GREEN: Mr. Chairman, I rather think that the members have asked their questions and I would move that the Report be received. But before I do that if they'd look at the pages and see whether they want anything rather than go through it.

MR. CHAIRMAN: Well if that is the wish of the committee, we can . . .

MR. GREEN: Well I just want the members to make sure that they'd be willing to accept such a motion before I move it.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: May I ask you one final question on this. There was a question earlier about the assets, showing it at cost or at value. Have you done any sort of speculation on what the plant would cost if you were in fact building it in 1975?

MR. HALLGRIMSON: No, personally I haven't. I can't except that - I would have to take cognizance of the fact that in the last few years there has been a tremendous inflation which undoubtedly would be reflected in the cost.

MR. CRAIK: \$150 million capitalization - do you think it's reasonably realistic? The recapitalization now is \$152 million, is that realistic in terms of 1975 replacement costs?

MR. HALLGRIMSON: 150?

MR. CRAIK: Yes.

MR. CHAIRMAN: Mr. Craik, I believe the chairman indicated that he would not care to . . .

MR. MINAKER: What would it cost for a 400 ton mill today?

MR. CHAIRMAN: The question has been asked by Mr. Minaker, what it would cost for a 400 ton mill today. I wish you would use the microphone. Mr. Craik has the floor.

MR. HALLGRIMSON: I don't pretend to be any particular expert on the cost amounts except that it's higher.

MR. CHAIRMAN: Mr. Dillen.

MR. DILLEN: I have just one question. I would like to know what the projected expansion into, you know, what do you anticipate as your projected expansion into other areas of the northern part of the province? What areas do you anticipate getting into for additional cutting?

MR. HALLGRIMSON: I think that it would be in two areas. I think it would be north of Cranberry Portage in the Kississing area. There would also be - we would have to go more extensively into the area around Wabowden and Thicket Portage.

MR. DILLEN: Towards Thicket Portage?

MR. HALLGRIMSON: In that area there.

MR. DILLEN: Does that mean that access roads will be built then from, oh, an area from Thompson into the Thicket Portage area?

MR. HALLGRIMSON: I would think that it would have to include that, yes.

MR. DILLEN: When do you anticipate that this will occur?

MR. HALLGRIMSON: Well this of course depends upon whether or not we expand. What we're talking about is wood requirements if we expanded. But if we were to decide favourably for an expansion this year, it would probably be within the next couple of years, because it takes three years to get the mill going you know, two to three years.

MR. DILLEN: Am I right in assuming then that a road towards the Partridge Crop area, you know, which is an area north and east of Thompson, is not in the immediate plans?

MR. HALLGRIMSON: Well I'm sorry I can't give you . . . you know, I'm not that familiar with it.

MR. DILLEN: Well okay. Supposing I dropped you a note, could you reply to that type of questions?

MR. HALLGRIMSON: Yes.

MR. CHAIRMAN: I will entertain a motion to have the report . . .

MR. GREEN: I move that the report of the chairman be received.

MR. CHAIRMAN: It has been moved by Mr. Green that the Report of the Chairman of the Manitoba Forestry Resources Ltd. for the year ended September 30th, 1974, be received.

MOTION presented and carried.

MR. CHAIRMAN: Committee rise.