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**Third Session — Thirty-Second Legislature  
of the  
Legislative Assembly of Manitoba**

**STANDING COMMITTEE**

**on**

**ECONOMIC DEVELOPMENT**

33 Elizabeth II

*Chairman  
Mr. C. Santos  
Constituency of Burrows*



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**VOL. XXXII No. 3 - 10:00 a.m., THURSDAY, 14 JUNE, 1984.**

# MANITOBA LEGISLATIVE ASSEMBLY

## Thirty-Second Legislature

### Members, Constituencies and Political Affiliation

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Name	Constituency	Party
ADAM, Hon. A.R. (Pete)	Ste. Rose	NDP
ANSTETT, Hon. Andy	Springfield	NDP
ASHTON, Steve	Thompson	NDP
BANMAN, Robert (Bob)	La Verendrye	PC
BLAKE, David R. (Dave)	Minnedosa	PC
BROWN, Arnold	Rhineland	PC
BUCKLASCHUK, Hon. John M.	Gimli	NDP
CARROLL, Q.C., Henry N.	Brandon West	IND
CORRIN, Q.C., Brian	Ellice	NDP
COWAN, Hon. Jay	Churchill	NDP
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DODICK, Doreen	Riel	NDP
DOERN, Russell	Elmwood	IND
DOLIN, Hon. Mary Beth	Kildonan	NDP
DOWNEY, James E.	Arthur	PC
DRIEDGER, Albert	Emerson	PC
ENNS, Harry	Lakeside	PC
EVANS, Hon. Leonard S.	Brandon East	NDP
EYLER, Phil	River East	NDP
FILMON, Gary	Tuxedo	PC
FOX, Peter	Concordia	NDP
GOURLAY, D.M. (Doug)	Swan River	PC
GRAHAM, Harry	Virden	PC
HAMMOND, Gerrie	Kirkfield Park	PC
HARAPIAK, Harry M.	The Pas	NDP
HARPER, Elijah	Rupertslad	NDP
HEMPHILL, Hon. Maureen	Logan	NDP
HYDE, Lloyd	Portage la Prairie	PC
JOHNSTON, J. Frank	Sturgeon Creek	PC
KOSTYRA, Hon. Eugene	Seven Oaks	NDP
KOVNATS, Abe	Niakwa	PC
LECUYER, Hon. Gérard	Radisson	NDP
LYON, Q.C., Hon. Sterling	Charleswood	PC
MACKLING, Q.C., Hon. Al	St. James	NDP
MALINOWSKI, Donald M.	St. Johns	NDP
MANNESS, Clayton	Morris	PC
McKENZIE, J. Wally	Roblin-Russell	PC
MERCIER, Q.C., G.W.J. (Gerry)	St. Norbert	PC
NORDMAN, Rurik (Ric)	Assiniboia	PC
OLESON, Charlotte	Gladstone	PC
ORCHARD, Donald	Pembina	PC
PAWLEY, Q.C., Hon. Howard R.	Selkirk	NDP
PARASIUK, Hon. Wilson	Transcona	NDP
PENNER, Q.C., Hon. Roland	Fort Rouge	NDP
PHILLIPS, Myrna A.	Wolseley	NDP
PLOHMAN, Hon. John	Dauphin	NDP
RANSOM, A. Brian	Turtle Mountain	PC
SANTOS, Conrad	Burrows	NDP
SCHROEDER, Hon. Vic	Rossmere	NDP
SCOTT, Don	Inkster	NDP
SHERMAN, L.R. (Bud)	Fort Garry	PC
SMITH, Hon. Muriel	Osborne	NDP
STEEN, Warren	River Heights	PC
STORIE, Hon. Jerry T.	Flin Flon	NDP
URUSKI, Hon. Bill	Interlake	NDP
USKIW, Hon. Samuel	Lac du Bonnet	NDP
WALDING, Hon. D. James	St. Vital	NDP

**LEGISLATIVE ASSEMBLY OF MANITOBA**  
**THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT**

**Thursday, 14 June, 1984**

**TIME — 10:00 a.m.**

**LOCATION — Winnipeg, Manitoba**

**CHAIRMAN — Mr. C. Santos (Burrows)**

**ATTENDANCE — QUORUM - 6 Members of the Committee present:**

Hon. Messrs. Kostyra and Parasiuk, Hon. Mrs. Smith

Messrs. Ashton, Blake, Enns, Harper, Ms. Phillips, Messrs. Ransom and Santos

**APPEARING:** Manitoba Mineral Resources Ltd.:

Mr. David Gardave, Chairman of the Board  
Mr. Malcolm Wright, President

Manitoba Development Corporation and William Clare (Manitoba) Ltd.:

Mr. Hugh Jones, Chairman  
Mr. Greg Goodwin, Assistant General Manager

Mr. Alex Musgrove, Treasurer  
Flyer Industries Ltd.:

Mr. Hugh Jones, Chairman  
Mr. Ken Clark, President and Chief Executive Officer

Mr. Greg Goodwin, Corporate Secretary

**MATTERS UNDER DISCUSSION:**

Annual Reports of Manitoba Mineral Resources Ltd. for the year ended March 31, 1983 and for the nine months ended December 31, 1983

Annual Report of Manitoba Development Corporation for the fiscal year ended March 31, 1983.

Financial Statements of William Clare (Manitoba) Ltd. as at December 31, 1983 and Balance Sheet of Winnipeg Racing Ltd. as at December 31, 1982.

Annual Report of Flyer Industries Ltd. as at December 31, 1983.

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**MANITOBA MINERAL RESOURCES LTD.**

**MR. CHAIRMAN:** Committee, please come to order. The Honourable Minister will introduce his staff.

**HON. W. PARASIUK:** Mr. Chairman, I certainly would like to introduce David Gardave, the Chairman of Manitoba Mineral Resources Ltd. and Malcolm Wright,

the President of Manitoba Mineral Resources Ltd. I believe that Mr. Gardave has an opening statement.

**MR. CHAIRMAN:** Mr. Gardave.

**MR. D. GARDAVE:** Thank you, Mr. Chairman, and members of the committee.

At this meeting we would normally be examining only the report for the last 12 months ended March 31, 1983, but because of a change in the Company's fiscal year end, we also have before us the report for the nine months ended December 31, 1983. The change in Manitoba Mineral's fiscal year allows us to budget in tandem with our partners in the private sector and provides this committee, now and in the future, with more current information on our activities. I propose to highlight for you both reports with emphasis on the most recent one.

Throughout the period covered by the reports our main objectives have been twofold:

First, to start exploration projects capable of attracting participation by the private sector, and conversely, to participate in worthwhile projects proposed by the private sector with a view to providing the province with equity participation in any resulting discovery.

Our second major objective is to manage the province's 27 percent interest in the Trout Lake Joint Venture and in mandatory participation exploration agreements.

In pursuing the first objective, we have focused our efforts in the Lynn Lake area where the future of the town is jeopardized by the planned closure of the Fox Mine at the end of next year. The province has a large investment in the infrastructure in the area and reasonable efforts to prolong the useful life of that investment are justified. I might add however, too, that any potential finds that could lead to a developed mine would be brought on much sooner, just because the existing infrastructure is already there, and the costs would be much lower in doing so. This makes it an attractive area as well, just from point of development for exploration.

A year ago when we appeared before the committee, we undertook to provide separate financial statements for the province's 27 percent interest in the Trout Lake Mine and our exploration activities. This we have done.

Trout Lake incurred a net loss of \$277,000 in the 12 months ended March 31, 1983 which was turned around into a net profit of \$10,000 in the subsequent nine months. Throughout the time covered by the reports, we have suffered, along with the rest of the mining industry, from low copper prices - prices which in real terms compare with those prevailing in the Thirties, and unfortunately even in today's report, those prices have not improved. Most North American copper producers incurred large losses in this period and temporary shutdowns were widespread. Trout Lake was shut down for a two-month period in the summer of

1982. In addition to adverse copper prices, our net loss in the 12-month period was compounded by the fact that we were in a start-up phase, producing at less than full capacity and mining low-grade ore.

Although Trout Lake is the most important item in terms of dollar flows, most of Manitoba Mineral's staff of 12 are dedicated to exploration work. Net exploration expenditures for the 12 months ended March 31, 1983 were \$1,138,000 which increased to \$1,403,000 in the following nine months - a significant increase when the length of the reporting period is taken into account. The increase reflects acceleration of work in the Lynn Lake area and a greater involvement in joint ventures proposed by the private sector.

In the report for the 12 months ended March 31, 1983, we note that one hole in the Limestone Bay project, 75 kilometres south of Snow Lake, intersected 6.3 meters of core assaying 2.03 percent copper. No further work was done in the following nine months; however, we have recently completed three additional holes and found lower-grade mineralization. The indicated grade, unfortunately, is subeconomic, but additional drilling is still planned in search of higher grade material in this area.

In the past, Manitoba Mineral has been fully joint ventured with no exploration projects being carried beyond their preliminary stage without a private sector participant. This resulted in a leverage in our exploration dollar of about one to one. This leverage, unfortunately, has been slipping. In the 12-month report we contributed 61 percent of total exploration expenditures and in the following nine months, the most recent period, 67 percent. This trend reflects the lack of exploration funds in the private sector and our acceleration of work in the Lynn Lake area.

In the Lynn Lake area, we are carrying a number of wholly-owned projects and have renegotiated some joint venture agreements to allow Manitoba Mineral to increase its interest faster through disproportionate funding. A measure of the lack of funds in the private sector is given by comparing totally exploration expenditures in Manitoba in 1980 with those in 1983. In 1980 total exploration expenditures amounted to \$32 million, and by 1983 expenditures had declined to \$11 million.

Significant changes were made in the 9-month period ending December 31st, 1983 in the method of funding the company's activities and in its asset base. The province changed its method of funding the company from one of conditional grants to purchase of share capital. This provides the company with greater flexibility and allows it to plan beyond a 12-month period. The company acquired the province's 27 percent interest in the Trout Lake Mine and its interest in mandatory participation agreements.

Mr. Chairman, this concludes my summary of the highlights of the two reports before the committee and I welcome any questions that members might have.

**MR. CHAIRMAN:** Are there any questions for Mr. Gardave? Do you want to pass the report page-by-page?

The Honourable Minister.

**HON. W. PARASIUK:** Yes, you can do it two ways since there are two reports. If the members of the committee

have questions, I think they could ask questions from whichever of the two reports they'd want to and then at the end of their questioning, if there were no further questions, perhaps we could just pass each report in whole.

**MR. CHAIRMAN:** Okay - the Member for Lakeside.

**MR. H. ENNS:** I would ask Mr. Gardave what is the current, you know, activity that the Mineral Resources Ltd. is engaged in? We understand that you have ongoing interests in some of the mining explorations, of course, but specifically are you involved in any oil explorations and oil-associated endeavours?

**MR. D. GARDAVE:** We're not now involved in any exploration or participating in any exploration for oil. All of our activities are in the base metal exploration programs.

**MR. H. ENNS:** Mineral Resources Limited has not been asked to participate in what has become known as ManOil in the Province of Manitoba?

**MR. D. GARDAVE:** No, it has not.

**MR. CHAIRMAN:** Mr. Ransom.

**MR. B. RANSOM:** Thanks, Mr. Chairman. In respect to the Trout Lake operation, and dealing with the 1983 Annual Report, there are some changes, this would be on Statement B. In the period ending March 31, '83 it showed interest on advances from the Province of Manitoba, \$114,312, and for the period ending December 31, 1983 it doesn't show any figure at all. Is that because of the change in the province taking shares as opposed to making advances?

**MR. D. GARDAVE:** I'd like to turn the response to that question over to Mr. Malcolm Wright, president of the company.

**MR. CHAIRMAN:** Mr. Wright.

**MR. M. WRIGHT:** The \$114,000 referred to reflects the interest on a loan of \$2.8 million, which Manitoba Mineral incurred while it was an agent for the province, and therefore the interest was subsidized by the province. The loan was cancelled, effective April 1, 1983, through the issuance of shares of Manitoba Mineral and, therefore, there is no interest appearing for the nine month period.

**MR. B. RANSOM:** Am I correct then, that if the same method had been used for the next nine months, there would have been a loss then instead of the net income of \$9,760, there would have been something over \$100,000 then of loss?

**MR. M. WRIGHT:** That's correct. It was still a loan.

**MR. B. RANSOM:** What can reasonably be expected from this Trout Lake operation now? What are we looking at over the next few years in terms of return and profit from it, given the prospects for the copper

market and then perhaps you could give some indication of what kind of profit there might be at a specific level of copper price?

**MR. M. WRIGHT:** I would be very hesitant, Mr. Ransom, to make projections over a number of years given the volatility, not only in the price of copper, but also in the price of gold and to a lesser extent in the price of zinc. We do anticipate over the next few years that as the mining proceeds to a deeper level, we will get into higher grade ore and we will be less vulnerable to metal price swings. At current prices for the current year, we are projecting an operating profit of about \$400,000.00. If prices were maintained at the level they are now and our grade would increase in the next year, then it would be something better. In a very broad view I'm quite optimistic that we'll stay on the black side in the next few years with Trout Lake.

**MR. B. RANSOM:** Is this period to December 31, 1983, the nine-month period? My understanding is the mine was operating more or less at full capacity during that period of time, is that correct?

**MR. M. WRIGHT:** That's correct.

**MR. B. RANSOM:** So what we're looking at then for change in that \$4 million figure in the sale of concentrates would have to do with grade and price and not with volume anymore? We're actually up to volume now?

**MR. M. WRIGHT:** Volume, as regard to the number of tonnes of ore produced, but the grades affect the volume of concentrates, so it's basically grade in the first 12 months, and it focuses mainly on the copper grade. In the first 12 months, where we incurred the heaviest loss, we were mining 1.33 percent copper. That increased in the next nine months to 1.94 percent copper; and this year, we're predicting about 2.2 percent copper. But the average grade of the deposit is about 2.66 percent copper.

**MR. B. RANSOM:** It looks quite hopeful for this specific operation, I would assume, but my understanding is that the government over the years has put something in excess of \$9 million into exploration through Manitoba Mineral Resources. Can Mr. Wright indicate how much capital the government has put into exploration and to the development of the Trout Lake Mine in total since the inception of Manitoba Mineral Resources?

**MR. M. WRIGHT:** Well, through Manitoba Mineral, the government has put in the \$9.2 million into exploration, and into the development of Trout Lake, there is a number of 300 and - you'll have to excuse me for a minute, these statements are quite complex as you can appreciate - has put in \$335,000 in the exploration of Trout Lake and \$767,000 in the development of the mine which gives you a total of I think it's about \$10.3 million. But in addition to that, there was the funding the government put in through the Department of Mines to the mandatory participation agreements.

**MR. B. RANSOM:** So the taxpayers, through the government's direct involvement in mining exploration

and development, have put in certainly in excess of \$10 million in the period of time since the inception of Manitoba Mineral Resources. Quite aside from any interest costs that would have accumulated during that period of time at today's interest rates, we would have to be getting a return from somewhere in the range of \$1.4 million or \$1.3 million to be able to cover the annual interest cost on the money that the taxpayers have put in so far.

Is there any reasonable expectation that the Trout Lake Mine alone would be able to achieve an annual profit in the range of \$1.3 million or \$1.4 million?

**MR. M. WRIGHT:** I am hopeful of that Mr. Ransom, but I couldn't guarantee it because I don't know what copper prices and gold prices are going to do. Copper prices are dependent very largely upon political decisions made in Chile. Chile, to the copper industry, is what Saudi Arabia is to the oil business. The current trend in Chile has been to change from maintaining production to actually expanding production and knocking the high-cost producers elsewhere in the world out of the marketplace.

**MR. B. RANSOM:** What sort of an increase in copper prices would it take to give us a profit in that range? What's the average that is in the figure before us, and then what kind of an increase would we be having to contemplate?

**MR. M. WRIGHT:** Producing at a grade of 2.2 percent copper, one penny a pound in the price of copper makes a difference of about \$50,000.00. So 10 cents makes a difference of half-a-million dollars per annum at that grade, but this has to be balanced off, if the grade is going to increase.

**MR. B. RANSOM:** What's the average price, roughly, that we're talking about over the period covered by this report, the last nine months where there is a small profit?

**MR. M. WRIGHT:** The average price in Canadian dollars, over that nine-month period, was 79 cents a pound. Currently it is at about 81, 82 cents a pound.

**MR. H. ENNS:** Mr. Chairman, I asked the Chairman, Mr. Gardave, that initial question with respect to oil. The reason why I asked that question, I noted, for instance, in the 1982-83 report that Manitoba Mineral Resources Ltd. did have an interest in oil - a short paragraph with respect to the wells owned by Manitoba Mineral Resources and their relatively modest result. I also note in the 1983-84 report that you sold off the wells. You're out of the oil business, and I take by your initial answer, Mr. Chairman of the Board, that you are not in the oil business. Is that right?

**MR. D. GARDAVE:** First, we did not sell any of the properties off. These were acquired as a result of the mandatory participation agreements which, at that time, Manitoba Mineral did acquire a partial interest in a joint venture, which is continuing on the books, as you can see, from the revenue being shown. But it's correct to say that we are not, at the moment, or any plans to

at the moment, to participate in any joint ventures on oil exploration.

**MR. H. ENNS:** Your paragraph on Page 8 of your 1983 report which says that Berry Petroleum Limited sold its interest in the Pierson Project to Rideau Petroleum Ltd. and Pipestone Petroleum Ltd., the two producing wells jointly owned by Manitoba Minerals. That leads me to say that you're out of the oil business.

**MR. D. GARDAVE:** No, we retained our interest.

**MR. H. ENNS:** You retained your interest?

**MR. D. GARDAVE:** Yes, that's right. We still have the interest in those oil wells.

**MR. CHAIRMAN:** Mr. Gourlay: Mr. Enns.

**MR. H. ENNS:** It's too early in the morning, Mr. Chairman, for those harsh commands.

**MR. CHAIRMAN:** There are so many people who are so eager to ask questions, and I have to give a chance to everybody.

Mr. Enns.

**MR. H. ENNS:** Well, the question that I was leading to, what role has Manitoba Mineral Resources played in the development of proposals with respect to potash mining in the Province of Manitoba? Have you been involved as a corporation in that venture?

**MR. D. GARDAVE:** No, at this time we are not contemplating any participation at present in any potash development. We examine any proposals that come to the company with regard to joint ventures, but at the moment we're not considering any.

**MR. H. ENNS:** So the corporation that we, as taxpayers of Manitoba support, called Manitoba Mineral Resources Ltd., is not really involved in oil exploration in this province, not involved in potash exploration in this province; much like Manitoba Hydro is not involved in any of the Hydro sale negotiations that are currently going on?

**MR. CHAIRMAN:** What is the point of the member?  
Mr. Minister.

**HON. W. PARASIUK:** Good morning, Mr. Chairman. I think, inadvertently, the Member for Lakeside is misleading the committee. Manitoba Hydro is involved in the negotiations. They are members of the Manitoba Energy Authority. I thought the member . . .

**MR. H. ENNS:** That's not Manitoba Hydro.

**HON. W. PARASIUK:** No, but I thought the Member for Lakeside knew that, obviously he doesn't.

**MR. H. ENNS:** That's not Manitoba Hydro.

**MR. CHAIRMAN:** Is the member finished with this line of questioning?

**MR. H. ENNS:** For the time being.

**MR. CHAIRMAN:** Mr. Gourlay.

**MR. D. GOURLAY:** I wanted to ask a question, perhaps directed to the Minister, with respect to any activity in the Mafeking area with excavation of Limestone. Has there been any recent developments with respect to Steel Brothers?

**HON. W. PARASIUK:** I'll answer those questions for the member when I do my Estimates - and I expect to do them this afternoon - so that will be a better line of questioning, because it deals with the Department of Energy and Mines.

**MR. D. GOURLAY:** Mineral resources have not been involved at all in that particular area?

**HON. W. PARASIUK:** In answer to Mr. Gourlay, the leases are handled by the Department of Mines.

**MR. D. GOURLAY:** Thank you.

**MR. CHAIRMAN:** Mr. Blake.

**MR. D. BLAKE:** Well, Mr. Chairman, there's a catchy little item here in the statement under Trout Lake Mines, that says, "The company has acquired, without charge, the interest in Trout Lake Mine from the province," which would maybe indicate to the readers that this is sort of a little gift that's going to produce great benefits for the taxpayers of Manitoba. I wonder if you could tell me, Mr. Chairman, through the people that are at the front of the table, who now are the owners of the interests of Granges Company?

**MR. M. WRIGHT:** The Granges Company is owned now by Pequis Resources Limited of Vancouver.

**MR. D. BLAKE:** I wonder if you might tell me who the principals of that company are, Mr. Chairman.

**MR. M. WRIGHT:** The chairman is a man by the name of Mr. Bob Hunter, I think he's chairman and president. The vice-president is a man by the name of Douglas McRae.

**MR. D. BLAKE:** Just for my information, I wonder if these gentlemen were previously involved with exploration in the Flin Flon area in the past 20 years or 30 years?

**MR. M. WRIGHT:** Not to my knowledge.

**MR. D. BLAKE:** Thank you, Mr. Chairman.

**MR. B. RANSOM:** Mr. Gardave, in his opening statement, made reference to the activities of Manitoba Mineral in the Lynn Lake area, and said that because of the province's investment in the infrastructure, that reasonable efforts to prolong the useful life of that investment are justified. Does that indicate now that there is a shifting in the direction that the corporation is taking, that is now working more in the areas where

the province would like to find something, as opposed to where the corporation thinks they might find something?

In the past, for quite a period of time - certainly during the period of time that I was Minister of Mines - the corporation had its head to direct, to work in the areas where they thought the prospects were best. This seems to indicate to me that it is now being directed into areas where everyone agrees it would be nice to be able to find something, but perhaps the prospects aren't that good. Is that a correct assumption?

**MR. D. GARDAVE:** I wouldn't say that the prospects are not that good, because in my opening remarks I also added that because of the infrastructure, there more likely would be a lower cost in bringing on a good find to the development stage. We are prospecting in that area because there are significant indications that there is profitable contacts to pursue, which of themselves justify exploration in that area.

It's only natural that consideration would be given to the fact that there is a mine that is running out of ore, and that the number of people employed there could, if some development takes place, be re-employed in some future mine. I'll pass on any elaboration of those remarks, in terms of the prospects in the Lynn Lake area, to Mr. Wright.

**MR. M. WRIGHT:** Well, strictly from the technical point of view, we were not greatly encouraged when we first started to think about the Lynn Lake area and going into it. We felt that it had a go at by a number of companies, and in all likelihood we would be dealing with trying to find a relatively small deposit.

We have been working on this overall project now for a period of a couple of years, and I have been most pleasantly surprised. We have developed 40 or 50 targets which will require drilling, which are not the little tiny targets which we thought we were going to find as a residual of the previous exploration work. So I am personally much more optimistic about our work in the Lynn Lake area, than I would have been had you asked me this question two or three years ago.

**MR. B. RANSOM:** Are you working with Sherritt Gordon on these project?

**MR. M. WRIGHT:** There are some being worked with Sherritt Gordon; there are some being worked with Noranda; there are some being worked with Hudson Bay Mining and Smelting; and there are some being worked on our own at the moment.

On the ones that we're working on our own at the moment, we are hopeful - but we are not going to guarantee that we can get a partner in on them because of the lack of funds in the private sector at this time for exploration.

**MR. B. RANSOM:** I understand that there are some differences in the technology that various companies use in their exploration activities now, and in fact, that there may have been some difference of opinion between Manitoba Mineral Resources and Sherritt Gordon, as to how a given dollar would best be spent to look for additional deposits. Have there been

problems in that regard, of agreeing with Sherritt or with other companies, as to what kind of technology should be applied?

**MR. M. WRIGHT:** I think when you get into this area, you're always going to have some elements of disagreement, but when you're in a joint venture, you sit down and sort those technical elements of disagreement out. The principal problem, in getting together with Sherritt in that area, has been a matter of the structuring of the deal.

**MR. B. RANSOM:** How would the technology differ today from what would have been used, say 10 years ago, in that area?

**MR. M. WRIGHT:** Basically it involves that the state of the technology, allows us to look deeper, as it were, beneath the surface prior to putting down a drill hole.

**MR. B. RANSOM:** In the notes to the Financial Statement, Note No. 8, Ruttan Mine Evaluation, the company has initiated an evaluation of the Ruttan Mine at Leaf Rapids. What is the purpose of that evaluation?

**MR. M. WRIGHT:** The initial purpose of that evaluation was that Sherritt had made some overtures as a possible joint venture, and as a result of that, we took a rather in-depth evaluation of the Ruttan Mine, from an equity investment point of view.

**MR. B. RANSOM:** Has there been any decision made with respect to that possible equity investment?

**MR. M. WRIGHT:** We just felt, at Manitoba Minerals, that we didn't want to get involved.

**MR. B. RANSOM:** Perhaps the Minister could give some indication of what the current situation is there, what the prospects are, what the government's involvement is, and whether he sees the government having any different involvement in the future, even though the prospects might not appeal directly to Manitoba Mineral Resources with their mandate, that perhaps the government might view it a bit differently?

**HON. W. PARASIUK:** I think again this is an area that I certainly would be very pleased to discuss this afternoon in my Estimates, because it deals with the Department of Mines, per se. If I could just indicate to the member that I will certainly undertake to answer those questions this afternoon.

**MR. B. RANSOM:** Can we assume then that Manitoba Mineral Resources is not contemplating any kind of involvement in the Ruttan operation?

**HON. W. PARASIUK:** To the best of my knowledge, they aren't.

**MR. M. WRIGHT:** I would perhaps like to elaborate just a little bit on my statement that we didn't want to get involved. We didn't want to get involved under the terms of the deal that was proposed.

**MR. B. RANSOM:** Just one last question. What happened to the gold prospect, the name of which escapes my mind at the moment, the one north of Lynn Lake?

**HON. W. PARASIUK:** That is the Agassiz Mine and Sherritt undertook work under the NEED Program. It's a federal-provincial cost-shared program, and they've undertaken some deeper drilling and development work. They were proceeding a bit slower than they had anticipated and there is no further information from them as to the prospects. They are saying, and I saw something in Lynn Lake about a month-and-a-half ago, they're continuing the work and they don't have anything more to report, at this particular stage, on the quality of that mine.

**MR. B. RANSOM:** Manitoba Mineral Resources, again, has no involvement in that and has no plans to be involved in it?

**MR. M. WRIGHT:** That's correct.

**MR. H. ENNS:** Mr. Chairman, without getting into the kind of detailed study of your statement, I think what many ordinary Manitobans like myself - a little rancher from Woodlands that pays the taxes on his property to support whatever endeavours the government takes - I'd like to know what money do I have invested, as a taxpayer, in a company called Manitoba Mineral Resources Ltd.? You list, for instance, that you have, to date, spent some \$3.2 million in explorations in your 1982-83 report. You further list upwards to \$8 million, non-interest bearing monies, of a loan for Trout Lake, and without getting too technical about this, I just simply want to ask the officers of this company that I, on behalf of my taxpayers, have to ask questions for. What have you returned to the taxpayers of Manitoba this last year?

**MR. D. GARDAVE:** All right, there's two parts to your question; that is, how much has the investment been by the province? That has already come up, in response to a question by Mr. Ransom, which showed that there was a little over \$9 million on exploration and expenditures, and just slightly over \$1 million in the Trout Lake Mine, which combined, show a figure in total of slightly over \$10 million therefor.

Up to now, the only operating mine which has returned any income to the Manitoba Mineral Resources has been the Trout Lake Mine and, of course, because of the conditions of the base metal markets, the return on that was very modest in the last nine months, which we reported as \$9,000.00.

**MR. H. ENNS:** I just want to understand this correctly. For an investment of \$10 million, we have a return of \$9,000 or \$10,000.00? I don't want to take things out of context here. The reason why I'm asking is, your Minister is asking Manitobans to invest .5 billion in another operation called an aluminum smelter, because you want to make all those returns; like the same kind of money we made on selling seeds at Brandon; the same kind of money that we make on building buses at Morris; the same kind of money that we made, as

Manitobans, in building airplanes at Gimli. Now we're now being asked to spend — (Interjection) — and potash mine and this group of experts, if we have one group of experts in Manitoba, surely they ought to be housed in the Manitoba Mineral Resources Company, but you're not involved in potash. This Minister is asking us, as Manitobans, to invest .5 billion. Now, we're talking big money. You're telling me, Sir, that we have to date invested \$10 million, non-interest bearing money, and we've got \$10,000 back this year. Is that right?

**MR. M. WRIGHT:** These statements are very conservative. If you go through them, you will note there is no value attached to the Trout Lake Mine. Hudson Bay spent \$27.4 million to bring this thing into production on behalf of Hudson Bay and all the departments. Our share of that is not counted.

Further on, I would like to say, in defensive exploration expenditures, these are tax dollars we're talking about, pretty well whether they're spent by a government agency or whether they're spent by a mining company. An operating mining company making a profit here in Manitoba today that spends an exploration dollar, 80 percent of that is a tax dollar, so it becomes a question, to some extent, of who's going to spend the tax dollar.

Further on I think I gather that behind the questions is, is this a poor record - \$10 million in exploration with one developing mine? The answer to that is if you stack it up against the rest of the industry, it's not a bad record at all. Industries are going to spend anywhere between \$50 and \$100 million today to find one mine. If it's a small mine, they lose money; if it's a Hemlo type discovery, they're going to be rolling in dough. That's the name of the game.

**MR. H. ENNS:** President Wright, that kind of speech would totally convince me, if I were a shareholder - a private shareholder - in your company. If I happened to be an elected member that has to knock on every door and get the money - the \$10 million - to put in this company, I'd have to explain to them why I can't gravel my road - 518 - in Woodlands, why I can't hire an extra teacher in my little school, or why people have to wait six months to get elective surgery in a hospital in Brandon. If you were my president in a private company and if that was a commendable record, fine, you'd be retained. If I didn't like it, I'd fire you or the shareholders would fire you. That is the difference. That is a difference that we're talking about here.

I'm suggesting that the \$10 million put into Manitoba Mineral Resources could be God-damned well better spent than it's being spent right now.

**HON. W. PARASIUK:** Order, order, Mr. Chairman.

Mr. Chairman, to begin with I don't know if one has to swear in this committee. Secondly, I think that one could speak a bit more clearly, and if one wants to get into political debate, there's ample arena to get into a political debate in the Legislature without, in a sense, posturing - rather poorly I might add - about something that I think has been dealt with in a technical way and dealt with quite clearly.

If the Member for Lakeside wants to engage in a political debate, I think we have the opportunity this afternoon in my Estimates to do so. I would certainly be pleased to do so.

**MR. CHAIRMAN:** The purpose of this deliberation is to look into the data, the facts and to obtain information and arrive at some rational decisions.

Mr. Enns.

**MR. H. ENNS:** Mr. Chairman, I do apologize and withdraw those last comments. They were imprudent, but I think it's entirely prudent to let Manitoba taxpayers know that we have spent \$10 million, at a time when dollars are hard to find, for a return of \$10,000.00. It doesn't take too much arithmetic, even for the least sophisticated among us, to say that that's pretty poor business. That is pretty poor business when there are people unemployed, when there are people and students who are going without jobs, and particularly when there's all kinds of risk capital available.

Is the Minister telling me that if this company was not involved that those \$10 million would not be spent? Of course he's not.

**HON. W. PARASIUK:** Mr. Chairman, in fact that's what the Annual Report indicates. I'm surprised that the member didn't have a chance to read that. It indicates that we have been able to have a lot of joint . . .

**MR. H. ENNS:** Sure. This place has gone down ever since you've come in. My colleague was . . .

**HON. W. PARASIUK:** . . . there's been worldwide . . .

**MR. CHAIRMAN:** Order please.

**HON. W. PARASIUK:** That's right. I'm wondering whether in fact we should have had this after the Hotelmen's do, or whether we should have had it before, but I'd be quite willing to debate it this afternoon when I think that people will be probably in a better frame to debate.

**MR. H. ENNS:** Ten million bucks for 10,000. That's a good investment, Mr. Chairman. That's the kind of thing you'd want to go and play at Assiniboia Downs.

**HON. W. PARASIUK:** Mr. Chairman, on this, I think that what was clearly put on the record, and we could get an indication because . . .

**MR. H. ENNS:** Let's . . .

**HON. W. PARASIUK:** Order, Mr. Chairman. Are we having order?

**MR. H. ENNS:** Ten thousand bucks for \$10 million. That's what we're talking about.

**MR. CHAIRMAN:** Order please. Let us . . .

**MR. H. ENNS:** That's what we're talking about.

**MR. CHAIRMAN:** . . . behave like civilized people.

**MR. H. ENNS:** And we're supposed to trust you guys to develop a 35-year energy deal with Yankee traitors? 35-year deal we're going to sign? It's unbelievable.

**HON. W. PARASIUK:** Are we having order?

**A MEMBER:** Yankee traitors?

**A MEMBER:** Order.

**MR. H. ENNS:** Unbelievable.

**HON. W. PARASIUK:** Mr. Chairman, I believe that we need a breathalyzer test in this committee.

**MR. H. ENNS:** Yeah, that's all right, Mr. Sleaze. Go ahead.

**HON. W. PARASIUK:** Who's being sleazy, Mr. Chairman? I have a person here and he's coming in . . .

**A MEMBER:** Order, order, order.

**MR. CHAIRMAN:** If you want a Chairman, you better behave according to the rule. I will leave the Chair if you don't behave.

Mr. Minister.

**HON. W. PARASIUK:** Thank you, Mr. Chairman. As I said, I'd be quite willing to debate all of those matters in the afternoon without being interrupted by someone speaking from their chair with a lot of rabble.

The President of Manitoba Mineral Resources indicated that we do have a 27 percent share in a mine for which another company paid \$27 million for, to achieve a 44 percent share. That indicates that we have something that could be worth well in excess of \$10 million.

We have people working at the Trout Lake Mine. We have, as a result of the Trout Lake production, augmentation of the through-put at the Flin Flon Smelter which keeps those people working in that area as well as the railroads, as well as all the service industries.

Mr. Chairman, I believe that the people of Manitoba have received a very significant return for the \$10 million that has been put into Manitoba Mineral Resources Ltd.

**MR. B. RANSOM:** Mr. Chairman, I'd like to ask the Minister a question.

In view of his statement now, we realize, of course, that the 10 million is not all directed specifically towards the Trout Lake Mine, but when Manitoba Mineral Resources, under the previous government, made this arrangement with Hudson Bay Mining and Smelting and Granges as to how Hudson Bay would come in and that they would put in this extra \$27 million to develop the mine, we were strongly criticized by the NDP, who were then in opposition. I believe I can find on the record where we were accused of a \$90 million giveaway over the Trout Lake Mine. It's now being pointed out by the Minister, that indeed the people of Manitoba acquired an asset through that deal that was made.

So, I would like to ask the Minister today, whether he, in view of experience now that the mine has been operating and that we're able to look ahead to the future at least with some idea of what's there for grade

and to know that within certain pricing levels what kind of return we can expect, does the Minister now think that it was a bad deal that was made, that it involved a \$90 million giveaway of the people's resources?

**HON. W. PARASIUOK:** Mr. Chairman, I think if you look on the record, I did not make those statements. Beyond that, they were made in the context of projections regarding copper prices and the prevailing copper price a few years ago was quite high. I don't think anyone expected the type of a worldwide recession that we've had over the last two years, especially the impact that this has had on metal prices and copper prices. Copper prices are at historic lows. Some people from the industry have told me that in real terms, copper prices are lower than they were in the 1930's.

If one then tries to extrapolate into the future from such low price levels, the value of that mine is reduced substantially, but yet it would appear that it still has significant value. If one goes back to the heady days of \$1.20 copper or \$1.30 copper, \$1.40 copper, that mine is worth a great deal. I know, and it's on the record, that last year the staff of MMR were of the opinion that that was a good business deal at the time. Some people were concerned at that time as to whether, in fact, the person buying into a proven reserve didn't get too great a price.

I think to dwell on the past, without taking into account that there are different contexts, doesn't prove anything. I am hopeful that over the course of the next 5, 10, 15 years, that that mine produces very well and that Manitobans, with its 27 percent share, as opposed to what it had before, makes a very very significant return. I think that all we can say is that the future will tell. We can't predict the future at this particular stage.

**MR. B. RANSOM:** I agree of course, Mr. Chairman, that it's not possible to predict the future, but anyone who was in the situation that the government was in in 1980, had to make some projection of what the future held, and to make what was thought to be the best deal for the taxpayers of Manitoba. Because Manitoba Mineral Resources, at the time, were given the freedom to drive whatever kind of deal they wanted, and it seems to me, in hindsight, that they must have known what they were doing. I think they drove a pretty good deal because they saw another \$27 million or more of capital investment come into Manitoba that the taxpayers didn't have to put up at all, and that now there is the prospect of at least a small profit, and hopefully prices will improve and we might get a substantial profit.

Had they undertaken to retain the same level of ownership as they had before, the taxpayers of Manitoba would have been putting up close to half of that \$28 million for additional capital and they still wouldn't have had a place to process the ore.

So I think that they've done a pretty good job and I think that the Minister thinks it's a pretty good deal, because he's still got Mr. Wright as his president. Mr. Wright happened to be one of the people who was at the forefront of negotiating what I think was a very good deal, and I'm pleased to see that Mr. Wright is still there helping to direct the affairs of the corporation.

That wasn't a giveaway was it, Myrna? — (Interjection) — That's quite a different issue, it's an entirely different issue.

**MR. CHAIRMAN:** What is the pleasure of the committee with respect to this Annual Report, 1982-83?

**SOME HONOURABLE MEMBERS:** Pass.

**MR. CHAIRMAN:** The Annual Report, 1983—pass.

**MANITOBA DEVELOPMENT  
CORPORATION and  
WILLIAM CLARE (MANITOBA) LTD.**

**MR. CHAIRMAN:** We shall be dealing with the report of the Manitoba Development Corporation and also with William Clare (Manitoba) Ltd.

The Honourable Minister.

**HON. E. KOSTYRA:** Yes, Mr. Chairman, I'd just like to introduce the Chairman of the Manitoba Development Corporation, Mr. Hugh Jones, also with him is Mr. Greg Goodwin, who is the Assistant General Manager, and Mr. Alex Musgrove, who is the Treasurer.

**MR. CHAIRMAN:** We shall also consider the report as a whole and then after the questioning, we shall make a decision.

Mr. Jones.

**MR. H. JONES:** Mr. Chairman, just to briefly introduce this report and some of it, necessarily, is repetitious. In my comments last year, I confirmed and I confirm again that the directive given to MDC in November of 1977, in terms of new financing activities, still applies. That is to say that under Part 1 of The Development Corporation Act, under the board's jurisdiction, we are not permitted to consider or approve any loans, any new loans.

Having said that, the committee will note, on Page 20 of the report before you, that assistance approved during the fiscal year under review, was all under Part 2 of The MDC Act, that is, under the authorities of Orders-in-Council.

There have been no changes in the content of the board since last year and the listing on Page 6 of the report is current. As at March 31, 1983, Mr. Chairman, there were 20 loans outstanding from the old portfolio, with a net amount owing of about \$9.7 million, compared to 25 accounts at the previous year end, for a total of \$10.8 million, with only one exception - the loan portfolio at year end was current in terms of satisfactory performance of the businesses financed and collection of payment.

The MDC equity investments are the same: William Clare (Manitoba) Ltd. is tabled with this report this morning, and as I said last year, this matter will remain outstanding so long as there are royalties due in respect of textbooks published. Each year the amounts received are getting less and quite frankly the nuisance value of this issue ought to be resolved in the next year or so, we hope.

Flyer, as you know, will be dealt with later in this committee and the issue of the McKenzie Seed refinancing, which is in this report, was discussed last year and at the committee dealing with that company earlier.

I had hoped, Mr. Chairman, that by the time we met this year, I could have reported to the committee a

final resolution of the Saunders Aircraft situation, but the complexity of the outstanding litigation with the Ontario company, Air Autonomy Ltd., has been such that we do not expect, unfortunately, this to be completed finally until the end of this year.

Just to reconfirm the comment that I made on that issue last year, the Receiver's original claim against that Ontario company was for approximately \$600,000.00. We are at the stage now where the final examinations for discovery are taking place.

If the committee members wish, Mr. Chairman, we can table separately, because again it's reported in the Assistance Granted Schedule, the statement for Winnipeg Racing Ltd.- and, if I may, just a couple of comments on that one. The members may recall that Assiniboia Downs under the previous management ceased operations in July of '82 and was placed into receivership later that month. The options available at that time were limited and to facilitate a speedy resumption of racing for the season the government arranged for the establishment of an agency to lease the track and operate it on a temporary basis.

So under Part II of The MDC Act, Winnipeg Racing Ltd., was established and a line of credit approved in the amount of \$750,000 for start-up and operating purposes. As it happened, only \$130,000 of that approved amount was drawn down from the loan and that amount has subsequently been repaid in full to the MDC.

The results of the operation of the track for the period resulted in a net profit of just over \$20,000.00. There are still a number of very minor issues to be cleared before we can resolve and close the current bank account which has about \$19,000 left in it. When those minor issues are cleared, the matter will be closed.

In the notes to the Financial Statement on Page 19, you will see reference to the Destination Manitoba Program for which \$5 million has been specifically set aside with MDC, again under Part II of course, for the loan component of Program 6 of the Rural Tourism Industry Incentive Program. The role of MDC in this issue has been to analyze the viability of expansion and development projects.

Once approved, and I want to emphasize the approval process is through a mechanism of a federal-provincial committee to disburse the funds, ensure the approved program is implemented, and monitor the loan and ensure orderly debt repayment. Projects being administered now by MDC under this program total approximately 31 with an excess of \$2.9 million in outstanding commitments.

I shall be pleased to answer questions, Mr. Chairman.

**MR. B. RANSOM:** Just a couple of questions.

Mr. Chairman, on Page 8 with the assets, short-term deposits with the Province of Manitoba for 1983 is over \$16 million. It seems to me there was some comment in the Auditor's Report about the handling of the interest on those deposits. What is being done with that at the moment? My assumption is that the province has advanced the money to MDC at no interest cost and that the advances then are on deposit with the government and the government is paying interest to MDC. Is that the way it works?

**MR. H. JONES:** Partially, Mr. Ransom, a lot of that money also reflects the income that is still being

generated within MDC from loan collections. It's an accumulation over the years.

The question of the interest - perhaps I'll check our treasurer - but I don't believe that issue has been finally resolved in terms of the actual payment of the interest. There was some doubt on the part of the provincial Auditor as to whether MDC should be getting this or the Department of Finance.

I could take that as notice, if you wish, but I don't believe that issue is resolved.

**MR. B. RANSOM:** With respect to Tantalum Mining Corporation, can Mr. Jones give us an indication of what's happening there now with that corporation?

**MR. H. JONES:** Mr. Chairman, if I may I'd like to have that question dealt with by Mr. Goodwin who has been looking after that account in MDC.

**MR. CHAIRMAN:** Mr. Goodwin.

**MR. G. GOODWIN:** Mr. Ransom, the Tantalum Mining mine has been closed since 1982 and, because of inventory accumulation of tantalum at the time, there are no sales of tantalum concentrates. No sales have been made since 1982 and none are anticipated for 1984.

It is hopeful that the concentrate would be sold or some of it would be sold in 1985, and reopening of the mine for production of tantalum concentrates depends of course on when and to what extent sales materialize. MDC's role in this is one of an agent acting basically with the Manitoba Mineral Resources in advancing funds for a cash flow. The Manitoba Mineral Resources is represented on the Board of Tantalum by, I believe, three directors.

**MR. B. RANSOM:** Perhaps that's where we should have asked some questions then about the future of the corporation. Can you give any indication what the prospects are? Are people hopeful of going into some new - I saw some mention of another mineral, the production of which was being contemplated. Can you give us any indication on that, and can you just refresh my memory as to how our shares are held in Tantalum and what kind of investment we have in there in total. I note this is just a loan; we must have other capital investment in there as well.

**MR. G. GOODWIN:** The Tanco deposit contains a lithium mineral called spodumene. Tanco has recently converted the Tantalum mill to a pilot plant to test the technical feasibility of producing this on a commercial scale. At the present time they are just testing that.

Currently 26 employees are working on this project compared with the normal work force of about 100. If this project is successful, additions to the existing mill will allow Tanco to produce both ceramic-grade spodumene and tantalum concentrates when the demand for tantalum picks up.

The shareholdings of the Province of Manitoba - the Minister of Finance holds these shares for the province, 25 percent shareholding in the corporation.

**HON. E. KOSTYRA:** I might just add to what Mr. Goodwin stated, there was a significant IRDP federal grant that was given for that project.

**MR. B. RANSOM:** Does Mr. Goodwin know how much capital the government has invested in Tantalum now and for our 25 percent?

**MR. G. GOODWIN:** I'm afraid we'll have to take that as notice. I'm not sure.

**MR. B. RANSOM:** I'm tempted to ask Mr. Jones if he's had an opportunity to read the latest best seller in Brandon.

**MR. CHAIRMAN:** Ask Mr. Jones.

Mr. Jones.

**MR. H. JONES:** Mr. Ransom, that's something I'll have to look forward to when I go back from this meeting. I gather it's on the way to me.

**MR. B. RANSOM:** Just with respect to that loan to McKenzie Seeds, on Page 15 there's interest shown there of \$377,425, is that interest that has been incurred and due and the company has not been able to pay? Will it simply build up until they are in a position hopefully at some point?

**MR. H. JONES:** That is correct Mr. Ransom.

I should comment, though, there has been, in the last three months or so, MDC has received a very significant amount in partial reduction of the interest accumulation, interest arrears. The whole question, of course, has been discussed recently at a McKenzie Board Meeting and it's under review. From our part, we took the position that recognizing the - how can I put it? - appointment of a new chairman and a new CEO in McKenzie and some additions to the board, the whole question of this investment and loan was being addressed a little more stringently in terms of McKenzie's relationship to the bank in Brandon.

As you know, one of the reasons for MDC's involvement through the years has been guaranteeing bank financing. We do, at the present time, do that. MDC has asked for re-evaluation of McKenzie's working capital position for the rest of the current fiscal year, and we would hope and we believe very strongly that interest will be brought up to date and the thing will be in order. It's a transition process that we felt we had to stand back from a little bit.

**MR. CHAIRMAN:** This might be irrelevant, but with respect to McKenzie, I just got a letter clarifying an item they used during the discussion in the committee. They say they don't mean TEA, they mean the task group. So they are trying to correct the prints in the records of the proceedings. They don't hold TEA groups there that drinks tea.

Mr. Ransom.

**MR. B. RANSOM:** What interest rate is charged to McKenzie on that loan?

**MR. H. JONES:** That fluctuates almost on a monthly basis, I think. It's the government's borrowing rate, whatever that may be at the time. It's the 20 amortization rate and the structure from Finance, as you know, changes every month, but it's the government prime rate, in other words.

**MR. B. RANSOM:** I've been interested in trying to follow through the costs of various government investments, taxpayers' investments, and we were speaking earlier about this in the other committee as well, and I have raised it on a number of occasions with McKenzie Seeds directly, as an example. This year, in McKenzie's statement, there is a footnote which says taxpayers incurred so much interest on the equity to McKenzie Seeds. Now, McKenzie Seeds would show an interest cost of \$377,425 outstanding, but is there not an additional cost here as well now for the fact that this \$377,000 is being carried by MDC, or are you accumulating interest on the unpaid interest as well?

**MR. H. JONES:** Well, in the standard fashion, Mr. Ransom, whether there are interest arrears, yes, there is interest accumulating. I think there was some discussion at the last committee meeting as to asking the Provincial Auditor to consider making a note, not only on the McKenzie statement, but also on the MDC statement, which is something perhaps we should re-discuss in that the interest rate charged to MDC for its onward lending to McKenzie is, as I said, the prime rate and there is some disparity here in terms of the equity investment itself and the delay in receiving payments. So, in effect, as I said last year, MDC theoretically is subsidizing this thing.

**MR. B. RANSOM:** Is there a way to identify how much money the government has got invested in Flyer Industries, for instance? Is there a way to identify that and follow that through to see what kind of return there has been to the taxpayers' investment in that company?

**MR. H. JONES:** When we get to the Flyer discussion, Mr. Ransom, I'll be making comments on the original investment in Flyer and the subsequent investment and the contingent liabilities. I think when we get to that discussion, we could deal with that question.

**MR. B. RANSOM:** I ask the Minister a question. What does he see for the future of MDC?

**MR. CHAIRMAN:** Mr. Minister.

**HON. W. PARASIUK:** I don't see any change in the present role that it's playing with respect to the areas that it covers, there's no contemplated change.

**MR. CHAIRMAN:** What is the pleasure of the committee with respect to the report on MDC, Manitoba Development Corporation?

**MR. B. RANSOM:** I don't have any other questions, Mr. Chairman.

**MR. CHAIRMAN:** Are there any other questions from the members of the committee? Shall we pass the report? Manitoba Development Corporation-pass.

What about William Clare (Manitoba) Ltd.? Pass? William Clare (Manitoba) Ltd.—pass.

Did you want to pass also the other one, the report about Winnipeg Racing Ltd.? Winnipeg Racing Ltd.—pass.

#### FLYER INDUSTRIES LTD.

**MR. CHAIRMAN:** The committee shall now be considering the report of the Flyer Industries Ltd.

Mr. Minister.

**HON. E. KOSTYRA:** By way of introduction, I'd like to first introduce Mr. Jones, who is the Chairman of the Board of Flyer, and the Chief Executive Officer, Mr. Ken Clark. Mr. Clark was appointed to the presidency last October and both he and the board are faced with the extremely difficult task of addressing and remedying problems that have inherent in this operation for as long as a decade.

As Minister responsible, I have to say that the picture placed before you in the 1983 annual statement is of deep concern, and the specifics of the performance of the 1983 fiscal year will be presented to you by the chairman and president as we go along. The complexity of the problems in this company is fully recognized, and I have asked that the combination of the efforts of the board, the chief executive officer and the Department of Crown Investments be directed to the necessary steps which must be taken to deal with these issues.

As the committee will recall, I have stated in the House that a major productivity improvement program has been launched with consulting firms to assist Flyer in the steps necessary to modernize the company's manufacturing operation in the planning of a program of methods improvement and achievement of higher productivity levels together with the development of an effective cost accounting and material requirements planning system. This work has already advanced and, in the fall of this year, we would expect to be in a position to assess the long-term strategic plan for the company. It is urgent that the long-term future for this important Manitoba company be addressed, and as we proceed with the hearings today, we shall be provided with details of the 1983 performance. Prospects for the current fiscal year and a highlight of the major concerns of the board and management with the review of the corrective measures undertaken and to be undertaken.

With these comments in mind, I would now ask Mr. Jones to deal with his introductory remarks and he will then be asking Mr. Clark to review in detail to report for you.

**MR. H. JONES:** Mr. Chairman, my intention this morning is to cover, in this introduction, the principal highlights of the 1983 performance, details of which are contained in the report now before you. I will then attempt to cover the major issues of concern and an overview of the steps currently underway by the board and Mr. Clark in conjunction with the consultants and with the Department of Crown Investments.

As usual, I should bring the committee up-to-date, Mr. Chairman, on the content of the Board of Flyer. The members will realize the directors are appointed each year at the Annual Shareholders' Meetings and at the one held on September of last year the appointments of Mr. Allan Shnier, Mr. Fraser MacNaughton, Mr. Malcolm Anderson and Mr. Ken Clark, were not renewed.

The directors now are: myself, Mr. Lloyd Van Hall who is Vice-Chairman of the Board, Mr. Roy Church,

Mr. Albert Fia, Mr. Kenneth Holland, Mr. Lloyd McGinnis, Mr. Leonard Remis, Mr. Dan Shekhar, Ms. Frances Statham, Mr. Bernard Thiessen and Mr. David Gardave.

New, therefore, in the last year, are Ms. Frances Statham of the firm of Aikins MacAulay; Mr. Bernard Thiessen, President of Grey Goose Bus Lines and Mr. Ken Holland who is the President of Carte Electric and Chairman of the Manitoba Branch of the Canadian Manufacturers' Association, Mr. Dan Shekhar of Western International Trade, Mr. Roy Church, recently retired from the Winnipeg Transit Authority, Mr. Lloyd McGinnis, President of Wardrop & Associates, and Mr. Gardave, who is the Executive Director of the Department of Crown Investments.

Very clearly, Mr. Chairman, the results for 1983 illustrate a significant deterioration in the company's performance and the principal reasons for the operational loss of approximately \$6 million compared with the previous year's loss of \$3.4 million, will be outlined by Mr. Clark later on.

I do want to comment, though, at this stage, on the unusual warranty provision of \$6.26 million which you will observe on Statement No. 2 in the Touche Ross Report.

The magnitude of this provision, the necessary provision, has been startling to say the least, and illustrates dramatically the depth of the problems in this company's engineering and manufacturing approaches.

It must be emphasized strongly that the board, when we were confronted with the annual requirement for major warranty provision, asked management to ensure that a very thorough analysis had been undertaken from the point of view, firstly, of legal obligations to the various properties with whom the company has dealt with since 178. Secondly, a concurrent analysis of the provision necessary from a commercial point of view.

These analyses were further examined by the company's auditors, Touche Ross and Company, and both they and the board agreed that the figure included in the statement before you is as realistic as it is possible to be at this time.

Again, in terms of the details, Mr. Chairman, Mr. Clark will be in a position to deal with questions on that aspect, but I would hope that this committee will understand the caution we intend to exercise here in terms of guarded disclosure of the identification of the transit authorities involved.

For example, in the very near future, probably next month, management will be engaged in commencing negotiations with the three or four transit authorities who currently represent 70 to 80 percent of the outstanding dollar value in that provision. We would not want to jeopardize these negotiations with the potential repercussion in the marketplace in that process.

It seems unlikely in any case, that any significant settlement of the outstanding claims by the major authorities will be completed in the current fiscal year.

Turning to Statement No. 3 - Changes in the financial position - it can be seen that at the end of 1983 there was a working capital deficiency of about \$7.3 million. Obviously, the whole question, Mr. Chairman, of capital requirements to support Flyer's future viability is a major issue to be reviewed, as the Minister has referred,

hopefully in the fall of this year after the first phase of the major Productivity Improvement Program in manufacturing operations has been completed.

In the meantime, it became abundantly clear that some form of immediate funding was required to restore depleted working capital and to provide for sufficient monies belatedly to undertake an initial tooling-up program.

It was agreed, therefore in January of this year that, through MDC and under the authority of an Order-in-Council, a loan of \$9.75 million should be approved to deal with the 1984 Capital Program and the restoration of working capital.

The original intention was that \$8 million of that amount, set aside for working capital specifically, might be converted into equity later this year, but it was decided to address that conversion in April of this year and, as you will see on Page 4 on the notes, this issue is dealt with under the heading of "Subsequent Events."

At this stage, Mr. Chairman, I should comment on the contingent liabilities by means of guarantees, backing the company's performance bonding and banking requirements. As indicated in the Financial Statements, a total amount of \$40 million had been guaranteed in that fiscal year in support of the company's performance bonding requirements.

Subsequently, in addition, a further guarantee of \$13 million has been issued in support of the performance bond related to the major order from Chicago, valued at approximately at \$64 million.

Under contingent liabilities in this respect, Mr. Chairman, the total guarantees, therefore, for bonding, amount to \$53 million.

In addition to that contingency, there is also a guarantee provided by MDC to the company's banker in the amount of \$10 million in support of an operating line of credit of just over \$20 million.

The Minister referred to the consulting programs under way and I should comment now that we anticipate to commit approximately \$1 million by the end of this year to the costs of those programs. When that stage has been reached, there will be a complete evaluation and a decision made as to whether or not further work has to be undertaken and funds expended.

The leading group in the team of consultants is Touche Ross & Company. They are charged with the development and implementation of various programs related to engineering, product definition, improved performance of material management functions, parts manufacturing, bus assembly operation, industrial engineering and organizational planning.

Mr. Clark, I'm sure can comment and will comment on the progress to date in the major areas that I've just mentioned. I should just perhaps say, Mr. Chairman, that only a project management committee has been established by the board to provide direction to the consultants in the implementation and the needed monitoring of this project.

That committee consisted of the Vice-Chairman of the Board plus an alternate director, a representative of Crown Investments and Mr. Clark. The development of a long-range management information system strategy, and the assessment of the potential for computer-aided design/drafting as a tool for achieving increased productivity with the engineering function of the major parts of the contract entered into with Currie Coopers and Lybrand.

At this committee last year, reference was made to the major contract that Flyer had undertaken for the British Columbia Transit Authority for trolleys. This has received publicity in the media as you know and has been the subject of questions in the House due to technical and other difficulties experienced with the units themselves.

It now seems that satisfactory agreements have been reached with Westinghouse and the B.C Transit authority. We hope an end to the problems we've encountered there is in sight. In fact, Mr. Clark I think can bring us up-to-date even two days ago. He was in Vancouver and can bring this committee up-to-date on the resolution of that problem.

We've also referred in previous meetings of this committee to the company's obligations in relation to the Buy America Legislation whereby meaningful final assembly has to be undertaken in the United States. The first contract that Flyer has entered into specifically requiring that kind of work is the one for San Francisco and we have sub-contracted for that final assembly process with a company in Minnesota called Dickenson Lines. Again, some very recent information, Mr. Chairman, that Mr. Clark can deal with on that one. In terms of the major contract for Chicago, our second one for that city, there again it falls under that category where meaningful final assembly has to be undertaken, and negotiations are still under way with a company in the Chicago area, to undertake final assembly for that order. They've not been completed yet.

Earlier this year, Mr. Chairman, Flyer suffered from an onslaught of publicity in the media on a number of issues ranging from design and structural problems in the buses themselves, relationship with suppliers and purchasing methodology generally, to articles recounting Flyer's unsuccessful attempt to enter into some off-shore markets and the interpretation placed upon those efforts.

The remedial measures undertaken to deal with the technical issues will be reviewed by Mr. Clark, I'm sure. I can confirm to the committee that criticism of the purchasing methods of the company in the past, frankly, have been justified and significant steps have been taken under the new Chief Executive Officer to correct past problems in that regard.

I should also confirm to the committee that in two cases, the Provincial Auditor has been requested to undertake investigation and we still await his final report in respect to those investigations.

The matters relating to our unsuccessful marketing efforts in South America and related comments in respect of individuals stem from remarks and form part of a multitude of allegations which were the subject of an exhaustive investigation by the board and the Provincial Auditor. I would wish the committee to appreciate very seriously that, point by point, refutation has been made in respect of those allegations and it would be inappropriate for me to provide more than passing comment on those, in light of a judicial action we have now commenced. Until that judicial process is completed, the range of issues subject to media comment earlier this year, in my mind, have to be regarded as a sub judice situation.

Turning now to the picture for 1984, firstly let me say that major operational deficiencies last year were affected by the interruggnum between the resignation

of the previous CEO and the hiring of Mr. Clark on October 1st. As I previously mentioned, the board retained the services of Peat Marwick and Partners for a most extensive search for a new CEO and we have been highly conscious of the multiplicity of the operational problems that had to be dealt with by Mr. Clark from the day he began as President.

We still believe that there has been and still is - and Mr. Clark can comment further on this - weakness in terms of senior and middle management of Flyer, and the board, with Mr. Clark, remain concerned to ensure that those weaknesses are remedied as quickly as possible in conjunction with the assistance currently being provided by the consultants.

Mr. Chairman, the very nature of Flyer's operations is such that we would be deluded to expect a quick fix to the problems and a turnaround situation. The fixed price contracts element alone is such that a change in financial direction is fraught with difficulty until the current contracts are through the system. I am obliged to state before this committee, therefore, that there will be a loss position again for 1984 and although it would be imprudent to attempt to identify specific dollar value to that loss, perhaps, our analysis indicates that the worst position would still result in a very significant reduction from the 1983 figure.

Perhaps Mr. Clark, Mr. Chairman, could now add to the comments I have made or give more detail. I will ask him now to provide his comments.

**MR. CHAIRMAN:** Mr. Clark.

**MR. K. CLARK:** Mr. Chairman, members of the committee.

I faced an extremely difficult position when I took up office on October 1, 1983, but at least as opposed to the two previous CEOs, I had some exposure to the company's operation, in that I had participated with the board of directors for 9 or 10 months prior to that. So I, at least thought, on the surface of things, I was going into the management of this organization with eyes wide open and most of the facts up on the table.

As Mr. Jones referred in the opening part of his statement, the 1983 year-end position - if this was an ecological exercise it would be declared a national disaster - the financial condition of the company is extremely serious. We saw that at the end of last year and we put in place a three-phase program, which I think I'd like to put before you now and make some comment on the progress that we've made with the first and the beginning of the second phase.

We initiated a program called "Operation Recovery" for Flyer Industries last October and November, and the first phase of that activity was really to assess how serious the problems were, from a standpoint of the business condition, the financial condition, and the condition that the organization was in, in terms of its human resources. Having developed that strategy, we came to the board with a recommendation that on an immediate basis, within 90 days, it was necessary to reduce operating expenses to lower our overhead and to really deal with Flyer, on the base from a management standpoint, from a business standpoint, as one of a survival mode rather than any other form of medium or longer-term strategy. The company was in, and is only just coming out of, that serious a condition.

As a result, at the end of 90 days, we had lowered the operating overhead by \$1.4 million on comparable figures year-on-year. We had reduced indirect and staff expense by 28 percent, and we felt that coming into 1984, we at least had a much leaner and better organized company with which to start the 1984 fiscal year.

Phase 2 really directs itself to getting our arms around the problems of productivity, stabilizing the company's operations on a lower base of costs, making the best of what Mr. Jones has already referred to as fixed price contracts that were taken frankly at low prices, in an extremely competitive market, that really we're battling with now to find ways of reducing our costs, so that we can at least break even on those contracts and put an end to the drain of cash and losses through the organization just as quickly as is humanly possible.

We estimate that the second phase of the program is by far and away the longest and the most arduous ahead of us. It's going to take 15 to 18 months in our estimation to get this thing stabilized and turned around and the program would lead us, on stabilization of the company's operations, into the third phase, which would be a product development and research and development program that would be tied to the urban bus agreement that was recently signed with the Federal Government.

So I think, just in closing that short opening statement, I'd like to suggest that one of the fundamental reasons, in my view as a businessman, why Flyer has experienced these ups and downs over its history in the last decade, is the lack of an overall operating and long-term operational and strategic plan. The shareholder, over the last decade, really has not articulated the objectives for the investment. There has been a lack of clarity in the specific objectives that the company had. It really needs to define its mission; i.e., the business that it's in now and the business that it's going to be in over the next three, four or five years, and I think with a lower base of operating cost and the plans that are in place now, there's a reasonable chance that if the shareholder can be convinced by the board and management that this is capable of being brought into a viable position, that Flyer in fact could turn the corner in the mid-part of 1985 and stabilize its operations for the long term.

I go back a few years to some advice that my father gave me in Scotland. He gave me a lot of advice, but one piece that stuck with me was, he said, "Never forget that when times are difficult and things are really rough, you should always smile in the face of adversity." Looking back on it, I just feel that he never faced this much adversity or else he might have given me some different advice.

I'd be pleased to answer questions as would Mr. Jones, Mr. Chairman.

**MR. H. ENNS:** Mr. Chairman, I don't really have any questions for either Mr. Clark or for Mr. Jones. I use my right as a member of this committee to make my comments known.

I appreciate the difficulties that Flyer is in. I can tell Mr. Jones that his request for committee members to take with caution some of the information that might come . . .

**MR. CHAIRMAN:** For the purpose of record, it's better if the Member for . . .

**MR. H. ENNS:** I'm not particularly worried about my comments being on record, Mr. Chairman . . .

**A MEMBER:** It's better if they aren't.

**MR. CHAIRMAN:** There must be some regularity in our proceedings.

**MR. H. ENNS:** Are you telling me I can't speak from here?

**MR. CHAIRMAN:** Sure you can, but it wouldn't be recorded . . .

**MR. H. ENNS:** That's all right. That's fine. That's quite all right with me. I predate all this electronic nonsense. I still believe in talking directly to the people involved. I just want to be sure, Mr. Jones, that we will respect his request for caution in respect to specifics and perhaps sensitive negotiations involved with Flyer Industries.

I just want to tell him that he will get more respect from this committee than I get from the people that I have to knock on doors to raise the \$32 million that we are investing. Next Tuesday I have to go to a farm in Inwood and I have to explain to a young farmer, only 40 years old, why he's losing his farm. The bank is foreclosing on him. He owes money to the Manitoba Agriculture Credit Corporation and among other things, he can't pay about \$2,300 in taxes.

Every four years, people like myself have to knock on doors and convince upwards to 18,000 to 20,000 people in my constituency to pay the taxes to fund this kind of an operation.

I'm making this statement, particularly at this time, because Manitobans at this time are being asked to put up a half-a-billion dollars into another venture, a venture that they have no experience at all in. At least with buses we have had a track record of some kind.

We are now going to manufacture aluminium. I see nothing in this report that encourages me that I can knock on those doors of the 18,000 constituents of mine in the next 18 months or the next two years, that says, as your Minister of Finance says, Mr. Chairman, that, "This great investment of a half-a-billion dollars is going to produce a report much different than this."

Quite frankly, I wish Flyer well. I hope they get out of the difficulties, but it will be my intent to show, for maybe the best of reasons - social reasons - but least of all economical reasons, that the government should be involved in these kind of businesses.

We are now approaching a \$32 million deficit. That is getting close to the \$44 million that we lost in building airplanes in Gimli. That's when our courageous Premier, Ed Schreyer, finally said, "Enough is enough," and walked away from it. I'm not suggesting that to this committee at this time, but what I am suggesting is that we have very little, very little to hang our hat on in terms of competence in encouraging Manitobans to spend \$3 billion to build a dam and then put up another half-a-billion dollars to have a multinational put a smelter in this province and expect a fair return for Manitoba taxpayers.

I have to answer to the little farmer in Inwood, next Tuesday, at a bankruptcy sale, and there are many good farmers that are losing their money, and they can't come in front of this committee and plead, please, deal gently with my financial situation. They can't come and ask for another \$5 million as you are, Mr. Jones or Mr. Clark. They just go under. A lot of good people are going under right now in rural Manitoba. Not in the figures that we're talking about, but they're going under.

Mr. Chairman, all I'm saying is, and I can't understand a better way of - sure, of course Manitobans take pride; we want to build buses, we want to have aluminum smelters; we want to build airplanes to look at, but there's \$32 million of taxpayers' money involved here and I have to knock on doors and collect it every four years.

Thank you.

**MR. CHAIRMAN:** Thank you. Are there any other questions?

Mr. Ransom.

**MR. B. RANSOM:** Mr. Chairman, Mr. Clark will perhaps forgive me if I'm a little skeptical, but we've sat around in these committee hearings and listened to various and different management people talk about corporations - whether it's been Flyer Industries or whether it's been Manfor or whether it's been McKenzie Seeds or Manitoba Mineral, and generally we have received optimistic reports from the management, but yet, basically we've continued to lose money.

The year that was completed for Manfor, last October, I think the losses are probably going to be in the range of \$19 or 20 million. We haven't actually seen the Annual Report yet. McKenzie Seeds lost \$1.8 or something like that after a projection at this table, just over a year ago, that we were going to have a profit of \$1.6 million. We continue to run up these losses and the true magnitude of them is not known, because even though this deficit here shows at \$32 million, I'm quite convinced that there are other interest costs here and there that have been charged to the taxpayers of Manitoba as owners and they don't show up here. These losses, themselves, are alarming enough.

I'm pleased to hear the kind of thing that I'm hearing from Mr. Clark right now, but really why should I believe that this company is going to turn around? Should I believe that because Mr. Clark is now the chief executive officer and that's going to be the difference between us losing \$12 million last year? Do I believe it's going to turn around because we've got the Minister of Industry, Trade and Technology is who he is, and he's giving direction? Do I believe it's going to turn around because there's something about a bus company being located in Winnipeg that makes it more competitive than anywhere else in North America? Why should I believe that the taxpayers should go on putting up money for this company and expect to see some return? I don't care who tries to answer that, Mr. Chairman, I would like to have an answer that would convince me to believe in the future of this company.

**MR. H. JONES:** Mr. Chairman, I don't know whether I can give a full answer to the comments and the

questions you raised, Mr. Ransom. Can I put it this way, that at least I believe, and the directors believe, and I'm sure Ken Clark believes, that this possibly may be the first time that some injection of realism is taking place in this company, in the assessment of this company in its operations, certainly from where I sit and I've sat there, I suppose three and half years. I could comment this way, that there is more intensity in the assessment and the recognition of problems in Flyer.

Frankly, those problems are not a year or two or three years old, they go back, perhaps a decade. You know, your comment on . . . frankly that can't be denied because when one looks at comments made of these committees over the years as being perhaps consistently an overestimation of what this company could do in a given year, but let me maybe just stop there, because I think Mr. Clark can add to this in terms of the approach that's being taken now is quite different, in my opinion, from what's been undertaken previously; and we are, as I say, being as truly realistic as possible. Perhaps, Ken, you could comment on the industry as well.

**MR. CHAIRMAN:** Mr. Clark.

**MR. K. CLARK:** Going right to Mr. Ransom's question, I stay awake nights asking myself the same question because I'm not only an officer of the company but I'm a taxpayer and a businessman and I think it's a very logical thing to ask. What possible return is there for any, never mind the past investment, but on any future investment that the shareholder might see fit to make? It can't be addressed in the short term. There is no question about what I've said earlier in my presentation, that this is a series of business difficulties that this company will take a considerable period of time to overcome. All of the easy decisions in Flyer have been made; there are only tough decisions left.

The future investment, I think, needs to be assessed in the context of what this company means as a provincial resource in terms of the amount of money that it spends which is between \$7 million and \$8 million in purchases in the province, maintaining other jobs outside of the direct employment that Flyer provides. Notwithstanding that, I still think from a business standpoint it would be imprudent to invest money in a venture that didn't have a reasonable opportunity of at least breaking even over a defined period of time.

If I were to be critical of the previous activities, it's been that this funding has been made available, not on a blank-cheque basis, but certainly without the constraints and without performance criteria being attached to it, that in a normal business environment would be set by the Board of Directors and the shareholder.

So for the future, I think to reassure Mr. Ransom, I am sure of an agreement, I know I'm in agreement, with the shareholder and the Board of Directors that any future investment in the organization will be tied to specific criteria that will be measured very closely on a month-to-month operating basis and, frankly, that's the way the business is being run now.

In terms of Flyer's position overall, Mr. Chairman, it is as any other business in North America has been

in the last 18 months, in the middle of a stagnant, if not contracting market, which has been highly competitive and made more so by the interjection of some European companies into the transit industry; and it is facing, in my view, a couple of years of extremely stiff competition. We're going to have to rebuild both the technological resources and the people resources from the ground up.

This is not one department, or one discipline in the company approach, which frankly has been one of the major problems in the past. Just to use an example, we, over the past two or three years at different points in the company's experience, have got one particular discipline in the company organized extremely professionally. For instance, field service, or engineering, or marketing, or finance, but these things have been dealt with in isolation from the whole and as a result, the company has never been able to benefit from a co-ordinated and overall strategic approach to running the business and, frankly, that is an extremely significant change, Mr. Ransom, in the company's approach to its day-to-day operations.

We've consolidated the management group's activities. We've made the organization leaner and that's helped in the communication process. We're making, I think, significant progress, that the board or shareholder, on behalf of the taxpayer's of the province, are monitoring and measuring very carefully. So there are some significant changes in terms of how the company is being run, in terms of its accountability, in terms of its position in the marketplace. Albeit, the short term future is still one that's fraught with difficulty and it's a severe financial risk.

**MR. B. RANSOM:** I want to stress, Mr. Chairman, that I as a member of the Legislative Assembly, feel almost complete frustration at the inability to control anything with respect to Crown corporations. We come before this committee and we receive assurances from management about all the things that have been done wrong in the past and all the good things that are going to be done in the future. We had almost word for word the same kind of report from the new Chief Executive Officer of McKenzie Seeds, bad management in the past, bad management. Aside from any inability to control that through the Legislature, it certainly raises the question in my mind even more than it's existed there because of my Conservative philosophy, as to what the chances are of government being able to run this kind of so-called profit-making enterprise because the history of these corporations in Manitoba has been absolutely dismal.

The taxpayers of Manitoba have lost tens of millions of dollars through investments in things that should be profit-making, should be helping to provide the services, pay the taxes and so on that the people want. It doesn't work that way and that's because these ones have had to operate where there is a market. Of course, it also raises very serious questions in my mind about Crown corporations that have a captive market and can adjust their prices to cover the costs as well, which this corporation, of course, is not able to do; but that's another issue.

Now Mr. Clark raised two points, both which I find interesting, but both of which I find a little contradictory

and that earlier on in his statement he talked about the lack of overall goals and objectives, and the thought went through my mind at that time that I have recalled, I'm quite certain, the Member for Brandon East, at one time talking about Flyer Industries, saying that one of the reasons that Flyer Industries had to be here in Manitoba is that somebody had to be competing with that multinational, General Motors. That struck me as odd at the time as to why the taxpayers of Manitoba should take it as their mission to establish a bus building company to compete with General Motors, especially since we were losing money at it. I thought ah ha, Mr. Clark at least is not thinking that way and he's going to look for something else.

Then in a later comment he talked about the value of the company as a provincial resource; what it means in terms of the purchases that are made in the province; and what it means in terms of jobs. Well, that kind of raises in my mind, again then, the possibility that this company may be maintained for different purposes than a wealth producing company should be maintained, in my view.

I'd like to ask the Minister whether he and the government, then, have come to grips with the problem that Mr. Clark outlined earlier, about the necessity of establishing a firm strategy and a goal and a mission for the company? Has that been dealt with and can the Minister give us an indication now of where he sees it going; why he continues to believe that the taxpayers should continue to pour money into it to subsidize it for some future objective?

**HON. E. KOSTYRA:** I don't believe, and my government doesn't believe, that we have to and will continue to subsidize, in the member's terms, to the extent that has been the case and certainly is the case in terms of what is before us today. It's not the government's intention to continue that kind of situation. There's no question about that, what we want to be satisfied of, and why we have worked with the board, given direction to the board and the Chief Executive Officer, in terms of the work that is being undertaken now, for the first time, has been highlighted by Mr. Jones and Mr. Clark. For the first time, taking a comprehensive look, if you will, comprehensive evaluation of the total operations of the corporation in terms of the manufacturing, in terms of the engineering, in terms of the market and, as was indicated by September or the fall of this year, be in a position to have that kind of information that will be able to give us a picture of what, realistically, the future of the corporation is.

It's our view, and here I'll get into the area that the member talks about, the contradiction; in terms of one hand having an efficient viable operation and the contradiction, as he stated it, in terms of a provincial resource, we have to obviously look at having this corporation, because of its nature, because it is a commercial operation, that it has to be able to compete and compete successfully in the marketplace. If that is not possible then we have to look at other options, but at the same time we have to weigh what the value of this corporation is as indeed government, from time to time, has to look at the value of other operations, be they in the public sector, be they in the private sector, as the member is aware of in terms of what it

means to the province and at what cost to the province, if any.

So, I don't believe that those are necessarily contradictory positions, but the position of the government is that we want to be satisfied that there is a future for this corporation in the province and in the particular related market field that it is operating. I believe, though I'm not saying this in terms of giving optimistic projections in terms of the future; but I'm satisfied that with the work that's being undertaken now under the direction of the board and the Chief Executive Officer and involvement of the government, that we are going to have a realistic picture by the end of this year in terms of what the future might be.

**MR. B. RANSOM:** Is the Minister aiming at a bottom-line of making a profit in the same sense that a capitalist investing his money would aim at making a profit?

**HON. E. KOSTYRA:** The aim, I believe is to not have, to have this corporation being a viable corporation here in the province, not costing the taxpayers any money, and if that is indeed attainable then making a profit, either in terms of direct return or indirect return in terms of what it provides for the provincial economy.

I think what we have to recognize though is why we are at the stage with this particular company and how we got here. It wasn't that the government decided it was going to go into the bus manufacturing field; it was an attempt that started, as the member is aware, many years ago to try to save an existing operation here in the province.

**MR. B. RANSOM:** Has any effort been made to get a private investor, either as a partner or as an outright owner?

**HON. E. KOSTYRA:** All of the options that might be available for Flyer can be and will be pursued. In terms of a private buyer, at the present time there is no such situation that is under, what I would state, under active consideration, but all of the options with respect to Flyer are available and will be pursued.

**MR. B. RANSOM:** Is it because the government isn't actively seeking a private partner at the moment, or is it because the government isn't able to convince a potential private partner that this is a good investment? What's the present situation in terms of activity there? Is the government just waiting if someone comes along that's interested they're prepared to talk to them, or are they actively seeking private investors?

**HON. E. KOSTYRA:** The emphasis at the present time, as was outlined by Mr. Jones and Mr. Clark, is to get the work completed in terms of the present operation so that we know exactly what the status is of the corporation so that we can be in a better position, a more knowledgeable position to explore all of the options for the future with respect to Flyer, which would not exclude any of the areas that the member mentioned.

**MR. B. RANSOM:** Mr. Chairman, from my point of view, there really isn't much point in me trying to raise

questions about any sort of technical aspect of the operation of this company. I could return to the point I was making before, the futility of that from the point of view of the Member of the Legislature who has to accept some responsibility for the public interest in this thing. I refer to the comment about the fixed price contracts. It seemed to me, as a layman, at the time that I heard about those sorts of contracts, didn't seem to make sense to me, yet I'm absolutely certain that if we sat at this committee and raised the question, I would have received all manner of justification that would have demonstrated that I have very little knowledge about the bus manufacturing industry. So I'm not even going to try and raise questions about the operation of the company at all, but I sincerely hope that the Minister and Mr. Jones and Mr. Clark are correct and justified in their optimism. I hope that when we get here next year that it will have been justified. If it isn't justified when we get here next year, I expect that the committee will probably take a little more time to find out what went wrong, because we're looking at a situation now where last year the taxpayers lost probably \$35 million, identifiable losses on their Crown corporations, \$35 million.

The Minister of Finance told us that for every \$100 million of expenditure, there are at least 5,000 jobs involved and that \$35 million could have been going to put in place the kind of assets that the Minister has been talking about and creating the sorts of jobs . . . Anyway, Mr. Chairman, there has to come an end at some point to that kind of money that's being spent and it's one of the reasons why I've been interested in trying to identify the real costs with these companies, so that we really can weigh the benefits. If we've got a loss in a company that the taxpayers are being asked to pick up, and on the other hand we're looking at how much money the corporation is spending on purchasing, how many people they're employing, we should at least have the means to evaluate what the costs and the benefits are. That hasn't been the case in most of the reports that have been prepared.

I asked Mr. Jones earlier if there's any place where we can freely identify the total cost to the taxpayers of Flyer Industries and he said that he would try and deal with that question when we dealt with the Annual Report. Can he give me some indication now of that?

**MR. H. JONES:** Well, the wider perspective you're taking of this question, Mr. Ransom, I can go just looking back into - and it's really ancient history now - where the first conversion of debt, unmanageable debt by what was - I think it was even before the name changed to Flyer - where there was conversion of debt to equity of \$26 million by the then government, I forget the exact date. Subsequently, the loans, direct lending by MDC, at rates which were the commercial rates at the time - frankly, in view of the wider comments you've made, Mr. Ransom, I'm not in a position to give you a very specific answer, but we'll certainly take this under consideration.

**MR. B. RANSOM:** Am I at least correct in assuming that there have been much greater costs to the taxpayer of Manitoba than reflected in that figure of \$32,548,043 deficit?

**MR. H. JONES:** Frankly, Mr. Ransom, I don't believe so, but I would really like to address this issue in detail and get back to the Chairman of the Committee and to yourself. You've asked a number of questions around this issue which are interesting and require some better examination than I can give at this table.

**MR. B. RANSOM:** One other question then, Mr. Chairman. Does the government have any kind of equity in this corporation that is not accumulating a charge?

**MR. H. JONES:** No, Mr. Ransom.

**MR. B. RANSOM:** Have they ever had that kind of equity?

**MR. H. JONES:** No.

**MR. B. RANSOM:** If they have never had that kind of equity or never made an outright grant or an interest-free loan, then presumably this figure would be accurate. Have there been outright grants or have there been interest-free loans?

**MR. H. JONES:** There have never been any outright grants to my knowledge in the history of this company, but as I said earlier, the conversion of debt to equity, the original \$26 million, was really in effect a write-off of a previously unmanageable debt, but I'm not aware of any direct grants going into this company.

**MR. B. RANSOM:** But on the write-off then of that \$26 million, there has been no interest charge or dividend charge, or whatever, accruing to that since?

**MR. H. JONES:** That's correct.

**MR. CHAIRMAN:** Are you finished with the line of questioning?

Mr. Scott.

**MR. D. SCOTT:** Thank you very much. Needless to say, this report gives us all a great amount of concern. I think if anyone shouldn't have uttered comments this morning, it would have been the Member for Lakeside, for not uttering some of his nonsense that he tossed out this morning.

**MR. B. RANSOM:** You're right. You said "needless to say."

**MR. H. ENNS:** You started off by saying, "needless to say," and I say don't say it.

**MR. CHAIRMAN:** Mr. Scott has the floor.

**MR. D. SCOTT:** Some of us been watching, not only Flyer Industries but other Crown corporations quite closely and other corporations within our society and I think from a philosophical perspective, I'd like to just make note initially that governments, unfortunately, and particularly in North America, somewhat more so than other jurisdictions, oddly enough far more so than my experience from what I learned last year in Sweden, run to the rescue of private corporations, take them

over, turn them into government corporations, or just constantly toss more money toward them. We have that in Canada in the pulp and paper industry. We've had it in Canada and the U.S. in the auto industry. We have it in the oil industry where our Northern explorations are 85 percent paid for by government. We've had recently in Manitoba in the mining industry to try and maintain and stabilize Northern mining communities which is responsible action. We've had it to General Motors bus plants in Quebec and in London, Ontario. Just to follow an opposition line of a simple attack on something because it's a Crown corporation without recognizing the amount of funds that are flowing to outside private corporations in the country, to try and stabilize them and assist them, I think is being a touch narrow.

On the other hand, where we have public responsibility, where it's accounted for up front and up centre, I am somewhat pleased, I should say, that this is by far the frankest analysis that has come forward to any committee that I've sat on, as to the current situation of some of our Crown corporations and in the industry as a whole, needless to say we're in a very, very difficult situation. We have additional competition with Volvo building a plant, I understand, in the northeastern United States. I understand the West Germans are moving into the U.S. market to a greater extent as well, with technology far beyond what we have at our grasp here.

So, I think that they're giving us a realistic assessment and not telling us that Flyer is going to go on indefinitely and regardless of the situation that evolves at Flyer. I think, not only Mr. Clark and Mr. Jones, but also Mr. Kostyra and the Government of Manitoba will at the end of the current consulting report on the analysis of the potential for the future of this firm, will be looking very frankly at whether or not we can afford to continue.

I'd like to start, I guess, in some questions for a few minutes on just how willing are you, Mr. Jones and Mr. Clark to, in analysing the report that we get down the road from I believe it's the same firm, that is, the accountants of Touche Ross and Co. who are the leading corporation in the analysis, looking at both engineering and manufacturing operations and organizational planning of the firm.

How willing will you be toward accepting their recommendations if the recommendations are negative and paint a very pessimistic view for the future?

**MR. CHAIRMAN:** Mr. Clark.

**MR. K. CLARK:** One of the - is it Mr. Scott?

**MR. D. SCOTT:** Yes.

**MR. K. CLARK:** Mr. Scott, one of the reasons that the shareholder and the management and the board elected to get some third-party objective help in assessing the viability of Flyer is that there's been a tremendous amount of rhetoric in the marketplace and in the media about what the value of the company was and whether, in fact, it was preservable or whether it was an operation that could go on from here and break even.

My feeling is that they will present a series of alternatives, not necessarily one single conclusion. The

shareholder and the board of directors at that time will have to deal with the alternatives that are presented, which could cover a broad spectrum of possibilities, the bottom side of which is, if it's not a viable business it should be closed, all the way through recapitalization, developing new technology to be in the bus market in competition with the companies you've mentioned, with performance criteria that I talked about before attached to the investment over a time horizon that the company can reasonably expect to repay some dividend on the taxpayers' investment, to the broader issue of merger acquisition, joint venture or sale.

I'm sure that the conclusions will cover and touch on any one, if not all of those possibilities towards the end of 1984.

So, given my experience with the organization and the progress we've made in the last two months, I would have to say that my vote would be solidly behind the range of alternatives that they present. Once they've been examined, I don't think you'll find the management shy about providing the shareholder and the board with some advice as to what direction we take.

**MR. D. SCOTT:** That's good to hear. I've just got a couple of questions. It's my intention to finish before 12:30 so that we can pass the report.

Flyer has not had a very good reputation as far as both internal management and in particular industrial relations. I would like one the gentlemen with us today, perhaps Mr. Clark, to indicate just how much information do the workers themselves have as to the state of the company and the future of the company. How realistic are they in their assessment and are they being any kind of participants in this review so that they are quite frankly aware themselves as to the role they must play to make this thing fly?

**MR. K. CLARK:** I can tell you from first-hand experience with our partners in labour. I very much see them as that, not just in this company but in any company that's operating with a union collective agreement in North America, it really has to be a partnership.

The first series of meetings that I held with employees of the company were, in fact, with the unionized work force because they hold in their hands 80 percent of the means of production by which this company can be made to be competitive and profitable. So they are involved in the process; they know exactly where the company is headed this year. They've been in private meetings with myself and the senior management, apprised of what we're undertaking in the balance of '84 with these consultants. They are very much an ongoing part of the decision-making process and what happens to the company.

Let's face it, they represent 80 to 85 percent of the people in the organization and without their ongoing participation and co-operation, no management team is going to succeed in turning this thing around.

**MR. D. SCOTT:** Have you undertaken any . . .

**MR. CHAIRMAN:** The Minister wants to make a statement.

**HON. E. KOSTYRA:** Just further to the comments of Mr. Clark. I think it's clear that the effort that is going

on in terms of the work under way, looking at the long-term future for this company, that the employees there, the unionized employees, the middle management, the other employees, have to be totally involved if this corporation is to succeed.

It's my intention to be looking at having as the major shareholder, to appoint some representatives of the workers on to the board of directors.

**MR. D. SCOTT:** I think that's a very important step, Mr. Chairman, in that the workers from my experience, if they're kept out of the detailed discussions and out of being very much aware of what is happening in their workplace, their decisions that they make are not necessarily going to be grounded on the rational decisions. They should be able to make good strong rational decisions - a rational basis, I should say, to make good rational decisions.

The . . .

**MR. CHAIRMAN:** The time being almost 12:30, what is the pleasure of the committee?

**MR. D. SCOTT:** It's not almost 12:30, Mr. Chairman.

**MR. CHAIRMAN:** Does the committee pass the report.

**MR. D. SCOTT:** Mr. Chairman, it's not almost 12:30 and I still have the floor. It's 12:25.

**MR. CHAIRMAN:** Sorry, the Member for Inkster.

**MR. D. SCOTT:** I've got five minutes left. How much has the Buy American requirements to sell into the U.S. market, how much has that cost us in lost revenues at this plant for - or expected in lost revenues for work that would be completed here that now has to be completed in the U.S.

**MR. CHAIRMAN:** You may carry on the conversation in the hallway.

Is there a question here?

**MR. D. SCOTT:** Yes, there was. It's very clear. I think . . .

**MR. K. CLARK:** I'm sorry. Could you just restate that for me, Mr. Scott?

**MR. D. SCOTT:** Okay, when a bus is worth - I don't know what - \$125,000, and if \$30,000 of that work has to be completed in the United States it's a substantial loss to us. It's a substantial loss to us and I'm wondering how much that is weighing on the decision or the viability of this plant by the United States or a major market having a Buy American requirement for final assembly in the bus business?

**MR. CHAIRMAN:** Mr. Clark, briefly.

**MR. K. CLARK:** Well, since that market represents 85 to 90 percent of our revenues this year and will continue to next year and the year after, we obviously have to comply with the requirements of Buy American, a minority business and women's business enterprise. It has an effect in terms of the portion of the work that has to be performed in the United States, equal to approximately \$6,000 to \$8,000 a bus. It's significant in terms of our need to adjust the work force in terms of Flyer's operations in Manitoba, but it's a known situation. You have to comply with the legislation and the work has to be done there, so you really have no choice.

**MR. D. SCOTT:** How much has it contributed to the - as you described it - the disastrous situation this past year, the 1983 year?

**MR. K. CLARK:** We haven't actually undertaken any final assembly as yet, Mr. Scott. It starts on the first contract for San Francisco in about two to three weeks time. Much of the preparatory work was done during 1983, and obviously it's an extreme distraction, because you're now managing a parts manufacturing plant in Fort Garry, an assembly plant in Pandora, and a third location somewhere in the United States, that's owned by a separate and third party, so you lose some control over the process.

**MR. D. SCOTT:** My final question, Mr. Chairman, is regarding government bonding. I understand there is \$53 million that the government has bonded in guarantees to sales. If Flyer was to close up today, or in a couple of months down the road, or a year down the road, how much would be our obligation of that \$53 million; would we still have to pay that total amount out? Obviously the contracts will not be fulfilled if there is a bonding requirement for us to deliver them. Is the government then responsible for paying that bonding?

**MR. K. CLARK:** The \$53 million is a guarantee against a much higher dollar level of actual bonding in force. At this point in time, there is over \$100 million in bonding in the marketplace, and every one of those bonds is callable by the holder, i.e., the customer, on the basis of non-performance by Flyer.

So in answer to your question, absolutely. If the company ever wound up now you would be at risk to the value of the guarantee at least and then some.

**MR. CHAIRMAN:** Shall the committee pass the Report of Flyer Industries?

Report of Flyer Industries—pass.  
Committee rise.

**COMMITTEE ROSE AT:** 12:30 p.m.





