



Fourth Session — Thirty-Second Legislature
of the
Legislative Assembly of Manitoba

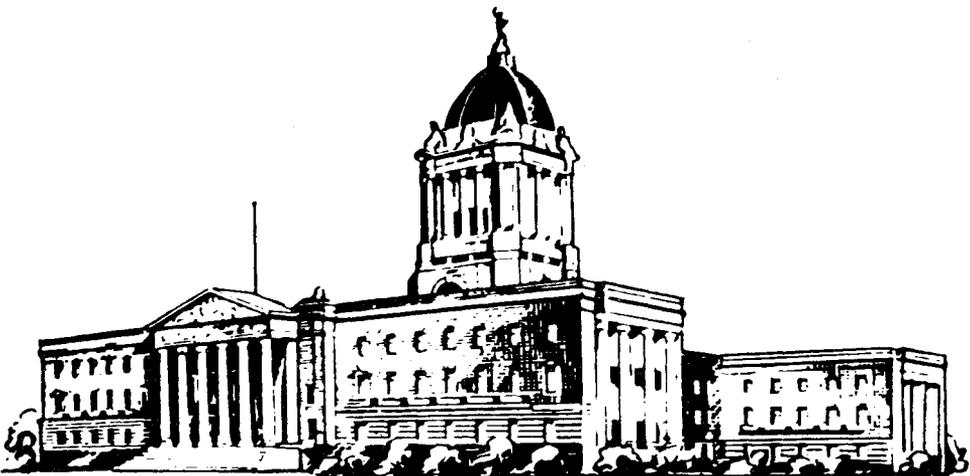
STANDING COMMITTEE

on

ECONOMIC DEVELOPMENT

34 Elizabeth II

Chairman
Mr. C. Santos
Constituency of Burrows



MG-8048

VOL. XXXIII No. 1 - 10:00 a.m., THURSDAY, 9 MAY, 1985.

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Second Legislature

Members, Constituencies and Political Affiliation

Name	Constituency	Party
ADAM, A.R. (Pete)	Ste. Rose	NDP
ANSTETT, Hon. Andy	Springfield	NDP
ASHTON, Steve	Thompson	NDP
BANMAN, Robert (Bob)	La Verendrye	PC
BIRT, Charles T.	Fort Garry	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
DESJARDINS, Hon. Laurent	St. Boniface	NDP
DODICK, Doreen	Riel	NDP
DOERN, Russell	Elmwood	IND
DOLIN, 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, Hon. Harry M.	The Pas	NDP
HARPER, Elijah	Rupertsland	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
MANNES, Clayton	Morris	PC
MCKENZIE, J. Wally	Roblin-Russell	PC
MERCIER, Q.C., G.W.J. (Gerry)	St. Norbert	PC
NORDMAN, Rurik (Ric)	Assiniboia	PC
OLÉSON, 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
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, 9 May, 1985

TIME - 10:00 a.m.

LOCATION - Winnipeg, Manitoba

CHAIRMAN - Mr. C. Santos

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Harapiak, Kostyra, Hon. Mrs. Smith, Hon. Mr. Storie
Messrs. Adam, Ashton, Gourlay, Johnson, McKenzie, Ransom and Santos

APPEARING: CEDF:

Mrs. Bernice O'Connor - Chairman of the Board
Mr. Hugh Jones - General Manager
Mr. Alex Musgrove - Assistant General Manager and Treasurer
Mr. Michael Fisher - Receiver
Mr. Gregg Goodwin - Secretary

Channel Area Loggers:

Mr. Lester Everett - Chairman of the Board
Mr. George Kemp - Manager
Mr. Gordon P. Trithart - Secretary-Treasurer

Moose Lake Loggers:

Mr. R.J. Kivisto - General Manager
Mr. Gordon P. Trithart - Secretary-Treasurer

MATTERS UNDER DISCUSSION:

1984 Annual Reports of:

**Communities Economic Development Fund
Channel Area Loggers Ltd.
Moose Lake Loggers Ltd.**

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**COMMUNITIES ECONOMIC
DEVELOPMENT FUND**

MR. CHAIRMAN: There being a quorum, I call the Committee on Economic Development in order to consider the Annual Report of the Communities Economic Development Fund. I would like to invite the Honourable Minister to make his opening statement and to introduce some of his staff members present today.

HON. H. HARAPIAK: Thank you, Mr. Chairman. Let me begin by introducing the chairperson and staff members of the committee.

Mrs. Bernice O'Connor is the Chairperson of the fund. Mr. Hugh Jones is the General Manager. Alex Musgrove is Assistant General Manager, and Mr. Gregg Goodwin is the Fund's Corporate Secretary. Also Joe Couto, who is our Director of Communications, and also

present is Mr. Michael Fisher of the Development Corporation staff who is also the Receiver for Lake Winnipegosis Development Corporation.

Mrs. O'Connor will have some opening remarks with respect to the fund's 1983-84 year but before she begins, Mr. Chairman, let me say that I am pleased to have this important agency as part of my portfolio. I have already met with the directors of the fund on a couple of occasions to review with them current policy guidelines arising from those discussions.

I can advise the committee once again that the fund's directors continue to place emphasis upon Northern Manitoba when they are asked to consider loan applications and in that context, it might be useful now to recall that 85 percent of all approvals made by this fund have been directed to the North.

The directors have made it clear to me that while they believe that emphasis has been valid and a primary trust of the agency, they still wanted the latitude to give consideration to some applications from the more southerly areas under stringent circumstances.

For example, the board feels that it could well be equitable to restrict the fund's activities to a well-defined geographic area and as such, many communities in the Interlake area, if they restrict it to a well-defined geographic area, many parts of the Interlake would not qualify for assistance under the fund. The directors, therefore, will judge each application on its merit.

I look forward to a continuing dialogue with the directors, and I would only say that I believe that significant effort has been put into the work on this fund by the board and the staff, dealing quite often with very difficult circumstances. I am sure that Mrs. O'Connor has some opening remarks, so I will ask her to present those remarks at this time.

MR. CHAIRMAN: Mrs. O'Connor.

MRS. B. O'CONNOR: The report of the fund, Mr. Chairman, covers the year ended March 31, 1984. Mr. Jones will be able to provide the committee with an update on the current activities of the fund, and I would like to mention the present content of the board and review some policy initiatives which the fund is considering.

During the latter part of the fiscal year under consideration and during the past year which just ended, because of pressures upon their time, three members of our board have resigned at various times.

Our present board content includes Mr. William Bennett from Matheson Island, Ms. Barbara Bruce and Mr. Archie Wiens from Winnipeg, Mr. Eli Harper of Red Sucker Lake, Ms. Elizabeth Isbister from Norway House, Mr. Nestor Dolinsky of Flin Flon, Mr. Roy Chartrand of Inwood, as well as myself from Churchill as Chairperson.

Of the 63 loans approved in the fiscal year just ended, eight of those were to enterprises owned by Treaty Indians, and 53 were in communities north of the Department of Northern Affairs' line. The fund's very

obvious bias to provide financing to businesses in Northern Manitoba therefore remains crucial in the terms of CEDF's mandate.

Interest rates on loans offered by the fund continue to be tied directly to the Bank of Canada rate itself, where for example loans approved at yesterday's board meeting carried an interest rate of 10 percent.

The fund's directors have remained very conscious of the need to relate directly to individuals in Northern Manitoba and for that reason, the board is presently considering a communications strategy which would clearly present the fund's program and mandate to the areas in the province which the fund serves.

This may include pre-advertised visits by management and staff to individual communities and tailoring our annual report to outline to a greater extent the fund's policy and mandate.

During this fiscal year, we should be implementing some of these ideas with the view of ensuring that the fund's capabilities are well-known.

Administrative specifics I will leave to the general manager. However, I wish to express my sincere appreciation and thanks to my colleagues on the board of directors for the considerable effort they expend on behalf of the fund.

I would particularly like to express my appreciation, on behalf of the directors, to the staff for their continued support and hard work in carrying out the fund's objectives.

I would like to ask Mr. Jones now to summarize the significant issues and the fund's financial statements, and to update the committee on our other activities. We would be pleased to respond to questions from members after that.

MR. CHAIRMAN: Mr. Jones.

MR. H. JONES: Mr. Chairman, if I could begin then with some of the specifics in the report before the committee, on Page 5, in the comments I have made, I refer to the fact that during that fiscal year, 49 applications for assistance were approved. A further 10 were submitted to the board for consideration and declined. Thus, there was an overall total of 59 applications examined by the directors during that fiscal year.

Subsequently, 15 of those loans approved were not taken up for various reasons and thus, 34 new loans were added to the fund's portfolio during the year under review.

Once again I can advise the committee, that from a loan repayment standpoint, if one were to use that as one factor in the assessment of our investments, approximately 79 percent of all loans approved have been successful.

If one looks at the overall total of 453 approved applications since 1972, I would suggest, Mr. Chairman, that recognizing the acknowledged high-risk situations with which we deal, the ratio continues to be at a reasonable level.

Clearly, any failures resulting in direct-dollar losses are serious, and I can only advise the committee that efforts are continuing, and always will continue, by the board, management and staff to ensure that the analysis and monitoring of the fund's loans continues to improve.

In recent months, Mr. Chairman, there has been publicity relating to two major failures, and I would like to address those perhaps later on during this meeting.

If one looks again at the communities we've assisted on Page 6, we can see that the emphasis on the North, as chairperson indicated, continues to be very strong. We have with us some specific statistics in this regard if members require information on those points.

Turning now to the audited financial statements on Page 10, under Current Assets, you will see an increase of just over \$19,000 in office furniture and equipment. Primarily that increase relates to the acquisition of word processors by CEDF for the first time and a computer to accommodate more effectively the increased flow of work.

Under Liabilities under the heading, Funds Held in Trust, of \$40,392, I can advise the committee once again as I did last year and the year before, that item relates to a very long outstanding arrangement whereby CEDF received monies from the old SNEP, Special Northern Employment Program. With a mandate today, those monies would be made available on an interest-free basis to emphasize management assistance and sometimes working capital. Those loans were intended to be subject to forgiveness, depending upon the economic viability of the borrower's operations. Those monies have, in effect, now been utilized, and the next balance sheet will not include that item.

Turning to Page 11, under Administration expenses, we have a breakdown of the \$24,922 listed as consultants' fees and expenses. As I mentioned last year, those relate almost entirely to outside professional accounting assistance for our clients. In the year under review, the major portion of that expenditure related to accounting assistance for Beef N Reef Restaurant Limited in Lac du Bonnet.

The increase in the directors' fees and expenses is related to the addition of one more director, making the full complement of eight on the board of the fund. It also reflects, Mr. Chairman, the costs of bringing the Northern directors in to board meetings.

There has been no increase in staff. In fact, a reduction of one professional since the year under review, but the dollar increase there is entirely related to adjustments following the MGEA agreement.

There is reference on Page 13 of the report, Contingent liability, to two statements of claim having been filed with the court. Both of those claims relate to an old issue regarding land in St. Laurent in the Interlake, in the Queen's Bench trial earlier and an appeal trial. We had thought as a result of those trials, the matter has ended, but it is not the case. A further Queen's Bench trial has been set tentatively for November of this year to deal with a claim by Lake Manitoba Estates Limited against the fund for losses alleged to have been incurred due to delay in the land conveyance. It would not be my intention to go into detail on that issue, Mr. Chairman, because of the forthcoming trial.

It might be of interest to the committee in terms of some of the questions that were asked last year at this forum on the fund's entry into loans for Indians of Treaty status. Although the call upon our resources has been minimal in this respect, both in terms of numbers and dollars, I would like to just briefly refer to a very successful enterprise.

It's listed in the Schedule of Assistance, Wa-Wa-Taik Building Supplies Ltd. This is a private organization, wholly owned by eight Indian Bands, comprising the Southeast Resource Development Council. If the members request, Mr. Chairman, I can provide the listing of the Reserves in question.

This company in July, 1983, began a program with an overall cost of \$340,000, financed by a CEDF loan, a Special ARDA grant and equity of \$23,000.00.

As you can see from Page 15, the fund approved a loan of just over \$291,000.00. It has to be understood, however, that it included bridge financing of the ARDA grant, so the term loan will not obviously be that size.

The business, the supplies of building materials for housing construction has succeeded far beyond what we expected with gross revenues now approaching \$2 million a year. The intention of the chiefs involved right from inception was to attempt to increase service to the Bands, as well as to retain a greater portion of the funds flowing through the Reserves and to generate income for the Bands and create an employment base. I think this is a good example of a shared involvement in a Treaty Indian enterprise between the fund and the Government of Canada.

Just to conclude my comments, Mr. Chairman, we referred earlier to a loan to the Lake Winnipegosis Development Corporation early in 1983, when a federal Special ARDA grant of \$205,000 was approved and a loan of \$450,000 from the fund was made. There were a number of reasons for the failure of this operation were not leased, the very poor market prices for lumber in 1983, the delay in taking that lumber to market resulted in prices completely incapable of supporting the production that had already occurred, and placed the obvious strains on cash flow for production in 1983-84.

Summarizing, the result was that in March, 1984, the company was placed into receivership under the fund's debenture and Mr. Michael Fisher of the MDC staff, who is here with us this morning, was appointed receiver. He was given a mandate to operate the company at minimum cost and risk for the spring-summer sawing season to obtain the maximum return on the inventory of logs.

In November last year, Mr. Chairman, the assets of the company were listed for sale by public tender. The result was Abitibi-Price paid \$144,600 for the timber quota, and the manufacturing assets in Winnipegosis were sold for \$60,000 to a company called Nordevco Associates. There will be a significant shortfall in recovery of just over .25 million.

In regard to the Beef N Reef Restaurant Limited, Mr. Chairman, which has been a major issue recently, I have to be very cautious how I respond to questions on that case. The business was placed in receivership in March this year, and the receiver being Touche Ross Ltd. Dealing with the receiver's information and progress in terms of disposition could be prejudicial to the receiver's efforts to realize maximum proceeds. Moreover, it probably would be inappropriate to be made public before filing the information in Queen's Bench.

Having said that, Mr. Chairman, I believe the chairperson and/or myself would be willing to comment upon some of the general difficulties experienced in the attempts we made during our relationship with that

company, and the intensive efforts made by the fund to deal with the disaffected shareholders.

I think perhaps I should stop here, Mr. Chairman, and try to respond to questions the committee members may have.

MR. CHAIRMAN: The Chair requests some guidance from the committee members as to the manner by which we shall consider the Annual Report of the Communities Economic Development Fund.

Shall the committee consider the report page-by-page, or shall we consider the report as a whole?

The Member for Swan River.

MR. D. GOURLAY: Mr. Chairman, I would suggest that we have some general questions relating to the report, and also the statements made this morning, and then at the end we can probably end up by passing the report.

MR. CHAIRMAN: So we shall consider the report as a whole. Is that agreed? Agreed.

Some general questions - the Member for Swan River.

MR. D. GOURLAY: Yes, I would like to, Mr. Chairman, ask as to the types of applications that have been received. I appreciate the fact that most of them have been dealt with in the North.

Were many applications received from southern Manitoba as well?

MR. H. JONES: Mr. Chairman, the number that have been dealt with from southern Manitoba still continues to be extremely small. Looking at the listing on those approved in the report before you, for example, I think there are four only, south of the line of the Northern Affairs jurisdiction.

I think if one goes back the last couple of years, and certainly in terms of this fiscal year just ended, that still remains the case where the largest percentage of loans approved is still towards the North.

MR. D. GOURLAY: It is interesting to note that - I believe the general manager indicated there were eight loans made to Treaty Indians - and I think that this is an increase from the previous report. The difficulty in the past has been to obtain any collateral security on these kinds of loans.

I am wondering if the general manager or the Minister can indicate where these loans are, also as to the collateral that has been obtained against the loans for these, and also the kind of projects that the loans have been made for.

MR. H. JONES: Mr. Chairman, in the listing before you, you will see Sampson Harper in Red Sucker Lake, a small retail store, the major one I referred to in my opening comments, which is - the location of that business is on the Brokenhead Reserve - that as I said is a combination of eight Bands.

Mr. Gourlay's question in terms of collateral, the position really hasn't changed in terms of being able to - if I can use this expression - fully secure the loans we make. But again - and I don't want to overemphasize the Wa-Wa-Taik Building Supplies one - but that is a

company where the shareholders are eight Indian Bands. We persist, and we will continue to persist, in taking the security. We realize that access to the reserve is very restricted but in that case, for example, we have added to the security a joint-and-sever guarantee of all the bands for the full amount of the loan.

It remains to be seen - and I go on saying - I think this a very successful business and the judgment, of course, was made in terms of expected cash flow. If we had to realize on the assets really on that one, the real worth would be in the value of the guarantee, not in terms of access to the reserve to seize the equipment, because that is not permissible under The Indian Act.

MR. D. GOURLAY: I wonder if we could have information on the other seven loans that were approved. Which ones are they?

MR. H. JONES: I am sorry, there may be some confusion here, Mr. Chairman. In the report before you, it's not eight. I think Mrs. O'Connor referred to eight Treaty Indian loans for the fiscal year just ended. Mr. Musgrove, do you have a listing of those? I think Mr. Gourlay wanted the location and the types of businesses.

MR. CHAIRMAN: Mr. Musgrove.

MR. A. MUSGROVE: I can only give some general comments here. There were a couple from Grand Rapids for skidders. There was a school bus operation at Fort Alexander. There was a small store at Red Sucker Lake, and there is winter road construction at Oxford House. There is a bus line company in Thompson. One more, there was a hardware store in Grand Rapids.

MR. CHAIRMAN: Mr. Jones wants to add something.

MR. H. JONES: I just wondered whether we could provide you, Mr. Chairman, with the clear specifics on those accounts in response to Mr. Gourlay's question, if we could take that as notice and come back.

MR. CHAIRMAN: The Member for Swan River, is that agreeable?

MR. D. GOURLAY: Yes, that would be agreeable.
I wonder if I could ask another question. With respect to the federal program, I think it's the Native Economic Development Fund, that is also available. I'm wondering if there is any close tie-in with the CEDF and the federal funding for Treaty Indians.

HON. H. HARAPIAK: To the Member for Swan River, there has been no tie-in with the Community Economic Development Fund and the Native Economic Development Fund.

MR. D. GOURLAY: Is that fund still available to Treaty Indians, the Native . . .

HON. H. HARAPIAK: Yes, it is.

MR. D. GOURLAY: Okay. I would like to go to Page 11, the consultants' fees and expenses. I wonder if the

general manager or the Minister could indicate what consultants are used in the CEDF.

MR. H. JONES: I'll get the specifics from Mr. Musgrove but, as I said earlier, Mr. Chairman, really we're talking here mainly chartered accounting firms and I think we have a breakdown with us. Either Mr. Goodwin or . . .

Well, Mr. Chairman, there were prime ones, a firm of chartered accountants in the City of Winnipeg called Sasley and Shell, and they were very closely involved with the fund in providing accounting and general financial assistance to Beef N Reef Restaurant Limited and that cost about \$14,500.00.

The other ones, just over 3,000, one is to a firm in Thompson, Hawkins and Company, again chartered accountants, where they've been giving assistance to a long established loan with the fund, Thompson Day Care Centre; and one, H.B. and Partners on an account that required some intensive accounting assistance in the Manigotagan Development Ltd.

So really again, Mr. Gourlay, we're using the word perhaps badly here. They're not consultants; they're accountants.

MR. D. GOURLAY: I notice the directors' fees and expenses are up by some \$13,000 from the previous year. I wonder if we could have an explanation for that.

MR. H. JONES: The principal reason, Mr. Chairman, as I mentioned in the introduction, is that for quite a period we only had seven of the legislative complement of eight directors. We now have a full board of eight people, and that's one of the reasons for the increase where there is a director's fee is involved, plus the fact that the majority of the board is now travelling from Northern Manitoba and the expenses are obviously fairly significant.

MR. D. GOURLAY: I also notice the Legal and Audit as well as office supplies and expenses are up considerably. Is there an explanation for that?

MR. H. JONES: I want to be careful how I answer the one, Mr. Gourlay, on Legal and Audit. It's mainly audit fees, and it relates to an increase in the billings received from the Provincial Auditor. That's the reason there.

In terms, as I said earlier, on the office furniture and expenses, most of that increase is directly related to the acquisition of word processors at the fund's offices, and a computer. This is the first time we've gone into that kind of machinery, and it's been expensive.

MR. D. GOURLAY: Notes 4 and 7 on Doubtful Accounts, these totals include the Lake Winnipegosis situation, do they, the losses there?

MR. H. JONES: Yes, they do, Mr. Gourlay.

MR. D. GOURLAY: What is the name for the Lake Winnipegosis project, or what was the name when it was operating?

MR. H. JONES: Lake Winnipegosis Development Corporation, which was essentially a community development corporation with a local board and a local chairperson.

MR. D. GOURLAY: What were the various activities or enterprises they were involved in?

MR. H. JONES: It might be helpful, Mr. Chairman, with your permission if Mr. Fisher, who is directly involved in this activity, perhaps answered some of those questions.

MR. CHAIRMAN: Mr. Fisher.

MR. M. FISHER: The activities of the Lake Winnipegosis Development Corporation were primarily two: the harvest of wood from the area surrounding Winnipegosis, and sawing it into dimensional lumber. There was also a move into simple manufactured products along the lines of log houses and simple furniture of that kind.

MR. D. GOURLAY: What was the connection of the Lake Winnipegosis Development Corporation and the Camperville Development Corporation? Was there any interconnection between those two corporations?

HON. H. HARAPIAK: There is no legal connection between the two corporations.

MR. D. GOURLAY: Pardon me? I didn't hear the answer.

HON. H. HARAPIAK: There is no legal connection between the two corporations.

MR. D. GOURLAY: Lake Winnipegosis was involved in the manufacturing of office equipment, desks and that type of project.

MR. M. FISHER: They did produce one or two desks, but it's not really office furniture or office equipment. They produce simple wooden furniture which was used in restaurants. As I said, they did produce a couple of desks, but that's the extent of it.

MR. D. GOURLAY: I understand from Mr. Jones' comments at the beginning that the Lake Winnipegosis Development Corporation is now pretty well liquidated. Is this right?

MR. H. JONES: That's correct, Mr. Gourlay. We still have one or two final pieces in terms of the legalities before the receivership can be wound up, but it's virtually finished.

MR. D. GOURLAY: I believe it was indicated that Abitibi had picked up the cutting rights and the actual on-site functioning of the property there. What is taking place there today, if anything?

MR. M. FISHER: In terms of on-site, that is in Winnipegosis, the company of Nordevco Associates has purchased the manufacturing assets as indicated earlier. Abitibi-Price, as you indicated, purchased the timber quota and I understand they intend to go on cutting.

MR. D. GOURLAY: The plant is employing people at the present time under the new owners in Lake Winnipegosis?

MR. M. FISHER: I understand that is correct, yes.

MR. D. GOURLAY: Doing the same kinds of work that was done before, did you say?

MR. M. FISHER: As I indicated, Nordevco Associates purchased the manufacturing assets, so they will no longer be harvesting their own lumber. They have got possession of the sawmill and various equipment which is used for milling and producing wooden products, for example, furniture. They're still capable of producing log houses. They'll be purchasing the logs as they always did, and various other simple manufactured products.

MR. D. GOURLAY: Mr. Fisher, what is your role there at the present time? Are you still cleaning up some loose ends, or is it pretty well completed now?

MR. M. FISHER: I am still the receiver manager and, as you say, still tying up the loose ends.

MR. D. GOURLAY: On Page 13 of the report, there lists under 5, Administrative Recoveries, management training assistance amounting to \$161,000.00. I wonder if the general manager could give some further explanation on that.

MR. H. JONES: In that context, Mr. Chairman, that will not appear again. That goes back a number of years where the fund received some assistance under the old Northlands Agreement for staff training, management training, general management assistance. I believe this is the last time we'll receive that kind of assistance, but it was helpful over the last three years.

MR. D. GOURLAY: I notice on Page 15, Churchill Arctic Enterprises Ltd. (Bank Guarantee) 2 percent fee for one year, \$100,000.00. I wonder, could we have an explanation as to what is entailed here.

MR. H. JONES: I didn't quite hear the question, Mr. Chairman.

MR. CHAIRMAN: The Churchill Arctic Enterprises, the bank guarantees, what is involved?

MR. H. JONES: Assistance has been given to that company over the last number of years, Mr. Chairman, primarily to assist the company in obtaining its operating capital requirements from the local bank in Churchill. The gross volume of the business has increased significantly and, not surprisingly, is a constant experience with the fund that chartered banks are not willing to go the whole way in the required credit per se without some kind of government guarantee. The line of credit actually - I have forgotten the precise amount, but I think it's close to \$300,000; I can be corrected on that in a minute - but we are guaranteeing only a portion of it. I'm sorry, Mr. Chairman, it's \$350,000 line of credit and we are guaranteeing - well, we were guaranteeing them \$100,000.00.

MR. D. GOURLAY: I wonder if the general manager can indicate whether the Churchill Arctic Enterprises Ltd. has any other loans with the CEDF.

MR. H. JONES: None whatsoever, Mr. Chairman.

MR. D. GOURLAY: Does the CEDF have any other loans in place in Churchill at the present time?

MR. H. JONES: I will check on the specific numbers, but if you look at the list on Page 15, for example, Mr. Gourlay, there is one - the Churchill Community Development Corporation - which is an arm of the community, and they have been trying to assist and encourage small private entrepreneurs to get into business. I believe that one relates to a small restaurant activity at the airport. That's one. Perhaps Mr. Musgrove or Mr. Goodwin can refresh my memory on the specific numbers. We used to have quite a lot in Churchill. My recollection, Mr. Chairman, we've got three left, but perhaps we could pass on.

Maybe, Mr. Gourlay, perhaps if I could explain a bit further. On the Churchill Community Development Corporation, I said they established that CDC to encourage entrepreneur development in the community. So far, only two loans have resulted from that kind of community support. The one is a small restaurant and the other, I think, is a light aircraft. So there are in effect three loans in the Community of Churchill.

MR. D. GOURLAY: The Churchill Community Development Corporation, you mentioned - the amount shown here - this is for a loan at the airport snack bar?

MR. H. JONES: That's correct, Mr. Gourlay.

MR. D. GOURLAY: What other activities is this development corporation involved in?

MR. H. JONES: Specifically at this stage none that I am aware of. As I say, my understanding is they meet as a board fairly frequently to try to explore business opportunity and to provide the community with information on Provincial and Federal Government programs; but specifically as a result of that CDC, I think only two enterprises have come on to the scene.

I am not sure, Mr. Chairman, whether Mrs. O'Connor, as a resident of the community, might add to that or differ from what I have said.

MRS. B. O'CONNOR: I believe at the present that only the two ongoing loans. But initially, if my memory serves me correctly, it was started to get the community organized in possibly starting a community-involved hotel. That was a number of years ago and that fell through. Also, if I remember correctly, during the redevelopment the Churchill Development Corporation assisted the pen wardens in acquiring what is now their hotel. But at the present they only have the two ongoing things.

MR. D. GOURLAY: Who heads up the Churchill Community Development Corporation?

MRS. B. O'CONNOR: At the present, my husband, John O'Connor, is.

MR. D. GOURLAY: And the Churchill Arctic Enterprises Ltd., who is involved in this operation?

MR. H. JONES: The shares of that company, Mr. Chairman, are all held by Mr. Jack O'Connor.

MR. D. GOURLAY: Is Mr. O'Connor any relation to the chairman of the CEDF?

MR. H. JONES: Yes, he is Mrs. O'Connor's husband.

MR. D. GOURLAY: The loan guarantee, was this put in place while the present chairman was in office?

MR. H. JONES: There were loans approved historically, Mr. Chairman, a long time before Mrs. O'Connor was appointed to the board. There have been a couple of occasions when the guarantee issue was dealt with since her appointment and, of course, in accordance with The Fund's Act and the fund's by-laws, Mrs. O'Connor absents herself from the boardroom and does not take part in the discussions or the procedure.

MR. D. GOURLAY: Down further on Page 15, Manigotagan Development Ltd., performance, labour and material bond, a \$1,000 fee, this is sort of a little different from the usual.

I wonder if the manager could explain this arrangement.

MR. H. JONES: This again a community company, Mr. Chairman, had a contract for housing construction. Let me double-check this, but I believe it is with MHSC or CMHC, one of them. To get the contract, the obvious requirements had to be fulfilled - bid and performance and labour and material bonds. It was a company that had struggled for a number of years but had developed expertise and acknowledged expertise in that field.

The fund's board believed that the assistance they requested for this venture, this performance bond aspect, was well deserved and was approved. In fact, I believe the complete commitment has now run out; if not, it's about - I'm sorry, Mr. Musgrove corrects me - 50 percent of it because the rest of it stays in place for another year. But it in essence, of course, is a guarantee and we treat it as we would in our examination of any other loan application, but the requirement was a bond.

MR. CHAIRMAN: The Member for Sturgeon Creek.

MR. F. JOHNSTON: Mr. Chairman, my questions will refer to the Beef N Reef Restaurant in Lac du Bonnet. I would ask the chairman if there was any research, or was there a feasibility study done by the Communities Economic Development Fund, or was there a feasibility study supplied by ARDA to the fund before there was a decision made to enter into an agreement with the Beef N Reef from the point of view of the study making available information as to the effect that restaurant would have on the balance of the community or the other businesses in the community?

MR. H. JONES: Mr. Chairman, Mr. Johnston's question of a feasibility study, there was a thorough investigation undertaken by both the federal program and certainly specifically by CEDF, an investigation which followed the pattern we would normally do but perhaps a bit

more intensively in this one because of the amount involved and because of the particular sector we were expected to finance.

The investigation was done in tremendous detail with access to a variety of sources in the community, in regard to the local Chamber of Commerce where several meetings were held and initiated, with the local banking community, with the Federal Department of Economic Development and Tourism. We gathered together a significant amount of information which, at that time, appeared to indicate that despite the capital costs involved, the business could attain viability.

I would say right at this early stage, Mr. Chairman, of this meeting that the investigation was done, and we believe done well. Certainly our opinions were shared by the federal people, but hindsight is fine and the judgment on the capital costs aspect in relation to the future profitability was obviously not what it should have been. I've said this publicly, and certainly in no way have any of the shareholders disagreed with that view.

MR. F. JOHNSTON: Mr. Chairman, there is a businessman in Lac du Bonnet who has written to Mr. Jones on January 4th where he asks about feasibility studies, and he says: "I know that in talking to other businesspeople in the community, no one was approached by your department or any consulting firm to ask these kinds of questions." This gentleman is not only a businessman, but he was the mayor and he's a member of the Chamber of Commerce. I guess Mr. Jones refutes that statement.

MR. H. JONES: Mr. Chairman, I'm afraid I have to, because we have written evidence of the people and the various groups in the community of Lac du Bonnet who were approached and with whom we held discussions late in 1981 and early in 1982. One of them was the then president of the local Chamber of Commerce.

MR. F. JOHNSTON: The reason I ask that question is because the agreement, dated December 9, 1982, with ARDA states in Clause (b): "There would be \$20,345 towards your actual pre-operating costs. Pre-operating costs include, for example, feasibility study." Is that feasibility study available?

MR. H. JONES: I would have to refresh my memory, and I will certainly arrange to provide the committee with the information. But frankly, I cannot recall in those terms, a consultant's feasibility study at all.

The intention might have been when the ARDA people were approached that some consulting firm would be engaged, but in CEDF's involvement with this enterprise we were not using outside consultants.

MR. F. JOHNSTON: Mr. Chairman, I think I referred to ARDA when I made that statement. It says here - this is Clause (b) of a letter dated December 9th, to a Mr. Knoedler, one of the partners in the agreement by the way, that: (b) "\$20,345, 50 percent towards your actual pre-operating costs. Pre-operating costs include, for example, feasibility study, insurance, accounting, legal and miscellaneous." I'm just asking

if the feasibility study that was required by ARDA, if they have it, and was it presented to CEDF?

MR. H. JONES: Again, Mr. Chairman, I will research our files and be very specific in terms of providing this information to the committee.

I believe, one of my staff has just refreshed my memory in respect to a person called Edmund Guss, who I gather had done some initial work for Mr. Knoedler, to be financed and probably was financed through Special ARDA. But I'm not aware of having seen that, and I'm using the word perhaps a little loosely, feasibility study, but I will commit to you, Mr. Chairman, we'll research the files and provide it if we have it, but I don't recollect it.

MR. F. JOHNSTON: The information regarding Mr. Edmund Guss was, he was hired at a cost to Mr. Knoedler and Mr. Holmes, I presume, of \$5,000 to handle the paperwork regarding the submission to ARDA, and Mr. Guss being the son of Mrs. Guss who is the area co-ordinator, I imagine, for ARDA.

The actual commitment made by CEDF that was made on December 16, 1982, and of course in that commitment there is a requirement for a large amount of money to be entered into and it shows in the annual report of that year. The requirements of that agreement, one which I'd like to bring up - and requirements, I'm sure, of all the agreements - is that the equity required by the two owners, Mr. Holmes and Mr. Knoedler, should be in place by a certain date.

In letters to the Beef N Reef Restaurant, Mr. Holmes - I refer to the one of July 2, 1982, from Mr. Holmes where he says in the second paragraph: "We have explained on numerous occasions that one of the really major requirements of the fund before we proceed anywhere at all is the receipt of firm stipulated price contract and clear evidence of injection of equity described and agreed to in the commitment letter issued."

I refer to a letter as late as November or as late as March, I believe, 1984, from the ARDA, stating that they had seen no evidence of the requirements of equity by the owners being placed in the business. I wonder, could we have an explanation of that?

MR. H. JONES: Mr. Chairman, it's quite correct that the evidence of the equity injection was a specific condition of the fund's loan before we were prepared to disburse. We had tremendous difficulty in obtaining such evidence for the amount that was indicated.

But when we checked this issue recently and certainly before any monies were disbursed whatsoever, we consulted with the fund's legal counsel. He was provided with a letter from the shareholders' legal counsel in Winnipeg, confirming in writing that the equity required had been injected and upon receipt of that letter from their legal counsel, we began disbursement.

I don't disagree with what Mr. Johnston is saying in terms of an '84 letter from the federal program. There was some dissension between us in that respect. But we have evidence in writing from the shareholders' legal counsel from a firm in Winnipeg that the equity had taken place, so we had no reason to question that information.

Thursday, 9 May, 1985

MR. F. JOHNSTON: Pardon me, Mr. Chairman, Mr. Jones has made an explanation, but I must correct a statement. I said, March, 1984 - December 2, 1983, to the Beef N Reef Restaurant from a Mr. Johnston, a program officer of ARDA: "The information and reports available on the progress of this project have been received. It is noted that required equity contribution has not been made. In view of the financial situation it is critical that this requirement of our Letter of Offer to be complied with.

"The reports and information also indicate the business to be in a precarious position that the negotiations ongoing which may result in change of operations.

"Non-compliance with the equity requirement of our Letter of Offer precludes any further payments of assistance. However, no action is contemplated at this time for recovery of the assistance paid to date. The position will be reviewed in the light of any developments which take place." And then it goes on, a brief paragraph about monitoring of the project.

The Federal Government was certainly able to ascertain that that equity has not been put in, and your letters make it very clear that no further funds should be paid out until that is put in. So we had a situation where we were actually disbursing money although it is a situation where you were satisfied that you were provided with the information when we shouldn't have been.

Is there any action being taken in this regard?

MR. H. JONES: Well dealing with Mr. Johnston's last question in terms of action, as I said at the beginning of this meeting, that this company is now in receivership, the appointment through Queen's Bench of Touche Ross Limited. In terms of action, potential or actual right at this time, I think it would be quite inappropriate for me until Touche Ross have been able to file the necessary information through the courts to discuss the specifics.

But coming back to the earlier point Mr. Johnston made, I notice here on the information just put before me, that the disbursement process for this loan, as in most of the loans of the fund where significant dollars are involved, was undertaken through our legal counsel setting certain trust conditions.

One of the trust conditions set at the earlier date, and I would have to go back and look at the very first date of disbursement, one of the trust conditions would have been evidence of that equity. As I said earlier, that lawyer-to-lawyer information was given and we were advised that this was now in order, you could proceed.

I certainly agree that the federal program had a differing opinion and very strongly balked at disbursing the grant monies which, of course, was a very serious issue for this operation. But on May 24, 1984, \$91,000, approximately, to the ARDA grant was disbursed and in fact to CEDF because it was assigned to us. It was disbursed by the federal people on the condition that new investment be made, and the new investment, in fact, into the company was made to the extent of \$30,000 to satisfy the federal program.

MR. F. JOHNSTON: The \$30,000 was from Mr. Holmes when he was issued B class shares?

MR. H. JONES: Not all from Mr. Holmes, Mr. Johnston. That was broken down. There were, I think, three investors involved.

MR. F. JOHNSTON: Who were Mr. Richmond, and who else? Mr. Richmond, the contractor, and another one?

MR. H. JONES: A Mr. Gordon Richmond, a Mr. Holmes, and there is a lady. I'm sorry, I don't recall her name.

MR. F. JOHNSTON: Then according to the information received, or the information that the ARDA had, that there was \$30,000 more put in, and the \$18,000 that was originally supposed to be put in hadn't been, there was really another injection of \$12,000 at that time to satisfy the Federal Government?

MR. H. JONES: That was the federal position, Mr. Chairman, yes.

MR. F. JOHNSTON: Mr. Chairman, the Beef N Reef Restaurant original quotation came in at \$253,000.00. There is some question as to whether the \$253,000 was based on a building that was to have a basement and banquet room, or on the present building which is a slab construction without a basement.

Has it been determined what blueprints were quoted on by the contractor, and was this out for bid, or was this just given to Mr. Richmond?

MR. H. JONES: I am not aware that it was out for bid, Mr. Chairman. I believe the company - and it's a 50 percent shareholding by Mr. Holmes and a 50 percent shareholding by Mr. and Mrs. Knoedler - had an agreement with the Richmond firm for the construction. The blueprints and the stipulated price contract matters, however, were a major concern to the fund and at the fund's expense and not at the expense of this company.

We hired a firm, if I could use this expression - a fairly prestigious firm of architects in Winnipeg - to support us in terms of the construction itself for the monies being expended on construction. Were they justified? Is the building X percent complete? Is it in order? Are we justified in disbursing X against it? We received inspection reports and progress reports throughout the construction process from this firm of architects.

MR. F. JOHNSTON: Mr. Chairman, it was the MMP Company that was hired to do an assessment of the blueprints. They assessed from the blueprints that the building should only cost \$183,000, and the building came in at \$253,000.00.

In the same letter of July 8th, you say: "I am deeply disturbed by the information given Mrs. Kowalchuk as to the price increases and this, combined with changes already approved to the original concept can make me wonder most seriously if the basis of the approval on this loan is not now entirely incorrect."

The letter of November 26th to Mr. Grey - pardon me - the letter written I believe, had this information about the \$183,000: "I shall therefore appreciate your providing us with appropriate information which we can pass on to MMP. Revised blueprints would be ideal but we do not wish for you to incur additional expenses.

Therefore, perhaps Gordon can provide a list of changes instituted because of" - I guess that's the LCC, the liquor - "or Department of Labour requires or for other reasons. Baldur informed me today that you require another \$8,000 now for the purchase of stock. When you require further disbursement, please let me know. I have now transferred the remainder of \$4,000 allotted and assigned to your bank account."

On November 26th: "Before I can disburse any more funds for construction, I require information that will explain the difference of Richmond's \$253,000 contract to MMP's \$186,000 evaluation."

The paragraph before that: "I am attaching a copy of a hand-written list prepared by Gordon Richmond in August which does" - now this is from August to November, he didn't provide anything different that he was asked to do - "which does not at all adequately explain the additional construction to be undertaken, why it needed to be done and how much it cost."

Mr. Chairman, the list presented at that time or the list that was not satisfactory was a hand-written list signed by Mr. Gordon Richmond, which I would regard as absolutely unacceptable as well. With all of the letters, one to Mr. Richmond from Mrs. Kowalchuk, I believe; one from Mr. Jones to Mr. Knoedler and Mr. Holmes, it would still seem that the restaurant monies of \$253,000 were paid out, and there does not seem to be any adequate justification for the extra money other than that hand-written list which I will table if you want. It doesn't matter. I'm sure they have a copy on hand, because you refer to your copies. This justification had been asked for, for six months.

The restaurant opened in November of 1982. So there must have been a lot of monies disbursed for that restaurant to be standing there open and operating in November, 1982. Yet the owners had not complied with the numerous requests of the department, and yet money kept flowing into the project. I wonder if we could have an explanation for that.

MR. H. JONES: Well, Mr. Chairman, there are many points raised there by Mr. Johnston. If I could just start with the comments relating to the firm of MMP Architects, and the hand-written list. I certainly recall being very distressed by that being provided as evidence of overruns, if I can use that expression, in construction costs, because it certainly wasn't satisfactory to CEDF.

But however, on January 4, 1983, the MMP Architects firm had re-examined the costs, the invoices, the construction, and they confirmed to us on January 4, 1983, that the building was then, in their opinion, worth not \$183,000 but \$214,000.00.

Subsequently, on January 12, 1983, we received a letter confirming that they had undertaken a further review, and they had concluded that the extra work that had been undertaken by the contractor did in fact justify - we were talking at that time, Mr. Chairman, of a discrepancy of approximately \$39,000.00. So we have in writing in our files confirmation from this firm of architects.

If I may interject something here that might throw some, not additional light, but it might throw some comments upon some of the complaints that have been received by the fund from one of the shareholders. I

should advise you, Mr. Chairman, that the Ombudsman is in the process now of thoroughly investigating this whole issue in terms of the complaints that have been made against the way CEDF handled the disbursement of these monies.

I can only reiterate, and I say this advisedly having in some depth consulted our legal counsel, because in all sincerity CEDF does not disburse money on loans of this magnitude or for any loans where there is construction involved without the authority and confirmation from our lawyers that this is correct.

I am completely satisfied that the fund acted - I'm not suggesting for one minute to this committee, Mr. Chairman, that our judgment was correct in the assessment of the loan and I think my board would support that view - but in terms of the process subsequently, the actions that were taken were correct. We were disturbed as we went along significantly, as Mr. Johnston has read from some of my letters, I think that evidences it.

But in the final analysis, the appropriate manner in which we disburse public funds is very well supported by all the documents we consider necessary. This matter has been reviewed intensively by the board. As I say, it's being investigated by the Ombudsman. Perhaps I could stop there. If Mr. Johnston has other questions, I'd be pleased to try to answer them.

MR. F. JOHNSTON: Well I would only make the comment, Mr. Chairman, that the restaurant opened in November of 1982, and there had been many letters - or not many, I'd say three, possibly four letters - were sent to the Beef N Reef Restaurant informing them that the information that had been received by CEDF was not satisfactory. Again I say the restaurant opened in November and Mr. Jones tells me that after, after the money had been disbursed, we then have a report from the architects that what we did was all right. When the money was disbursed, I submit that they did not know whether it was all right or not.

Mr. Chairman, I'm well aware of Mr. Knoedler's request to the Ombudsman, and it is being thoroughly investigated. I would only wonder why the fund, CEDF - and I don't think this refers to Mr. Knoedler's problem - would make the decision when they took over the business to put Mr. Holmes in as the manager when Mr. Holmes was the person who was basically involved with the financial structure of the restaurant. I'm not suggesting that the other partner should have been, but why wasn't somebody experienced in the restaurant business, which Mr. Holmes did not have, put in charge of operating the restaurant?

MR. H. JONES: Well, Mr. Johnston, your comment in terms of experience in the restaurant business is quite valid. I would not argue with that at all. The situation, however, in terms of the board's handling of this issue, recall we were lending to an incorporated company with equal shareholders. In the fund's judgment and confirmed by the directors, Mr. Knoedler had had his opportunity, if I can use that expression and frankly - and he has admitted this to me too - it did not work. The conclusion was, and this came as a result of a number of discussions with Mr. Holmes, the other major shareholder, that with one of them having had the

opportunity, then the other one should also have an opportunity and that opportunity was given by the fund's hypothecation of shares.

We acted on our rights under that agreement, set up a board of the fund itself. In terms of having Mr. Holmes manage the business, we attached to that management arrangement a number of significant conditions, not least the involvement of the private accounting firm, not least the involvement of senior people on my staff who have had experience in business, but as I said before, Mr. Johnston, hindsight is fine, and our judgment was incorrect in terms of this business.

MR. F. JOHNSTON: Because of the conflict between the two partners, it's obvious the fund was trying to pull them together, you instructed that they take Mr. Ken Sasley as an accounting firm in March, 1983. Mr. Grey who, I believe, is the accountant for Mr. Holmes and was the previous accountant for the business while it was having problems, was relieved of the job. As you mentioned earlier regarding the \$14,000 to Mr. Gourlay's question, Mr. Sasley of Sasley-Hyme was put in as the accountant, and there was a list of instructions given that said, head count of customers at lunch and dinner times, number of people on staff each day and position held, daily income, daily purchasing orders, cheques written, invoices received, that goes right through from A to F, by a lot of instructions even before your hypothecation.

I understand that Mr. Knoedler or the manager at that time did produce all that information for you. After giving the position to Mr. Holmes to manage the restaurant, did you receive the same information? Was the accountant changed back to Mr. Grey from Mr. Sasley?

MR. H. JONES: Mr. Chairman, three questions there, firstly and again I will confirm this by further research, but we were not receiving adequate information when the first shareholder was in charge of the business.

Secondly, only with the greatest difficulty even with the involvement of Mr. Sasley's firm were we receiving information when Mr. Holmes was managing the business, but we were receiving it on a fairly consistent basis until towards the end, but with difficulty. The accountants themselves had tremendous difficulty in getting the information for us.

The last question I think, Mr. Johnston, was the accountant changed? As far as CEDF is concerned, Mr. Sasley was the accountant right until the end.

MR. F. JOHNSTON: Mr. Knoedler and his wife were relieved of their position or asked to leave and they were given the amount of money, \$10,000 or \$5,000 each as severance pay. I forget the wording that is used, but it's basically that. That situation of the Knoedlers not being in the business or having no say in the operation of the business, did that situation put us in a difficult position with ARDA from the point of view that ARDA made the commitment to the Holmes and Knoedlers on the basis of Mrs. Knoedler being Metis?

Now when, after the Holmes were relieved of any involvement or even communications, in fact warned

not to go near the business, what difficulties did the fund run into, so to speak, by eliminating any involvement by the people or the person who was originally responsible for the ARDA loan being granted?

MR. H. JONES: Mr. Chairman, the ARDA grant was approved on a number of conditions. Certainly in terms of what Mr. Johnston has said, that would have been one. The other, of course, was the extent to which the employees would have come from the Native community.

And yes, the fund as the lender did run into difficulty with the federal program, because we were obviously most anxious to get the grant out and get it into the fund to reduce the loan, reduce the interest costs and so on.

There was difficulty in ARDA's assessment at that time, but what they did was to pursue the issue with the local Manitoba Metis Federation No. 1, because the prime support for the ARDA application came from the local of the MMF.

I can't describe the details of those meetings. I wasn't there. But the federal officials came back to Winnipeg and met with us, and they received confirmation in writing from the Manitoba Metis Federation that the support was in place and would continue under Mr. Holmes' management.

I want to emphasize management here, because the legal ownership had never changed. It's true we exercised our rights under the hypothecation agreement, but Mr. and Mrs. Knoedler and Mr. Holmes were always shareholders. The intention naively, Mr. Chairman, now was that those rights would be terminated and all the actions under the shares would have been handed back to the shareholders, but obviously it didn't work. But there was difficulty.

MR. F. JOHNSTON: Was the approval from the Metis Federation local, or was it from the Manitoba board?

MR. H. JONES: Mr. Johnston, certainly from the local of the Manitoba Metis Federation but I believe, and I'm trying to recall this from memory, I believe that the ARDA officials also talked to the main board of the Federation in Winnipeg.

Perhaps I could comment here, Mr. Johnston, that in the end analysis of this, virtually every cent of the ARDA grant was disbursed to the fund. So I can only assume they were obviously satisfied with the Native involvement as we went along.

MR. F. JOHNSTON: ARDA presented an agreement to the Knoedlers on February 16, 1982, and the funding was changed on December 9, 1982. In the February offer, it says under the section of Financial (1)(b), Financial No. 5: "If you fail to operate the whole licensed family restaurant for at least three years starting on the day you open for business, then you must pay back the purported portion of any money that you have been paid under this offer."

The CEDF having exercised their hypothecation and managing the business - really Mr. Holmes might have been managing it but under the supervision of CEDF - will CEDF be responsible to pay back any of the ARDA monies?

MR. H. JONES: I would suggest, Mr. Johnston, no. Frankly, we have not even gone into that issue. I would be extremely surprised if that were the case. That is a standard clause in all the Federal ARDA grant offers.

The reality is that, in every case where there's an ARDA grant, there has to be a reliance upon a lending institution. Usually, it's CEDF which is that institution because of the areas and the people with whom we deal.

In the normal course of business, under our security blanket, we take everything that is available, a debenture with fixed and floating charges, so that in effect, if legally - and we have not checked with the Federal Department of Justice on this - but if legally there still is a claim there, the reality is there's nothing to claim from.

The shareholders have been put into judgment, and I won't discuss that issue because I think that's sub judice.

We have not examined, Mr. Johnston, the implications of that clause in terms of our exercising the hypothecation rights, but I would be very surprised because the ownership did not change, the shares were not exchanged or transferred.

MR. F. JOHNSTON: I want to be careful also that I don't ask questions that are not appropriate here and please don't hesitate to inform me if you believe I am, Mr. Chairman.

MR. CHAIRMAN: You can discuss anything as long as this is not sub judice.

MR. F. JOHNSTON: Yes, well I am aware of the situation. Certainly, Mr. Knoedler is not in a position, I would say, to make any presentation because he's lost everything; quite frankly, I believe lost everything on the basis of some pretty bad judgments and, I might say, some judgments on the part of the previous Minister as well because he was notified by Mr. Jones' lawyer by copy of a letter to the Metis Federation a long time back that there were concerns about this operation. There wasn't even an answer to the lawyer. I don't believe Mr. Knoedler's lawyer got an answer from anybody.

But anyway, what is the situation regarding the other partner and the contractor who has some of the B class shares and the third person you are speaking of that has some of the B class shares as to the government recovering any of its funds according to the agreement?

I would understand that possibly there is a chance that there is some money available from one of the partners or the other partner that has some of the B class shares. I am getting into the point of will there be action taken to recover the government's monies, and are you investigating the assets of all partners?

MR. H. JONES: The answer to both of those questions, Mr. Johnston, is yes. But I really don't want to enlarge upon legal actions in that regard because, frankly, that I think is sub judice.

MR. F. JOHNSTON: All right. The receiver asked for bids and, of course, before I say that, the fund asked both partners for the opportunity to purchase the restaurant for the amount owing to the fund, and that

wasn't possible. But the receiver asked for tenders which closed May 7th, tenders to anybody wanting to purchase the restaurant. The bids are in; anything we say today can't harm them. They do run from \$180,000 to \$1.00.

But the monies that will be received, of course, will be disbursed by the receiver, I imagine. Does CEDF and ARDA - where do we stand as far as the disbursements of that money is concerned? What's our position?

MR. H. JONES: To some extent, I would be prejudging the situation to be specific in that answer, Mr. Johnston. I am aware of the fact, too, that the bids are in, but I know that you are very much aware of the fact that even if the receiver, in his judgment, chooses to recommend to the Queen's Bench acceptance, that does not necessarily mean it would be approved. He has been most strong in his comments to me this week that he may take a position in his analysis of those bids in terms of his mandate to protect the secured creditor, which is CEDF and the province. But I am not going to, at this stage, comment upon the bids themselves.

In terms of the fund and ARDA, bluntly, Mr. Chairman, at this committee, I have to say I am only interested in what CEDF and the province will recover and that, I think, is the responsibility that the board of the fund has and that, of course, is the mandate of the receiver.

ARDA would remain out there as an unsecured creditor. I am not aware, in my experience, and it's some time now since I have been involved with ARDA, that at any time has the Department of Justice actually proceeded with, or certainly have not succeeded in resolving any claim as a result of that amorphous clause in their letter. But I am obviously prejudiced in that respect.

MR. F. JOHNSTON: The Knoedlers were given a settlement of a total of \$10,000; asked not to go near the restaurant; were not part of any of the operation of the restaurant; and yet during the time when they were not, there was applications made to the Liquor Commission to expand the restaurant or have different expansions to the bar, etc.

Mr. Knoedler's lawyer wrote on one occasion anyway, saying that nothing should happen without his knowledge or their knowledge because the ARDA agreement never changed. According to ARDA, their loans were made on the basis - and it remained in force all through the three years - that they were the shareholders. Yet they were completely eliminated from any discussions regarding the operations of the business at that time.

I am well aware that the fund had the authority to exercise their rights, but wouldn't it have seemed a courtesy to talk to somebody that was, or two people that had 50 percent of the shares, that were being held responsible, and received letters from the fund's lawyers saying that they were responsible for X number of dollars, and that the \$3,000 a month payment that was to start in 1985, or I believe on the 1st of January, 1984, had not been made? In other words, they were being asked for all of the money and yet they were not involved in any of the management decisions, or

requested to be involved in any of the management decisions taking place after the hypothecation. Is that the usual operation of the fund?

MR. H. JONES: Well, Mr. Johnston, this case is anything but usual for the fund. It's the first time in the fund's history, not only to my knowledge - I know quite factually, although we always take a hypothecation agreement where you are lending to incorporated companies - we have never ever acted before under that agreement and exercised our rights. It was done advisedly after a lot of concern by the fund's board as to the way this business was going.

Frankly, it was the only appropriate way in which we could effectively remove from management - not from ownership but from management - Mr. Knoedler who was, as he has admitted on many many occasions, in significant dispute with his equal shareholder. That was an instrument that we used under the advice of counsel and after a lot of consideration to remove Mr. Knoedler from management, replace him, as I said, in hindsight, ill-advisedly with the other shareholder.

Now, Mr. Johnston, it is not quite true to say that, No. 1, Mr. Knoedler was told not to go near the restaurant. Mr. Knoedler was advised by me on a number of occasions - and I should say to this committee, Mr. Chairman, that he visited my office almost every day of the week for weeks - that in his own interest, because every time he set foot in the enterprise and in the community, there were ongoing disputes. My advice to him was that this is now under the control effectively of a board appointed by CEDF. I would commit to try and keep him informed as things proceeded. We did not - Mr. Johnston, you're quite right - formally advise him in writing of certain decisions that were made, but he was informed from time to time of what was happening, even up until the very end.

But I cannot recall any occasion where I or any one of my staff said to Mr. Knoedler, you will not go near that restaurant. That might have been said by somebody, but not by us.

MR. F. JOHNSTON: I have no further questions.

MR. CHAIRMAN: The Member for Roblin-Russell.

MR. W. MCKENZIE: Thank you, Mr. Chairman. I wonder, on Page 13 of the Annual Report, it mentions the accounts that are written off and the \$429,786.00. I wonder, can the committee have a copy of who were the accounts, where, and the amount of each?

MR. H. JONES: Mr. McKenzie, I would have to get you a typewritten report in that respect. I have some handwritten information in front of me, but with your permission, if I may send that to the committee Chairman tomorrow, you would have a typewritten listing of all those accounts.

MR. CHAIRMAN: Is that agreeable?

MR. W. MCKENZIE: Fine, yes.

One other question, Item 6 there, Administration of the Fund, it goes on to say: "Common administrative expenses are paid by the fund except for rent and

utility costs which are paid by the Corporation." Is that the item on Page 11, General Administrative, Schedule 1, Note 6, is that the amount, \$810,594, or am I wrong in my calculations?

MR. H. JONES: Perhaps Mr. Musgrove, the Treasurer, could answer that one - (Interjection) - the involvement of MDC. Mr. McKenzie is asking, there's a proportion of expenses paid by MDC for the fund's operation.

MR. W. MCKENZIE: Yes, Page 13, Item 6, it mentions that: "Common administrative expenses are paid by the Fund except for rent and utility costs which are paid by the Corporation." I turn back to Page 11 on Exhibit B, Note 6, it shows \$810,594.00. Is that the same item?

MR. A. MUSGROVE: No, the rent and utilities don't show on this statement at all, because they are in fact paid by MDC.

MR. W. MCKENZIE: Then the amount is not there?

MR. A. MUSGROVE: No, it's not.

MR. W. MCKENZIE: Do you have the amount?

MR. A. MUSGROVE: I don't have an amount off-hand, no.

MR. W. MCKENZIE: Thank you, Mr. Chairman.

MR. D. GOURLAY: I don't see any mention in here about the Northern Study Centre at Churchill. Is there no involvement with the CEDF in this Centre anymore?

MR. H. JONES: If I may, Mr. Gourlay, ask Mr. Goodwin to handle that, because I am no longer involved personally, but Mr. Goodwin still is.

MR. CHAIRMAN: Mr. Goodwin.

MR. G. GOODWIN: Mr. Gourlay, the Churchill Research Centre is still very much in existence. Although the fund does not have any direct financial involvement with the centre, I still continue as secretary-treasurer to the board of that particular corporation.

Last fall, there was a restructuring of the board of directors whereby different entities are appointed to the board, CEDF being one and our chairperson, Mrs. O'Connor, is representing CEDF on the board of Churchill Research Centre. Other agencies that are represented include the Provincial Department of Education, Churchill Community Development Corporation, the Churchill Port Authority, Churchill Chamber of Commerce - I'm just naming a few of them. There are 17 members altogether, including the Association for Canadian Universities for Northern Studies, the three Manitoba universities and some other federal agencies as well.

But the centre is now looking for an executive director to guide the centre into the 1990s, if you will. Once we acquire an executive director, which should be shortly, I would think that the centre would very much

have more of an impact on the community of Churchill and in Northern Manitoba generally.

MR. D. GOURLAY: Your expenses then are underwritten by the fund?

MR. G. GOODWIN: My personal expenses on behalf of the centre?

MR. D. GOURLAY: Yes.

MR. G. GOODWIN: Certain travel expenses to Churchill, if I go on behalf of the centre, from time to time have been underwritten by the fund, yes.

MR. D. GOURLAY: Thank you.

I would move on to another area. I wonder if the general manager . . .

MR. F. JOHNSTON: Mr. Chairman, I asked a question of the Minister in the House. He related one answer to me. I don't have it in front of me. I was asking about the monies that would be owing to the staff, the taxes of about \$8,822 to the town. I was told, I believe, by the Minister that the staff would be paid, if I'm not mistaken. Now I haven't got it in front of me. Certainly the receiver will be looking at the \$8,000 in taxes. Somewhere the town will be involved in receiving that from the receiver.

But the fund was in control of the operation before it was put into receivership. CEDF is the government. Yet, it seemed to be, I wouldn't say policy, a very bad procedure for the government to put something into receivership, leaving the town high and dry with the taxes and especially staff not being paid. I believe the Minister said the staff would be paid. Has that been done?

HON. H. HARAPIAK: Yes, staff has been paid. If you want some further details on the taxes, I can turn it over to Mr. Jones. He would give you the further details on the taxes.

MR. H. JONES: The taxes, Mr. Johnston, presumably will be paid by the receiver in due course, but the staff certainly were paid.

MR. F. JOHNSTON: If the fund takes over one obligation of paying the staff, would they not be in a position where they should take over other obligations? Did they not set a precedent?

MR. H. JONES: I can only answer that, Mr. Johnston, by saying that we relied upon advice from counsel and, frankly, from the receiver also. There were other implications, of course, in terms of the unpaid wages, and that relates to the manner in which the directors of the fund appoint directors of borrowing companies. There is a flow through on the indemnity under our legislation.

It's a complex question, and the advice I got from one of the senior partners in Touche Ross, apart from the obvious humane step, would be to get the unpaid wages out of the way correctly and properly.

MR. F. JOHNSTON: When the fund took over the management - and I imagine there were letters sent

to many businessmen in Lac du Bonnet. This one is to Ernie's Bakery: "Re the Beef N Reef Restaurant Limited, Lac du Bonnet, Manitoba." It says: "This Fund of provincial Crown corporations is the major secured creditor of the above company, and we have been actively involved in addressing a number of management and financial weaknesses during the past few months.

"In conjunction with the Government of Canada, Special ARDA Program, a loan and grant mechanism has been in place and the funds have now been received by us in trust from Canada (grant proceeds) on the specific condition that the trade creditors of the company are addressed.

"I have to advise you that the company's difficulties are such that we are attempting to introduce corrective measures to ensure its community and eventual profitability.

"In light of the difficulties now evident and under the rights given to us by the Share Hypothecation Agreement, we are writing to all the secured creditors to ask them to consider accepting the following formula of payment of their accounts as full settlement. The formula is 50 percent of the amount outstanding as of October 31, 1983, and (b) 75 percent of the account incurred from November 1, 1983 to March 1, 1984.

"If the above formula is accepted unanimously, the business will continue to function, and we would expect the company to continue to use your services henceforth on a cash basis. You will understand in a case of this kind, if any of the unsecured creditors are unable to accept this formula, the inevitable conclusion would appear to be bankruptcy."

That letter seems to me as almost being a threat to these people that were owed money throughout the community and it certainly doesn't help the businesses that were involved in this letter. I would wonder if the policy of the government is to act that way towards small business. I know the CEDF is looking at taking care of the benefits of the people of Manitoba, but they are the government. In this particular case, this letter certainly deprives them of a fair amount of money that was owing to them. Is that the usual practice?

MR. H. JONES: Again, Mr. Chairman, it is not the usual practice. I said earlier, this is a unique case. But I can understand, Mr. Johnston, why you would use the word, "threat," but frankly any other lending institution - and I know we're part of the Provincial Government, and we must act differently - but the reality is, any other lending institution in the private sector would have closed this thing down very much earlier than we did.

Rather than having it interpreted as a threat, what the board had hoped was that by working with all the trade creditors, we could then make the financing that had been made available by the disbursement of the ARDA monies, we could make it work. Again I say, naively, we were wrong and ill-advised. But it was an arrangement which is a standard process in the private sector, an arrangement with the creditors. I realize and I believe - I'm speaking from memory now - but I'm reasonably confident that there was unanimous agreement because we could not have proceeded.

Also of course, the fact is, if that agreement had not been in place, the company would have gone into

bankruptcy that much earlier. Now that's fine for me to say when the trade creditors and the small business community is suffering, but it was an arrangement we tried to make, if I can use the word, as a compromise, that at least they would get 50 percent.

MR. F. JOHNSTON: Mr. Chairman, I have no more questions, but it would certainly appear as if it should have been closed down earlier.

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

MR. D. GOURLAY: I wonder if we could get a list from the Minister or the general manager of the applications that were turned down for funding.

MR. H. JONES: Certainly, Mr. Gourlay.

MR. D. GOURLAY: On Page 15, there is another listing here and I'll direct this question to Mr. Fisher: Receiver for Lake Winnipegosis Development Corporation - \$300,000 for two months. I wonder if we could have an explanation of this.

MR. H. JONES: I'll let later on, Mr. Gourlay, Mr. Fisher explain why he thought he could do this in two months, but he was wrong.

But it is a standard process when there is a receivership appointed, either by the fund or anywhere else, that a loan is made against Receiver Certificates to enable the receiver to fulfill his mandate.

As I said, Mr. Gourlay, earlier that the mandate given to this receiver was to operate the company at minimum risk and to try to contain the losses. It was a judgment that was made by the board as the most prudent way to go in terms of recovery to the government. That loan was a standard receiver's loan, as I say, against Receiver's Certificates and Mr. Fisher may want to add in terms of its current status. I'm not sure.

MR. CHAIRMAN: Mr. Fisher, do you want to add something?

MR. M. FISHER: No.

MR. D. GOURLAY: This \$300,000, the .25 million shortfall, does that come out of this \$300,000.00?

MR. H. JONES: That's the expected shortfall, the overall shortfall from the complete exercise, including the cost of the receiver.

MR. D. GOURLAY: It shows a term of two months. Did I gather from Mr. Jones' comments that this has been for a longer period of time?

MR. M. FISHER: That is correct, yes.

MR. D. GOURLAY: What will be the length of time more appropriate for this term?

MR. H. JONES: Mr. Chairman, as I said, the receiver in terms of the operation has now fulfilled his mandate. The bids have been received and accepted for the

disposition of the assets, and we're really just waiting to complete the final legal arrangements. I think there are some trust conditions. I can't recall specifically, but I would suspect within two months this matter would be completely finished.

MR. D. GOURLAY: There is another loan listed for Northland Diesel and Industrial Ltd. Whereabouts is this located?

MR. H. JONES: That's in Berens River, Mr. Chairman.

MR. D. GOURLAY: And this operation just got going this past year?

MR. H. JONES: I'd have to look at the date of the approval we had. I believe it was very early in '84. Am I correct? We can get that information for you in a minute, Mr. Gourlay.

MR. D. GOURLAY: Is this to supply repair work to the Channel Area Loggers operation, primarily?

MR. H. JONES: Primarily.

MR. D. GOURLAY: Another item listed as Pasquia Valley Services Ltd., what is this for?

MR. H. JONES: Just one second, Mr. Chairman. That's a business in the liquid fertilizer in The Pas.

MR. D. GOURLAY: Thank you. Some time ago I had received some calls from people involved in a guest lodge in the Duck Mountains. I'm not sure of the name that it went under. What is the situation with that project at the present time?

MR. H. JONES: I'm sorry, Mr. Gourlay.

MR. D. GOURLAY: It might have been called the Ethelbert Guest Lodge in the Duck Mountains.

MR. H. JONES: This one, I think - Mrs. O'Connor, is this the one? Yes? I believe this is still under consideration, Mr. Gourlay, but I can check for you.

MR. D. GOURLAY: How do you mean still under consideration?

MR. H. JONES: Perhaps, Mr. Chairman, I am getting confused here. Is it one, Mr. Gourlay, that Ethelbert - the V-1 Guest Ranch - is that the one you are referring to?

MR. D. GOURLAY: Yes, that's probably the right . . .

MR. H. JONES: I am sorry, because there is an application from another group. That has gone into liquidation. The security held by the fund has been sold. We have realized the proceeds, I gather, as recently as yesterday. Unfortunately, I couldn't attend yesterday's board meeting, but it was dealt with there. We also received a small cash settlement from the owners. We had a charge, or we could have exercised our rights under a charge over the horses that were owned by

this couple, but we chose not to for a number of reasons, because if we had it would have cost the government more in terms of feeding them and selling them than leaving them alone. So they were left with the ownership of the horses, but the rest is finished and the business is closed.

MR. D. GOURLAY: Can the general manager indicate whether they have had applications with respect to the purchase of the - I believe it's called - Vulcan Building in The Pas for industrial heavy equipment type of operation?

MR. H. JONES: Yes, Mr. Chairman, the fund did receive an application and it was declined.

MR. D. GOURLAY: I believe earlier the general manager indicated the performance of the fund is somewhere around 77 percent successful. I am just wondering how that figure is arrived at. Is it by application, or is it on a dollar amount to arrive at the 77 percent success rate?

MR. H. JONES: Mr. Gourlay, if you remember in my comment, I said we were using really only one factor and that was, frankly, loan repayment. I mentioned 79 percent, somewhere between 79 and 81 percent, but I believe it was 79 percent last year of all the loans approved have been repaid in full.

I would not disagree with you at all, Mr. Gourlay. There is only one measurement of success. There are a variety of criteria that have to be applied. As a matter of fact, we are in the process now of some - I don't like using this expression but I can't think of a better one - in-depth analysis of the investments that the fund has made since 1972. In the next committee we will have, I think, some interesting statistics, but that's the basis of that percentage.

MR. D. GOURLAY: I don't have any further questions. I would like to take this opportunity to thank the general manager, the directors and staff, and the Minister for supplying the answers to our questions. However, we would expect to receive some of the detailed information that has been promised this morning, and we will review that when we receive it.

MR. CHAIRMAN: Is that agreed? Shall we pass the report now?

The report of the Committee on Economic Development Fund—pass.

CHANNEL AREA LOGGERS LTD.

MR. CHAIRMAN: The committee now goes to the Channel Area Loggers Ltd. Annual Report, 1983-1984. Mr. Minister.

HON. H. HARAPIAK: I would like to call the president, Lester Everett; the general manager, George Kemp; and Gordon Trithart, who is the director of corporate projects for Northern Affairs.

Mr. Chairman, I would like to introduce our new chairman of the board, Lester Everett, who became chairman of the board in January of 1985; George

Kemp, who is the manager of Channel Area Loggers; and Gordon Trithart, who is the director of corporate projects for the Department of Northern Affairs.

I believe that our chairman, Lester Everett, has an opening statement to make.

MR. CHAIRMAN: Mr. Everett.

MR. L. EVERETT: Thank you, Mr. Chairman. I would like to forward the Annual Report for 1983-84, and I presume the committee reviewed some of the things here in this report that I would like to highlight on some of them.

I think the production of Channel Area Loggers on that report of the cords that were produced were approximately 7,400 cords and, as the report states, that there was a loss of 148,949.

I would like to comment a little bit on the loss itself and also on the production. I think when the former chairman sat with the board, they came up with a cutting quota of 16,500 cords. I think, as the previous report the year prior to that states, that the cutting area of the Pigeon River was a clean-up area and I think, due to that heavy of a loss, the company had to clean up the area which amounted to a small number of cords of wood that was produced on that specific year.

I think the second thing that happened due to the loss, I guess, I presume our secretary-treasurer and also the general manager of Channel Area Loggers will comment on that later. The second item I would like to mention, due to the losses, to the fact that we had a number of contractors in Channel Area Loggers coming in from other than Berens River, the contractors did not really produce the volume that we had anticipated.

I guess the position as newly-appointed chairperson of Channel Area Loggers, I strictly believe that there is some internal arrangements that have to be made within Channel Area Loggers in order to try and not go into a deficit in the years to come.

I myself believe strictly in self-sufficiency. I think that the operation in the long run is very beneficial to the Berens River community in the areas of employment, also the welfare is substantially cut and also the spinoffs that it has towards the community.

Mr. Chairman, some of the items that were addressed last year, one of them was absenteeism. I think I'd like to comment on that a little bit. The absenteeism in our logging operation does exist, and I think there is a reason for that. No. 1, I say that in Berens River, I know there are two main occupational livelihoods that we have there, and that's fishing and trapping. I think the reason why sometimes there is absenteeism is because of the seasons that the people there have to go out and fish in order to maintain their fishing licences and fill out their quotas. So there is a lot of mobilization within the pulp-cutting area, to maintain trap lines and also to fill their quotas in fishing.

In the areas of training, the strip-cutting program is a program that we'd like to implement. By the way, Mr. Chairman, strip cutting is using a chain saw only and not heavy equipment. I think what we have done in that area, we have secured some funds with the Department of Education and also the Southeast Tribal Council of the amount of \$15,000.00. In order to start

up the program, we needed \$30,000 for training. We have asked the two funding agencies to defer their money to this fiscal year because there wasn't proper time for planning and etc.

Mr. Chairman, going into the reforestation, I think the Provincial Government had made a move last year in reforesting the Berens River area. I believe they have planted 100,000 trees in the Berens River area last summer. The proposed planning for this year is twice the amount, 200,000, and it will be reforested on the Pigeon River where Channel Area Loggers has been for the past 10 years approximately.

I guess, in view of the deficit, I would like to say that I guess there will be questions asked, but I would like to comment on what Channel Area Loggers' future looks like. I personally see Channel Area Loggers as being one of the major job creators of employment in our community, and I think it really benefits the local business and also the general economy of our small community. I think the internal operations have to be reviewed, and I think I'm working on these at this point in time, in the areas of training, in the areas of absenteeism.

Mr. Chairman, that's my report. Thank you.

MR. CHAIRMAN: Thank you, Mr. Everett.
The Member for Swan River.

MR. D. GOURLAY: Thank you, Mr. Chairman. I appreciate the comments of Mr. Everett, and I wonder if the Minister can indicate or Mr. Everett can tell us when he became president. I see in the book it mentions Bill Bennett. Oh, I see, this is a year old, yes?

HON. H. HARAPIAK: Mr. Everett became the chairman in January of 1985.

MR. D. GOURLAY: January of '85?

HON. H. HARAPIAK: Yes.

MR. D. GOURLAY: And who else is on the board?

HON. H. HARAPIAK: Mr. Everett, he is aware of all the members at this time. I know them, but I'll ask him to give you the names.

MR. L. EVERETT: Well, Mr. Chairman, the board members are six from our community of Berens River and that is, three from the Berens River Band and three from the Community Council, mayor and council; and there is a member from Forestry; I think that's about it.

MR. W. MCKENZIE: Can we have their names?

MR. L. EVERETT: Their names are myself, Lester Everett; Billy Hudson, Jock Clarkson, Henry G. McKay, Edmond Berens and Bruno Seppala.

MR. W. MCKENZIE: What was the first name?

MR. L. EVERETT: Hudson.

MR. D. GOURLAY: I noticed in the report that it makes reference to Mr. John Christensen having left as

president during the reporting of this annual report; and I would just like to put on the record, I think, that through the efforts of Mr. Christensen it has shown that Channel Area Loggers can be a viable operation; the production can be brought up to the point where it can be self-sustaining because of the efforts back in reporting in '82-83 where there was a small profit one year and a small deficit another year, which indicates that this corporation can be successful.

I would like to direct a question to Mr. Everett with respect to his comments about his past reporting the annual report where outside contractors didn't produce - the production wasn't up to what was expected of them. Is this an accurate comment? Did I hear that correctly?

HON. H. HARAPIAK: You could ask Gordon Trithart for that.

MR. G. TRITHART: Yes, I think the chairman was referring to the year under review and also the year just ended. Prior to that we had a fairly large contractor with substantial assets and our allowable cut in the area had decreased; his final year was 13,000 cords, and with the substantial investment that he had made he could not see his way clear to stay. I understood verbally that he had an option to move to Alberta where he could cut some 40,000 cords, and decided to leave the company. Subsequent to that, in the following year, we endeavoured to get outside contractors in, and we were successful in getting two in to do snipper work only. They were responsible for snipping some 2,000 cords, and in the year just ended were responsible for snipping only 1,200 cords. I think that is the inference that the president was making.

MR. D. GOURLAY: So, in fact, the contractor that had large equipment, sophisticated equipment, was Mr. Peyton from Swan River?

MR. G. TRITHART: That's correct.

MR. D. GOURLAY: And it was his choice, then, that he decided to leave the Berens River area for larger cutting prospects elsewhere?

MR. G. TRITHART: That's my understanding.

MR. D. GOURLAY: I think the encouraging note is that the Channel Area Loggers operation can be made viable, and I know that Mr. Everett has addressed the problem of the deficit situation and is planning to make changes, or trying to endeavour to bring it to a break-even position or better.

I wonder if he would comment on the fact that the strip cutting in the past appears to have run into difficulties because of reasons that he has given, the topography, absenteeism and so forth. I wonder if Mr. Everett would comment on the fact.

Does he see the production level being kept up by bringing in outside contractors in the future, or are there local people that maybe can use equipment to ensure that the minimum production level is maintained, at the same time improving the strip-cutting situation in the Berens River area?

MR. L. EVERETT: Mr. Chairman, I think in respect to the strip-cutting program, obviously, I think what has happened before is that when the strip cutting program was being introduced, there were X amount of young people who wanted to become loggers. So I think what happened at that time is that they would be given a power saw and, obviously, not knowing what to expect, I think that resulted in a greater degree of failure to those young people because they lacked the training.

I think in respect to production, if it's properly done, properly planned, putting training in place, that the strip-cutting program could obviously increase the production.

In respect to bringing contractors in, we had tried bringing in some contractors. I believe we brought two contractors in this past winter, and I think the expected amount that we thought they would cut didn't just materialize. I think that option is always open, of course, to try and meet the quota that we budgeted for. Obviously, the option on the contractors should be left open.

MR. D. GOURLAY: I have been led to believe that when Mr. Peyton was in Berens River area, that he had - it was mentioned - sophisticated equipment and did a lot of cutting but at the same time, as a result of his cutting process, he was able to provide many jobs for local people with skidders to come in and do the skidding as a result of the snipping.

Is that a true statement, that the job situation wasn't seriously affected by this contractor with big equipment being in the area? At the same time, he did enable a lot of jobs to be picked up by local people with their skidders, etc.?

MR. L. EVERETT: Mr. Chairman, I think I will let the manager, George Kemp, answer that since he was involved directly in the day-to-day operations of Channel Area Loggers and with Peyton.

MR. CHAIRMAN: Mr. Kemp.

MR. G. KEMP: Mr. Chairman, I would say that Peyton benefited the skidoo contractors directly more than the guys that were involved in the hand cutting, and eliminated the need for hand falling and cut back on the employment to those fellows, but it directly helped the guys with the skidders.

MR. D. GOURLAY: Were all the skidder contractors local, or were some of them outsiders as well?

MR. G. KEMP: Mr. Chairman, they were all local.

MR. D. GOURLAY: All local?

MR. G. KEMP: Yes.

MR. D. GOURLAY: In the report, it mentions outside contracting was limited to slashing of some 1,000 cords. They weren't able to realize this amount? Is this what was said?

MR. G. TRITHART: When I say it was limited to 1,000 cords, the limits were on the basis of the outside contractor couldn't produce any more.

MR. D. GOURLAY: I believe Mr. Everett made reference to the reforestation program. Is that program continuing this current year? If so, is it providing jobs for local people there?

MR. L. EVERETT: Mr. Chairman, yes, it's providing local employment in Berens River, and I believe it's continuing for a period of five years. Like I mentioned before in my opening remarks, the tree planting was done on the Berens River area east of the community, and they planted 100,000 trees. Also, I think the proposed plan for this year is planting 200,000 trees in the Pigeon River area.

MR. D. GOURLAY: The question of absenteeism has been a concern over the years for the people involved in Channel Area Loggers, and I'm wondering if Mr. Everett can indicate what kind of an education program is currently in place to inform local people of the opportunities that are available through this industry and what types of encouragement are being put in place to reduce the amount of absenteeism.

MR. L. EVERETT: I think the idea that the board considered, in conjunction with the Frontier School Division, which is at Berens River, we're working with Frontier School Division and trying to come up with a training course for the young people who do want to make a career in pulp cutting. Along those lines, we are trying to get the local people educated in the area of pulp cutting. That is one area of a career that they could choose.

MR. D. GOURLAY: I wonder if Mr. Trithart can indicate what the financial situation looks like at this time with respect to the year just ending, March, 1985.

MR. CHAIRMAN: Mr. Trithart.

MR. G. TRITHART: Thank you, Mr. Chairman. We expect that the losses will continue at or at least about the same level although we don't have any financial information for the year ended March 31, 1985 yet.

MR. D. GOURLAY: The amount of logs harvested in the year ending March, 1985, has that remained about the same as the year under review today?

MR. G. TRITHART: I think the production as at March 31, 1985 for that particular year was in the neighbourhood of 13,000 cords.

MR. D. GOURLAY: The present year that we're in, 1985, what is the situation of Abitibi and the quotas for the current year? Is there any problem in cutbacks there as far as levels, or is there a fair quota available to Channel Area Loggers for this current year?

MR. G. TRITHART: Up to a maximum of 16,500 cords, I don't think there is any problem. However, as reported in our report, the fires over the past five to seven years have depleted the stocks in that specific area and, therefore, the allowable cut has been cut back considerably.

MR. D. GOURLAY: What production figure would you say would have to be met to bring the corporation into a break-even position at the present time?

MR. G. TRITHART: I think that varies substantially. The company, as the president mentioned, is going through a real hard look at the whole operation and I think the present camp was built some years ago on the basis of producing in the 25 to 30,000 cord range. When you have overheads which produce at those limits, it becomes difficult to make money at a limit of 13,000 cords.

So plans are under way to make whatever changes are necessary so that the allowable cut of 16.5 or even less can be managed within reason and therefore get viability.

MR. D. GOURLAY: What's happening at the present time? Is there any cutting going on or is it this time of year that things are shut down? What is the situation at Channel Area Loggers as of this week?

MR. CHAIRMAN: Mr. Everett.

MR. L. EVERETT: I think at this point in time, as you may very well know, the Berens River area is in the stage of the season where there is ice breaking and since the camp is in an area where it's only accessible by air and by water, the camp is closed.

MR. CHAIRMAN: Are we ready to pass this report since we have one more report to go through, with due regard for people who had to come from Moose Lake? The Member for Roblin Russell.

MR. W. MCKENZIE: I'm wondering, on the mechanical breakdowns that's mentioned in the report here, this Northland Diesel and Industrial, are they doing most of the repair work and are they able to correct some of the problems they're experiencing there.

MR. G. KEMP: Yes, they are doing most of the repair work and I think we've had trouble with three particular skidders which are manufactured by the International Harvester Company, and we finally gave up on one of those machines and returned it to the city here. As far as the other skidders go, they do experience breakdowns which are a little bit more costly because we're in a remote area I think.

MR. D. GOURLAY: You should give it to Northland Diesel, they can handle those breakdowns. Can they handle those breakdowns that are occurring at the repair shop at Northland Diesel and Industrial?

MR. G. KEMP: Yes, they can.

MR. D. GOURLAY: They can. Okay, thanks.

MR. CHAIRMAN: Are we ready to pass this report? The Minister of Business Development and Tourism.

HON. J. STORIE: Thank you, Mr. Chairperson. Before we pass the report, I would just like to commend the president and chairperson of Channel Area Loggers.

When I was Minister responsible, I had an opportunity to visit Berens River and review the cutting area. I had an opportunity to meet with people in the community, including Chief Everett, and I believe not only is Chief

Everett the first Native person to be responsible for a Provincial Crown Corporation, he is also one of the best hopes that I think Channel Area Loggers have in terms of their long-term stability and something that I think everyone in the committee would desire.

I think what we've heard today is testimony to the fact that Chief Everett understands the role of a Crown corporation and understands how that corporation fits into the endeavours of the community as a whole.

Certainly I know that Mr. Everett was largely responsible for initiating the training that occurred over this past year, and I should say the board of directors are tackling some of the difficult issues that have plagued Channel Area over the years. I would certainly like them to know that we appreciate their efforts and believe in the long run, Channel Area will be successful, and it will be successful largely because of the efforts of the community and the individuals in Berens River.

So, my commendation to you and to the board of directors and to those people in the community who want to make this work.

MR. D. GOURLAY: Yes, Mr. Chairman, I notice that we're running a little bit shy of time, but with leave, I think, if the committee is in agreement, we can hang in here and possibly pass this one and also Moose Lake Loggers.

MR. CHAIRMAN: That's what they want to do with due regard to people who have to come from Moose Lake.

MR. D. GOURLAY: I appreciate that.

MR. CHAIRMAN: Yes.

MR. D. GOURLAY: I would just to also give encouragement to Chief Everett. I recognize, too, that he is the first Native leader that is heading up this Channel Area Loggers. I believe he has a real challenge ahead of him. The Channel Area Loggers has had a history of difficulty over the years, and I believe the chief has indicated the areas where the problems have existed, and I look forward, with enthusiasm, to a good year in the making for Mr. Everett and the Board of Channel Area Loggers. I believe, as I mentioned, they have a real challenge.

I don't want to be overly critical on the bad deficit position the corporation appears to be in at the present time. We do know that the corporation can be viable; it has been shown. I believe, with the expertise that Mr. Everett brings to the board, we expect great things from him; although the next Annual Report doesn't look encouraging, that won't reflect on the current year's operation that Mr. Everett and his board are faced with.

So we look forward to success in this project and wish the new president, Mr. Everett, good luck in the time ahead.

HON. H. HARAPIAK: In the interest of saving time, I would just like to echo some of the comments that the former Minister responsible for Channel Area Loggers made and add, as well, that I was in Channel Area area recently and met with the board of directors.

I am excited over some of the ideas that they have and how they can trim costs. I think this is where the

decision has got to be made; the decision has got to be made within the community that this can be a viable operation and that the community has something at stake. That recognition is coming, and I am pleased with the work that Mr. Kemp and Mr. Everett have given to the operation.

I am looking forward to some of the changes that will be necessary to make in order to make this a viable operation. But we should remember that the No. 1 priority of this corporation is to create employment in the area, and this is what has been happening in the last couple of years; the employment has taken place. So, with that, I would like to just . . .

MR. CHAIRMAN: We are now ready to pass this report. Is that agreed? (Agreed)
The report—pass.

MOOSE LAKE LOGGERS LTD.

MR. CHAIRMAN: The next report the committee needs to consider is the Moose Lake Loggers Ltd. Annual Report for 1983-1984.

Mr. Minister.

HON. H. HARAPIAK: I would like to call forward Renault Kivisto, who is the general manager of Moose Lake Loggers. I would also like to tell you that Mr. Clem Jones, who is the chairman of the board, was not able to be with us today because of a commitment that had been made quite some time ago and he was not able to get out of it. He is not with us, so Mr. Kivisto will give the report of the chairman of the board.

Mr. Kivisto.

MR. R. KIVISTO: Thank you, Mr. Minister, Mr. Chairman, and ladies and gentlemen.

Mr. Clement K. Jones, the chairman of Moose Lake Loggers could not attend this meeting because he had a long-standing previous commitment that he could not reschedule, and offers his regrets and apologies for any inconvenience it may cause, and has asked me to give the Annual Report in his absence. I will attempt to justify his confidence in me.

In the year ended March 31, 1984, we had a production of 118,326 cubic metres, which is equivalent to 49,200 cords.

We had an income of \$2,941,749 in payroll; and payables and depreciation, etc., of \$2,992,786, resulting in the loss position of \$51,042 for the year ending March 31, 1984.

We had an average of 74 employees while we were operating on a regular basis, with some employees off on sickness, accident and other leave, which would probably at some time or other push it up to 85. But the report shows it's 74, which we felt was an average employee level. Quite a few employees quit during the year and others being rehired; so at any given time it wouldn't be quite - it might be 74, it might be 75 - so we took the average.

The reforestation program during the year, as it's mentioned in the report, employed 48 people. We had quite a number of our seniority piecework employees who did not utilize their opportunity to work on this project, but we did have quite a few people from the cookery who did take part in the project.

Manfor has an ongoing reforestation program, and they are going to implement some reforestation, and some of our employees also can apply this year.

This year ending March 31, 1985, we have cut 152,802 cubic metres, or 63,535.52 cords, and anticipate a small profit. We don't know exactly how much it is going to be, but we anticipate a small profit.

This past year we had no shutdowns of operations. We know at this time that there is going to be a shutdown this summer, as we have already given our employees eight weeks notice and we will be shutting down at some point in June when we get our production levels, what Manfor requires up to that point. This might be in the first week of June or it might be in the second week of June.

I will now open up for questions.

MR. D. GOURLAY: Mr. Chairman, I would like to thank Mr. Kivisto for his report. I note in the Annual Report that the number of employed people has gone up considerably, but the production has gone down drastically. I guess there is an explanation given in the book that there are more workers on each of the skidders and they are actually earning less per year than they were previously. Is this . . .

MR. R. KIVISTO: Well, this is true. On some skidders, we employ three people and other skidders there are two people. So last year we had fairly small timber which resulted in less money per person and also less production. We had quite a bad year. You are asking about the reporting year?

MR. D. GOURLAY: Yes, the year under review, it would appear that the number of employed people, you mentioned it went up to maybe a peak of - of course, you said 85 - that was this past year . . .

MR. R. KIVISTO: Yes.

MR. D. GOURLAY: . . . not the reporting year?

MR. R. KIVISTO: The reporting year, it was approximately 74.

MR. D. GOURLAY: But I notice the production is down quite a bit and yet it would have to be that the average annual earnings must also reflect that reduction, would it not?

MR. R. KIVISTO: Well, it may reflect - the union members also got a raise so their earnings go up in that manner, and they participated in the Reforestation Program, so there was also earnings from that point.

MR. CHAIRMAN: Mr. Trithart has something to add.

MR. G. TRITHART: As it relates to the annual average wage, we're basing that on the fact that there were 49,000 cords cut in the year under review, whereas 57,000 cords and 65,000 cords respectively were cut in the two prior years where the average earnings were \$24,000, or above \$24,000.00.

I think as far as the people are concerned working out there, I think the time off that they had during the

year and that type of average wage is quite good in my opinion.

MR. D. GOURLAY: I just wanted to clarify it. It seemed like the number of employed people was going up, while the production was going down, and I just wanted to clarify that.

I believe Mr. Kivisto had indicated, too, that there was a fair amount of work in the Reforestation Program which would not reflect in these figures.

MR. G. TRITHART: While the number of employees has gone up, that constitutes the increase from two to three employees in some cases and, as well, this is not man years, it's the average number of employees for the year.

MR. D. GOURLAY: I appreciate that. Mr. Kivisto indicated that layoff notices likely would start in June. I believe the Minister indicated in the House some time ago that there would be a three to three-and-a-half month shut down?

HON. H. HARAPIAK: As it stands now they'll be operating a little longer than they expected, so they'd be laid off at the middle of June and they expect to start up operations again the beginning of September.

MR. D. GOURLAY: I note, too, that all of the pulpwood production comes from owner-operators. There is no company operating in the Moose Lake area any more?

HON. H. HARAPIAK: That is correct.

MR. D. GOURLAY: Again, the problem of absenteeism as indicated in the Moose Lake area, I wonder if Renault could comment on that. Is it getting worse. Is the absenteeism being reduced? What is the situation today?

MR. R. KIVISTO: I think we make in-roads on the absenteeism problem every year to a slight degree, but it's going to take its own time to resolve completely.

MR. D. GOURLAY: Do you have any suggestions or words of encouragement to pass along to the Channel Area Loggers where they may be able to improve their situation there with respect to this problem?

MR. R. KIVISTO: Well, the arrangement at Moose Lake is quite different from Channel Area. Because of the accessibility of Moose Lake, it's a much easier corporation to contain in lossage, whereas Channel Area has an access problem, Moose Lake hasn't. Our ground conditions at Moose Lake are much better so I think our two operations really can't be compared. I think the Channel Area Loggers are doing a good job in trying to contain their lossage. I really think I couldn't do anything other than what they're already doing to alleviate any problems that they have.

MR. D. GOURLAY: Moose Lake Loggers has had a fairly respectable record over the last several years. Do you anticipate any problems in the foreseeable future, or does it look as if it can continue to be a reasonably viable operation?

MR. R. KIVISTO: I think Moose Lake Loggers is going to be a reasonable operation ongoing, barring some unforeseen developments, because we've got good access to the company, good roads and if Manfor stay viable I think our situation is only going to improve.

MR. D. GOURLAY: What about your supply of timber and pulp, is it pretty adequate for this foreseeable future?

MR. R. KIVISTO: Yes, we have adequate timber barring large fires. We've had small fires and we've been able to contain them very effectively so far. But if at some point we could have a large fire and the area is very high and dry, we could burn a lot of wood in a very short time at Moose Lake. So as long as large fire doesn't hamper us, I think we've got an adequate supply of wood.

MR. D. GOURLAY: The bulk of your production is pulp. What is the ratio between pulp and cutting logs as far as your annual production?

MR. R. KIVISTO: We have approximately 65 percent saw logs in our material. Some areas where we get small wood, we have less than that. But on most areas we have an excess of 65 percent going into saw logs.

MR. D. GOURLAY: Just one final comment. I'd like to congratulate Renault and the board there for doing a reasonably good job.

I can't let it slip, however, that in the history of Moose Lake Loggers there has only been one year under the NDP that they have shown a profit; whereas, during the four years of the Lyon administration, there was only one year that they showed a deficit. So I think the Moose Lake Loggers can only look forward to greater times, especially if we get another PC Government back in.

MR. W. MCKENZIE: I have one question, Mr. Chairman. On reforestation, are any of your employees employed with the Reforestation Program, or are they separate employees altogether?

MR. R. KIVISTO: It depends on what we're talking about. Last year, not on the year that we reported on but on the year that we've just passed, we had people that stayed in our camp from Resources and they'd thinned wood, but they weren't our employees. They were members of Natural Resources.

The year before we had our own employees on the Reforestation Program.

MR. CHAIRMAN: I assume the committee is ready to pass the report? Mr. Minister.

HON. H. HARAPIAK: Before closing, I would like to commend Mr. Kivisto for a very efficient operation. I know during very difficult times you were able to keep production costs down and still come in with very minimal losses. So I want to congratulate you on the operation that you are running there, as you and the board members are doing a very good job under very trying times.

Thursday, 9 May, 1985

I would also like to thank the committee members for staying a little longer so we can complete the report of Moose Lake Loggers because Mr. Kivisto would have had to come back from Moose Lake to complete the report.

I would hope that Mr. Gourlay doesn't hang too much hope on the coincidence that the losses which happened to be a little less during the Conservative years, because I think if that's what they have to hope for they are going to be waiting many many years before there is a profitable year.

MR. CHAIRMAN: The Annual Report of the Moose Lake Loggers Ltd., 1983-84—pass.

MR. W. MCKENZIE: Pass.

MR. CHAIRMAN: What is the pleasure of the committee?

A MEMBER: Committee rise.

MR. CHAIRMAN: Committee rise.

COMMITTEE ROSE AT: 12:50 p.m.

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