Legislative Assembly of Manitoba

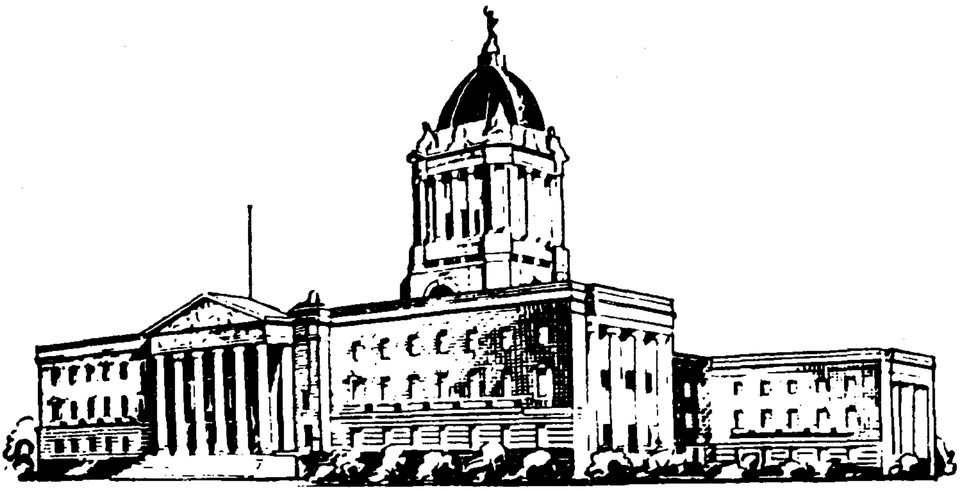
STANDING COMMITTEE

ON

ECONOMIC DEVELOPMENT

Chairman

Mr. Don Orchard
Constituency of Pembina



Thursday, May 17, 1979 10:00 A.M.

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Hearing Of The Standing Committee
On
Economic Development
Thursday, May 17, 1979

Time: 10:00 a.m.

CHAIRMAN: Mr. Don Orchard (Pembina)

MR. CHAIRMAN: Order please. Gentlemen, we have a quorum. We will consider the financial statements of the three firms, William Clare, Flyer Industries, and Tantalum Mining Corporation, and I think the first on the list is William Clare Manitoba Limited.

MR. PARSONS: Gentlemen, you all have the William Clare statements for the 31st of December, 1978. This company was in the process of closing down. During 1978, Rand-McNally were in the Mathematics Modules Program. They decided they couldn't make it go after spending a considerable amount of their funds and the program is closed down. As shown in the audit report we had fully reserved for the loss back in 1976. We have now wound up all the legalities. The company is finished.

MR. GREEN: Mr. Chairman, I would just like to see whether I can make abundantly clear that despite the fact that it was closed down this year, and despite the fact that there is $1.5 million as a deficit invested in it, that total $1.5 million was reflected in previous losses of the Manitoba Development Corporation, so that whatever was lost was lost back in 1976 —(Interjection)— or prior to it, and that the present financial position of the government is in no way reflected by the closing down of this operation because whatever losses there were, were reserved for, calculated, displayed, and indicated on a previous balance sheet of the Manitoba Development Corporation.

MR. PARSONS: Yes, that is correct.

MR. GREEN: Despite the fact that there was a loss to the province, that is shown previously and there is no loss which would be reflected on the current balance sheets of the government of Manitoba.

MR. PARSONS: No, there is a few dollars in this last year for closing down, but basically the total loss was $2,270,000, but that had been reserved back over the last six years.

MR. GREEN: Just again so that there is no misunderstanding about this, my impression is that in or about 1973 or at the latest 1974, but I think 1973, the board of directors of the MDC came to the conclusion that the operation of William Clare Limited should not be pursued, that at that time there was about $600,000 invested in it. That is a commercial decision, not in any way dictated by anybody or even recommended by anybody, that the board of directors came to the conclusion that they should continue with completing the module program in order to see whether it could be marketed through Rand-McNally in the United States that expressed a positive interest in it in the hope that completing the program would recover the amount of the investment, but that the operations of the company were not intended to be continued, just simply complete the project.

MR. PARSONS: That is correct. It was totally turned over to Rand-McNally.

MR. GREEN: And that was a commercial decision which didn't happen to work out.

MR. PARSONS: No, that is right. It did not.

MR. GREEN: I gather that as late as 1977, I believe in the spring, the Directors of the MDC and the Directors of Rand-McNally met together, and I believe I was present, and at that time Rand-McNally still said that the program was a very positive one, a very interesting one and one which they felt that they could market.

MR. PARSONS: Yes that's right.

MR. GREEN: And the sole attempt of the Development Corporation between 1973 and 1977 was not to put money into a publishing company but to complete this project.

MR. PARSONS: Yes, that is right.

MR. GREEN: Now the project, the modules of which I have seen — are there these modules available for the members of the Legislature? Are there sufficient physical copies of these modules that can be available to the members of this committee?

MR. PARSONS: Yes, I think we could get samples of them.

MR. GREEN: I would appreciate it, Mr. Minister, if the work that was done and the credits which are shown, would be made available to the members of the committee so they could at least see what efforts were made.

MR. PARSONS: All right. We'll undertake that.

MR. GREEN: Has any attempt been made to see whether the Department of Education would have an interest in reproducing or . . . because now the work has been done, there is no . . .

MR. PARSONS: No, the work has not been completed. The modules are not all completed.

MR. GREEN: Yes, but are the ones that are completed usable?

MR. PARSONS: Yes, we have already contacted the Department of Education. There is some interest, and we're trying to get them up here. Rand-McNally are willing to give them to us, but there's also dollars to bring them in. We're going to bring some up and let them take a look at them.

MR. GREEN: I see.

MR. PARSONS: When we closed out the deal, they said we could have any inventory on hand.

MR. GREEN: Now, Mr. Parsons, you wouldn't have any idea as to the amount of research moneys that would be spent in a Department of Education, dealing with a similar developmental project?

MR. PARSONS: No, you're right, I don't have any idea.

MR. GREEN: Thank you.

MR. CHAIRMAN: Are there any further questions, gentlemen, on the Financial Statements of William Clare? Could we pass the report page by page or adopt the Report in full? The Financial Statements of William Clare — passed.

Next Financial Statement is that of Flyer Industries.

MR. PARSONS: Yes. The committee has received the Flyer Industries Statement as of 31st of December, 1978. The statement is well detailed, Last year there was 135 buses produced for sales of approximately $12 million. Because of the low number of orders that were available, and we knew at the beginning of the year that if we couldn't get more orders— we felt we needed at least 200 to break even — we did do a certain amount of cutback and we came in at $1,081,000 loss, which we felt in view of the amount of buses produced and sold was good control.

This year, 1979, we presently are producing three buses a week; we have 235 bus orders on hand, which will produce revenues of about $21 million. We have three tenders in house now that we hope to be successful on down in the United States for another 300 buses..If we're successful on 100 of those then that would fill up our production to complete this year, and would probably bring us up into the area of $30 million in sales, which should produce a profit.

We have had to shut the plant down on two occasions this year: one, because of part shortages largely brought about by the truckers' strike in the United States, we couldn't get it in, we had to unfortunately close our assembly plant down for a few days and we were closed down for three and one-half days last week because of a power loss. The employment level is at about 330 people. We will be increasing that another 50 to 100 by the end of this year if we are successful in getting these other orders. It will be increased anyway as we get into production of the large Seattle order, so we can look to have possibly 400 people employed out there by the end of the year.

I don't know whether the Committee wants me to go through the statement in detail. You've had it now, and maybe we could go for the questions?

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Parsons, with production of 135 buses you had a loss of $1,081,000.00? I take it that at one time some professional consultants told the Board of Directors that with production of 200 buses a year, that one could anticipate losses of $3 million a year.

MR. PARSONS: Well, that remark was made. It was a very outside figure because they couldn't do an in-depth study and they said if you only produce 200 buses a year, you could lose $3 million, but when they were saying that they qualified that by keeping the same number on staff, and they also qualified that that we weren't bidding at a proper price. So those factors . . . I mean, you could lose $3 million if you produced 300 buses, if you produced them at a loss. But you're right, that was an outside figure that they threw out.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Now you are telling me that if you can produce two million buses a year — just 200 buses a year, excuse me — that that's fairly close to break-even figures?

MR. PARSONS: If we know at the beginning of the year that we're going to produce 200 buses, and we schedule those over the production line evenly, then we can cut the staff to hold it on that, and it can possibly break even. This is what we did last year; we had to cut back the staff because the orders just weren't available, and we spread them out. And that's why, when you produced only $12 million, we lost $1 million.

MR. GREEN: I understand that full production, which is not even optimum production, but full production based on existing faclities, would be about ten buses a week, or 450 odd buses a year.

MR. PARSONS: Yes. We produced 480 buses in 1976, which is ten buses a week. We have now rescheduled our line, and we might even be able to go higher than that, we don't know.

MR. GREEN: And at full production — that is 480, let's take the lower figure — would you anticipate losing $3 million a year, or millions of dollars a year?

MR. PARSONS: If we had an order, if we had 480 — no, depending on the prices and conditions and so on, we certainly should be able to produce a profit.

MR. GREEN: You would produce a profit if you were producing at full production — should.

MR. PARSONS: We should. It depends on the pricing.

MR. GREEN: Well, certainly, nobody that you know of, let alone a Conservative or a previous New Democratic Party Cabinet Minister, has to your knowledge ever said that at full production, even operating at full capacity, or words to that effect, that Flyer Industries would lose millions of dollars, or $3 million a year.

MR. PARSONS: No, I have never heard that.

MR. GREEN: You have never heard that remark made by any Cabinet Minister?

MR. PARSONS: Not on full production, no.

MR. GREEN: What you have heard said — and because the Manitoba Development Board wanted to make it perfectly clear — that if we continue, and only get 200 buses a year in orders, there is a hazard of losing upwards of $3 million a year.

MR. PARSONS: There could be if we maintained the same staff that you had for 480, and only produced 200 — you certainly could.

MR. GREEN: But nobody has ever suggested that one would try to do that — to maintain the same staff. In other words, if you only had 200 buses a year, there were attempts that you could have made, and these were indicated at the time, to try to reduce that loss.

MR. PARSONS: That's correct.

MR. GREEN: What was intended at that time was to show the public the most hazardous position, so that the Board of Directors would have done their duty to indicate that there were problems that they were trying to deal with.

MR. PARSONS: Right.

MR. GREEN: But anybody who says that a Cabinet Minister said that at full production the company would lose millions, or $3 million a year, is either stupid, or deliberately trying to discredit the company. Would you agree with that? Well, in any event, you haven't heard that remark being made by any Cabinet Minister.

MR. PARSONS: No, that's right.

MR. GREEN: And certainly, the making of such a remark by a Cabinet Minister, if it had been made, would place the company in a rather precarious position, that at full caaacity you would lose — that means 480 buses — that you would lose several million dollars a year, Would you agree with that; that that would be putting the company in extreme jeopardy because it. . .

MR. PARSONS: It certainly wouldn't help it any.

MR. GREEN: It wouldn't help it at all. And anybody who makes that type of remark and circulates it, that at full capacity this company would be losing millions of dollars a year, or $3 million a year, that that remark would be expected to discredit the company and to interfere with its financial integrity. Do you agree with that?

MR. PARSONS: Yes.

MR. GREEN: Well, would you also agree, Mr. Parsons, that a Winnipeg newspaper calling upon City Council not to buy Flyer buses; in effect recommending that they not buy Flyer buses, would hurt the bidding practices of Flyer Industries Limited?

MR. PARSONS: Well certainly anybody working against us getting a fair hearing on a tender, certainly. . .

MR. GREEN: And would you say that in the year 1977, when you were bidding on tenders and where the lower bidder in several other provinces, the lowest bidder in several other provinces, that remarks in Winnipeg newspapers attempting to discredit the company, hurt your bidding procedures?

MR. PARSONS: Yes, it hurt us. We were still successful in getting the bid.

MR. GREEN: Well, some of them you did not get.

MR. PARSONS: No.

MR. GREEN: There were several bids; one in Edmonton. . .

MR. PARSONS: One in Edmonton; one in Calgary.

MR. GREEN: One in Calgary; one in British Columbia.

MR. PARSONS: The British Columbia one was never let.

MR. GREEN: But you were the lowest bidder in British Columbia.

MR. PARSONS: That tender was never let. They did not buy any buses. And they haven't, since then.

MR. GREEN: But you were the lowest bidder in that province.

MR. PARSONS: Oh yes.

MR. GREEN: And it is your opinion as a person in the commercial world that articles in Winnipeg newspapers, trying to discredit the company financially and to discredit its product in terms of performance, hurt your bidding practices throughout those years?

MR. PARSONS: It certainly did in two provinces that we know of they were used.

MR. GREEN: Now, for the past year, except for one particular editorialist who is not named and therefore I will call him "Ted Stupidly" who nobody pays any attention to in any event, you have not had a similar onslaught of publicity against Flyer Coach Industries Limited? Would that be correct?

MR. PARSONS: Yes, there has been very little.

MR. GREEN: Has that helped your tendering in other places?

MR. PARSONS: I don't know whether it's helped, but it certainly hasn't hindered it so it's negative. . .

MR. GREEN: Yes. The hindering hasn't continued?

MR. PARSONS: That's right.

MR. GREEN: You haven't lost any bids in which you were low bidder in the last year, or have you?

MR. PARSONS: Yes, we have.

MR. GREEN: Which one?

MR. PARSONS: We lost Toronto.

MR. GREEN: Then you were low in Toronto and you lost that one?

MR. PARSONS: Yes, yes. I know B.C. wasn't tendered yet.

MR. GREEN: But you have done better than you were doing in those years?

MR. PARSONS: I don't know that we've done better; we've done as well. There hasn't been . . . it's true we lost the Toronto order. We were slightly lower than G.M. They chose to buy G.M. There was no wrangling in the press or anything that affected that order.

MR. GREEN: That affected that particular order?

MR. PARSONS: No.

MR. GREEN: You're not sure whether it was affected by the previous wrangling.

MR. PARSONS: No, I don't know.

MR. GREEN: What you do know is that when the consultant's report came and said that you could expect 200 buses, a maximum of 200 buses on the Canadian market, that at that time there was no calculation of any possibilities on the American market.

MR. PARSONS: That's right. The only portion of the American market the company had looked at was in the trolley business and that was filled up, so there was no estimated diesel bus business for us in the States.

MR. GREEN: I believe that there may have been a calculation, if I can remember correctly, Mr. Parsons, that there was a possible 50 buses a year in trolleys that were estimated in that report.

R. PARSONS: Yes, that was an outside estimate and hasn't come about, and we didn't think it would.

MR. GREEN: But there was nothing estimated of the American market?

MR. PARSONS: Other than that, no.

MR. GREEN: And the American market was estimated in that report as I recall it, at 6,000 buses a year?

MR. PARSONS: I don't remember the number but that's far higher than it actually is.$

MR. GREEN: It's higher than it is?

MR. PARSONS: Yes, It was about 4,000 last year.

MR. GREEN: It was about 4,000 last year but, Mr. Parsons, any share, even a small percentage of the American market, that is 5 percent of the American market, is 200 buses a year.

MR. PARSONS: That's right.

MR. GREEN: And as a matter of fact, how much did you get in the American market? How many buses do you have in the American market now?

MR. PARSONS: We've got this year 175.

MR. GREEN: So that the opening of the American market dramatically affects the possibilities that were indicated in that report, because any buses on the American market dramatically changes your position.

MR. PARSONS: That's right.

MR. GREEN: And what also dramatically changes that report is that with some good practices, you can almost break even on 200 buses a year.

MR. PARSONS: If we know in advance that's what we're going to get, and can cut back before the beginning of the year, and we're on an even schedule; you might break even.

MR. GREEN: Yes, now Mr. . . .

MR. PARSONS: But you can't run a plant that way.

MR. GREEN: It's also suggested that there are certain suggestions that the losses of $16 million in one year which was largely accountants' losses and the other losses, were attributable to bad accounting procedures. I've heard the suggestion made that the Auditor's suggestions in accounting procedures were helpful in eliminating those losses.

MR. PARSONS: No, I don't really understand that remark. The losses came about legitimately

The largest thing that contributed to that loss was the opening of a new plant. The tenders were out in 1974 without an escalation clause. Those buses were produced two years after, or a year-and-a-half after they were tendered and there was a dramatic increase in all components that went in the bus. And that and the start-up of the new plant contributed greatly to that. It's not accounting procedures; those were actual dollar losses.

MR. GREEN: It has been suggested that the Provincial Auditor in making his recommendations, made recommendations which substantially have affected the losses of Flyer Coach Industries Limited. Do you think that those recommendations substantially affected the losses?

MR. PARSONS: I don't recall him making any specific recommendations on the losses. He may have made some on the large provisions that were made at that time for losses. In the end, it washes out the actual losses which show here. Now ow it's a matter of opinion as to how high those provisions should have been. And we looked at — the company I mean — looked at it, the company's auditors looked at it and the Provincial Auditor, and it's a matter of judgment. They were excessive and they were reversed, but that still in the net . . . through the washing out of that, we still come out with a deficit of $16 million.

MR. GREEN: In any event, it wasn't accounting procedures. What I recall it as being is that you bid low during a period of inflation, that there was a period of bad management which the Board itself corrected, and that there was a tightening up of production procedures, not accounting procedures.

MR. PARSONS: All right. Yes, I'll accept the fact that the. . .

MR. GEN: Now, Mr. Parsons, I'm interested in buying Flyer Coach Industries provided — and I want to deal with this — provided that you will relieve me of the entire indebtedness of the Manitoba Development Corporation; that you will give me the assets at cost, and that there will be no charge for inventory of $4,992,857.00. Now that appears to be a philosophy upon which the Manitoba Development Corporation disposed of Morden Fine Foods. Can we make the same deal with regard to Flyer Coach Industries? I want to be relieved of my interest charges, which are $366,261 and I want to get the inventory, $4,992,000 free and I want to get the fixed assets of land and equipment at its depreciated value of $2,970,865.00. Can we have a deal?

MR. PARSONS: No, we don't make any deals but when it goes out to tender, we'll allow you to bid and if you're high, you may get it.

MR. GREEN: You will sell the company on a bid of that kind?

MR. PARSONS: No, we would probably put a reserve on it.

MR. GREEN: Oh, you would put a reserve on it.

MR. PARSONS: We would certainly take a look at it if that was the only bid we got. We wouldn't necessarily accept it and that happened in one property we put up to tender. It came in far lower than our appraisal, and we didn't accept any of the tenders.

MR. GREEN: Let me put it to you in another way. I now want to give you back the Flyer Coach Industries but I want to do you a favour. I want to relieve you of you debt charges of $366,261.00. I want to give you your inventory free and I want you to open your balance sheet on the basis of your depreciated cost of buildings and equipment. Would your statement this year show a profit, the statement that is before us?

MR. PARSONS: Well, it depends on the appraisal of the land and buildings, if you're going to add that — but I don't know what that figure would be.

MR. GREEN: Well, if I get the inventory free.

MR. PARSONS: Well, the interest on that loan was probably only $300,000.00. I don't want to get into — I don't know what the values are.

MR. GREEN: What about the inventory being free, that's $5 million in inventory?

MR. PARSONS: Oh, I don't think there's really much to be gained by this kind of an argument. I don't know what it would do.

MR. GREEN: Well, what we do know, Mr. Parsons, is that if you had no interest charges, if you had no interest charges, that would improve your position by $366,000, which would mean that your loss would be $700,000.00.

MR. PARSONS: That's right.

MR. GREEN: That if you then didn't take depreciation on buildings and improvements of $398,000 — well, that's an accumulated depreciation, but let's give you that whole amount which you indicated to me yesterday. The buildings and equipment are worth at least what you paid for them and probably more; that would reduce it to $300,000, and if I then got the inventory free, of $4.9 million — I suppose it's worth half that, or a quarter of that.

MR. PARSONS: Yes.

MR. GREEN: So, that would give me a profit. I mean that's the way I figure, is there something wrong?

MR. PARSONS: Yes, you would have to pay taxes.

MR. GREEN: Oh, I'd be delighted to pay taxes. You know, I've had it when I didn't earn any money and I paid no taxes, and now I pay a hell of a lot of them and I can tell you it's better to pay than not to pay. I've had it both ways. I would never trade, to go back to the position where I didn't have to pay taxes. But what I would have is a profit, on the basis of the existing balance sheet. And I say this, Mr. Parsons, because if the philosophy . . .

MR. PARSONS: If, if, if.

MR. GREEN: Well it's no "if." That's what you did with Morden Fine Foods, you nincompoops. —(Interjection)— That's right what you did.

MR. JOHNSTON: Morden Fine Foods was tendered.

MR. GREEN: It doesn't make any difference if it's tendered or not tendered. You have written off the interest charges, and the person who bought it has a balance sheet on which he can make a profit —on the same balance sheet which you are complaining that the public is not making a profit . . . — (Interjection)—

MR. BANMAN: You would have lost a-quarter-of-a-million, even if you would have done that.

MR. GREEN: It would not have lost a-quarter-of-a-million. It would have —(Interjection)— Absolutely, and do you want me to go back to the Morden statement? There is $200,000, $200,000 in interest charges alone.

MR. CHAIRMAN: Order please. Order please.

MR. GREEN: And a million dollars in free inventory.

MR. CHAIRMAN: Order please.

MR. BANMAN: Half-a-million dollar loss.

MR. CHAIRMAN: Order please. Order please. Gentlemen, I I believe we are getting slightly off track. Mr. Green.

MR. GREEN: Okay.

MR. CHAIRMAN: Could we deal with Flyer Industries as the subject matter before the Committee?

MR. GREEN: If we took the same procedure with Flyer as we did with Morden, the fact is, that $366,000 in interest charges would be alleviated; $366,000 would immediately be gained in appreciated inventory, which is worth that on the books as you indicated the other day and $4.9 million in inventory would be given at a price — if it was worth anything more than $300,000, the books would show a profit for the same operation that is showing a loss.

Mr. Parsons, the figure of $398,433 in depreciation on the notes to the financial statement is not a real expense to this company, is it?

MR. PARSONS: Yes, this is allowable expense.

MR. GREEN: It's an accounting expense, I didn't ask you if it's an allowable expense, I asked you whether it was a real expense.

MR. PARSONS: Certainly as much as depreciation is in any of the other companies it's an expense.

MR. GREEN: Would you sell the building and improvements — the land, building and improvements for $1,200,000.00? Would other businesses . . .

MR. PARSONS: Well, if you're going to just pick out one item and pick out the land and buildings, that I would say has appreciated, but you don't do that in the going business.

MR. GREEN: Of course you don't.

MR. PARSONS: Well, that's what we're trying to talk about here is the going concern.

MR. GREEN: Mr. Parsons, excuse me, you don't have to take depreciation on those land and buildings, do you?

MR. PARSONS: You don't have to — it's good procedure to do it?

MR. GREEN: It is usually good procedure, when you make a profit . . .

MR. BANMAN: You can't take depreciation on land.

MR. GREEN: Just let — excuse me — on buildings. It is usually good depreciation when you make a profit — good practice when you make a profit. And if you don't make a profit, you should save your depreciation for a year in which you do make a profit.

MR. PARSONS: Well, the fact that it shows here — if you say save it, if you're talking tax-wise, you can do that.

MR. GREEN: Right.

MR. PARSONS: But it's good accounting procedure to do it the same way each year, so you can have a comparative statement.

MR. GREEN: But, Mr. Parsons, I appreciate the accounting procedure and I'm really not arguing about that. —(Interjection)—

MR. JOHNSTON: . . . agree with good accounting procedures, he has his own.

MR. GREEN: Mr. Chairman, I will ask Mr. Parsons, who is an accountant, is it an acceptable accounting procedure not to take depreciation in a particular year if you don't wish to?

MR. PARSONS: Not for a statement. You should take it each and every year — maintain the same standard accounting procedures right through. For tax purposes, you don't have to do that.

MR. GREEN: For tax purposes, you do not have to do that.

MR. PARSONS: No.

MR. GREEN: And that is my question. You do not have to take depreciation, and as a matter of fact, when you take depreciation and there is a sale, you have to recapture any excess of the sale price from the depreciated price.

MR. PARSONS: Yes, recapture it.

MR. GREEN: Mr. Johnston doesn't understand that as an accounting procedure, but we can understand it. Mr. Johnston doesn't understand a lot of things about business and that's why he sells things for nothing.

MR. JOHNSTON: You're getting cheap, Sid.

MR. GREEN: Well, you are getting cheap. You say I don't agree with good accounting procedures.

MR. CHAIRMAN: Order please. Could you address your remarks to the Chair?

MR. GREEN: I don't agree . . . I know more about accounting procedures than you do, and that's obvious.

MR. CHAIRMAN: Mr. Green, you're the recognized speaker by the Chair. Would you address your remarks to the Chair please?

MR. GREEN: I am asking you, Mr. Parsons, what is a very simple question. As the owner of Flyer Industries Limited, would you sell the buildings and improvements at their depreciated value or at their market value?

MR. PARSONS: I would sell them at market value.

MR. GREEN: So the depreciated value need not represent a real loss — an accounting loss, yes, but not a real loss.

MR. PARSONS: That is quite possible, yes.

MR. GREEN: That is something that is knownto all accountants. Not to Mr. Johnston but to all accountants.

A MEMBER: How fast will it sell?

MR. GREEN: How fast will it sell? I'll tell . . .

MR. CHAIRMAN: Order please.

MR. GREEN: I don't know how fast it will sell. But if you sell it, it'll sell very fast and for nothing. So it depends on who's got it and who's selling it. If you sell it, it'll sell very fast and for nothing. That I am certain of. You have given your opinion the other day, and I take it you do not retract it, that these buildings and improvements are worth more than what it's shown on the books for.

MR. PARSONS: Yes, I would think so.

MR. GREEN: So you wouldn't sell it very fast if you didn't get what you consider to be a reasonable price for it.

MR. PARSONS: No. I don't know what the appraisal is, but the way inflation has gone, I would think it's probably certainly worth — the land and the building would be worth more than the day we put it up.

MR. GREEN: But you would had sold it at a depreciated figure, which is . . .

MR. PARSONS: Which is good accounting procedure.

MR. GREEN: Which is good accounting procedure. No objection. But when you are looking at your net worth in the company, you would look at it from its real value, not its book value.

MR. PARSONS: That's right.

MR. GREEN: That's simple accounting, which is understood by everybody except Mr. Johnston.

MR. CHAIRMAN: Are there any further questions on the financial statements? Mr. Banman.

MR. BANMAN: Mr. Chairman, to Mr. Parsons. In the year of 1974 you incurred the $15 million loss, is that right?

MR. PARSONS: Yes. It shows the $15 million . . . that was the year that we set up the large reserves.

MR. BANMAN: Did you reserve that year about $9.5 million?

MR. PARSONS: It was in that area.

MR. BAMMAN: So if we want to get down to the nuts and bolts of it, you lost about $5.5 million in that year's operation.

MR. PARSONS: Yes.

MR. GREEN: That's what I tried to say but . . . wouldn't let me.

MR. BANMAN: In 1975 when Flyer showed a $42,000 profit, you applied $4.5 million worth of those reserves to next year's operations.

MR. PARSONS: That's right. There was half of it applied in that year.

MR. BANMAN: So really you lost $4.5 million that year.

MR. PARSONS: Yes.

MR. BANMAN: In 1976, when you reported a $4 million profit you applied . . .

MR. PARSONS: The balance.

MR. BANMAN: $5 million worth of reserve.

MR. PARSONS: The rest of the reserve.

MR. BANMAN: Which means really that year, that you showed a $4 million profit in the books. If you hadn't reserved it, you would have lost close to $1 million in that year's operation.

MR. PARSONS: Yes. What happened, we set up that large reserve and showed an extraordinarily large loss in '75. Really what we should have done, we should have evened it out and you would have shown about a $4 million loss each of those years.

MR. BANMAN: So really it was a matter of showing a big loss the one year and then even though in 1976 the statement indicated a $4 million profit, you applied $5 million worth of reserves on it, which really means that the company, for all intents and purposes, lost close to $1 million that year. It didn't make $4 million.

Now, how many buses have you manufactured to date, roughly? Let's say this year, in the first quarter.

MR. PARSONS: There's 36 being delivered in the first four months.

MR. BANMAN: One of the problems that we have, and I think you pointed it out, is the problem that if you would know at the beginning of the year you're going to have 200 buses, you could scale your assembly line.

MR. PARSONS: That's correct, yes.

MR. BANMAN: But the problem we face this year again is that we've gone through a quarter of the year already and we've lroduced 36 buses. If we would continue at that rate, if we didn't have any more problems we'd be producing about 126 buses.

MR. PARSONS: We'd lose more than $1 million. You're right in your assumption. If we went through the same staff, but as I said you have to balance it . . .

MR. BANMAN: In 1976, Woods Gordon was hired to try and find a buyer for this particular industry. Was there any response to that?

MR. PARSONS: No.

MR. BANMAN: Did nobody want to buy the company?

MR. PARSONS: They didn't come up with a purchaser. There was — I think I reported on it before — there was approximately 20 that they visited and there was no interest shown in purchasing it.

MR. BANMAN: After that the board of directors recommended to the government that Flyer Industries operations be terminated. Is that correct?

MR. PARSONS: Yes.

MR. BANMAN: What happened? Why wasn't it wound down?

MR. PARSONS: It was the judgment of the MDC Board that the way the market was and the way it looked, that in the future that the company, if it kept operating the way it was, was always going to lose a fairly substantial amount of money, and that is why that recommendation came forward and we recommended that to the government. We were told that because of the social economic benefits and the employment that it made that they wished to keep it going' for us to try and operate it better, get larger orders and that's why it continued.

MR. BANMAN: Did this company ever receive any money under Part 2 of the Act?

MR. PARSONS: No. There was never any Part 2 moneys.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, you've indicated that the Board made one recommendation for termination. I gather that very shortly after they made another recommendation, that if the government is prepared to take the hazard of $3 million in losses, they would continue it.

MR. PARSONS: Yes. That is why we went out to try and find out what the actual losses might be. It was very difficult to do it, and that's where those figures came in.

MR. GREEN: And a joint statement by the Board of Directors and the government was made in the Legislative Assembly and the Board ascribed to that statement.

MR. PARSONS: Yes.

MR. GREEN: So therefore the position that Mr. Banman has asked you about was made by the Board of Directors and the Minister to the public at that time.

MR. PARSONS: Yes.

MR. GREEN: Did Flyer Coach Industries get any money or need any advances from the government after that time?

MR. PARSONS: No, they did not.

MR. GREEN: So there was no necessity to make any advances under Part 2 because the company has been operating on its cash flow since that time?

MR. PARSONS: Yes, it has.

MR. CHAIRMAN: Mr. Evans.

MR. EVANS: Yes. I'd like to ask Mr. Parsons about the general nature of the industry in North America and about the competition. Is it still the case that the major competition that Flyer has is General Motors, or is there any new manufacturers on the scene that you have to be concerned with?

MR. PARSONS: In Canada, General Motors is the only competitor. There's only Flyer and GM competing in the Canadian market. In the United States we have . . . Flexible and GM — are really the main two. American Motors has basically closed down, so there's really only two competitors in the United States and we have just entered that market. Now, in the smaller bus, we have been looking at the 31 foot market, and there's quite a few smaller manufacturers. The one that we'll run in the major competition with is Greyhound. They have now gone into the 31-foot.

MR. EVANS: Motor Coach Industries.

MR. PARSONS: . . . yes, Motor Coach Industries.

MR. EVANS: What about foreign competition, that is buses made in Europe or elsewhere in the world . . .?

MR. PARSONS: We haven't seen it. There's very little of that. There's none in Canada, there is some in the States but not too much.

MR. EVANS: Well then I would gather, Mr. Chairman, from Mr. Parsons' statement — in the Canadian market — that if it wasn't for the existence and continued operatoon of Flyer Industries there would be a monopoly situation, in other words there would only be General Motors . . .

MR. PARSONS: That's right.

MR. EVANS: . . . tendering on bus systems for Canadian cities across . . . Canada Car. The Minister says Canada Car . . . well, I was just asking Mr. Parsons if there was any other competition, and I understand there was only two companies, General Motors and Flyer.

MR. PARSONS: Yes.

MR. EVANS: Well, what about Canada Car? Who is Canada Car in this respect?

MR. PARSONS: Canada Car used to produce buses but I haven't heard that they are going back into the bus business, but they closed down 15 years ago here and the Lakehead.

MR. EVANS: So Mr. Chairman, virtually then, if for one reason or the other Flyer went out of business, the cities of Canada who wanted to buy new buses could buy from one source, and that would be General Motors.

MR. PARSONS: That's right.

MR. EVANS: And they'd have no opportunity to see competitive bids come in and presumably General Motors would have a field day because of the lack of this competition.

MR. PARSONS: Well that's right, they'd be the only manufacturers.

MR. EVANS: Has the federal government ever expressed any interest through it's Departments of Industry or through DREE in assisting Flyer maintain a viable operation if for no other reason than to continue this competitive situation that we have today?

MR. PARSONS: No, we've had some DREE money when we built the original plant, but other than that . . . and you know the Industry Trade and Commerce have sent us the odd tender from foreign countries, but there has been no grants offered.

MR. EVANS: What is the long-term market prospects in Canada; what do you expect, based on your past experience, but also based on what you know the trend is for the use of these kinds of buses? What do you expect the long-term . . . by long-term let's say the next 5 - 10 years as a potential market for Flyer — how many buses do you think you can sell in the Canadian market per annum roughly on average ballpark forecast?

MR. PARSONS: Well, we tried to do that five years ago, on a 5-year forecast, and at that time it looked like our share would probably be 200, based on the fact that there would be 400 or 500 per year sold on the Canadian market, and that's excluding Quebec. We can't sell in Quebec; G.M. has that locked up. So in the other provinces it looked in the area of 400 or 500, but it's proven the last 3 or 4 years that figure's been down between 200 and 300. So unless there's some heavy input from the federal government, the same as they do in the States, the transit authorities don't have the funds to buy.

It's increasingly showing that the Transit Systems need new equipment but they are not getting it, so on the basis that for about 3 or 4 years they've been buying a lot shorter than they want to, then there should be a surge come on.

MR. EVANS: Are there not signs ? I thought the federal government had made some announcements about financially assisting municipalities in Canada in the purchase of bus equipment, and I thought they had already put some money into that. So are they not about to be in that field of assistance to the municipalities in a fairly large way in order to help them update and maintain an adequate public transit system?

MR. PARSONS: To my knowledge, that hasn't gone through yet, I don't know. It has been talked about, maybe somebody else is aware.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Well, I heard the same thing. I asked the manager of Flyer to check into that particular situation and I have a report back. I think it only indicates that next year there will be something like 22 buses in all of Canada that will come under that particular UTAP program, and it's not a significant amount. I think a number are in Quebec and as the member is aware, we can't bid in Quebec.

MR. CHAIRMAN: Mr. Evans.

MR. EVANS: Thank you, so that the company had forecast that annual sales in Canada were between 400 and 500, but the experience has been more like 200 to 300.

MR. PARSONS: No we hadn't forecast . . . ys,, for the all Canadian market, not our share of the market, because we didn't anticipate that we would get maybe 40 percent of that — hopefully.

MR. EVANS: Well, just to clarify, when you say a forecast of 200 to 300 buses that would be Flyer's share . . .

MR. PARSONS: No, there's only been 200 or 300 come out for tender in total.

MR. EVANS: In total, I see.

MR. PARSONS: We had looked and we were hoping that, as I say when we looked back in 1973-74 in projecting the Canadian market, not ourselves but the economists were projecting that there should be a bus market of 400 to 500 per year, and maybe expanding. They also did the same thing in the States, and if you read the '72 report in the States, they said by 1979-80 there would be demand for 8,000 buses. In fact, it did not increase. Now with this gas shortage, and you probably saw it on television the other night, they are going to frantically need buses because they are all behind. It could augur well for Flyer for the next year or two.

MR. EVANS: So it would seem that Flyer really is quite dependant on the potential that may exist in the American market?

MR. PARSONS: Yes. It could not exist on the Canadian market alone.

MR. EVANS: And you have some reason to be optimistic because of the problem with energy availability and the need for greater use of public transportation? What is your best forecast of American sales in the next five years, say, on a per annum basis? Have you any idea?

MR. PARSONS: No. Not really. It's changing very rapidly right now.

MR. EVANS: Well, I think you said earlier today that you had about 235 bus orders so far this year, of which 175 were in the United States?

MR. PARSONS: Yes.

MR. EVANS: And you have three other tenders out for another 300. I didn't hear — were they in Canada?

MR. PARSONS: Those are in the States.

MR. EVANS: Those are in the States too. So that if you are succeful say for another hundred, you might be selling somewhere in the order of 275 to 300 buses this year in the United States, if you were successful?

MR. PARSONS: Yes. And that's what we're looking for and that would fill in our production line to the end of the year.

We're looking at this States side today with optimism. There is one thing that is in effect right now, and that's The Buy America Act. The Buy America Act has been waived because of the shortage for these properties, so we may get them this year or next year, but we could possibly be cut off immediately with that Buy America Act, then we couldn't enter the . . . that's not clarified yet, we hope to have that clarified within a month or two.

MR. EVANS: Mr. Chairman, do you not receive some assistance under the Autopac Agreement between Canada and the United States? Assistance in the sense that it's supposed to be a free trade situation?

MR. PARSONS: It is, it is, but the Buy America perhaps that they put through three months ago supersedes that and we come under that particular Buy America.

MR. EVANS: Well, that could affect the entire Canada-American Autopac Agreement, that would be extremely serious for the entire Canadian economy, never mind Flyer Industries.

MR. PARSONS: This is why we're trying . . . we have been working for over two months to get an interpretation. After the Act goes through, then it goes through a process of interpretation. We don't know, at this particular point, how they're going to rule in our particular case, but it will certainly affect many Canadian businesses other than ours in the light rail industry. That's what it was put through for — to stop Bombardier, CanCar and the light rail, because they were selling a lot down in the States, and this, I think, is where they would be affected more than us.

MR. EVANS: Yes, okay. Thanks.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: I wanted to just go over, Mr. Parsons, where are these competitors of yours located? Is that General Motors in Quebec — is that the same Bombardier outfit . . .

MR. PARSONS: No.

MR. WILSON: Wasn't Bombardier supposed to go into the trolley bus business, or

MR. PARSONS: They had a working arrangement with American Motors, but when they did not get the Quebec business, as far as I know, that ended that entry into the field. They're not in the bus business now.

MR. WILSON: Could you describe where your competitors in the United States are located — I believe one is in Marshall, Texas. What are they called, and where are they located?

MR. PARSONS: They have several plants, I can't give you the exact . . . . . . Flexible was originally in Santa Cruz, California, but they also have a big new plant . . . if you want that, I can find out where the plants are.

MR. WILSON: Where is General Motors in the east — is it in Detroit?

MR. PARSONS: Yes. They also have other plants.

MR. WILSON: The question I'm going to ask, then, is — just to go back, was it not true that Flyer at one time held a monopoly in the trolley bus market?

MR. PARSONS: No.

MR. WILSON: You always had competitors?

MR. PARSONS: Yes. I might say, when you ask about competitors, we were the only ones that built trolley buses in the last few years. Originally, GM built a trolley bus; there hadn't been any built for quite some time. So, what you're probably thinking, when you say monopoly, we were the only ones that bid them, because we were the only ones that were still able to do that without a lot of engineering work. Right now, American Motors got the Philadelphia-Seattle order for roughly 200 trolley buses, and they are building.

MR. WILSON: Have you got any comment to make as to why we lost that position of being the only ones to make them? Why would somebody else enter the market if we were doing the job properly?

MR. PARSONS: Well, the Philadelphia-Seattle order did not meet our specs to start off with. We couldn't have built it without a lot of engineering changes. It was built around a European spec, and the trolley bus that they are building is basically in conjunction with Mann, of Germany.

MR. WILSON: Well, from my observations, and the contributions to the report to date, it seems to me to indicate that Detroit General Motors is receiving, for some strange reason, a few Commonwealth orders, and I was wondering, as Canada is part of the Commonwealth, why is the federal government and our sales force not working together? Your comment "the odd tender" from foreign countries seems to indicate that we don't have this communicative link, may I suggest, that seems to be missing; that we should be getting some of that Commonwealth business if the federal government were doing their job of selling our product, and it rather disturbs me when an order for 300 buses goes to General Motors in Detroit, when they basically have a like plant to ours, I understand — similar in size, is that not right?

MR. PARSONS: No, there's is a lot bigger than ours.

MR. WILSON: It is, eh? Would you have any comment pertaining to your present role with the Federal Industry Trade and Commerce Branch?

MR. PARSONS: They've always helped when we've asked.

MR. WILSON: Would you have any reason why we don't get any Commonwealth business?

MR. PARSONS: Well, basically, when we have gone and looked at that, our bus design is probably more than most of those countries want. They're buying European. We can't compete.

MR. WILSON: Then, Mr. Chairman, if we have to capture more of the Canadian market, I would hopefully urge the new federal government to get into the area of assisting municipalities in buying buses across Canada, as they do in the United States. And with UTAP only buying 22 buses, or assisting in 22 buses across Canada, it seems to me to be, in light of the suggested energy crisis, extremely low. And I would hope that our sales force . . and maybe I'll close by asking if you could describe your sales force. And certainly our government would actively urge the federal government to get involved with our local industry to see to it that we have a viable staff-incentive type of industry. It seems to me if we can hire 300 or 400 and create 300 or 400 new jobs, that with this type of assistance, that it would certainly be an additional boom to our provincial economy.

I just wanted to close by asking if you could give me some description of your sales force. Have they been reduced in size, or do they . . .

MR. PARSONS: No.

MR. WILSON: . . . where do they go to?

MR. PARSONS: Our sales force are basically a directive-marketing, and two directly on the sales staff are present — Mr. Killinger also does marketing. Basically they cover Canada. We know where the Canadian bids are; they call on all the Canadian major cities. They also attend the conventions in the United States, you know, all the transit conventions, and from there is where our leads come, so that they follow that through.

As far as working with the federal government, we have put submissions in in the past, but as far as funding, I don't think that our marketing people, or even our top management, can do very much with the federal government on persuading them to give funds to . . .

MR. WILSON: Yes, I would agree with that. Mr. Chairman, one other thought came to my mind. Apparently there was a study somewhere that indicated that the Detroit plant was producing 20 to 24 buses a week, I think it was' compared to our eight. And we had a similar-sized plant, and I wondered if any improvements have been made. What would your weekly production — or is it a monthly production I'm talking about — have you increased the number from eight to getting closer to 20 as our counterparts do in Detroit? In other words, was there some middle-management problems, or something that would allow us to produce better?

MR. PARSONS: Well, we're talking on a weekly basis. We've produced two a day. We could, if we had the orders, and we have shown we could produce two a day; that was our objective. At that point, we built up our staff, went through a training, there is always a training period when you're building up your staff. But we can produce, we know that we could produce two a day — we've done that. And I think in the organization if we went back, went up to two a day, we'd probably do it with a less number of people than we did in 1975.

We don't know, at this point. We've redesigned the production line. We might be able to go to 12 or 15 a week, but there's no necessity to do that unless we have orders. You've got to keep as even a production as you can to do it properly, and that's what we're doing.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Mr. Parsons, isn't one of the biggest problems that we face in the next little while is the Balkanization of purchasing practices of other provinces, or governments generally. And I refer specifically to the Quebec deal, where we really can't tender; the problem that we face now in British Columbia, where I understand we're trying to bid on some orders, and they want . . . that maybe is where CanCar comes in, they were looking at . . .

MR. PARSONS: Yes, they were looking at . . .

MR. BANMAN: . . . I understand they were looking at providing that particular market. And really the problem that we're faced with, if Ontario would go that route too, it would virtually preclude us from bidding in any markets, because there wouldn't really be any bids.

MR. PARSONS: That's right.

MR. BANMAN: And I guess this is part of the global problem that we have right now in a lot of these things, and that is the overzealousness, I think in some instances, to try and prop up your industries in your own local area.

MR. PARSONS: Really, long range is not very prudent, because you're getting down to where you have only one person tendering, and then you're at the mercy of the price that they want to put in, if you commit yourself to that program.

MR. BANMAN: But, this particular problem, and really, I guess we can't really point a finger at Quebec or anybody else, because we had the same practice in Manitoba, didn't we?

MR. PARSONS: Yes. That's right.

MR. BANMAN: In other words, the City of Winnipeg didn't tender for buses, They just bought from Flyer.

MR. PARSONS: We tendered a price each year. We had to substnntiate it, it's true. GM wouldn't bid after the first year that that happened.

MR. BANMAN: Is that because the province would then pay for half the bus if it was a Flyer bus, and it wouldn't pay for half of it if it was not a Flyer bus?

MR. PARSONS: Basically, that's probably right.

MR. BANMAN: So, we have this . . .

MR. PARSONS: That situation never came up. They were paying for half of them when they were Flyer buses.

MR. BANMAN: So we have Quebec, which we cannot bid in . . .

MR. PARSONS: That's right.

MR. BANMAN: . . . because they made a deal with General Motors.

MR. PARSONS: Yes.

MR. BANMAN: We've got problems in British Columbia right now.

MR. PARSONS: Yes. We hope to resolve those, but yes, you're right.

MR. BANMAN: But we've got problems there.

MR. PARSONS: Yes.

MR. BANMAN: And if the United States would, say, buy American . . .

MR. PARSONS: If they closed the door on the buy-America, then . . .

MR. BANMAN: So, really, our whole future hinges on a few things here right now, as far as maintaining a substantial number of orders.

MR. PARSONS: Right.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, acknowledging what Mr. Banman says, the fact is that when we did go into the market, we went in as virtually a sole coetitor of General Motors.

MR. PARSONS: In Canada, yes.

MR. GREEN: Yes. So that we were a closed market to start with in terms of suppliers, rather than purchasers. So all we did was provide a competitor on the market.

MR. PARSONS: Yes.

MR. GREEN: Isn't that correct?

MR. PARSONS: Yes.

MR. CHAIRMAN: Are there any further questions?

MR. GREEN: Yes, I have some, Mr. Chairman.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: I want to deal with the $16 million loss. Immediately, or in the preceding period just before we had this accounting loss, which I have always referred to as an accounting loss of $16 million, you were asked to predict the losses of the MDC for that year, and your predictions ranged between $3 million; and there was a suggestion by the Leader of the Opposition of $6 million. Do you recall that?

MR. PARSONS: Yes.

MR. GREEN: So that, when the accountant insisted on reserving $16 million, was that on a desire to show $16 million of losses, or was that the accountant's insistence as the actual losses of the company for that year?

MR. PARSONS: No, they weren't the actual losses for that year. As it shows, we had to reverse $9 million of those. But it was at the point that they made this judgment — and it was strictly a judgment at the time — they had no knowledge of how well or poorly we could do, so they set up substantially double the amount of reserves that we needed — more than double.

MR. GREEN: But, Mr. Parsons, at that time, did you not try to explain to everybody who would listen that the year's loss was only in the neighbourhood of $6 million, and that the rest was reserve?

MR. PARSONS: That's right.

MR. GREEN: Did you hear any Conservative — including Mr. Banman — then say that you only lost $6 million instead of $16 million?

MR. PARSONS: I don't remember any comments on that.

MR. GREEN: Well, I can remember many comments of trying to explain that it wasn't $16 million, and the Conservatives saying that we lost $16 million in that one year. Now, if we lost $16 million in that one year, which everybody, including Mr. Banman, insisted upon, then did we not earn $48,000 the next year? You cannot have the losses in both years. —(Interjection)—

No; and the next year, $4.8 million in profit — the following year. Assuming a $16 million loss, as insisted upon by the accountants and the auditors, contrary to my desire which I protested at the time, if we lost $16 million in that year, then by every accounting procedure available, we made $48,000 the next year and $4,800,000 the following year. Is that not correct?

MR. PARSONS: Yes, your mathematics are correct.

MR. GREEN: Pardon me?

MR. PARSONS: Your mathematics are correct.

MR. GREEN: Yes, so that when Mr. Banman says that the real situation was a loss in those two years, he is talking about the real situation in the same way as you complained about me using the real situation with regard to depreciation. The accounting situation is that it was insisted by everybody concerned and particularly the Conservatives, that we lost $16 million in that year. Therefore the following year we had a $48,000 profit I believe, and the next year a $4,800,000 profit. Is that not correct?

MR. PARSONS: Well, your figure is a little bit out but that's right.

MR. GREEN: There was certainly no — and I am very concerned that there was absolutely no desire, and as a matter of fact a contrary desire by the government, to have a $16 million loss shown on that year. Did the government have anything to do with asking for a $16 million loss?

MR. PARSONS: No, that was strictly management and our auditors.

MR. GREEN: And as a matter of fact, would it not be correct if your recollection . . . that I was very unhappy with the auditors insistence on showing that amount of reserves which they couldn't confirm?

MR. PARSONS: That's correct too.

MR. GREEN: That's quite true. And as a matter of fact it turned out that I was right and the auditors were wrong with at least half of the money, because the reserves were twice what they actually turned out to be. They were overly pessimistic about the San Francisco order. Is that not correct?

MR. PARSONS: Well, that's the way it proved out, yes.

MR. GREEN: That's the way it proved out. Mr. Parsons, there is one other area in which my recollection differs with yours and there's not much that turns upon it but I would want you to check it because I do not recall the government saying anything about social and economic reasons with respect to the continuance of Flyer.

MR. PARSONS: No, I didn't say the government; I don't think I said the government.

MR. GREEN: You did say that and I'm sorry because that was not the position. What we did was to advise the Flyer Board that if they are concerned with the hazard of $3 million a year, we would accept responsibility for permitting them to proceed even though that hazard existed, and that on that basis, they should do the best they can including trying to cut their losses and find other product lines. Is that not correct?

MR. PARSONS: That is correct.

MR. GREEN: So it had nothing to do with Part 2; it had nothing to do with. . .

MR. PARSONS: It had nothing to do with Part 2,

MR. GREEN: Pardon me?

MR. PARSONS: No, it had nothing to do with Part 2,

MR. GREEN: Yes, I'm glad that your recollection coincides with mine because you did mention social and economic considerations.

MR. PARSONS: Well I presume when they want us to keep carrying on even though we're going to show losses and the MDC Board talked about this, and there could be continual losses now. If the government was willing to support that, then it's got to be for some reason which we've assumed is social economic benefits spin-off.

MR. GREEN: But, Mr. Parsons. . .

MR. PARSONS: All right, I agree with you, you didn't say that.

MR. GREEN: Not at all, As a matter of fact, did we then not try to see how we could cut those losses?

MR. PARSONS: Yes.

MR. GREEN: And it had nothing to do with continuing those losses; we didn't want them any more than you did and we tried to get Volvo involved.

MR. PARSONS: Yes.

MR. GREEN: And we tried to see whether there could be buyers or partners, and we tried to see whether there were other product lines. So it was not the government's intention to try to continue the losses, but to find a way out of them. Is that not correct?

MR. PARSONS: Yes, it's true.

MR. GREEN: The main consideration of the Board was that they wanted it abundantly known that if there were losses, the government had been willing to go along with the Board's efforts knowing that that hazard was there; we were willing to stand behind them.

MR. PARSONS: Yes.

MR. GREEN: And as it turned out, the company has not lost $3 million a year since that time; has it?

MR. PARSONS: No.

MR. GREEN: As a matter of fact, if you look at the balance sheets since that decision was made, there were two years of profit, one year of a loss of $1,100,000.00. That's correct?

MR. PARSONS: Yes.

MR. GREEN: So the government showed some confidence in trying to help the Board and in fact, did help the Board. Mr. Parsons, did we not have a company, and I don't want to give the name because I don't want to prejudice the company, but my recollection is that I discussed with a purchaser introduced by the Board some proposed purchase which we thought was totally unsatisfactory and wouldn't proceed with.

MR. PARSONS: That's right, yes.

MR. GREEN: So when you said there were no buyers . . . there were buyers who we wouldn't sell to. Isn't that right?

MR, PARSONS: We wouldn't give it to them.

MR. GREEN: That's a very good phrase: "We would not give it away". .

MR. CHAIRMAN: Are there any further questions on the financial statements of Flyer Industries?
Mr. Banman.

MR. BANMAN: Have we had any enquiries about purchasing the company in the last while?

MR. PARSONS: Yes.

MR. BANMAN: Have there been some proposals entertained by the Board?

MR. PARSONS: Yes.

MR. BANMAN: Why weren't those proposals accepted?

MR. PARSONS: Well, they have been delayed. We've been negotiating with three or four people. We've told them that when the company is for sale, we're going to advertise it; go through a proper bidding procedure.

MR. BANMAN: But didn't the Board refuse one or two offers?

MR. PARSONS: Oh yes.

MR. BANMAN: Why were they refused?

MR. PARSONS: Because they weren't a substantial enough offer to accept.

MR. BANMAN: Thank you.

MR. CHAIRMAN: Any more questions on the financial statements of Flyer Industries? Financia Statements Report—pass.

The next consideration: the Financial Statement of Tantalum Mining Corporation.

Mr. Parsons. —(Interjections)— Gentlemen, could we deal with the Financial Statements? Order order please. Order please. Could we now deal with the Financial Statements of Tantalum Minin Corporation. I believe it is involved in Metallic Mining. Gentlemen; any questions?

MR. PARSONS: We have the financial statements for Tantalum Mining Corporation for the Yea Ending 31st December, 1978, together with the Auditor's Report. The operation of Tantalum Mine is up at Bernic Lake, Manitoba. We have long-term contracts for all the tantalite that is produced presently employing and has employed pretty well on a constant basis over the years of about 95 people.

The mine basically produces about 330,000 pounds of tantalum a year. The production hasn't greatly increased; that's relatively steady. The reason the sales figure is up substantially is because the price of the ore . . . or the price of the metal is moving up so rapidly. In 1978 I think we averaged about $18 in that range to get to the $8 million. This year we will average over $30 per pound, so that figure will be up substantially again at the end of 1979; not because of any higher production or any new finds. It's because of the dollar per pound in the marketplace.

The cost expenses have been well controlled. They don't assure a relative increase but the mining function is going on very efficiently, we feel. So the net income for the 31st of December, 1978, is $2,339,800; that's after paying the mining tax of over $1 million. Well the income tax is reversed. Is there any questions on the. . .?

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Yes indeed. Mr. Chairman, in the mining taxes which is $1 million, can you tell me whether the incremental tax is part of that?

MR. PARSONS: I'm sorry?

MR. GREEN: Can you tell me whether this company, which appears to me to have made a lot of money on a small investment, their investment now is depreciated down to roughly $2,200,000 on your accumulated depreciation, on $2,200,000, they have a profit of $2,300,000.00? Now as I calculate the incremental tax, this million would include incremental taxes.

MR. PARSONS: I believe it is, yes.

MR. GREEN: And if the incremental taxes are then removed, which is the stated intention of the government, this company if it operated on the same basis next year as this year, would have an income of $980,000 — excuse me — $1,300,000; I won't count the extraordinary item; $1,300,000 plus whatever it would save on mining taxes, because this government has decided that a company that makes $2,300,000 on a $2,300,000 investment needs a break, that that would increase their income by that amount.

MR. PARSONS: Well, the mining tax even . . . I don't know what the adjustment figure would be on that.

MR. GREEN: But I would assume that there is an incremental tax in this $1 million. . .

MR. PARSONS: Yes, there is, but I don't know what the amount is.

MR. GREEN: And to the extent that that incremental tax will be reduced; this profit of $1,300,000 will go up.

MR. PARSONS: Certainly.

MR. GREEN: Well, I'm just asking you to clear my mathematics. Are you expecting as good a year as you had last year?

MR. PARSONS: Better.

MR. GREEN: Better. You won't have an extraordinary item or you may have one of those too.

MR. PARSONS: No, we've pretty well used up our past losses for taxes, so that we'll probably be paying full income taxes next year. There's very little loss carry forward left to use up. That's what that is.

MR. GREEN: So that if you had the same year and I won't . . . if you had a better year, can I estimate income before extraordinary items this year at $2 million rather than $1,300,000 or better than that?

MR. PARSONS: Better.

MR. GREEN: Better; $3 million? Better? Would it be better than $3 million?

MR. PARSONS: I would think so.

MR. GREEN: Would it be better than $4 million? Better than $3 million; let's leave it at that. That's kind of a lot of money anyway. In addition to that, because your incremental tax will be reduced. . .

MR. PARSONS: Well, there's other things. If you're going to add that on, there's one thing we are doing, we're spending more money in exploration this year.

MR. GREEN: I consider that an investment.

MR. PARSONS: Well, it still comes off your profit. That's why I'm hedging on telling you what our . . . I don't know how much we'll spend on those areas.

MR. GREEN: Let us assume that because of the better year, you're going to have $3 million and let's make it only a small amount of incremental tax that you're saving; let's make it $3,500,000 after payment of taxes. That means in two years, in less than two years, because the Hudson's Bay went in sometime in June perhaps.

MR. PARSONS: Now, just a minute. You're showing $3,500,000 profit?

MR. GREEN: Yes.

MR. PARSONS: But next year we'll be paying 50 percent of that in taxes.

MR. GREEN: Well, didn't you pay quite a bit of that in taxes; you paid income taxes of $980,000 and then it was reversed?

MR. PARSONS: That's right, but next year we won't.

MR. GREEN: So would you say that you'll be in the same position at least on your net position?

MR. PARSONS: Oh, the net position would be the same.

MR. GREEN: The same. All right. So let's take the net position as being the same; $2,300,000 plus $2,300,000 is $4,600,000 net after payment of all taxes in less than eighteen months of the purchase for $6 million, you get 50 percent of $4,600,00, is $2,300,000 back in terms of an available dividend if you wanted to declare it. Is that correct?

MR. PARSONS: Yes.

MR. GREEN: That's an extraordinary profit.

MR. PARSONS: It's very high, I don't think that you could foresee that the market was going tha way.

MR. GREEN: Well, Mr. Parsons, you did know that the market was strong.

MR. PARSONS: Yes, but what it was going to be. . .

MR. GREEN: It could have been a little less and it would still be a good profit, but what we kno is that Hudson's Bay Mining which puts up $6 million, in two years has recovered $2,300,000 — not in two years, in 18 months, has recovered $2.3 million, and that's looking at the figure conservatively.

MR. PARSONS: They do it. $6.5 million was a good price for 50 percent.

MR. GREEN: And now we are saying to these poor people who made $2.3 million on $6.5 millio in 18 months, that they need a tax break because now we are reducing the taxes that they wi have to pay on that amount.

MR. PARSONS: The incremental mining tax.

MR. GREEN: Yes. May I ask you, Mr. Parsons, one of our partners has a fixed contract on th sale of tantalum. That's Kawecki Berylco?

MR. PARSONS: Yes.

MR. GREEN: They had a fixed price — I believe they renegotiated, but do they still have a pric on it?

MR. PARSONS: Oh yes, it escalates — the price that they have is based on market price.

MR. GREEN: Yes, but it's below the market price.

MR. PARSONS: Yes, slightly.

MR. GREEN: What is the market price today? If you can't give it to me today, give me the las one you knew.

MR. PARSONS: $48.00.

MR. GREEN: $48.00. What's Kawecki Berylco's price?

MR. PARSONS: I don't wish to disclose that.

MR. GREEN: It is less than $48.00?

MR. PARSONS: Yes.

MR. GREEN: And they haven't thought — or they're not giving back this money that they're making on their own company by virtue of their fixed price, but we're giving back the incremental tax. Don't you think we're being rather nice to them?

MR. PARSONS: Well, I don't follow your line — they're paying — they do it because of the long-term contract that they gave years ago. They did enjoy a discount from the established market price.

MR. GREEN: And we enjoy, or we did until the Conservative government came in. We did enjoy the right to an incremental tax which the company knew about. Knows about. And we're giving up the incremental tax. That's not your doing. But I suggest to you that your position will improve over what is a veyy very favourable position because of the giving up of this incremental tax.

MR. PARSONS: Well, we'll certainly be paying less taxes. We'll do better.

MR. GREEN: Mr. Parsons . . .

MR. PARSONS: I'm all for it. All for giving up taxes.

MR. GREEN: In terms of your shareholding in Tantalum Mining Company?

MR. PARSONS: Certainly.

MR. GREEN: How about in terms of your shareholding a citizen of the province of Manitoba who receives the tax? What if you were looking at that balance sheet?

MR. PARSONS: If I'm going to get the money this way I don't mind paying some of it back the other way. I think it was you who said you liked paying taxes.

MR. GREEN: But the fact is, if you were looking at it from your receipts as the province of Manitoba from straight accounting, then you would get less.

MR. PARSONS: Yes. We're going to get it one way or the other.

MR. GREEN: Pardon me?

MR. PARSONSIt'll all come back one way or the other.

MR. GREEN: Do you think so? Mr. Parsons, the other thing that is very interesting about this statement is that the lands, roads, buildings, machinery, equipment went in at a cost of $6 million and they have now depreciated to $2.2 million.

MR. PARSONS: Yes.

MR. GREEN: That belongs to the company, which is fine. If the depreciation runs its course over the years the companies involved will get all of their investment back by the depreciation and they will have whatever assets are there. The land will not depreciate — at really no book value.

MR. PARSONS: No. It's probably of no value either if the mine isn't there.

MR. GREEN: I understand that, but it will have no book value.

MR. PARSONS: Right. It eventually runs out.

MR. GREEN: And if lithium, which the proposed exploration has been going forward on and of course any other reserves of tantalum are found, then the fixed asset will be a bonanza.

MR. PARSONS: Well, if we're going to lithium, the present plant is operating now won't be used for the lithium processing.

MR. GREEN: None of it will be used?

MR. PARSONS: Very little.

MR. GREEN: Very little. So you'd have to put up a new plant.

MR. PARSONS: Oh yes.

MR. GREEN: If new reserves of tantalum are found, then the mine . . .

MR. PARSONS: Fine. Certainly.

MR. GREEN: And couldn't be put up — if you found the same reserves of lithium as you have mined, then . . .

MR. PARSONS: Pardon me, tantalum?

MR. GREEN: Yes tantalum, I'm sorry. Then this fixed asset would be a bonanza.

MR. PARSONS: Certainly. The longer you can go on after it's fully depreciated in any company and keep it as a usable instrument, you're going to make more money on it.

MR. GREEN: So if it occurred that tantalum was discovered and you still had the mill and your assets were written down to nothing, then your profits would be on an investment which is virtually to zero. .

MR. PARSONS: There's one thing that does happen. Your repairs and maintenance goe up and you get down to that stage when you start replacing — because this equipment is very wearable so . . .

MR. GREEN: Part of those depreciation charges would have to be re-invested in a new plant

MR. PARSONS: As a matter of fact, if you take a look at the maintenance on this particular thing you'll find that the amount that you're writing off to depreciation is almost going back into maintenance.

MR. GREEN: So you're not really making anything then.

MR. PARSONS: You're not gaining a great deal.

MR. GREEN: But are you putting the maintenance back into the plant?

MR. PARSONS: Oh yes.

MR. GREEN: But you're not adding to your capital cost, you're taking . . . . . .

MR. PARSONS: That's right.

MR. GREEN: So then you're still getting the benefit of it.

MR. PARSONS: Yes. If you can keep doing that.

MR. GREEN: Then we're right back to where we started from. The fact is that the fixed plant and equipment will represent no investment on the part of the company.

MR. PARSONS: Yes. .

MR. GREEN: And on no investment — well we have it here — on investment of $2.2 million, they're making $2.3 million, which is 100 percent of the investment. And their taxes have to be reduced because they're in serious trouble. You don't have to answer that.

MR. CHAIRMAN: Mr. Ransom.

MR. RANSOM: Mr. Parsons, how long is it antipated that the present reserves of tantalum would keep the plant supplied.

MR. CHAIRMAN: Mr. Parsons.

MR. PARSONS: Because of the new processing that we're coming into, we feel that probably 1985. The life has been extended somewhat because we're — now that the price, the selling price per pound has gone to where it is now, it's worth our while to go back and reprocess our tailings, where we know — and the old process probably 35 to 40 percent of the minerals went by the plant out into the tailings. We will now go back to the tailings, which is really the dump, and reprocess that. It certainly won't be as profitable but it'll extend the life of the tantalum end for possibly three years.

The ore body itself, the way it looks right now, will probably run out in '82, '83.

MR. RANSOM: '82, 83?

MR. PARSONS: Yes.

MR. RANSOM: And what type of an exploration program is under way now?

MR. PARSONS: e've got a planned exploration, the majority of it is right in the same area. This year we're looking to expend about $500,000 and explore it further, basically in the Burdock Lake area. We do have some mining claims a little further afield that we're looking at.

MR. RANSOM: It's my understanding that exploring for tantalum is something that is perhaps more risky because of the nature of the metal than exploring say for copper or zinc. Could you confirm that?

MR. PARSONS: Yes it is. It takes a lot more work to find — they do a lot of geophysical work before — it's a hard mineral to find. It's a very very fine thing — when they're even drilling for it. There must be more in the area, but it's a matter of whether you can hit the right pocket and they do a lot of work geophysical surveying before they ever drill.

MR. RANSOM: Would you agree then that exploration for tantalum is a more risky venture than exploration for copper and zinc has generally been?

MR. PARSONS: Well, I think there's more expertise and more time being spent than the copper and nickel field. Tantalum, basically, up until about 10, 12 years ago, was relatively unknown material. See, when this mine was first discovered, you look back in the history of it, the actual cores that they finally uncovered were drilled in '56 and nobody thought about them until '65. Because nobody knew what they could do with tantalum. So — yes, it's harder to find. There's less looking done for it too.

MR. RANSOM: It's my understanding that as of, I believe, 1975, that the average amount of money that had to be invested in exploration to get a new metal mine producing was approximately $30 million. With today's costs being substantially higher than in 1975, I would assume that that figure would be in itself substantially more than $30 million. Would it be fair to assume then, on what you've said about the risks involved or the difficulties involved in finding a tantalum deposit, that there's a very long shot involved here that could involve extremely large investments in exploration before another deposit was discovered?

MR. PARSONS: Yes, there are — the geologists are getting better at looking for it. I don't know what the dollar amount is. There's been a lot of expertise both developed here and in Russia as far as the exploration end in looking for tantalum. We don't know what the possibilities — we do have an ore body now. Then there's other signs in the area that there might be more, and you've just got to keep searching. You could be right because you spend $30 million and find nothing over the next — but you can't spend — you know, if somebody gave us $3 million today and said, "Spend it this year," you couldn't do it. And there's no geologist or prospector will tell you that. So it has to be on a planned program.

MR. RANSOM: With the sort of long shots involved and the risks and the very extreme expenditures of money that could well run in excess of $30 million on the averages alone, then it certainly would appear to me that someone faced with a 73 or 75 percent rate of tax might be rather reluctant to make that kind of investment with those long shot probabilities of any payoff.

MR. CHAIRMAN: Mr. Evans.

MR. EVANS: I was going to ask Mr. Parsons — as I read the statement all the earnings are retained. Have any earnings ever been paid to the shareholders?

MR. PARSONS: No.

MR. EVANS: The last figure was lost, so I wasn't aware of the earlier year. So the $988,000 has been retained by the company.

MR. PARSONS: Yes, the 31st of '79, '78 there would be no dividends paid out.

MR. EVANS: Yes, we're into '79, and you said the prices of the ore are increasing.

MR. PARSONS: Yes, substantially.

MR. EVANS: So with the price increases occurring and given the plant that you already have in place and given other items here, beneficial items, you would expect to have a much larger net income next year. Well, I guess now we're getting back to the question that my colleague, the Member for Inkster raised, and that is hiis figure should increase considerably for the year 1979.

MR. PARSONS: Yes it will.

mmr. EVANS: What are the chances — we talked about tantalum in the area and life of the mine but you indicated that the ore body was there and you were searching around its possibilities Therefore of finding a new workable section of the body, what about the other ores in the area like lithium?

MR. PARSONS: Well, we know that we have a large deposit of lithium, and we have been looking at the possibility and doing market research and also plant research on whether it would be feasible to build a plant. We know that we have a very good lithium deposit. That's one thing. The second whether we could put up a chemical plant and still make it look profitable to do this, and thirdly after you do that, then there's a marketing problem. And the latest surveys we've looked at, there's not a great demand for lithium carbonating. I mean there's two big producers in North America now that aren't producing to capacity, so we have to look very carefully before you ever try to mine that lithium deposit.

MR. EVANS: What about . . . like cesium?

MR. PARSONS: Well, there's cesium there but there's very little demand for it. We have cesium gallium and . . . but there is — oh, we may sell $80,000 to $100,000 of cesium a year. We don't process that, we sell the ore.

MR. EVANS: Well, the demand is essentially for the tantalum . . .

MR. PARSONS: That's right.

MR. EVANS: And if the other feasibility study works out for the lithium.

MR. PARSONS: Right.

MR. EVANS: What about the long-term outlook on Tantalum?

MR. PARSONS: Well, the long-term, as I've said before, the ore body itself can probably last until 1982-83, and then there's another three years of tailings to reprocess, so you know you can get up to 1886. Now, when you go back to processing tailings, certainly your costs are going to be a lot higher . . .

MR. GREEN: Your prices might be up too.

MR. PARSONS: Prices have gone up, that's why we're looking at it now, because of the $48 a pound. The mine ore costs us about 13-¼ to mine and process. Now, we had a hard time, as you reme down to er a few years ago, when that was $7 a pound and it was costing us a little bit more than that per pound to get out of the mine. Our mine costs have doubled in the last four years, up to $13, but the price of the Tantalum is now up to $48 from $7 in four years.

MR. EVANS: Then the forecast would be — the price of this mineral, is it subject to much volatility or does it just seem to go in one direction and that is up?

MR. PARSONS: Well, it's only gone in one direction but eventually it will reach the point — I would think that you could only go so high before they'll find a substitute. It's used in the electronics industry — in the capacitors. Eventually, if you force the price up too high in the marketplace, then they will find a substitute. So, I don't know how much higher it can go before that happens.

MR. EVANS: I don't know what your market is, is it North America or is it world . . . ?

MR. PARSONS: Basically, we have four customers.

MR. EVANS: What I was going to ask, Mr. Chairman, was what percentage of the world output do we have here? This is an exotic mineral.

MR. PARSONS: All right. This year we'll produce, well, we're hoping to produce 360,000 pounds. The demand is in the area of about 1.8 million, and the total world production is probably in around 1.4 million. So, there is a shortfall that's being used up from stockpiles before. Now, what will happen, the majority of the tantalum comes from tin slags.

MR. EVANS: Pardon.

MR. PARSONS: Tin slags. The Malaysian Tin Slags is the largest producer. They produce probably 500,000 pounds.

MR. EVANS: Where abouts is that?

MR. PARSONS: In Malaysia.

MR. EVANS: In Malaysia?

MR. PARSONS: Yes. We're the largest producers of tantalite from ore, which is a little different — it's the same product but it comes from the tin slags — the majority of it.

MR. EVANS: So, of the total production in the world, we've got 25 to 30 percent I would gather from your remarks.

MR. PARSONS: 20 to 25, yes.

MR. EVANS: 20 to 25, and is there any other major producer in North America?

MR. PARSONS: No. We're the only mine.

MR. EVANS: We're the only mine in North America, and we produce 20 to 25 percent of the world's output?

MR. PARSONS: Yes.

MR. EVANS: And there are only three or four companies in total?

MR. PARSONS: That buy it from us, yes.

MR. EVANS: Well, how many producers are there?

MR. PARSONS: Oh, maybe six or eight.

MR. EVANS: Six or eight producers. And where is the price set, is it set at a particular commodity market?

MR. PARSONS: Pretty well, yes. We list our price, and we're really the leaders in listing the price but there's a regular mark-up for it and there's speculation in it too.

MR. EVANS: People buying the ore and reselling it.

MR. PARSONS: Not actually producers, there's speculators. It's very close, because there's just not much there to buy and sell. So, it's a tight market and it's accentuated the price very high.

MR. EVANS: Okay, just one other question then, I had to be out for a few minutes unfortunately, and maybe you've given us this but I would like to know, what is the employment now?

MR. PARSONS: 95.

MR. EVANS: 95 people and . . .

MR. PARSONS: It pretty well remains constant.

MR. EVANS: Yes.

MR. PARSONS: It's been that — well, in the summertime, we take some students from th university. Extra help, maybe 10, 12.

MR. EVANS: Right.

MR. PARSONS: In training programs.

MR. EVANS: Well, okay, and it was Hudson's Bay Mining that has recently purchased into th company, is that correct?

MR. PARSONS: Yes.

MR. EVANS: Yes, well, the fact that they have come in and have been interested would indicat that they have some optimism about this particular ore body and the whole project.

MR. PARSONS: Oh, yes.

MR. EVANS: Yes. Are you yourself optimistic that we may find further workable bodies or section of the tantalum for future . . .

MR. PARSONS: I don't think it's a matter of being optimistic. It's a thing that you're hopeful abou having, and it's a thing that you've got to do in a planned pattern. There's got to be other tantalun ore bodies somewhere in the PreCambrian Shield, but I don't know where they are and I don' know how long it's going to take to find them. As Mr. Ransom says he can spend $30 million an still come up empty handed. It's a . . .

MR. EVANS: Well, excuse me, I meant in the immediate vicinity, because you indicated . . .

MR. PARSONS: There is other indications, but we haven't hit any that were in a mineable zon as yet. Over the last three or four years, we've spent $100 thousand to $150 thousand and probabl get that much in ore back, you know, usable. There's no indication that's going to go beyond '8 right now.

MR. EVANS: Thanks.

MR. GREEN: Mr. Chairman, part of your expenses, you have 283 for Research and Developmen and $345,900 for Exploration.

MR. PARSONS: Yes.

MR. GREEN: So those come right off the top in terms of your profits? They're not paid out o profits, they're paid as an expense against profits.

MR. PARSONS: Yes.

MR. GREEN: And if, therefore, a company wants to spend $500,000 next year on Exploratio it'll come off as against their income. It's not an expense to the company because . . .

MR. PARSONS: It certainly is, what do you mean, it's not an expense?

MR. GREEN: Excuse me, it is an expense to the company which is deducted from their profi statement.

IR. PARSONS: Yes. Right.

IR. GREEN: When you said that the mining tax is as far as you're concerned a reduction, you ‹e to see it, it helps the company, it helps the company statement.

IR. PARSONS: Yes.

IR. GREEN: And as far as your 25 percent interest in it, you get ¼ of any benefit of the mining ıxes — the mining tax reduction?

IR. PARSONS: Yes, if it was retained. What we hope to do is to utilize this cash for further evelopment.

IR. GREEN: Now, if the moneys were paid in mining taxes, then the citizens of Manitoba would et 100 percent of it. Getting it as a profit to the company, they get 25 percent; getting it as mining ıxes, they get 100 percent.

IR. PARSONS: In this particular company, yes.

IR. GREEN: Yes. No further questions.

IR. CHAIRMAN: Mr. Barrow.

IR. BARROW: Yes, you —(Interjection)—

IR. GREEN: Well we No, we should pay We should pay them $6.5 million, plus a year's interest. don't want to take anything for nothing. I want to use the formula that the Conservatives have et with regard to the . . .

IR. CHAIRMAN: Order please. Mr. Barrow.

IR. GREEN: I'm being very fair. I believe in fairness.

IR. BARROW: I'm very interested in your life expectancy of the ore body, because I've been trying o find this out since 1940. In 1940, the Hudson Bay Mining and Smelting Company gave a 15-year :xpectancy of their ore body. In 1979, they're still giving a 15-year expectancy. How can you possibly ;ay that that mine will last to 1985 and be so definite, because INCO, the top management will ıot portray anything beyond the bodies that have been drilled and certified. That's as far as they jo on portrayal.

IR. PARSONS: That's all I'm going.

IR. BARROW: Well, then here's the thing then. In 1940, they said 15 years, that's 39 years ago, hey're still portraying . . . This is Hudson Bay Mining and Smelting. —(Interjection)— In '39 and hey're still saying 15 years, which gives us 44 years, which is a third, you know, the ratio — so hen we can expect a life expectancy to go from 1985 to at least 2000 on this ratio. Is that ight?

IR. PARSONS: Well, the logic is wrong.

IR. BARROW: My logic.

IR. PARSONS: Because they were extending their ore as they drilled.

IR. BARROW: But you said definitely 1985, you know, and this is terrific. This is the first answer ever got, a definite answer on the life expectancy on ore bodies — the first time. I don't know ıow you got this.

IR. PARSONS: Well, I could tell you.

IR. BARROW: You can say — yes, you did.

MR. PARSONS: Do you want me to tell you how we got it?

MR. BARROW: Yes.

MR. PARSONS: We know exactly what our underground reserves are now. We know how mar tons and wbat the percentage is there. You drill all around the area and there isn't any more that right now, in that area. We know on the basis that we're mining today, that the known o reserves will run out in '82 to '83. If we explore and find more — that is what they have don and fortunately, when they discovered — if I was talking about lithium, we know we got 30 yea of lithium if we took out 20 million pounds a year. But this ore body is small, so it's easier to d it with. And we have three years of tailings.

MR. BARROW: You have three years proven.

MR. PARSONS: Proven reserves.

MR. BARROW: Yes, but there can be 10 years that aren't proven in that same vicinity, in th same ore body.

MR. PARSONS: I hope you're right, but we haven't found it yet.

MR. BARROW: Well, I was going to establish the fact that it could go much longer than 198 I want to establish the fact that Hudson Bay Mining and Smelting made a real good deal.

MR. PARSONS: All I can deal on is what we know.

MR. GREEN: They made a good deal on a known ore body. They may . . . for the next thre years.

MR. BARROW: Yes. When you say mining is a gamble, Mr. Minister, it's a pretty sure thing. It' much better than Las Vegas.

A MEMBER: Put your money in it.

MR. BARROW: We're willing to. Thank you, Mr. Chairman.

MR. CHAIRMAN: Any more questions on the Financial Report of Tantalum Mines? Report —pass Pass. Committee rise.

MR. BANMAN: Mr. Chairman, if it would meet with the Committee's approval next Thursday w would have CEDF, Channel Area Loggers and Moose Lake loggers here. The gentlemen will b coming down from the north on the two other companies and if that meets with approval, we' call that meeting for Thursday morning at 10:00 o'clock.

MR. CHAIRMAN: Thursday morning 10:00 a.m., next Thursday. Committee rise.