

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Tuesday, 8 July, 1986

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. J. Maloway (Elmwood)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Mr. Harapiak (The Pas), Hon. Ms. Hemphill, Hon. Messrs. Kostyra, Schroeder

Messrs. Connery, Dolin, Enns, Maloway, Manness, Pankratz, Scott

APPEARING: Mr. P.R. Brockington, Chairperson, Manitoba Mineral Resources Ltd.

Mr. C. Malcolm Wright, President, Manitoba Mineral Resources Ltd.

Mr. Robert Silver, Chairman, Manitoba Oil and Gas Corporation

Mr. John R. Sadler, President, Manitoba Oil and Gas Corporation

MATTERS UNDER DISCUSSION:

Annual Report of Manitoba Mineral Resources Ltd.

Annual Report of Manitoba Oil and Gas Corporation

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MANITOBA MINERAL RESOURCES LTD.

MR. CHAIRMAN: I call the committee to order. Our first order of business is to deal with the Report of the Manitoba Mineral Resources Ltd. I call on Mr. Brockington to make initial comments.

MR. P. BROCKINGTON: Mr. Chairman and members of the committee, the report before you covers the activities of Manitoba Mineral Resources Ltd. for the year ended December 31, 1985.

The company's 27 percent interest in the Trout Lake Mine produced a net income of \$2.7 million. Exploration expenditures at \$3.3 million were at a record high due to our intensive activity in the Lynn Lake area. The excess of exploration expenditures over Trout Lake income resulted in a net loss of half-a-million dollars.

A number of factors are noteworthy. Our interest in the Trout Lake Mine set new highs in terms of revenue and profitability through a period of poor metal prices, when many companies are reporting losses on mining operations. Exploration expenditures were at an all-time high and resulted in the discovery of widespread gold mineralization at Farley Lake, 24 miles east of Lynn Lake. This encouraging discovery resulted from

the planned, concerted exploration effort of the company in the Lynn Lake area over the last four years.

The company's share of the Trout Lake operation generated concentrate revenues of \$7.3 million versus \$6.3 million in 1984. This improvement reflects a combination of factors which include the mining of better grade ore, an increased production volume, and enhanced copper prices. Net income from the operation was \$2.7 million compared with \$1.3 million in 1984 or, in effect, a 108 percent increase on a year-to-year basis.

Cost containment was also an important contributor to the net income picture. Unit operating costs decreased from \$36.70 per ton to \$32.96 per ton in 1985. Much of this was accounted for by a more normalized level of development expenditures relative to the accelerated program in the previous year.

Continued exploration at Trout Lake resulted in addition to the ore reserves, so that the company's interest remained essentially unchanged from the previous year end, at 1,250,000 tons. This is about an eight year life at current mining rates.

This spring, further underground exploration encountered a high-grade downward extension of one of the ore bodies. This gives encouragement with regard to the long-term outlook. In the current year, 1986, the Trout Lake Mine is projected to produce a new record in terms of tonnage mined as a result of adding larger loading and haulage equipment.

On the exploration front, a strong emphasis was maintained on exploration projects in the Lynn Lake area with this accounting for 25 of 56 projects undertaken during the year. In terms of expenditures, \$1.9 million or 62 percent of Manitoba Mineral's exploration budget was expended in the Lynn Lake area.

Exploration programs continue to work toward attracting joint venture partners, and thus gain leverage on dollars expended by Manitoba Mineral. In 1985, total exploration expenditures incurred by the company and joint venture partners were \$4.8 million, of which Manitoba Mineral contributed 65 percent.

Today I would specifically like to bring to the committee's attention the gold discovery at Farley Lake. The project is a joint venture managed by Manitoba Mineral with a 55.2 percent interest, with Hudson Bay owning the remaining 44.8 percent interest.

Major drilling programs have been undertaken to delineate the gold mineralization. Drilling has continued in 1986 with a currently planned budget for the joint venture of \$1.4 million. Results indicate the property contains more than one zone of potentially mineable gold mineralization. The key question remains as to the tonnage that can be outlined. Results of work done to date are being compiled with the objective of planning further drilling on the property this year and a preliminary feasibility study.

The Farley Lake discovery reflects the commitment of the company to exploration in the Lynn Lake area

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and is the top priority exploration project for Manitoba Mineral. The ongoing work will enable us to determine if sufficient tons of gold mineralization are present to bring this property into production.

In closing, I wish to state that Manitoba Mineral is now essentially financially self-sufficient. The cash flow from the Trout Lake operation will finance the company's planned exploration expenditures for the current year; that is, we are projecting a break-even operation in 1986. In the short and medium term, profitability for Manitoba Mineral is a function of the level of exploration expenditures.

Mr. Chairman, this concludes my opening remarks, and I welcome questions from the committee.

MR. CHAIRMAN: Mr. Enns.

MR. H. ENNS: Thank you, Mr. Chairman.

Mr. Chairman, we are of course aware that the major exploration activity of the corporation was in the Lynn Lake area, and we generally applaud the direction of that activity, because all of us are concerned about the future viability of mining in that area and the investments that we and the people of the Lynn Lake area have, in trying to keep that single resource based community alive.

With the kind of report that we've just heard from the Chairman of the Corporation, is he prepared to speculate a little bit further with us as to the real potential of bringing a mine to development stage, as that kind of decision could be before us by year's end. I note in your report and in your year-end statement, it seems to leave the impression that the additional exploration work this summer would confirm the results of the previous three or four years of exploration and as to whether or not the financial decisions, economic decisions could be made to proceed to mine development. Is that on the horizon, Mr. Chairman?

MR. P. BROCKINGTON: I'd like to make a couple of comments there. I would say there are two things. This is the most interesting discovery that we've had to date in the Lynn Lake area yet there is still also considerable land exposure up there, and there are other areas still to be explored.

Our emphasis though is concentrated on the Farley Lake discovery and there is an ongoing program that we're now formulating and basically you progress from one stage to another in the exploration business. We have to see what results come out of this next stage that we will be entering into which will probably go over the summer, and the other thing is that in that particular area you also have to do some of the drilling in the winter because you have to wait for certain ground areas to be frozen before you can get access. So I would anticipate that the program would be going on over several months and extending out into next winter as well.

But to date, as we've said, the results to date, the mineralization, the grade, the widespread nature of it looks extremely encouraging and we will in conjunction with our partner, Hudson Bay Mining, we will be looking at the feasibility of this to just determine exactly what we might be looking at.

MR. H. ENNS: Has the corporation given any thought to the eventuality of an actual mine production? Would

the same partnership involvement continue — by that I mean the same percentage degrees? Or is this percentage of participation established for exploration purposes only?

MR. P. BROCKINGTON: No, that is an agreement that you normally enter into in the mineral business and you enter into it at the beginning of an exploration phase and normally you would stay with your specific interest. However, I guess in any agreement it's always subject to exactly what you might try to negotiate and what might be to your best advantage.

Manitoba Mineral as such, as you'll appreciate in the Trout Lake operation, is not the operator. Hudson Bay Mining is the operator for the four partners in the Trout Lake joint venture. And whether or not that would be the way that we would go on this one, but I would think at this stage there would be some credibility to that, being that they have the expertise in the operating area.

MR. H. ENNS: The purport of my question may become clear in a moment, but could you give us some idea of what kind of development costs we're looking at to bring on a producing mine in that area?

MR. P. BROCKINGTON: I guess there are really two ways to answer that question. One, until we have full knowledge of the potential size of the reserve, and it's difficult to exactly judge what might be the optimum size for an operation, be it a 200 ton-a-day operation, 500 or 1,000 ton-a-day operation, or even bigger, and that we're uncertain of at this stage.

Another fact that one is obviously cognizant of in that area is that there's a new gold mine coming into production. Sherrgold is putting the McLellan (phonetic) Mine into production. Sometime in the mining industry one looks to custom milling ores if one only has a small limited reserve.

I guess, in terms of specific dollars, if you're looking at a 500 ton-per-day operation, you could be talking in the region of \$25 million possibly. Again, another factor to address is, is it open pitable, gives you relatively low mine development costs in the initial phase with subsequent underground development, or is it totally open pitable? But that would be a rough order of magnitude for that particular size that I've mentioned.

MR. H. ENNS: Just again, a general question. Where should production proceed at Farley Lake? Where would that ore be smelted?

MR. P. BROCKINGTON: It's a gold bearing ore, and depending upon what sort of concentrate would be made. In the gold business, you're not dealing with the large concentrate volumes that you're dealing with in the base metal industries, such as the copper, zinc ore bodies, so it would depend upon exactly what stage it was taken to at the mine site.

MR. H. ENNS: I suppose operations, such as Hudson Bay is running at Flin Flon, who are also always looking for new economic activity, the question is, would some of this perhaps ensure continued life and viability or secure a better economic base for the operations at Flin Flon at Hudson Bay Mining and Smelting?

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MR. P. BROCKINGTON: I'll turn this question over to the president.

MR. CHAIRMAN: Mr. Wright.

MR. C. WRIGHT: Mr. Enns, we have done preliminary metallurgical studies which indicate that the probable route that we go, if the thing goes into production, is to produce gold at the site, which would be very small quantities, which would then probably go to a gold refining outfit, such as the Federal Government runs a gold refinery. The end product is very small.

MR. H. ENNS: Of the total exploration, you mentioned the figure of \$4.8 million in exploration in the year just concluded, 1985. Is that the company's share, the public sector share or does that include any joint venture?

MR. P. BROCKINGTON: That is the total exploration.

MR. H. ENNS: The total exploration that the company has undertaken with joint venture partners?

Perhaps it's not the appropriate place to ask it, it could likely be dealt with the Department of Energy and Mines, his Estimates, but you're in the industry. Would you have an idea of what percentage share that is of total exploration done in the province last year?

MR. P. BROCKINGTON: Probably in the order of about 15 percent.

MR. H. ENNS: As I understand the operations of the company, and you, I think, said it in your opening statements that the company has a mandate or will continue to use most of its profitability, if there is such, and redirect it into further explorations to encourage economic activity in the mining field.

But with that being a kind of a mandated approach that Mineral Resources has, if it becomes involved in a further production of an actual mine at Farley Lake, which may come in at \$25 million or \$30 million or \$35 million and our share would be the percentage share of that, I find myself — and I don't want to appear overly negative about this; I want to say this as kindly as I can — but the truth of the matter is that the report before us, we are patting ourselves on the back that this year we have only managed to lose a half a million dollars, and this is after a number of years of operations.

I might even be more kindly disposed to another corporation that we will be examining later on this morning, Manitoba Oil and Gas Corporation, which is just getting its feet oily in the business. But the corporation before us, Manitoba Mineral Resources Ltd., has been with us for a period of time, Mr. Chairman. I suppose these remarks are more appropriately directed to the Minister. After that period of time we have — as I say, we take some pride — the net loss of \$533,244 is an improvement over the 1984 loss of \$1,113,317.00.

You know, Mr. Chairman, I remind you and the Minister that we are encouraged to enter into these ventures for the best of reasons and ones that the present government is quite adept at selling to the people of Manitoba. The promise made that with corporations like ManOil, for instance, and Manitoba

Mineral Resources, we can develop programs to guarantee that no Manitobans will lose their homes or farms, etc., due to high interest costs. These are the kind of commitments that are made that move us into these programs.

The life of the Manitoba Mineral Resources corporate activity in the Province of Manitoba has yet to return dollars to its shareholders. And I wonder, Mr. Chairman, whether or not it's not time to consider the options of acknowledging that it's in our interest that we have a corporation, that we have a body that supplements, that encourages further exploration. I suppose this is really what Manitoba Mineral Resources is doing. The question, of course, is whether or not the private sector would pick up that 15 percent of exploration activity that is currently being provided by the corporation.

I suppose my question to you, as a representative of the shareholders of the company — and I'm talking about the taxpayers of Manitoba — a company that now has been in operation for over a decade, and the chairman reports to this committee that we hope to be in a break-even position next year. The bottom line question is, when does the corporation start returning some dividends to its shareholders?

MR. CHAIRMAN: The Minister of Industry.

HON. V. SCHROEDER: Thank you, Mr. Chairman.

There are two approaches we could take. We could just simply take our profits from past expenditures, clip our coupons, sit at home and watch the industry collapse in the Lynn Lake area, and be very busy spending money, not in this corporation, but rather in other areas of government subsidizing that particular area, moving people out of there, paying money for education and all those kinds of things, social services and so on, in an area that's dying; or we take our money, the profits we are earning from past investments in places like Trout Lake, and possibly even add on, as we did last year. Last year we had about \$800,000 more in exploration costs than we had had in the year prior to that. If we'd even had just the same amount of exploration, we could have consciously made that decision.

If we would have had the same amount of exploration last year as the year before, we could come here and tell you we had a \$300,000 profit. Big deal. In the meantime, we would not be delineating areas so we can continue on with the operations up North. Quite frankly, I think by pulling back on exploration up North, and especially in the Lynn Lake area, we would be simply demonstrating that we have no vision and no confidence in our future up there.

It is clear that there are areas where we can potentially make a profit, in addition to Trout Lake. We are exploring those areas. I think the member raises some legitimate questions in terms of the operation of a mine and those sorts of things, and that's something that certainly there have been no decisions made by this government in those areas and that's something that we would look at very carefully.

But in terms of making sure that there is something for our people up there to do, we will continue to do that. But here, we're prepared to say that we are losing money in a way that we don't do with some of our

other corporations. We don't come forward with our Crop Insurance and say we have lost hundreds of thousands and millions of dollars because we have administered an operation where we have received no money back. We recognize that that is a contribution the taxpayers of Manitoba make to the agricultural community. We administer that whole operation without having one penny of that paid to us by the farmers. And we think that that's an appropriate investment in our future; that's what we're doing here and we will continue to do it. We think we've demonstrated in the past, and this year, that is a sensible course of action, and we will not abandon the Lynn Lake area.

MR. H. ENNS: You know, Mr. Minister, through you, Mr. Chairman, I could possibly even buy the Minister's argument if only at election time every four years, he wouldn't come around and knock on my door and those of my constituents, telling me, look, I'm going to take the profits out of this corporation and reduce your taxes by 50 percent or reduce your Hydro rates by 50 percent. We can pay for our hospitals and we can pay for our senior citizens' care with the profits that we are going to get from ManOil and from the Mineral Resources Corporation. That's the kind of electioneering propaganda, I suppose, that I take exception to when a corporation of this kind appears before this committee.

The Minister's explanation this morning is far closer to reality, and it has some merit in the terms of making sure that a level of exploration activity continues in this province.

Now, Mr. Chairman, I'm not so sure that necessarily calls upon the public to play a direct interventionist role in this sense. Ninety percent or 85 percent of the exploration money, money spent on exploration in the province, has come about without any government involvement. Is that correct, Mr. Chairman?

HON. V. SCHROEDER: Mr. Chairman, it's pointed out that about 80 percent of the mining companies' exploration dollars are taxpayers' dollars in any event. So I think that has to be borne in mind when you're crunching those numbers.

MR. H. ENNS: The Minister wants to have it both ways. It becomes taxpayers' money when the private sector expends it. It becomes a great conscious decision to reinvest profits when a Crown corporation wishes to spend it.

Mr. Chairman, just coming back to the Trout Lake operation for a moment, this year's sales were of the \$7.319 million range. That comes from the sale of concentrates for the year 1985. I understood the chairman or the general manager to indicate that figure is expected to be exceeded in the coming year?

HON. V. SCHROEDER: I'm told the answer to that is no.

But I just want to go back to the comment made by the member previously that I want to have it both ways. I don't. I think the honourable member wants to have it both ways when he wants taxpayers' money to go to the mining companies and the profits to go to them as well. I think that there's some inconsistency there in that position.

MR. H. ENNS: Coming back to Trout Lake, Mr. Chairman, was the question that I posed, is that level of sale revenue expected to be maintained in the coming year?

MR. C. WRIGHT: I expect it will be about the same, in spite of an increase in production because our grade of ore produced will be somewhat lower.

MR. H. ENNS: That was the other question. What is the span of activity that you have forecast and the position of reserves for the Trout Lake operation? Is that looking at a decade in the future?

MR. C. WRIGHT: It's looking at eight years into the future right now, recognizing that we have found more ore than what we have mined in the last four years.

MR. CHAIRMAN: Mr. Connery.

MR. E. CONNERY: What was the philosophical reason for going into Manitoba Mineral Resources? Would Hudson Bay Mining not do the exploration on their own?

HON. V. SCHROEDER: I wasn't around here when this operation started.

MR. C. WRIGHT: Hudson Bay, and I'd like to address the question in terms of recent years, has been pulling back into the Flin Flon-Snow Lake area to protect their investment in their plant there. As part of that pull-back, they pulled out of the Lynn Lake area, and we were in a joint venture with Hudson Bay at that point in time in the Lynn Lake area. We picked up the slack and increased our interest in this particular Farley Lake venture from 45 percent to 55 percent and took over as operators.

MR. E. CONNERY: You said investment, save the investment in the plant. Whose plant are you talking about?

MR. C. WRIGHT: That's Hudson Bay's plant in the Flin Flon area.

MR. E. CONNERY: The activity at Lynn Lake, that is to save the Town of Lynn Lake and the activity in there. Is that one of the reasons?

MR. C. WRIGHT: I am not sure what your question is.

MR. E. CONNERY: Well, we're losing money on Manitoba Mineral Resources, so there's got to be a justification of using public money. Is it to keep the Lynn Lake area going for that area?

MR. C. WRIGHT: We have proposed various budgets where we could have been paying the shareholders dividends in the past two to three years. We've said, if you want to keep a high pace of exploration activity in the Lynn Lake area, you break even or we have projects on the shelf which will put us into a loss position. The instructions we have received are, do as much as you can reasonably which a mining company

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would do in the Lynn Lake area if it was protecting its own investment in the area. That is the course we have adopted.

But in 1986, as I said before, we're projecting that we would break even but still maintain a very high level of exploration in the Lynn Lake area. We could undertake a viable exploration program at about 1.5 million a year. We're now running this year about 2.5 million, 2.6 million. In the year that we're looking at, it was just over 3 million. Those high levels have been a direct result of the acceleration of work in the Lynn Lake area.

MR. E. CONNERY: You said that the Trout Lake Mine would be about eight years before it would be cleaned up. In that eight years, will we have recovered our investment in the mine?

MR. C. WRIGHT: The net present value of those eight years ahead is \$17 million, if you look at the investment in the mine in isolation from anything else. The exploration for that deposit, just the exploration on that property, our investment in the mine is shown on the books at just over \$1 million.

Now when I say eight years, those are what we call proven reserves. We started out this mine with proven reserves of 2.8 million tons in total. We're now at 4.5 million. That is 100 percent. The figures in this book are 27 percent. I expect that mine will continue several years beyond the eight years in which we make our financial projections.

MR. E. CONNERY: I'm still not satisfied on the philosophical reasons of being up in Lynn Lake. I guess the Minister can maybe answer me. Are we keeping the investment there for the area of Lynn Lake? Is it such a good deal that the Province of Manitoba will eventually make a lot of money, so there'll be money flowing into the provincial coffers out of that area? What is the basic philosophy?

HON. V. SCHROEDER: Mr. Chairman, you've just heard the numbers on Trout Lake. If you can't figure that out for yourself — we've made a lot of worse investments than Trout Lake. As an example, pickling onions, money spent in the universities on the engineering, on the plant sciences, all those kinds of things, an awful lot of money, a lot of taxpayers' money, federal and provincial went into that, hundreds of thousands of dollars, and basically nothing came back.

In this instance, we're getting something back. Trout Lake is a very good investment — a very good investment — and I think the member should acknowledge that. He has asked questions. He's been given answers that demonstrate the value of that operation.

MR. E. CONNERY: Well, the Minister hasn't answered the question, and I still would like an answer to it. Was it to develop the North or to provide resources for the whole province? What were the reasons for going in there?

HON. V. SCHROEDER: Mr. Chairman, I said to the committee previously that I was not a member of the

government which originally went into it. So the original reasons for that are something that I am not prepared to put out here today. I just simply look back and say that that particular decision to go ahead with Trout Lake and not to privatize it, obviously was a very good one for the taxpayers of Manitoba, and I think the member should acknowledge that.

MR. E. CONNERY: Eventually, the financial statements might, and then when it does we'll acknowledge it, but you're going to have to prove it.

HON. V. SCHROEDER: Well, can't you read?

MR. E. CONNERY: What is the employment in the mine and in that area through the mine?

MR. C. WRIGHT: The mine employs currently 90 people, but then the ore from that goes into Hudson Bay's concentrate and then into the smelter. I don't know where the numbers in the smelter and the concentrator are, but I understand Hudson Bay has a labour force of about 1,800 people.

MR. E. CONNERY: Of that 90 people, what is the make-up of the people? Are they Northerners, Native people, or are they from other areas of Manitoba?

MR. C. WRIGHT: I don't have the numbers before me right now. They're all full-time residents of the area right now.

MR. E. CONNERY: Are there Native people? We have a push to try to improve the lot of the Native people. Are the Native people being helped by being given good jobs in this mine?

MR. C. WRIGHT: There have been Native people on the payroll at the mine in Trout Lake. I cannot tell you without having the breakdown of the figures, if that is the case right today.

MR. E. CONNERY: Could that information be provided to us? Because I'd like to know if there is an emphasis on northern Native employment at the mine.

MR. C. WRIGHT: Yes, I have no problem getting that to you.

MR. E. CONNERY: Anybody else?

MR. CHAIRMAN: Mr. Pankratz.

MR. H. PANKRATZ: I think you indicated it had a .5 million loss this year. Next year, it should be in a break-even position. Is that right?

MR. C. WRIGHT: Excuse me, I missed the question.

MR. H. PANKRATZ: It should be next year in a break-even position. Was that right? Did I understand you correctly?

MR. P. BROCKINGTON: Yes, that's correct.

MR. H. PANKRATZ: What do you foresee for the additional eight years?

MR. P. BROCKINGTON: Basically, it's a function of the level of exploration expenditures in conjunction with, on the other hand, the outlook for metal prices, which is a most significant factor affecting revenues there. A one cent change in copper prices can be significant, in excess of \$50,000 a year. So we've got to look at metal prices over that time period and in addition, the level of exploration expenditures.

I think, depending upon what happens specifically with Farley Lake now, maybe last year represented a high in Manitoba Minerals exploration budget. If you look, we've gradually built up over the last four years, and it just depends. We look at the plan on a year-to-year basis in conjunction with the shareholder for specific areas in the province.

MR. H. PANKRATZ: Well, can I assume then from the remarks you're making that you feel the additional eight years of operation would be at a break-even or a plus position?

MR. P. BROCKINGTON: The operation itself of Trout Lake is at better than break-even. It's whether it's the level — the net bottom line — to the company is a function of exploration expenditures.

MR. CHAIRMAN: Mr. Kovnats.

MR. A. KOVNATS: Thank you very much, Mr. Chairman. I just had to clear my throat.

I would hope the Honourable Minister would pay attention because I have some questions here. He had made some reference concerning pickling onions. I love pickling onions, and I just wonder whether this is the place where I should be asking for the recipe for the pickling onions, because I thought I had come to a meeting of Mines and Resources of that nature. But now that the Honourable Minister has brought it up, would he be prepared to supply his recipe for pickling onions?

HON. V. SCHROEDER: Mr. Chairman, unfortunately after a good deal of time and money was expended by the taxpayers of this province on that industry, there is no industry now — and I make the point that these things sometimes happen — but we don't have an annual statement of what we did with pickling onions. That simply got lost in the general revenues and expenditures of the Government of the Province of Manitoba.

With the Manitoba Mineral Resources Ltd., we take it right out there and we highlight exactly what it is that we did and that is the difference. I just make that point, that this is an investment. Fortunately, Trout Lake is paying off. Some of those other investments did not pay off, but even the ones that didn't pay off are never recognized as losses in the way that members opposite are able to recognize losses with MMR, and I'm not critical of them, but we make the decision.

As the chairman of this corporation has said to you, he has come forward to the Government of Manitoba with different scenarios for each particular year and it

is very easy for MMR to show a profit. All we have to do is sit at home and clip our coupons, then there will be a profit because of the vision of previous members of governments of Manitoba. That is why we would then have a profit for taxpayers.

We have said that we are prepared to spend that money, and last year we were prepared to spend an additional half million dollars approximately on ensuring the future, continuing to strengthen the future of Northern Manitoba. And because it is shown specifically in the books of a corporation, members opposite can and certainly have the right to talk about it — and I just point out that there are many other areas where we could show the same kind of losses where, unfortunately, the taxpayers will never receive a return on their investment — but they are receiving a return on their investment out of MMR, out of Trout Lake.

MR. A. KOVNATS: I think the record will show that the Minister made no reference to the recipe for pickling onions that I had requested, and had changed the subject altogether to get in a couple of good shots, but I really didn't have that in mind.

I just wanted to bring to the attention that the Minister is bringing in all kinds of outside forces trying to justify an existence and, in some cases, he's able to do so, but I don't think that was the intent of this meeting. That's the reason I brought up the question on the recipe for pickling onions, Mr. Chairman.

Before you take away my right to ask any more questions, I would like to ask, who controls the location for the test drilling? Who does the test drilling? Would the Minister please make remarks concerning the questions that I'm asking at this point, because otherwise it's going to last all day; and I don't think that's what was the intent of this meeting? Who does the assay work on the test drilling? And are there any independent assay offices in Manitoba that are used by the Provincial Government?

HON. V. SCHROEDER: First of all, only the voters can take away the members' right to ask questions here.

Secondly, the pickling onion recipe is one which I can attempt to get for the member — I just tell him that there are some problems with it — and those other questions can be answered by the chairman.

MR. P. BROCKINGTON: I'll refer them to the president, Mr. Wright.

MR. C. WRIGHT: With regard to the areas that are selected, that's entirely within the purview of Manitoba Mineral Resources. I suppose I'm ultimately responsible for that.

In regard to where actual drilling sites are selected, they're selected by our personnel. I'm ultimately responsible for that. Sometimes those drilling sites are selected in consultation with joint venture partners who are putting up a share of the money.

With regard to the question on assaying, some of that is done locally; other is done out of province.

MR. A. KOVNATS: Who were the local people that do it? Do we have an assay office in Manitoba? Is it an independent assay office or is it a provincially controlled assay office?

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MR. C. WRIGHT: There are two independent ones to my knowledge. There's a new one started up in the Flin Flon area and there's one here in town.

MR. A. KOVNATS: Thank you.

MR. CHAIRMAN: Mr. Dolin.

MR. M. DOLIN: Can you give me some idea of what the total payroll is attributed to the exploration activities of MMR, you know, salaries and wages? Do you have any idea? You said there were 90 employees. I assume they're administrative employees.

MR. C. WRIGHT: Manitoba Mineral itself has 14 employees. Trout Lake is operated as a joint venture in which Hudson Bay is the operator and as such is responsible for those employees. Our total salary bill is about a half-a-million dollars for Manitoba Mineral's 14 employees.

MR. M. DOLIN: What I was getting at is the number of people employed in drilling, exploring, production . . .

MR. C. WRIGHT: This swings very widely depending upon the season. At peak season, when we spend 75 percent of our budget, is in the wintertime. We did run account at one period last year, and between our own people and all people involved in contracts on exploration — I'm not talking about Trout Lake Mine now — we had 80-odd people. Then it falls right back to Manitoba Minerals Corp. in break-up and freeze-up which is 14 people.

MR. M. DOLIN: Do you have any idea what this might, you know, generate in the way of wages and income in the course of a year?

MR. C. WRIGHT: I can't tell you that question. I can tell you that at the level that we are involved both in Trout and exploration, that the Department of Crown Investments has made an estimate that the tax accruing to the province as a result of that is around \$800,000.00. It collects in taxes as a result of our expenditures.

MR. M. DOLIN: Just another question on a different subject.

On the Farley Lake gold drilling, at what price per ounce is considered an economic price?

MR. C. WRIGHT: The current price of gold is running around \$440-\$450 an ounce Canadian. What the price is that's going to be economic is going to depend on your operating costs and your capital costs. Without having the feasibility study in hand, I can't tell you what that number is. We don't even know at this point whether we have a deposit big enough to make a mine and, if it is big enough, whether we can go open pit or underground. If we can go open pit, we can mine a very low grade of ore compared to going underground because of the operating cost advantage.

MR. M. DOLIN: Thank you.

MR. H. ENNS: Mr. Chairman, I refer the chairman to his Schedule 1 on his report, Schedule of General and

Administration Expenses. I do note that the corporation is running, by and large, what I would describe as a pretty tight ship. Your general expenses and salaries and wages have not changed much from year to year.

I note one interesting change in the figure and that's the corporation capital tax that the corporation is required to pay. That's up considerably from last year. Last year, or '84, it was \$7,438; this year it's \$19,000.00.

Does that have anything to do with the fact that your present Minister was immediate past Minister of Finance, or what is the explanation for that 200 percent increase in the capital corporation tax that the corporation is paying?

MR. C. WRIGHT: I don't know whether I can blame this on the Minister, but . . .

MR. H. ENNS: Go ahead, feel free to do that. We do it all the time.

MR. C. WRIGHT: . . . we got hit with a double whammy is what happened.

MR. H. ENNS: But I am interested. Could you explain the double whammy for us, how this encourages mining activity in our North and in Manitoba?

MR. C. WRIGHT: We got hit by having to pay two years' tax in one year. I understand that I think it was that you paid it after the fact before, and then started collecting before the fact. So we got hit twice. That actually is for two years but it all was cash out in one year.

MR. H. ENNS: Well, that's an intriguing answer, Mr. Chairman. Again, I direct this question to the Minister or, more appropriately, through you, Mr. Chairman.

Would that be the case for all our mineral companies in the Province of Manitoba? Were they hit with what the chairman describes as a double whammy? I ask this question recognizing that the mining industry has not been all that healthy in this province and has had its difficult years. I'm wondering whether INCO, Hudson Bay Mining and Smelting, Sherritt Gordon were also faced with a double taxation problem this year, as it would appear that our publicly-owned Manitoba Mineral Resources Ltd. was.

HON. V. SCHROEDER: Well, Mr. Chairman, it's a good question. I don't recall any changes having been made by the Department of Finance which would so conveniently raise the corporation capital tax in the year 1985, and I don't recall our overall numbers showing that for the province. I'm told that it has something to do with year-ends and possibly the year-end of this corporation, but I don't have an explanation that makes sense to me at the moment. I'll get back to the member on that.

Again, I emphasize that I don't believe there are any changes in corporation capital tax for mining companies or any other company in Manitoba in that particular year.

MR. H. ENNS: Well, perhaps the Minister could undertake to check that out and give us that information

when we're dealing with the Estimates of the Department of Energy and Mines.

HON. V. SCHROEDER: That sounds reasonable.

MR. H. ENNS: Mr. Chairman, I don't have any further comments to make at this particular time. I don't want the record to show, though, that it's only because of the activities of the Manitoba Mineral Resources Ltd. that we are maintaining some activity in the important mining industry in this province.

The truth of the matter is that in the four years of previous Conservative administration, when the level of many factors, during those years the public's involvement in exploration work was some 28 percent. Under the NDP years, it has become 67 percent. Figures indicate that in the years, for instance 1978-79-80, the total of the value of mineral production ran up as high as \$765 million. We're now at \$540 million, \$598 million of activities.

Another yardstick, back in those terrible Conservative years, mining contributed to the Gross National Product to the tune of 6.3 percent, 7.4 percent. It's now contributing 4.6, 4.7 percent. I'm well aware that mining has had some rough years, particularly our major producers and nickel. They are thankfully coming out of it, it would appear.

The Minister likes to leave the impression and indicate it is only because of his visionary action, through this corporation, that we are carrying on a mining operation in the North. That simply isn't the case and his stats don't bear that out. Quite frankly, we were doing considerably better five or six years ago in the years 1978, 1979 and 1980. Mining was contributing, both in people employed, in work opportunities, in revenue to the province and to the Gross National Product of this province in a more substantial way than it is today.

Mr. Chairman, with those few comments, I'm prepared to pass this report.

HON. V. SCHROEDER: I should probably be prepared to simply accept that as one of the hazards of office, but I won't. You will recall, in 1977, there was a Western Premiers' Conference in Manitoba. It was held in Thompson, Manitoba — (Interjection) — I'm sorry, 1981. Had it been held in 1977, the then Premier's — Sterling Lyon's — comments up there, about the population of Thompson being something like 20,000 people, when it had dropped by thousands in the four years when he was Premier, would have been accurate.

I point that out, to remind people that the mining industry has had its ups and downs and there have been a lot of downs in the last number of years; not only in Manitoba, but in the rest of this country. Within the last few years, we have had some significant improvements in our major mining operator in the North, Inco, where a new open pit has been developed. They've consolidated some of their refining operations from Ontario into Manitoba; they've shut down operations there and moved them here.

Those kinds of things have happened, but with all of those things happening and with our exploration and with other people exploring, the mining industry is not in the kind of shape that it was five years ago, nor eight years ago, nor nine years ago. They were better times and we look forward to better times in the future.

But if we just sat back now, as the members suggest, and didn't continue with an exploration program, then we can ensure that we would be eight years away from shutting down Trout Lake, with nothing to replace it. I don't think that would be an appropriate course of action for us to take.

MR. CHAIRMAN: Report pass — Mr. Enns.

MR. H. ENNS: Mr. Chairman, if the Minister will agree to let me have the last word, then you can pass this report . . .

HON. V. SCHROEDER: It just depends on what that last word is.

MR. H. ENNS: . . . and I simply have to tell him that he should not put words in my mouth. That's not what I suggested. I merely suggested that there are other ways of ensuring activity in the mining sector. The truth of the matter is, a few years ago, the private sector was prepared, obviously, to put much more of its own money into heightened activity and indeed, Mr. Chairman, that activity paid off.

MR. CHAIRMAN: Pass — Mr. Connery.

MR. E. CONNERY: For the Member for Niakwa, I'd be quite happy to really give him the recipe for pickled onions, but it disturbs me to see the Minister come from out of the rocks so early in the morning and start to make some of the filthiest accusations or intimidations that . . .

HON. V. SCHROEDER: Intimidations?

MR. E. CONNERY: . . . intimidations to try to not have individual's question. I want to put on the record that the pickle plant the Minister refers to is B and B Foods, which, of course, some people know I'm a 50 percent owner of. He says that the government put a lot of money into that plant and I'm sure if the province was to do an evaluation of the sales taxes and all of the other taxes that we have paid, the jobs created and the people not on welfare that were paying, that in a failed company the province made a profit; not like the farmers who lost half-a-million dollars.

For the Minister to try and intimidate a member of a board who's looking into an inquiry with that sort of conduct, then I think you've come about as low as you can get and should crawl back under the rocks.

Thank you.

HON. V. SCHROEDER: Mr. Chairman, I said specifically that I had no criticism of the investment. I had no criticism of the investment at all. Some of those investments don't work; that one didn't work. We lost money. The member says that if we look at other areas, we may have made money. I take him at his word.

We've heard this morning, as the member has been suggesting, that we're doing something dastardly up North with the Manitoba Minerals Corporation in our exploration program; he's heard this morning that in fact, we're receiving something like \$800,000 in taxes in one year from an operation, on the face of it, loses \$500,000.00.

I haven't heard the member say that we made a profit for the taxpayers of Manitoba of \$300,000 net, beyond what we would have had, had we not done any of this; had we not had Trout Lake and had we not done the exploring. I haven't heard him say, that that sounds like a pretty good deal to me for the taxpayers of Manitoba and in addition to that, of course, we're proving up new reserves which will mean jobs for Manitobans in later years. I haven't heard him say that sounds like a pretty good deal for Manitobans to me.

MR. E. CONNERY: I think the Minister better review Hansard as to how I did the questioning. I never once said they were doing dastardly things. I was asking what their philosophical reasons for doing it were. But I think what happened with B and B Foods is the way the government should get involved in business. Let the business take the chance. We lost the mega bucks, the government didn't come out. The Federal Government lost some bucks; you didn't lose money. That's the way industry should be. Government should facilitate and try to work with industry, and if it doesn't work, those people take the beating, not the people of Manitoba.

HON. V. SCHROEDER: Well, as just indicated previously, about 80 percent of exploration costs are courtesy of the taxpayer anyway, in the private sector, as indicated by the chairman previously. So what you're saying is, taxpayers should take pretty well all of the chances and the profits should all go to the private sector. That's an interesting concept. The public sector takes the costs and the private sector takes the profits. Well quite frankly, Trout Lake demonstrates that would have been a fairly foolish thing for us to do and the taxpayers wouldn't have the money that they have been able to put into exploration for the continuation of Lynn Lake and other parts of the North.

MR. CHAIRMAN: Mr. Manness.

MR. C. MANNES: Mr. Chairman, I'd ask the Minister if he could enlighten us somewhat as to how other provinces, particularly the province of Quebec, is doing in bringing forward mining exploration. My sources tell me that indeed that province is doing extremely well during the last couple of years, in spite of the international downturn in commodity prices; that exploration is booming within that province and a lot of it has to do with the tax regime. I'm wondering if the Minister could give us any commentary at all with respect to how that province is encouraging mining exploration.

HON. V. SCHROEDER: Well, I can get back to the member later with a fuller answer, but they took over the asbestos industry and of course that lightened the load of industry considerably. Whether that improved the circumstances for mining in Quebec or not, I don't know. In terms of their tax regime, you can see from our Annual Reports, in terms of the revenues of Manitoba, as to what kind of revenue we're getting out of mining.

MR. C. MANNES: Well, two points, Mr. Chairman. Firstly, I wasn't asking the Minister as to how Quebec

was actively moving into production. I was talking about exploration.

Secondly, the Minister refers me to look at the revenue projections. I couldn't help but notice that Manitoba will be receiving an additional \$12 million forecasted in mining revenues in this present fiscal year. I suppose I would better direct the question to the Minister of Finance, but could this Minister of Mines tell us where that large increase of tax revenue, from where it may be forthcoming?

HON. V. SCHROEDER: I don't think it would be appropriate. You know how many mining companies there are and we can't get into the tax positions of individual taxpayers.

MR. C. MANNES: Mr. Chairman, I realize this isn't maybe the best place to ask the question, but obviously there will be other opportunities afforded and, like I say, we couldn't help but notice that there is a sizeable increase in tax revenues that will be forthcoming from the mining industry. I guess the question behind it is, will this total uptake in tax revenues cause mining activity, and exploration in particular, to diminish because of the new emphasis on tax revenue?

HON. V. SCHROEDER: No.

MR. C. MANNES: No further questions.

MR. CHAIRMAN: Report—pass.

MANITOBA OIL AND GAS CORPORATION

MR. CHAIRMAN: The Manitoba Oil and Gas Corporation. The Minister will make some opening remarks.

HON. V. SCHROEDER: Just fairly briefly, a couple of comments on the performance of the corporation to date.

It has, I think it's fair to say, established a good working relationship with its industry joint-venture partners. It's been instrumental in bringing at least one substantial industry investor into the province. It's participated in finding and developing about a million barrels of reserves in 1985, of which the corporation's share before royalty is about 375,000 barrels of recoverable oil.

It has acquired about 13,000 net acres of prospective mineral rights on which future drilling prospects will be developed; and for those members who recall previous attempts at drilling for oil, they will recognize that our success rate in terms of drilling for oil has been significantly improved over what it was in the mid-1970's.

In 1985 there were 13 wells drilled, with a 92 percent success rate and the corporation's interest worked out to about 6.2 wells. While it is true that we have a glut of oil worldwide, we believe it is a distinct possibility, and probably more likely than not, that there could be some shortages again within the next decade.

We require oil to fuel our agriculture, transportation, heating and other needs, and we don't expect this downturn to last forever; but it is the contractors and

suppliers to Manitoba's fairly modest oil industry who will bear the brunt of the rapid decline in activity.

It's for those reasons that we established ManOil to supplement the efforts of private sector companies; to find and develop more oil in Manitoba and; and during downturns to provide some stabilizing influence on the amount of drilling activity in the province. To put that in some perspective, during the first few years of operation, ManOil together with its partners will undertake activity equivalent to that undertaken by the total industry, on average, during the period 1960-1980. That will be the contribution of ManOil and its partners over the next few years to approximately 1990.

Due to our relatively low finding and development costs in the province, successful companies — and we certainly include ManOil in this category — will find it marginally attractive to drill at price projections in the \$20-\$25 Canadian range.

For all of these reasons, we have endorsed the 1986 plan for the corporation, which will see it participating in as many as 35 wells this year, getting into a position where it can take greater initiatives by acting as operator of joint venture projects.

In terms of governance of the corporation now that it has established itself, we are looking at the board of directors with the possibility of adding and broadening, and should just say as an update, so far in 1986, the corporation has participated in drilling 19 tests, of which 17 have been cased, has potential wells. Cumulative drilling success since incorporation is approximately 84 percent, and of the total of 31 gross wells, we have approximately 10 net wells.

Current production is in the vicinity of 100 barrels of oil per day — I was a little bit cautious with one of the abbreviations, not being as familiar as I should be with metric and being afraid that I may be getting into waters that I would not be able to measure — and there's about five wells currently in the stage of being completed.

I believe the chairman and the president each have some remarks to give.

MR. CHAIRMAN: Mr. Silver.

MR. R. SILVER: Thank you, Mr. Chairman.

I'm pleased to have this opportunity to present to you and the committee this Annual Report covering Manitoba Oil and Gas Corporation's second year and what might be considered its first truly operating year. As indicated by the Minister, 1985 was an encouraging year for us — a year in which this fledgling corporation tested itself and recorded some initial successes.

The Waskada-Cromer Pipeline operated by ICG Manitoba Limited went into operation on schedule in January 1985. The corporation's 10 percent interest in this line provided a steady cash flow throughout the year. During the year under review the corporation participated in 13 tests and 2 recompletions. And while most of the prospects drilled were on corporation lands the drilling and operations were managed by Manitoba Oil and Gas as partners. The corporation's net interest was 6.2 wells representing a 92 percent success rate. Most of the drilling took place late in the year, and due to the wet fall, production volumes were less than what might have been expected.

Total revenues for the year were \$422,000 resulting in a cash-flow deficiency of \$16,000 and a net loss of \$134,000. Had the wells been drilled earlier in the year, resulting in greater production, we could well have been in the black in 1985. Nevertheless the producible reserves of 375,000 barrels are still there to be produced over future years, and our finding and development costs of under \$6.00 per barrel are quite reasonable by industry standards.

A good quality mineral rights or land base on which to develop future prospects represents an important strategic investment in this oil industry. The corporation by year-end had acquired 13,000 net acres of good quality land and has already identified a number of drillable prospects to pursue. It has been the policy of the corporation, in undertaking a catalyzing role to bring in other partners to participate and until now operate in its projects. While we believe we have a number of good prospects, the rapid decline in prices experienced in early 1986 has forced a number of companies dependent on internally-generated cash flow or debt to reduce their exploration activities.

It therefore remains to be seen how successful the corporation can be in attracting joint venture participation during this low price period. The funding for continued activity is in the form of equity capital in which the government in January 1986 subscribed to an additional \$5 million in shares.

Of the \$20 million maximum authorization established under The Manitoba Oil and Gas Corporation Act, the corporation has now issued 100,000 shares for \$10 million. The cash proceeds, other than that required by the corporation as it proceeds with its programs are held in trust by the Minister of Finance and are non-interest bearing to the corporation — non-interest earning to the corporation.

The corporation expects that prices will improve within the next two to four years and that it makes good sense to develop resources now during a period of low costs. Earnings and return on investment during this low price period are expected to be marginal. As prices improve most of the increased margin will flow through to the bottom line, thus rewarding the patient investor.

Mr. Chairman, Manitoba Oil and Gas is particularly proud of its professional staff, nearly all of whom have ties of birth, residence or education to the province. Members will recognize Mr. Sadler. I would point out that we are assisted today by Linda Vall, Corporate Land Manager. Prior to joining Manitoba Oil and Gas, Miss Vall, originally from Manitoba, had gained six years of land management experience in Calgary with several junior oil companies.

Mr. Chairman, this concludes my remarks. Mr. Sadler and I would be pleased to respond to members' questions.

MR. H. ENNS: Mr. Chairman, through you to the Minister and the executives of the Manitoba Oil and Gas Corporation, allow me to make it very plain that any comments that I have are not to be directed to the quality or the dedication of the people and staff involved. I concur with the concluding remarks of the Chairman in acknowledging the professionalism and the dedication of the staff, but nonetheless I have to

ask this simple question. I am one of those shareholders that has \$4,370,000 sunk in this company, now \$10 million, and we've only lost \$16,000 this year as compared to \$325,000 last year. Now I appreciate these kind of simplistic — additions and subtractions are perhaps not fair to the people involved and it is a fledgling company unlike the company that we just dealt with, which has had a longer track record but in this instance this is the second year and as the Chairman indicated really their first operative year.

My colleague, the Member for Morris, will deal more specifically with some of the financial questions but the truth of the matter is again, as the promise held out with the creation of ManOil, that ManOil's revenues were going to do great and wonderful things for Manitobans. The fact of the matter is that today as the corporation appears before this committee, we the people of Manitoba, have invested \$10 million into the corporation. We are producing between 55 and 100 barrels of oil a month, into as the Minister indicated in his opening remarks into a situation where we have an oil glut around us and indeed the difficulties that we have in the next few years are not to be taken lightly, and I admire the Minister's courage if he can accurately or has the optimism to predict an upswing in the oil industry over the next number of years.

It reminds me of the disastrous policies that were imposed on this nation by another visionary politician in Ottawa; it was named the National Energy Program which the report acknowledges, thank goodness, has been dismantled, and has allowed for some kind of rejuvenation in that industry. But the truth of the matter is the oil industry is in extreme difficulty, and we have oil coming out of our ears. And the question really has to be asked — while we're borrowing at greater and greater limits — we are paying one out of every three dollars of new taxation this government has imposed on the people of Manitoba in interest on our debt. What useful social services can be formed by putting \$10 million into oil, into an oil company in Manitoba, which was doing very nicely, thank you, as a result of changes in the tax regime by the previous administration.

We've had a record level of oil activity in our relatively modest oil patch. All of that stemming from simple changes to the tax regime that brought us into a competitive position with neighbouring jurisdictions, and our oil industry was off and running.

I just have to ask the government and the Minister — with the kind of projections that we have before us, does he really feel comfortable with the prioritization of badly needed funds? We have a Faculty of Engineering at the University of Manitoba that's about to lose its accreditation for lack of funds, and we're talking about \$300,000 or \$400,000 there, and I acknowledge that that is essentially an administrative matter for the University of Manitoba to iron out. But we have prioritized and we said \$10 million has to go into the Manitoba Oil and Gas Exploration Company so that we can produce 55 or 100 barrels of oil that nobody wants, or at least that we've got lots of.

That's where you have to talk about how screwed up your priorities can become when you put ideology ahead of plain, common economic business sense. Do you want to take this \$10 million to the university campus today and ask the students, who are facing increased student fees, ask the faculties who are facing

cutbacks, ask particularly the Faculty of Engineering, that is in difficulty right now, as to where they think this government, their duly-elected government ought to be spending, not \$10 millions of dollars, perhaps just an additional million dollars to help the difficulties that are being experienced in our universities at this particular time?

So, Mr. Chairman, I ask the chairman of the corporation, we have now got one year behind us. I note that the comments by the Minister indicate that we are now approaching the range of 100 barrels of oil production a day. What is the anticipated production with the wells now operating and the wells coming on stream for the year 1986 ahead of us? Can we talk a little optimistically about what's coming in the year just ahead of us?

MR. R. SILVER: I'll endeavour to respond, or clarify some of the points the member has made. The member has referred to a \$10 million investment. As at the date of the statement that we're reviewing, the corporation had \$5 million invested, largely in assets. The other \$5 million that has subsequently been arranged for the corporation, for all intents and purposes is a subscription by the shareholder and does not reflect — certainly as at this point in time, December 31, 1985 — any investment either in assets or to cover expenditures.

MR. H. ENNS: I accept that.

MR. R. SILVER: The member also indicates that the country has oil coming out of its ears and I think there's some validity in that statement. However, in the Province of Manitoba, I would stand to be corrected but I understand the supply-demand ratio is one to three. We, in the province, produce one barrel of oil but our internal requirements are three, if you will. So if there is some merit in the province becoming self-sufficient as a protection against future hydrocarbon price hikes, we have a long way to go and we would hope that Manitoba Oil and Gas can contribute to that.

With respect to the member's specific question on what kind of production would we hope to have by the end of the year, I'll slip and slide around that one and pass it over to the president, but it is a function of how successful our drilling program is this year. Perhaps Mr. Sadler, who's on top of those things, can give you an up-to-date picture on what our anticipations are for the balance of the year.

MR. CHAIRMAN: Mr. Sadler.

MR. J. SADLER: The wells that we have presently drilled, and are in the process of completing the last five, we expect that we'll be in the range of about 140 to 150 barrels a day with the wells that we've drilled, even though currently it's probably around 100, but we have some to complete yet, some to do some work on. So we expect it to be in that order of magnitude, or with the 10 net wells that we presently have, that would average about 14 or 15 barrels a day.

Now, as the chairman pointed out, what we end up with at year-end will depend on what we're able to accomplish between now and the end of the year in

terms of drilling and successes and the initial production from those that are successful.

We're hoping if we can have the 35 wells drilled, and we're already at 19 now that we'll end the year in the order of 200 barrels a day, something of that order. That's what we would hope for.

MR. H. ENNS: A more than doubling of your current performance.

MR. J. SADLER: As at the end of last year, we were at about 55 barrels a day, last December, and we'd be hoping at this December to be in the vicinity of 200 barrels a day, so it would be quadrupling of our daily productivity is what we're hoping for.

MR. H. ENNS: The chairman referred specifically to the corporation's investment in the Waskada Pipeline. I believe it's a 10 percent interest that the corporation holds. Could he inform the committee, what did that 10 percent cost, and what is the current revenue resulting from that? What is that 10 percent interest earning in revenue to the corporation?

MR. R. SILVER: I'd have to look for the information, unless Mr. Sadler has it immediately at hand.

MR. J. SADLER: For 1986, our budget of net revenue from the pipeline is about \$140,000, and that's after expenses; that is, our share after expenses would be \$140,000.00. We have to take from that sort of a book depreciation value of \$57,000.00. So our net revenue is \$140,000 and we would provide for depreciation of about \$57,000, so the difference of that is sort of our net income as a result of our about half-a-million dollar investment in the pipeline.

MR. H. ENNS: That was the question. The 10 percent cost about half-a-million dollars. Thank you, Mr. Chairman.

MR. C. MANNESS: Mr. Chairman, I'd like to ask Mr. Silver or Mr. Sadler how it is that the success rate is beginning to fall. I notice in the 1985 year-end, the success rate at that time was 92, and yet given that we're now moving into 1986, we're now into a success rate of 84. It seems to be dropping pretty quickly in a span of a few months.

Does that indicate that we've hit a number of dry holes?

MR. J. SADLER: Yes. I think we must take this in the context of the small number of wells that are being drilled and the, perhaps, step out nature of some of the things that we are doing. I think the high success rates of any company in this business would indicate they're probably not doing a lot of wildcat exploration. If you were, they'd be much lower than what we've experienced, or other companies in Manitoba that are currently operating here. I think that the tendency during this period would be to be very selective in terms of not stepping out too far.

MR. C. MANNESS: Mr. Chairman, what is a barrel of oil produced today? What is it receiving? Under the

various formulas of national oil pricing, what do we receive for a barrel of oil?

MR. J. SADLER: As of this morning, I looked in the Globe and Mail and the futures for West Texas Intermediate in New York is about \$11.00. It's down to \$11 U.S., which equates to about \$15.25 Canadian. So that is about as low as it's been. It's been down below \$11 U.S., but I would say that it is down very low.

Now, what we would receive in net, we would have to take a fairly small amount of royalty off of that in the case of a Crown lease, or in the case of a freehold lease there would be the freehold royalty plus the mineral tax.

At the current time, with low prices, because in Manitoba there's a sliding scale relating to the volume of the well and so on, and the age of the well, we're paying in the order of 10 percent or 11 percent royalties or a combination of freehold royalty and mineral tax. It's in that order, about 11 percent. So 11 percent of \$15 is about \$1.60 or \$1.70. It's pretty thin in terms of the amount of royalty, and that, I think, has served to make Manitoba still fairly attractive because the finding and development costs here are comparatively low.

MR. C. MANNESS: Using those figures, Mr. Sadler, and should the corporation be successful in achieving the 200 barrel a day goal in the near term, then revenues generated would be somewhere \$2,600, \$2,700, let's say, a day, \$3,000 a day, and I would assume that would be then — is it for 350 days a year, or is it every day of the year?

MR. J. SADLER: Well, once a well has been on for several months, providing you get consistent production, then you would have just the normal decline which is about 10 percent a year because there is only so much oil in the reservoir and so you do get a natural decline. So there is that decline in a normal situation.

I should point out to you that the revenue figure that you're suggesting of \$2,700, \$3,000, from that we must still take the operating costs of pumping the oil. That amounts to somewhere in the order of \$4 to \$6 a barrel.

MR. C. MANNESS: Mr. Chairman, I guess I'm trying to reconcile the details associated with pumping oil in the province given to me by Mr. Sadler, with a comment made by Mr. Silver, when he says we could have been in the black in 1984, and also indicated that the way that the Manitoba Oil and Gas Corporation was developing, it would reward the proficient investor

A MEMBER: Patient.

MR. C. MANNESS: . . . the patient investor. Of the 20 million authority, I think as of 1985, the report indicates that the province had given shareholder equity of \$4,000,370.00.

If the corporation had to go to the market for that money, how long would it take for this company to become anywhere, in the true sense, in the black? How long would it take before this company would become profitable?

MR. R. SILVER: That's a particularly difficult question the member has posed because it depends on what the realities of price increases will be in the world market. We would anticipate — and I believe in my remarks I indicated that we expect to see price recovery over the next two to four-year period — it then becomes a mathematical function, if you will, to determine what our expected price will be relative to our expected production and our anticipated expenses. So, depending on which one of the various assumptions you care to choose to challenge, you end up with a variety of potential outcomes.

I don't know if there is an answer that would satisfy the member except to say that we do strongly believe in the corporation, that there will be a price recovery. We believe that this is the time, during a downturn, to take advantage of any cost efficiencies that are presented to make an investment which will in fact pay off for the citizens of Manitoba. We'd like to believe that somewhere, a couple of years down the pike, people will be here trying to apologize for an embarrassment of riches.

MR. C. MANNES: Well, with my experience around this table, Mr. Silver, I can hardly wait for that day because in reviewing all these Crown corporation annual statements, I can't think of any success stories. Well, I don't know if we've had the opportunity to review their statement around this table. I say that in deference to the Minister of Energy and Mines.

I would ask Mr. Silver or Mr. Sadler today, specifically, how many of the province's dollars are working or have been expended? I know the borrowing authority we granted three years ago was \$20 million. Today, how many of those \$20 million have been expended?

MR. R. SILVER: About \$6 million.

MR. C. MANNES: And I refer to Page 12, Mr. Chairman, of the operations and deficit. I see where the general and administrative costs of operating ManOil in fiscal 1985 were somewhere in the order of \$350,000.00. Are the expenditures on leases purchased from the government, are they included in that figure or are they included somewhere else in this listing of expenses?

MR. J. SADLER: No. The lease costs are not included in that. They are included in the capital costs. The bonuses that are paid in acquiring leases, as a land cost, are capitalized.

MR. C. MANNES: Well, I guess the first question, this figure of 350,000, I don't know the total staff complement of ManOil, but can Mr. Sadler give me some insight into what goes into making up that total figure?

MR. J. SADLER: Yes, we have had as of 1985, for which this number would be applicable, for most of the year we had nine full-time staff. We have an office here in Winnipeg. We have travel expenses mostly between here and Calgary and from here to the field. So other than those expenses that are directly related to exploration, which would be capitalized, this is the

remainder of, if you like, the manning of the corporation, the offices, the telephones, the travel and so on.

MR. C. MANNES: Mr. Chairman, I would like to know then when ManOil bids on some of the available acreages put up by the department, and they are successful bidders, does any part of the \$6 million that has come to them go back to the government in the form of the bonus or the lease arrangement, given that they are successful bidders?

MR. J. SADLER: Yes, we would be in the same position as a private-sector company, whereby we bid in a competitive bidding system. So our operations are very similar to that of a private-sector company.

MR. C. MANNES: Mr. Chairman, I have an information synopsis of Manitoba's May 7, 1986 oil lease sale, and there are many noteworthy parts to this release. First of all, I couldn't help but notice that the total amount garnered through that sale was down significantly from the two sales held in fiscal 1985, but specifically to Manitoba Oil and Gas Corporation. I would ask, did they bid on all leases or only the ones that they were successful in attaining?

MR. J. SADLER: We would have bid on those leases that we found to be attractive, and we would have bid a price that we felt, under the current economic conditions, was appropriate and that we might be able to get as a bid. So I can't tell you precisely the percentage of parcels that we would have bid on in that sale, but we would have bid on a portion of them, and we would have been successful on a portion of what we bid on.

MR. C. MANNES: I would ask Mr. Sadler whether the total number of dollars they expended on lease rights through paying these bonus revenues, was it an amount similar to what they had bid in the two sales individually in 1985, or was it an amount less?

MR. J. SADLER: We bid on about 60 percent of the leases offered. We were successful on 50 percent of those that we bid on, and the price per acre was down substantially from the previous fall sale.

MR. C. MANNES: Was ManOil successful in attaining roughly 50 percent of the leases in 1985?

HON. V. SCHROEDER: Can I just clarify that? As I understand it, we bid on 60 percent in this particular instance, and were successful on half of the ones where we did bid on, so that we wound up with 30 percent of the leases. Is that correct?

MR. J. SADLER: Thank you for raising that question again. I did not provide the member with the proper information. I'm sorry.

We bid on 60 percent of the parcels in the last sale, and we were successful on 49 percent. So we were very successful in this spring sale on the whole. So it was not the 30 percent. It was really 49 percent of those offered. Now I'm not sure whether that's on an acreage basis or on a dollar basis — (Interjection) — on a parcel basis.

MR. C. MANNES: Who opens and reviews the bids?

MR. J. SADLER: Well, that is more properly the department's response. I have not been down to attend our opening. I don't know if it's done publicly or not. I know that we submit sealed tenders.

MR. C. MANNES: I don't know if everybody in the room heard the Minister say, we were successful. When he said that, I'm sure he was meaning we, meaning ManOil, were successful, but yet his own department of which he's also in charge was responsible for opening the bids. So maybe the Minister can tell me which hat he's wearing, and whether or not it varies from time to time, Mr. Chairman, because my concern is simply this: The total amount received in the sale this May 7 was \$752,000 roughly. The total amount paid by ManOil was \$327,000 or roughly 44 percent. ManOil obtained by my information 37 of the 77 leases granted by the department, or roughly 48 percent of the sales of the leases that were granted on the May 7 sales. I guess I'm trying to determine whether ManOil bid the market or did they bid over the market. How does it determine the level at which it wants to bid?

More importantly, Mr. Sadler indicated that they were interested only in bidding on some of the more proven areas. Yet, I guess I would ask whether or not they were unsuccessful in obtaining any of the areas that were proven or known to be potentially more beneficial. Were they unsuccessful in not attaining any of those leases?

HON. V. SCHROEDER: Just to address the first remarks, we are here as a Standing Committee on Economic Development. I am here as the Minister in charge of this particular Crown corporation. There is no question as to which hat I am wearing this morning. For the rest of it, I would turn to Mr. Sadler.

MR. J. SADLER: Well, I think it's very important that, if we are going to be successful in the mission and role expected of us here as a Crown corporation, we are going to have to have credibility in the eyes of the rest of the industry with regard to the sanctity of the bidding process. So I would hope that we are able to conduct ourselves in a manner with our partners, who often bid jointly with us on certain selected parcels and so on, that there is no question from the public or on the part of the standing committee or in the rest of the industry that we are given any special favouritism or any special favouritism is showed to us with regard to the bidding process. I trust that was not the question.

MR. C. MANNES: Mr. Chairman, no, it's certainly not my intention to cast any shadow of doubt over the activities of the senior staff or any of the staff associated with ManOil. My question specifically relates to a corporation that has, at its fingertips, \$20 million of spending authority, one which obviously knows as the industry does where the more successful areas may be. I think one that is, by virtue of the fact, not paying any interest on that capital, one that quite frankly is in a position to bid more than the market for those properties that it wants, with funds of course that, again have been given to it by the government. I guess I don't

have any way of knowing whether ManOil has overbid for some of those leases or not, but certainly from the little bit of information I have over the last number of sales, they've certainly taken a larger proportion of the available leases.

Mr. Sadler may want to refute that, but there's no way I'm suggesting that there's inside information or the tendering procedure is being violated, although we obviously are very concerned about that whole issue these days, it seems to be a topical point of discussion, not within the oil industry. But I do say that I question and I would want to know how we, as members of this committee, can be assured that ManOil isn't overbidding the market with funds really that it is not paying interest on.

HON. V. SCHROEDER: Once again, Mr. Sadler can answer the last question. But as I understood the numbers which Mr. Manness gave to us earlier — and I don't dispute them, I think they're basically right — we wound up with a greater proportion of the lands involved in the bidding than we paid as a proportion of the overall costs. The member can point out that doesn't mean much in terms of whether we got better land, worse land or so on, but I don't think there's any indication from what I've seen, that these people are overpaying.

But certainly if Mr. Sadler has something further, I'd like to hear it too.

MR. J. SADLER: That is a very difficult question to answer. As you can appreciate, I will endeavour, nevertheless, to do so.

We believe in the short period of time that we have been active that we have been on a fairly steep learning curve in terms of trying to understand the geology of the area and where the outside perimeters of some of these fields are and so on; and we have, by specializing I think in Manitoba, perhaps not yet but certainly over the next several years, I think it will tend to be fairly expertise in terms of what the potential of various areas are.

I would say that, that by itself, should permit us to have a better idea of how to bid on these lands than companies who may come in to the province and bid on the land sales and then perhaps not do very much with them or spend most of their efforts in other provinces. So the point I'm trying to make is, we would hope that we would get to be as knowledgeable or more knowledgeable than some with regard to what value particular lands might have.

Another point I would like to make is that last November there was a new formation found by a Calgary based company in the Bakken formation out around Kola and that has turned out to be a new discovery and a new formation for the province. We had been trying to find that particular type of a discovery ourselves and had purchased land in the area in the vicinity of \$50 an acre, a bonus. After the company drilled that well and bid on the surrounding lands in last fall's land sale, the prices went to about \$600 an acre. In other words, they bid \$600 an acre for those lands surrounding the discovery well.

We had, within three or four miles of there, acquired leases just months before, four or five months, at \$50

an acre. I say that by way of illustration as to how the value of lands can change over a period of three or four months, depending on drilling activity and the results that may take place.

In the case of this example, of course, it was a confidential well that this particular company drilled and they were the only ones that knew what the results were prior to going into the land sale, but nevertheless they bid over \$600 an acre because they knew that it was very good.

So I certainly don't want to avoid trying to answer your question. I'm trying by way of illustration to indicate to you how the value of lands can change due to the perception of particular geologists and engineers and so on over a short period of time.

Now we, in trying to determine what we are going to bid on lands, it start with the geologist and the geologist's evaluation, based on all of the information at his disposal and what the chances might be of finding oil that might produce at a certain rate in that area.

The land costs in the oil industry are not a large percentage of the overall investment, but they are very important nevertheless. So you can get quite a lot of variation with regard to the land prices paid because it is still a small portion of the overall investment.

MR. C. MANNES: Mr. Chairman, the problem we have here, in spite of all the scientific, the geological and the very professional manner in which Mr. Sadler and his staff bring to this task of trying to make this corporation profitable, the fact is he's around this table because in a sense, it's a political forum.

It's a political forum in part because in 1981 the NDP made an election promise that the proceeds from ManOil would make sure that no farmer would lose his farm and no business would lose his business. That's part of the reason you're called before this committee in having to maybe deal in the realm of political suicide almost and of course, that guarantee was made by the Premier.

So, Mr. Chairman, when I talk to other people who were involved in that bidding process and who obviously were unsuccessful bidders and who are questioning how it is that the State Oil Co. would be successful and bid over the market, then I realize that as of today that company was given \$6 million of taxpayer money without any strings as far as interest bearing, then I think it's a very legitimate question.

In no way it's meant to be critical of the expertise of the staff who are trying to make this a successful Crown corporation, but nevertheless it's an important question because if the industry is to survive, as a whole, and if there are to be other companies and other players who are putting up their own sources of funding, then obviously they are going to have to believe they are involved in a totally fair — not only bidding system because nobody's calling the question of the bidding system — but that the State Oil Co., whose bidding imposed to them, isn't using as the lever to bid at higher levels, the fact that they have money which bears no interest. That was the purpose for asking the question and going through this process of reviewing some of the activities associated with that lease.

I would ask one other question. Did ManOil bid on any of those leases that were declared as unacceptable?

I believe there was some large number that the Department of Energy and Mines did not accept and the listing is shown as no acceptable bids. Did ManOil bid on any of those?

MR. R. SILVER: Prior to Mr. Sadler giving the answer to your last question, I would point out to the member, it is a function of capital markets that risk money is equity and the return on equity is essentially a promise, or if not a promise, certainly an expectation of future gains.

Certainly, there must be junior oil companies in the industry that are operating using borrowed capital. I'm not suggesting for a moment that that's prudent; I'm just allowing that that is a distinct possibility.

However, in the search for resources, be they metal or hydrocarbon, it is prudent to do that with a CED capital that is provided with interest-free equity. Again, I would say to you the return is one of expectation and so that there is nothing unique about Manitoba Oil and Gas using a non-interest earning or non-interest bearing money from its shareholder.

I also say to the member that Manitoba Oil and Gas' credibility, earlier, the member apologized for any interpretation on his remarks that might have been an aspersion on the professionalism of his staff, and I don't think that any such aspersion was taken. It's not aspersions on persons that we would be concerned about here; it's an aspersion on the professionalism of Manitoba Oil and Gas Corporation.

If the people in the industry in which we operate view our practices as being unprofessional if we are overbidding — if we are underbidding, certainly, it'll be evident to all the world our lack of success in acquiring a land base, and if we don't have land base we won't have any other kind of exploration or developmental drilling; so then we would certainly lose credibility in the industry. Alternatively, if we overbid, we will lose credibility with the industry as well and they certainly won't care to joint venture with us.

So our concern in the corporation is to ensure that the corporation has an image of professionalism, professional maturity, if not corporate maturity, in order to be able to fulfill our catalytic role in the industry.

I believe now Mr. Sadler has the response to your last question.

MR. J. SADLER: I believe the question was: of those bids that were rejected, had we bid on any of them. I am advised that we did not. The department apparently establishes a cut-off below which they do not sell their land or their mineral rights or lease them, and we did not, on that particular sale, bid less than \$10 an acre on anything that we bid on, and I'm advised that appeared to be the sort of cut-off that the department had made below which they did not accept bids.

MR. C. MANNES: Well, can ManOil then tell us? They obtained 37 leases. On how many did they bid?

MR. J. SADLER: I'm not sure that we have the exact number but if, indeed, we were successful in 50 percent of the 60 percent we had bid on — it's a calculation — I would think that 50 percent divided into 37 leases — would that not be correct? We bid on about 60

percent of the parcels that were available of which there were just slightly 100, our recollection is. So we would have bid on about 50 or 60.

MR. C. MANNESS: But, Mr. Chairman, to Mr. Sadler, I'll just look at the 77 leases that were granted because, as Mr. Sadler indicated, as it turned out they didn't bid on any of the ones that were rejected. So if they bid on roughly 60 percent of the 77 leases that were granted, then they bid on roughly 42 or 43 leases of which they were successful in obtaining 37.

I would question whether or not the degree of success they had was something that was a strange phenomenon or was it just the fact that they knew exactly

A MEMBER: It must have been on their own then.

MR. C. MANNESS: I'm getting a lot of help here, Mr. Chairman, from members opposite.

I would find that somewhat strange. Or not? Or does this happen often when these leases come up?

MR. J. SADLER: I think this was a unique situation in many respects. Prior to this spring land sale, there was some very aggressive bidding in the land business throughout Western Canada and, indeed, on our first few land sales that we went to, I don't think that we were nearly as successful in terms of as large a percentage of winning the bids if that, indeed, is a measure of success.

We had the rapid decline in oil prices that occurred in the January-February period, so really the industry, I think, individual members really didn't know just how everybody was going to be looking at land prices. Now we did see some indication from Alberta and Saskatchewan who had land sales, because they have them more frequently, and so we did have an idea of the decline in bids and so on.

I think that we were surprised, quite frankly, that there were some companies that just didn't bid this time here in Manitoba, and so it's very difficult to know what sort of a competitive situation you're going to have. Certainly, if the member requires more information on this, with your permission, we'd be happy to provide it.

MR. C. MANNESS: Mr. Chairman, just a final comment to Mr. Silver who said that he could accept the fact that some criticisms may be levelled at the professionalism of some of the staff members but that it was important that we weren't overly critical of the intent of ManOil.

I'm afraid I have to react to that because, as he's well aware, ManOil is a Crown corporation. It received its first life from an act of the Legislature. To this point in time, it's lost \$629,000, and obviously has some political intrigue, one way or the other, associated with it and will be in line for certain criticisms particularly if this deficit continues to mount. So I don't think it's that sacred that it can't be criticized to some degree.

MR. R. SILVER: I concede the member is right to criticize the corporation. I was certainly indicating that I believed it was not the member's intention to criticize the professionalism of the staff of the corporation.

MR. C. MANNESS: That's right, I wasn't.

MR. CHAIRMAN: Mr. Downey.

MR. J. DOWNEY: Mr. Chairman, I find some of the questioning most interesting tonight. I wasn't here and if the answer was given — I can't find it anywhere in the report — I understand that there's been a cash flow of some \$6 million into the development so far. Where would the interest charges be shown on that \$6 million as a cost to the corporation?

MR. R. SILVER: There are no interest charges pertaining to it. It is an equity investment by the shareholder.

MR. J. DOWNEY: So we assume that there are no charges of interest against the corporation. I want to, as well, proceed to look at some of the numbers. As I understood, I believe it was Mr. Sadler who indicated that the \$11 a barrel oil price today, that it was in a position now, when it was worked back to Canadian, of some \$1.50 a barrel profit that we would be making at the current price levels. Was I correct in that assumption?

MR. J. SADLER: The \$11 U.S. equates to about \$15.25 Canadian. From that we must take off about 11 percent for royalties, or about \$1.50 for royalties, or \$1.60, plus operating costs of about \$6 a barrel. So we'd be back down to under \$10 in terms of revenue to the corporation.

MR. J. DOWNEY: According to your report, that is about half what you require. If I go to your final page of Mr. Sadler's comments, the cost of finding and producing oil is among the lowest in Canada and production should remain economic in the \$20 to \$25 price range. So right at this particular situation, we're losing about half — oil has to double in price per barrel to put us in a break-even position.

MR. J. SADLER: Those remarks were written back in January, which was before the current price that we've arrived at. It was our perception at that time that for the normal exploration and development company, that we would probably need in Western Canada a price of \$20 to \$25 Canadian to keep them motivated to continue to invest and explore for oil.

Now, it is true that the price has been down to as low as \$15 and up as high as \$18 in the last several months. It depends an awful lot on what an individual company's perception is of the risks involved and so on in relation to the prices, to determine whether they are prepared to invest. But back in January, when we wrote that, it was my feeling that the prices would have to be up in the \$20 to \$25 a barrel Canadian for there not to be a downturn in the industry.

As you know, they're down below the \$20 and there indeed has been a rather dramatic downturn in the industry.

MR. J. DOWNEY: Then, as I understood the comments, we're going to be investing, as taxpayers, and I use this figure and you can correct me if I'm wrong, that

given the fact that 35 new wells go through to completion and they are productive, that in fact that will cost \$7 million. Is the figure of around \$200,000 to complete a well, to do all the work on it, fairly accurate, and that if you drill 35 wells, it would cost us \$7 million this year in addition to what we've already got in the program?

MR. J. SADLER: The cost per well is about right. We're talking about 35 gross wells that we would be involved with partners, and we would likely participate in the order of 35 to 40 percent. So our percentage would be several million dollars.

MR. J. DOWNEY: So it would be a fair assumption that we'll probably have \$10 million, following this year's drilling program, in money spent by the taxpayers. If you calculate at 10 percent, the interest on the investment that the taxpayers are putting into it is about \$1 million to produce oil that's going to be sold at half the price of what it cost us to produce. I have to question the comment by the chairman, when we go back to his opening comments, that Manitoba Oil and Gas is a corporation with a bright future.

I, for the life of me, cannot figure out why any Manitoba taxpayer, being a shareholder in the corporation, would feel that he has a bright future in the fact that we're going to be putting \$1 million in interest charges alone to sell oil at a half the price which it's costing to produce.

It goes back to the philosophical crutch that this government needs to go to the people of the Province of Manitoba and say that they're going to do great things. I want the people of Manitoba to know that they're subsidizing an oil corporation that hasn't got a hope, I say hasn't got a hope of making money in the next 10 years, let alone the next two or three or four years. A million dollars in interest charges by the end of this drilling program, to make how much money? To lose \$10 a barrel on every barrel of oil we produce.

For some reason, I can't bring the whole thing together to understand why we're continuing to put capital into it. — (Interjection) — Well, that's the problem, you see. We've got Manfor Forest Products that's taking a major drain. We've got the farming industry that has a major drain on it, and our taxpayers are carrying the heavy load of the burden of this province, as every other business person is, as every other wage employee. Here we sit before a committee that's going to continue to pour more money into an oil and gas company that is strictly speculative.

I, for the life of me, cannot see one positive thing that's going to flow from the Manitoba Oil and Gas Corporation. The proven reserves in the Daly Field, the private sector have developed, the Waskada field, as I understand it, is pretty well known, the perimeters of it. Certainly there's some wildcat drilling that could take place and anyone knows it could eventually show a field. But I'm wondering — I ask the Minister why continue to put money into it? Would we not be doing the taxpayers a favour by winding down Manitoba Oil and Gas Corporation?

I cannot see one positive dollar coming back to support the taxpayers of Manitoba. In fact, it's a further drain on them, Mr. Chairman. It's a further drain on

the taxpayers. There isn't a bright future for the Manitoba Oil and Gas Corporation. As long as the taxpayers are putting money into it, it itself doesn't have to pay any interest charges, yes, it may look like it's got a bright future. But I'm sorry, when you start charging those interest rates to the people of the Province of Manitoba, it's the people that aren't going to have the bright future. That's the problem.

I can't put the numbers together that shows that the Manitoba Oil and Gas Corporation has a bright future. In fact, it's very much the opposite. It's a dismal future that the Manitoba Oil and Gas Corporation and the investors, through the taxpayers, have in it.

MR. J. SADLER: I think the points raised by the member are all very valid and intrinsic in all of this is the economics in the industry. I think that we have tried to indicate in our annual report and in some of the statements that we have some of the lowest finding and development costs in Canada, here in Manitoba.

Our corporation has been fortunate in being able to find reserves at a very low cost, indeed, at under \$6 a barrel. But I think that it's very important that the members of the committee understand what the economics are and I'll try and do that as simply as possible.

We had talked about, say, \$16 a barrel. From that, there's \$1.50 of royalties comes off of that. Another \$6 of operating costs. Then we've got to pay for our exploration and development costs, which we've said, that's the investment that we've put in and we've got to get it back over the life of all those reserves. We've said it's under \$6 a barrel. So we take that off, \$6 a barrel. In very simple terms, we have costs charged there of about \$13.50 against oil that we're getting \$16 for. Now as long as we can find and develop oil for under \$6 a barrel, we believe it's worthwhile to do that. While it's a long pay-out, it's still economic to do that at a 15 percent hurdle rate and on a risk basis. We've got to get about a 90 percent success rate to do that.

We're being very, very selective and I would say this; that we have partners with us on every well; we've got private sector companies with us on every well. They look at their economics as well. They're not going to be investing in wells that they don't feel are going to be economic and get a return on. There's isn't one well that we don't have at least over 50 percent of outside money in, so they are looking at their economics as well.

These points the member has raised are all very valid. I feel badly in that you can't all be experts on the economics of the oil business, so you can understand it, and I apologize to the member that we haven't been able — through our reports and so on — to be able to provide the information so every member can see that. But I've tried to do it in a very simple format here.

MR. J. DOWNEY: Well, Mr. Chairman, if the president of the corporation wants to take some time, I would sure like to have him further explain the profitability of it. I've been a little bit involved in it and I've run into the same kind of a situation. I can't find any profitability or understand it, either. It's very much a tax program for a lot of investors and I'm sure that the private side is looking at that.

As a representative of taxpayers in the southwest corner of the province; as I read the books, we've got \$6 million invested to date. Interest on \$6 million at 10 percent is \$600,000 — \$600,000 over a year is what? — \$1,700 a day in interest. We're producing 55 barrels a day . . .

A MEMBER: 100.

MR. J. DOWNEY: Oh, we're down to 100 barrels — okay, I'm just going by the report. We're producing 100 barrels of oil a day; it's costing the taxpayers an unshown interest charge of \$1,700 a day. How much is that per barrel in interest that isn't being shown on the books? I mean, that's not a smart business proposition for a government to carry on with, and I ask the Minister, why is he doing it? What are the objectives of the Government of Manitoba to carry on with Manitoba Oil and Gas Corporation? Is it for the exploration; to further get a better handle on the costs of doing business in Manitoba?

Another question to the people who are responsible: are they using all Manitoba labour, all Manitoba service rates, all Manitoba drilling companies? Is it totally Manitoba-supported as far as their drilling operations, or are they using the red arrow rigs from outside of the province or other drilling companies from our provinces to the west, or are they strictly using Manitoba drilling corporations? I think it would be interesting for us to know what their policy is. Is it Manitoba first, or is it who will produce the best job and the best economic benefits for the people of Manitoba? Or is it the other way around: who from Manitoba gets the job, regardless of the cost, or what is their bidding program?

The Minister, I hope, would answer: what are some of the benefits that the taxpayers are going to get out of ManOil? I can't see them. I'm sorry, Mr. Chairman, the Minister hasn't done a very good job of explaining as to why we carry on and request another \$7 million. It's going to cost \$700,000 in interest to borrow from someplace and my colleague from Lakeside said one dollar out of every three now goes to pay for the carrying charges on the debt that we have in the province; and yet we're not doing anything to solve that or to help it; we're adding a further burden to it.

You can make all kinds of fancy reports you like in books about the future of ManOil, but it's the future of the people of Manitoba to carry the debt load that we're dealing with. I ask the Minister, what are we going to get out of it? What are we getting out of the \$7 million that we're going to spend to lose money in the production of oil in Manitoba this year?

HON. V. SCHROEDER: I don't know how often people have to explain to the member in terms of production of oil, without new exploration you're not losing money on a particular well, as the President has explained twice to Mr. Downey. He's explained it twice to you that we're not losing money on individual wells that are in production.

What he is suggesting is that we should just fold our tents and walk away. We are in a position — (Interjection) — well, you talk about interest rates. It has already been explained to members of this committee that this company is not unique in terms of

being equity financed. It is not unique. There are other companies out there and in fact it is probably the wise way to proceed in that kind of an operation. It is not a unique situation we have here, where one company somehow is doing things that are not done by others. Other companies are looking at the same investment and going ahead.

As indicated by the president, we're not doing it on our own; we have partners in on every hole we dig. If the member is saying that the private corporations — who are the operators — are stupid, they can't figure out that by finding more oil they are going to lose more money; I think he's underestimating the ability of those corporations and the others out there in the oil patch in Manitoba. He is simply misinterpreting what the president has said to the committee this morning.

I think in the long run, this corporation will provide a decent return on investment to Manitobans as we are now receiving from another investment, which I believe Tories opposed — Trout Lake; as we are receiving in other areas. I believe this corporation, which has begun on a very prudent basis to build its assets, will be successful.

It is obvious that we are now at a very low point in terms of world oil prices. I don't think there is anyone around this table who would believe that those prices will remain there for many years, and we have assets in place which the member never refers to. He continually talks about the money we've spent; he never refers to the assets the corporation has acquired. Those assets are worth a considerable amount of money. They have, I'm told, a fair market value — certainly of what we paid for them — and this is at the low point in terms of world oil prices.

Of course, his economics never take into account either, the point made by the Member for Portage earlier, that there are spin-offs; there are tax benefits when you are spending that money. The taxpayers of Manitoba get sales tax revenue, income tax revenue; all those other revenues from people who are doing that exploration. That calculation is not made by him either.

If you do those calculations, and if you have any belief in the future of this province and our resources, then you will have the confidence to invest and you will do it prudently. I believe that is precisely what we are doing.

MR. J. DOWNEY: Does the Minister of Energy and Mines support low world oil prices or high world oil prices?

HON. V. SCHROEDER: Whether I support low or high world oil prices is totally irrelevant to what those prices will be. I don't look at — (Interjection) — exactly. I am not "Ayatollah Getty;" or whoever. I do not set the prices.

MR. J. DOWNEY: Well, Mr. Chairman, it does, because today he's here representing a Manitoba Crown Corporation, owned by the taxpayers that want higher oil prices, so that his corporation, the investment can make money and he can look good. On the other hand, Mr. Chairman, he's hollering about the gasoline prices being high. What way does he want it, Mr. Chairman?

Tuesday, 8 July, 1986

Does he support low oil and gas prices, or does he support high ones, Mr. Chairman?

I did ask another question, and I'd like to finish it before . . . I would like them to indicate what their response would be on the hiring of Manitoba drilling rigs in the service industry, because I know that the service industry right now is very short of work and they're . . .

HON. V. SCHROEDER: Just before Mr. Sadler gets to that, as I say, we look at world oil prices and, unlike Mr. Downey, we recognize that we do live in the real world. We have a circumstance today where world oil prices have dropped very very dramatically. From that point between the refining and retailing of gasoline products, we firmly believe that price has not been reflected totally to the consumer. That is not only here. It's across this country. That is something that we believe is wrong, and we would like something done about that.

In terms of the price of oil, I think it was indicated — maybe it wasn't stated — but we're producing something like 1 percent of Canada's oil production, and Canada produces something like 3 percent of the world's oil production. So our 10 extra wells or 15 extra wells, I can assure honourable members, will not influence world prices. We expect though that those world prices will not remain as low as they are right now. That being the case, I think it only makes sense for us to husband our resources, make sure that we develop them wisely. I believe we're doing that.

Mr. Sadler wanted to answer specifically the question as to drilling rigs and Manitoba content.

MR. J. SADLER: We are not operating any wells as yet, but expect to this fall start to operate ourselves. Our operating partners, any time we've had an opportunity to discuss things with them with regard to procurement and so on, we try to encourage Manitoba suppliers and contractors, all things being equal in terms of quality and price and availability. It is my understanding that, with regard to the drilling contractors, to this point in time all of the wells that we participate in being 37 wells have all used Manitoba-based drilling contractors.

You may be interested in knowing that in the industry there's a multiplier of about two to three with regard to the number of people who are employed directly in the industry versus those of suppliers and contractors. So if we were to apply that to our situation, we have about 10 employees, so we might say that it would generate 20 or 30 additional jobs.

MR. H. ENNS: Mr. Chairman, just on another subject, our government mutters and mumbles from time to time to actively get into the retailing of gasoline to compete with our great national company, Petro Canada, as well as with Shell, Texaco, Gulf and others. I would like to ask the executive members of the Manitoba Oil and Gas Corporation, has this corporation been approached by the government to consider a program of getting into the retail selling of gasoline.

The government has never indicated just how they would start selling gasoline, other than perhaps at some of their public garages where they have pumps. It would

seem to be a natural, if we're going to have an Oil and Gas Corporation, Mr. Minister, and if you want to get into the business of retail selling of gasoline. Has this corporation been approached to undertake that responsibility?

HON. V. SCHROEDER: No.

MR. H. ENNS: Thank you, pass.

MR. CHAIRMAN: Mr. Findlay.

MR. G. FINDLAY: Just going back to the figures given out earlier, you said 13 wells last year were drilled. How many were drilled in total in Manitoba last year?

MR. J. SADLER: I believe it was 268, including stratigraphic tests for potash.

MR. G. FINDLAY: This year, you have 35 out of 77. Is the 77 probably the total that would be drilled in Manitoba this year?

MR. J. SADLER: I believe that 77 number might be completed as oil wells, but I think that in terms of wells drilled, it's over 100.

MR. G. FINDLAY: No matter what your figure is, your percentage of the total drilling has escalated tremendously. Which can we perceive, that you're driving out the private companies or that the private companies have better oil experts and they're able to predict the future better than ManOil?

MR. J. SADLER: I think it's several factors, one, we are just getting started. Most small oil companies start through acquisitions but we have, by policy, said that we want to act as a catalyst in finding new oil, and therefore are not going to do it through acquisitions. So it takes some time to get to the point where you can be drilling or participating in 30 or 40 wells a year.

On the other hand, industry, because of the low prices and the reduction in cash flow available from lower oil prices, have had to cut back drastically on the number of wells that they're drilling. It is going to affect us, because we're not doing anything 100 percent ourselves. So we have seen some indications where we have not been able to proceed on certain good prospects, because our partners are not able to proceed.

I'd have to say this though, that offsetting that, there have been others in which us joining with them has made the difference between something getting drilled and not drilled.

MR. G. FINDLAY: One last quick question, when you're in partnership with somebody in drilling, how is the risk shared? Is it the people of Manitoba taking all the risk, or is the company taking part of the risk?

MR. J. SADLER: We're endeavouring to be fair, but tough in a business sense. We have an objective in this corporation of getting a return on investment in due course similar or better to the rest of the industry. If we're going to do that, we can't be bearing all the

risk. We can't be giving things away. I think that, if you were to talk to the partners that we've worked with, I would hope that they would say that they're fair but tough businessmen.

MR. E. CONNERY: On a point of order, Mr. Chairman, the Minister used the words "scurrilous remarks." I went and investigated in Beauchesne, and those words

are unparliamentary. I would request that the Minister would withdraw those remarks.

HON. V. SCHROEDER: I don't recall using them, but if I did I will withdraw them.

MR. CHAIRMAN: Pass.
Committee rise.

COMMITTEE ROSE AT: 12:30 p.m.