



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

---

**STANDING COMMITTEE**

on

**ECONOMIC DEVELOPMENT**

---

36 Elizabeth II

---

*Chairman*  
*Mr. C. Santos*  
*Constituency of Burrows*



**VOL. XXXV No. 1 - 10:00 a.m., TUESDAY, 21 APRIL, 1987.**



**MANITOBA LEGISLATIVE ASSEMBLY**  
**Thirty-Third Legislature**

**Members, Constituencies and Political Affiliation**

NAME	CONSTITUENCY	PARTY
<b>ASHTON, Steve</b>	Thompson	NDP
<b>BAKER, Clarence</b>	Lac du Bonnet	NDP
<b>BIRT, Charles T.</b>	Fort Garry	PC
<b>BLAKE, David R. (Dave)</b>	Minnedosa	PC
<b>BROWN, Arnold</b>	Rhineland	PC
<b>BUCKLASCHUK, Hon. John M.</b>	Gimli	NDP
<b>CARSTAIRS, Sharon</b>	River Heights	LIBERAL
<b>CONNERY, Edward J.</b>	Portage la Prairie	PC
<b>COWAN, Hon. Jay</b>	Churchill	NDP
<b>CUMMINGS, J. Glen</b>	Ste. Rose	PC
<b>DERKACH, Len</b>	Roblin-Russell	PC
<b>DESJARDINS, Hon. Laurent L.</b>	St. Boniface	NDP
<b>DOER, Hon. Gary</b>	Concordia	NDP
<b>DOLIN, Marty</b>	Kildonan	NDP
<b>DOWNEY, James E.</b>	Arthur	PC
<b>DRIEDGER, Albert</b>	Emerson	PC
<b>DUCHARME, Gerry</b>	Riel	PC
<b>ENNS, Harry J.</b>	Lakeside	PC
<b>ERNST, Jim</b>	Charleswood	PC
<b>EVANS, Hon. Leonard S.</b>	Brandon East	NDP
<b>FILMON, Gary</b>	Tuxedo	PC
<b>FINDLAY, Glen M.</b>	Virden	PC
<b>HAMMOND, Gerrie</b>	Kirkfield Park	PC
<b>HARAPIAK, Hon. Harry M.</b>	The Pas	NDP
<b>HARAPIAK, Hon. Leonard E.</b>	Swan River	NDP
<b>HARPER, Hon. Elijah</b>	Rupertsland	NDP
<b>HEMPHILL, Hon. Maureen</b>	Logan	NDP
<b>JOHNSTON, J. Frank</b>	Sturgeon Creek	PC
<b>KOSTYRA, Hon. Eugene</b>	Seven Oaks	NDP
<b>KOVNATS, Abe</b>	Niakwa	PC
<b>LECUYER, Hon. Gérard</b>	Radisson	NDP
<b>MACKLING, Q.C., Hon. Al</b>	St. James	NDP
<b>MALOWAY, Jim</b>	Elmwood	NDP
<b>MANNES, Clayton</b>	Morris	PC
<b>McCRAE, James C.</b>	Brandon West	PC
<b>MERCIER, Q.C., G.M.J. (Gerry)</b>	St. Norbert	PC
<b>MITCHELSON, Bonnie</b>	River East	PC
<b>NORDMAN, Rurik (Ric)</b>	Assiniboia	PC
<b>OLESON, Charlotte L.</b>	Gladstone	PC
<b>ORCHARD, Donald W.</b>	Pembina	PC
<b>PANKRATZ, Helmut</b>	La Verendrye	PC
<b>PARASIUK, Hon. Wilson</b>	Transcona	NDP
<b>PAWLEY, Q.C., Hon. Howard R.</b>	Selkirk	NDP
<b>PENNER, Q.C., Hon. Roland</b>	Fort Rouge	NDP
<b>PHILLIPS, Hon. Myrna A.</b>	Wolseley	NDP
<b>PLOHMAN, Hon. John</b>	Dauphin	NDP
<b>ROCAN, C. Denis</b>	Turtle Mountain	PC
<b>ROCH, Gilles (Gil)</b>	Springfield	PC
<b>SANTOS, Conrad</b>	Burrows	NDP
<b>SCHROEDER, Q.C., Hon. Victor</b>	Rossmere	NDP
<b>SCOTT, Don</b>	Inkster	NDP
<b>SMITH, Harvey</b>	Ellice	NDP
<b>SMITH, Hon. Muriel</b>	Osborne	NDP
<b>STORIE, Hon. Jerry T.</b>	Flin Flon	NDP
<b>URUSKI, Hon. Bill</b>	Interlake	NDP
<b>WALDING, D. James</b>	St. Vital	NDP
<b>WASYLYCIA-LEIS, Hon. Judy</b>	St. Johns	NDP

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

**Tuesday, 21 April, 1987**

**TIME — 10:00 a.m.**

**LOCATION — Winnipeg, Manitoba**

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

**ATTENDANCE — QUORUM - 6**

*Members of the Committee present:*

Hon. Messrs. Evans, Mackling, Storie

Messrs. Connery, Derkach, Dolin, Downey,  
Enns, Maloway, Santos, Scott

**APPEARING:** Hon. W. Parasiuk, Minister of Energy  
and Mines

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

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

Mr. Robert M. Silver, Chairperson, Manitoba  
Oil and Gas Corporation

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

**MATTERS UNDER DISCUSSION:**

Annual Report of the Manitoba Mineral  
Resources Ltd. for the year ended December  
31, 1986

Annual Report of the Manitoba Oil and Gas  
Corporation for the year ended December 31,  
1986

\* \* \* \*

**ANNUAL REPORT OF THE  
MANITOBA MINERAL RESOURCES LTD.**

**MR. CHAIRMAN:** The Standing Committee on  
Economic Development, please come to order. We are  
to consider, as the first item on our agenda, the report  
of the Manitoba Mineral Resources Ltd.  
The Honourable Minister.

**HON. W. PARASIUK:** Mr. Chairman, just to clarify some  
housekeeping, there are photocopies of the Annual  
Report for the Manitoba Oil and Gas Corporation which  
are on the Clerk's desk just behind us here. The copies  
are being printed over the course of the next week,  
two or three weeks, depending upon how the printer  
works out. We've taken the copies and brought them  
here, as I had discussed with the critic for the  
Conservative Party. We have made the photocopies  
available this morning. I am sorry that they weren't  
available on Thursday or Friday, but the printer brought  
the material to us late last night and we brought them  
here this morning.

The intent would be to start with the Manitoba Mineral  
Resources Ltd., and if time permits, then to move into  
the Manitoba Oil and Gas Corporation.

Given that, I would now like to ask Mr. Brockington,  
the Chairman of the Board of Manitoba Mineral  
Resources Ltd. to present a statement to the members.  
Would you have copies of the statement for distribution?

**MR. CHAIRMAN:** Mr. Brockington.

**MR. P. BROCKINGTON:** Mr. Chairman and members  
of the committee, the report before you today covers  
the activities for the year ended December 31, 1986.

In reporting to this committee last year, I stated that  
Manitoba Mineral Resources was projecting to break  
even in 1986. I am pleased to say that the company  
achieved a net income of \$1 million which compares  
with a net loss of \$533,000 for the previous year. This  
represents the first year in which the corporation has  
reported a net income in excess of its exploration  
expenditures.

The 27 percent interest in the Trout Lake mine  
continues to be the major source of revenue and  
income. Income from this operation was \$3.8 million  
last year. Exploration expenditures remained at a  
historically high level of \$2.8 million. The excess of  
Trout Lake income over exploration expenditures  
resulted in the previously mentioned net income of 1  
million.

The Trout Lake Mine benefited from greater tonnage  
mined which resulted in increased output of copper,  
zinc and gold. Metal prices relative to 1985 were not  
too helpful, with zinc showing a 1.6 cent per pound  
improvement and gold up by \$83 per ounce, but both  
copper and silver provided lower realizations. Of more  
importance were the gains on the cost side with cash  
operating costs per tonne having declined from \$32.96  
per tonne in 1985 to \$28.01 per tonne in 1986. This  
reduction, in the main, emanates from the use of larger  
haulage equipment in the mine.

Underground exploration continued to maintain the  
ore reserve base at 1,236,000 tonnes which is only  
down 14,000 tonnes from the previous year. At current  
increased mining rates, some 17 percent higher than  
1986, this indicates a mine life of some six years. The  
history of the Flin Flon camp, in terms of depth to which  
the ore extends, would suggest that there is additional  
potential to develop further reserves which will serve  
to provide for continued operation of Trout Lake into  
the mid-1990's. The Trout Lake mine is second only  
in size to the Flin Flon deposit in the Flin Flon-Snow  
Lake area.

The four owners of the Trout Lake mine have made  
a major decision to proceed with development of a  
shaft at a cost of \$17 million. This will enhance the  
economic viability of mining ore that is developed at  
deeper levels where the present truck haulage system  
would become increasingly expensive and impractical.  
All the required board approvals have been obtained.

The project is now under way and will be completed by 1990. Manitoba Mineral Resources is financing its share of this expenditure from operating cash flow.

Combined partner and Manitoba Mineral exploration expenditures were the highest in the corporation's history at \$4.9 million which was expended on 58 projects. Some 46 percent of these expenses were met by joint venture partners versus 35 percent in 1985.

On the exploration front, the Lynn Lake region continued to be the major focus for activity. In particular, this centred on the Farley Lake gold discovery which was outlined to the committee last year. This project is a joint venture with Farley Lake Gold Inc., a subsidiary of Inspiration Resources. Work over the last 12 months has enabled a geological reserve to be established which stands at 1.2 million tonnes, in the proven and probable category, averaging 0.186 ounces of gold per ton. Work is continuing to develop additional reserves and upgrade reserves in the probable category. In addition, further engineering and metallurgical studies will be undertaken this year. Work done to date is considered encouraging and it is the intent of the joint venture, which is managed by Manitoba Mineral Resources, to pursue the economic viability of developing this gold deposit as an operating mine and be in a position to consider a production decision in 1988.

Other exploration results of interest over the last year relate to Wellmet Lake, 35 miles north of Leaf Rapids. This is a joint venture, managed by Sherritt-Gordon Mines, which to date has two holes with copper-zinc mineralization with significant gold and silver values. Further drilling is needed to evaluate the potential of this property. At Snow Lake, a joint venture managed by Hudson Bay Exploration and Development intersected a zinc zone that will receive further drilling in the current year.

In summary, Manitoba Mineral Resources is now in a position where the level of cash flow from the Trout Lake operation can meet the planned exploration expenditures of the corporation and finance the Trout Lake shaft. Positive net income is once again forecast for 1987. The specific level of profitability is primarily a function of the level of exploration activity.

Mr. Chairman, this concludes my opening remarks. Questions from the committee are welcome.

**MR. CHAIRMAN:** Are there any questions from members of the committee?

The Honourable Member for Lakeside.

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

Mr. Chairman, we welcome the fact that Manitoba Mineral Resources has earned revenue during this last year, as the report indicates, pretty well exclusively as a result of its operations with Trout Lake. I was interested in the projections for that venture, inasmuch as that that seems very much to be the current basis on which Manitoba Mineral Resources has any realistic hopes of continuous activity.

Now on page 2 of your report, Mr. Chairman, you indicate that at the present increased rate of mining, that the mine has a life span of some six years and you go on to indicate that you are doing further work to extend that life. Perhaps just a little filling out of

what is the projected future of the mine at Trout Lake. Our share of the 17 million would be, in terms of our percentage interest of the venture . . .

**MR. P. BROCKINGTON:** That's correct.

**MR. H. ENNS:** But I would ask the chairman to give us some further indication about what the realistic chances are of extending the life line of Trout Lake beyond six years?

**MR. P. BROCKINGTON:** I'd like to make a few comments and have the president add maybe a few remarks in addition to myself.

Mr. Enns, over the last two years, we've managed to maintain the reserves exactly at the same level - in essence 1.2 million tonnes - which means that on an annual basis, we've managed to replace the reserves that we have mined.

Over the last year, yes, we have had some other exploration encouragement. The difficulty in an operation such as this is that when you're drilling and proving up reserves at depth, there is a great expense involved and it becomes increasingly difficult. But as you get the development in place, you can then enter into an exploration program from the underground openings that will give you a higher level of confidence and prove up the necessary reserves.

We do have certain drill holes in this deposit that already indicate mineralization, but it hasn't proven up the reserves to put them in a proven and probable category. As I also indicated, the mineralization in this camp, in the Flin Flon camp, in general goes to considerable depths and we have here what is the second-largest deposit that has been found over the many years of operating in this region.

We, together with the other partners in this project, remain very optimistic that as we go on and we mine additional reserves, we will be adding to the reserves in future years; the ultimate potential, though, can only be proven over time. Beyond that, I would say that, of course, a major factor in economics of any base metal deposit such as this is, of course, the pricing of the commodities.

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

**MR. C. WRIGHT:** Perhaps one indication of how we got the longer term future of Trout Lake can be viewed by going backwards in history a little bit. When we first started Trout Lake, we had 2.8 million tonnes of reserves; that's 100 percent full joint venture. Today, between what is mined and what is in proven reserves, is a combined total of 6.5 million, so there's been more than a twofold increase in reserves since we first started.

The reserves which are on the books now are down to 1,000 feet. We have indications of economic grade mineralization through deep drill holes down to 2,000 feet now. Also, in the Flin Flon camp, the bigger deposits have gone down to a depth of 4,000 feet, so I think the up side is very good.

**MR. H. ENNS:** Thank you, Mr. President and Mr. Chairman.

Further down on the same page, you would also seem to indicate that our interest in the Farley Lake Gold

Tuesday, 21 April, 1987

group is another reasonably promising future. What is our share; what is our interest in the Farley Lake Gold Inc.?

**MR. P. BROCKINGTON:** 55 percent.

**MR. H. ENNS:** I would like to try to just get at the global figures here. As encouraging as this may be, where do we stand now in the year ending '85 with respect to the monies, the funding that the company has received from government? In your Annual Report, indicating your total loan authorization of some \$15 million, the \$15.5 million amount used to purchase shares, \$7.4 million to date, I take it to the end of the year '85; does that indicate the total capitalization so far in the venture?

**MR. C. WRIGHT:** That's the total capitalization since this method of funding of purchasing shares of Manitoba Mineral was started. There was an additional \$8.2 million by way of conditional grants prior to that. So the total infusion is the 7.4 plus the 8.2.

**MR. H. ENNS:** So in total we, the shareholders of Manitoba, have some \$15.6 million in the Manitoba Mineral Resources Corporation, is that correct?

**MR. C. WRIGHT:** Yes.

**MR. H. ENNS:** I know this may not be, and I should perhaps be able to find it out in the accounting, but putting it in understandable layman's terms, what has Manitoba Mineral Resources returned to their shareholders for that \$15.6 million? I'm asking for a global figure, obviously.

**MR. C. WRIGHT:** Well, there has been no dividends paid to the shareholders. The money has been ploughed back into exploration. If we'd have ceased exploration operations three or four years ago, we wouldn't have been \$15 million down and all of the money would have been returned.

**MR. H. ENNS:** That accounts for your comment at the conclusion of the chairman's remarks, "profitability is primarily a function of the level of exploration activity." What you're telling me is the monies earned are, as you say, ploughed back into exploration and the amount of exploration that will be undertaken by Manitoba Mineral Resources will depend on the cash flow position of the corporation, is that correct?

**MR. C. WRIGHT:** That's correct, but we haven't addressed the whole issue because if we were to wind-up Manitoba Mineral Resources today, the value of our share in Trout Lake is worth somewhere between \$15 million and \$20 million. I'm not too sure what our value of Farley Lake would be, but it would be a significant number.

**MR. CHAIRMAN:** The Member for Arthur.

**MR. J. DOWNEY:** Mr. Chairman, I'm unable to pick it out of the report, but I just would like to know: What is the accumulated deficit over the last, say five years,

or the period of time that we're talking about here in The Loan Act of 1982 - was that the beginning of the new method of financing or was the 8.2 in prior to that? What are the accumulated deficits of the MMR?

**MR. C. WRIGHT:** The accumulated deficit, as shown on Exhibit A on the Balance Sheet, is \$1.5 million to the end of 1986. That is based upon since the new method of financing.

**MR. J. DOWNEY:** And that is prior to the . . .

**MR. C. WRIGHT:** . . . that's after the 8.2.

**MR. J. DOWNEY:** That is after the 8.2, but that is with the \$1 million deducted from it that shows as a profit this year?

**MR. C. WRIGHT:** Yes.

**MR. J. DOWNEY:** So that you're showing the total operations of \$1.5 million accumulated deficit, with the \$1 million taken off that was shown as a profit for this year?

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

**MR. J. DOWNEY:** Most of the questions falling on the amount of money the taxpayers have were asked by my colleague from Lakeside. The question of the \$17 million invested by the - there are, am I correct - three other participants in that decision?

**MR. C. WRIGHT:** Yes.

**MR. J. DOWNEY:** I understand that the \$1 million of the money that is generated and shown as a profit this year, there is no attempt nor are there any plans in the future to pay a dividend to the shareholders? Is there any plan to do that or is it going to be continually put back into the business of development and exploration?

**MR. C. WRIGHT:** This would depend upon the shareholder. Certain capital expenditures are required. We've noted the one at Trout Lake and we'll be facing a decision in 1988 on whether or not to make a capital investment in Farley Lake. If the shareholder wants to take out the profit by way of dividend, then we have to search out other means of raising that capital.

**MR. CHAIRMAN:** The Member for Kildonan.

**MR. M. DOLIN:** I'm just wondering when you were talking about the value, what would be the break-up value? Do you have any idea, if you ceased operations today at Farley Lake, Trout Lake, and the other interests that the company has?

**MR. C. WRIGHT:** I'd have to give you a pretty broad range, but I would think somewhere between \$15 million and \$25 million.

**MR. M. DOLIN:** So in other words, if you ceased operation all debts would be paid and there would be an estimated profit, if you ceased operation today?

Tuesday, 21 April, 1987

**MR. C. WRIGHT:** Yes.

**MR. CHAIRMAN:** The Member for Portage la Prairie.

**MR. E. CONNERY:** Is there any Jobs Funds money invested in here at all?

**MR. C. WRIGHT:** No.

**MR. E. CONNERY:** Are there any other ventures being undertaken that aren't in the report?

**MR. C. WRIGHT:** We mentioned in the report, there are 58 exploration projects. That's the total sum of them and we're always on the lookout for other ones.

**MR. E. CONNERY:** Last year in this committee, I asked what the percentage of Native employment was and they didn't have the information and they were going to get me the information. I didn't get the information. Do we know now what percentage of Native people are employed in Trout Lake?

**MR. C. WRIGHT:** A letter was sent to the Acting Minister last year. Mr. Schroeder was sent the letter. I could send you a Xerox copy of it if you wish. I don't have the number right now, but the letter was sent a year ago.

**MR. E. CONNERY:** Are there a significant number of Native people employed there?

**MR. C. WRIGHT:** I don't recall the number right now. I think it's in the magnitude of five or ten percent.

**MR. E. CONNERY:** We had a large program to employ Native people at the Limestone Generating Plant. It seemed to be the thing to do, and I agree. Is there any program to train and hire Native people in the mining industry?

**MR. C. WRIGHT:** Hudson Bay has a program in effect and they are the operator of this particular mine so they do all of the hiring.

**MR. E. CONNERY:** At Limestone, of course it's all private people who are up there too, but they're encouraged and there are even quotas that they have to hire. So, is there not an intent to hire as many Native people out of the North as possible?

**HON. W. PARASIUK:** I can appreciate the line of questioning of the Member for Portage. What you have taking place in Northern Manitoba right now is a significant contraction in the work force in the mining industry as mines are going through attempts at improvements in productivity. What you're having is a downsizing of the work force and it's been very difficult, in existing operations, to talk about major new projects with respect to training when you're having a lot of people being laid off but no new openings becoming available.

In instances where a new mine is coming on stream - and there's one at Puffy Lake - my department is sitting down with the company and with the Community

of Sherridon and other communities in that area to talk about possible training programs to ensure that more local people would have access to the new jobs that become available with respect to a new development.

**MR. E. CONNERY:** In our revenue in 1986-87, it was projected that the mining tax revenue would be \$35.6 million. This year, for '87-88, it is projected to be \$7 million. Why is there such a drastic drop in the mining tax revenue?

**HON. W. PARASIUK:** You're talking about my Department of Mines Estimates, not Manitoba Mineral Resources Ltd., and I would be quite happy to deal with that in my Estimates. I don't have the material here with me.

It may turn out that last year there could have been an adjustment based on audits of previous years' tax filings of companies, but I'll check that and certainly be ready to deal with the member's questions in Estimates.

**MR. CHAIRMAN:** The Member for Inkster.

**MR. D. SCOTT:** Yes, I was picking up on one of the gentleman's comments of the firm being worth - I believe your figure is between \$15 million and \$20 million, or was it \$15 million and \$25 million?

**MR. P. BROCKINGTON:** \$15 million to \$25 million.

**MR. D. SCOTT:** \$15 million to \$25 million. That is the total value, or is that just the value of our participation in the shares in joint ventures? Does that represent the total value of the . . .

**MR. P. BROCKINGTON:** That represents Manitoba's minerals interests in all the ventures with which we're involved. But I would like to state that that is an extremely rough estimate. We have a specific estimate that is a lot closer with regards to the Trout Lake operation, which is our main source of cash flow and that one, as the president indicated, is worth itself, between 15 and 20.

Specifically, with regard to Farley Lake, which looks to be the other major asset that we're looking at developing, that one, though it's premature to put a specific value on it at this stage, where we're still in the middle of a very large exploration program in conjunction with our joint venture partners.

**MR. D. SCOTT:** Our 27 percent share in Trout Lake, you're saying, would be valued currently at a rough guesstimate, between \$15 million and \$25 million.

**MR. P. BROCKINGTON:** Fifteen and 20 on Trout Lake itself. At today's commodity prices, given the reserve base as we see it today.

**MR. M. DOLIN:** Just following up on that, I don't see any projections for next year. The price of gold last year was running 380-400 and silver was about five bucks, which is now up to around seven something. Projecting, let's say, a 20 percent increase in the value

Tuesday, 21 April, 1987

of silver and gold, let's say a 5 percent or 10 percent increase, what would your projections be, given a consistent level of production?

**MR. P. BROCKINGTON:** Maybe I can . . .

**MR. M. DOLIN:** I understand zinc is up, too, by the way.

**MR. P. BROCKINGTON:** Okay. Well, zinc I can't give you such good news on. Certainly silver in the last few weeks has been a strong precious metal.

Of primary importance though for this particular deposit are copper and gold. Copper is a commodity that's been very depressed over the last few years and producers around the world are having to contend with this problem.

To give you some idea, our average net realized price last year was 83 cents per pound. If, for example, we realized \$1 a pound, that would add \$1 million of cash flow to last year.

**MR. M. DOLIN:** That's in copper.

**MR. P. BROCKINGTON:** That's copper. So a 17 cent improvement would have added \$1 million.

If the gold price were to improve by \$50 an ounce, which is roughly a 10 percent improvement - a round figure - that would add about \$260,000 predicated on last year's production.

**MR. M. DOLIN:** What about silver?

**MR. P. BROCKINGTON:** Silver is small and I haven't got a figure right in front of me.

**MR. CHAIRMAN:** The Member for Kildonan.

May I ask the members of the committee to give time for the recorder.

**MR. M. DOLIN:** Okay, Mr. Chairman.

I'd just like to follow up on that. We're assuming then, metal prices have increased. Given similar production rates, there will be increased profits next year, projected. Am I correct in interpreting what you said in that way?

**MR. P. BROCKINGTON:** No. I think what we've said about, well, next year is the current year which we're facing at this point in time. At the moment we're forecasting a positive net income but we have to also look at this in conjunction with our level of exploration expenditures and, in particular, Farley Lake, which is incurring the bulk of our own exploration expenditures. So, I would not want to say that it will be higher than last year - the net income - but it will be positive.

**MR. M. DOLIN:** On Farley Lake, when is Farley Lake projected, if at all - would you have any ball-park idea - to go into production?

**MR. P. BROCKINGTON:** We hope to have enough information to evaluate this project in detail over the next 12 months. Assuming that the results are positive, we're hoping and looking for a situation that could be a stand-alone operation. By a stand alone operation

we mean one that would have its own infrastructure and milling facilities. This is all subject to detailed evaluation, feasibilities, rates of return, and economics. Specifically from that one would also develop the scale of the operation so that one was optimizing returns.

This will be looked at in depth. If we reached a positive decision, I believe we could be looking at making a decision to proceed with that project sometime in 1988.

**MR. M. DOLIN:** What would the production costs per ounce of gold, given the proven rate of .212 ounce per tonne be, approximately?

**MR. P. BROCKINGTON:** I think it's premature to get into discussing specific production costs, but I might add that what we're looking at at this moment in time is a situation that can be developed via an open pit. An open pit type of operation, relative to a large underground development, is less costly both from an initial capital standpoint, usually, and also from an operating cost standpoint, your unit production costs per tonne are lower. You don't have to incur, for example, the similar expenses to those that we're incurring at Trout Lake, where we're talking of \$17 million to sink the shaft to deeper levels.

**MR. M. DOLIN:** A final question.

Do you have any target dates on the other two explorations, Wellmet Lake and Snow Lake yet, when we would have some idea on resources?

**MR. P. BROCKINGTON:** I'll refer that to the president.

**MR. C. WRIGHT:** Those are just very premature at the moment, to come up with any dates.

**MR. M. DOLIN:** Thank you, Mr. Chairman.

**MR. E. CONNERY:** Just out of curiosity, why, in '85 we had an Exhibit B that was Statement of Exploration Expenditures and it's not in the '86 statement? Is there a reason for that?

**MR. C. WRIGHT:** We tried to combine it all on one page, so that instead of having to look at Trout Lake by itself and then exploration by itself, and take the difference and get at the net income, it all shows on Exhibit B. The same information that was on the two exhibits before is now on one.

**MR. E. CONNERY:** Thank you.

**MR. H. ENNS:** On your Schedule 1, General Administration, it would appear that there have been no fundamental changes structurally to the corporation. I note a somewhat increased item for salaries and wages. Any specific explanation for that, some additional staff, or just increases?

**MR. C. WRIGHT:** There's a combination of reasons for that. The main one is the vice-president spent much more time on administration this year than he did last year. Last year, a greater percentage of his time was charged out to projects. We also had a reclassification in that a secretary became an office manager. Then there were some normal salary increases as well.

**MR. H. ENNS:** Again, just for interest here, what is the total staff complement of Manitoba Mineral Resources Ltd.?

**MR. C. WRIGHT:** Fourteen.

**MR. H. ENNS:** And that is virtually unchanged?

**MR. C. WRIGHT:** It is the same.

**MR. H. ENNS:** Mr. Chairman, I have no further questions. I hope the corporation keeps mining for and on behalf of the people of Manitoba.

**MR. J. DOWNEY:** Mr. Chairman, I have one question.

Have there been any overtures made, or are Manitoba Mineral Resources involved in any way in discussions with the potash mine in western Manitoba, to participate or to be involved in any way?

**HON. W. PARASIUK:** Yes, we have had Mr. Wright involved in the technical work. The consortium development is still under way, so that at this particular stage MMR has not been asked one way or the other to be involved in the consortium. But Mr. Wright, because of his skills and experience in the whole mining field, is involved, and I believe has a position on the Manitoba Potash Corporation board. I believe that you are one of the board members, but you could elucidate on that.

**MR. J. DOWNEY:** Just so I'm clear, Mr. Chairman, the MMR at this point are not involved financially, other than participation by staff and the technical workers. Am I clear on that?

**HON. W. PARASIUK:** Yes, that's correct.

**MR. J. DOWNEY:** Is there any intention on the government's part to have MMR involved in a more substantial way through financial participation?

**HON. W. PARASIUK:** That would depend on how the consortium develops. It may turn out that the approach would be to have the shares held by the Department of Finance, or it could be that the shares could be held by Manitoba Mineral Resources Ltd. That decision has not been made yet.

**MR. J. DOWNEY:** But it is one of the alternatives that the government is currently looking at as far as the development of the potash mine is concerned, with participation by government through MMR. Is that correct?

**HON. W. PARASIUK:** It is an option that exists. At this particular stage, we have not looked in-depth at that option.

**MR. E. CONNERY:** Just out of curiosity, that \$8.2 million, or whatever it was in grants, what percentage, if there was federal money - was there federal money, first of all, or total provincial?

**MR. C. WRIGHT:** Not to my knowledge. It was totally provincial.

**MR. E. CONNERY:** Thank you.

**MR. CHAIRMAN:** Are the members ready to approve the report? (Agreed) The report is approved.  
The Honourable Minister.

**HON. W. PARASIUK:** I'd just like to conclude that, because I didn't say this at the beginning, I think that the staff of the Manitoba Mineral Resources Ltd. are to be congratulated for persevering. I think that Mr. Wright has said in the past to this committee that miners have to be optimists. We have gone through some difficult times in the mining industry -(Interjection)- That's true, and I hope that even Conservatives, who occasionally have been known as being pessimists, are also becoming optimists as well.

I believe that they have done a very good job over the years of persevering in bold and prudent ways, because I think that MMR is, in fact, going to do well over the next few years. That's because of a dedicated staff working very hard through difficult time, so I congratulate them.

## MANITOBA OIL AND GAS CORPORATION

**MR. CHAIRMAN:** It has been the practice in the past, and in accordance with existing applicable statute, that the Annual Report of the Manitoba Oil and Gas Corporation be first tabled in the House before it can be referred to and considered by the Committee on Economic Development.

Therefore, it is essential that if we are to consider it, we give unanimous consent to be able to properly consider this report. Does the committee wish to proceed, by unanimous consent? (Agreed)

The Honourable Minister.

**HON. W. PARASIUK:** I would now like to call to the front, Mr. Silver, the Chairman of the Manitoba Oil and Gas Corporation; and Mr. Sadler, the President; and other staff who could come and sit in the back there, right behind the two gentlemen, and we could proceed with the Manitoba Oil and Gas Corporation report.

I certainly would like to thank all members of the committee for allowing this expeditious review of the annual report. I had hoped to have the Xerox copies available for tabling in the Legislature on Thursday, but the printer was delayed and I have it here now.

**MR. CHAIRMAN:** We shall start with an opening statement from the Honourable Minister responsible.  
The Honourable Minister.

**HON. W. PARASIUK:** I have some notes for a statement that I can have distributed while I read them. I wanted to take a few minutes to establish a context, and that's the industry situation and the impact on the corporation.

1986 prices for crude oil averaged about half of what they were in 1985, and this has had a serious effect on the Canadian petroleum industry and, in particular, the drillers and contractors servicing the industry. It has severely eroded government revenues, particularly in Alberta and in other western provinces.

Our government has responded, along with other producing provinces and the Federal Government, to



make some adjustments in the fiscal regime of the industry designed to dampen the impact on the service sector and keep it alive during the downturn.

The approach that we are taking is that we would like to try and smooth out the booms and the busts in the oil industry, which has been characterized by boom and bust cycles, and try and have some steady development over a period of time which allows the service sector to develop in a better way in Manitoba.

Otherwise if you have a boom for a few years and then a bust, the service industry tends then to be located in Alberta or Saskatchewan where there is a critical mass and they just come back and forth. Our attempt is to try and build up some longevity to the service industry.

Manitoba Oil and Gas Corporation has been affected by these events as a member of the industry in which it operates. While it has not had to take breakdowns as many companies in the industry have, it has still been a difficult period.

Potential joint venture partners have cut back their activities and the cash flow expected to be generated from the corporation's modest but growing production base has been drastically reduced. But this government does have a commitment to the corporation's future. Prices in recent months have been averaging over \$20 Canadian a barrel, which along with Manitoba's new royalty regime, make it economic to drill lower-risk wells.

Many of the smaller industry operators, however, are short of cash or new investment equity to invest, whereas the larger mature companies are continuing to explore, albeit at a reduced rate.

Provided Manitoba Oil and Gas can economically justify individual projects - for example, those with a 15 percent return on a risk basis - we are prepared to continue to provide equity funds. For every dollar invested by Manitobans into Manitoba Oil and Gas Corporation, the corporation endeavours to bring in a dollar or two from other investors into the joint venture wells, so this actually is a way of leveraging exploration money into Manitoba.

While the rate of activity for 1986 was less than half for 1985, due to the maturing of the Waskada Development and low prices, the efforts of Manitoba Oil and Gas have and will continue to provide a substantial contribution in maintaining this activity.

The corporation, I gather, will participate in the drilling of approximately 25 wells this year with the corporation's interesting being approximately 12 net wells. If industry activity remains low, this could amount to as much as 50 percent of overall activity in the province. Although I've had discussions with people in the oil industry and there is a possibility we could end up with oil drilling that could exceed 50 wells, at the same time we must remember that there is some uncertainty with respect to oil exploration and oil development, not only in this province but right across the country as a whole. But I'm confident that because of the low cost of drilling for oil in Manitoba that we will always have a play taking place here in the province.

The difficulty is, it will probably be activity undertaken by the smaller companies, in that more of the larger companies have large overheads, high overheads, and they tend to be looking for the big elephants. As a consequence, they tend to be fairly footloose. This does not just hold true for Manitoba, it holds true as well for Saskatchewan and Alberta.

A lot of firms that have undertaken a lot of activity in those other provinces have also undertaken activity off Australia, in the North Sea, in the South China Sea and other places like that. But the smaller companies, and we have a few in Manitoba now, I think are getting their feet wet and I expect that over the longer run we will have the nucleus of an indigenous industry here.

I'd now like to call on Mr. Silver to make a presentation as chairman of the board.

**MR. CHAIRMAN:** Mr. Silver.

**MR. R. SILVER:** Thank you, Mr. Minister. Mr. Chairman, I am pleased to present to the committee the corporation's 1986 Annual Report.

While it was a difficult year for the industry and the corporation, as just mentioned by the Minister, considerable progress was made by the corporation toward achieving its longer-term objectives.

During the year under review the corporation doubled its revenues and saw fourfold increase in production from the previous year; participated in the drilling of 28 tests and 23 were completed wells for a success rate of over 80 percent. The corporation's net interest in these wells averages 57 percent. This, along with prior years' activities, resulted in the establishment of just over one million barrels of reserves.

As well, the corporation increased its holding of mineral rights to just under 33 thousand net acres which provides a reasonably adequate base for future exploration and development activities.

The corporation continued to hold a 10 percent interest in Waskada-Cromer pipeline, which performed pretty much on target for the year.

Most of the drilling activity took place prior to break up and prior to the low prices being reached. The corporation established a field operations office in Virden in the fall of last year which permits it to contract for drilling its own wells and operate wells.

While most of the activity undertaken can be characterized as low-risk development or step-out drilling, the corporation is actively pursuing prospective production from the Bakken formation, which is slightly deeper than the Lodgepole formation from which the Virden and Daly fields produce. Some encouraging but modest results have been achieved to date.

The funding for continued activity is in the form of equity capital and, of the \$20 million authorized share capital, the corporation has issued 100,000 shares to the Minister of Finance for \$10 million. At December 31, 1986, the corporation had drawn a total of \$7.4 million proceeds to finance its operations.

Mr. Chairman, I'd like to take the opportunity to introduce the members of staff who are assisting myself and Mr. Sadler today. We have, sitting behind us, Lynda Vall, who is the Corporate Land Manager, Ken Neufeld, Corporate Controller, and Derek Longfield, who is Resource Development Manager.

**MR. CHAIRMAN:** Any questions from the committee? The Member for Lakeside.

**MR. H. ENNS:** Well, Mr. Chairman, I note the Minister has briefly left the committee. I want to . . .

**MR. CHAIRMAN:** No references to that.

**MR. H. ENNS:** . . . state very clearly that my remarks are certainly not directed in any way at the principals involved at ManOil. I have every respect for the President, Mr. Sadler, and his staff, whom I've had occasion to know on a little closer basis.

I suppose the difficulty the Opposition has can best be surmised in the reading of a short passage from the Chairman's message in his draft Annual Report, establishing, and I quote, "In establishing the corporation, part of the government's expectations for the company were to act as a catalyst in the development of Manitoban petroleum resources and to provide a vehicle for stabilizing oil and gas exploration and development activities in the province during the downturns of the industry."

Mr. Chairman, I buy the role that Manitoba Oil can play and does play, as a window on the industry, as an encouragement to exploration, as an assistance, particularly to some of the smaller firms that we have in our relatively small oil industry, but you will forgive me and you have to understand that that is not the reason why there is a ManOil in Manitoba. The reason why ManOil is in Manitoba is because you were going to build hospital beds, you were going to pave my road, you were going to reduce my income taxes, you were going to do a host of all these things that were promised by the Government of the Day at the introduction of ManOil.

We are finding out, that is my difficulty. I don't take an issue whether it is the corporation that we just studied a little while ago - Manitoba Mineral Resources - fine. But they have not returned a single cent to the taxpayers. In fact, it can be said they are helping to close hospital beds, they are helping to increase university tuition.

**A MEMBER:** That's not true.

**MR. H. ENNS:** Well, it certainly can be said. How much interest has ManOil paid on the \$7 million that they've drawn down to the people that loaned them? How much interest are we paying from the source that we are loaning the money from? How much interest have we paid on the \$15.2 million, the \$15.6 million that we have given to Manitoba Mineral Resources? We are certainly paying interest on it and the charges on our interest charges this year alone are \$438 million. We are closing hospital beds; we are letting our road system go into decay; we are telling teachers that they shall have their salaries frozen; we are telling university students we are limiting access to university education.

Now all of these things are things that the Opposition was told to expect from the creation of ManOil. If you want to, I'll read you the campaign literature back. We fought that election. ManOil was going to pay my energy bill; ManOil was going to reduce my personal property taxes on my farm by 50 percent; ManOil was going to do away with the sales tax in the province. - (Interjection)- Well, naturally, Mr. Chairman, I exaggerate to make the point, but surely no members opposite will disagree that the basic position put forward by the Government of the Day is that they will develop a Manitoba oil company so that we, as taxpayers, will get some of the profits and we will increase and improve our quality of life as a result of it.

We have today yet seen a cent; at a time when governments are hard pressed for money; at a time that we are reducing on such services as home care; at a time that we are closing 48 hospital beds in one community alone in Brandon; at a time that the general Health Sciences Centre is talking about closing 115 beds, we continue to have \$7 million, \$15 million for - acknowledgeably from an industry point of view - worthwhile exploration work, worthwhile activity in that spectrum. If it had been presented to us, I would be more charitable at this moment.

Had the Premier of the province indicated that the government's intention was to establish a ManOil company to do precisely what the chairman's message says in this report - as a catalyst in the development of Manitoba's petroleum resources, to assist in exploration, to help stabilize, to help encourage - particularly because we're not a big player in this field, to help some of the smaller players be part of that field, which is not all that important in the overall oil and petroleum industry, but is important to Manitoba. If you would have said those things, you would not be getting this response from me and you would not be getting this continued hostility from the Opposition.

But that is not the way it was presented; it was presented in the way I described a little while ago; maybe not as succinctly or as forcibly, maybe not as understandably, but certainly that is the manner and way in which it was presented, particularly in that one election document I can remember so well - the NDP bible of that particular election year - the ManOil profits.

You see, Mr. Chairman, your political masters are so cynical, they played on the relatively high oil prices that were then prevalent in the industry and it was very easy to convince the public. Well, why shouldn't we, as the public, be involved in the oil industry and why shouldn't some of those super profits not accrue to the taxpayers of Manitoba? It was a cynical, clever plan on the part of the NDP politicians. They have produced a ManOil company and we are producing 100 barrels of oil a day. We're only losing \$1 million producing that oil and we've drawn on some \$7 million of taxpayers' money and not paying any interest on it.

I will tell you, our Minister of Agriculture can't provide the farmers of this province who are going broke, who are facing severe economic difficulties. Just yesterday, another 18 percent decrease in the price of their general product and we can't get the Manitoba Agricultural Credit Corporation to write down their interest loans or to give them interest money, to give them seed money to get the crop in this year for nothing, but we can give interest free loans if we are looking for gold. We can give interest free loans and expect no dividends if we are looking for oil.

Well, Mr. Chairman, as I said at the outset, I do not want these remarks to be taken in any personal way by members of the staff of ManOil and/or Mineral Resources, but I do want them to understand, philosophically, why the Opposition has a continuing concern about how these programs were introduced and really, that is what it is. I would not suggest for a moment that a Conservative administration would not have been, perhaps, involved in a similar operation.

Historically, there have been instances. I can recall being around when San Antonio became a government responsibility and I was part of that. There are reasons

for government intervention. There are times for governments to play a role, but I think it has to be presented in a manner that clearly sets out the possibilities of what that government intervention can, in fact, bring about.

My venom is directed at those who chose to present this in a different light, so you'll understand my continuing questions about when are my taxes going to be reduced, when is my hospital going to be improved, when is my road going to be paved with the profits of ManOil?

**HON. W. PARASIUK:** I'd like to take a few minutes to respond to the statements by the Member for Lakeside. I do understand that occasionally politics is the art of hyperbole and we've just had a classic demonstration of it, and I enjoy it, frankly. I enjoy the way in which the Member for Lakeside, in a sense, frames his perspective of history and the impact that certain statements might have had in the past and the way in which he phrases them, as he said succinctly, and occasionally eloquently, in terms of making his particular case, but the case is, in my estimation, an exaggeration.

What you really are talking about is, what is the time frame for a reasonable return for a mineral development corporation or an oil development corporation. We have said that it's the time frame that's very important. I believe that sometime back in the Fifties, and I don't know my dates specifically, but I think it was probably about 1954, Alberta established the Alberta Energy Corporation. I think it was in that time frame. I am looking at the present - was it a bit later, or was it sooner, what time, when? -(Interjection)- Okay, in the Fifties, Alberta Gas Trunk got going and I think in the Sixties, Alberta Energy Corporation got going, a very important move by the Alberta Government.

It allowed Alberta to get a much better window on the oil industry and I think that under the Social Credit Party of a government of Mr. Manning, I believe that there were a lot of economic rents that left the Province of Alberta, and didn't stay in the Province of Alberta because the government there didn't understand the oil industry and didn't understand how much more it could contribute to Alberta.

When Mr. Lougheed got into office, he was able to use various instruments, including the Alberta Energy Corporation, to ensure that Alberta had a much better handle on how the oil industry developed in Alberta. They used the Crown corporation. They did extract more in the way of economic rents, in terms of royalties and taxation, that the oil companies of the time said was impossible, that it would break the industry; that didn't happen. Alberta does have a Heritage Fund in the order of \$16 billion, or \$18 billion, or \$14 billion - it's hard to tell because they've valued the Heritage Fund in a different way. The point is that there was some movement there and they got return over a 20-year period, and this was during a 10-year period, when you had unparalleled increases in oil prices.

The same thing held true with Saskatchewan's SaskOil which was established by the Saskatchewan Government. That operation took a little bit of time to get going; it is now worth a great deal of money to the people of Saskatchewan.

We are saying the same thing with respect to Manitoba Oil and Gas. I was the person who brought

in the legislation, and those objectives are framed in the legislation and through discussions with subsequent boards and management of the Manitoba Oil and Gas Corporation. The intent was to first crawl before one walked, and to walk before one runs, but to establish a solid foundation so that people could take advantage of opportunities that might come forward.

We believe that over the long run - and there is where we may have some disagreement with the Member for Lakeside - over the long run Manitoba Oil and Gas Corporation will certainly prove its worth, I believe it's proving its worth right now.

When I talk to people in the oil industry, and these are Manitobans in other walks of life, who have established oil drilling companies and these companies are working jointly with the Manitoba Oil and Gas Corporation in a common way, to try and develop an indigenous oil industry here in Manitoba, I believe that right now Manitoba Oil and Gas is proving its worth.

We have had other instances where companies have struck some pay dirt in Manitoba, in terms of the oil business, and moved on to Calgary or moved on to pastures elsewhere, and forgotten their roots and where they got their start, or where they made their first find. That won't happen with Manitoba Oil and Gas Corporation, and I don't think it will happen with those companies in Manitoba that are doing work on a joint basis with Manitoba Oil and Gas Corporation in terms of drilling and exploration.

The member says that occasionally he's not directing his venom at the staff, and I appreciate that. I think that if he has venom, certainly he should direct it to myself, who's been the Minister of Energy, who brought forward the legislation. I might note, in dealing with his venom, that the member represents an area that is famous for its garter snakes and that I, myself, have an aversion to snakes, but then I have to sort of force myself to deal with garter snakes. But when I do, because I have children, the thing that keeps me going is that I realize that garter snakes really don't have bad venom. They may, in fact, look dangerous; they may in fact, sound dangerous . . .

**SOME HONOURABLE MEMBERS:** Oh, oh!

**HON. W. PARASIUK:** But at the same time I can appreciate that there might be a philosophical difference, but I think that possibly with the Member for Lakeside, it may not even be that great a philosophical difference; it may be a difference in terms of time frame. New Democrats are patient; we believe it's important to build a foundation and to build that foundation in a very solid way.

Last weekend was a weekend that most people spent spring cleaning. I was going through some old books and publications and I brought one into the office, which I think I'll bring down and put in my desk to bring it out at the appropriate time. It was a report done in 1944 by the CCF Party of Ontario and it called for a socialized health care system for this country. Look at the vision that they had back in 1944.

We, in this party and with this government, had the vision in 1982 to establish an oil and gas corporation, to make the commitment in 1981; and I believe that over the long run, this entity will certainly prove its

value just as the Manitoba Mineral Resources is proving its value.

We have a company whose break-up value is worth more than the investment and if you took into account all the money that's been regenerated and ploughed back into the Manitoba economy, that has levered other activity, that has provided jobs and ongoing income through other means of taxation, to keep going our mineral industry in Manitoba, then that company has already proved its value.

But it's having a positive rate of return and we certainly haven't been hyperbolic ourselves in terms of saying what we have. I think we have a very, very good deposit in Trout Lake and I think that we are sitting on a very interesting deposit at Farley Lake.

We aren't going around putting out ads as the former Conservative Government did when they said we were sitting on a gold mine. We, in fact, may, in fact, be sitting on a gold mine, but we'll act in a prudent and yet bold way and that's the way in which this government has acted on an ongoing basis and that may be the reason why - I think it's the last four out of five elections - the New Democratic Party Government has been elected. Not what the Conservatives might like to put forward as the rationalization for their defeat, namely that maybe we over-exaggerated something, or maybe we didn't state things as clearly. I think that's a nice rationalization and I've heard it from members on the other side occasionally.

But it doesn't deal with the fact that the people don't trust the Conservative Party over all these years. When they had programs being put forward in the last election, calling for some \$300 million to \$400 million of extra expenditures, and then at the same time while the Opposition of that time said they would be reducing taxes, the people obviously didn't believe that they could do it.

The only thing that turned that election around for them a bit was the Opposition party focusing on the French issue. Had they not focused on the French issue, they would have lost this last election very badly. So when one talks about what one puts forward in an election campaign and what one doesn't put forward, we can spend a lot of time debating that and I certainly don't think that would be that productive at this particular juncture, but I do know the Member for Lakeside wanted to put his position on the record. I expected it. I think he does so in a forceful way for their side; at the same time I think it's important that that be rebutted from our side.

**MR. CHAIRMAN:** Before we proceed, I believe that if the members of the committee, if they would adhere more to the rule of relevance and less references to snakes and venom, we will be more in line with the function of the committee.

The Member for Lakeside.

**MR. H. ENNS:** To the issue of relevancy, Mr. Chairman, last year we produced X number of barrels of oil a year and lost \$340,000-\$400,000.00. This year, we produced twice as much oil and we lost twice as much money.

**A MEMBER:** We're almost as bad as farmers.

**MR. H. ENNS:** So I want to understand, from the Minister or from the Chairman, what can we look forward to if we all of a sudden get a gusher?

**HON. W. PARASIUK:** As they say, at some of the North Main "schmatta" shops or garment shops, we'll make it up in volume.

No, I think that obviously we're dealing with a situation where you have volatility in prices, and at the same time, one has to take the volatility and measure that over a period of time and determine what type of base we have and whether we can withstand that volatility in pricing, and take a look at how it might average out over a period of time.

I believe that we are in a fairly good position, over a period of time, to be in a position to take advantage of increased prices in the future.

Mr. Sadler or Mr. Silver might have something more specific on that, but I think we are positioning ourselves well in this recessionary period, or downturn, to take advantage of good prices in the future.

**MR. R. SILVER:** I would only add to the Minister's remarks to indicate that on page 7 of our report, the table there shows that we've increased our proven reserves by 700,000 barrels. Last year, we had 375,000 barrels of proven reserves; this year it's approaching 1.1 million. That, too, is an investment in the future.

**MR. CHAIRMAN:** The members will wait for recognition before they ask a question.

Is the Member for Lakeside yielding the floor?

**MR. H. ENNS:** Yes.

**MR. J. DOWNEY:** Mr. Chairman, a couple of points I want to make, and one is my colleague from Lakeside did an excellent job of pointing out to, I think, the backbenchers of the government side, and the Ministers who are sitting here should pay very much attention to what he's saying.

The fact is that the government have prioritized putting their money into a philosophical experiment, which was promised by the Premier in 1981, and now being carried out because of that promise, to cover him, and starving other departments, whether it be Health, whether it be Education, or whether it be any other ministerial department. That's really what's happening. The government is prioritizing. The priorities are to support the philosophical promise that was made and we're now, we the taxpayers, paying the price.

Just again to follow on and just so I'm correct on this, I look at the report on page 7, where they've indicated there were 55 barrels of oil per day being produced a year ago; now we have 110 barrels of oil produced a day.

If I go over to page 11, Statement of Operations and Deficit, if I look at the line that says "Net loss for the year," 1985, where we were producing 55 barrels a day, we lost \$134,528.00. We've doubled our production and now we're losing \$370,455 a year. As my colleague says, can you tell me what happens if we have a gusher?

We're on a downhill slide, and the Minister tries to say, well, we have to look into the future. We've been in business for three years; yes, we've seen a decline in the oil prices, which has helped the overall general consumer. I don't believe that it's in the best interests of Manitoba taxpayers to carry on with this experiment any longer. I, for the life of me, cannot see what the benefits are.

Tuesday, 21 April, 1987

It brings me to the next question. Yes, certainly, we have some proven up resources. I would like to know whether or not, through the proper incentive, and through the smaller or other drilling companies, could that not have been found out, because it is compulsory - other energy companies that drill have to disclose how much oil they have in their producing wells after a year, as I understand it.

What I'm trying to find out is, to what benefit - you know, you're looking at it as an asset for the people of Manitoba. Are these proven up resources off of Crown land, which the Crown already held? Is it off of private land?

I'm sure it's comforting to know that we've got a million barrels of oil out there, but in the total picture of Canadian production or international production, as far as the consumers are concerned, it doesn't mean a whole lot. It doesn't mean a whole lot for the total overall cost to the consumer of oil. If it does, please tell me that it does. But I can't see where it has any major significance to the taxpayer to know that specifically through a Crown corporation.

I'm sure, and I stand to be corrected, but I'm sure that knowledge could be founded through either the incentives that have been introduced by the Minister, through trying to target drill in certain areas. Why do we need a Crown corporation to prove those up? I think the information is well available through other systems.

As well, I go to No. 2 on the government's commitment to the corporation's future. He talks about prices in recent months have been averaging over \$20 Canadian a barrel which, along with Manitoba's new royalty regime, make it economic to drill lower risk wells.

Would that not be higher risk wells? I mean, a lower risk well, to me, the terminology would be a lower risk well would produce oil. It's not the lower risk wells that you've got a problem with; it would be the higher risk wells.

So I would wonder if I'm misunderstanding what he's saying there or if I'm not. A higher risk well, to me, would be one that you wouldn't be able to get as much, a lower . . .

**A MEMBER:** That's where you're drilling in virgin territory; a lower risk is determined where there has been oil.

**MR. J. DOWNEY:** That's right, so I'm wondering if that's a misunderstanding. But I can't, for the life of me, see why we would have to put taxpayers' money, as I say, to satisfy a philosophical dream that the First Minister of the province had during the election campaign, at the expense of the other ministries that are starving for money, whether it be hospitals, or education, or those things that we all sit here to support.

It doesn't make sense that a Cabinet Minister, two Cabinet Ministers, three Cabinet Ministers sitting at this committee can sit and defend the decision to continue to support this kind of operation.

The Member for Inkster probably had more common sense, and I guess he was supported by the Member for St. James at their convention when he said we should consider selling off some of the Crown

corporations. That's the reality of what we're dealing with here today. Nobody is hammering down the government's door. In fact, I would think we should have a motion at this committee meeting by the Member for Inkster if he really believes in that, that we should start to reasonably look at winding down the Manitoba Oil and Gas Corporation. That, to me, makes economic sense.

It doesn't put at risk the consumers as far as putting gas and oil up in price. After all, we've got the great Petro-Can at a national level to protect the interests of the consumers. We don't need to have a Manitoba Crown corporation with \$7.4 million invested in it. Now we've lost over \$1 million in that Crown corporation. There isn't any apparent turnaround. One positive thing, and I stand to be corrected, one positive note that we're getting is that, yes, there are known reserves.

Well, I don't know whether that's giving anybody much comfort or not, to know that there's another million barrels of oil in Manitoba. It's not a big thing in the total picture of the oil industry. In fact, that could be drawn out of the ground in a very short order in some of the better wells in Alberta in a day's time, that million barrels. I don't know what their daily production is but I'm sure it far exceeds that million barrels that we're talking in Manitoba.

The window that we have and the need for this is far too expensive for the taxpayers of Manitoba. There are greater priorities for the taxpayers' dollars. You know, I'm speaking from experience. I have been working and waiting for the turnaround in the agriculture community; it hasn't come. We're hearing the Minister saying, "Well, you know we've got to look at the longer term." The taxpayers have been looking at the longer term in agriculture and they're getting higher and higher taxed and carrying the load of the government's decision that is wrong. I think the Minister and the Cabinet should seriously take the consideration of a reasonable wind down of the operation.

I have some more specific questions dealing with the overall operations of the corporation because I am alarmed at some of the things that I hear from the field level. I have a more specific question though, dealing with the Chairman's message. Could you give us the letter of resignation or the reason why Mr. Eyler resigned from the board on November 12, 1986? What is the reason for the resignation of Mr. Eyler?

**MR. R. SILVER:** I don't recall the exact phrasing of Mr. Eyler's letter but I believe Mr. Eyler felt that he had served the corporation well and wanted to go on to other things and had just respectfully asked for his resignation to be accepted.

**HON. W. PARASIUK:** He did present a letter of resignation. I don't think there are any reasons in the letter.

**MR. J. DOWNEY:** I wonder if the committee could have a copy of the letter of resignation so that we could have a clear understanding as to what his reason was for leaving the corporation. I mean, it's not a normal thing. The corporation, if I can just put a little background, Mr. Chairman.

The corporation had only been established some two or three years and he was a new member on the board.

There must be some reason that he resigned and it'd be helpful to know if it were difficulties within the corporation or what. Would that be possible to provide that letter?

**HON. W. PARASIUK:** There are no difficulties and there was nothing of that nature. I would have to check with Mr. Eyster in terms of that being his letter of resignation. Certainly I will check into that and get back to the member in due course.

**MR. J. DOWNEY:** What is the percentage of land reserves that have been bought by ManOil? What percentage have been Crown oil and what percentage are privately held mineral rights?

**MR. CHAIRMAN:** Mr. Sadler.

**MR. J. SADLER:** While I'm looking for the percentages, I could tell you in a general way that they are heavily weighted to being Crown land rights.

**MR. J. DOWNEY:** A rough estimate. Would it be 80-20, 90-10? I don't need the specific numbers, but it would be interesting to note.

**MR. J. SADLER:** I would say that it is in the vicinity of 70 percent Crown, 60 percent to 70 percent.

**MR. J. DOWNEY:** Is there active development taking place on that or would it normally be . . . Is that being partnered out, joint ventured, or what are ManOil doing with that Crown lands that they've leased? Is that where some of the active drilling program is proposed? Is it jointly bid by ManOil and the joint venture or do ManOil go to the Crown with their bid, acquire the land, tie it up, and then farm out a portion of it on a joint venture basis? What is the normal practice?

**MR. J. SADLER:** Initially, we did some jointly with others, but I would say in the last year we have tended to do things more a 100 percent with regard to bidding and acquiring land. The reason for that being that there doesn't seem to be an abundance of potential joint venturers that have, perhaps, the same interest as we have.

**MR. J. DOWNEY:** What is the tendering process, and this deals more with on-the-job work. I bring this to the attention of the committee and to the management because I'm sure they have a policy on tendering of service work and that type of activity. I just ask the question, how is it handed out? For example, well service work, that type of activity, how do you allocate the work to the different people who are in the business?

**MR. J. SADLER:** Until last fall we were not actively tendering work out and procuring service work because that was done by our partners who were operating the wells. With the advent of establishing an operations office in Virden last fall, we are now in a position to actually go out and tender and acquire contractors to get work done.

I would say, generally speaking, that we have a competitive tendering process with regard to well

drilling. For example, we endeavour to get a minimum of two bids. There are only two Manitoba-based contractors so we endeavour to get a minimum of two but preferably three or four. Those are the big dollar items, the actual well drilling itself.

With regard to service work, which is done on an hourly basis, what we would do there is, we would do a survey among the service companies and try and endeavour what their hourly rates are. I would say on a dollars and cents basis, they're often pretty much the same. So what we endeavour to do there then, is evaluate the performance of the particular contractors and try and get an assessment of the value for the dollar that you're getting. And again, recognizing that we're a local firm, we strive to use local contractors.

**MR. J. DOWNEY:** I appreciate that, Mr. Chairman. I would hope, Mr. Sadler, that the "local" would not just mean in the Virden area. I don't want to prejudice anyone who's now in the business of trying to get work, but it's been brought to my attention that there has been a tendency - and this was through, as I understood it, a tender process - to allocate some of the work more in the Virden area than in the Melita area. This was upsetting to the individual because he felt that he had put in the low price for the work that was being called and was extremely upset.

I'd be prepared to talk more to you and let you know the specific situation so that it doesn't involve or in any way cause any difficulty for the individual who is still trying to make a go of it, so I'll do that a little bit more.

You said there are two major contractors who are now doing the actual drilling work or are available in Manitoba to do the rig. There's Crown at Virden. Who is the other corporation?

**MR. J. SADLER:** There's the Friesen Company.

**MR. J. DOWNEY:** Oh, yes. What currently does it cost, approximately, to bring a well fully from the beginning stages right through to production? What's the current cost? Has that gone down over the last year?

**MR. J. SADLER:** Yes, it has. It's gone down about 20 percent, perhaps more.

**MR. J. DOWNEY:** So you'd be looking at the neighbourhood of a rough estimate of \$160,000-\$170,000 to complete a well?

**MR. J. SADLER:** Yes.

**MR. J. DOWNEY:** Are there any new areas of exploration other than the Virden, Daly, and those fields where you're involved? There's some joint venture work, I understand, in the - I believe it's the Kola district - which seem to be promising wells reported a year ago.

Is there any drilling activity proposed in that area, or where will you be concentrating your activity this coming year?

**MR. J. SADLER:** With regard to the map shown on page 4, the area to the north of the Daly field, which is the one adjacent to the Saskatchewan-Manitoba

border, this area in here is the Kola area that the member has referred to. That is the area where there was a dandy find in the Bakken formation back more than a year ago by another company. We were, unfortunately, not involved in that one. It is now off confidential and I understand it was a very good well.

Anything in the order of 40 or 50 barrels a day in Manitoba is a bit of a boomer, and so that's what keeps us all in the business going, trying to find that 40 or 50 barrel a day well.

As we have indicated in the report, we are keenly interested in pursuing this Bakken formation. We do have some land holdings in that area and if you refer to page 5, where we talked about the North Ebor area, that plat at the bottom of the page, North Ebor, on page 5, we indicate there that further exploratory and development drilling are planned for this year.

We do this on a well-at-a-time basis, and depending on what the results are of a particular well and, if it's encouraging, then we may indeed continue to do additional wells. If it's discouraging, we tend to pull in our horns.

**MR. J. DOWNEY:** I think that's all I have just at this point, Mr. Chairman.

**MR. CHAIRMAN:** The Member for Portage la Prairie.

**MR. E. CONNERY:** This 700,000 that's advanced the proceeds, that is an interest-free loan to the corporation. Is that right, or \$7 million, I mean? Is that an interest-free loan?

**MR. J. SADLER:** It's equity; it's shares in the corporation.

**MR. E. CONNERY:** So they are additional shares then?

**MR. J. SADLER:** The funds advanced to the corporation are totally in the form of share capital.

**MR. E. CONNERY:** So then we're looking now at \$17 million that has been advanced to the corporation?

**MR. J. SADLER:** No, it is the total of \$7.4 million that has been advanced to the corporation since inception, through the sale of shares.

**MR. E. CONNERY:** You show \$10 million in shares issued. I guess I'm a little confused on that. I'd like an explanation.

**MR. J. SADLER:** Yes, I'm sorry, there have been \$10 million worth of shares issued to the Minister of Finance. We do not take possession of those funds. They are held in trust by the Minister of Finance and we draw them, as required, against an approved business plan and budget. To date, our drawings have been \$7.4 million, or as of the end of 1986, they were \$7.4 million.

**MR. E. CONNERY:** Thank you. What is the cost of producing a barrel of oil now, this current year?

**MR. J. SADLER:** The definition of producing a barrel of oil would be that of pumping it out of the ground,

cleaning it, getting the water out of it, and getting it to the nearest pipeline terminal. With that definition, the range of producing costs here in Manitoba would be a low, probably of \$3 a barrel, to a high I suppose of \$10 or \$12, or whatever the economic limit is at the particular time. If prices are low and you have very high production costs to the point where you're not getting any positive cash flow, you would shut in the well.

**MR. E. CONNERY:** Last year you showed, and these are your comments: "In very simple terms, we have costs charged there of about \$13.50 against oil that we're getting \$16 for."

**MR. J. SADLER:** If I recall my comments last year, that was a composite of the production cost, which was - I think I had used a number of - I don't have it in front of me, I'm sorry, but perhaps \$5, \$6, \$7.00. Then the finding and development cost, which is really the amount that you have to charge against the total reserves that were found there for your initial capital investment. That could very well be another \$5 or \$6.00. I don't again recall what my numbers were.

In addition to that, there are the royalties, and that would give you, if you like, a composite of sort of your capital costs, your cost of capital plus your operating costs, plus what the royalty charges would be.

**MR. E. CONNERY:** Do you not have a breakdown at this point of what it costs to produce, totally, to produce a barrel of oil?

**MR. J. SADLER:** We do in our own corporation, and so if you want me to be specific with regard to our actual production costs, yes, I could endeavour to provide you with that.

**MR. E. CONNERY:** You don't have that with you, I presume?

**MR. J. SADLER:** We would estimate that, currently, our average production cost is in the vicinity of \$6 a barrel.

**MR. E. CONNERY:** Yes, but I'm looking at the total cost here, pipeline charges and everything. You're selling the oil. What does it cost the company to the point of where you sell it? The total cost, drilling cost, royalty cost, exploration, the whole works, the whole production. What is the total cost of production? Last year you had it at \$13.50 a barrel.

**MR. J. SADLER:** I think I would be able to say that it's in the same vicinity as the information I provided last year. I think our finding costs are certainly under \$6 a barrel. Our finding and development costs are under \$6 a barrel. I think that our production costs are averaging about \$6 a barrel, so that would be about 12 and then we have our royalties on top of that, which could be a buck and a half. So I think it would be in that order.

**MR. E. CONNERY:** What are you getting now for a barrel of oil, today?

**MR. J. SADLER:** I don't know what it is precisely today, but it would be in the order of \$21 a barrel; that's Canadian.

**MR. E. CONNERY:** And if we were getting a return on our \$7 million, we would be looking at close to another \$20 a barrel, maybe \$18 a barrel in interest costs on top of that cost. So the interest cost alone, if we were paying a return to the shareholders of Manitoba in that \$7 million.

**MR. J. SADLER:** Well, I guess if you look at it that way, but I really think that in the resource industry, I'd suggest that one might want to look at it as a shareholder or representatives of the shareholders on the assets that you're building. As we've indicated, we have identified in excess of 1 million barrels of producible reserves, and if one were to say that they are worth \$21 a barrel, that would be \$21 million. But I wouldn't want to say that, because we can't get it all out of the ground at one time; it takes years to get it out of the ground.

**MR. E. CONNERY:** Well, last year the projection was to be pumping around 200 barrels a day by December, and we're at 110. What happened that the projection was that far out?

**MR. J. SADLER:** I would say that it was an over-optimistic remark on my part. We were targeting for that sort of production. Several things conspired to keep us from achieving it; firstly, we were not able to drill as many wells as we would have liked to in the latter part of last year, which does have something to do with the amount of production one is able to achieve. In addition to that, there were a number of wells in the latter part of last year that were not up to production. We were reworking them, and so on, so we really were not able to achieve the targets that we had established for ourselves.

**MR. E. CONNERY:** Would Mr. Sadler like to indicate what the target is for this year? Do you have a target for this year?

**MR. J. SADLER:** Yes we do, but as I say, it will depend an awful lot on the number of wells we're able to drill during the balance of the year and the productivity of them. I would have to say, having been in the last two years on a very steep learning curve here as a group of people, that we've got together and we are getting to be more knowledgeable all the time on the productivity of the particular formations here. So we really have to make the best of what is here and I would say that we would like to see the production per well improve over what it is today. It will depend on a little bit of luck, I guess, and good management.

**MR. E. CONNERY:** Last year in the Annual Report, in the president's message on page 3, it said "In order to better position ourselves to exploit opportunities and influence growth, the company intends to operate some of its own wells in 1986." Did this come to fruition?

**MR. J. SADLER:** Yes, as indicated earlier, we have established a field office in Virden and Mr. Warren

Johnson is our operations manager there. We have drilled six wells to date; four in the last part of last year and two early this year, so we have a start.

**MR. E. CONNERY:** So you are doing the full stage into where somebody hauls it; you're doing the drilling and the pumping and maintaining of the well?

**MR. J. SADLER:** Yes, but we contract that, we don't have our own well drilling. We contract the well drilling, but we supervise it. We contract with the contractor to do it.

**MR. E. CONNERY:** Do you have a breakout how that particular sector is working within this ManOil?

**MR. J. SADLER:** We don't have it broken out at this point. As a matter of fact, later on this week, we are having our first review of our operations in Virden. Warren Johnson is coming into town and we are going to have our first review of our operations there. We will be comparing that to the portion of our production that's operated by partners, and so on, so we will be getting into that.

**MR. E. CONNERY:** Would the Minister ensure us, if this is taking place, would we be privy to that information next year at these hearings? I'd like to know personally how the ones where the government is totally involved are doing compared to the other ventures.

**HON. W. PARASIUK:** Yes, we'd endeavour to provide that information next year.

**MR. J. SADLER:** I might add that what we would do in our Annual Report, is talk about company operations and partner operations and I think we could go to the extent where we are providing some performance information there. As you might appreciate, there are some things that you like to keep commercially confidential; that is, that we have partners that we are working with. They'd dearly like to know something about our operation from time to time, that we'd just as soon maybe keep to ourselves, but within the context of a commercially confidential situation, we'd like to provide as much information as we could so you could make a comparison.

**MR. E. CONNERY:** I would hope that ManOil would be an exception to the rule because governments don't usually do a good job of running business, so hopefully that would be a little different. What is your projection for this year? Are you going to expand significantly your own operations versus the joint ventures? What is this year's plan and the long-range plan?

**MR. J. SADLER:** We would expect about half of our activity this year to be company-initiated and half to be partner-initiated.

**MR. E. CONNERY:** How many wells would that be?

**MR. J. SADLER:** In the vicinity of 25 gross wells, of which our percentage would be about 50 percent.

**MR. CHAIRMAN:** The Member for Roblin-Russell.



**MR. L. DERKACH:** Thank you, Mr. Chairman.

I think Manitobans, after reviewing the balance sheet here and taking a look at the loss of \$1 million in this year, Manitobans have a right to be nervous about the ManOil venture, especially when one relates it to the other Crown corporations, as \$7.4 million of investment has resulted in a million dollar loss this year, Mr. Chairman. I guess if we were to go back on the Minister's comments when he said, yes, it's costing us money now, but hopefully, if the price of oil goes up in the future, this will be a good venture.

Now, we've got a farm economy out there that is hurting right now and I don't see any farmer going out and purchasing large blocks of land in hopes that grain will go up in the future. I think that's a poor business attitude to have, especially when we see what's happening in the oil industry. But I'd like to ask just a few questions with regard to an announcement the Minister made in the House with regard to the two new incentive programs. I'd like to know what kind of money has been set aside for these two programs for this year because any incentive program is going to cost taxpayers or the industry money.

**HON. W. PARASIUK:** I would suggest that would best be dealt with in the review of the departmental Estimates because that is a program of the Department of Energy and Mines. Just a quick answer though, would be that the way the incentive program is structured, there is an incentive if you drill a new well and if you find oil. If the wells weren't drilled, you would not have been putting out any incentive, so there's no loss to the Provincial Treasury. It is a reward for activity that is undertaken that shows success. I think that that is best done in my review of Estimates and I certainly would be quite pleased to get into this matter with the member.

**MR. L. DERKACH:** Any costs of this program, then, will not be reflected in this particular corporation? It will be reflected in the general Estimates?

**HON. W. PARASIUK:** That's right.

**MR. L. DERKACH:** Then, are there losses that can be attributed to this corporation that are sort of debited to the Energy and Mines Department or is this the total loss?

**HON. W. PARASIUK:** There is nothing that can be debited to the Department of Energy and Mines. What you see is what you get. It's in the annual report right here.

**MR. L. DERKACH:** When we take a look at the sales, we find that the sales are less than the general administrative costs. I'm wondering how long or what projections the Minister has for next year in terms of losses or profits at the end of next year.

**HON. W. PARASIUK:** We have revenue from the petroleum sales of \$484,000.00. We have pipeline fees of \$169,000 and we've got general administrative costs of \$457,000 so that our general administration is less than the revenues, or sales, that we're making. I would expect that as the volume of oil produced goes up,

your overhead costs, on a per unit basis, will be reduced over time. This is still an early stage in this corporation's life and I think it compares extremely well with other corporations that have been involved in the oil and gas business.

**MR. L. DERKACH:** We're seeing turmoil in the oil industry in the last couple of years, Mr. Chairman, and I'm wondering, the Minister and his department surely must have some kind of projected figures as to what their deficit might end up being at the end of the next fiscal year. Can you give us some indication as to what your projected deficit or profit may be by the end of the next annual report?

**HON. W. PARASIUK:** Well, I think you probably have a range of projections based on what people's estimates of the oil price would be. People have an idea of what they have as reserves, of what they have as their costs, and the deficit or profit will be totally dependent on what the actual price of oil is throughout this present year that we're in. At present, at today's prices, I'm not sure if we have a projection.

The thing about giving projections like that, when you're involved in discussions with the oil industry, and I would be reluctant to provide what those are. I think they would be certainly no higher than what we're talking about today. It would probably be in that range. If their price goes up, then the deficit would be reduced.

**MR. J. SADLER:** In a young corporation where you have a certain amount of overhead to get it going, you do have a high proportionate cost in this general administrative area. We are hoping that as we can get the production volumes up and if prices stay reasonably good - as they are not too bad right now - that we will see then, us coming into a break-even position within, I would hope, the next 18 months, if prices stay about the way they are.

**MR. L. DERKACH:** What I hear is that the objective that the corporation had set for itself in becoming a profitable corporation, then should see some movement toward that end in the next year and be reaching a break-even point and, in fact, start returning Manitobans some of their losses before that time.

**MR. J. SADLER:** That is certainly our objective.

**MR. L. DERKACH:** Just one final question. I'm still concerned about the investment. There's \$7.4 million that has already been spent and I think that you have an authorization of some \$20 million. How much of the \$20 million are you going to be utilizing in the next year? Do you have any projections?

**MR. J. SADLER:** We've indicated that we want to participate in about 25 wells this year, which would be about the same as last year, and our expenditures last year were in the order of \$3 million to \$4 million. And so it would be along those lines that we have planned for this year.

As indicated earlier, it depends somewhat on the results of some of the wells that we will be drilling, and mid-year as to what we do in the fall program and so on.

**MR. L. DERKACH:** What is the total staff of the Manitoba Oil and Gas operation?

**MR. J. SADLER:** We have 12 people, 12 staff as of the end of 1986.

**MR. D. SCOTT:** Following up on a few of the other questions that have been asked, I've been trying to do some very rough calculations here. Bumping your production up for an easy multiplying factor without a calculator here, of 30,000 barrels, we find that when we look on page 11, Statement of Operations, if you just look at your production cost itself, bumping that up to 30,000, so this again is lower than it should be.

At \$255,000 of production operating costs, it comes out to about \$8.50 in average last year, cost per barrel. If you add into that the depletion, depreciation, amortization, it jumps up to about \$18 a barrel - based again on 30,000. Again, that's slightly low. And if you include all the administrative costs then we're up to \$33, approximately, a barrel. What that tells me is it's going to take a fair while, either a substantial increase in production or a combination of increase in production and price, to get the company to a break-even operation.

I'm not sure if you want, for corporate confidentiality or not with our mega input into the oil industry with the talk about future production levels, but just running through, keeping the price at a current of about \$20 a barrel - I believe you said it was \$21 a barrel current price? So, again, for ease of multiplication, that \$20 a barrel gives you revenue of \$600,000 a year for 30,000; \$800,000 for 40,000 production; and you have to produce 50,000 barrels at current prices to break even - the break-even cost being \$1 million as indicated here in your Total Expenses of \$999,036.00.

The other way of achieving that break-even if you, if the price of oil was to rise \$5 barrel, you would achieve that at \$40,000 barrels of production. I'm just tossing these out, they are very rough figures. I appreciate that, but I'm just wondering what you feel your possibilities are of increasing your production to 50,000 barrels to be able to break even at current last year's operating costs with no provision for operating costs increases at all.

Is that realistic? Is it even wise to do it, and on the other hand, again every one's guess and by golly as to the price of oil - whether it's going to go up, stay even. I don't suspect and most people don't, but I've listened to the radio and by reading various papers, I feel it's going to drop again very soon and probably is on a steady incline. But do you feel or do you see \$25 barrel oil this year? What do you figure your average price is going to be this year, I should say.

**MR. J. SADLER:** I'd like to go back and just make some observations on your numbers and calculations. First of all, the production and operating costs that are identified here and the depletion and depreciation items include those that are attributable to the pipeline as well. And so, we really need to back those out. I don't have the precise numbers there but I'd be happy, if you want to get into this, to spend some time after the committee and give you a rough idea, whatever the wishes are. So, they have to be backed out.

Now, with regard to your general question as to where we might achieve a break even, what sort of volume and price combination would get us to a break even? I think that was the general thrust of your question. We have done some break-even charts internally so we have got a bit of an idea of what price-volume combinations are required to get us into the break-even position.

I would say that if we were today, or for the full year, to be able to produce 200 barrels a day at current prices, we'd be in a break-even or better position.

**MR. D. SCOTT:** What's that by 365 . . .

**MR. J. SADLER:** That would be 70,000 or 80,000 barrels, I guess.

**MR. D. SCOTT:** So is that your intentions this year - to try and increase your production by that amount?

**MR. J. SADLER:** Yes, very much so. We really believe that the challenge in the organization at this point in time is to get our production level up. In difficult times, when you have falling prices, of course you have to work on the other side - and that's the expense side - and pare those to the bone. But when you're a small corporation and you only have one geologist, and one land man and one accountant or controller, it's very difficult to cut back on the expense side to the point where you're having people work half-time or something like that. So our real option there is to hold our costs, don't build our overhead any more, don't add to our overhead, but get our production up. That's really what we're striving for.

**MR. D. SCOTT:** "General Administrative Costs with 12 employees" - I presume that's all salaries, pretty well. Salaries and a bit of rent?

**MR. J. SADLER:** Salaries, rent, travelling, telephones and communications.

**MR. D. SCOTT:** The increase of 100,000 from last year - I take it that's gone to a full operational load?

**MR. J. SADLER:** Yes, and that was just for the latter part of the year. It started in September.

**MR. D. SCOTT:** For the 457 or the 347?. Does the 457 represent a full year or is that just from the end of September with full staff levels?

**MR. J. SADLER:** The 457 represents the full year of general administrative expenses. The actual costs for establishing the Virden office were really in the latter part of the year.

**MR. D. SCOTT:** Next year we can expect that to increase substantially then, with the Virden office?

**MR. J. SADLER:** It would be to the degree that it's recognizing the full year impact of those costs.

**MR. D. SCOTT:** Will it would be \$500,000 or \$550,000, as a ball park? You must have some idea of what your estimates are for the next year, or for the current year.

**MR. J. SADLER:** Well, we would have our budgets and I would prefer not to indicate what our budget is for the year, but generally - in a very general sense - it would be recognizing for a full year instead of the latter part of the year, these increased costs for Virden. We will be adding two staff this year, one in the accounting area and one at Virden, which will be an Operations Superintendent. You may have noticed that we recently advertised for those two positions.

**MR. D. SCOTT:** That's going to again, with the aim towards improving the bottom line in the firm, it's going to mean a substantial increase in production for the viability. Your production figure - you made mention earlier that the target production is very dependent on this year's drilling activity. Is that for this year's production with the reserves that you have built up now in excess of - the balance December 31 was 1,081,000 barrels of estimated reserves. Could you achieve your 70,000 barrel output on the existing reserves or is that dependent on new reserves coming on with drilling activity? If you're only producing 10 barrels a day you may need more wells than what you've got to get up to 70,000 barrels a year.

**MR. J. SADLER:** Yes, there are two elements there. One, our production currently from the reserves that we have bucked are in areas where there are multi-zone production possibilities. We are still endeavouring to see what some of those formations will produce, so we are not yet producing them to a maximum. There will be some opportunities to improve production there but I would say that we will not be able to achieve the 200 barrels a day without the drilling program that we're contemplating for this year.

**MR. D. SCOTT:** What's the approximate cost per well now?

**MR. J. SADLER:** I believe I indicated to Mr. Downey it was \$160,000 to \$170,000 for a completed well.

**MR. D. SCOTT:** Buy them by the dozen and get a better value, eh? That's all subcontracted out, is it not? It has to be with the staff levels, of course. The question is redundant.

I guess the last two items I'd like to speak on are of the \$10 million of financing that's been approved, you have \$20 million authorized, \$10 million the Minister of Finance has already drawn, of which \$7.4 million he's advanced to the corporation, \$2.6 million he's holding in trust. This year, you mentioned a minute ago that \$3 million to \$4 million would be needed to support your drilling activities this year. Since the operation isn't financing itself yet, that means that you're going to have to start, you'll draw down that 2.6 this year that's remaining in the Minister of Finance Trust Account?

**MR. J. SADLER:** Yes, and we will likely require more.

**MR. D. SCOTT:** Yes, my final question is: Do you have any idea as to the valuation of - if you were to sell your assets at this point in time, what sort of market value the firm would have, given the reserves that you've built up to date?

**MR. J. SADLER:** This is a very topical subject with Dome on the blocks and so on. As you know, the worst of any outfit is really at the transaction price at whatever the seller and buyer can agree on, so I hope that you take whatever I say in that context. We did have a reserve audit done by Esau, Finn and Associates and they reviewed our reserve calculations from a technical point of view and from an economic point of view. These are very dependent on price projections, and so I'll have to tell you what the price projections are.

The price projections that we have been using are \$20 for this year, \$20 for next year, \$22 for the following year and \$25 after that. Then there would be a percentage increase after that. Now, as you know, they are currently in the vicinity of \$21 so we can be smug about it, but I can tell you, we'll be wrong again. At any rate, the million barrels of reserves at a 15 percent discount would be in the vicinity of \$5.4 million. I trust you will understand that that is producing those million barrels of reserves over a 20 year period, or whatever, until they reach their economic limit. So it's really a discount at present value of the production of all of those reserves that we're trying to establish.

Then added to that would be the value of the lands and other assets that we have acquired which would be in the vicinity of \$1.7 million.

I'm told that our land values in inventory would be in the vicinity of 1.7 million so that brings us up to - is your arithmetic 7.1? So, I think that's about as close as we can come.

**MR. D. SCOTT:** We have to have the pipeline in yet as well.

**MR. J. SADLER:** Yes, which you could say the depreciated value, our portion would be in the vicinity of 300,000 or 400,000.

**MR. D. SCOTT:** That's approximately 7.5 million then, of current value, of which we've invested . . .

**MR. J. SADLER:** 7.4.

**MR. D. SCOTT:** I don't want to hold the committee members here much longer. We can, I guess, just move ahead with that. It's just something that I think you in ManOil and the Minister, for sure, and government overall, has to watch very carefully as to just how much we're willing to commit in addition to this operation. I look at the possibility, although I don't look overly optimistic towards it, of divestiture. I don't know that it's that wise at this point in time.

I guess I just want to put it on the record my concern of the direction that we have taken, given the situation on the energy market and appreciating full well that an awful lot of activity would not be taking place in Manitoba and the province would not be getting the royalties that we're now getting, without the participation in joint ventures by ManOil.

I don't want to overly discount the value of that, but I guess in keeping with my general feelings toward Crowns - commercial Crowns, at least - that I do think that we have to take a very careful and close look at the operation and where it's going; and I guess as a member of the House here, with you folks reporting

through to us, expect that you will be doing that analysis and keeping the Minister and the committee up to date as to future prospects and be giving very forthright information that we have not necessarily had from some other Crowns in the past as to the viability and the soundness of continued investments in the firm.

I'm sure we can count on that from you and I thank you for your information this morning.

**MR. H. ENNS:** Through you to the President, I couldn't help but speculate and allow my mind to wander, whereas Mr. Scott was going through some of the financial situation of the corporation, what might have happened had we turned Mr. Sadler and his people loose with the \$27 million that we gave to the Telephones Minister in Saudi Arabia; whether or not we might just not have been seeing a different bottom-line picture of the Oil and Gas report.

One question that I have to the corporation is, the corporation will be aware that the government is currently intervening, proposing a rate application by Inter-City Gas at the Public Utilities Board in the belief that Manitobans are being substantially overcharged for energy costs, energy prices of natural gas to the tune of 35 to 40 percent.

In the course of these hearings, and so much surrounding publicity about it, the government has not ruled out the possibility of intervening even more directly in the distribution of natural gas in the Province of Manitoba. My question to the corporation is: Has the Manitoba Oil and Gas Corporation in any way been involved, or been requested to review possible involvement of the distribution of natural gas in the Province of Manitoba?

**HON. W. PARASIUK:** The Manitoba Oil and Gas Corporation was asked to survey the availability of other alternative sources of natural gas and what alternative prices for natural gas might be and that testimony was provided to the Public Utilities Board hearing.

In terms of what role Manitoba Oil and Gas could or could not play or would or would not play, in terms of any type of modified system of natural gas regime in Manitoba, I think that would be a policy matter that at this particular stage, it would be premature to speculate publicly on. I don't think that anyone's in a position to say what Manitoba Oil and Gas could or couldn't do. It certainly can do the surveying and it could be an instrument, but at the same time, that would be just speculation. I think it would be premature and wrong for us to speculate in this committee, as to what Manitoba Oil and Gas would or wouldn't do or could or couldn't do.

**MR. H. ENNS:** I take it that the hearings before the Public Utilities Board are a matter of public record. Transcripts, as I recall, are made of those rate application hearings and one could, in due course, have that testimony or that position that was put forward by the corporation . . .

**HON. W. PARASIUK:** Would you like to get that material?

**MR. H. ENNS:** Yes.

**HON. W. PARASIUK:** Can I just clarify? Apparently the transcripts are about this high. Would you like the ones, in particular, surveying material and the costs and examination -(inaudible)- I'll get that.

**MR. H. ENNS:** In conclusion, let me just come back to my original comments.

The Minister, in my judgement, skillfully skated my objections offside. What the growing concern in Manitoba has to be, that without any serious questioning of the specific value of trying to do what we're doing with ManOil or in some of the other Crown corps. It's what we are doing to everybody else at the same time, is that ought to be concerned.

This last budget has imposed the largest single tax bite on Manitobans in their history, and we are not significantly making any headway. Despite the \$400-odd million dollars of new and additional tax money that this Minister and this government is asking Manitobans to pay, we are not making any significant reduction in our deficit. We are looking at 400 million plus, \$450 million-\$500 million dollar deficits with the contingent interest charges. We are beginning to experience, in a very serious way, the kind of difficulties that we could expect when essential services are being under funded.

So, Mr. Chairman, with a great deal of respect to Mr. Sadler and his corporation, I move, seconded by the Member for Arthur, that the Manitoba Oil and Gas Exploration Company be disbanded in an orderly manner, thus freeing up the committed \$20 million for under funded essential services. I move that, Mr. Chairman, as a formal motion.

**MR. CHAIRMAN:** Is the motion in writing?  
The Honourable Minister.

**MR. H. ENNS:** I just want to make one point. Mr. Scott may want to second that nomination.

**MR. CHAIRMAN:** It has already been seconded. It has already been seconded by the Member for Lakeside.  
The Member for Arthur.

**MR. J. DOWNEY:** This motion should not be taken lightly because we are seeing and have seen; we've got the Minister of Education here, who has told the teachers where they stand as far as any increases in wages are concerned. We're seeing the Minister of Health cutting hospital beds, both Health Sciences and Brandon. Essential services, we the Conservative Party do not, certainly, think is in the best interests of health of the people of the province.

What I cannot understand, and I think members of the committee should support us in this motion. We are told here by ManOil today for their survival, for the survival of the corporation, we have to see an increase in oil revenues and oil prices. We see the Premier of the province running around telling everybody that he's going to do something about the price of gasoline, that he's going to lower it. Where does he think gasoline is made and what does he think it is made from? He can't have it both ways.

For the survival of the corporation, he has to have higher oil prices which directly will reflect, to some

Tuesday, 21 April, 1987

---

degree, on the price of gasoline. He is running around telling the public of Manitoba that he's going to have a Crown corporation, that makes great profits out of the oil production and yet he's going to demand lower gas prices. I, for the life of me, cannot see how he can have it both ways.

And so, I think that the members of the government should support us in this resolution and help the Premier out of the dilemma that he's in. I'm very serious. I can't see how he can want to have it both ways unless, unless - and somebody can explain it to me - he is playing a political game again with the people of Manitoba, and we cannot tolerate that.

**HON. W. PARASIUK:** I would like to speak briefly on the motion.

I'm surprised that the Member for Arthur would have raised the red herring of gasoline prices. The problem with gasoline prices is that they don't bear a proper relationship to present oil prices. That's the dilemma. And it's a number of private oil companies and refining companies that are causing that particular problem. I hear the Opposition saying nothing about that. That's the major problem right there. I would be surprised that the member would somehow try and link Manitoba Oil and Gas with its production of 110 barrels a day to high gasoline prices.

The main issue that people on the other side have raised today is this issue of priorities. This government, far more than the Conservative governments across this country, has had a balanced approach to social services and economic development. It has been this government that has provided social services and health education, social services, when Conservative Governments to the west of us and Conservative Governments to the east of us have been slashing them.

It is this province that has also had a balanced approach to economic development, so that we have probably the best record of economic performance over the last five years, and we're projected to have the best record over the next five years.

That is what is happening in this province. A balance between health, education, and social services, and economic development at the same time that we are having a Federal Government cutting back expenditures

very seriously in the whole health, education, and social service areas.

So what we looked for is a balance, and we're looking at making sure that we have entities like the mineral resources, and have entities like Manitoba Oil and Gas. We do want to have a balanced approach. We do want a diversified economy. There's an old saying, that if you give a man a fish, you feed him for the rest of his life. Teach him how to fish and we'll have fish.- (Interjection)- No, teach him how to fish and you feed him forever.

The interesting thing about that is we are diversifying our economy; we're diversifying it as we've seen on the mineral side; we are diversifying it as we've seen on the oil side; we are diversifying it on the manufacturing side, and we are prepared to continue to put money into agriculture, even though agriculture's prospects don't look that good. Even though over the years we've put something in the order of \$5,000 to \$6,000 per farm per year. Some farmers have been reaching as much as \$25,000 in subsidies, but we're still prepared to do that as part of the balanced approach to our economic development.

I think we have done a good job of husbanding our resources. Our deficit is going down at a rate that is far greater than the deficit reduction in the Federal Government.

**MR. CHAIRMAN:** A question is being called.

We have a motion before the committee as follows: Moved by the Member for Lakeside, seconded by the Member for Arthur, that the Manitoba Oil and Gas Exploration Corporation be disbanded in an orderly manner, thus freeing up the committed \$20 million for underfunded essential services.

**QUESTION put, MOTION defeated.**

**HON. W. PARASIUK:** Did we pass the reports?

**MR. CHAIRMAN:** The report is now passed by the committee.

Committee rise.

**COMMITTEE ROSE AT:** 12:20 p.m.