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Department of Natural Resources  
Forest Industry Diversification Program

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Public Accounts Committee

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Chair: Jim Bennett, MHA

Vice-Chair: David Brazil, MHA

Members:

Sandy Collins, MHA  
Eli Cross, MHA  
Eddie Joyce, MHA  
Christopher Mitchelmore, MHA  
Kevin Parsons, MHA

Clerk of the Committee: Elizabeth Murphy

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Appearing:

**Office of the Auditor General**

Terry Paddon, Auditor General  
Sandra Russell, Deputy Auditor General  
Scott Walters, Audit Manager (Acting)

**Forestry and Agrifoods Agency**

Wade Bowers, ADM, Forestry Branch, Forestry and Agrifoods Agency (FAA)  
Jim Evans, CEO, FAA  
Gary Forward, Industry Services Supervisor, Forestry Branch, FAA  
Eric Young, Director, Forest Engineering and Industry Services, Forestry Branch, FAA

The Committee met at 9:00 a.m. in the House of Assembly Chamber.

**CHAIR (Bennett):** Good morning, ladies and gentlemen.

We are now on television, in-house. This is a hearing of the Public Accounts Committee of the Province of Newfoundland and Labrador. This morning we are going to hear from the Department of Natural Resources, Forestry and Agrifoods Agency.

Normally how we begin is that we have the people who are here introduce themselves. Because there is a record being made, a Hansard record, it is important when people speak to identify who the speaker is. That way it makes it easier for the person who is preparing the transcript at a later date.

Ordinarily we begin with people introducing themselves so we know who is here. The Auditor General and the Committee members and the Clerk have been here all week, so we know who is here, but we have new individuals this morning.

Generally, the process that we follow is we have members from the Committee ask questions and request explanations and so on in approximately ten-minute intervals, and we alternate back and forth. Usually we take a break around 10:30 a.m. How that works out is that generally every member has had an opportunity to ask questions, at least in the morning half and in the afternoon half.

Ordinarily we would go through to roughly around 10:30 a.m., and we would break for lunch around 12:30 p.m. or so. Then we will see how much time is required.

I suppose I ought to have introduced myself. My name is Jim Bennett and I am Chair of the Public Accounts Committee.

Next, I am going to go to Mr. Paddon.

**MR. PADDON:** I am Terry Paddon. I am the Auditor General for the Province of Newfoundland and Labrador.

**MR. WALTERS:** Scott Walters, Office of the Auditor General, Audit Manager, Acting.

**MS RUSSELL:** Sandra Russell, Deputy Auditor General.

**MR. EVANS:** Jim Evans; I am the Chief Executive Officer for the Forestry and Agrifoods Agency.

**MR. BOWERS:** Good morning.

Wade Bowers; I am the ADM, Forestry Branch.

**MR. YOUNG:** Eric Young; I am the Director of Forest Engineering and Industry Services.

**MR. FORWARD:** Gary Forward; I am the Supervisor of Industry Services.

**MR. BRAZIL:** David Brazil, Vice-Chair of Public Accounts.

**MR. K. PARSONS:** Kevin Parsons, Cape St. Francis.

**MR. CROSS:** Eli Cross, Bonavista North.

**MR. MITCHELMORE:** Christopher Mitchelmore, The Straits – White Bay North.

**MR. JOYCE:** Eddie Joyce, Bay of Islands.

**CHAIR:** The witnesses who have been here throughout the week do not need to be sworn, but Ms Murphy, our Clerk, administers the oath or affirmation to anybody who has not yet been sworn, so I ask Ms Murphy to do that.

#### Swearing of Witnesses

Mr. Jim Evans  
Mr. Wade Bowers  
Mr. Gary Forward  
Mr. Eric Young

**CHAIR:** Unless anybody has any questions it is also customary for us, when we have agencies appear before us, if a member from the group would like to provide some sort of an opening statement. It is not necessary, not required, but sometimes it helps frame the information. That is clearly your option. If you want to say something, we are available to hear from you to give some sort of background. If not, I will start with Mr. Joyce. It is your preference.

**MR. EVANS:** We are pleased to be here today to answer any questions to the best of our ability. If there is any information that we cannot provide, we will certainly retrieve it and get it back to the Committee as soon as possible.

The Forest Industry Diversification Program was established in 2008, as you are aware, and it was initiated to assist the forest industry in the Province to compete in the global economy, to help them diversify and be sustainable into the future.

In North America in particular, in that era, the industry was in a downturn. There were plants closing everywhere; there was a lot of competition. The Province thought it was prudent to assist the industry to position themselves well into the future. So, that was done – especially the sawmill industry is well positioned now and taking advantage, in most cases, of the assistance that was provided to them.

There were certain challenges in the industry, especially in rural Newfoundland. The intent was to invest in the sawmill industry to have a positive impact on the rural economy of the Province, I guess. The sawmill industry, for those who are not familiar, is very well integrated with the pulp and paper industry. If one sector of the industry goes down, it certainly has a huge impact on the other sectors. So that was part of the point as well.

We have done a lot with product development, improving efficiencies in the industries, and helped sustain, in many cases, the employment in the rural areas.

Thank you.

**CHAIR:** Thank you.

Mr. Joyce, would you like to begin questions?

**MR. JOYCE:** First of all, thank you.

I am not sure how many witnesses here from the department were around in 2008. It is going to be interesting with some of the information coming forth, what is on file.

The first question I ask is: Who was the minister at the time, in 2008, when this program was brought forth?

**MR. EVANS:** The Minister of Natural Resources at the time, in 2008, was Minister Dunderdale.

**MR. JOYCE:** Ms Dunderdale?

**MR. EVANS:** Minister Dunderdale.

**MR. JOYCE:** The current Premier?

**MR. EVANS:** Yes.

**MR. JOYCE:** I will just ask a few general questions. In the Auditor General's report, they said the project was approved without government doing a proper assessment. In hindsight, do you agree with that now, or is the information that is in there where they never had the information on the markets, never had the proper evaluation of transportation, do you feel now that is correct?

**MR. EVANS:** I feel the project proposals were well assessed and had the proper assessment. There were times when the initial application did not include all of the information, but as we went through the process, and certainly before any decisions were made and any offer of funding, the proposals were certainly well assessed and all of the information was received.

**MR. JOYCE:** Just in the Auditor General's – and I can go through it and find it – there is almost \$8 million given to the company before

they had the application even approved. Also, before they had the markets, there was \$8 million already given to the company. So how can you say that all the markets and all the application were well approved when the Auditor General said that there was money given before the application was reviewed and the information that was requested was not even given to the department?

**MR. EVANS:** The committee acknowledges awarding an extension to the business plan delivery and dates and changes of the scope for Company A. My interpretation is the reference was related to a marketing plan, and the company requested an extension to allow the newly hired plant manager to revise the marketing plan. There was a marketing plan attached to the initial proposal, but the committee felt that it needed revision.

**MR. JOYCE:** Can we get a copy of the recommendations that were made? In the Auditor General's report, there were some recommendations that were made about the marketing problems, about the marketing shipment. Can we get a copy of that from the department, what the concerns were of the department at the time?

**MR. EVANS:** Is it the recommendations of the Auditor General or the –

**MR. JOYCE:** No, the recommendations from the department itself.

**MR. EVANS:** Yes, we can supply that.

**MR. JOYCE:** You can supply that? Perfect.

So what you are saying, if I am correct – and I would ask the Auditor General – that before the money is released all the information was put in to the application before the money was released to the company?

**MR. EVANS:** Given the scope of the project, it was a very complex proposal – the construction of a pellet plant, upgrading of a sawmill, construction of a wood yard – and the committee worked very closely with the proponent. They

recognized that the product development must be reactive to certain market conditions.

Yes, there was money released before we received the final market plan, but we worked closely with the company. We dealt with the Wood Pellet Association of Canada. The markets were there. They are still there today. It was not the fact, in my opinion, that the markets were not there; it was that we just needed to develop access to the markets.

**MR. JOYCE:** How many pellets has that plant produced for market?

**MR. YOUNG:** Since the plant has been commissioned – and it takes a long period of time to commission a plant of such large scale – it is approximately about 1,000 or 1,500 tons have been produced. Some of it is still stored on site. A large portion of it was shipped to Corner Brook Pulp and Paper and burned in their boiler system and tested there for efficiency and BTU. So, I would say it is approximately around 1,500 tons have been produced?

**MR. JOYCE:** How much has been shipped to the European market, as proposed in the application?

**MR. EVANS:** At this point, there has been none shipped overseas.

**MR. JOYCE:** What was the total amount, grants included, of the loan to the pellet plant operation in Roddickton, the total amount?

**MR. EVANS:** The total for the loans, the grants, and the equity investment for Company A was \$10 million.

**MR. JOYCE:** Has any of that been recovered since?

**MR. EVANS:** No, at this point there has been no repayment. The repayment plan is not supposed to start until 2014.

**MR. JOYCE:** How many people are being employed at the pellet plant now?

**MR. EVANS:** The pellet plant, as you may know, is not operating right now. The owner is there, and I believe he has a manager on site, and maybe some other people related to the operation because he is involved with some other woods industry.

**MR. JOYCE:** In the Estimates, it was revealed that the government was paying for the insurance of the property. Is this still correct?

**MR. EVANS:** At this point, yes, it is still correct.

**MR. JOYCE:** How much is government paying for insurance of the property? I think it was \$50,000. That was in the Estimates; I am not sure.

**MR. EVANS:** I stand to be corrected, but I believe the monthly payment is roughly \$10,000.

**MR. JOYCE:** So it is \$120,000 a year?

**MR. YOUNG:** That is not correct. The total insurance for this year for the pellet plant alone is approximately \$78,000, of which the department has contributed \$50,000 to. I think Jim is a bit mistaken there. The insurance is \$10,000 a month, but it is over a compressed period; it is not for the full year. The payments have been \$10,000 a month though.

**MR. JOYCE:** Are there any other payments made towards that operation besides just the pellet plant?

**MR. YOUNG:** Could you rephrase the question?

**MR. JOYCE:** Are there any other payments being made? You just said the pellet plant. Are there any other operations there that the government is subsidizing the payments?

**MR. YOUNG:** No, there is no other payment other than the payment we have made on the insurance.

**MR. JOYCE:** I will just get back to the Auditor General's report where you are talking about the markets. I go on page 303 so you can read it. I guess this is part of the discussion. I will read it quickly.

“The Department provided \$9.0 million in funding to Company A although issues related to long-term viability and sustainability of the project had not been adequately addressed. For example, the Department's assessment of Company A's proposal indicated that: there would be issues transporting the wood in a cost-effective manner...; the business strategy presented was based upon optimal production capacity versus a more reasonable in-depth market analysis; there was no comprehensive market strategy reflecting both domestic and export market demands; the company did not have the human resources or training to handle the expansion predicted; and limited long-term planning was evident. The assessment concluded that the Province would be taking a significant risk by approving the funding.”

Then, I guess, how can anybody say the marketing plan was comprehensive or was done and we were just waiting for more information when all of this information about the funds that was already given to the pellet plant was still outstanding?

**MR. BOWERS:** (Inaudible) we are convinced that the committee at the time did its due diligence, but we do acknowledge that the risk was high. There was a risk, and that risk was identified in the initial assessment of applications. It was presented during the presentation of funding.

There was an explicit statement made actually in the presentation in the Cabinet paper concerning the risk and identifying the high risk. These ventures, as I am sure you know, are often characterized by a high level of risk, but in the view of the committee at the time there was a trade-off between accepting some measure of risk, some uncertainty on markets, and we need to weigh that against the risk of closure.

At the time, going back in time to 2008, as Jim said, during the downturn, we had a situation in the Province, particularly in the Northern Peninsula with the company you referenced earlier, of potential closure, 300-and-something jobs at risk, and an economy that was based almost exclusively on the forest sector. So we were weighing that kind of risk against the risk of not having all of the information on market conditions and the proposal, as you say, that we acknowledged.

The intent of the program, based around modernization and new, innovative technologies convinced us that if we could build the foundation there and stabilize that industry, it would be worthwhile proceeding given the information we had at that time.

**MR. JOYCE:** You just mentioned, in your presentation to Cabinet, that there was a high risk for this project. Is that correct?

**MR. BOWERS:** We would rate it as high risk for the project, yes. I would characterize that.

**MR. JOYCE:** Okay.

**CHAIR:** Mr. Joyce, we will go on to Mr. Brazil now.

**MR. JOYCE:** Okay.

**MR. BRAZIL:** Mr. Chair, I have a couple of points there. While I look at the Forest Industry Diversification Program, and I see the intent of why it was set up, I think it would have, and in two points, served a very valued point, and I do think there are a lot of merits to it, I am trying to get my head around the major concerns that the Auditor General has about the process of allocating money. I do realize sometimes you invest in businesses that may not necessarily work out according to plan and may at the end of the day not be viable, but the intent is to invest, do due diligence, and make things move forward so the industry is viable.

So I can get my head around it, and this will probably help my colleagues, too, give me a better understanding of how the whole process

worked before I get into some particular questions about some of the concerns. Can you just take me through the process – in 2008 it was established – how a company would go through the process and what assessment tools and that you guys would use to look at the viability before approval and money exchanged hands? Then I will have a better understanding of where the Auditor General is coming through with some of his concerns, please.

**MR. BOWERS:** Okay, thank you.

I can start and maybe my colleagues can add some detail. It is important, again, to go back to 2008 and realize the industry itself at that time made it clear to government of the vulnerabilities around the sector. So they were, in effect, lobbying for support to sustain the industry.

With the announcement of these funding regimes by government at the time, there was a very rigorous and systematic process established to entertain proposals. So there were a set of guidelines established, a set of criteria that any proponent would have to meet. The applications would be delivered based on those criteria. They would be reviewed by a committee that was established with input from the lead, by Natural Resources, by our department, with some input from, at the time INTRD, IBRD today, and some advice from Finance and so forth.

That committee was responsible for assessing the initial applications. Through the process there was quite a bit of interaction and dialogue back with proponents to get clarification and elaboration on any point that the committee wanted to understand better. Then, following the initial assessments there was a presentation of funding, a formal presentation based on templates that are set up within the government system for presentation of funding. Eventually, after full assessment, a recommendation went to Cabinet. So that was the broad process.

Is there anything maybe specific you could add, Gary?

**MR. FORWARD:** I would just like to add that as a part of the process there was a requirement upfront for each mill that was interested in applying for funding to complete a mill diagnostics. We had a leading research organization out of Quebec come in and do a complete diagnostic of the sawmills. That diagnostic was used to evaluate the proposal; but, to say that, we also accepted ideas from the sawmills outside of the mill diagnostic. So, the mill diagnostic had provided some direction to the committee in the decision-making process.

**MR. BRAZIL:** Okay, thank you. It gives me a better understanding.

With that being said, it appeases me that the process initiated would identify and would cover all the bases to make sure that any money that has been allocated would have been done in the best interest of investment for the taxpayers.

With that being said, as you can appreciate, the Auditor General has outlined exactly some major concerns that identifies that parts of that process were not followed. Can you give me some explanation? Was it lack of resources? Was it oversight? Was it misunderstanding or authority? Was it just things went astray? A number of the things that he identifies, part of the monitoring thing, part of Cabinet approvals, is there a rational argument or reason why that did not take place?

**MR. BOWERS:** I think there are a multitude of issues here because there are various points raised by the Auditor General, and we respect all of those points. These projects were complex. We had a change in conditions on a set time of the evaluation.

To give you an example, at the time of application back in 2008, early 2009, the pellet market, as an example, was doing very well. The price of pellets was very high. We had a favourable exchange on the Euro for the dollar in our favour. So decisions at that time were being made in those conditions or under those conditions. Rapidly after the banking collapse and the downturn in the sector, the landscape

changed immediately and quickly. We were faced with a change in condition.

So some of the, let us say, risk – it was about managing risk at the time of going forward – entered the equation at that time. There were, and we concurred that they were, instances where monitoring could have been improved. We had to move forward with proposals with our best information, but in retrospect we could have gotten, let us say, better information, but it was the best information we had at the time. There may have been an oversight on a number of instances, but overall we stayed very closely to that review process and the guidance given to us by the committee at the time.

**MR. BRAZIL:** Okay, thank you on that.

Give me a little bit more insight of the partnership with federal programs, how that worked, and what impact that had on your funding sources.

**MR. BOWERS:** Typically for those kinds of projects there is, if not a requirement, certainly we are encouraged to look for leverage funding so we take the burden off, let us say, the taxpayer and the Government of the Province. In our case, one of the key agencies we would engage would be the federal government through ACOA. Currently, we do a similar approach with RDC now that RDC is available. The idea of using a dollar to leverage a dollar or leverage more dollars is part of the strategy in these proposals in terms of coming up with the full envelope of funding.

This particular project engaged ACOA as a partner in an attempt to leverage additional funding. That would be a clear example of additional funding through a partnership. It is a relatively common partnership to engage in, given the nature of the business here in terms of economic development and trying to sustain, acquire equipment, employ people, build infrastructure. So, it fit ACOA's agenda, to some extent at least, and it met our requirements.



**MR. BRAZIL:** Fair enough, and I do understand when you get into business like this and you have multiple partners that being diversified also means maybe, midstream, making changes and adjusting to everybody's policies and procedures. I can appreciate that, but I do have a concern, as the Auditor General does, about, particularly as politicians and accountable for the public purse, how the transparency and accountability was not an even flow.

My first concern right away is, knowing that you needed Cabinet approval for anything over half a million dollars, why this \$780,000 did not go through the process. Did something go astray? Was there an understanding that you did not need to go that process, or because there was multiple partners? Did somebody fall down somewhere along the way?

I need to know, and I think this committee needs to know not only how we got to this point, but more importantly, as part of this program, how issues like this cannot happen in the future. If we are going to monitor – not only programs like this; this is an umbrella agency. I want to make sure that other agencies get the message that policies and procedures have to be followed for a reason. The Auditor General is the watchdog on that. We serve as the voice of the watchdog. I need to get my head around – that is a substantial issue, particularly from a Cabinet paper on a program that exists within a department.

**MR. EVANS:** We feel that the committee met the guidelines under the FIDP and the approval process. The request for funding was \$500,000, and the committee had the authority to approve that amount of money. There was a transfer of money that was previously approved by Cabinet – \$280,000, I believe – that also had approval, but for a different project under the same company.

From our view, we feel that we had the authority to approve the \$500,000 and just use the unused portion of the other approved amount of money. If you go into that operation today, it is certainly a sawmill under one roof and you cannot

separate two different projects. It is a blended operation and that is the way we viewed it.

**MR. BRAZIL:** Okay, fair enough.

**MR. BOWERS:** If I could add maybe one comment in that because there was money from the first project that was unused, from an administrative standpoint, coming to your question about an oversight, I would argue that it was not an oversight. Administratively, on our books, we ran the two projects as separate entities. The \$500,000 did not require approval because it was below the threshold and the \$280,000 from a separate administrative project was already approved. When the committee decided to go forward, it was not considered to be above that threshold for which we would go to Cabinet. So that was the rationale for the way we approached that particular funding.

**MR. BRAZIL:** Okay, that is understandable.

Can I ask the Auditor General one quick question, if I could? Mr. Paddon, when you look at that, was that your staff understanding of two separate entities?

**MR. PADDON:** There were certainly two separate projects within for that one company. In our view, as soon as you made a decision to transfer money from one project to the other and scope changed, from my perspective, that \$780,000 project then should have received some kind of Cabinet oversight because it was not a \$500,000 project. The Cabinet certainly had approved money for the other project, but as soon as you take it from there and put it to the other one, Cabinet has not seen anything or made any decision around that.

So in our view, at that point, as soon as it became a bigger project with a different scope than the one they had approved on the other side, then there should have been some request to Cabinet for approval.

**MR. BRAZIL:** Okay, so that is where the misunderstanding or misinterpretation between how the program itself ran, thinking it had authority to do that versus under the umbrella it

should have been considered one and you would have had to have gone back.

Okay, I believe my time is up on this one.

**CHAIR:** Mr. Mitchelmore.

**MR. MITCHELMORE:** Thank you, Mr. Chair.

It is very interesting to see that we are here today at the Public Accounts Committee looking at another program that has been administered by the Forestry and Agrifoods Agency where there are issues with the assessment, the approval of payment of money, and the monitoring of spending of this money. Last year, the Public Accounts Committee sat pertaining to the Growing Forward found in the Auditor General's 2011 report and it had many of the same issues. The department's response at the time read many of the same commitments to improve the diligence after reading the report and what we are examining today.

I am cognizant that in 2008 the forest industry in Newfoundland and Labrador was a very turbulent time, certainly. This program itself, the Forest Industry Diversification Program, the \$15.6 million had set goals and guidelines. To look at some of them as to the public money that has been expended, we see there are actually less people employed in the forestry today than what there was at time, even when there was a crisis and people were highly unemployed. Even though those jobs were there in numbers, they were technically lost in 2009.

I want to ask the department, around page 296 and 297, about the program objectives. It lists six points there including, increasing job opportunities and economic growth within the forest sector; assisting in further expansion into export markets; net economic benefit to the Province without providing an unfair competition.

Were these matters accomplished by the \$15.6 million expended? How successful were the programs, the money that was expended to Company A, B, and C? It sounds like from the

discussion that Mr. Joyce had asked, we see two employees who are at one of the companies, and another company currently is on a temporary shutdown with a number of employees laid off. Is the industry better off today than what it was in 2008 because of these investments?

**MR. EVANS:** I will start, and maybe some of my colleagues can add some points. Yes, I believe in my view we did meet the objectives. There are challenges in one area in the Province, in Company A, which we continue to work with, but we do have a facility there, a very modern facility, and we are working through the issues with that proponent.

The other investments that were made have really improved the operation of the other sawmills from a technology point of view and from a product point of view. They have sustained their employment. Yes, one is temporarily shutdown; I believe he is up and running again today. That is a totally separate issue.

We are well positioned for the future now. The price of lumber is on the rise and has increased. So they are taking advantage of the investments that were made. They are very competitive with their counterparts in the Maritimes and in Eastern Canada in particular. If we had not done the program, I think we would be in a different situation right now, and not necessarily a very positive situation.

**MR. MITCHELMORE:** I certainly agree with you. I think the department has made missteps, but I think the industry overall is at a turning point. Because of the investments that have been made, you will see overall improvement in the forest industry.

I want to go into specifics on Table 2 on page 299 in the Auditor General's report. I want to have a better understanding as to Company A, Company B, Company C, basically the terms and conditions of these loans and the breakdown as to what was equity, the common shares that government would have in each company, and what was actually grant dollars or a forgivable loan.

**MR. FORWARD:** I can begin the answer and somebody else can join in if they like. For Company A, it was a repayable loan of \$7 million; and \$2 million of the \$9 million that you see there was a non-repayable investment. That was to support the wood yard in the region to enable harvesting to continue while the pellet plant was being constructed.

For Company B, the \$2.25 million was a repayable loan. The second project with Company B was an equity investment where we took shares in the company. Company C, it is also like an equity investment.

**MR. MITCHELMORE:** How many shares did you take for that equity loan, and what were the terms and conditions of that? Would it be converted to a loan after? Is that option there for the company after? We have seen with IBRD that they have done similar investments where they have put equity on the table and then it could be converted to a loan at a later date.

**MR. FORWARD:** Yes, you are right, that option is there.

**MR. MITCHELMORE:** Okay.

What are the rates for all these loans and equity?

**MR. FORWARD:** The loans are at zero per cent interest, and the equity is similar. It is just that we would redeem the shares over a period of time.

**MR. MITCHELMORE:** So there is no actual interest?

**MR. FORWARD:** Correct.

**MR. MITCHELMORE:** What, in terms of security, did the Province take in terms of lending \$15.6 million with no interest over that time period?

**MR. FORWARD:** We have security on components of Company's A, B, and C plants to secure the investment.

**MR. MITCHELMORE:** What would you say is the risk exposure? How secure for the assets, compared to other creditors, would these investments be?

**MR. FORWARD:** I would say it is – I am just trying to think of the three projects now and just give you a general answer, but I think it is relatively good security. In some cases we may not be at the top, but we have good security and we are confident we can recover our investment if we have to.

**MR. MITCHELMORE:** Okay.

Would that also include the timber rights that would be associated with any of these companies as security?

**MR. YOUNG:** No, the way the system is set up here in Newfoundland, each of the sawmills have an annual operating permit. They are given an annual licence and that can be withdrawn by the government – I should not say at a moment's notice, but we reserve the right to withdraw permits as we issue them. It is only an annual permit that is issued each year.

That is an issue with the industry, of securing a secure fibre supply over an extended period of time. There are a number of mechanisms available for the Province to issue commercial cutting permits. Right now, for all the companies that have been mentioned here, they operate on an annual operating permit.

**MR. MITCHELMORE:** Yes, it seems like that would be very challenging. If you have five-year forestry plans and you know the annual allowable cuts, if you could issue five-year licences, then you could go to outside sources like banks, private investment companies, venture capitalists, or partners to seek investment rather than looking at the public purse. No company, or very few companies, are going to look at investing if there is a one-year chance that, well, at a whim the department could take away that licence or allocation.

**MR. EVANS:** Just to go back a little bit on the security, the securities we have are on physical

assets in the mill. I believe it is clear. The timber, you are right, is a one-year annual permit. The department does not withdraw them on a whim. They are issued annually, that is correct. We only have three mechanisms to issue an allocation under the legislation, but if a company performs well on an annual basis their permit is automatically renewed the following year. In some cases, I am aware that some of the companies do actually utilize their permit or the volume to get funding from outside sources.

**MR. MITCHELMORE:** Okay.

In particular, I guess, when approving these applications there was a call for proposals?

**MR. FORWARD:** What happened there is that when the program was announced back in 2008, we had a meeting with the sawmill industry. That briefed them on the program and laid out the process that would be required to make application to the fund. From there we received proposals from interested sawmills that wanted to make application.

**MR. MITCHELMORE:** How many applications did you receive for this fund?

**MR. FORWARD:** I am just trying to think, but probably seven or eight, somewhere in that vicinity.

**MR. MITCHELMORE:** Did you have an assessment process to determine how the best proposals were actually getting and how funds would be allocated?

**MR. FORWARD:** Yes, we did.

**MR. MITCHELMORE:** Is it possible for the committee to get a copy of your assessment process?

**MR. EVANS:** We can provide the assessment process as we have reviewed the proposals, yes.

**MR. MITCHELMORE:** Great.

**CHAIR:** Mr. Mitchelmore, we should move on to Mr. Parsons.

**MR. MITCHELMORE:** Sure.

**MR. K. PARSONS:** Good morning, gentlemen, nice to have you here. To tell you the truth, my knowledge of the forest industry is not like my partners here in the back row, they are more or less from the West Coast. My forestry job was getting up every Saturday morning with my father and going in and cutting our wood for the winter. He always wanted to have a three-year supply, so he had me up every Saturday morning and doing a bit of wood.

I am very interested in this program, and it seems to me that when I look at Company A and what was done as an investment and the timing of the investment. Basically, in 2008, as we all know, the recession hit and maybe it could have been the worst possible timing to make any kind of investment in anything, really, when you look at what happened in Europe and where you are.

I just want you to explain to me – obviously, there was a lot of due diligence done to make sure the investment was a proper investment at the time, but what effects did – what happened in 2008, as we know, with all the industry all over the world. What happened to the forestry industry, and especially the pellet plant industry, I would imagine it was examined that there was a market. Just explain to me the effects that happened then, especially in Europe. I think your markets were in Europe, and what happened there?

**MR. BOWERS:** Yes, you are right, at the time it was a challenging time. That challenge is continuing in a sense. We are going through a transformation.

The issue with some of the sawmill industry, particularly around pellets, was never really markets. The markets were decent, they are continuing to be quite good, and the trend for future markets is extremely strong. It is more about being in a competitive position and making the transformation in the sector so that it is modernized, innovative, and competitive to allow us to compete in that global marketplace.

The competition is really one, I think it is fair to say, on volume. If you can produce adequate volume and control, say, transportation costs and so forth you can compete, but the markets are firm. Things like the price of pellets will vary, transportation costs will vary, and so forth.

At the time, as I think I alluded to earlier, when the project was initiated the environment and the conditions were nearly all favourable. The downturn that happened quickly put some of this at a higher risk, as we talked about. So we were aware of that risk and the way the committee viewed it at the time, and the way we are viewing it now, is that we went through a process of modernization and innovation to strengthen that foundation for that industry.

We have a foundation today for that sawmill industry in the Province that we did not have before. If we had not made these investments through this fund, there is a very high likelihood that we would not have a sawmill industry today. As the sawmill industry develops, it becomes more integrated and fewer larger mills, and we have a basis today to sustain that industry, primarily through this funding program.

**MR. K. PARSONS:** Okay. So since 2008, the sawmill industry, how has it grown? Money that was coming into the Province through the sawmill industry in 2008 versus 2013, where is it?

**MR. BOWERS:** It has grown primarily through modernization and productivity. The productivity is a key factor in being competitive. So we have fewer mills that are more efficient, let us say. So it is about efficiency and productivity to a large extent.

**MR. K. PARSONS:** Okay.

**MR. FORWARD:** I just want to add, Wade, too, that since 2008 our sawmill production has increased by about 15 million or 20 million board feet as well. Also, right now our industry, in my opinion, is very competitive. We have mills in Newfoundland that would compare to mills anywhere in Atlantic Canada, and that is

because of the FIDF. We have a very good base now to move forward with the sawmill industry. These mills that are operating today went through some very, very tough times. Right now, they are in a position to reap the benefits of the FIDF.

**MR. K. PARSONS:** Okay, that is good.

So you are saying our investments are after improving the industry and made it more competitive in the marketplace?

**MR. FORWARD:** Sure.

**MR. K. PARSONS:** Okay.

**MR. BOWERS:** (Inaudible).

**MR. K. PARSONS:** Okay, go ahead.

**MR. BOWERS:** I have one more point related to that. On the investment side there is that key component of direct investments through this program, but I think it is important not to lose sight of a different kind of investment. That is for many, many years the forest sector made huge investments, millions of dollars, into silviculture programs and growing the forest. We equally made multi-million dollar investments in protecting that resource. So we grow it and we protect it for harvest. We need to realize the full potential of those investments, and one of the ways we are realizing those investments is through the modernization and the development of our sawmill industry.

**MR. K. PARSONS:** Yes, I do a bit of hunting up in the Millertown area in Central Newfoundland. I can see there is silviculture that really came in, and where it was cut over twenty years ago now there are trees. You can see big changes in investments in silviculture.

I want to go back to the pellet plant. In your opinion, is there going to be a market? Is this going to be viable in the future?

**MR. EVANS:** We have a state-of-the-art facility there in that area. The markets are there, certainly very strong as Wade alluded to, and

predicted to increase. There are challenges around the pricing right now, shipping costs, and there are issues in that particular area that we continue to work through with the proponent. It is an ongoing process. Personally, I feel there will be an operation there, a viable operation, in the near future.

**MR. K. PARSONS:** Okay, because I know that on the Northern Peninsula where my colleague is from the forest industry one time was one of the major employers on the whole Northern Peninsula. I can understand why we made the investment that we did. When you take 300 or 400 people out of employment, it is important that you do invest in that kind of industry. So is it a positive thing in the future that you can see for this pellet plant, because obviously we need to get the employment in any part of rural Newfoundland?

**MR. EVANS:** Yes, that is our objective, to have that plant up and running, maintain and create employment in the area, utilize the forest there to the best of our ability, and maximize production. Yes, we feel confident, and as I said earlier, we continue to work with the proponent to make it a viable operation and get it up and running.

**MR. K. PARSONS:** Okay.

Your program, is it active today? The diversification program, is there any activity on it today?

**MR. EVANS:** The funding aspect has ceased, but we continue to monitor the program. There are repayment requirements for some of the loans and things. I do not know if anybody else wants to add anything to that. It is still active from that perspective, and we still monitor and work with the sawmills on a regular basis anyway.

**MR. K. PARSONS:** Okay.

In your opening statements you said the sawmill industry and the pulp and paper industry feed off of each other. How does that work?

**MR. EVANS:** Yes, they have a very strong symbiotic relationship. I will put it that way. The sawmill industry relies on sawlogs from the newsprint industry in a significant way. They sell or trade sawlogs to the sawmills. In turn, the sawmills produce pulp chips and small-diameter round pulpwood, and transport it back to the newsprint mill.

So it is always an exchange of fibre in the Province. If the newsprint industry goes down, it is going to have a huge impact on the sawmill industry because there is no outlet for pulp chips and pulpwood. Similarly, if the sawmill industry goes down, it is going to have a huge impact on the newsprint industry because of the requirement for sawlogs.

**MR. K. PARSONS:** So a lot of the sawlogs that are going to, say, places like Sexton's and places like that are coming from Corner Brook and area?

**MR. EVANS:** Yes, that is correct. He has a number of sources: the newsprint industry would be one; his own operations would be another. He purchases sawlogs from other Crown land operators as well, so a lot of different sources.

**MR. K. PARSONS:** Okay.

I am good on my questions.

**CHAIR:** Mr. Joyce.

**MR. JOYCE:** Yes, I will just ask a few more general questions before I get in.

I heard the department say they did due diligence. Are there any outstanding bills outside right now that are owned by this company because of this, say in Corner Brook or in the surrounding area? I am sure you did an assessment to ensure all the payments were made here. Are there any outstanding payments owed?

**MR. EVANS:** Just to clarify, you mean to other private industry?

**MR. JOYCE:** No, other companies from this pellet plant?

**MR. EVANS:** I will have to defer that question to somebody else.

**MR. JOYCE:** I am sure you did your assessment that all the money was spent and the payment was made because it is government funds. Are there any outstanding?

**MR. YOUNG:** Yes, there are outstanding invoices that are due to some companies around Corner Brook for fabrication and for supplies. Our contribution in the Department of Natural Resources was \$9 million that went into the project, but the project is much larger than \$9 million. The proponent, in this case Company A, had to seek alternative funding. He had to contribute his own funds into the project.

As we explained earlier, unfortunately, the pellet plant is idle. The whole operation is idle right now and there are some invoices that need to be paid by the proponent. So, the answer is yes.

**MR. JOYCE:** Can you tell me how much?

**MR. YOUNG:** Unfortunately, no, I cannot. We would probably have to sit with Company A and review his year-end financials. They are not really due to us until when, Gary?

**MR. JOYCE:** Okay.

Are there any plans, or is there any talk of selling this pellet plant? Are there any proposals put forth to sell the pellet plant itself and move it out of Roddickton?

**MR. EVANS:** I guess the knowledge I have on the operation there, there are always different proponents looking at proposals in the Province, and I am not aware of any right now that would be looking to purchase that operation. Not to say that it would not happen or it has not been inquired in the past, but I am not aware of any right now.

**MR. JOYCE:** In the last six months, eight months, are you aware of any?

**MR. EVANS:** As I said, over the last two years since I have been in this role, there are always proponents coming into the Province looking for opportunity. I am sure there have been people looking at that particular operation. Nothing concrete has come from that yet, but I am not aware of any right at this moment.

**MR. JOYCE:** Okay.

I am just going to go through the Executive Summary, a few things, and there was one thing that was mentioned just then about how to secure funds. I will go to page 294, Payments, "The Department did not always ensure that all sources of funding were confirmed or that the applicant's contribution was actually invested in the project prior to the disbursement of funds."

Is that accurate?

**MR. EVANS:** I will start the response, and maybe we can get some input.

There were occasions that funding from the applicants was not received or confirmed upfront, but it was an ongoing process and a very complex project. The committee reviewed this and was in constant contact with the proponent. We are confident and we can demonstrate that the required contributions have been made by the applicants and, in some cases, exceeded what they were expected to contribute. So, yes, they were, eventually, but not entirely upfront in every case.

**MR. BOWERS:** If I could add a point there on that particular issue concerning the applicant. We did extend a number of deadlines for the applicant in a few instances, and it was primarily because of the change in conditions that we were trying to create a level of flexibility under the program so we had what I would sort of characterize, I guess, as a sort of staggered approach to the application process.

In one company at least, the company's financial status, there was a condition where we required or preferred a contribution upfront, but we waived that because we knew that as the project developed the company would be in a better

position to deliver that contribution. That was why we attempted to try to allow some flexibility on that particular issue.

**MR. JOYCE:** Next, “The Department did not have adequate guidelines related to determining which expenditures were eligible under the Program. For example, the Department permitted the companies to submit invoices that were dated prior to the date the application was submitted and also prior to the date the funding agreement was signed.”

Is this correct?

**MR. BOWERS:** It is not correct in the true sense. What the committee did, they acknowledged that expenditures before the final agreements might be eligible. So they made it clear to the proponent that if you have an expenditure it may be eligible, if it meets the criteria, but that level of risk and assuming that risk really fell to the proponent.

The committee did not say or grant the applicant the privilege or simply invoicing before that time period. They just said you may be eligible. That would have to be assessed, based on the nature of the invoice and its direct relevance to the project.

**MR. JOYCE:** I ask the Auditor General: Is that correct? We are hearing now that it is not correct. Were there invoices and were payments given for work that was done prior to the date the application was submitted and prior to the date the funding agreement was signed?

**MR. PADDON:** I do not think we are saying different things here. My understanding is that there were expenditures made by proponents prior to signed agreements. If I hear what I think Mr. Bowers is saying is that they indicated to the company that they could make the payments, but there was a risk that they were not going to get funded once the agreement was signed. Perhaps, at the end of the day, they did allow those payments to be eligible.

Our point is really that typically, in my experience, there are two points in time: one is

the point up to when you make the application; then there is the point that the application is approved. So if you make an expenditure before you even make an application, there is almost an inference that perhaps – you cannot assume there is going to be a program unless you are going to apply for it, so any payments that you made before that should be on your own nickel, as it were.

There is perhaps a grey area between when you apply and when it is approved that there is some flexibility that you could go back and say okay, we will allow it. Typically what I have seen in other programs that are administered by governments is that you certainly do not get funding against expenditures you make before you apply to the program, and in a lot of instances not even up until it is approved. That is a bit of a judgment call.

**MR. JOYCE:** So before they even applied for the program there are expenditures that were approved after they applied. Am I correct on that?

**MR. PADDON:** Yes, if you look at Table 5 on page 307, we have indicated here that for two of the projects there were some expenditures made of about \$306,000 that were made before the application was received; and then prior to the agreement being signed, \$1.7 million, which includes \$306,000. That is a subset.

**MR. BOWERS:** (Inaudible) one more note on that. When invoices came in, they were fully assessed in terms of their relevance to the project, but the key point I should make is that at the time of that downturn there were a lot of pieces of equipment on the market and auctions on the market that these companies were able to take advantage of to get discounted equipment for these mills at a very low, discounted rate. The result or the implication of applying that invoice allowed government to save enormous amounts of money. There were huge savings involved in that decision.

**MR. JOYCE:** Excuse me, but I have seen a lot of government programs and any money spent prior to the application will not be accepted, and



we see it all the time. I am not saying you are not correct, Mr. Bowers, but it is pretty hard for me to say that you went out and bought a piece of equipment for a program you did not even know was going to happen. There was not even a program and you go out and buy a piece of equipment for a program that may come in the future.

**MR. EVANS:** No, the program was announced and we had consulted the sawmill industry at that point. They were aware of the program, but as the Auditor General pointed out, there were some invoices permitted before applications were received.

**MR. JOYCE:** Okay.

**MR. EVANS:** We felt comfortable in that decision.

**MR. JOYCE:** I just have two more questions before I move on.

On page 293, “The application and business plan for Company A was incomplete and did not include required information regarding related companies, debts owing to the Province and a detailed market analysis.” Is that correct?

Page 293, the second last paragraph, “The application and business plan for Company A...”

**MR. YOUNG:** I can address this question.

For Company A, that is correct. The application and business plan that were received, the business plan that was attached to the application process did contain incomplete information. We recognized that as a committee, and through our due diligence and through the financial analysis that was completed – and in this case it is called a presentation of funding.

During that process of reviewing the financial information of the applicant, most current information was used; 2008-2009 audited financial statements, net present worth, statements were used as most up to date. As

well, we conferred with the applicant to get additional information around markets and things. It is correct.

In the application process there was some incomplete information; however, when we took it to the next step, when we reviewed the application and did the presentation of funding, did the financial analysis of the project, all of that information was provided and the most current and up-to-date information at that time was used.

**MR. JOYCE:** You mentioned audit statements, 2008. Did you go back to 2005 as was required?

**MR. YOUNG:** Yes, 2005 statements were attached to the application. Then we took it from – and during the presentation of funding we used the most current information.

**MR. JOYCE:** I will discuss that later.

Next, “The Department reimbursed Company A approximately \$1 million related to claims that included the Harmonized Sales Tax (HST) on the invoices claim. The HST was eligible for an input tax credit and was, therefore, recoverable from the Federal Government by the company. As a result, the Department paid the company approximately \$1.0 million that should not have been considered an eligible expense of the project.” Is that correct?

**MR. EVANS:** I just want to point out, the FIDP guidelines did not specify the inclusion or exclusion of taxes on total project costs but we do acknowledge that it happened, unintentionally. It was an oversight on our part.

Since the commencement of the projects, all tax credits have been reinvested into the project by the proponent. We have continued to work with him, continued to review his invoices, and today we are advised that the proponent’s contribution, including the HST, the rebate he received, equals a \$2.9 million investment by that proponent.

**CHAIR:** We should move on to Mr. Cross now.

**MR. JOYCE:** Yes.

**MR. CROSS:** Thank you, Mr. Chair.

Again, I almost need to echo comments Mr. Parsons made, that my experience with the forestry industry is very limited. Bonavista North did have a very rich history, the Indian Bay area and all through Bonavista North and Carmanville area, up to 1961, and then a fire wiped us right out. Through my years of growing up, we saw white sticks in the woods. It was not until I went to the Northern Peninsula to teach in 1979, that I actually knew there was a tree in Newfoundland big enough that you could not put your arms around it. Before that, it was bush and rock. I guess my history is pretty limited there.

I looked at this closely and studied it somewhat, as I could. In looking at 2008, when this program was initiated, the objectives – like to compete in the global economy, develop specific new products to make and meet new market opportunities and to stabilize the forestry industry whereby we cannot absolutely, categorically say we have done all these things. We can say, if what I hear is right here this morning, that we are poised on the brink of this now and by doing this program we are poised to take opportunities that we would not be able to take advantage of if this was not in place.

We also looked at the complexity, the issues and the risk, and all of these things that were associated with this program in its inception and as it grew, but through the whole process, because of the complexity and these issues, there were many of what I would probably term – and the word has come up – of missteps throughout the process.

Mr. Parsons also asked a question: What funding applications are you dealing with today, sort of not active that way, proposals for funding today? Through the recommendations of all these missteps that were created, I want to look at: How are we ready for or what action is taken in the department, if we did get to active funding applications again today, that the recommendations from the Auditor General's

Office have been met or have been taken and a growing process had taken place?

If you could indulge me almost on a hypothetical hunt for a few moments, I want to look at the various recommendations for the different sections and just ask that question.

The first area, Approval and Assessment of Applications, if we look through the report, and it is complex, we talked about information not being totally complete on applications, business plans being incomplete or being redone and added to, and funding not properly approved in a couple of instances. The major recommendation in this area was that, "The Department should ensure project proposals are properly assessed before being approved to ensure all projects meet the criteria established for funding..."

If this was going to happen today and we were going to repeat 2008, 2009, or 2010 again, how have you reacted to these statements to prepare for that or are there changes that you have done?

**MR. BOWERS:** I think you have characterized it really well. There were lessons learned here and there were some oversights that we needed to and we are addressing. There is no question.

One of the things we are confident on is the actual assessment process itself. It was fairly rigorous. We are comfortable with that assessment, but we realized there is a need going forward to put a lot of emphasis on the outcomes and the benefits, that we derive and understand what those benefits should be. We can do more there by, say, more detailed site visits, for instance, to some of these operations to understand better the progress that is being made, to make sure we have maybe additional progress reports along the way so we hit certain milestones along the way that can be improved. We recognize that.

At the end of the day, there is a need for our department, and we are looking at this, to develop maybe an accountability framework so we can actually get a better measure of progress. So we compare the objectives of the program to the outcomes and the final product, and have

some measures there that are a little more tangible. We see areas there where we are continuing to improve. We have learned a number of points through this exercise, through this particular program, where that can be improved.

In the broad sense, in terms of application process, committee review and the right questions to ask, we are still very confident that fundamental process is very solid around this project.

**MR. CROSS:** Okay.

Obviously, we also talked about some of the changing conditions that were beyond the control of the forest industry here in Newfoundland with the pellet prices, the prices they could obtain, the rates of the Euro, and also this entire downturn in the economy in Europe. All of these things that were sort of out of our control, at the end the whole element of risk is still there.

When you make a decision based on all of this sound background, there is still a risk that it is still beyond your control. You make that step and confirm that, yes, we are going to go ahead with funding because of all the process that has gone. Then that risk is ultimately very high and you still have to look back, and we know what hindsight is; it is twenty-twenty compared to making that decision at the point in time. It is, again, like a gamble in some cases, but if you mitigate all of the other factors I guess there is still a degree of hope that things will work out.

The second part of this with regard to payments and approvals, again there are many indications of ideas that were not quite satisfactory to the eye of the Auditor General. On page 310, the recommendations are there, like to, "...confirm all sources of funding prior to project approval..." or to develop program guidelines that address that. Again, how would that be dealt with, if this was repeated or for the future? Because I know that is what we are looking at, is how to correct some of this.

**MR. EVANS:** Yes, we recognize and certainly acknowledge and accept the recommendations of the Auditor General. As Mr. Bowers mentioned, there were some lessons learned here on our part and the confirmation of sources of funding at the time, from outside sources, we felt confident that they were there, but we did not have that letter in our hands sort of thing. That will be something that will be changed if we have a future program, that type of rigour I mean, and to adhere to strict guidelines, a very systematic approach to it, and adhere to the guidelines that we develop. Certainly if we have another program there will be improvements in the processes that we lay out.

**MR. CROSS:** Okay, and I think one of my colleagues talked about the monitoring that was referred, to so I think the answer to any question I might have had in that area has already been addressed.

Again, just to say that my knowledge of the intricacies of all of this is not great, I am intrigued by the type of questions that my colleagues are asking and I look to their expertise to draw out the answers that we need. From these general terms I am satisfied with that intent and to know that as we move forward consciousness is built in to make sure that maybe some of these missed steps will not be there if things repeat. That is the growing and the learning process. So I defer the rest of the time to the details of my colleagues.

Thank you, Mr. Chair.

**CHAIR:** Mr. Mitchelmore.

**MR. MITCHELMORE:** Thank you.

I would like to ask a question on page 301 relating to the business plan being incomplete. For Company A, it talks about a personal net worth statement that was undated and only contained information to 2005. However, the application was received in June 2009.

I am just wondering, why such an oversight by your officials, or looking at especially expending

\$9 million and not knowing the worth of an individual or the companies and subsidiaries?

**MR. BOWERS** We acknowledge that the personal net worth statement should have been included in that initial application, in that very first application. We did detect that and we did go back to the proponent to get that extra information so that by the time we submitted the presentation of funding that extra information was included.

**MR. MITCHELMORE:** Okay.

When it comes to the business plan here, obviously the application was submitted in June of 2009 and it talks about that the company had requested on March 31, 2010 a more comprehensive marketing plan.

What actually pushed the department to make that request?

**MR. BOWERS:** My understanding is that at the time the Committee reviewed the initial application with its marketing plan we identified some deficiencies in that plan. The plan was not as comprehensive as we wanted so we went back for extra information, for a more comprehensive marketing plan basically, to feed into the proposal.

**MR. MITCHELMORE:** Initially, were sales to come domestically?

**MR. YOUNG:** Actually, there was a three-pronged market plan that was proposed initially by Company A. Part of the sales market identified was local sales for the residential market as well as the industrial market here in Newfoundland. Another portion of the market plan consisted of sales into Atlantic Canada, into the bag market for the residential market, so there was an opportunity there. The third component was to explore the opportunity to export into the European market. That would be into the larger bulk sales into Europe. Actually, there was a three-pronged marketing plan that was initially proposed.

**MR. MITCHELMORE:** Right.

It just seems from a series of events, having approved funds, then go back and request more detailed markets and things like that, after expending nearly all of the funds, I am just wondering about the dynamics. What significantly changed from the initial marketing plan to the current marketing plan that was submitted? Did it move from the industrial market to a more export-focussed market?

It goes on to say here, "We note that since January 2012, the pellet plant has been idle due to a number of issues, one of which was inadequate shipping and storage capabilities." So I would just like to know the reasoning and if the marketing plan is to ship to Europe, I mean the new one that had been submitted? Was shipping and transportation looked at?

**MR. BOWERS:** I think the marketing plan initially, as I said, failed to capture the market potential. We, as a committee and as a department, knew that market potential. We were aware that the market potential for pellets was quite high and growing, but that was not reflected in that initial plan. So we wanted the proponent to capture that. We knew that information based on our in-house research, but also through some consultation with the Wood Pellet Association of Canada. So we had a high degree of confidence around the market, but we were not seeing that expressed in that initial market so we came back.

In terms of the shipping at the time, when we evaluated that the initial plan on shipping and storage was targeted in 2008 to both Stephenville and/or Corner Brook, those ports. So given the volumes possible, the market conditions, the price of pellets, and the exchange rate, we knew at that time that those sites had a high potential for economic success. So we needed to see those details better laid out in the plan. So that was the reason why we wanted that elaboration on that second market plan with more emphasis on the market potential.

**MR. MITCHELMORE:** Right.

You did mention a 2008 report. I just want to go back before this proposal to *The Telegram*

article that was published, Roddickton Pumped About Pellet Plant, May 8, 2008, talking about everything being rosy, although, “Details of the planned pellet plant are sketchy, but 40,000 cubic metres of pulpwood are expected to be needed from the Northern Peninsula in the coming year.” It goes on and talks about in detail how the Province’s revitalization plan, which would be this particular plan we are talking about, “...allocates millions of dollars for finding new markets, creating business plans, equipment for sawlogs, the plan for pulpwood...” that would create big changes in the industry.

It talked about the Integrated Forest Products Group, a coalition of Newfoundland’s seven sawmills, submitted a proposal intended to save their industry to the Natural Resources Minister and the Innovation, Trade Minister.

It called for three pellet plants across the Province, built by industry. Government would, in turn, convert its buildings near the plant, such as hospitals or schools, to pellet heat and provide a guaranteed market.

The benefits, according to the President of the IFPG, would be a market for pulpwood created and the government would save on heating costs. Pellet plant heat would be approximately half of oil heating at current prices. The government commissioned a cost-benefit analysis of converting public buildings to pellet heat.

I would like to request that we receive a copy of that report that was commissioned. It says from this report, government or industry would get a return on their investment, converting from oil to pellet heat, within three to four years.

This was all back in 2008. I am just wondering: If this report was already commissioned in 2008 to show that public buildings could be converted, what actually was required to go back to the drawing board when it came to markets? It states in that article that you could actually fill the market for three pellet plants, domestically.

**MR. EVANS:** I am not familiar with the article that you just quoted from. Not being in the role, I am not clear on that analysis paper but we will investigate that. If it is available, we will provide it to you.

I just want to point out there are some complexities, as you may know, about converting oil-burning facilities to wood pellets. There are actually two commercial buildings here on the Avalon: nurseries that are using pellets today; and we have a small government facility on Brookfield Road where we are utilizing pellets, or will be shortly.

There are a lot of complexities around the conversions, a lot of capital investment required upfront, but we still continue, I guess, to explore those options. That is still being continued by the department or explored.

**MR. MITCHELMORE:** Payback for those was stated at three to four years. If we look at the capital expenditures of the government over a period of time in building new hospitals, new schools, that would not be converting, that would be using new technology.

I guess my question around this is that if the government approved this money, had already expended it, which department did not do its due diligence here when it came to looking at allowing a pellet plant to be idle for a number of issues because of inadequate shipping and storage capabilities? Was this something that was missed in the initial assessment or what is the barrier there, I guess?

This is on page 302. What are the issues, I guess? The Auditor General notes, “...due to a number of issues, one of which was inadequate shipping and storage capabilities.”

**MR. YOUNG:** I think the answer to your question goes right back to the opening statements by Jim and Wade. It is really about economics. That is what it comes down to.

At the time of 2008 and 2009, the economics made sense to be exporting to Europe out of the West Coast of Newfoundland. You could afford

to transport the pellets from the Northern Peninsula down to Corner Brook and export it, bulk exports. Things have changed significantly. The euro has changed from \$1.80 down to about \$1.29 now. The shipping costs to Europe has dramatically increased in the last three or four years. The price of fuel for those large ships has gone up significantly. So, those conditions have changed over the past number of three or four years.

The opportunity to ship pellets via truck over any extended period to a port is very difficult. The math gets really poor when you do that. Because the conditions have changed in Europe, as well the falling price of wood pellets – initially, in 2008, we were looking at around \$220 a ton, FOB, in Rotherham. That has significantly dropped since then. It is around \$160 or \$170 now, depending on the agency that you are dealing with, the energy company. The math is different now.

Is there an opportunity to ship pellets from the Northern Peninsula out of a port here on the West Coast? No, I do not think so. That is different.

What has also changed is the size of the vessels that would be used. Initially, back in 2008 and 2009, we were looking at 8,000 or 9,000 ton vessels that could ship to Europe. Again, that has changed dramatically. What we have seen now is those vessels are not readily available any more. A lot of the energy companies are moving towards the large – they are called Ready-max vessels, which handle about 25,000 to 40,000 pellets in a shipment.

The math has changed; the logistics has changed dramatically. For those reasons, the conditions that were set up in 2008 and what is real now in 2013 is dramatically different. You have to change your business plan and your tactics as conditions change in the global market. That is the answer.

**MR. FORWARD:** Just a comment on the industrial conversions. There are some issues there. There are some opportunities there, but it is a bit like a chicken and egg thing and I think

what we have found is that it requires huge investments to move into burning pellets in an industrial situation. I think that people are reluctant to move to that way, until you see more pellets being produced in the Province.

It is a bit of the chicken and egg. You would not go out and buy an oil furnace if you did not have any oil available. So, it is very similar to a chicken and egg. We need to get the industry built up enough so that people have confidence in the supply. I think that is one of the bigger issues.

**MR. MITCHELMORE:** Yes, there are certainly long-term contracts to be had in Europe and in the United States for multi-year shipping and export; that is quite evident in the world market.

**CHAIR:** Mr. Mitchelmore, we should go to a government member now.

**MR. MITCHELMORE:** Yes, Sir.

**MR. K. PARSONS:** I have to say this is a very interesting conversation we are having here this morning. I have learned quite a lot.

You talked earlier about there were three phases, you looked at domestic and you looked at probably Atlantic Canada markets and European markets. What has changed since 2008 for our domestic market here in Newfoundland? I guess, in 2008, you must have looked at saying okay, the possibilities of what we could sell in Newfoundland versus what we are selling today. Where are we to there with that?

**MR. EVANS:** I will start with the response. The domestic market in our Province is very small and the commercial facility producing pellets would have to – the economics would not be there just to supply the domestic market alone, because you need volume to be profitable. I would think the Atlantic market, there are producers in Atlantic Canada and in Eastern Canada for sure, that the trucking costs and the cost of pellets itself, they can probably put it in Atlantic Canada cheaper than we can from the Island here.

I do not know, Wade, if you want to add anything more to that.

**MR. FORWARD:** The market for domestic pellets was very small in 2008. The Province had a small program where we encouraged people to buy wood pellet appliances, and we had some success with that. I would think the market in the Province now is probably 3,000 or 4,000 tons of wood pellets and some that is being supplied by our local producers, but the local market will never be able to consume the large volumes that are required for a large size of pellet plant. It can help, but it will never be able to absorb 40,000 or 50,000 tons and you would have to move into industrial applications in order to achieve that.

**MR. K. PARSONS:** Okay.

Mr. Mitchelmore just read an article there from *The Telegram* and it suggested that it is a viable industry and going to be a growing industry, so your forecasts obviously in 2008 versus what they are today are a lot different. The forecast that you had there, the pellets just did not grow here or did not fly off the shelves like you thought they were?

**MR. FORWARD:** I think in 2008 and 2009 when we commenced the program we probably assumed the uptake would be a little more. Some of the issues are that these wood-pellet stoves are expensive and a lot more expensive than a conventional woodstove. That is one of the impediments, I think, for moving forward, but there have been some real interest in wood-pellet stoves in the Province, and we see that growing. So what we initiated through the wood pellet rebate program has been good, and I think it has introduced wood-pellet stoves into the Province. I think we can see that grow in the future.

**MR. K. PARSONS:** Okay.

Just a question now out of curiosity, really: What would be the difference between, say, the cost of oil versus wood pellets? If I was going to build a home tomorrow and I wanted to use

wood pellets as my source of heat versus oil, what is the difference?

**MR. YOUNG:** I can handle that one. I have a wood stove and that. Basically, I have a really modern home on the West Coast and my heating bill now is around \$1,000 a year when I am heating my house with wood pellets. Most of the wood pellets are around \$5 a bag, a forty pound bag. In comparison to previously, when the price of oil was higher than what it is right now, my heating bill was around \$3,500 a year. I have since paid for my stove within two heating seasons. I see a real benefit and I am encouraging people to come, visit, and see the technology that I am using.

That is just space heating. The real savings are in boiler systems. The technology that is out there now, there are probably about half a dozen or ten homes or residents in the Province now that use wood pellets through a boiler system where the heat is radiation heat sort of thing. That is the way to go. If you are going to do a new facility or a new home, you would look at a boiler system that would be heated with wood pellets. It is very, very competitive to oil.

In terms of electricity, it is still competitive with electricity; however the payback time would be significantly longer than it would be if you were burning oil. Then there is the whole carbon issue that you would have to look at as an individual.

**MR. K. PARSONS:** How about for storage? I look at when I grew up; we burnt wood and had the teepee behind the house type of thing. So for wood pellets, you would have how much storage and how much burning? Do you have to have a lot of it stored there in order to burn it? How does it work?

**MR. YOUNG:** No, unlike firewood where historically we plan a year in advance, I plan about a week in advance. I store probably twenty or thirty bags at a time in my garage, which take up no more space than this desk I am leaning on here. Because of the availability, initially in 2008 when we tried to put the pellet rebate program out, there were issues in

availability of pellets around the Province. You cannot ignore that. Since then, almost all of the building supply stores and the Wal-Marts, wood pellets are readily available from of a number of distributors or producers outside of Newfoundland as well as within Newfoundland.

So storage is not an issue, or it is a small issue, availability is no longer an issue, either, and the prices are going down. As more competitors are in there you see the prices starting to drop a little bit on the purchase price.

**MR. K. PARSONS:** You had a week's supply. My father used to like to have a three-year supply of wood cut. So he had us in the woods quite a bit.

Just the pellets itself, are all the pellets that you buy at Wal-Mart and everywhere else, are they all produced here in Newfoundland, or most of it?

**MR. YOUNG:** No, they are not. Unfortunately there are real issues with distribution of goods in Newfoundland, and if anybody is familiar with how Canadian Tire or Wal-Mart operate, it is significantly different. We were a bit naïve in thinking that we would be able to tap into the Wal-Marts and to the Kents here in Newfoundland with a local product. Unfortunately, most of the distribution is done in Truro and it is done in and around Nova Scotia and that, so goods in Newfoundland would have to flow up to Truro and then back to Newfoundland again for it to be distributed. That is a real eye-opener. So because of the distribution system set up by Wal-Mart, Kent, and a few other suppliers, Canadian Tire particularly, they feed off Atlantic Canada, and it is just the way that it is set up.

So you see a lot of pellets produced in New Brunswick, Quebec, Nova Scotia, and here in Newfoundland being sold. It is tough for the local producers to get into the market. Most of the sales that are being done here in Newfoundland are through purchased direct sales, going through the producer and purchasing, such as the one in Bishop's Falls. All of his sales are out of his facility, pretty well

the same thing it is with Cottles Island that he sells. He did have some success with Sobeys and was able to tap into that market for the smaller bags, as well as the larger bags. He did have some success in that. It was limited success. I am not aware if his contract with Sobeys is still standing. I am not sure. I would have to check on that.

**MR. K. PARSONS:** What is the total production of wood pellets now in the Province?

**MR. YOUNG:** In the Province right now, like I said, we have two facilities that are operating. The one in Bishop's Falls would probably produce around 1,000 to 1,200 tons a year. Cottle's Island in Summerford has a capacity to produce around 10,000 tons. They have never achieved that capacity. They vary from year to year. I would say they will probably produce around 2,500 to 3,000 tons of pellets this year.

**MR. K. PARSONS:** Okay.

I have a question for the Auditor General. I know this particular one we are dealing with here this morning is a lot different from what we have been dealing with in the past. It is more or less a program type thing, when you went in and looked at different expenditures and how they were expending their money, for example, cellphones and different things like this. I guess this program is a little bit different when you went and did your investigation, because mainly we are looking at three companies and how it was done here. How do you feel with the response you have received from the department?

**MR. PADDON:** It is really difficult to say, because you are right, it is a bit unique where this was a one-off program and the program has since been discontinued.

I was just thinking about how we would evaluate, I guess, the department's response to our recommendations. It might be a bit difficult to look at anything definitive, unless we could look at similar programs that were perhaps currently being administered. We will have to sort of think a little bit about that.



I think it would be difficult to be able to definitively say, yes, they have taken the appropriate action. I do not think it is because they necessarily would not want to. It is that you really only can look at it once you have a program that you are going to administer, and I am not quite sure what the agency has on the go at this point in time. We will have to see when we get there.

**MR. K. PARSONS:** Yes. It is going to be very difficult to go back and do your two-year assessment too, afterwards, even when –

**MR. PADDON:** Yes, you cannot go back to this particular program because it is over.

**MR. K. PARSONS:** No, you cannot go back to this program. It is not there, so there is no judge to what it is.

In the future, is there any more? Do you think this program is going to be used again in the future?

**MR. EVANS:** I cannot predict that. From a forestry perspective, it depends on the need I guess, and the budget process.

We are involved, from an Agrifoods perspective, in the agency on a Growing Forward 2 program. It is another five-year funding program for the agriculture and Agrifoods business here in the Province. We were here last year under Growing Forward one. That is an opportunity there, and there are other funding programs in Agrifoods as well, but forestry right now is very limited at this point.

**MR. K. PARSONS:** Okay.

The whole program itself, diversification program, obviously there was a huge investment in these companies. What do you see this investment? Do you think it was a good investment? Do you think we made our money? I know the sawmill industry, as you indicated before, has tapped into the markets and without the investments that were made. The overall program, in general, how do you feel that it worked?

**MR. EVANS:** My opinion is that it was very positive for the sawmill industry. They are well positioned now. They can compete with their counterparts in Atlantic Canada or Eastern Canada. They are taking advantage of the higher lumber prices and doing very well. They have diversified their product in some cases and sustained the employment levels that they have traditionally held.

The one on Company A, we have a good facility there. It is poised, and we continue to work with the proponent to get it up and running. It is not operating yet today, but we are confident and optimistic that it will be into the future. From my perspective, it was a very positive and successful program.

**MR. K. PARSONS:** Okay.

The forest industry is such a different industry, if you look at the fishing industry and what happened, and basically the same thing with the pulpwood. You had three large mills here in the Province and then all of a sudden it is gone. It is something like the cod fishery, gone, but at least the fishery could fall on crab and other species to compensate for that. The forest industry, the only thing since the pulp industry has gone where it is, is the sawmill industry where you are looking at.

What was the employment, say, before 2008 in the whole industry, as such?

**CHAIR:** Mr. Parsons, we should soon take our morning break.

**MR. K. PARSONS:** Okay, no problem. If you could just answer that question, that is all.

**MR. EVANS:** I cannot definitively quote an answer. We had three newsprint mills and eight integrated sawmills, so it certainly would be higher than it is today. We say right now in the whole industry there are close to 4,000 direct and indirect, and induced jobs created in the Province. So it was much higher in 2008, I am sure.

**MR. K. PARSONS:** Okay.

It is a huge industry, obviously, still with 4,000 people employed in it. So it is very important to the whole Province.

**MR. EVANS:** Yes.

**MR. K. PARSONS:** All right, I thank you.

**MR. EVANS:** Thank you.

**CHAIR:** We will resume in, let's say fifteen minutes. You never know; it is likely going to be a long day, so let's take fifteen.

### Recess

**CHAIR:** When we broke, we concluded with Mr. Parsons, so we will take up with Mr. Joyce.

**MR. JOYCE:** Thank you, Mr. Chair.

First of all, I just want it on the record that we are here today asking – my assumption is most of the people who are here from the department were not even a part of this decision making or just going through the information that has been provided here. There are two who were part of the decision and two who were not. That is what I am being told here. I appreciate, sometimes, that you have to go on the records that you have.

I just say to Mr. Bowers: I hear your optimism about the pellet plant and the operation, but it is hard for me to be optimistic when I realize that there is \$11 million or \$12 million spent, there is no wharf down there, there is no docking facility, and no market. So, I am just not as optimistic that the work has been done.

There is another comment that was made earlier, talking about 2008 and talking about how the markets change. It is part of the process in 2008, but I have to put it on the record – and I go to page 301 – it was 2010 that they were still looking for a business plan.

We are not talking 2008 when we had the great drop, and 2009; we are talking about 2010 when the department still never had “a detailed market plan by March 31, 2010 as a condition of funding, however, this plan was not received by

the Department until August 2010 at which point the Department had already contributed \$8.4 million of the \$9.0 million in approved funding. In addition, in a letter to the company in December 2010, the Department indicated that they had not yet finalized their assessment of the company's marketing plan and questioned if the company had any confirmation of markets. At this time \$8.9 million had been contributed to Company A without an approved marketing plan which was required prior to any funds being dispersed.”

I, as a person here on the Public Accounts, take a bit of exception when we talk about what happened in 2008, when here we are in 2010 and still trying to get a marketing plan, but gave the money prior to. It is all we hear, that in 2008 things changed, but it was 2010 you were still looking for the marketing plan and there was supposed to be no funds.

The question I will ask somebody – and I do not know if anybody can answer this because it was already mentioned that it was sent up to Cabinet – was it sent up to Cabinet prior to the approval? Obviously, up to 2010 there was no marketing plan even approved or up to August was not even submitted. Was it submitted to Cabinet that there was no market plan in the analysis that was sent to Cabinet as part of the high risk? Was it submitted to Cabinet that there has been no marketing plan given to us from this company?

**MR. BOWERS:** Just let me make maybe a preamble or a comment on optimism. You raised the issue that you are less optimistic maybe than I am. Just to clarify, one of the reasons for my optimism about the forest sector in general terms is that we see and we understand that there will be an increase in the demand for fibre into the future. The demand for fibre is actually increasing on a global basis, and it is going to continue to increase for a long time.

Now, the reasons for that demand are not tied exclusively, obviously, with the pulp and paper sector. That is a sector that is in a downturn. In a more innovative sense, there is going to be an

increase for fibre for things like pellets and for other, newer, and more novel products, everything from cosmetics to new drugs to new cellulose material. On a global basis, there is recognition that trees offer valuable materials like cellulose, and lignin, for instance; new glues can be derived from lignin.

Part of my optimism is looking into that future and looking at new products that will arrive, some products that are quite new –

**MR. JOYCE:** So my question: Was it sent up to Cabinet without the market analysis being completed?

**MR. BOWERS:** Okay, so that second part of your question, my understanding is that at the time when the paper went to Cabinet, we had this initial marketing plan anyway. We had that as a start. The deficiency was that the marketing plan was not as comprehensive as we wanted.

I cannot answer what qualifiers were on that marketing plan in the Cabinet paper. I was not privy to that, and I do not know if any of my colleagues have any insight into that, but I can say that at that time we did have that initial marketing plan that we deemed was –

**MR. JOYCE:** When did you have the marketing plan? Because here in the Auditor General's report – and the Auditor General can confirm if I am misquoting him – “As a result, the Department requested that Company A submit a detailed marketing plan by March 31, 2010 as a condition of funding, however, this plan was not received by the Department until August 2010 at which point the Department had already contributed \$8.4 million...”.

Did you have the detailed plan by the time March 31, 2010? I mean, if there were two people there I am sure they would know.

**MR. YOUNG:** I can address that question.

As Wade alluded to, in the presentation of funding that is developed for the application process that would go before Cabinet there are a number of categories inside that. There is

financial, there is diagnostic, what equipment you are using, what the budget is, and what your markets are. There is a section there around markets. That was completed, based on the applicant's application and through conversations with them, when we did our due diligence on completing the presentation that would eventually end up in Cabinet.

It was identified, as Wade alluded to, that there were deficiencies on the marketing side of things. We knew that upfront and we put it into our presentation of funding. That is why in Cabinet, when the minutes of Cabinet came out, it said: Please work with the proponent and have a business plan completed by March 2010. Yes, that was our instructions and we proceeded with that.

Also part of that, we spoke with Company A and we said: You need people to work with you to help you develop that. We encouraged them to hire a plant manager who would serve in the role as a marketing person as well. We did that. It takes a while to hire someone on. That individual was hired during the spring months, or the winter of 2010. At that time, Company A came to us and said: I just hired my marketing guy. I just got my plant manager on line. He is going to need time to get his head around this. Can I be given an extension to prepare our marketing plan, based on the most relevant information we can gather right now?

As a Committee, we met and we decided to give that extension, to grant the extension.

**MR. JOYCE:** Okay.

I am just assuming now that Cabinet, which Premier Dunderdale was the minister at the time, brought it to Cabinet without a marketing plan completed, approved spending up to \$9 million of funds without a detailed market plan and said, okay, go ahead and spend the money but go back and fill in the blanks on the marketing plan. Do you see the logic in that?

Before you spend money in 2010, by the way, not 2008, don't you see the logic that before you would spend government funds you would

guarantee that you have the markets? That you would have the confirmation saying – it is like now when we are going through Muskrat Falls, they are trying to sign agreements; yet, the testimony we are getting here today is they spent the money without a detailed marketing plan of who they were going to sell the pellets to, what the costs are going to be, what the costs are of shipping. There is no marketing plan.

How can anybody justify spending government funds without having a guaranteed market in selling it?

**MR. BOWERS:** At the time, the committee and the department recognized the marketplace and the potential in the market. There was no question that was not recognized by the department at the time.

I think from my point of view, I see it as an attempt really to elaborate and provide more details on the market plan. It was not that there was no information on the market. There was some information on market conditions but there was an attempt to get a better refinement and a better exactness about the marketplace that we were after. We were struggling for more detail.

**MR. JOYCE:** Do you have any signed agreements for buyers?

**MR. EVANS:** The proponent continues to be over the last number of years, and back then in conversation and discussion with potential buyers of the pellets. As Wade alluded to, the market was very vast and it is still growing today. The market itself was there, and we were confident it was there. There were no contracts signed, I believe, but there was some indication they would purchase the pellets from the operation –

**MR. JOYCE:** This is my last question on this, my last comment. What I am being told here today is there was \$8.4 million of the \$9 million approved in funding spent before a detailed marketing plan, and even a part of that marketing plan, there was no confirmation of any agreement to buy the pellets from this plant in Roddickton. Is that correct?

**MR. EVANS:** The first part of your question, as we alluded to, there was a marketing plan developed as part of the proposal. We went back and asked the proponent to elaborate on that. That was there.

The contracts could not be definitively designed until they were actually in production and could demonstrate that they could deliver the product. We were confident, and still today in other areas that we are dealing with, the market is there, the buyers are there, and they do demonstrate that the need is there as well.

**MR. JOYCE:** If we have all of that, why is the facility not in operation?

**MR. FORWARD:** Can I add something about markets and how things work in Europe?

The way things work with the marketplace in Europe is when you enter into these larger sales, you enter into what is called an off-take agreement. You sign a five-year agreement or a ten-year agreement with a company, usually a utility. The pellets are burned in Europe for energy consumption. What happens is you do not really nail down the contract in your final market until you are able to produce a pellet because these contracts are based on BTU value.

What happens is, when you get into a conversation with a potential customer you send a sample of your pellets. They will do an analysis and determine the BTU value. What they pay you will be based on the BTU value; therefore, your dollar value is based on the quality and energy content of your pellet.

In Company A's predicament, they really could not nail down exact markets until they were able to produce a pellet. At some point in time, I cannot remember the date now, but they did have some contracts with companies in Europe.

**CHAIR:** Mr. Joyce, we should move to a government member now. I am not which one.

Mr. Cross?

Mr. Parsons, did you have any questions?

**MR. K. PARSONS:** No.

**CHAIR:** Mr. Michelmore.

**MR. MITCHELMORE:** Where I left off was in a section that Mr. Joyce was talking about, the marketing plan and the whole process. Based on what you are saying there is that markets were available for export. What were the details in the marketing plan that would have been required? What type of impact did deferring this decision have on the company and its operations?

**MR. EVANS:** I will start, and maybe someone can fill in after me. The details that were required would be involved with the transportation, the volumes, the conditions around purchase, the quality of the pellets, those types of things. The delay the impact had on the company, I do not know if it was negative but it was to their advantage to have that marketing plan elaborated on and revised.

**MR. MITCHELMORE:** I go back to page 302, and it says that the issues still were inadequate shipping and storage capabilities. Was that put forward in the marketing plan, that there would be a requirement for shipping and storage capabilities as to how they are going to export markets?

**MR. YOUNG:** Yes, there was a requirement in there to address those issues, and they were addressed in the marketing plan. At the time, in 2010, the plan was to consider shipping out of the Port of St. Anthony if there was availability on the small vessels, if the price of pellets – if the economics worked out properly on that. So there was a requirement.

**MR. MITCHELMORE:** Okay.

**MR. YOUNG:** Just to go back to your previous question, I did not get a chance to add to it. We are really focusing pretty heavy on the pellet plant, but we have to bear in mind that this was a very large, complex project. Even though we are focusing on the construction of the pellet plant, I would like to bring attention to the committee that we also built a brand new

sawmill. We also built two new kilns. We also built a large, regional wood yard that sustains the forest industry on the Northern Peninsula. There was a lot going on in that two-year period. There was a real flurry of activity.

The delays we could have asked for, that may have happened, really impacted the finances of that program. A lot of the equipment had thirty, sixty day budget estimates on it. To extend periods of time would have negatively impacted the economics, the construction of that site. You have windows of opportunity for construction; try to get as much done during the summer months. You are dealing with a number of different suppliers.

We have over 2,000 records of invoices. I do not know how many different suppliers are involved with that project up there. Bear in mind, it was very complex to build a pellet plant but it was also very difficult to build the kilns, and the sawmill that was modernized. Actually, it was a whole new sawmill that was constructed on site. So any further delays would have impacted financial estimates and the budgets that went into that project, because a lot of these suppliers do not like waiting any more than sixty days for their money, and the quotes were only good for sixty days as well.

**MR. MITCHELMORE:** I can understand that, and as Mr. Bowers had said earlier, I am more optimistic about where the forest industry could be headed. A concept of having a sawmill, kiln, and a pellet plant as a fully integrated enterprise at the right scale makes a lot of sense.

I want to move forward, down about funding not properly approved. On page 302, the Auditor General points that the department approved \$780,000 in funding to Company B for equipment not assessed by an independent consultant. In fact, the consultant recommended efficiency improvements instead.

Did the department pay for this independent consultant? If so, what was the cost?

**MR. FORWARD:** The independent consultant actually completed the sawmill diagnostics for

about seven or eight sawmills at the time. I believe the cost was just in excess of \$100,000. So they came to the Province, spent a week or two weeks in the Province, and they completed all the mill diagnostics within that time period.

**MR. MITCHELMORE:** Paid for by your department?

**MR. FORWARD:** That is correct, through the FIDF, yes.

**MR. MITCHELMORE:** Okay.

Why would the department fund new equipment instead of listening to the independent consultant's technical diagnostic recommendations of doing the improvements?

**MR. YOUNG:** Unfortunately, the Auditor General never got a chance to see the minutes of the meetings that were held afterwards. The way the technical diagnostics worked was that if innovations were hired, they came in and completed their analysis, they produced an individual report for each of the sawmills. They then came back and met with each of the individual sawmills. They discussed the report and went through the findings.

In the case of Company B, which we are talking about here now, the minutes of the meeting that was held between the consultant and Company A – which unfortunately I do not believe the Auditor General's office had the opportunity to see, and if they did they missed that point. In those minutes of the meetings, it clearly stated in there about the technology involved with the HewSaw that was being proposed by Company A. They said: Yes, it is a great idea. They sanctioned that idea. In fact, in the text, they said that it would be ideal for the conditions in Newfoundland to take advantage of such technology, which would allow people to saw smaller log size, lower your spec on your sawlogs.

We have a copy of those minutes available, and we can leave that with you. So the consultant did agree with Company A, and since then that

technology has been installed in Company – I should say Company B's sawmill.

**MR. MITCHELMORE:** So it is in particular minutes that that discussion and dialogue would happen? I guess I defer to the Auditor General. Is there commentary in response to the department on this particular matter as to having minutes supplied? Would that not be something the department would have supplied to your office during the review?

**MR. PADDON:** It is difficult to comment without actually seeing the minutes. Typically, I think we would have probably seen or been provided with what was available at the time; but, in the absence of actually seeing this, it is difficult to make any definitive comment.

One of the things that we do is provide copy of the report for validation, and I am not quite sure if this issue was addressed during the validation process. I just do not recall.

**MR. MITCHELMORE:** Okay. I would certainly like to see copies of those minutes.

I also have a question as to – it says here that for the initial part A of the program that the Cabinet made an approval for the initial \$2.25 million, but the second project had a difference in scope and the department should have requested Cabinet approval for the second project, as the project funding totalled \$780,000, which required Cabinet approval, as it exceeded \$500,000. Why did Cabinet not approve this larger amount?

**MR. EVANS:** The new proposal was for \$500,000, and they had the authority under the program guidelines and directions to approve up to that amount. The \$280,000, as we indicated earlier, did have approval under a different project. So we viewed it as the new request was for \$500,000, we had the authority to approve that amount, and did that. The other \$280,000 had approval, albeit under a different project, but it also had approval. Administratively, from our view, both the \$280,000 and the \$500,000 had the appropriate approval.

**MR. MITCHELMORE:** Okay.

In another instance, we see that the funding that was approved without Cabinet approval transferred from that earlier grant. It says that from that assessment made by the department officials that there was a host of concerns and it concluded that the Province would be taking a significant risk by approving the funding. Why was it the department decided to take this risk with \$280,000 additional, above and beyond, without seeking Cabinet approval?

**MR. PADDON:** I would just make a comment. That comment relates to Project B. That comment relates to Project A.

**MR. MITCHELMORE:** Project A? Okay, thank you.

**MR. BOWERS:** Company A was it?

**WITNESS:** (Inaudible).

**MR. BOWERS:** We acknowledged, as I said earlier, that the risk to the Province was high – that was, I would say, moderate to high, for sure. That was indicated in the presentation of funding and it was explicitly stated in work that went up to Cabinet.

Again, that risk that we identified and that we were willing to accept was weighed against some other risk factors as well, and those included trying to sustain that entire industry of forest products. As I said earlier as well, we had made major investments in silviculture and protection in the forest sector.

There was another issue that I did not mention earlier, related to the potential for the loss of workers from areas in rural Newfoundland, like the Northern Peninsula, for instance, the risk of them moving out and not being available.

When we looked at that risk and the trade-off, the committee was confident that we should proceed.

**CHAIR:** Mr. Mitchelmore, we should go to a government member now if one of them has questions.

Mr. Joyce.

**MR. JOYCE:** I will just go back to a few comments and I will ask the question: When did the money start flowing to the company from government? It says here in the Auditor General's report that before they received the detailed analysis of the markets, there was \$8.4 million of the \$9 million approved in funding. Was there any money actually started to be spent by then, or how much, or when did it start being spent?

**MR. FORWARD:** Are you referring to a specific company?

**MR. JOYCE:** Just Company A.

**MR. FORWARD:** The first funds were dispersed to Company A in October of 2009.

**MR. JOYCE:** Okay, October 2009.

Thank you.

I go to page 302, in 2010, and here we are worrying about shipping and storing of the pellets. Once again, testimony was given that in 2010 we went back looking for where you are going to ship it from and the storage.

My question is if the money started being spent in 2009 wouldn't prudence say that you need to have the shipping, because shipping would be part of the cost, put in the proposal? How can you say start spending money, we will worry about shipping later and the cost of it? There is something missing.

**MR. BOWERS:** Well, you recall in the initial proposal the plan for shipping was out of Stephenville and Corner Brook, so at that time there was a plan for shipping and on that basis the project goes forward. Then the downturn comes and some of the volumes are affected by cost. Cost-benefit ratios change so that was the

reason why the shipping issue did not pan out for those particular locations.

**MR. JOYCE:** When did the downturn start if there were no pellets ever produced?

**MR. BOWERS:** I am referring to the economic downturn in 2009.

**MR. JOYCE:** When was the economic downturn, 2008?

**MR. BOWERS:** Right.

**MR. JOYCE:** So we are looking two years later. The economic downturn was not 2010. In 2009 the downturn was already in place.

**MR. BOWERS:** Yes.

**MR. JOYCE:** I do not mean to argue with you on this, but you cannot say, well, the economic downturn is done and part of the plan, but even though we knew the economic downturn was in place we will still give them the money anyway without knowing where we are going to ship it from.

**MR. BOWERS:** That is true at that point but we had to bear in mind that while that was occurring we were still accessing the options for shipping. We were looking at alternative options including the St. Anthony port and any other option that might replace that initial location.

**MR. JOYCE:** Okay.

If that is the fact, I really cannot understand how the money was flowing. If that is fact, if you were looking at options for bringing it to Stephenville and Corner Brook, why would you let the funds go because you did not know how much it was going to cost you if it was sustainable anyway?

It boggles my mind how you can say, well, in 2010 we are looking at where we are going to ship it from. You give the money in 2009 saying, go ahead and spend the money, and you do not even know what markets you have. In

2010 you are coming back and saying, okay, now we have to look at where we are going to ship it. You do not know how much it is going to cost to ship it, and shipping, as we know, is a big part of it. Then the storage is another part which has not been addressed.

How can the department say okay, and the Cabinet itself? Was Cabinet aware that shipping was not taken care of and storage was not a part of it?

**MR. EVANS:** I think it is fair to say that certainly nobody can predict how long the downturn can last. We were dealing with that aspect of it as well. The price of pellets was down, the Euro was impacted, shipping costs were higher, and it changed the whole economic dynamic of the project. I guess nobody could predict how long it would last.

So the project had started, it was evolving, I guess, and we were seeking solutions on shipping, on markets, and on storage; it was evolving. That was some of the risk that we were dealing with, and we talked about risk earlier. You weigh the risk; is it better to continue or to stop?

**MR. JOYCE:** Again, Mr. Evans, I do to want to put you on the spot because I know you were not part of the assessment. It is very important for me to know. Were those risks of no markets, no port, and no cost analysis of how much it is going to be to ship it to Stephenville or Corner Brook, and no storage facility, all included in your assessment when you sent it to Cabinet back in 2009 to get approval of \$8 million or \$9 million before any of those issues were even taken care of?

**MR. EVANS:** I am not going to talk about what was in Cabinet, but I am sure the information that was available at that time was included and to the best of our ability, we had whatever information that was available there. The markets are still there. It was not the concern, about no markets. The markets are still there today. There are issues around pricing and transportation that we continue to work with and work with the proponent to resolve. I guess that



is where our optimism comes in. We are trying to get that project up and running.

**MR. JOYCE:** I know you spoke to the proponent and I know it was put out in the media that they are going to need a wharf, \$4 million, and a storage facility. Are there any discussions with the proponent on this extra \$4 million for the wharf and the storage facility in Roddickton?

**MR. EVANS:** We are into discussions on a number of fronts with the proponent. We are not in a position to reveal anything right at this point. There are several issues there to deal with and we continue to work with the proponent and other interests to resolve the issues up there and to get that operation up and running.

**MR. JOYCE:** I ask the Auditor General, of course any time do you do it, if you are going to build a house you have to know what it is going to cost and you have to know upfront. Did you find this strange when you went through it that the markets were not in place, no storage, the shipping was not nailed down, and the cost?

**MR. PADDON:** I guess that would likely be the nub of our concern. It is a question of understanding what all the risks are before you make a decision or start to spend money on a particular project. If there are significant issues that would still be outstanding, we would have expected to see those issues at least brought to some conclusion and either reassessed or – it depends on the significance of the issue. I think it would be safe to say that you would expect to see those significant outstanding issues brought to a conclusion.

**MR. JOYCE:** I will just ask the question that was brought up earlier about the payment or when you sign a contract you have to know how much BTUs are in the pellets. My question is: Were there any pellets sent over to Europe to find the BTUs so you could set a price for it?

**MR. FORWARD:** Yes, I believe it was. Company A did enter into a contract with the European company for the sale of a large amount of wood pellets. In order to achieve that

sale, they would have had to have an energy content determined for the wood pellets.

**MR. JOYCE:** Can we get a copy of that? I do not want you to agree to it now because it may be with a third party or fourth party and you may not be able to do it, so I would not want to put you on the spot. There were pellets and my understanding from discussions is that there was a test run done of pellets. You are saying there was one test run done that was shipped over to Europe?

**MR. FORWARD:** No, there was a contract signed; there were no pellets that shipped. There was testing done on the energy content of the pellets that was completed at the wood science centre in New Brunswick. A sample of pellets were bagged and sent to the wood science centre for testing.

**MR. JOYCE:** When was this contract signed with the company in Europe?

**MR. FORWARD:** I cannot recall right now when it was, but it was when the plant was getting close to being commissioned. So they would have produced a pellet or at least tested their raw material to determine energy content.

**MR. JOYCE:** So you are not sure if it was a pellet or just raw material, if the pellets were actually produced?

**MR. FORWARD:** As far as I know, it was pellets that were sent to the Wood Science Centre.

**MR. JOYCE:** Oh, okay, perfect.

I just find, with all these concerns that were brought up, that it was money being spent without any of those issues being resolved. You can see the major concern with it.

I just go back to another thing that was brought up earlier, and I just want to get it clarified, on page 301, “Application information not complete”. I will go through the first section, “...the applicant reported \$220,444 in outstanding debt owed to the Provincial

Government by Company A. However, our review identified that the company also had \$50,000 in equity financing (with established repayment terms) and a related company (not identified in the application) had an additional \$500,000 in equity financing (with established repayment terms) owing to a Crown agency, which was not reported in the application.”

Was that ever picked up after? Was that in the initial application or did it have to come up after when you went back seeking more information?

**MR. EVANS:** Yes, we acknowledged that the company omitted the information on the outstanding companies and outstanding debt in the initial application. Subsequent to that, before we sought approval, the committee identified that issue and it was identified in the offer of funding. The related companies and their outstanding debt was all part of the information provided before any decisions were made.

**MR. JOYCE:** Okay.

So who picked up on that the application was not complete or there were other companies that were not put in the application itself?

**MR. YOUNG:** The way the process worked was the FIDF committee would review the application and we would use our sister department, IBRD. They would bring in the Economic Development Officers who would prepare the financial review of each of the applications. In Company A’s application that would have been reviewed by an EDO, an Economic Development Officer, from IBRD and during his review process, his due diligence, that individual picked up these omissions and made it known to our committee.

Gary, do you have anything to add?

**MR. FORWARD:** Yes, just so you understand, too, we just did not receive a proposal, a business plan, or whatever. There were a number of redirects back and forth with the company in question to determine how the information may have been missing. So in some

cases we may have gone back to the proponent five or six times to acquire the information.

**MR. JOYCE:** Just on the next, “Business plan incomplete”, where it said, “a personal net worth statements (undated) by the applicant to the Department which included information only to 2005, however, the project application was received in June 2009. We would have expected an updated net worth statement would have been received.”

Was that ever received up to 2009?

**MR. YOUNG:** Yes, that was received. Like the comments around the debt that was outstanding by the individual as well as these other companies, that information was provided through the redirects that we made with Company A as well as the work that was done by the Economic Development Officers. That information, yes, was contained in the final analysis. We used information from 2005 that was provided with the application as well as 2008-2009 present work statements that went into the presentation of funding, and we can show you those. We have the documents that identifies that.

**MR. JOYCE:** I will just ask the Auditor General, did you see those updated statements to 2009?

**MR. PADDON:** I will ask Mr. Walters to answer.

**MR. WALTERS:** I do not have my case work all in front of me, but I am 99 per cent confident that we did not receive a copy in our 2011.

**CHAIR:** You did not.

**MR. WALTERS:** Did not, but if it is available we would sure like to see it.

**CHAIR:** Can you check and confirm when we break at lunch if you received that or not so we will know by this afternoon and so we do not have to be coming back over the long-term?

**MR. WALTERS:** Yes, I have the casework file there and I will just pull it up and see if I can find a copy, or if we received it, if it was after our request for it.

**CHAIR:** Yes, the date received, if received.

Mr. Joyce, we should go to a government member now.

**MR. JOYCE:** Okay, I was just going to ask one more question.

**CHAIR:** Go ahead.

**MR. JOYCE:** You mentioned that, and then again this is getting I assume two parts to it, the 2009 statements were included in your final assessment. Were they included before the money was approved in 2008 or 2009? Were they included then, because once again we see that the money was flowing in 2009? We see that the proper marketing plan was not done. We see the shipping and storage was not handled until 2010. So was this done before the money started flowing in 2009?

**MR. YOUNG:** Yes. That information was provided and was part of the analysis of the Economic Development Officer that went into the presentation of funding that eventually went into our presentation to Cabinet. So Cabinet's decision was based on whatever most up-to-date information the EDO collected and put into his analysis. So thus, yes –

**MR. JOYCE:** So up to date means up to 2009, as the Auditor General mentioned?

**MR. YOUNG:** To my knowledge, yes.

**MR. JOYCE:** Okay, thank you.

**MR. K. PARSONS:** I would like to just ask a couple of questions if I could, please.

Just getting to what Mr. Joyce is talking about there, and it is an analysis that you did beforehand, so money obviously started to roll in 2009, but obviously the application takes a little while. It is not something that is done

overnight. It is probably a year or two that all the information has to be – I know Mr. Joyce said there were no markets, but you guys say there were markets. So could you explain where the markets were?

**MR. BOWERS:** Again, we looked at both global or international markets and domestic markets, but as we stated earlier, the domestic market is small, and we realize that it is small. Then and currently the most favourable markets are in Europe. So the potential that we were seeing, as we still see, rests mainly with trans-Atlantic shipping to Europe.

**MR. K. PARSONS:** The shipping cost, as you said earlier, the cost you looked at, shipping was a lot smaller, you are using smaller vessels, and the cost of shipping was – could you explain it and elaborate a little bit more on how the cost changed from 2008 when the application was done to even today's cost? Can you explain that?

**MR. BOWERS:** Well, if you had a, let us say, high price for pellets you can afford to ship out on smaller ships and the transportation cost is obviously high, but you recoup and you get dividends because of the price of the pellet. When that drops, the only way, really, to effectively address that drop in pellet price is to ship large volumes. Therefore when you ship large volumes you need larger ships, and therefore you need different port facilities. This was part of the challenge, to try and adjust to that market by altering the shipping plan.

**MR. K. PARSONS:** So the shipping plan in the first instance where you were shipping not huge volumes was where? Where were you going to be shipping from? Corner Brook?

**MR. BOWERS:** It was Corner Brook. Stephenville, I guess, was the first (inaudible) –

**MR. K. PARSONS:** Where was your first choice of shipping?

**MR. FORWARD:** Initially, I guess, when we first received the business plan and when we first started dispersing money, the plan at that

time was to ship out of either Corner Brook or Stephenville. We were looking at utilizing some of the infrastructure that was in Stephenville as a result of the closure at a newsprint mill there. As the economics had changed, and as we discussed this morning, then Stephenville or Corner Brook no longer became an option.

**MR. K. PARSONS:** Okay.

Mr. Joyce also talked about storage. Obviously, the initial plan must have some kind of a storage facility to be able to store the pellets. Was there a plan in place for storage in the original proposal?

**MR. YOUNG:** Yes, there was a plan. Initially, it was proposed to use the former Abitibi storage shed in Stephenville. It is a large facility. Actually, I think the building is still there. I think the town are redoing it now. At the time, the plan was to modernize that shed so that it would be able to handle pellets and ship out of the deepwater port of Stephenville.

In Corner Brook, to be honest, I cannot recall what storage facility would have been identified in Corner Brook, but I do know in Stephenville the former Abitibi building there would have been utilized for storage.

**MR. K. PARSONS:** Okay.

The original plan obviously had a market in place, had a storage facility in place, and it also had a place where you could ship the pellets out of. Things changed; because of the huge volumes, you needed a deepwater port and more to be able to be feasible to the European market. It changed in that way.

Okay. No further questions, Mr. Chair.

**CHAIR:** Mr. Mitchelmore.

**MR. MITCHELMORE:** I guess just picking up from the line of Mr. Parsons there, if shipping was originally scheduled for Stephenville and Corner Brook I just question why it would have been excluded, or the option of St. Anthony, which also has a deepwater port, would have

been excluded in that initial analysis since it is quite a significantly shorter trucking distance.

**MR. EVANS:** My opinion is that the shipping out of Stephenville or Corner Brook – Stephenville had a storage facility there on site. You need a large facility to store that amount of volume of pellets. I would think it is the old paper shed on the Abitibi dock in Stephenville that was proposed to be utilized.

That was there and I am sure that was a big, large component of it. I am not sure of the circumstances in St. Anthony, but there may have been challenges around storage there. I am not sure.

**MR. MITCHELMORE:** They have a former arena with a new Polar Centre that is vacant currently.

Ultimately, the shipping of any pellet plant that has been going up across North America, they try to get it as close to a port facility as possible, right on the edge, so that their cost is the absolute lowest. The only way to lower cost to eliminate trucking is to look at rail. We do not have rail in Newfoundland and Labrador.

It is troublesome to see that there was a plan; there was an analysis put forward. The idea of a pellet plant certainly can work. It can work domestically. It can work by shipping exports. To have put forward this plan to a company without having the appropriate shipping and storage facilities lent out, it seems like government or your department had approved something, or even Cabinet approved something, without looking at what is the next step, how will this company now acquire the shipping and transportation and storage components.

I am not sure if the company –since the plant was commissioned, there has been a significant time lapse and there has not been anything done. There is a significant amount of public investment there. I am just wondering: What is the delay? What is holding things up from actually moving forward? This seems like the department has made a significant error in either not providing additional funding or not going

forward with the project initially because of these barriers, one or the other. So I would just like some commentary from your department.

**MR. EVANS:** I think as we said earlier the money was invested in Company A. We have a state-of-the-art sawmill, pellet mill, in a wood yard that is there poised for operation. Since I have been in this role, we have continued to meet and collaborate with the proponent, Company A, to seek different solutions. They could be anywhere from a port to storage facilities, to other aspects required in the mill.

We are going through a process in the Province now to continue to operate and work with this proponent. I do not think we have abandoned it. I respectfully disagree. I do not think there is an error, but I think we need to work through the challenges together, and that is what our objectives are.

**MR. MITCHELMORE:** Right. I know that the delay, as anyone would know, has caused significant hardship for the forest industry on the Great Northern Peninsula in respect to Company A.

Moving beyond that, it is quite clear in the Auditor General's report the process that was followed and the complexities of the industry that it is challenging. There needs to be due diligence put into place when things actually change, but there is a process that needs to be followed.

I do have a question on page 308, and that is around non-eligible expenses funded. The Auditor General highlighted that, "The Department reimbursed Company A approximately \$1 million in Harmonized Sales Tax (HST) charged on eligible invoices. The HST was eligible for an input tax credit and, therefore, was recoverable from the Federal Government."

It also states that the program, this diversification program, guidelines did not cover the claiming of HST. Am I reading this correctly? HST could be covered; it is just that there were not any guidelines in the program.

**MR. BOWERS:** My understanding is that the FIDP guidelines do not specifically address inclusion or exclusion.

**MR. MITCHELMORE:** Okay.

**MR. BOWERS:** Having said that, the fact that those expenses were made eligible, we see that as an oversight. We concur that is an oversight and we agree with the Auditor General's interpretation of that. Since that time, all further projects that we have been involved in taxes are ineligible. I think we cannot point to specific guidelines that would direct us on that, but we understand that those would be ineligible.

**MR. MITCHELMORE:** Okay.

Are there situations when loans and things like that are extended that the HST would be paid out? Maybe I will ask the Auditor General: Have you seen that as a practice through different departments, whether it is IBRD, when lending is given that there could be circumstances where, if it was paid for by a proponent, the HST would also be paid?

**MR. PADDON:** I have never seen it where the Province would reimburse somebody or grant some money based on HST. HST, for a company in business, is really not an eligible cost because they do recover that cost through the tax system. Effectively, they have not paid the HST, so it would be unlikely that you would reimburse them for it.

**MR. MITCHELMORE:** Were there circumstances with this company? I can understand this, and that you are making changes, but it seems like, from the funding that was awarded to Company A for the pellet plant, sawmill, kiln, working capital, wood yard, marketing and technical supports, over \$11 million, and it looks at where the provincial government came in with \$9 million, and there was other funding, and the applicant had put up nearly half a million dollars of investment to source a pellet plant for \$11.7 million, did the department receive all the invoices that were associated with this actual billing, or was it just up to \$9 million?

**MR. FORWARD:** Really what we did is that we tracked the cost of the project up to the point where all of our money had been dispersed. We were quite confident at that time that the proponent had injected his contribution. I should say we have evidence to show that since then the proponent has contributed a significant amount of additional funding to get that project moving forward. So even though there was some issue about him receiving a tax rebate, we are confident that was reinvested into the company to move the project forward.

**MR. MITCHELMORE:** So you have additional evidence and receipts that would show that if this HST was not rebated to them then they could have submitted additional receipts that would have been deemed as eligible, even though it does not say that HST was not ineligible?

**MR. FORWARD:** That is correct.

**MR. MITCHELMORE:** Okay. Well, that is good to hear because, like the Auditor General had said, you could easily see additional monies come back to a company even though the loan and the terms would still have to be paid.

I would also like to ask about Company A's business plan around the wood inventory not being processed, on page 309, and that wood was being drawn down over a period of three years and it would likely take in excess of three years to consume this wood, which would affect the quality of wood fibre. It has been talked about that a wood inventory yard was part of this type of funding.

What does the department have to say in response to the Auditor General's findings there?

**MR. BOWERS:** (Inaudible) by the Auditor General in terms of wood inventory and wood not being processed. Our science and our knowledge base tells us that the integrity of that wood is still suitable for industrial wood pellet manufacturing and will be for some time. We did have a number of site visits to look at that wood and we expressed the opinion that we had

to be concerned about the deterioration of wood and how long it is useful.

On the other hand, the usefulness of wood for pellet production or for paper production varies based on the environmental conditions, where it is located, the latitude, temperature, weather, drying, and so forth. It is a very variable issue of how long wood would remain viable. We see the same challenge in, say, stands that have been infested by budworm or hemlock looper where they are still standing. The question is: How long is that wood good for; how long will it be useful?

There is a high variability around it. Sometimes it is as short as two to three years; sometimes it is much longer, seven or eight years. It depends on how it is stored. It depends on, as I said, a whole spectrum of environmental conditions, but at the present time, and at the time we reported, we feel that the integrity of that wood is still viable.

**MR. MITCHELMORE:** Do you do an audit and how often are audits done to check wood inventory, whether it is at a mill, a pellet plant, or elsewhere in these situations? Do you monitor wood, wood fibre, and wood supply for quality assurance if there are loans outstanding to your department?

**MR. BOWERS:** We do site visits and part of that site visit is an assessment of that. Whether we do an official audit by an external party I would have to defer to Gary or to Eric on that.

**MR. FORWARD:** We continue to monitor these projects through site visits. One of the things we do is have a look at the woodpile.

Just another comment to add to what Wade has just said is that in this Province we have residue piles, and you probably have seen those around different sawmills, that could be ten or fifteen years old. We have wood pellet companies out there who have inquired about these piles and are interested in producing pellets from these piles. To me, that speaks for the integrity of the wood.

We live here in Newfoundland where we have a very long winter, so the wood does not break down like it would if it was in a warmer climate. We are quite confident that the quality is there for the manufacturing of wood pellets.

**CHAIR:** Mr. Mitchelmore, we should move to a government member now.

Mr. Parsons.

**MR. K. PARSONS:** The facility we are talking about with Company A, obviously government invested \$9 million. What is the total facility worth? Any idea what is the total cost of investment?

**MR. FORWARD:** It is hard to say. That pellet plant was probably completed as a turnkey operation where you had a company come in and reassemble. You have to remember that the employees of Holson Forestry Products and people in the region worked quite hard to try to minimize the cost of constructing that plant. I would estimate that plant would be in the order of \$20 million.

**MR. K. PARSONS:** Okay.

**MR. FORWARD:** Nowhere near that much money has gone into it because the proponent made special efforts to minimize the cost and try to get that plant up and running.

**MR. K. PARSONS:** To build a facility like that at the time, did it start from scratch? How did the facility start?

**MR. FORWARD:** It started from a hole in the ground; it started from scratch.

**MR. K. PARSONS:** So the number of years it took to build the facility was how long?

**MR. FORWARD:** I would say maybe about a year and a half or two years.

**MR. K. PARSONS:** Okay.

At the time, obviously, then it employed a lot of people in the local area to build?

**MR. FORWARD:** That is correct. There were quite a few people employed in the construction, and at the time when the pellet plant was being built the sawmill was also operating.

**MR. K. PARSONS:** Okay.

This is at the same time when we had the big downturn in the pulp and paper industry and there were a lot of people in the area obviously looking for employment?

**MR. FORWARD:** Yes, that is correct.

**MR. K. PARSONS:** Okay, that is good.

**CHAIR:** Mr. Joyce.

**MR. BOWERS:** (Inaudible).

**CHAIR:** Sure.

**MR. BOWERS:** I think it is worthwhile going on record and saying with respect to Company A that the effort that was put in by that company and by the people in that region is to be commended. People poured concrete in the middle of winter by hand to try to establish a facility. They took every measure humanly possible to try to build that plant. So the people who contributed to that, I think it should be recognized the effort that went in to gain efficiencies.

**MR. JOYCE:** I do not think anybody is questioning that, but I think if government is putting out public funds they should do their due diligence. It is almost like you cannot, because people worked so hard you have to try to ensure the long-term viability of it. I do not think anybody is questioning that.

We heard earlier that government is paying the insurance on the building. How much is the building insured for?

**MR. FORWARD:** I do not really have that number, but we could provide that with a little time.

**MR. JOYCE:** Sure, because then it will give us a cost of the building itself, instead of estimating what the insurance is being paid and the amount it is being insured for. That will give us a better cost of what the building is worth when we ask a question.

I am going to go back to a few issues that were brought up about shipping. Of course, this is something that struck me, because when I spoke to people up there they were saying we need a new wharf, \$4 million. We can go to St. Anthony, but we do not have a storage facility in St. Anthony. The cost to ship it there, they had to put it in the big bags and the cost of that was enormous.

We have evidence here today that there were discussions on looking at Stephenville or Corner Brook. Can the department show us an analysis of what it would cost to ship it to Stephenville? I am sure you would know that the port in Stephenville is privately owned. If you are going to ship it from Stephenville and you had a cost analysis put in for this here, then you would have some agreement on how much it would cost per ton for dockage at the Stephenville wharf. I am sure there was testimony here today that we are looking at Stephenville because they have a big storage facility.

Can you provide us with the information where there was an analysis done, how much it cost to ship it to Stephenville?

**MR. BOWERS:** At this point, Mr. Joyce, I am not sure if we have an analysis on that. I would have to confirm that.

**MR. JOYCE:** With me, as a member of the Public Accounts Committee, we hear well, we are looking at Stephenville – to justify if this was viable so that hard work done by the people on the Northern Peninsula is not in vain, you have to say, okay, here is what it costs you to do it. It is no good to do the hard work, it is better to get all this information. When I hear, well, we are looking at Stephenville, or we are looking at Corner Brook, but then all of these other factors.

What work was done to say there was an analysis done to ship it to Stephenville instead of St. Anthony, which is a much closer port, or instead of Corner Brook, again? Corner Brook was brought up; they are going to use it to ship it to Corner Brook. Would you provide us with any documentation, if any – I am not saying there is, I am not saying there is not, I do not know – of the analysis that was done of the cost per ton to ship it to Stephenville? What would be the fees to ship it from the wharf in Stephenville and what would it cost for trucking? I think it would be a bit more expensive to truck it to Stephenville than it would be to St. Anthony.

**MR. EVANS:** We can go back through the files and see. Maybe the proponent did have some analysis done or cost projections, I am sure. We will give you the information if we have it there and provide it to you after.

**MR. JOYCE:** The department is saying here today: We were looking at shipping, we were looking at Stephenville. Did the department do any analysis on the shipping?

**MR. EVANS:** I am not sure if there was an analysis done. We will determine that, but in their proposal I am sure there would be a component of shipping and trucking to validate that there was a profit to be made there. There are production costs in the pellet mill; there is loading, transportation to the port, and shipping. That would have to be comprised in their proposal. We will go and get that information for you.

**MR. JOYCE:** Okay.

I do not mean to harp on it, Mr. Evans, but the money was given out starting in 2009. In 2010 they were looking at shipping options. Once again I ask, in hindsight, and I understand you were not around when the decision was made and the proposal was made, but how can someone justify recommending to spend taxpayers' money without being able to say, okay, well, here is what it costs to ship it? Now we are getting evidence today that in 2010 we



were looking at where we were going to ship it from.

**MR. BOWERS:** I think it is fair though to recognize that we are continuously assessing and monitoring options. If a proponent sees an opportunity to do shipping cheaper or if conditions change, these are ongoing events. It is not a static event. Corner Brook may be possible one year or one month; St. Anthony might be if it has the right infrastructure and the right conditions in the port. These are not static events. We are continually reassessing, and the private sector would be continually reassessing a way to make more dollars and make it more viable.

**MR. JOYCE:** I would agree with you 100 per cent if there was any shipping ever been done, but there was no shipping ever done. If there was shipping out of St. Anthony and you say, okay, we are going to assess Corner Brook, that is fine, but if you are looking at something to reassess you have to have something to reassess it from because there was never any shipping to Europe on pellet. You cannot say, well, we are just reassessing, because there is nothing to reassess because there is no evaluation done.

**MR. BOWERS:** I concur with you on that. I guess I am referring to extrapolations we can make from shipping businesses in other parts of the world. We have a handle on shipping cost. We have a handle on fibre cost and transportation cost. We can use the cost of shipping based on other models to make those projections. After we have some experience in a given location we can continue to evaluate that.

**MR. JOYCE:** Yes, but my point is that in October, 2009, the money was being spent and in 2010 you are going to find out where you are going to ship it from. It is not the proper way to do an analysis of a business.

I will go back to another point my colleague made. I am here listening and, of course, I just want it on the record about markets. Are there any letters on file to the department that there is any Memorandum of Understanding of mining the pellets, the cost? Is there a purchase

agreement in place or ever was in place where you can say, yes, here is a purchase agreement that we had in place?

**MR. EVANS:** As Gary indicated earlier, there was a term sheet or whatever signed with a specific company. I am not sure if we can provide that because that was a business to business agreement, I guess, or pre-agreement, but if we can provide that we will. We are confident there was a pre-agreement signed. Without the production of pellets you cannot really solidify your agreement.

They had markets identified in Europe, and certainly they were willing to purchase then. There were some preliminary term sheets signed. I do not know if Gary can –

**MR. FORWARD:** I can confirm that there was a term sheet signed. It was a market in a European country to a utility. Again, I do not think we can provide that because it is a business to business, but I am confident in saying I saw the document and we have it in our files.

**MR. JOYCE:** Okay.

**CHAIR:** I am sorry. Does that mean you say you could produce it or you cannot produce it, or you can produce it redacted?

**MR. FORWARD:** I do not think we can produce it because it is a business to business deal. I think there is some confidentiality around that.

**CHAIR:** Even without the contents, are you able to produce it if you redacted the names of the parties, just for the purpose of the dates so we can establish consistency when this took place? That would release no confidential information, but it would provide a flow of when this was put in place.

**MR. BOWERS:** (Inaudible) check with our legal and get legal advice on whether we are permitted to do that, and we would happy to do that. We would happy to check to see if that is permissible.

**CHAIR:** If you would determine what it is because the committee may want to try to obtain that document or maybe somebody else may want to over the access to information, or it may not be necessary. If you could review and find out whatever you feel is reasonable or permissible for you to produce and then we can take it from there.

Mr. Joyce, is that okay?

**MR. JOYCE:** Okay, thank you.

I go on page 304 on top, "The Department's assessment of the project's cost estimates indicated they were lacking scope, and for some projected costs, only one estimate from one individual had been obtained. Later, during site visits, the Department indicated that the lack of scope in the proposal led to future cost overruns."

Can someone explain how that fitted in with the analysis of the project?

**MR. EVANS:** I guess we will go back to the concept that the proposal was a very complex and elaborate proposal and project that was proposed by Company A. The fact that they were lacking scope, or for some projected costs, and one estimate from one individual had been obtained, maybe there was some improvements that could have been made there. Maybe there is only one company that could provide an estimate on certain pieces of equipment. I guess with the complexity of the project, there is going to be issues there arising from the assessments and cost estimates and, in some cases, cost overruns.

**MR. JOYCE:** I go to page 305. I am just at the top, you can read it down, it says and I will just read a part of it, "This not only ensured that the funds would be used for purposes that the Department intended, but also that any excess purchase of goods and services could be detected. The Department required that companies submit copies of invoices to support the use of funds advanced.

"Our review identified that the Department did not always determine whether sources of funding were confirmed, payments made to the applicants were in accordance with the Program guidelines or approved funding conditions were met."

That is on page 305.

**MR. EVANS:** The comment about sources of funding confirmed, from a federal agency, ACOA, there was some issue there about funding not being totally confirmed. There was a reduced contribution after we had gotten into the program.

I am not sure if Gary can add any more there.

**MR. FORWARD:** I am really not sure what the question is, but I do confer with Jim that from the ACOA piece there was a commitment that when we got into the project they produced their contribution. I am not sure, seeing what the question is, other than that.

**MR. JOYCE:** I will ask the Auditor General then because on the next page there are cases whereby these were confirmed, on page 306. I can ask the Auditor General about some of the findings that he found. They are here: the federal contributions not confirmed; applicant contribution not confirmed. On page 306, I am assuming that is what the Auditor General was referring to.

**MR. PADDON:** Yes. The issue with the other funding sources was specifically the ACOA funding. I guess the concern they would have is you have a project application which outlines sort of a cost to the project and here is how we are going to fund it. If it turns out that as a Province you are committing money and then all of a sudden one of the other funding partners walk away or funds less, the question becomes: How do you complete the project? Who funds the differential?

In the absence of having that funding confirmed, it creates another element of risk associated with the project.

**CHAIR:** Mr. Joyce, we should go to a government member now.

**MR. K. PARSONS:** I just want to confirm one thing; I know Mr. Joyce was talking about the markets and stuff like that. So, just for the record, as far as the department is concerned there were markets in place?

**WITNESS:** (Inaudible).

**MR. K. PARSONS:** Okay. That is all I wanted to know.

**CHAIR:** Mr. Mitchelmore.

When Mr. Mitchelmore clues up, we will break for lunch and come back after lunch.

**MR. MITCHELMORE:** I would like to know why the department stated that they stopped monitoring the applicants' contribution in May, 2011, on page 307 of the Auditor General's report. Wouldn't monitoring be continuous?

**MR. FORWARD:** That is correct. We still did monitor the project. We still did our site visits and we were still in contact with Company A on a continual basis, but as regards to tracking the invoices and expenditures made by the company, yes, we did stop. It is acknowledged in the Auditor General's report that we should continue to monitor the project costs, and we will continue to do that.

**MR. MITCHELMORE:** I do confer with the Auditor General in his statement that if sources of funding drop off in a particular project that the risk certainly goes up. We have seen where there is assessment from the department where they are looking at re-evaluating different options, but moving forward without a thorough plan sometimes can create additional cost and additional risk and burden to the taxpayer.

I am just wondering if the Forestry and Agrifoods Agency were to pursue a second type of program around the Forestry Industry Diversification Program that there would be stricter protocols in place when it comes to monitoring payment systems, that there have

been significant things learned from this experience of having three proponents, three companies, being awarded funding and looking at moving the industry forward.

**MR. BOWERS:** Yes, I agree with your point. We did learn some lessons here and in going forward with similar projects I think I can say with a lot of confidence we would follow the same assessment process and the same criteria. I think those worked really well, but the point of monitoring could be improved. I would have to agree with you on that.

**MR. MITCHELMORE:** In terms of monitoring, is it a staffing issue or is it a resource-based issue in terms of database or training? What would be needed to ensure that monitoring would take place and that there would be a reduction in error when it comes to how things are being approved and making sure that policy is followed? Because this is the crux of what we need to know, that public money is being spent appropriately by the guidelines and that we are getting best value for taxpayers' dollars.

**MR. BOWERS:** I think there are a couple of things there. One is I think it would require internally maybe a reallocation of resources. I cannot argue that it would take new resources to do that; I think we would have to reallocate some resources.

We could, for instance, set up a better accountability framework and measures, have those given more attention, and have an individual or two dedicated more to that process, but that would require some reallocation of resources. I think that is possible in the future without any injection of new resources.

**MR. MITCHELMORE:** Right.

On page 311, it talks about "Additional debt incurred without prior written consent". I am not sure if that has been addressed throughout this session, but the long-term debt had increased by \$1,576,114.

Can you go into further details about that?

**MR. BOWERS:** This is the additional debt incurred without prior written consent?

**MR. MITCHELMORE:** Yes.

**MR. BOWERS:** It is my understanding that we were aware of the \$1.3 million with BDC and that is reflected in our committee minutes, by the way, if it is needed. We were not aware of the \$225,000 in 2010 and that is something we should have been made aware of. The \$51,000 that was referred to in the Auditor General's report, it is my understanding that falls below the threshold of \$100,000 that was noted in our letter of offer. Those were the three, I think, categories that were flagged there.

**MR. MITCHELMORE:** Projects of this scale whether it is for company A, B or C are significant, I guess, in your evaluation process, but was there any outside independent firm hired for risk management, to provide advice on such a matter?

**MR. BOWERS:** We did not have a formal risk assessment process that you refer to but we did address some of these issues by consulting experts in the field and with the Wood Pellet Association of Canada, for instance, who have their resident experts. There was a fair bit of consultation with individuals and associations but there was no formal risk analysis or risk assessment process as you would know it.

**MR. MITCHELMORE:** I would like to ask the Auditor General, for projects of such a scale, would there normally be some form of risk assessment being undertaken that you have seen through this department or others?

**MR. PADDON:** I think it is probably fair to say it is a constant process of assessing risk. I guess it is really a question of where you go to find your expertise about the various components of risk. To the extent that the department may have appropriate or skilled people in the department, well, I think it would be not unreasonable to look to those.

If it is something outside your expertise, and depending on the particular risk you are talking

about, you might want to seek expert advice. There is no hard-and-fast rule; it really just depends on the circumstances and the type of risk you are looking at.

**MR. MITCHELMORE:** I agree with the comment made regarding the evaluation, it seems, of this company and the investment. I have been able to visit the company and see the property, and there is significant work done there, but there is significant risk as well. If you look at the location, there is no port, shipping facilities, or storage facilities there, and that has been talked about and discussed. It seems like on some levels the department moved forward without a full plan, which increases the risk exposure of tax dollars.

I am not saying that the step two of being able to ship and create a storage facility is not possible; it is a matter of does the company or does the plan have the financial resources to actually make that happen? If it does not, then it certainly is putting the taxpayers' dollars at a much higher risk than it needs to be. I think that is one of the bigger issues that comes forward in the Auditor General's report, the findings, the way the process was put forward, and how decision making came to be that would potentially put the Province and the taxpayers at greater risk than it needed to be.

Am I correct in that statement, Auditor General, in terms of your assessment of the process that the department had taken?

**MR. PADDON:** I think that is probably a fair assessment, and I think I alluded to it in a previous comment, that it is really a question of looking at the assessment of the risk and ensuring that you understand exactly what those risks are and the level of risk before you make a decision. If there are pieces missing, then it would be, I suggest, incumbent that you go nail down those pieces to ensure that you know what you are dealing with. A lot of the components in here are little bits and pieces that may not have been available at the time the decisions were made, and subsequently looked at, and perhaps still incomplete sometime down the road.

**MR. MITCHELMORE:** We would think there would be a holistic approach from a department that is looking at expending large sums of public money that would go to a minister who eventually went to the Cabinet for approval to make such a decision without any type of plan to show that the final pieces needing to actually get your product to market were not there. It is very frustrating to see that go forward.

Were there recommendations put forward by your department officials that this needs to also be put into place so that the product can actually be sold?

**MR. EVANS:** You mean for future proposals? Is that what –?

**MR. MITCHELMORE:** No, in this particular proposal. There is no question that pellets can be sold. There are markets.

**MR. EVANS:** Yes.

**MR. MITCHELMORE:** It is a matter of getting your product to market. The way this was put forward to Cabinet and approved in its current state, obviously we are seeing in 2013 no pellets are being put to market. Not because they cannot be sold. Pellets are being sold all over the world in various places and produced in many places of the world as long as they have the biomass to deliver.

An assessment was made. It was put forward by your division, your agency, to the minister. The minister brought it to Cabinet to have government look at approving this. The due diligence should have been there.

**MR. EVANS:** At the time of the approval, the economics were there. It was viable, but there was a risk identified by the department as well. As we talked earlier, the economy changed, and it is still changing today, from a shipping perspective, from a cost perspective of production and the price of pellets. As I said earlier, we are continuing to engage this proponent and to find a solution there to get the operation up and running.

**MR. MITCHELMORE:** I guess I would have to go back and work through the steps again as to how this came to be the way that it is to get a better understanding. I may have to save that until the afternoon session, Mr. Chair, because I need some time to assess what has been actually said in the morning session. I am concerned about the due diligence that was taken and if the department officials had made that clear initially when this proposal, all of the proposals, were put forward.

**CHAIR:** We can break for lunch. Can we come back at 1:30 p.m. and we will resume with a government – I am sorry?

**WITNESS:** (Inaudible).

**CHAIR:** Okay, 1:45 is fine, yes. It could be 2:00 o'clock if you want. Is 2:00 o'clock okay? Then let's break until 2:00 o'clock. Everything is fine here, yes, if people want to make some phone calls or do some business.

### Recess

**CHAIR:** We have now resumed.

Mr. Joyce.

**MR. JOYCE:** I will just go back to something that came up earlier with Mr. Walters, if he had time to review to see if he had those financial statements back to 2005.

**MR. PADDON:** The question came up about the net worth statement?

**MR. JOYCE:** Yes.

**MR. PADDON:** Yes. We checked our files and we did not find anything other than the 2005 net worth statement. We also looked at the validation response we got back from the department once they had a chance to review this. There is a comment in there that says it is acknowledged that a current personal net worth statement should have been requested.

**MR. JOYCE:** So it was not –

**MR. PADDON:** Well, that was the comment to us as part of the validation.

**MR. JOYCE:** Can someone explain that? That at first it was on file and it was checked prior to –

**MR. EVANS:** I will respond, and let Eric or Gary follow up.

It is our understanding that we had the current one, obviously it was not provided to the Auditor General, and we will verify that. We may not be able to do that today, but we will get back to you on that. Our understanding is it was reviewed by the committee, the most recent one, 2008 or 2009, whatever it was. We will get that back to you.

**MR. YOUNG:** Actually, Jim, I think it was erroneous when I stated we had a net present worth. What was in the presentation of funding was actually the audited cash flows for 2008-2009. With my limited accounting abilities, I mistook that as being the net present worth for the individual, when actually it was the cash flow, the audited cash statements for 2008-2009. That was the most current information we had that went into the presentation of funding.

**MR. JOYCE:** Okay. So it was not the –

**MR. YOUNG:** It was not the net present worth.

**MR. JOYCE:** It was not the net present worth. Once again, the application did not include that. Okay.

I am going to go back on page 307. When was the program announced, please?

**MR. EVANS:** Your question was when was it announced?

**MR. JOYCE:** Announced, yes.

**MR. EVANS:** Give me a moment, please.

It was April, 2008.

**MR. JOYCE:** April, 2008, is when the program was announced. Okay.

The reason I asked that is we heard earlier from testimony on questions about equipment that was purchased prior to the agreement application being received and agreement signed. We were told, and I stand to be corrected, but from my understanding we were told that people knew about the program so they went out and bought equipment and when they signed some type of agreement, then they can bring it over.

My question: Is that the way the program was set up, is that if you bought equipment prior to you putting an application in, and prior to you being approved for the application, then any equipment you bought prior you could bring it over and get paid for it?

**MR. EVANS:** As we stated earlier, that was permitted on some occasions but the general rule was to have it purchased after your funding was approved. I will allow somebody else to elaborate on that, but that was more of an exception than a rule.

**MR. JOYCE:** I know many government programs that I deal with, is that anything purchased or anything done prior to you being finally approved is not accepted. The first thing I would think about, and I do not think anybody here would have the knowledge, but a question I would think about is: Were there any prior commitments saying yes, you will get funding; go ahead, get a piece of equipment or something?

**MR. BOWERS:** No, to my knowledge that is not the case. What the committee did in instances where a proponent asked the committee for guidance on going forward and purchasing equipment prior to the signature, the committee responded by saying it would look at the possibility that it might be eligible for support. It did not confirm that it would be eligible; it did not state that it would be the case.

The committee also made it clear to the proponent that any risk associated with that

acquisition was entirely with the proponent, because it is possible that the proposal may not go forward. That was made very clear by the committee to the proponents.

**MR. JOYCE:** Is there any documentation to show here is what is eligible prior to the date of the application or prior to it being approved? Is there any documentation to show here are the eligible expenses, here is what – and did anybody else make the decision or just the committee? Because for a decision to be made, and we are talking about, “As indicated in Table 5, the Department reimbursed \$306,564 in invoices which were dated prior to the receipt of the applications and \$1,775,622 in invoices which were dated prior to the date the agreements were signed.”

Was the minister involved in making those decisions, or was it just the committee, or are you aware if it was?

**MR. BOWERS:** I am not aware of anybody being involved above the committee level; I do not know that.

**MR. JOYCE:** The two people who were involved in the actual application, are they aware? Because I know you just came on three months ago. That is a lot of money. All the government programs that I know, anything prior you cannot be approved, but all of a sudden there is someone before an agreement is signed getting over \$1.7 million being approved for purchases before you sign the agreement. Did the committee have that authority, or was it a ministerial decision?

**MR. FORWARD:** At the time when a decision was made it was made at the committee level. It was made, even though there was nothing in the criteria about the program – whether that was acceptable of it or not – it was made mainly on a cost-saving measure. There were pieces of equipment that could be used in the project that would save the proponent upwards to a million dollars, and we felt that, as a committee, this was good fiscal management. Why force that company to spend upwards to a million more than what it had to?

At the time, and as we said before, the forest industry, particularly the sawmill industry in Quebec, was being decimated, and a lot of this equipment was picked up at bargain prices for a twenty-cent dollar. So the decision was made by the committee based on a financial aspect.

**MR. JOYCE:** Can I ask what this piece of equipment was for \$1,775,622?

**MR. FORWARD:** My guess would be, and I would have to go back through the files, but it was probably a number of pieces of equipment, probably a couple of pieces of equipment. I would think it was probably the HewSaw that was purchased from a bankrupt company in Quebec.

**MR. JOYCE:** What would that be used for, that type of equipment?

**MR. FORWARD:** That would be used for sawlog breakdown. It would be a primary breakdown in a sawmill.

**MR. JOYCE:** Okay.

The committee had the authority to make that type of decision to approve funds before an agreement was signed? Can we get documentation of any minutes of the meeting where it was approved at the meeting? Because it is a lot of money to be approved, especially when – I even know someone who starts up a new business to draw EI or anything. If they work one minute before the agreement is signed, they are gone – anything prior, but for some reason.

Can we get a copy of the minutes where that was approved, and the rationale behind it at the time? I am sure there were minutes. I could be totally wrong. I personally feel that a decision made of spending \$1.775 million had to be a ministerial decision to allow that to happen.

**MR. EVANS:** We will review the minutes and provide them accordingly as you requested. I just want to clarify, the committee did not approve anything above the \$500,000 threshold. They reviewed invoices and either accepted or

rejected the proposals based on the criteria in the guidelines.

**MR. JOYCE:** The committee did not approve \$500,000 over the threshold?

**MR. EVANS:** That is correct. There was an issue related to a company where we talked about we transferred \$280,000 from a previously approved fund, but they could approve only up to \$500,000.

**MR. JOYCE:** From my understanding, before the agreement was signed here by the Auditor General there were funds being approved for equipment that was bought before the agreement was signed.

**MR. EVANS:** No, the committee did not approve the purchase of the equipment. I think the way we stated it was they would consider it once the application came forward. The risk was taken by the proponent, totally.

**MR. JOYCE:** Okay.

So we do not know if that is just one piece of equipment or several?

**MR. EVANS:** We can probably give you the breakdown if you would like that.

**MR. JOYCE:** Yes.

**MR. EVANS:** That is available, Gary, I would assume?

**MR. JOYCE:** I will not harp on it, but I will just get it straight. They went out and purchased it. There was no verbal agreement or no agreement that if you bought these pieces of equipment prior to signing, if we do not agree with it, we will not give you the funds for it.

**MR. EVANS:** That is my understanding. The risk was with the proponent.

**MR. JOYCE:** Okay.

Can I ask the Auditor General is that a normal government policy or practice that you see? I know from my dealings it is not.

**MR. PADDON:** Typically, you would normally see only eligible expenditures after a certain point in time, whether it is the application coming in or the approval. (Inaudible) it is a decision point that somebody would have to make. I am not quite sure whose decision it is.

Whoever is setting up the parameters of the program I would think would set the timelines, but typically what you would see is anything – certainly before when the application came in generally would not be eligible. There is an open question then of anything between the application date and the approval date. It really depends on how the program is set up.

**MR. JOYCE:** Okay.

I just want to go back to a comment, I think Mr. Evans made it, once again, I will ask you to clarify it. You mentioned just before we left, and I think it was a question from Chris, that this project was approved or recommended on the basis of its merit, and fiscally it was the merit on this project.

My question to you is: How can a statement be made – and I do not mean to put you on the spot because I know you were not involved with it in the first place. How can a project be pushed forward on merit when you do not have a cost analysis on the shipping and transportation to where you are going to ship it?

Just before you left, and I made a note of it there, that it is almost impossible to say this is a sound, fiscal business arrangement because here are all the steps, but when two of the steps are missing, how can the department decide that this is a great business deal, it is a good, sound deal, without having the – and we cannot get it.

We asked today, can we get a copy of anything that was dealing with the transportation and the shipping? We cannot get it, yet the department – I do not mean to put you on the spot. I am



sorry if I am. We asked for it and we cannot get it.

**MR. EVANS:** Our understanding is there was a shipping component and a cost associated with the proposal that was put forward, and we can supply that I believe. The analysis, I think we committed to trying to find the analysis aspect that was conducted around that shipping component but there was a shipping cost in the proposal and that was included in their proposal that went forward.

**MR. JOYCE:** In the last couple of years since this went down, has there been another analysis? Can we get it, to see if there was a concept looked at by shipping out through St. Anthony or building a wharf at the facility in Roddickton?

You assume that Roddickton or St. Anthony would be the closest ports, and my understanding is that Roddickton is ice-free also, and it is right where the pellets are. So, logically, that would be where you assume – there was a government wharf there, from my understanding, and it was torn down. There was no opportunity or no request to try to upgrade that federal wharf in Roddickton where you could ship it out.

Was there any work done since then to look at those two ports?

**MR. EVANS:** My understanding of the previous wharf in Roddickton was that it was right in the community and the industrial traffic would have been cumbersome, I think, to reach that point; but I will defer to my colleagues on if there was an analysis done, or a study done on either shipping out of Roddickton or St. Anthony.

**MR. YOUNG:** The answer is yes. There has been an analysis that has been completed primarily by Company A. They provided us with the information where he has done an analysis of shipping out of St. Anthony versus shipping out of Roddickton. That information is in our files and I guess we can provide you with a copy of it if you would like to see it. It was

prepared – not by us; it was prepared by Company A and provided to us.

**MR. JOYCE:** Okay.

My question, again, and I do not mean to harp on it. I went down and visited the site. If the government is giving out \$11 million, wouldn't you assume that the person who is going to give out the taxpayers' money would do an analysis?

If someone is giving me \$5 million and saying Ed, go and justify why I should get \$5 million to build a house. I can give you some nice designs of a house. I am not saying that happened. I am definitely not saying that, but I would assume it is incumbent upon the people who are lending the money to say okay, I am going to do an analysis or we want to see it and we want to make sure that it is vetted.

Was there any report done that was vetted by your department about that, or is it just what was supplied to by proponent A?

**MR. BOWERS:** To my knowledge, the information that we had was limited to the cost estimates within the proposal itself. I think that was the extent of it, to my knowledge.

**MR. JOYCE:** In hindsight, wouldn't you think that you would do an analysis to review?

**MR. BOWERS:** In hindsight, four years, five years later, I can say yes to that question; however, going back in time, we were using that as only one of many components that we had to evaluate in those applications and there were estimates for all kinds of costs. In the committee's view, the costs that were identified were consistent and comparable with other shipping costs, so it did not raise any flag at that time.

**MR. JOYCE:** I think I had my ten minutes here.

**CHAIR:** Mr. Joyce, I think we should go to another member now. I am not sure if it is government or Mr. Mitchelmore can go ahead.

**MR. MITCHELMORE:** I guess I would like to know as to who actually serves on the committee that had made these types of decisions.

**MR. EVANS:** Do you want names or positions?

**MR. MITCHELMORE:** Positions would be fine.

**MR. EVANS:** The Chair was the previous ADM of Forestry. Other committee members, there was an ADM of the previous INTRD, a Director from INTRD, Director of Industry Services from Forest Resources, and the Supervisor of Industry Services from Forest Resources.

**MR. MITCHELMORE:** These individuals would meet and assess the applications that were independently prepared from outside the organization, rank them, and determine which ones would get approval?

**MR. EVANS:** That is correct, yes.

**MR. MITCHELMORE:** So your recommendation then from the committee, the committee's recommendation would go to the minister?

**MR. YOUNG:** Once the proposals were received and assessed by the committee, as Gary indicated earlier in his speaking, there was a number of back and forth between the proponent and the committee. There was some refinement, I guess, of the proposals and, from that point forward then, it was kind of assessed in two different directions.

The Department of Natural Resources would have looked at the proposal on the basis of fibre resources and technical equipment, that side of it, the mechanical part of the proposal. The financial side of things would have been passed over to our colleagues with IBRD and they would have brought in their EDOs, their Economic Development Officers, who would have worked with us to prepare the presentation of funding.

Once the presentation of funding was prepared, it returned back to the committee. We reviewed the presentation of funding. Based on that information that was provided, we would then make a recommendation to our executive that we should proceed or not proceed with the individual proposals. Those that were recommended to go forward, Cabinet papers would have been written and the process would have followed from there.

**MR. MITCHELMORE:** Would there have been a minister who would have approved this to go to Cabinet?

**MR. YOUNG:** Yes, our Minister of Natural Resources. All Cabinet papers have to be signed by the supporting minister, so we would have prepared a paper for a review by a minister at the time.

**MR. MITCHELMORE:** Okay.

This was announced in April of 2008, the program. I guess in commenting from some of the things Mr. Joyce had just asked about around receipts or invoices being paid, I am just looking at the breakdown. Company A was paid about \$800,000 of the \$2 million. Company B was given \$1.2 million. Company B's project was significantly lower in value when it came to the taxpayers' dollar. Project 1, over 50 per cent of the project was paid in advance by the company prior to any application received or prior to an agreement signed.

That seems like a significant amount in advance. What is even more frustrating, I guess, from a financial perspective, is the invoice from December 22, 2008 which was paid even before the program existed – it backdated and paid funds to a company before a program ever even existed.

**MR. YOUNG:** I would like to address that one, Wade.

I think there is a bit of nomenclature that is a bit misunderstanding on your part there. There were no actual payments made. All of what this table is showing is that these expenses were

made eligible. There was no money given out until the application had gone through the proper processes and we got approval from Cabinet. At that point, the committee reviewed the invoices that were submitted to us and we determined then which ones would have been made eligible for each of the projects.

You are a bit incorrect in saying that funds were paid out beforehand. We had no mechanism to give out funds and we would not have done that anyhow. It goes back to the point that Mr. Evans made about the risk was associated with each of the proponents that they would have purchased this equipment. Whether they would have been eligible or ineligible would not have been determined until funding had been verified.

**MR. MITCHELMORE:** When was the agreement signed? What was the date for Company A?

**MR. YOUNG:** We can provide that.

**WITNESS:** The agreement was dated on October 29, 2009.

**MR. MITCHELMORE:** The agreement was? I guess then the agreement for Company B, Project 1, was October 26, 2009 and March 31, 2010, as stated?

**MR. YOUNG:** Yes, that is correct.

**MR. FORWARD:** Yes, that is correct.

**MR. MITCHELMORE:** I am looking at the chart here as to the application dates, the amounts and everything here trying to get clarity from the chain of events that had taken place. When did the government commission the cost-benefit analysis of converting public buildings to pellet heat?

**MR. FORWARD:** I am not sure, but I think that was a study that was – I can find the dates. I would only be guessing but I am thinking somewhere in 2007-2008 maybe, but I can give you a more definite date.

**MR. MITCHELMORE:** I have asked for the document itself which should be available. If you could discuss the findings of that cost-benefit analysis of converting public buildings, because you had talked about the submission of a business plan by Company A had a three-pronged approach. One of it included the industrial uses which would have been converting public buildings.

**MR. FORWARD:** I am not sure of your question. Can you just repeat it again, please?

**MR. MITCHELMORE:** The findings of the cost-benefit analysis of converting public buildings to pellet heat, was this commissioned report used as part of decision making when it came to the approval of funding for Company A?

**MR. FORWARD:** I would say it was used as part of a process to look at all potential markets, but there were a lot of other documents that went into making that decision. We realize that potentially there was some opportunity for industrial conversions but as we had discussed this morning, it is a bit of a chicken and egg thing. Before you move there you have to have pellets to do that.

**MR. MITCHELMORE:** Right.

Initially, on page 301, when we go back to “Company A’s business plan contained a marketing section...” So they did have a marketing section back when they submitted their business plan, which I guess was with their application on June 15, 2009.

Can you provide us with some details as to what was in their marketing plan, as to where they initially had planned to sell and market their pellets?

**MR. FORWARD:** Are you talking about the original proposal, the 2009 proposal?

**MR. MITCHELMORE:** Yes.

**MR. FORWARD:** From what I can recall, it was like three pronged. It was looking at the

local market, it was looking at the Atlantic Canadian market, and it was also looking at a market overseas. I think in the business plan you will see that it was looking at moving into the export market at higher volumes originally, then eventually backing off and selling more pellets into the local market over a period of time.

Some of the target market was Atlantic Canada in a bag market. There was also, at the time, an expression that went out from Ontario Power Generation, it was mentioned that there was a potential that Ontario was looking at supplying some power to their energy facilities. Also, there was a description about how they would grow the local market.

**MR. MITCHELMORE:** How much of this market would have been information provided by the department, your department, around local demand? Because the department itself in the report, the public document that was stated, “Mr. Taylor recently told the *Pen*” – this would have been the former MHA for The Straits – White Bay North, “that industry would build a pellet plant in Roddickton and that government was investigating public buildings to be converted to pellet heat. As well, the province is offering a 25 per cent rebate to homeowners who convert to pellet heat.”

The rebate certainly happened and it has since been rescinded. No pellet rebate program exists today, correct?

**MR. FORWARD:** That is correct.

**MR. MITCHELMORE:** Something has significantly changed with developing a local market for pellet heat in Newfoundland and Labrador. Can you elaborate on that?

**MR. EVANS:** I think the key word there, and I have not seen that document you read from, if the Province continues to investigate local markets. That is continuing. As I said earlier, there have been two commercial facilities transformed here on the Northeast Avalon and a third, smaller government facility on Brookfield Road. There has been some investigation done

as well. I think that statement was correct, and it is continuing today.

**MR. MITCHELMORE:** What percentage of the original marketing plan was geared towards selling in the local market, whether it be residential or industrial, converting public buildings?

**MR. YOUNG:** I have a copy of the original plan that was submitted by Company A to the Province for examination. According to the document I have here before me, the proponent estimated that approximately, about 10,000 tons could be available for the market potential for the Northern Peninsula and Western Newfoundland. That would have included commercial, industrial space heating; large scale health care; light industrial, such as fish processing; and other, which I would imagine would be smaller businesses around Deer Lake, Pasadena, and Corner Brook area.

A total of what they estimated they could do for local wood pellet potential was around 10,000 tons. So, at a 40,000 ton plant – 40,000 to 50,000 – approximately about 25 per cent probably could be consumed locally. I think into the bag market, the numbers are not in there, but if my memory serves me correct, they were looking at around similar numbers, probably 15 per cent to 20 per cent into the bag market in Atlantic Canada. Then the balance of it would be available for export once they got up into full production.

The plan was to start small, to start local, and as the production and the plant geared up and got to full capacity, they would be in a position then to be able to market to Europe for export.

**MR. MITCHELMORE:** What changed to go from 25 per cent local market to basically having no local market for such a company? Now it appears the focus is on an export market, because there is no production. The industry is at a standstill.

**MR. YOUNG:** I would like to address this one, Jim.

There are a number of reasons why, what happened. I think the very first thing is this is estimates and this is the potential of what could be converted. We have to remember that this is probably some high-end numbers on the potential that is there.

A lot of this information was based on the report we mentioned earlier, that you would like to see a copy of, which we will make available for you. I think it goes to the old adage of bringing a horse to water. There is a lot of resistance by private businesses, by homeowners, around this technology. First of all, they do not really know a whole lot about it, so there is a hesitancy on their part to do some conversions on it.

The second thing is that a lot of the technology is not readily available here in Newfoundland. When you get into industrial conversions, you just cannot run over to Kent and buy a stove or a burner that would go into industrial conversion. You have to go to Austria, Germany, and some other places around the United States and Upper Canada.

There is a hesitancy by a lot of the larger suppliers of such equipment to bring it to Newfoundland because sales are very limited, and they are not familiar with the technology, so we spent a number of years dealing with the manufacturers and suppliers of wood stoves and wood heating components, trying to educate them that this is good technology. It is an uphill battle. It has been slow.

The residential side: good uptake. I think the pellet rebate program was successful, what its objectives were to introduce the technology to Newfoundland, and we were successful in doing that. On the industrial side, it is a bit slower. Like Gary mentioned, it is difficult to bring this technology in without having a large-scale plant operational.

We have had success on the agriculture side. There are a number of facilities that have taken the plunge and they brought in equipment and they have been using it for the past year or year-and-a-half with great success. We are confident that as you see more and more of these industrial

conversions happening around the Province, the uptake will be there.

In terms of government-owned facilities, the math changes when you look at government-owned facilities. A lot of the report, when they looked at it, I think they were a bit naive when they did the report up and projected return on investments. I think they really under or overestimated how fast they could get their money back, mainly because government do not pay the full rate on the price of oil as a private person would or a private business would. The math changes significantly when you look at publicly owned facilities. It is a lot longer payback; but, still, the potential is there, and that has been identified in that report that we will make available.

**CHAIR:** Mr. Mitchelmore, we should go to another member now, a government member.

**MR. MITCHELMORE:** Sure.

**CHAIR:** Mr. Joyce.

**MR. JOYCE:** Okay. Thank you again.

I do not mean to be going on. I guess we are just trying to get a comprehension of it all and go through it. I am just going to go back to what was said earlier. When the committee got together and made a recommendation, it went to the minister, who happened to be Minister Dunderdale who is the Premier today. Correct? She was the minister?

**MR. EVANS:** I think over the course of the program there were probably two ministers, if not three. As I said earlier when the program was announced and in the early stages, it was Minister Dunderdale at the time.

**MR. JOYCE:** Okay.

**MR. EVANS:** The recommendation for a Cabinet paper is put forward by a minister to Cabinet for a decision. I cannot comment on that, but it is a different decision then.

**MR. JOYCE:** Okay.

My question is – we heard earlier in testimony that this was high risk - in the recommendation that you made to your minister at the time, was that included? I guess it had to be. If it reached Cabinet it had to reach the minister to pass on, that this is a high risk. Am I right in that assumption?

**MR. EVANS:** When we prepare documents for decisions like that, there is a whole host of analyses and risks or impacts to different potential businesses or communities. So, every bit of information that is available, whether it is risk or impacts to communities or environment are included in those proposals.

**MR. JOYCE:** Okay.

The third thing that I mentioned here – and I think it was explained by Mr. Young – is that in those invoices there was nothing paid until the agreement was signed, those invoices that I am talking about on page 307. Before the application was received and the agreement signed, that the invoices were not – they got the invoices, but there was no money paid until the agreement was actually signed.

So, am I under the understanding that a part of that proposal that went up to the minister, who happens to be the Premier today, was that we are going to reimburse those companies that funding? Because it had to be a part of the agreement that here is the equipment that was bought and here are the invoices, yet part of that funding is going to be to reimburse these companies these funds for equipment that was already bought. Am I correct on that?

**MR. EVANS:** I stand to be corrected, but I do not think that was the case, no. I think the proposal was put forward on pure funding based on the proposal itself. Once that was approved, the committee made the decision on whether the invoices were eligible or not. I do not know if that is correct or not.

**WITNESS:** That is correct.

**MR. JOYCE:** Okay.

My question is that if there was \$1,775,622 that was paid prior and it was not sent up to Cabinet saying this is going to be included and here is why it is included, it is equipment that was bought prior to the application received and prior to the agreement being signed, did they approve the full amount or minus that \$1.775 million? It had to be included somewhere in the proposal?

**MR. EVANS:** I stand to be corrected again, but I think the whole proposal was based on the proponent's proposal for an upgrade. Whether they included those exact costs or not, I cannot see that; it was just based on equipment and the benefits of installing that equipment.

**MR. JOYCE:** Okay.

Can I ask the Auditor General: Am I missing something? If you are sending a proposal up to a minister, who happens to be the Premier now, and who takes that proposal and passes it on to Cabinet, and here is a part of it for equipment, \$1.75 million, someone has to say what is that for, it is going to be spelled out what it is for, and then it has to be there that it is already purchased and we are going to reimburse. Am I correct on that?

**MR. PADDON:** I cannot really speak to what was in the Cabinet paper because, as you know, I do not get copies of Cabinet papers. If I understand what Mr. Evans is saying, he is saying that the Cabinet paper would have included the total cost of the project. That total cost of the project would have included the one-point-whatever is before the application, but perhaps not identifying that specific amount as being expended by the company before the application date, or before the agreement date.

As to what specifically was in the Cabinet –

**MR. WALTERS:** I can make a comment, too.

I think the Cabinet approval was in July month, so I do not think at that time any invoice agreement was submitted to the Department of Natural Resources to even know what was

probably being invoiced prior to that. To their benefit, it could not have been provided.

**MR. JOYCE:** Okay.

**MR. FORWARD:** (Inaudible) to clarify. The committee did not see any invoices until after we sent out the first disbursement. Our program operated a little bit differently than other programs, where we would allocate a disbursement and then they would estimate invoices up to the amount of the disbursement.

**MR. JOYCE:** In this case, say, you gave out \$2 million and they came back with invoices for equipment that was already purchased. I am just missing how it was done. If that is the case – when was this money paid, this \$1.75 million paid to the company? Was it after the agreement was signed and you sent it out, then they came back and said: oh, by the way, here is what we bought prior; can we get permission to use that for those funds?

**MR. FORWARD:** That is correct.

**MR. JOYCE:** Okay.

I just could not understand how the process worked with it. There was no agreement prior to. Do you know any equipment they purchased for it that was turned down?

**MR. YOUNG:** There was one company that is not on this list, that their proposal was rejected by the committee. It was just too far back and it did not pertain to the proposal in place.

The Auditor General probably never seen that or he never picked up on it, but there were minutes in our meetings. We received a proposal from another company here in the Province, another sawmill, and we rejected it basically under the premise that it did not qualify. It was ineligible, and we would not proceed with the proposal.

**MR. JOYCE:** In Company A or B, were there any invoices submitted that were rejected for equipment purchased?

**MR. FORWARD:** I am not sure. I would have to go back through the files. Potentially, yes, but I would have to confirm that.

**MR. JOYCE:** Can you let us know? Because it seems like everything that was bought prior to that they would submit would get paid, unless there was some kind of an understanding or – it is just beyond me why someone would go out and purchase this type of equipment when there is a program announced and then put in the invoices a year later. I do not know how long prior to the application date or when they even bought the equipment.

Can you give us a date of when they actually bought the equipment? When they asked for a reimbursement, was the equipment a year old, two years old, three years old? Can you supply that to us also?

**MR. FORWARD:** Yes. Potentially, I guess, the date would be on the invoice. Again, I stress that these purchases had to fit into the bigger project. Some of it came about because it was time sensitive. The purchase had to be made prior to the signing of the agreement. I think in most cases for that amount, that is what happened.

**MR. JOYCE:** Okay.

I just find it odd that Company B would buy something in December and not get approval until October and say it is time sensitive. It is almost a year for the \$53,000. That was even before the application was put in. How you can say: oh, well, it is time sensitive. We are going to buy a piece of equipment; we are going to get the equipment. In this case there is over \$306,000. We are going to go out and buy equipment; oh, by the way, we are going to put an application in later. I can see if the application was in, but you are going to go buy the equipment and then put in the application.

Time sensitive does not work, to me. If you had the application in, I could see it, but prior to the application and saying it is time sensitive, I do not know. Hopefully, you can supply us with the invoices of the equipment that was

purchased so we can see when exactly they were purchased prior to the application being received and the agreement signed. Thank you.

I am just going to get an explanation on this, page 308. I know it was already discussed, but I will ask the Auditor General on this. The reimbursement of the \$1 million that came back from the HST, can you explain that?

**MR. PADDON:** Yes. Businesses that operate a commercial venture, when they buy goods, services, equipment, the supplier of those goods and services will charge them HST. That is part of the operation of the Value-Added Tax, that businesses, as long as they are going to be reselling something else, is eligible to get that tax back. Essentially, while they pay it up front, they do get it back. The net result is they do not pay HST on those purchases.

**MR. JOYCE:** Okay.

**MR. PADDON:** In this case, part of the eligible costs that were approved included the HST that, in fact, the company would have gotten a rebate for.

**MR. JOYCE:** Was that \$1 million applied back into the company somehow?

**MR. PADDON:** The company would have received that rebate. What they did with it then, I guess, is up to them.

**MR. JOYCE:** That \$1 million, was that put towards the total cost of the project anyway?

**MR. EVANS:** Yes, we have received confirmation from the company that any rebate they received, Company A, on HST was invested back into the project. We can verify that the proponent has invested \$2.9 million, and part of that was the HST rebate he received.

**MR. JOYCE:** Okay.

Page 308, "The Department provided Company A with approximately \$3.0 million in funding for the purchase of wood. Table 6 provides an

overview of the proposed purchase of wood compared to the actual purchase of wood."

Am I correct on this? I will ask the Auditor General again. Wood purchases that were actually on record and not actually made, or proposed purchases and actual purchases?

**MR. PADDON:** The way we understand it, there was a proposal to purchase 57,000 cubic metres of wood, split between forty-three of energy wood and fourteen of sawlogs. That was what was initially proposed and presumably what was funded to be allocated between those two, I guess not sources but outcomes.

What was actually purchased then was less energy wood and more sawlogs. I guess the point we made is that the original proposal was for a certain split and they ended up doing something different. I am not sure then what the ramifications of having 6,200 cubic metres more sawlogs versus 5,000 less of pellets, but presumably your funding decision was made on a certain proportion and you ended up with a different allocation. There would have been some ramification.

**MR. JOYCE:** Can the department explain that?

**MR. BOWERS:** Those estimates for purchases were based on a rough ratio, 60-40 sawlog ratios. That is an estimate, and these estimates are subject to a lot of factors. They are subject to projected volumes at the time the submission was made, for instance. They are subject to the state of the forest inventory, the stand compositions and the sawlog specifications and so forth. What I am saying is there are a lot of factors that affect those estimates.

Those relatively minor changes in the volumes could come about simply from harvesting operations or it could be influenced more by lumber sales. It is not unexpected to see that kind of variance in purchases based on all those factors.

**MR. JOYCE:** I know my time is up, but one last question on this.



Was any of that put back in? Was the project revamped after? Because, obviously, if you are getting funds – and I am just assuming this now. If you are getting funds for wood pellets over here and you have the money to buy wood pellets, you take those wood pellets and go over and buy sawlogs, was the application or proposal changed, or was there any money held back because there was a change in what you were cutting the wood for and what you were selling? Of course, wood pellets would be a projected cost higher, and labour I guess would be higher. That would throw off the project itself, if you are doing the due diligence, if you are changing it around.

**MR. BOWERS:** To my knowledge, that did not affect the proposal in that sense because the downstream effects of those changes did not affect any of the local operators or any of the financials directly that way. I do not think, to my knowledge, that that resulted in any modification in the proposal itself. Am I correct?

**MR. YOUNG:** Yes, Wade, you are correct in that assumption. Initially when we looked at this proposal, we tried to target volumes that would be harvested in District 17 and 18. I cannot recall the percentage of the AAC that we would harvest. It was around 57,000. At the end of the day, we ended up harvesting 58,200 metres were brought into the yard.

As Wade alluded to, the ratios that we determined in 2008 when the proposal was put together was based on a 60-40 split, our best guess of what was available in those stands. The actual harvesting did not produce those volumes. It was slightly different. I am not surprised at all that we strayed from the original estimates – that is what they were: estimates of volume that would be harvested.

The bottom line is that we did harvest 58,000 metres of wood which was shared equitably among the permit holders in District 17 and 18. Nobody was negatively impacted by it. I do not know what else to add to it, other than there was nobody negatively impacted by it.

**MR. JOYCE:** Wouldn't you think that if they took more wood away from what you are going to use for wood pellets, it would give an indication that the wood pellet operation is not functionally operational; or wouldn't that be the first indication, oh, we had better go back and look at this project?

**MR. EVANS:** We have to remember that the project was not just a wood pellet project. It was a sawmill project as well.

**MR. JOYCE:** I understand.

**MR. EVANS:** Whether it was more economical to put more sawlogs in the sawmill or more energy wood in the pellet mill could be debatable depending on sawlog prices or lumber prices, but that is a snapshot in time. They are global estimates from the forest inventory. If you did this over a twenty-year period, you would probably come out 60-40 – you would be closer to 60-40; but, the smaller sample size, you have variance. It is an estimate based on our forest inventories and they can vary from stand to stand.

**MR. JOYCE:** Okay.

**MR. YOUNG:** Just to add to that point, when the plan was developed I believe we looked at about 60 per cent of the Annual Allowable Cut. So these harvest levels are greatly reduced, of what actually can be harvested on the Northern Peninsula. The reason we did that is we did not want to harvest the full AAC and have that volume of wood produced at roadside or stored in the woodyard. There were limits to how much wood we could store in the woodyard as well, and there was a limit to how much funding was available to help the contractors on the Northern Peninsula get through the first year of harvesting while the pellet plant was being produced.

That is the premise of the woodyard: to provide a feedstock for the pellet plant. Really, the ratios, they had no impact on the feasibility of the pellet plant because the pellet plant was going to derive its feedstock from energy wood, which is pulpwood, basically, as well as residues

from the sawmill. If the sawmill sawed more lumber, that is great because you are going to get more residue flowing back to the pellet plant. It has had a negligible effect on the proposal for the plant.

**CHAIR:** We need to go to another member.

Mr. Parsons.

**MR. K. PARSONS:** Thank you, Mr. Chair.

I just want to go to a little bit of what Mr. Joyce was talking about earlier, just to get clarity on some things here. He was speaking about the invoices and purchases before any signed agreement was in place. I think, Mr. Young, you mentioned earlier that some of the equipment that was bought previously was because of what was happening in Quebec sawmill industry and it would have made a lot more sense for one of these companies to go purchase some equipment that was available in that province rather than wait for a period of time to purchase later on.

Could you just elaborate on that, either Gary or yourself, where you talked about that earlier?

**MR. FORWARD:** During that time from 2007 to 2009 there was a tremendous downturn in the industry in Quebec. Sawmills were shutting. The Quebec government had reduced the Annual Allowable Cut that was permitted. A lot of saw mills went up on auction and went bankrupt, and this equipment became available.

The forests of Quebec are very similar to the forests in Newfoundland in regard to piece size, and some of the technology that became available was very well-suited to sawing that timber in Newfoundland. Our sawmill industry availed of this and they were able to acquire very expensive equipment at very low prices. Because of that, that equipment is installed in our plants today and it is sustaining the industry today and employing people today.

What I am saying is that the committee looked at that and took that into consideration that, for the betterment of the industry, it was a good move.

**MR. K. PARSONS:** So, again there was a lot of saving both to the program itself and to the sawmill operators or the pellet – whatever.

Obviously before any agreement is signed, there are probably some negotiations between the department and the person who is putting forward the application. Would any of this have been in discussion beforehand? An example is Company A were looking at purchasing some equipment, or Company B were looking to purchase some equipment, would that make the application favourable knowing that they had the equipment in stock? Did it do anything for the application?

**MR. FORWARD:** No, it would not. Again, as we said, these expenses became eligible after the project was signed off on. When we received these invoices, each one was reviewed by staff of DNR to see if they were eligible. Whether they were purchased two weeks before signing or after, it did not really matter. So it had to fit into the program and into the project.

**MR. K. PARSONS:** Okay.

So, again, just going back, most of the invoices that were purchases were basically to do with all equipment that was needed to upgrade these facilities to make it –

**MR. FORWARD:** Yes, absolutely.

**MR. K. PARSONS:** Okay. All right, that is all I have.

**CHAIR:** We will go to Mr. Mitchelmore and before we do, I will advise, we will take a brief break after that because we have arranged for coffee in the caucus room. I think other people might appreciate coffee as well as I would; a little break would not hurt.

**MR. MITCHELMORE:** Sure, thank you, Mr. Chair.

I would like to go back on page 308, because there was quite a bit of discussion around the energy wood and sawlogs. I would think that if you are cutting a forest and you have a multitude

of contractors and players there, a piece of wood is a piece of wood, a log, and some of it will be valued at making lumber – whatever is not able to be used to be made into a high-value lumber will be used, chipped, or the sawdust, into energy wood to make pellets.

In my view, it seems like it is beneficial that you see higher value being able to be turned out of the wood that was actually harvested in this case. It is good to see that wood on the Northern Peninsula is actually producing a relatively high volume of sawlogs. Is that right, or am I missing something here, that sawlogs would be a higher value than wood energy?

**WITNESS:** (Inaudible) background on that.

**MR. MITCHELMORE:** Okay.

**MR. FORWARD:** Just to add to that, in this project, the more sawlogs you can turn out, the better, because of the value. Also, when you saw sawlogs you produce sawdust and you produce bark, and then that product then goes back into to make pellets. That raw material is the lowest-cost raw material that you can put into a pellet plant.

**MR. MITCHELMORE:** Yes, if you have to take a full log that is not suitable as a sawlog, and chip it up and do whatever, there is extensive labour and cost, whereas you have already produced a piece of lumber from the sawmill. You have that residue. That residue is integrated where you have a sawmill and a pellet plant directly on site so you actually have the lowest possible cost in this scenario. I do not see that as being a negative thing at all. Actually, I see it helping out a company and its overall bottom line.

I do not mean to harp on this cost benefit analysis of converting public buildings to pellet heat that the government commissioned, but I have certainly been speaking out about that publicly for quite some time. I would just like to know what company it was that commissioned the report.

**MR. YOUNG:** I think the initial report that we are referring to was prepared by EnFor Consulting. That was commissioned by the Newfoundland and Labrador Forestry Training Association. At the time, there was an association called Newfoundland and Labrador Forestry Training Association and they were involved in a number of projects. They were kind of at arm's-length of the department, but they worked really close with my division in developing initiatives around value-added development, sawmilling, wood energy, and the whole gamut of things. Funding for that came through the Newfoundland and Labrador Forestry Training Association. They put it out on a contract and EnFor Consulting were the successful bidders on it who produced the report.

There is probably another report out there dealing with around the Avalon and Central Newfoundland. That was also commissioned by the NLFTA and CBCL were the consulting firm that produced the report. All of these reports that we are referring to, we will make them available to you. They are available on PDF and we will make sure you get a copy of them.

**MR. MITCHELMORE:** Right, so this EnFor Consulting, they are a reputable consulting firm, I would imagine?

**MR. YOUNG:** Sure, yes. Mr. Paul Duffett has been practicing consulting in the Province for a number of years.

**MR. MITCHELMORE:** I guess I would like to question, then, comments made earlier around the assessment of converting pellets in public buildings as being optimistic and things like that. In the original report by such a consultant, would they have calculated for public buildings the fuel cost correctly or incorrectly?

**MR. YOUNG:** I think they would have calculated the fuel costs based on the purchase price that a private person would pay for it. Is it incorrect? In some instances, yes; in some instances, no. I would have to go back and review the report and see which ones they did.

To be fair to Mr. Duffett, my memory is pretty cloudy after five or six years here now, so we would have to revisit the report. I think, Gary, it is pretty well fair to say that for public-owned facilities or government-ran facilities, he may have used the purchase price of oil that a private person would have purchased. I would have to go back and check that.

**MR. FORWARD:** Just to add to that, he probably had the annual oil consumption of these facilities and probably just used a straight conversion of what it would take to switch over to pellets. It was probably based on annual oil consumption.

**MR. MITCHELMORE:** Right. That certainly makes sense, to do it that way and to figure out how the payback would be. Okay, so government has that information and that is going to be made available. That is great.

I would like to go now to page 313, about “Monitoring of project employment”. It had talked about, “...the Department did not monitor the employment created and maintained as part of its monitoring of approved projects to determine if the projects achieved the expected outcomes”. For example, it is listed there. It notes that, “For Company A, the approved project was expected to create and maintain 322 jobs. Specifically, the project was expected to create 22 and maintain 42 permanent full-time jobs within the company, and maintain another 258 direct and indirect jobs outside of the company. We note that the company provided detailed payroll records to substantiate the claims submitted, however, the Department did not periodically report on jobs created and maintained in its site visits reports and file memos”.

This comes down to a documentation issue that we see quite frequently in Public Accounts where likely there would have been a checklist when somebody is doing a site visit. Why would something be missed such as looking at the number of jobs created and maintained? That is something that is very critical, especially for government when they talk about the economic benefits as to how many jobs are

created. It is a big reason why a number of loans are extended to companies, because of the economic impact and the employment piece. Why are employees missing something as standard as this?

**MR. BOWERS:** The department continues to monitor all of these projects. We are in constant contact with the proponents up to and at current times. You are right, to capture these data that you refer to, we need it and we need a more systematic approach. It sort of comes back to my comments earlier today about having that framework and measures, and I would agree with you that one of those key measures is employment numbers. That should be there. In this particular project, to my knowledge at least, we have not generated those particular numbers on employment

**MR. FORWARD:** What I would add to Wade’s comment, though, is that project A is not up and running so it is very difficult to do an assessment of jobs created or maintained. I agree with Wade’s comment that in the future we will attempt to document what is going on there.

**MR. MITCHELMORE:** Would there not be an assessment done on the impact of not having a fully functioning pellet plant in operation there as to the economic impact it is having negatively to the local business community, the contractors, the number of people who have lost employment and who have had to leave, and companies that have gone bankrupt because of the failure of having a thorough plan in the beginning?

**MR. BOWERS:** I agree, I think that kind of analysis, the best form for that would be in the form of a study. I think it would require a separate study, though, given where we are and it is something that is probably best approached through a social sciences study to look at demographics and to look at those numbers. I think it would be valuable to do. Unfortunately, it would come – well maybe not unfortunately. Maybe it is prudent that it would come later because at the termination of the project we could do a fair analysis on that score.

**MR. MITCHELMORE:** Okay.

**CHAIR:** Would you like to take our break now?

**MR. MITCHELMORE:** Sure.

**CHAIR:** Ms Murphy indicates that coffee is in the caucus room. We will see when we will resume. We really should only stop for ten or fifteen minutes because we do want to finish today. We do not want to come back another day, do we?

Thank you.

### Recess

**CHAIR:** Okay, we are now back on and we can resume with Mr. Joyce.

**MR. JOYCE:** Thank you.

I will go through a few more items. On page 308, right in the middle, "In March 2010, Company A claimed, and the Department funded, \$57,949 related to a 30% deposit on a piece of equipment. However, our review of claim invoices submitted by the company to support the \$1 million in funding approved under the Province's Green Fund administered by the Department of Environment and Conservation, identified the same deposit was used in March 2010 to support a claim under that Program. Although the Department of Natural Resources was not responsible for the administration of the Green Fund, given that the funding was used for the approved project and was identified in the Offer of Funding, the Department should have determined what the \$1 million in funding was used for."

Can you explain that?

**MR. BOWERS:** We have had a close collaboration with Environment and Conservation on the Green Fund with reference to this file. That particular invoice, \$59,000 I think you said it was, was considered eligible. At the same time there was a duplication there of eligibility, so the invoice was actually counted twice. That was a mistake and that has been identified. As the project continues there is documentation included in the financial tracking

to show that. We had, just on purchases alone, nearly 1,800 invoices or something on that part of the project. That one invoice did get considered twice by mistake.

**MR. JOYCE:** Okay.

I will go to page 311. I will just go to the bottom, "Additional debt incurred without prior written consent", and just one part I will mention there, "Regarding the \$1.3 million borrowed from the Federal lending agency in 2011, the Department received a request and agreed to a partial release on its first charge mortgage security on certain land that was held as security against its own \$7 million loan. However, although the mortgage for the \$1.3 million loan was entered into between Company A and the Federal lending agency on January 6, 2011, the partial release of the mortgage between Company A and the Province had not been signed as of November 2012."

Has that been signed since, and can you explain what the ramification of that is?

**MR. EVANS:** That has not been signed yet, but we anticipate it to go forward. The ramifications to the department are nil or non-existent in a sense because the security would be required by the federal agency, and right now we need to transfer that security.

**MR. JOYCE:** Okay, but it will be signed?

**MR. EVANS:** Well, it is not my decision to sign it. We will put it forward and it will be a higher decision to sign it.

**MR. JOYCE:** Okay.

I go on to page 312. This is part of when we are hearing today about the funding and the company, "The underlying conditions to the Offer of Funding for Company A indicated that the company was not permitted to make loans to, investments in, or guarantees on behalf of others without the prior written consent of the Department. Our review indicated that in 2011, Company A provided loans totalling \$254,845

to two companies owned, or partially owned, by the principal owner of Company A.”

Was the department aware of that? Here are the government funds going into it, and we see almost a quarter of a million dollars being lent out to another company from the same one that just got a – was the department aware of that?

**MR. BOWERS:** Just for clarification, are you referring to loans that were issued to related companies?

**MR. JOYCE:** Yes.

**MR. BOWERS:** There is a clarification there that I can bring to your attention, and that is it is true that written consent is required, but that particular transaction, if I am correct here on the item, took place but not in the form of a loan. That was not a loan, and it was not an investment or a guarantee either. It came, to my knowledge, as a management fee and that should have been identified as a receivable. So I think that information was not clarified for the Auditor General. It was actually a management fee that was charged and we have checked on this with the accounting firm to ensure that was the case.

**MR. JOYCE:** Is the Auditor General aware of that?

**MR. PADDON:** No, this is the first indication of that.

**MR. JOYCE:** So what was the management fee and who charged the management fee, I guess is the next question? Usually, I am assuming, when the Auditor General, and they usually do when they do their report, goes back and asks for a response. That was not brought up to the Auditor General about what that was, so it would not be in the report?

**MR. BOWERS:** Not at that time, because we just got the clarification on the actual nature of that fee recently.

**MR. JOYCE:** So it was not a loan?

**MR. BOWERS:** It was not a loan, it was not an investment, and it was not a guarantee. It was strictly a management fee.

**MR. JOYCE:** A management fee to whom?

**MR. BOWERS:** It was a management fee between the two companies. One company charged the other company a management fee, and that is acceptable under taxation rules and under accounting.

**MR. JOYCE:** So say a company, a subsidiary I have, I can charge them a management fee. I ask the Auditor General, is that proper procedure or is that allowable? I am assuming it is. I am sure I am not questioning Mr. Bowers at all on that.

**MR. PADDON:** Yes, I do not think there is anything wrong with one company charging a management fee to another as long as there is, presumably, legitimate work being done to justify the fee.

**MR. JOYCE:** Can you supply – I would not want to see it – the Auditor General with that to ensure what type of work was done and how long? What period of time are we talking about?

**MR. BOWERS:** We can certainly look into the details and supply anything relevant to the Auditor General on that.

**MR. JOYCE:** Okay.

Thank you very much.

“Monitoring of project completion and project costs”; I will not read it, but it is on page 312 at the bottom. It says, “Our review indicated that the Department did not monitor the employment created and maintained as part of its monitoring of approved projects to determine if projects achieved the expected outcomes.

“For example, the Departmental assessment of the application from Company A recommended that the project be approved – recognizing that the request for assistance represented the only option to stabilize and maintain the entire

industry on the Northern Peninsula, balanced against the risk associated with the loan...

“For Company A, the approved project was expected to create and maintain 322 jobs. Specifically, the project was expected to create 22 and maintain 42 permanent full-time jobs within the company, and maintain another 258 direct and indirect jobs outside of the company. We note that the company provided detailed payroll records to substantiate the claims submitted, however, the Department did not periodically report on jobs created and maintained in its site visits reports and file memos.”

Did the department follow up to see if that was actually happening, the number of jobs that they said they were creating because right here it says that the department did not follow up.

**MR. BOWERS:** No, we did not, as I alluded to earlier, have a systematic approach in place to do that analysis. I guess coming back to Mr. Mitchelmore’s comment about the need to probably analyze the full range of impacts there with a study or an evaluation is reasonable, and I think the way to get at that. Those numbers we have not assessed in the way you have described.

**MR. JOYCE:** How many jobs are there right now at that site in Roddickton?

**MR. EVANS:** I do not know if we have a definitive number. I know, as you are aware, the plant is not operating. There are other businesses going on. There is other harvesting happening on the Northern Peninsula for different reasons, but at that site I would say less than five people.

**MR. JOYCE:** Part of the discussion here was with the woods operation, also lumber. There is none of that operating as we speak?

**MR. EVANS:** There is some harvesting occurring on the Northern Peninsula, and sawlogs are being sold to another sawmill, and some firewood being sold. I am not sure if Company A’s harvesting company is working –

**MR. JOYCE:** We were hearing earlier in some discussion that this was not just a sawmill this was other parts in the structure itself. What we were discussing is the whole – there are about four or five working in the whole ramification of what we were discussing. We mentioned logs, lumber, and we mentioned the pellet plant.

**MR. EVANS:** I think maybe I misunderstood your question. On the site itself, on the operation, maybe less than five but there is harvesting and trucking employment ongoing on the Northern Peninsula right now. I cannot quote a number.

**MR. JOYCE:** I understand, but was there not other equipment bought for this site besides for the pellet plant operation?

**MR. FORWARD:** Yes, it was. A sawmill was revamped, and also there were two dry kilns constructed as well.

**MR. JOYCE:** Is any of that working now?

**MR. FORWARD:** Right now – all of that is idle right now.

**MR. JOYCE:** The projection of even maintaining jobs, there are five people working at that because of the investment right now.

**MR. EVANS:** As I said, on that site – we can clarify the numbers, but on that site there is probably less than five. The industry on the Peninsula was quoted at 322. There is a portion of those still employed. I do not have the number right now because some of them were indirect and induced, and direct jobs. There is some harvesting and trucking occurring in the area which would be –

**MR. JOYCE:** If they are still working now and the site is not operational, my question is: How can you put them in to create and maintain jobs when they are being maintained anyway? They are working now. They are being maintained now, yet the site is not working.

My question would be, the numbers that were put in, were they verified by the department?

Because if they are independent from the plant being closed down, which it is now, how they can be used in an analysis to receive government funds?

**MR. EVANS:** Yes, we feel the numbers are correct. They are accurate. What has happened, they found different markets for the timber. If the plant was up and running they would be supplying the timber and energy wood or sawlogs to that site. Right now they are utilizing some of it for firewood or sawlogs to another sawmill. They found another market to maintain their own harvesting businesses.

**MR. YOUNG:** To clarify some of that, Jim is correct in that there is ongoing harvesting on the Northern Peninsula, but we have to bear in mind that the full AAC is not being harvested. If you hold up District 17 and 18, there are some-160,000 cubic metres of wood, potentially, that could be harvested every year and turned into a valuable product.

Unfortunately, with the pellet plant being idle, the contractors on the Northern Peninsula have had to seek out alternate markets for their products. There is a lot of firewood being cut. Some sawlogs are flowing down to a mill in Hampton, which is beneficial, but it is not full-year employment for these people. They are still struggling.

Although Jim is correct in saying there are people working on the Northern Peninsula associated with that project, with the harvesting that is occurring, the long term – a full year employment for these people, it would be very difficult for them to achieve it. We need this plant up and running to bring up the full 322 jobs for the whole Northern Peninsula. The wood would flow towards Roddickton instead of it flowing down towards the West Coast.

**MR. JOYCE:** Yes. You need the plant, I agree, it would be great for the area. I ask again, and I know you probably cannot give an answer now. It may be a question for the minister. Will there be a wharf, a docking facility put in Roddickton or some way to ship the pellets at a feasible cost out of Roddickton?

At no time did I think that if a business was going to create these numbers of jobs that you can be against it, but the thing is you have to create an atmosphere whereby this company can go ahead and produce and survive. You cannot set them up and all of a sudden – like their biggest thing is the wharf and facility. Their estimation is \$4 million. It is almost unfair to say: Okay, go ahead, here is the money for your pellets but we are not going to let you get it out.

Is there any consideration, or can you provide us with any documentation where there are ongoing discussions about that part of the operation?

**MR. BOWERS:** We can say we appreciate that point you are making, that that would be critical to industrial development, but we are not in a position to say whether this will take place. That would be something that would have to be analyzed fully and it would be decisions, obviously, above our level.

The point taken that you make in terms of the need, it is recognized, but whether or not there are discussions or whether decisions will be made, we are not in a position to really comment on it.

**MR. JOYCE:** Okay. I appreciate that.

That is it for me now for the moment, Mr. Chair.

**CHAIR:** A government member, or Mr. Mitchelmore?

**MR. MITCHELMORE:** The last time we spoke I was asking some questions and you had referred to the NLFTA. Could you let the public know as to what is actually happening? Is this still a functioning arm's-length agency, or what has actually happened to the NLFTA?

**MR. YOUNG:** The NLFTA, obviously, stands for the Newfoundland and Labrador Forestry Training Association. Currently, right now, that association has been parked, I guess you would say.

The gentleman who headed up that organization has since retired, and the staff who were



employed with him have since been let go. That association, basically, I think the appropriate word would be parked for the moment. Whether it shall be revisited and reorganized and refunded, that decision has not been made yet. For the time being it is parked.

**MR. MITCHELMORE:** Was that due to a budgetary cut?

**MR. EVANS:** I do not think it was related to a budget reduction. I think it was just the need was not there any more.

**MR. MITCHELMORE:** Okay.

I want to go back to the Auditor General when they talked about the department made substantial expenditures, on page 307, before the agreements were signed, contrary to department policy and guidelines. In its response, the department says early payments were made because cost savings that were realized dramatically improved the financial position of the projects.

Does the department have any documentation to back this statement up? It may have been asked for but, if so, the department noted that all the expenditures were reviewed and deemed to be directly related to the project. Could that actually be provided?

**MR. EVANS:** I think if I understand your question correctly, you would like to see the savings that were made.

**MR. MITCHELMORE:** Yes.

**MR. EVANS:** If it was bought at a reduced price, we can provide the actual price if you purchase it new. Is that what –

**MR. MITCHELMORE:** Yes. When you are making that decision to pay for something that had already been paid for by a company, purchased before you had entered an agreement with them, if there is any documentation to show that there were savings by reimbursing them or how it would impact their operations. I guess if there is some information to show that the

department did its due diligence when it made these exceptions to the rules.

**MR. EVANS:** We can review our files and provide that information, if it is available.

**MR. MITCHELMORE:** Did any of the officials question the practice, allowing this to go through?

**MR. EVANS:** My view is that the committee discussed it and it was a committee decision. They had their discussions and it was a committee decision to proceed, accept, or reject the invoices.

**MR. MITCHELMORE:** Right. Thank you for that.

A lot of the inconsistencies that were noted in the Auditor General's report stem, I guess, from difficulties private companies may have to try to navigate through all the many requirements, the revisions, the changing in programs, the forms, reports to government that are often required. It can be very cumbersome, I think, for a number of small companies to develop marketing plans and business plans that are very comprehensive in nature for multi-million dollar projects and the additional requests and the time delays as to how this could impact the outcome.

We often refer to all of this as red tape and trying to reduce red tape. It is really important to have documentation when administering public funds. I would just like to know, through this whole process, this whole review process, has there been any idea as to how you could streamline your approach and still do the due diligence without imposing too much of an onerous task of paperwork that would burden private companies? Because reducing red tape is certainly important.

**MR. EVANS:** I will refer to one of colleagues here, but I am sure there were lessons learned and efficiencies realized throughout the process that could be incorporated or adapted into a similar program in the future.

**MR. BOWERS:** I think in some ways you offer us a paradox. On the one hand, we need to show due diligence, and we appreciate the need for that, obviously. That takes a lot of forms, redirects, and a more rigorous analysis. So, on the one hand, to try to achieve that there is a level of red tape. On the other hand, one of the real barriers for some of these companies to be successful is that very process that you mentioned. So, it is somewhat of a paradox.

I think just in the nature of the programs there is some room there to examine the application process and the type of applications. I would have to say there is room there to seek some improvements, but not at the expense of the due diligence, which, for us, is first and foremost.

**MR. MITCHELMORE:** It seems that based on dialogue and conversation that we have had throughout today's hearing that Company A, with only less than five employees on site, is certainly struggling. I do not believe that company had less than five employees last year, and certainly was in operation.

I guess at some point throughout this whole process the department would have recognized that given the business plan, given the funds dispersed, that it would be impossible to produce pellets and sell them without the appropriate means of shipping and transportation.

So, at that point, did the department make that recognition and acknowledgement first; and if they did and agree that shipping and transportation is a barrier to actually producing pellets and having the forest industry working on the Northern Peninsula, was there any dialogue with seeking additional funds or finding the solution to actually making sure that there could be a wharf or a shipping means in Roddickton?

**MR. EVANS:** Yes, we continue, as I said, to seek solutions with the proponent, and there are challenges there for sure. We meet with them on a regular basis and try to find the key to unlock that door. Really, it is a difficult one. We have a facility on site which is state of the art; we need to get through a few other issues.

Through our work with the proponent and our experts outside and our staff, I feel optimistic that we will get there in the end.

**MR. MITCHELMORE:** So you are optimistic that the Roddickton region will have a fully functioning pellet plant that is shipping pellets at some point in the near future?

**MR. EVANS:** Yes, that is my objective; that is my hope and goal.

**MR. MITCHELMORE:** I have had the opportunity to ask a lot of questions on the Forest Industry Diversification Program. I think the Auditor General highlighted – like I said when I started – a number of deficiencies like with the agrifoods program. When a new program is implemented you are always going to see means for improvement. Some circumstances, I think, were well beyond the control of the department, but I do see where there is certain need for improvement and due diligence highlighted by the Auditor General.

I think the officials have done a good job in answering questions. I could certainly ask a lot more, but I am fairly satisfied right now with the answers that have been given. So I do not have further questions, Mr. Chair.

**CHAIR:** Mr. Joyce.

**MR. JOYCE:** I am just going to ask (inaudible). When was the department aware (inaudible) \$1 million went back to Company A, that should have gone to the government?

**MR. BOWERS:** I assume that awareness came with the Auditor General's report. That pointed that out to the department. I assume that. Is that correct? Yes, that is correct.

**MR. JOYCE:** Am I correct? So there was \$1 million that should have come back to the government.

**MR. PADDON:** I do not want to put words in your mouth, but I will do my best to try to get how I take it. The company would have brought forward a plan and said okay, we need to spend,

let us say in rough order of magnitude, \$11 million on a pellet plant, a sawmilling operation, and that sort of thing. In their calculation of that \$11 million, it included \$1 million of HST that ultimately we are going to get back. So that \$11 million should have been \$10 million.

Then on the other side government in their wisdom would have looked at that proposal and said: Okay, we are going to fund you to the tune of \$8 million or \$9 million, ACOA is going to come in for this, and somebody else is going to come in for that. At the end of the day, ultimately the company had an additional \$1 million they could use towards that project.

I think if I heard what Mr. Evans said earlier on, ultimately the company spent more in the final analysis than they had intended to spend in the first place. Effectively, they did use that \$1 million for the project, but it certainly was not identified and considered upfront when the evaluation was being done. I think that is the point.

**MR. JOYCE:** There are invoices where the money was used back (inaudible). Did it have to get permission from the government or permission from the committee or the department to say, okay, these funds were over and above, and we give you permission to use these funds?

**MR. YOUNG:** I think we are still kind of mixed up in how this kind of went along. The point of the matter is that we allowed HST to be eligible as an expense. So when they submitted their invoices to us, to the department, and we reviewed them, we inadvertently allowed the taxes to be included as an eligible expense. So throughout the life of the project, when we reached government's contribution of \$9 million we ceased to collect invoices because we felt at that point that government's contribution to this project was fulfilled. We gave them \$9 million, and they spent \$9 million. Very good. When the Auditor General came in and did the report last year, and that they identified, they said: Hey, you guys included taxes in your eligible expense. So really, you need to go back and collect another \$1 million in invoices

because you allowed \$1 million in ineligible expenses. So we looked at it and we said, well, we do not see anything in the guidelines telling us we could or we could not, however, we agree in principle that we should not have included taxes in those expenses.

So we are at an opportunity now to go back to the proponent, Company A, and say, please provide us with all additional invoices from the point we stopped collecting at \$11 million to today, if you want to. They said yes, no problem; we will provide you with all those invoices. In addition, we can clearly show you that, to date, as a company, we spent and reinvested into this project an additional \$2.9 million, some \$2.5 million above what our contribution initially was in the proposal that started five years ago. So that is where we are to right now today.

We can go ahead – and in fact, we will – we will go seek out those invoices from Company A, please provide them to us –

**MR. JOYCE:** No, no, no, that is fine. I would not want to see invoices for what they bought and what they paid for. You can ask if you can see them. I am fine with that.

**MR. YOUNG:** Yes.

**MR. JOYCE:** I am not questioning that. I am just questioning the process and how it was done, that is all.

**MR. YOUNG:** Yes.

**MR. JOYCE:** My last question: If the project was put in for, say, \$11 million, how was it \$2 million or \$3 million over? What caused the cost overrun for it?

**MR. FORWARD:** While there were a number of factors that contributed to that, one is that the ACOA contribution that was originally speculated up front did not come through as we had expected. So that was a substantial amount. Also, when you get into a project of this magnitude, there were some overruns on

equipment and there were some overruns on the transportation cost to get the equipment here.

You have to appreciate that some of this equipment was coming out of places like Alabama and South in the U.S. I think some of the quotes came in low, and when you got into the actual moving of equipment and purchase of equipment, the cost came in so much higher.

I do not know if anybody else has anything to add?

**MR. YOUNG:** There was one other change to the program that altered it a little bit in that. It was the fact that originally when the proposal came forward Company A looked at one pelletizer, the one piece of equipment that would be doing the pelletizing and that. When they got into the design and the purchase of that and they learned more, they quickly realized that was a bad idea, that you really need two pelletizers in succession next to each other, and when you shut one down you can do maintenance on the other. So the plant would run twenty-four seven. With one pelletizer, if you had any equipment downturn, well, you are stalled.

So there was a change of plan midstream. The proponent, Company A, came and met with the committee and said: Hey, we screwed up; we should have been looking at two pelletizers. We agreed with them, and based on our analysis and the review of what they proposed to us, we agreed that, yes, we should be looking at two pelletizers. So that change probably raised another additional \$300,000 into the project. We said, look, you can make the changes, but you are going to have to find these funds externally or you are going to have to find savings somewhere else in the program. Company A proceeded along those lines to put two pelletizing pieces of equipment, instead of the one that was there.

**MR. JOYCE:** Okay.

Thank you, Mr. Chair.

**CHAIR:** Yes, I have a few questions.

If I could take you to page 306. I am looking at the section that says "Applicant contribution not confirmed". So, first I suppose I should ask, do you agree with what the Auditor General is saying here?

**MR. EVANS:** Yes, we agree with what the Auditor General is saying, however in our last statements just a few minutes ago, since then it was an evolving project and the proponent now has contributed up to \$2.9 million, which well exceeds, I think it was \$458,000 projected in the initial proposal.

**CHAIR:** Okay.

So what the Auditor General is saying here is that, "The Department did not require the company to make its contribution prior to the Department disbursing its funding." He goes on to say in the second bullet, "Our review did not identify documentation in the Department's project file to confirm the applicant's investment of \$458,000." That is what it was supposed to be, I think.

Was that the original position?

**MR. EVANS:** Yes, that is correct.

**CHAIR:** Then he goes on to say, "A review of this listing indicated that \$129,749 of the \$399,855, related to the purchase of equipment... and a plant manager's salary... which had also been claimed by the company...". So that means the applicant's contribution at that point would only be \$270,000?

**MR. EVANS:** Yes, that is correct.

**CHAIR:** Then on the next page he says the company, "...was also eligible to receive HST rebates of approximately \$1.0 million related to the costs funded by the Department and, as a result, it appears the company did not contribute any of its own funds...". So it would look like the company is ahead now \$730,000.

**MR. EVANS:** Yes, you could look at it that way. The HST, which came back to the

company, was contributed to the project as we said earlier.

**CHAIR:** How do we know where that \$1 million went?

**MR. EVANS:** In our discussions subsequent to the Auditor General's report and review, we have discussed with the proponent and I will refer to my colleagues. We have verified that the money has been put into the project.

**CHAIR:** Do you have documented, written verification, say in the form of a ledger that shows that \$1 million of HST refund actually did go in the project?

**MR. YOUNG:** I guess the answer is no. We do not have a ledger. What we have is a list of invoices that the company provided us in an Excel spreadsheet, basically, showing all of the invoices. They put it into a spreadsheet. We can go seek out the actual original invoices if we need to because they kept them on file. They can provide us with all the documentation of the fund.

Can we actually say they took the HST and used it to purchase this equipment? No, but the inference is there that they generated this source of income somewhere. They used the funds that came back into the company and put it back into purchasing equipment.

All we have right now is a verbal confirmation from Company A saying that is what has happened, as well as a list of paid invoices by the company since May 2011 totalling some \$2 million-plus since we stopped collecting information. I do not know what else I can add.

Gary?

**CHAIR:** So can you provide us with that list? Can you provide us with whatever it is you say you have that supports this?

**MR. FORWARD:** Yes. I guess I just wanted to add, too, that we have also spoken to and have written verification from their accounting firm

that they have indeed spent \$2.9 million above their own original contribution.

**CHAIR:** What I am looking for is if you say that the company told you that they put this \$1 million back in, that is not actually the company's money, is it? That \$1 million, that refund, really was not the company's money.

**MR. BOWERS:** The total of the total money put back in, part of that money was the company's money, but the \$1 million was in the form of that HST as you indicated.

**CHAIR:** Okay. Then, then from the prior page, the AG says that the total of the company's money was \$270,000. Do you agree with that? That is on page 306. Mr. Evans already said he agreed with what the AG's findings were in this respect.

**MR. BOWERS:** Yes, I think that is consistent with what the AG reported.

**CHAIR:** The \$1 million that came back from the feds really is just a flow through, got it from the Province, remitted it to the feds, the feds reimbursed it and a million bucks went back in the company or it did not. That transaction nets out to zero, correct?

**MR. EVANS:** I would have to think about that. It came back to the company so, theoretically, it was the company's at that point and they reinvested into the project.

**CHAIR:** The Province reimbursed the company in error. The company was not supposed to get the \$1 million. They remitted these invoices for \$1 million and the Province paid them \$1 million, which they subsequently remitted to the feds and the feds gave them back the \$1 million. Now they are up \$1 million. They have actually made \$1 million profit for doing nothing. Now if they put it back into the company, they have netted to zero on that transaction. Presumably, it would be a whole pile of HST returns.

**MR. EVANS:** I would have to think about that. I am not really clear on following that through, but I would have to think about that.

**MR. YOUNG:** I do not know if I can clarify that or not, but it depends on how you look at it. Again, it was eligible expenses that we recognized, so we included HST on it. If we want to, right now, we can ask the proponent to provide us with invoices in excess of when we stopped collecting on May 10. We can make them eligible, put them into the program, exclude the taxes from them, and add it all up until we reach \$9 million, excluding taxes. That would satisfy the program and the commitment.

We are satisfied from the proponent, clearly, that he has put more than what we have asked him back into the program. If he has indeed invested \$2.9 million into this project to date and his commitment was only \$458,000, I am more than satisfied telling my bosses that we are happy with the contribution the proponent has made into the program.

**CHAIR:** You may be happy with it, but I am not happy with it and I am not happy with your answers today. You have been nothing but evasive and defensive all day. I still do not have an answer to a very simple question. I am not at all thrilled with this proceeding. I have sat here and listened to you give answers to these Committee members who are not accountants and not very familiar with input tax credits, and I have watched them go back and forth, and back and forth.

To me, this feels like a big scam, the whole thing, \$9 million, \$10 million, or \$12 million, and I have had the benefit of listening here. I have had the benefit of maybe 1,000 trials in court. I have watched the proceeding back and forth. We have a lot more information than we had this morning, but no more facts, and I am not at all satisfied with the answers.

You paid back to this company \$1 million in error that they were not entitled to get. That is the fact. They remitted it to the feds; they go back the \$1 million. If they put it back in the company, it nets to zero. It means they have more working capital to deal with, presumably. It means they have upped the funding by \$1 million.

I think I should ask the accountants in the room if my assessment is more or less accurate.

**MR. PADDON:** I think that is the conclusion that we reached, that effectively they ended up with \$1 million more in funding than they would have gotten had the HST been identified upfront.

Having said that, at the end of the day there were still additional expenditures that were made by the company that would have used up that \$1 million. So from that perspective, I guess what the officials are saying or what I understand is that the money was used for the project. Our concern was that it was not considered at the beginning; it was almost by default at the end. It could just as easily have happened that there was not sufficient additional cost incurred to chew up that \$1 million. It just so happened in this particular case.

**CHAIR:** So if we start with that \$270,000, which was the company's investment, that is on page 306, and then if we go to page 312 at the top, the AG says, "The underlying conditions to the Offer of Funding for Company A indicated that the company was not permitted to make loans to, investments in, or guarantees on behalf of others without the prior written consent of the Department."

He goes on to say, "Our review indicated that in 2011, Company A provided loans totalling \$254,845 to two companies owned, or partially owned, by the principal owner of Company A."

Today you come here and say: That is not actually true; it was a management fee. So you have been content to let the Auditor General's report stand for the whole year, then come here today and say what the AG said, and that you did not challenge before, is not accurate. I say that what the AG said before is accurate unless you can prove otherwise. This means that this outfit got back \$254,845 and without the HST they had only invested \$270,136. That means now they have \$16,000 in this project that has cost the taxpayers of this Province \$10 million or \$12 million.

I do not think we have actually gotten to the bottom of this and I keep thinking: How many times can you peel an onion before you realize there is nothing there? I have listened for many hours now to these questions, but I am still not satisfied. Maybe the department does not even know what the proponent put in there. We know there is more than \$10 million gone, no pellets have been sold, and up to 300 jobs that do not exist. I see contractors going around with equipment trying to sell firewood to households to stay afloat when this was going to be their future.

Please respond if you take a different view.

**MR. EVANS:** No, I do not take a different view, Mr. Chair. I am just wondering if you would prefer us to go back to the proponent and their accounting firm to get more of a clear picture on what they contributed exactly, address the HST issue, deduct that off, if you would, and come back to the \$270,000 or whatever. I guess one of the issues here was that it was not felt that they contributed the \$458,000 that they were required to upfront. We can compare it to what that was and get more of a clear picture.

Would you be satisfied with that?

**CHAIR:** I think before this Public Accounts Committee can actually render a report, we need to more information. We have to do a report, which is public, and the report is something that for sure we cannot render that says, well, we do not know what happened here and we do not know what happened there, unless we have made absolutely best efforts to find out what happened here and there.

There is nothing wrong with a party challenging the Auditor General's report, but I do not think you wait until today to come here and say we do not agree with that at all. The time to not agree with it, first off, was when the AG supplied the draft. If you did not agree with it, then there was an opportunity to put it back then. People have disagreements with the AG from time to time, saying: no, we do not think we were supposed to do that, and it is a difference of opinion and that is what we are left with. We need to have

accurate information. We need to know in dollars and cents what happened.

There is also a business case that was not met, or maybe there was not a business case. This is a really tangly set of circumstances. One is all the marketing plan issues that happened or did not happen; another is the transportation issue.

It boggles my mind that you would say we wanted a European market and we are going to truck pellets from Roddickton to either Corner Brook, which is 425 kilometres, or Stephenville, which is 500 kilometres, and then put it on a vessel and go around the Island of Newfoundland and go to Europe, when Roddickton is practically looking at Europe. There was a government wharf there for years and it was demolished within the context of this time frame. These are questions we need to get to, but for sure we have to get the dollars and cents straightened away and understand what it is.

From time to time government will depend on proponents who do not work out, we understand that, but we really need to know the nuts and bolts before we can say, not whether it was a good decision or bad decision, but what was the accountability? Where did this thing go off the rails? Did it have a chance in the first place, or was it a bill of goods sold to the minister and the minister signed off in good faith and said, well, I thought it was going to be okay based on all the stuff we were told, and then it went wrong?

For sure we need to know exactly what the investment of the proponent was and the timeliness of it. This is critically important to the region, to the Province in its entirety, to the industry for sure. We hear potentially of the Province wanting to invest in other pellet plants. Maybe that is a great idea but from here it is not a great idea, but it might well be.

Mr. Mitchelmore and I both represent the Great Northern Peninsula. Most of those wood cutters are in my district, and most of the people who would work in the plant are in his district. We sign off on make-work projects for people who

do not have work, who would have work if this had worked out.

So, in theory it may be fine, but I do not think we have enough information to be able to make any sort of an assessment. Often we go through this and I ask only one or two questions. I have taken six pages of notes. I do not where we would go with six pages of notes with asking questions at such a late hour.

**WITNESS:** (Inaudible).

**CHAIR:** It is not operating? I mean, I understand the insurance question. I get that.

I would like to know, from the perspective of your department: what is your forecast for this project in the next one to twelve months, thirteen to twenty-four months, twenty-five to thirty-six months? Is this something that is just a write off and we take our lumps and forget about it, or is this something that has a possibility to succeed?

In fact, I wrote to the minister last January and put forth a proposal whereby hopefully it could succeed. Then I took it up with the next minister after that. We are absolutely, keenly committed, if this can work that it should work, but we are not given the answers today.

Do you have a view, any of you, of how this business will operate in the next one to twelve, thirteen to twenty-four, and twenty-five to thirty-six, months? To me, this would be what an accountant would do for a bank and certainly anybody who would be lending money. I know the global forest industry has been in trouble and that it is in recovery.

**MR. EVANS:** In my opinion, and I share your thoughts as well. We want to see it up and running as well for the benefit of the Province and the people in the region. Without divulging too much information, we are working on a project now that hopefully would resolve the issue there. There is some confidentiality around the proposals, but our objective with our department is to give it the best shot we can right now to get that up and running. That would be my view. If it succeeds, as being

proposed to us now, it would be twelve months, maybe less than twelve or slightly more.

**CHAIR:** Are you able to say, or does the department know, what is the minimum level of production that this plant needs to operate? Not 40,000 or 50,000 metric tons, which I understand it can produce, but what does it need to operate at just to stay alive? This is a valuable asset.

Earlier, when Mr. Forward was saying we made this investment and we made that investment, I was wondering if there was a proponent or if it was the people of the Province. To me, it seems like the dollars and cents are the people of the Province. We need this to work and we need to rescue that investment if it is at all possible.

Now, from the Public Account's point of view, we want to know where the money went and how to do this better. For sure, if that asset is salvageable and those workers can be employed, we need that. Do you know if it can operate even on a break-even basis in today's climate with 10,000, 20,000, 15,000, or 25,000? Does anybody know that?

**MR. EVANS:** No doubt, the more volume we have being produced, the more viable or profitable the operation could be. In saying that, in this case they are limited to the wood supply on the Northern Peninsula, unless you transport it from Labrador or other parts of the Island, and that gets very costly.

Our view is there are other operations around the country of this size that partner with other operations. A ship can come and pick up from different plants and go to a common market. That is common out West and in other parts of the country, and North America. To me, that would be the solution.

**CHAIR:** Do you have an idea of what the minimum production is that it needs to stay afloat? What can they run on with a skeleton crew covering their overhead, maybe not even paying any capital on any debt, but just servicing the insurance and staff? There must be some figure.



I know the proponent, and he is a capable business person. At some point I might want to ask: Did government talk him into doing this deal that got him in over his head, or did he see a good opportunity? He is a capable, experienced business person who has done well in sawmilling over the years and it is a valuable industry. Is there any sense of what it would take to keep it alive, to keep it running?

**MR. EVANS:** If he could run his sawmill alone he could make a profit, but the problem he runs into is you cannot get rid of your chips and small diameter pulpwood. That is an issue. That is why we have the pellet mill there.

I would think, my own opinion – I do not have the number here, Mr. Chair. I would think to make a profit there you would have to have the plant running full 40,000 to 50,000 tons. I do not know if you could reduce that to cover his expenses. You probably could. I do not know what level. I do not have that answer, to break even sort of thing.

**CHAIR:** The security that is available, there have been some questions go back and forth about the security interest that is in place. That is for whether there would be a postponement agreement executed for some federal funds. Apparently that has not been executed as yet.

Can you say where the Province ranks as a creditor on the fixed assets generally? Are we in first place, second place, or third place? Is there a bank ahead of us?

**MR. FORWARD:** As far as I know, on the pellet plant we have right now, we have first security.

**CHAIR:** Okay, first place on everything?

**MR. FORWARD:** On the pellet plant. I understand, Eric, you can correct me if I am wrong, but I think on the sawmill it is second charge.

**MR. YOUNG:** Yes, I believe Gary is right. I think we have second charge on the sawmill, and we probably have first charge on the kilns as

well. We would have to go back and revisit the security documentations. This is five years ago so it is difficult to remember. Right now we have first security on the pellet plant itself and all the land and the buildings itself.

**CHAIR:** The partial release in favour of the feds for I think \$1.3 million or whatever that was, what was that money for? Why were the feds willing to come up with that money?

**MR. YOUNG:** The proponent, Company A, was seeking additional funds to carry on with the project above and beyond the \$9 million that was provided by government. He went to BDC and obtained a loan from them. A condition of the loan was that the security arrangements would have to change. He did receive the loan, \$1.3 million, and since put that money back into the construction of the plant.

The outstanding security issue that has not been resolved yet is that BDC requested that we change our position on the kilns and on the sawmill, and basically we divide the property into two. BDC, for the record, would take first charge on the kilns and the sawmill. That would cover their security of the \$1.3 million and the Province would maintain first security on the pellet plant. That was the arrangement that has not been signed off on yet.

**CHAIR:** It sounds like this was at least two years ago and we agreed verbally or maybe we agreed in a letter and nobody has done a release. Is that what is happening there?

**MR. YOUNG:** That is correct.

**CHAIR:** If this business folds up, security interests are a fertile ground for lawyers to get rich and creditors to lose their shirts. It would seem to be really useful to have it executed by somebody. I am not sure. I am not saying it is here, but somebody needs to have that finalized to know who it is, otherwise BDC goes to hire a bunch of lawyers, you guys hire a bunch of lawyers, all the lawyers get rich, and taxpayers lose from it.

Has there been any discussion or any consideration to writing down the loan to make the business more viable? Half a loaf is better than none, and a business that operates is better than a dead one. (Inaudible.)

**MR. EVANS:** Yes, there has been discussion on that topic. I think the response to the proponent was, until they have a viable business plan and are up and running, the Province would not change its position. As we know, that has not changed. It is not up and running, but they were willing to change the arrangement there.

**CHAIR:** I appreciate that you gave one of my colleagues an answer, how much you thought it might possibly be worth, but is there a current appraisal available?

**MR. YOUNG:** No, there is no current appraisal available. The last appraisal that was done, Gary, was in – you have it on your list there. Just wait a second. We can look up when we did an appraisal. We had a firm come in and do a full appraisal of the operation, of the sawmill kilns, the pellet plant, and what the value of it was. It has probably changed a little bit since then because additional equipment has been purchased and put on, but when the appraisal was done, which was in October of 2010, there was an appraisal, and we have a copy of the report in our files. Do we have one with us? No, we probably do not have that copy, but we do have it in our office, and we can share that with the Committee.

**CHAIR:** Can you say if that was as a going concern, or if that was just break up value for the assets, because it has never been a going concern?

**MR. FORWARD:** There were two scenarios about that. I think it was replacement value and disposable value.

**CHAIR:** So there is probably a big variation in the numbers?

**MR. FORWARD:** Yes, that is correct.

**CHAIR:** On disposal, what is it probably worth, ten or fifteen cents on the dollar?

**MR. FORWARD:** Maybe slightly higher. Also, even on a resale value, it is the location for resale that would lower the value as well.

**CHAIR:** We are at 4:30 and I do not really think we are finished. I think we are going to need some more time. Do we want to wait until we get the information that is requested and reconvene for another day or half a day?

**MR. JOYCE:** I just have one more question and I will be finished.

**CHAIR:** I have a lot more questions.

**MR. JOYCE:** Can I ask one more question?

**CHAIR:** For sure.

**MR. JOYCE:** Sorry about that, because the mike was always on, so I took it off. Sorry about that.

While we were just chatting then, it just crossed my mind and I was wondering; we mentioned about the \$1 million we put back in the company. We know the department has invoices of other monies that were spent.

My question in our discussion: Did you ever ask the company how many outstanding invoices they have? I know of some with Company A. Are all their bills being paid? We had testimony that there may be some not paid. While the money is going back into the company, are they going out to the people who did the work for them? I assume that if there is money being put back into government, extra money, because he put money in, but are the bills being paid?

I think Mr. Young mentioned that he is of the understanding there are some bills not paid or some outstanding.

**MR. EVANS:** I do not know if we have a definitive answer for that. We hear that there are some outstanding. We cannot verify that; we do not have copies of it. To my knowledge, no

companies that are owed money have come to us as a concern.

**MR. JOYCE:** I have received calls, money owing in Corner Brook. My question is: As long as government is going in and this so-called extra work is being done, are the people who are doing the work getting paid? Where are the funds? Does it stop somewhere? Is it incumbent upon the department go back and say: Are all the bills paid? Do you owe outstanding money? Before this \$1 million is kept into the company, is it gone out to pay?

I think it is a legitimate question that should be asked before any more funds are put in and before we go back and try to get the \$1 million extra for the project. I do not know if you have the authority to do that either.

**MR. EVANS:** We can investigate that. It is not our invoices.

**MR. JOYCE:** I understand that, too, yes.

**MR. EVANS:** We can have a discussion with the proponent and he may reveal that there are some that he can share with us.

**MR. JOYCE:** I understand I am putting you on the spot because I know it is not your mandate and I know you do not have the authority to do that. I understand that and I appreciate that, but especially when we hear today from the Auditor General that there is \$1 million extra that should have been added to the project but it was added on top of the project, we have to ensure that all the funds are being paid out to people. It is all right to get the invoices, but are the invoices being paid?

**CHAIR:** Given the late hour, and I conferred with my colleague from the government side, we think we need to come back for half a day and Ms Murphy says that January will probably be workable. We do not sit when the House is open. The House is going to open sometime soon, so I think we are probably looking at a January date. We will confirm with people so we know when people are available. I think some of you are here from Corner Brook but

others are local, so a half a day probably sometime in January.

**MR. MITCHELMORE:** That would certainly be good.

**CHAIR:** We will need that documentation before then otherwise it will be – from time to time when we get the documentation, it generates another half a day. We had a half a day earlier this week because we needed extra documentation, the members look at it and say well if I had known this, I would have asked that; if I had known such and such, what is the clarification. I think that we could adjourn.

I think I am going to be directed to ask for a motion on our minutes, a motion to pass the minutes from yesterday.

Moved by Mr. Parsons; seconded by Mr. Mitchelmore.

Can we have a motion to adjourn?

**CLERK:** (Inaudible).

**CHAIR:** All in favour of the minutes?

**SOME HON. MEMBERS:** Aye.

On motion, minutes adopted as circulated.

**CHAIR:** If we could have a motion to adjourn.

**MR. K. PARSONS:** So moved.

**CHAIR:** We will reconvene when we organize a date, probably in January.

On motion, the Committee adjourned *sine die*.