

April 6.

developments, including the powers on the Mississagi River, for the purpose of providing such a supply of power. While the Commission was proceeding with its inquiries, representatives of the Abitibi Power and Paper Company, Limited, reported that that company intended to extend and enlarge its paper mill at Iroquois Falls and in connection therewith to construct a large power development at Abitibi Canyon, and it was suggested to the Commission that, instead of its proceeding to construct developments on the Mississagi River, it should purchase power from the proposed Canyon development. No 'power system' except the Nipigon System existed at this time in the Northern Ontario district; that is to say, there were no municipalities under contract with the Commission to pay the costs of power on the established Hydro municipal basis, and it was plain that if the requirements of the Northern Ontario district for mining and other purposes were to be supplied, the Government would have to assume some responsibility. There were no municipalities ready to assume the construction costs or the operating expenses or to provide for the amortization of any plants in the usual way in which these matters are taken care of by the establishment of power systems under the act relating to the Hydro Power Commission.

Negotiations Start.

"Negotiations were then entered upon in the spring and summer of 1930 with the Hudson's Bay Power Company, Limited, and with the Abitibi Power and Paper Company, Limited, which at that time was conducting a very large and profitable business, producing over 500,000 tons of paper per annum, equal to approximately 19½ per cent. of the total production of all Canadian minerals.

"The consolidated surplus and profit and loss account of Abitibi Power and Paper Company, Limited, for the year ending Dec. 31, 1929, showed a profit from operations for the year of \$8,377,246.35, and after deducting therefrom provision for depreciation and depletion amounting to \$1,713,211.06 and interest on funded debt and other interest amounting to \$2,552,231.17, disclosed net profits for the year of \$4,111,204.12, and after paying thereout dividends amounting to \$2,162,908, the balance to the credit of surplus account carried forward was no less than \$61,094,287.53. Under these circumstances, Hudson's Bay Power Company, Limited, having indicated that it was ready to commence the development of the water power to its full capacity of 275,000 h.p., applied for an extension of the term of water power lease No. 26, and an amendment was made in the lease extending the term thereof and making certain modifications which seemed necessary to enable the Hudson's Bay Power Company to finance the development, and at the same time to ensure an abundant supply of power for the needs, mining and otherwise, of Northern Ontario.

Contract Signed.

"A power contract was negotiated between the Hydro-Electric Power Commission of Ontario and Hudson's Bay Power Company whereby the Commission agreed to purchase from 85,000 to 100,000 h.p. at the price of \$13 per h.p., and the Government, by agreement dated July 29, 1930, agreed to indemnify and save harmless the Commission from any loss or liability by reason of any inability or failure on the part of the Commission to secure customers. The purpose of the Government and the Commission in entering into these

contracts was to secure on the best terms possible a large amount of power to serve the needs of Northern Ontario. It is known that there are enormous deposits of low-grade gold ore which are waiting development and can be developed profitably only by cheap power.

"The Abitibi Power and Paper Company, Limited, entered into an agreement with the Commission guaranteeing that the Hudson's Bay Power Company, Limited, would perform all its obligations in its contract with the Commission; and the Abitibi Power and Paper Company, Limited, also entered into an agreement with the Commission to purchase 10,000 h.p. for a period of twenty years for its paper plant at Espanola at \$22 per h.p. A contract was also negotiated and subsequently executed by which Abitibi Electric Development Company, Limited, a wholly owned subsidiary of Abitibi Power and Paper Company, Limited, agreed to purchase from the Commission 35,000 h.p. for a period of forty years, reserving, however, to the Commission the right for a period of ten years to withdraw this power in blocks of not less than 500 h.p. each, on giving notice as therein provided.

O.P.S. Appears.

"About this time the Hudson's Bay Power Company, Limited, changed its name to Ontario Power Service Corporation, Limited, and the Abitibi Power and Paper Company, Limited, agreed with the Ontario Power Service Corporation, Limited, to purchase from it for a period of forty years all power available from the Abitibi Canyon site not required to be delivered to the Commission and guaranteed to the Ontario Power Service Corporation, Limited, that the net earnings of the latter company available for bond interest and reserve should in the year 1932-1933 equal \$2,172,000, increasing to \$2,868,500 for the year 1938-1939 and thereafter.

"The Commission also entered into a contract with the International Nickel Company, Limited, to sell to the Nickel Company its power requirements, beginning with 16,000 h.p., and proceeded to build a transmission line to Sudbury of the heaviest type of steel construction and with an ultimate carrying capacity of 200,000 h.p.

"It was felt by the Government that there had thus been arranged a new source of power for Northern Ontario; contracts had been arranged for most of the power which the Ontario Power Service Corporation, Limited, would have available, and of the 100,000 h.p. which the Commission was obliged to take it seemed that the Commission was already assured of the sale of 61,000 h.p. as follows:

"To Abitibi Power and Paper Company, Limited, for Espanola, 10,000 h.p.; to Abitibi Electric Development Company, Limited, 35,000 h.p.; to International Nickel Company, Limited, 16,000 h.p.; making a total of 61,000 h.p.; leaving the Commission not only with 39,000 h.p. to supply demands from new customers, but also with the right to withdraw from the Abitibi Electric Development Company, Limited, a further amount of 35,000 h.p. as the expected demands of customers might increase.

Financing.

"In order to raise money for its development, Ontario Power Service Corporation, Limited, made an issue of \$20,000,000 of 5 1-2 per cent. 20-year first mortgage bonds, dated July 1, 1930, with principal and interest payable at the holder's option in Canadian or United States funds. It appears that the Ontario Power Service Corporation, Limited, had been advised by Mr. George F. Hardy of New

York, an eminent consulting engineer, with a wide experience in the construction of power developments, that it would cost \$23,000,000 to fully complete the development then in mind with an installed capacity of 275,000 h.p., and that Abitibi Power and Paper Company, Limited, entered into an agreement with the Montreal Trust Company, the trustee under the mortgage, to secure the bonds covenanting that the Ontario Power Service Corporation, Limited, would fully complete the power development and that the Abitibi Power and Paper Company, Limited, would provide all moneys that would be required over and above the proceeds of the sale of the bonds. The mortgage securing the \$20,000,000 of bonds provided that the proceeds of the sale thereof should be deposited with Montreal Trust Company, as trustee, to be applied to the payment of interest during construction of the power plant and to the payment of amounts payable to contractors and with a proviso that the Montreal Trust Company as trustee should retain in its hands cash and securities to an amount of \$2,000,000, and should not permit the same to be withdrawn by the Ontario Power Service Corporation, Limited, until that company should have produced to the trustee evidence that adequate funds were actually available to the company or adequately provided for by Abitibi Power and Paper Company, Limited, to complete the plant. The bonds were underwritten at 90 per cent. of par, netting approximately \$18,000,000, which sum was deposited with Montreal Trust Company, in accordance with the trust deed. Early in 1932 it appeared doubtful if Abitibi Power and Paper Company, Limited, owing to the falling off in the demand for newsprint, would be able to supply Ontario Power Service Corporation with moneys necessary to complete the plant, and the President of the Abitibi Power and Paper Company, Limited, approached the Government and suggested that the Government or the Hydro-Electric Power Commission should in some way or other assist Ontario Power Service Corporation, Limited, to ensure the completion of the plant. The Government consulted the auditors of the Hydro-Electric Power Commission and counsel in the matter because it was felt that it was desirable in the interests of the Province at large that the moneys already spent upon the plant should not be wasted, and that some plan should be evolved which would result in the completion of the development. Proposals were made that the Government or the Commission should advance moneys to Ontario Power Service Corporation on the security of second mortgage bonds to be guaranteed by Abitibi Power and Paper Company, Limited, but as time went on the condition of the newsprint industry was such as to indicate to the Government that the Abitibi Power and Paper Company, Limited, might not be able to meet its obligations and, consequently, these proposals were rejected. On June 1, 1932, Abitibi Power and Paper Company, Limited, made default in payment of the interest on its bonds, and it has since passed into the hands of a receiver.

Correspondence Indicated.

"On June 23, 1932, Ontario Power Service Corporation, Limited, wrote to the Prime Minister, stating that they found it difficult under existing financial conditions to find the money necessary to complete its development and requested the Government to consider the position with a view to taking such steps as might be desirable to ensure the completion of the project, and on the same date Abitibi Power and Paper Company, Limited,