

April 6.

wrote to the Prime Minister that, owing to the then existing condition of the newsprint industry, it found it difficult to supply its subsidiary with the funds necessary to complete the Canyon development. Very careful study was again given by the Government to the matter, and it was decided that this very valuable development should, if possible, be acquired by or on behalf of the Province as sole owner. On July 25, 1932, in order that the public might be fully advised, the Government published the following statement:

"For many years past the Government of the Province of Ontario has been studying the electric power needs of Northern Ontario, with a view to encouraging development in that part of the Province. Cheap power is required to stimulate the mining industry and particularly to encourage the development of low-grade mining properties which could not otherwise be developed. There has been an insistent demand from these sources for cheap power.

"At the canyon site of the Abitibi River there was the possibility of developing approximately 240,000 commercial h.p. A power lease providing for the development of this power was granted to Ontario Power Service Corporation, Limited, a company which is entirely controlled by the Abitibi Power and Paper Company, Limited, which was then in a prosperous condition.

#### Contract Authorized.

"In order to encourage the development, and to meet the demand for cheap power, the Hydro-Electric Power Commission of Ontario was authorized to enter into a contract with the Ontario Power Service Corporation, Limited, for 100,000 h.p. at \$13 per h.p., to be delivered to the Commission at Hunta, just west of Cochrane, for a

term of approximately forty years, and the Government guaranteed the Commission against any loss in respect of such contract. At the same time, the Abitibi Power and Paper Company, Limited, agreed with the Ontario Power Service Corporation, Limited, to purchase from it for a term of forty years all the power not required to be delivered to the Commission.

"In July, 1930, Ontario Power Service Corporation, Limited, issued \$20,000,000 twenty-year bonds, bearing interest at 5½ per cent. The bonds were underwritten at 90, netting approximately \$18,000,000, which was paid to the Montreal Trust Company as trustees, to be paid out for construction and interest during construction, and Abitibi Power and Paper Company, Limited, covenanted with the trustee to furnish any additional moneys which might be required to fully complete the development. The work is nearing completion, but it will cost approximately \$2,500,000, in addition to the moneys still in the trustee's hands to complete the work.

"Owing to the position of the newsprint industry, the Abitibi Power and Paper Company, Limited, was unable to supply any part of the moneys it agreed to furnish. It has made default in its bond interest; thus a serious situation has developed.

#### "Under These Circumstances."

"Under these circumstances, Ontario Power Service Corporation, Limited, requested the Government to consider some plan for assisting the company or for taking over and completing the work on behalf of the Government, and for some time the matter has been given serious thought by the Government and the Hydro-Electric Power Commission of Ontario.

"If a sufficient amount of the company's bonds are exchanged, the Commission will be able by any legal proceedings to acquire complete title to the property thereafter. It is intended that the Commission will transfer the property to the Province, but will continue to manage it on behalf of the Province.

"The Government rejected proposals that it should advance moneys to the company to enable it to complete, on the security of second-mortgage bonds or any subordinate security, believing that the property should be owned by the Province outright.

#### Bondholders' Sacrifice.

"The plan proposed involves a considerable sacrifice on the part of the bondholders, but the Government has been in touch with a large number of local bondholders, or their representatives, who have finally indicated their willingness to accept the proposed exchange and to advise other bondholders to do so.

"The details to carry out the exchange are now being worked out by Mr. G. T. Clarkson, and Mr. Strachan Johnston, K.C., and a public advertisement will shortly appear, giving the bondholders full information as to the steps to be taken to give effect to the exchange.

"Under its contract with the Power Company the Hydro-Electric Power Commission would be liable on completion of the plant to purchase 88,000 h.p. at \$13 per h.p., a total of \$1,144,000 per annum, and to increase the amount of power taken, until in 1936 it would have to purchase 100,000 h.p. for a total of \$1,300,000 per annum. At present the Commission has sold 16,000 h.p. The Commission has agreed to sell to the Abitibi Power and Paper Company, Limited, and its subsidiary, Abitibi Electric Company, Limited, 45,000 h.p., but, owing to the financial position of the Abitibi Power and Paper Company and its subsidiary, no income can be expected from these contracts for the present.

"The Government and the Commission consider that it is most important that the development should be completed, and the Government, with the approval of the Commission, has finally decided as the most convenient way of getting title to the property to offer to the bondholders \$18,000,000 of the Commission's twenty-year debentures in exchange for the \$20,000,000 of outstanding bonds of the company, subject to the condition that 90 per cent. of the issued bonds of the company are deposited for exchange.

"The debentures of the Commission will be dated Oct. 1, 1932; and, instead of bearing interest at 5½ per cent., payable in Canadian or American funds, will be payable in Canadian funds only, will bear interest at 3½ per cent. for five years; 4 per cent. for five years, and 5 per cent. for ten years, with the right to the Commission to redeem on any interest day at par.

#### Public Offer Requested.

"The Government requested the Hydro-Electric Power Commission to make a public offer to purchase the bonds of the Ontario Power Service Corporation, and on Aug. 5, 1932, the Commission published an offer agreeing to exchange debentures of the Commission guaranteed by the Province for the outstanding bonds on the basis of \$90 of the Commission's debentures for \$100 of bonds of the Ontario Power Service Corporation. As already stated, the bonds of Ontario Power Service Corporation, Limited, outstanding amounted to \$20,000,000, bearing interest at 5½ per cent. per annum from July 1, 1930, with both principal and interest payable in Canadian or United States funds, at the option of the holders. In lieu of these bonds, the Commission offered its twenty-year debentures dated Oct. 1, 1932, for an aggregate amount of \$18,000,000, and, instead of being pay-

able as to both principal and interest in debentures or United States funds, the debentures of the Commission would be payable in Canadian funds only, and, instead of bearing interest at 5½ per cent., would bear interest at 3½ per cent. for five years; 4 per cent. for five years, and 5 per cent. for ten years, with the right to the Commission to redeem on any interest day at par. Manifestly, as stated in the published statement, the offer of the Commission involved a large sacrifice on the part of accepting bondholders. It is estimated that this sacrifice in reduction of interest and principal, and loss of exchange (exchange, of course, being a variable factor), would, in the aggregate, amount to \$7,000,000 or \$8,000,000. It was stipulated that the offer should only be binding on the Commission if the holders of 90 per cent. in amount of the bonds of Ontario Power Service Corporation, Limited, should accept

the offer and deposit their bonds with Montreal Trust Company, in the manner set out in the advertisement, by Oct. 1, 1932, but with the right of the Commission to extend the time for deposit. On Oct. 1, 1932, 90 per cent. of the bonds had not been deposited, and the time for deposit was extended by the Commission from time to time until, finally, over 97 per cent. of the bonds were deposited.

#### Default in Interest.

"Before the Commission made its offer Ontario Power Service Corporation, Limited, had made default in payment of its bond interest due on July 1, 1932. The Ontario Power Service Corporation, Limited, notwithstanding its apparent inability to find money to complete the project wished to prevail on Montreal Trust Company to pay out of the funds in its hands the bond interest due on July 1 and representations by various bondholders were made to the Government that this interest should be paid. The Government, however, took the position that it would not proceed with any negotiations if the bond interest were paid. Before the Government requested the Commission to make its offer interviews were had with a number of the larger bondholders or their representatives. At first these bondholders took the position that the bondholders should receive debentures of the Commission on the basis of dollar for dollar. They also indicated that they themselves would subscribe further moneys in order to enable the Ontario Power Service Corporation, Limited, to complete the project, but at this time the Government had made up its mind that it was desirable in the public interest that the property should be wholly owned by the Province and should not be conducted in the interests of a private corporation. A. J. Nesbitt, the President of the Northern Ontario Power Company, Limited, which supplies power to the Porcupine, Kirkland Lake and other mining districts at very high rates, also indicated that the interests with which he was connected would be glad to consider a plan to take over the property, but he was advised that the Government deemed it in the public interest to assume ownership and control of the property for the Province.

#### Court Proceedings.

"Proceedings were commenced in the Supreme Court of Ontario by Montreal Trust Company to enforce the terms of the trust deed securing the bonds, and in these proceedings it was ordered that the property should be sold. The advertisement of the judicial sale provided that tenders would be received by the Master of the Supreme Court up till March 31. The conditions of sale provided that any purchaser might turn in to the Master any of the bonds in place of cash to the amount which would, upon distribution of the net proceeds of the sale, be payable thereon, and on March 31, 1933, the Hydro-Electric Power Commission of Ontario tendered for the property the sum of \$14,000,000, and its tender was accepted. As the Hydro-Electric Power Commission is now the owner of approximately \$19,500,000 of the bonds, it will be able to take advantage of the condition above mentioned, as to turning in bonds in place of cash. This means that, to the extent of about 97 per cent. of the purchase price, the Commission will be able to pay for the property by turning in bonds of the Ontario Power Service Corporation which it now holds. The balance of the purchase price being approximately sufficient to pay the non-depositing bondholders 70 per cent. of the par value of their bonds will have to be supplied by the Commission in cash unless arrangements are made with the bondholders to accept debentures of the Commission on the same terms as those accepted by the depositing bondholders.

"Work had ceased on the development on or about July 6. Contractors and others have large claims against the Ontario Power Service Corporation, Limited, for work done and to be done. It seems only proper now that the Government has taken steps to acquire the property that these contractors and creditors should be fairly dealt with, and it is proposed that the Hydro-Electric Power