

ALGOMA COMPANIES BONDHOLDERS

Present Position Outlined and Proposals From Committee as to Procedure

The bondholders' committee of the Algoma Central and Hudson Bay Railway Company, appointed in February, has issued a circular in detailing the steps taken to protect the bondholders' interests. Mr. Vivian Harcourt (of Messrs. Deloitte, Plender, Griffiths and Company), who, with Mr. T. J. Kennedy, had been appointed by the Court in Canada receiver for the bondholders, was requested to make a report as to the position of the company, and the receivers were also requested to have the legal position as between the Algoma Central and Hudson Bay and the Algoma Central Terminals investigated. In conjunction with the committee representing the bondholders of the Terminals Company and the Algoma Steel Corporation, the committee requested Messrs. Barrow, Wade, Guthrie and Company, chartered accountants in New York, to report as to the position of the Lake Superior Corporation. These reports have been summarized in the circular.

The total amount of first mortgage bonds issued by the railway company at the date of the receivership was \$10,080,000, and in addition there were outstanding \$1,000,000 second mortgage six per cent. bonds, which were pledged to the Lake Superior Corporation as security for a debt of \$318,744. There were also \$591,000 equipment notes outstanding, which constitute a first charge on rolling stock and equipment necessary for the operation of the line. The interest and sinking fund on these notes, which for the next few years will amount to about \$100,000 per annum, will have to be paid by the receivers; otherwise the rolling stock will be seized by the holders of the notes. The railway was finally completed to the National Transcontinental Railway about August, 1914. The main revenues expected were from the carriage of ore, pulpwood and coal, and from interchange of traffic with the three transcontinental railways and from the company's steamships. The delay in opening the National Transcontinental Railway and the deterioration of the ore in the Helen mine have, with the serious conditions brought about by the war, in the opinion of the committee, been the main causes of the failure of the company to realize its anticipated traffics.

Some Traffic Prospects.

The receivers state that they have evidence that the ore traffic is available; that the Magpie mine should produce at the rate of about 200,000 tons a year; and that they understand that there are considerable quantities of siderite available at the Helen mine which in all probability will be mined. In addition, a contract has been concluded between the Algoma Steel Corporation and an American company for the opening up of a large pyrites ore body, which in the course of the next year or two should lead to the shipment over the railway of at least 100,000 tons. Considerable development is now taking place in pulp and other woods due to the fact that the vast pulpwood areas north of the Canadian Pacific Railway have been rendered available for commercial purposes for the first time through the extension of the railway. The receivers report that the physical condition of the line when they took possession was generally satisfactory, with one important exception. It was necessary that several wooden trestles, some of them of large size, should be replaced, and a considerable sum of money will have to be expended on this work during the next four or five years. These and other necessary expenditures up to the end of 1918 are estimated at \$625,000. A forecast of the gross earnings and expenses and of other cash receipts and the necessary expenditures referred to above has been prepared by the receivers, and shows that, after providing for the special expenditures, but before providing for depreciation, bond interest, or any rental in respect to the terminals, there will be a loss of \$142,618 for 1915 and 1916 combined, a profit of \$56,409 for 1917, and of \$164,402 for 1918. The committee suggests that, inasmuch as the earlier estimates of traffic made by capable people at a time of prosperity have been over estimated, so the present estimates made at a time of great adversity may also turn out to be incorrect, and that it is possible the receivers have taken an unduly conservative view.

As to the arrangements which led up to the issue of the bonds of the Algoma Central Terminals, the committee states that the railway company agreed to sell to the Terminals Company, which it had incorporated for the purpose, the

terminals as then existing at Steelton and Saulte Ste. Marie, and also at Michipicoten Harbor, with the buildings, plant and fixtures thereon, for \$1,300,000 cash and practically the whole of the shares of the terminals company. The latter, having acquired the properties and mortgaged them to secure its own bonds, then leased them back to the railway company at a rent sufficient to pay the interest and sinking fund on its own bonds, which rent now amounts to about £51,500 per annum, and will in 1919, when the sinking fund commences, amount to about £61,500. Even assuming that the price paid by the terminals company to the railway company was a fair one, and at the moment the committee sees no reason to doubt it, the transaction was harmful to the interests of the railway company's bondholders because it purported to take out of their security the terminal facilities which were essential to the operation of the line. It has been suggested that inasmuch as these terminal facilities were leased back to the railway company the bondholders were not, in fact, harmed, but the committee is unable to assent to this view.

Transaction Said to be Invalid.

As matters now stand, the railway company's bondholders may be called upon to pay a rent rising to about £61,500 per annum for the use of the terminals, and it is claimed that this rent constitutes a charge upon the earnings of the line payable in priority to the interest on the railway company's bonds. It is true that the railway company and its bondholders have had the use of the \$1,300,000 which was paid by the terminals company, and it is also true that the terminals company has expended money in improving the terminal facilities, and to this extent the terminals company and its bondholders are entitled to consideration, but the effect of the transaction was, without the consent of the railway bondholders, to place, or purport to place, in front of the bondholders a prior lien charge upon the revenues of the railway company and to deprive them of an important part of their security. The receivers' lawyers advise that the transaction is invalid, first on the ground that the railway company had no power to sell these properties, and, secondly, on the ground that the trustees for the bondholders had no power to release these properties from the mortgages securing the bonds of the railway company. The committee proposes to approach the committee representing the bondholders of the terminals company, with which it has been working in harmony, with a view to arriving at a friendly and business-like settlement of the difficult questions that arise out of the arrangements made in 1912 between the two companies.

May Be Valuable.

The report of Messrs. Barrow, Wade, Guthrie and Company as to the position of the Lake Superior Corporation shows that the assets of the corporation appear in the books at about \$48,750,000, but of this amount \$47,436,294 is represented by investments in subsidiary and other companies of a par value of \$39,484,012. The remaining assets consist of balances due by subsidiary companies, \$609,482, and small amounts of real estate, cash in hand, etc. With regard to the investments in subsidiary companies, Messrs. Barrow, Wade, Guthrie and Company report as follows:—"It will be appreciated on reference to the schedule of investments that to value the stocks held by the corporation is well nigh impossible. It will be observed that out of the total of \$39,484,012 par value the stocks of the steel corporation and the two railways account for \$32,000,000. A study of the balance-sheet and of the explanatory notes concerning the issuance of these stocks will show that their only value at the present time is in their earning capacity. It will be readily appreciated, therefore, that if, under the Lake Superior Corporation's guarantee of the principal of the bonds and interest of the Algoma Central and Hudson Bay Railway, the Algoma Eastern Railway and the Algoma Steel Corporation, these bondholders feel obliged to take action to obtain the properties securing their bonds and simultaneously against the Lake Superior Corporation to fulfil its guarantee, they will by that very act be depriving the corporation of the assets and source of income out of which it hoped to fulfil its guarantee. It would appear, therefore, that the only way to conserve existing investments would be the formulation of a working policy whereby the Lake Superior Corporation and its subsidiary companies may be tided over the present difficulty and given an opportunity for the larger development of their resources." Messrs. Barrow, Wade, Guthrie and Company further report that the Lake Superior Corporation has never paid any dividend on any of its share capital, and that they believe that if extraordinary conditions had not arisen to cause an almost complete collapse in the