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That the Premier of New Brunswick compelled Contractor Kennedy to pay him \$2,000 is one feature of the royal commission's report on the Valley Rail way charges, which report is here printed in its entirety.

The report deals also with many improper payments and charges, with the diversion of money from its proper channel, and with many other irregularities. It finds the charges in the case of Hon. H. F. McLeod not proven.

The report follows here in full:

Hon. Josiah Wood, D. C. L., LL. D.,

lieutenant-governor of the province of

New Brunswick:

1.

Having been appointed and constituted a royal commission by letters patent under the Great Seal as authorized by the act of the legislative assembly of the said province 4 George V., Chapter 13, passed on the 18th day of April, 1914, to enquire into certain charges connected with the St. John & Quebec Railway and naving by virtue of the authority conferred upon us by said act investigated the said charges, we beg leave to submit to your honor the following report:

The said charges are fully stated and set forth in the preamble of the said

"That the St. John & Quebec Railway Company has already received in act as follows: actual cash out of the proceeds of bonds guaranteed by the government of this province the sum of \$2,728,578 and from the dominion government on account of subsidy the sum of \$543,000, amounting in the whole to the sum of \$3,321,-

"That the said railway company has actually under construction 117 miles of railway between Gagetown and Centreville; that the said railway company has therefore received about \$28,000 a mile for railway actually under construct-

"That the grading on said 117 miles which is the only problematical item in the cost of construction of a railway is all completed and therefore the actual cost of completion of the 117 miles for operation can be easily obtained; "That it will require \$600,000 additional money to complete said railway

between Gagetown and Centreville and the said railway company now owes its contractors the sum of \$200,000;

"That the books of the said railway company and of Messrs. Kennedy & McDonald, the Hibbard Construction Company and James H. Corbett & Sons, who are the contractors under the said railway company, will show the actual cost to date, and James Taylor, inspecting engineer for the Dominion government, can tell exactly what amount will be required to complete ready for operation by the Intercolonial Railway;

"That a large amount of money so paid the St. John & Quebec Railway was diverted from its proper channel and has been used for purposes other

than the construction of the railway; "That contractors under the St. John & Quebec Railway Company were compelled to pay and did pay large sums to members of the government of this province in the year A. D. 1912 before they obtained their contracts as

## ENQUIRED INTO ACTUAL COST.

Pursuant to the provisions of the first section of said act contained we were authorized to inquire into the actual cost of said railway so under construction to date (meaning the 18th day of April, 1914) and the further amount necessary for the completion of the said railway so under construction between Gagetown and Centreville and the cost of said railway when entirely completed, and also to inquire and find whether any and what amount of said moneys so paid the St. John & Quebec Railway Company was diverted from its proper channel and has been used for purposes other than the construction of the said railway, and if so, the persons to whom paid, and what amounts were paid, and also to inquire and find whether contractors under the said St. John & Quebec Railway Company were compelled to pay and did pay, large, or any or what sums of money, to Hon. J. K. Flemming, premier of this province, and Hon. Harry F. McLeod, formerly provincial secretary, in the year A. D. 1912, before they obtained their contracts.

On the 26th of March, 1910, an Act, 10 Edward VII., Chapter 6, was passed by the legislature of New Brunswick to aid the construction of a line of railway along the valley of the St. John River. The first provision of the said act authorized the lieutenant-governor-in-council to make a survey of the said proposed line of railway from Grand Fails or a point on the line of the National Transcontinental Railway in the county of Victoria, touching certain points in the counties of Carleton, York, Kings and Queens to the city of St. John, and providing for certain alternative termini or connection with the C. P. R. which latter became unimportant as the act was afterwards amended by Chapter 25 of 2 George V., section 8, defining the said railway to mean a railway from Grand Falls or a point on the N. T. R. in the county of Victoria at near Grand Falls to the city of St. John and crossing the St. John river at

length about 120 miles, was divided into the three sections, as follows: From Gagetown to Fredericton, being section B., and under contract to James H. Corbett & Sons, 33 miles in length; section from Fredericton to Woodstock, being section C, and contract to the Hibbard Constructing Company, 62 miles in length; section from Woodstock to Centreville being under contract to Kennedy & McDonald, 25 miles in length. The said sub-contractors shortly after entering into said contracts as aforesaid, entered upon the work of construction of the said line of railway in their respective sections.

That the said railway company in addition to said issue of \$35,000 a mile of the mileage of the said railway, was authorized by the said act, incorporating said railway company, to issue \$2,000,000 of capital stock of said railway divided into 20,000 shares of \$100 each.

That on or about the 10th day of May, 1912, the Quebec & St. John Construction Company, Limited, was duly incorporated under the companies act of the Dominion of Canada, with all the rights and powers given by said act, with authority among other things to carry on the business of a construction, contracting and development company with authorized capital stock of the said company of \$1,000,000, divided into 10,000 shares of \$100 gach, subject to the increase of capital stock by said act.

That on the 80th day of May, 1912, an agreement was entered into by and between the said St. John & Quebec, Railway Company of the one part and the said Quebec & St. John Construction Company, Ltd., of the other part, whereby the said Quebec & St. John Construction Company contracted and agreed to construct the said line of railway and other works, and for the performance by the said construction company of all things in the said contract between his majesty the king, acting therein in respect to the province of New Brunswick, and the said St. John & Quebec Railway Company, contained, on the part of the said railway company to be performed in respect of the construction of the said line of railway and other works, and in which said agreement it was stipulated that the said railway company should pay to the construction company, in consideration for the performance by it et said contract and agreement, all the capital stock of the said railway company then remaining unissued, excepting 250 shares, each of said shares to be made, issued and handed over to the said construction company as paid-up stock and non-assessable, all the first and second mortgage bonds of the said railway company, and all the money which was to be received by the said railway company, and all the money which, was to be received by the said railway company from the government of Canada for subsidies by the said railway.

Wherefore it appears that said construction company assumed the position and was substituted in place of the said railway company so far as the construction of said line of railway and an the works connected therewith was concerned. The railway company remained nominally the contractors for the construction of said line of railway, the said construction company becoming the real and actual contractors therefor and it was through their officials and books of accounts that evidence was furnished to us of the receipt upon progress estimates and otherwise of all moneys from the proceeds of said bonds for the construction of said railway, as well as the payment and disbursement of moneys to the several sub-contractors and other employes in the construction of said line of railway. The incorporation and organization of the said construction company and the assigning and transferring to the said construction company of the said contract for the building of the said line of railway, the guaranteed bonds, the dominion subsidy and the capital stock of the said railway company was, according to the testimony of Mr. Gould, done under the advice of counsel for the purpose of making the said capital stock of the company paid-up and non-assessable, a proceeding necessary for the purpose of satisfying the said act, authorizing the issue of said stock in respect to said capi-

tal stock being paid-up and non-assessable. That A. R. Gould, of Presque Isle, in the State of Maine, was president the St. John & Quebec Railway Company.

That some time in the month of June, 1912, by a memorandum of assignment and transfer between said A. R. Gould of the one part and said construction company of the other part, the said Gould transferred to the said construction company certain claims against the St. John & Quebec Railway Company, amounting to \$1,000,000 for \$999,000 payable to Gould in fully paid-up and non-assessable shares of the said construction company or 9,900 shares of capital stock of said construction company.

#### TRANSFER OF GOULD CLAIMS.

Inasmuch as some of the provisions of said memorandum of assignment and transfer may affect the claims of said Gould to be paid a salary of \$5,000 a year by the construction company, we deem it appropriate and convenient that a draft of said memorandum of assignment which appears in the minute book of the said construction company, which is in words and figures following, be set forth in full:

"Memorandum of assignment and transfer

"By Arthur R. Gould, o' Presque Isle, in the state of Maine, hereinafter

referred to as the transferor; "To Quebec & Saint John Construction Company, Limited, a body politic and corporate, having its principal office and place of business in the city of Montreal, in the province of Quebec, hereinafter referred to as the transferee." "Whereas the said transferor has for some time past engaged in furthering

the interests of the St. John & Quebec Railway Company by arranging for the organization of such company and the securities of a guarantee by the province of New Brunswick of bonds to be issued by said railway company to pay for the construction thereof, the obtaining from the government of the Dominion of Canada an agreement to guarantee the bonds to be issued by the rallway company, to pay for the construction of bridges required by said railway, as also of an agreement of lease by said latter government of the said railway so soon as constructed, the sale of the first mentioned bonds, the arranging for certain rights of way of said railway, the obtaining, by making himself personally responsible with others therefor, of the large sums of money required in order to allow the company to begin the immediate construction of said railway, the making of the plans for said railway, and has expended at the request of the said railway company, considerable sums of money in connection with the said matters, as in connection with the survey of the line of said railway, the location thereof, the obtaining of the said rights of way, the initial work generally in connection with said railway, the value of which services, including the said disbursements, has been recognized and admitted by the said railway com-

ceived from the said bonds more than set off any payments made from the proceeds of said bonds on said loan.

It is quite manifest that Gould and his associates who constituted the Saint John & Quebec Railway Company believed that with the guaranteed bonds of \$25,000 per mile by the province and the amount of money they would be able to raise from the second mortgage bonds and the moneys received from the dominion subsidy they would be in a position to construct the said line of railway, according to their said contract, and it appears by the evidence that but for the disturbance and depression of the money markets, they would probably have been able to market the second mortgage bonds and would have performed and carried out their said contract to construct the said line of railway, and they evidently convinced the government of their bona fides and of their resour and ability to finance the undertaking and to construct the road.

Although it is shown by the evidence that Mr. Gould and his associates by the purchase of stock of the railway company put into the enterprise the sum of \$25,000, it is apprehended that no one concerned with the inauguration and promotion of this enterprise expected or believed that they proposed to finance the undertaking with their own money or capital, but that as before stated the bonds guaranteed and second mortgage bonds would produce the necessary moneys to carry on the undertaking to completion, nor can this attitude of the parties interested be said to be an unusual or uncommon or unreasonable one, for, in the history of railroad building in this province, or for that malter, in any part of Canada it seldom, if ever, happened that the parties undertaking the promotion and building of a line of railway have put much or any of their own moneys into the enterprise.

this failure, on account of the acute stringency of the money market, or Lisman & Company who were, it was proved, reputable bankers of New York any who had undertaken the marketing of the second mortgage bonds to implement their undertaking made it necessary for the government in order to save he situation to come to the rescue of the railway company and on the 18th day of April, 1914, an act of legislative assembly, 4 George V., was passed granting further aid to the Saint John Valley Railway, by which a further guarantee of the bonds of the said company was authorized upon the terms and conditions n said act expressed.

That said bonds for \$26,000 a mile so guaranteed as aforesaid it must be borne in mind, were bonds of the railway company; the proceeds thereof were n a sense the moneys of the railway company, but the trust company under the terms of the trust mortgage were only authorized to pay out to the said railway company any moneys, the proceeds of said bonds, upon an order of the lieuten ant-governor-in-council, based upon the progress estimates as the construction of the said line of railway progressed. In that way the government safeguarded the funds and were placed in a position to see to it that all the moneys, procceds of the said bonds should be expended in building the said line of railway.

## INVESTIGATING DIVERSION OF FUNDS.

That brings us to the branch of the enquiry as to whether or not any of this money paid to the said rallway company was diverted from its proper channels. In order to reach an intelligent conclusion in the premises it is essential to ascertain, if possible, to what use the money claimed to have been aiverted was put, also what was meant by the term "diverted" in the said charges made by Mr. Dugal, as also what was meant by the term in the said act authorizing this enquiry. With reference to this question the charge is formulated thus:

"That a large amount of said moneys so paid the Saint John & Quebec Railway Company was diverted from its proper channel and has been used for purposes other than the construction of the railway;" and as herein before set out it is charged that the company received a total sum of \$3,321,573 being the proceeds of the bonds guaranteed by the province to the amount of \$2,728,575 together with the sum of \$543,000 dominion subsidy.'

"In the argument which was presented to the commission by counsel on behalf of Mr. Dugal a distinction was drawn between the general moneys of the railway company and the moneys furnished the company from the proceeds of the guaranteed bonds. Counsel took the position that many items of expenditure, not improperly chargeable to the construction of the railway, should not be a charge upon the proceeds of the bonds for reason which will be more specifically alluded to when necessary, and it was contended that the use of the moneys in the way indicated by such expenditure would properly fall to construction account, and it was urged also that another class of items which will be mentioned in detail were not in any way primarily or ultimately chargeable against the road at all.

When we examine the different items of contested and objected expenditure, which constitute the alleged diversion, it will be apparent that the over-

whelming bulk of so-called diversion falls into the category first above alluded to, namely, expenditure properly chargcable to the construction of the road, but, according to counsel for Mr. Dugal, not properly chargeable to the fund in question. On the other hand, counsel for the attorney-general and for the Hon. Mr. Flemming maintained that there was no diversion, if the moneys honestly went into the cost of the road, and inconsequence, the charge of diversion railed in so far as it rests upon the first classification of expenses above aNuded viz., items properly chargeable to construction, but not chargeable to the

or near the Mistake, so-called, in the county of Kings, then crossing the Kennebeccasis river and to the city of St. John at or near Courtenay Bay or /to a point on the Intercolonial Railway near Rothesay, in the county of Kings, and that such survey with a report thereon and an estimate of the cost thereof be laid before the lieutenant-governor-in-council.

By the same section of the said act it is provided that the province be reimbursed for any such survey, estimate and report by any company with which a contract may be entered into under parts 2 and 3 of said act before,

A survey of said proposed railway was afterwards made by David F. any bonds are guaranteed. Maxwell, C. E., and the report of said survey with the plans and estimate of the cost thereof, estimated at \$35,500 Per mile, were laid before the lieutenantgovernor-in-council. The lieutenant-governor-in-council, by the amending act of 2 George V., chapter 25, is authorized by section 4 of said act to guarantee the payment of the principal and interest of the first mortgage bonds of any company 'or corporation already authorized or which may hereafter be authorized by law to construct the said line of railway, which bonds or debentures are not, however, to exceed \$25,000 per mile of the mileage of the said railway and also authorizes and empowers the lieutenant-governor-in-council, on behalf of the Province of New Brunswick, to enter into a contract with any such company or corporation for the construction of such line of railway in con sideration of such guarantee; provided that the lieutenant-governor-in-council should first be satisfied of the bona fides of such company and its ability and resources to construct the said railway.

The said act further provides that said bonds shall bear interest at a rate not exceeding four percentum per annum, payable half-yearly, and the principal thereof shall be payable in not more than fifty years from the date of issue, and the said bonds shall be in such form as the lieutenant-governor-in-

By the said amending act, 2 George V., chapter 25, the lieutenant-governorcouncil may approve. in-council is authorized to direct the provincial secretary to endorse upon such portions of the first mortgage bonds o the company or corporation constructing the said proposed line of railway the guarantee on behalf of the province provided by said act. 10 Edward VII., a the work progresses-upon the certificate of the government engineer, such certificate to state the whole value of the work done on each division, and the proportionate amount of bonds the company is intitled to have guaranteed in respect to each division, having regard to the cost of the work already done relative to the whole estimated cost of the road, and to the amount of the bond that may by the contract be provided to be guaranteed during the progress of the work in respect of each division. "SAVE HARMLESS THE PROVINCE."

It is provided by said act, 10 Edward VII., that before any of the said bonds shall be guaranteed the company or corporation constructing, or agreeing to construct the said line of railway, shall give to His Majesty the King, noting in respect to the/Province of New Brunswick, a mortgage upon the said line of railway, to secure and save harmless the Province of New Brunswick for and against the payment of the said principal and interest of the same

Said act, 10 Edward VII., provides that no agreement shall be entered into bonds. for the construction of said line of railway or for the guaranteeing of said bonds unless and until the Parliament of Canada shall enact legislation authorizing the granting of a subsidy in aid of the construction of the said railway to the amount, not less than \$6,400 a mile, and authorizing the entering by the said Parliament of Canada into an agreement with such company or corporation and with the Province of New Brunswick for the leasing of the said line of railway, when completed, and for the operation, equipment and maintenance, upkeep and repair by the said Parliament of Canada as part of the government railway system of Canada for a period of 99 years, and for the payment by the Parliament of Canada to the said, Province of New Brunswick each year forty percentum of the gros earnings of the said railway as or in the nature of rental thereof, the amount of such rental to be applied in payment of the interest upon bonds guaranteed by the said province, any surplus, after payment of said interest upon said bonds to be paid by the company.

It is provided by said amending act that before the government guaran tees any bonds under the said acts, o where the government guarantees a the bonds, if they should deem it advisable to do so, the company shall deposit with the government or with a bank o trust company the sum of \$1,500 a mile of the said railway in respect of which the bonds are to be guaranteed, such deposit to remain as security for the payment of any interest remaining due and unpaid after the payment of the forty per cent. gross earnings so to be paid by the Government of Canada to the Province of New Brunswick.

# SIGNING CONTRACT WITH GOULD COMPANY.

That all the said conditions having been fulfilled, a contract, as required by the said act, was entered into on the 12th day of December, 1911, between His Majesty the King, acting therein in respect of the government of the Province of New Brunswick and represented as acting by Hon. H. F. McLeod, provincial secretary of the Province of New Brunswick, of the first part, and the St. John & Quebec Railway Company, a company duly incorporated by virtue of chapter 52, 10 Edward VII., and authorized by said act to construct the said line of railway, of the second part.

That the said contract was made and entered into between the said parties in pursuance of, and in conformity with and as provided by, the said acts of the legislative assembly, above referred to, the said company thereby agreeing to acquire the right of way and to construct the said line of railway as in said contract specified, and the Government of New Brunswick, in consideration thereof, agreeing of the \$35,000 bonds per mile of the mileage of the said railway that the said company was authorized to issue by the said act, 10, Edward VII., chapter 6, \$25,000 per mile thereof would be guaranteed by the govern-

That subsequently and in the month of May, 1912, the said company ment. sub-let the construction of the whole of said line of railway from Gagetown to Centreville to their sub-contractors, namely, to James H. Corbett & Sons, from Gagetown to Fredericton; to the Hibbard Construction Company from Fredericton to Woodstock, and to Kennedy & McDonald from Woodstock to The said line of railway from Gagetown to Centreville being in

"Whereas, the said transferee has contracted with the said railway company to construct the said railway, and that the said railway company has agreed to transfer to the said transferee, in consideration of such construction, all its debenture stock guaranteed by said government, as aforesaid, or the proceeds thereof, together with other securities which have been accepted as sufficient by the said transferee;

"Whereas, the said claims of the said transferor, against the said railway company, include considerable work and services and disbursements, which are included in the undertaking of the said transferee in favor of said railway, and that the work which will have to be done by the said transferee by reason thereof has been reduced and diminished pro tanto;

"Whereas, the transferor has offered to transfer his said claim against the said railway company to the said transferce, in consideration of the sum of minehundred and ninety-nine thousand dollars (\$999,000), payable to said transferor in fully paid-up and non-assessable shares of the said transferee;

"Now these presents witness:

The said transferor hath transferred, assigned and made over, and by these presents doth transfer, assign and make over unto the said transferee, hereto present and accepting for itself and its agoigns, all his, the said transferor's rights, claims and privileges against the said railway company for all work and labor done by said transferor for the benefit and advantage of said railway company and for all services rendered by the said transferor to the said railway company, and for all expenses and disbursements, incurred and made and advanced by said transferor for the benefit and advantage of the said railway company, which are fixed at the sum of one million dollars (\$1,000,000), hereby vesting the said transferee with the same craim against the said railway company, for said amount, as with all the rights and privileges of the said transteror in connection therewith, hereby authorizing and empowering the said transferee to deal with the said raitway company, in connection with the settlement of said claim, or the compromising of same, upon such terms and conditions as the said transferee may consider advisable; the settlement, receipt, acquittance and discharge of the said transferee to be as effective and binding and valid in every way whatsoever in favor of the said pailway company as the settlement, receipt, acquittance and discharge of the said transferor, the said transferor hereby appointing the said transferee his irrevocable attorney, in so far as necessary, with full powers in connection with the said claim, hereby agreeing to give such assistance to the said transferee at all times as the said transferee may require in connection with the establishing and settling of the

"The present transfer and assignment is thus made for and in consideration said claim; of a sum of nine hundred and ninety-nine thousand dollars (\$999,000), which the said transferor hereby acknowledges to have received from the said transferee by the delivery to him of nine thousand nine hundred and ninety (9,990) fully paid and non-assessable shares of the capital slock of the said transferee.

"Signed before witnesses, at Montreal, aforesaid, this ---- day of June, 1912. That as on the 14th day of May, 1912, the Saint John & Quebec Railway Company by indenture bearing date the day and year aforesaid executed to the Prudential Trust Company, Limited of Montreal, therein ealled the trustee, in which indenture his majesty the king, acting on behalf of the province of New Brunswick, is a party, is a trust mortgage, to secure the said bonds or debenture stock authorized to be issued by the said railway company and guaranteed by the said province of New Brunswick as aforesaid. The said bonds or debenture stock was guaranteed by the government of the said province en bloc and sold en bloc and realized the sum of \$4,069,362.54 which was received by the said Prudential Trust Company as trustees as aforesaid.

It was agreed by and between the said railway company and the said Prudential Trust Company Limited, trustee, as aforesaid that the trust company would pay or allow interest to the said railway company on all balances in their hands at the rate of four per cent. per annum.

That in or about the month of April, 1912, A. R. Gould and others borrowed from the said Prudential Trust Company the sum of \$350,000. Accordto the evidence submitted by Ralph D. Hoben, the bookkeeper and accountant of the said construction company, and substantiated by company, the sum of \$275,000 was expended by the said railway company in the construction of the said line of railway before anything was received from the said moneys in the hands of the said trustees, being the proceeds of the sale of said bonds or debenture stock as aforesaid upon progress estimates.

That the items above referred to of \$275,000 initial expenditure on the part of the said railway company and the said loan of \$350,000 by the said Prudential Trust Company, Limited, to the said A. R. Gould, and his associates, become important, and will be referred to at greater length in this report, inasmuch as counsel in the support of the said charges contend that some, if not all the payments of the principal and interest upon said loan were made out of the proceeds of said guaranteed bonds, and thereby constituted a diversion of said money, and on the other hand counsel for the said railway company insisted. that the said initial expenditure above referred to before any moneys were re-

fund in question.

If the payments in question were bona fide construction payments it was urged that the said fund was properly chargeable therewith in every instance; but it was virtually admitted by the last named counsel that there were some items, few in number and insignificant in amount, which had found their way into the account and were not properly chargeable to construction at all.

The finding upon this branch of the inquiry involves a review of the items objected to, and they are as follows: First, the sum of \$30,197.14, being the cost of a survey of the proposed road made by David F. Maxwell, C. E., for the government. In the act, chapter 6 of 1910, being an act in aid of the construction of this projected line of railway, authority was given to the lieutenant-govunor-in-council to cause a survey of the proposed line to be made under the direction of a competent engineer to be by him appointed, and in the section the act which authorizes such survey it is provided that:

"The province is to be reimbursed for whatever expense it may incur for ny such survey, report and estimate by any company with which a contract may be entered into, etc., and when the contract, itself was entered into between the government and the railway company the above statutory provision was embodied in section 12 of the contract, which reads: '12. Before any such bonds shall be guaranteed the company shall repay or reimburse the Government of New Brunswick the costs and expenses of such survey, plans, report and estimate so made under the direction of the said David F. Maxwell, of and respecting the said line of railway."

It is admitted that the cost of this survey was paid by the railway company from the proceeds of the bond issue. It is so charged in the books of the construction company, and no attempt has been made to make it appear otherwise; for, as contended by counsel for the government, the charge is a proper one to go into the construction of the road, and no question of diversion can arise with respect of it; but, it is put forward by Mr. Eugal's counsel, it should have been paid before the bonds were even guaranteed and its payment from the proceeds thereof was pro tanto a diversion. In other words, the railway company was supposed, and by statute and contract bound, to have put in this amount into the venture before it was in a position to ask for a bond guarantee, but instead of carrying out such arrangement it is contended that this provision was evaded and the engineer's account, being paid as above, there was therefore such diversion as is claimed.

To say whether or not this payment was diversion depends wholly upon the meaning to be attached to that word in the series of charges now before us. If, as contended by Mr. Fowler and Mr. Teed, no moneys going into the road could be said to be diverted, there was no diversion here because the amount in question is undoubtedly chargeable to construction. If, on the other hand, as contended by Mr. Carvell and Mr. Stevens, the proceeds of the bonds are not properly chargeable to this item, there was in that sense a diversion, for this amount was certainly charged against that fund.

Having regard to the wording of the statute and of the contract by both of which it is provided that the said expense was to be repaid or reimbursed to the province as a precedent to the guaranteeing; the bonds, it seems to us that the manifest and proper construction to be put upon them, in this particular, is that the company should have provided the moneys for the engineer's account before getting the guaranteed bonds, but the course which they followed was known to the government and acquiesced in, if not directed, by that body; consequently, little blame, if any, is to be imputed to the company with reference to this particular proceeding, but for the reasons indicated above, WE THINK THERE WAS A DIVERSION IN THE SENSE CONTENDED FOR BY MR. DUGAL'S COUNSEL, BUT AS HEREINAFTER EXPLAIN-ED WE DO NOT THINK THAT PAYMENT OF THIS SUM AMOUNTED TO A DIVERSION WITHIN THE MEANING OF THE CHARGE AS LA

The next item was that of interest which figures, as always, somewhat largely in the works of the nature under consideration. We are inclined to accept the result of the examination of the construction company's books by Mr. Blanchet, C. A., in this respect, and we think in the first place that from the interest account as shown therein there should be deducted the sum of \$1.542. which he considers an overcharge in that particular with reference to the mount charged by the construction company for bond interest. In the books of the said company, this item appears as \$14,400, while he figures it at the sum of \$12,989. We do not consider it necessary to recapitulate the reasons nor to reproduce the accounts by and from which he reaches the conclusion above inicated. WE AGREE WITH HIS COMPUTATION IN THIS REGARD AS WELL AS HIS STATEMENT THAT JONINI SYA COIS IO WAS HIL ERLY CHARGED AS INTEREST ON A PAYMENT MADE ON AC-COUNT OF A NOTE GIVEN BY MR. J. D. SEELY IN SETTLEMENT OF HIS CLAIM FOR CONSIDERATION FOR WORK DONE FOR THE RAILWAY COMPANY, WHICH HAS BEEN CHARGED AND SUBSE-QUENTLY WITHDRAWN.

Another item in the interest account claimed by Mr. Carvell to be a diversion is the sum of \$12,000, being two years' interest on \$100,000 from July 31, 1912, to July 31, 1914, at six per cent. It seems that an agreement was entered into between the trust company and A. R. Gould and others by which the latter borrowed from the trust company the sum of \$350,000. With a portion of this amount the construction of the road was financed and paid for until the amounts under the progress estimates became available. IT IS APPARENT THAT A PORTION OF THIS AMOUNT-PRACTICALLY \$100,000-DID NOT GO INTO THE ROAD, and from the standpoint of this inquiry as authorized by the statute, it is of no importance to us unless and until it shalk appear that moneys arising from the proceeds of the bonds are being utilized to repay this part of the loan not expended upon the road,

IT IS APARENT AND NOW AGREED ON ALL SIDES THAT IT WAS WRONG TO CHARGE THE FUND IN QUESTION WITH INTER-EST UPON ANY PART OF THE LOAN NOT USED FOR THE PUR-POSE OF THE ROAD, AND MR. BLANCHET'S AUDIT ELIMINATES FROM THE ACCOUNT TWO YEARS' INTEREST ON \$100,000 AT SIX PER. CENT.

Before the progress estimates could be realized upon a large part of the

