

actual cost or fair value, whichever be less, of such additional property, but in the case of the construction by the Company of property and/or works for generating hydro-electric power, bonds of such subsequent series may be issued to an amount not exceeding the actual cost of construction or \$100 per h.p. of installed generating capacity of the Company's works over and above the Company's initial development which will have a generating capacity of 500,000 h.p., and including the works constructed or being constructed, whichever may be less.

(3) That no additional bonds may be issued unless net earnings, as defined in the Trust Deed, available for interest for 12 preceding months, as defined in the Trust Deed, have amounted to at least 1 1/4 times interest charges on bonds outstanding and those then to be issued, but where additional property is such as to, or property and/or works when acquired or constructed will, directly increase net earnings (by reason of the Company having signed contracts for the supply of power or energy for a period of at least 10 years after such property will be put into operation) and the installation is to be completed within 2 years, the estimated increase in the average annual net earnings of the Company for 24 months after such additional installation may be included in the net earnings for the purposes of the foregoing requirements, but then such net earnings must amount to at least 1 1/2 times interest on bonds outstanding and those to be issued.

(4) Notwithstanding that the net earnings of the Company may not have been sufficient to fulfil the above requirements, bonds may be issued by the Company for the purpose of installing up to a further 100,000 h.p. in the existing power house, provided that contracts shall have been entered into for the sale of all the power to be generated by such new installation for a period of not less than 10 years from and after the date when such new installation shall be put into operation, and provided further that bonds may be issued only to the extent of the actual cost of such installation, or \$50 per h.p. of installed generating capacity, whichever may be less. Cost in all cases shall include interest during construction and discount on bonds not exceeding 10% of the face value thereof.

Mr. Aimé Geoffrion, K.C., has expressed a favourable opinion as to the above-mentioned water rights, franchises of the Company and contracts for the sale of power as therein referred to.

Messrs. Meredith, Holden, Heward & Holden have given an opinion as to the validity of the bonds and the Trust Deed securing the same and as to the title of the Company to its immoveable properties and rights other than the transmission lines and other than the properties and rights reported upon by Aimé Geoffrion, K.C. This firm has made a report on the examination so made by it and has expressed the opinion that the titles of the Company to the properties and rights so examined by them are satisfactory except for certain imperfections of title which they state can be and are now in the process of being remedied and except for certain other imperfections of title which in their opinion are only of minor importance.

The titles of the Company to the transmission lines which were subjected to the specific charge of the Trust Deed have not been examined, but Messrs. Meredith, Holden, Heward & Holden have pointed out that these transmission lines run over properties owned by the Company or its subsidiaries or over properties owned by other persons from whom the Company has obtained servitudes or rights for such lines.

Messrs. Meredith, Holden, Heward & Holden have advised that since the execution of the Trust Deed Beauharnois Light, Heat and Power Company as permitted thereby has conveyed certain of such transmission line properties and rights to Coteau Rapids Transmission Company Limited (a subsidiary of the Company) in consideration of bonds of the said transmission company secured on such properties and rights and which bonds have been subjected to the specific charge of the said Trust Deed.

SINKING FUND

The Trust Deed securing the First Mortgage Bonds provides for an annual Sinking Fund in respect of Series "A", under which on or before October 1 of each year from 1942 to 1972, inclusive, an annual payment equal to 1% of the largest aggregate principal amount of bonds of this series certified and issued will be made to the Trustee. This Sinking Fund is to be used for the purpose of retiring bonds of this issue by purchase at or below redemption prices, failing which bonds will be redeemed by lot at prevailing redemption prices. The Company has the right under the Trust Deed to buy bonds at not exceeding redemption prices and accrued interest and expenses of purchase and tender them at cost and accrued interest in lieu of cash on any Sinking Fund date. It is estimated that this Sinking Fund will retire approximately 30% of the bonds of this series by maturity.

EARNINGS

In May 1933 the management of Beauharnois Light, Heat and Power Company estimated that its earnings, after operating expenses, available for interest on First Mortgage Bonds of Beauharnois Light, Heat and Power Company would be as follows:

Year ending	
December 31, 1933	\$ 632,000
December 31, 1934	1,607,000
December 31, 1935	2,737,000
December 31, 1936	3,891,000
December 31, 1937	4,764,000
December 31, 1938	5,000,000

The Company's audited statement for the year ending December 31, 1933, shows actual earnings on the above basis of \$736,535. This compares with the amount estimated of \$632,000.

It will be observed that even by 1935 with only part of the contracted power delivered, the estimated earnings of \$2,737,000 exceed the total Series "A" bond interest of \$2,200,000 by a substantial amount.

Full deliveries of power under the above mentioned contracts call for 400,000 h.p. :-

Estimated 1938 earnings (as above)	\$5,000,000
Deduct:	
Interest on \$40,000,000 First Mortgage Sinking Fund Bonds 5 1/2%, Series "A"	\$2,200,000
Interest on \$36,000,000 Second Mortgage 5% Sinking Fund Bonds (pledged as security for \$36,000,000 5% Collateral Trust Bonds of Beauharnois Power Corporation Limited—first interest payment April 1, 1938)	1,800,000
	<u>4,000,000</u>
Surplus before Income Tax available for depreciation, etc.	<u>\$1,000,000</u>

Depreciation has not been taken into account in these estimates as construction is not completed.

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