

gation, but I may say meantime that cases of this kind are being discovered almost daily. The following are a few examples of misappropriation or diversion of trust funds:—

1. A client sent \$250,000 for investment in a first mortgage. This mortgage is supposed to be held in trust for him, but it has been discovered that at least two other parties have also an interest in it.

2. Securities earmarked as held for depositors have been hypothecated to the Royal Bank of Canada as security for advances. It will be very hard to trace these securities as the earmarking for depositors was merely in a total, the details of the items so earmarked not being stated in the books. It seems fairly certain, however, that the debentures of the British Columbia Securities, Limited, amounting to \$640,000, come under this category.

Scotch Money was Invested.

3. The Edinburgh agents of the company have sent approximately \$690,000 for investment. Of this amount about \$145,000 has not been invested. The directors attempted to earmark certain securities on their behalf on October 26, 1914, but I have been instructed by my solicitors to disregard this earmarking meantime. The balance of the moneys sent by the Edinburgh agents appear to have been properly invested, but I have not had time to appraise their securities. It should be stated that the company were allowed six months in which to find an investment for moneys remitted by the agents, and that practically no investments of these moneys have been made by the company in the six months prior to the death of the late managing director.

Some More Examples.

4. A client sent \$85,381.25 for investment in a specific security. As this money went into the company's bank account and the investment was not made, it would be almost impossible to trace the money now so as to give the client a preference.

5. The company, while acting as trustee for a certain company, used over \$40,000 of trust funds for their own purposes. Failure to pay over this money when demanded early in October, 1914, made the situation acute.

6. Securities which were earmarked for a certain sinking fund were forwarded to London for disposal.

7. Property was purchased from and paid for to the company as agents, and in some cases the purchasers have built their homes, but as the company has not paid over the moneys received to the government to obtain title, this has worked a great hardship in very many cases. This is another case where I trust the government will see their way clear to take the unsold lots as security for what is still owing them, and issue crown grants for the others, so that the purchasers can obtain title to the land which they have paid for in full.

To Keep Company Alive.

The above are only a few examples of the many cases of misappropriation which have been discovered. Most of the cases appear to have been attempts to provide sufficient funds to keep the company alive. The complications caused by manipulations such as these may make it necessary to have points settled in the law courts before a final statement can be prepared.

The securities held by the Royal Bank of Canada have been hypothecated chiefly during the few months prior to the death of the late managing director. They have a total book value of over \$1,500,000 against advances by the bank of approximately \$167,427.35. At the present time, however, it is impossible for me to put any value on the reversion to the company out of these securities.

Ten Cents on the Dollar.

The debentures of the British Columbia Securities, having a face value of \$640,000, are included in this total, and as there are prior mortgages on all the properties supposed to be included in these debentures, I can only value them as an ordinary claim against the company, which I understand is worth from 10 to 20 cents on the dollar. Other large items consist of bonds, stocks and notes of orchard companies, which at the present time are financially embarrassed, and most of them are in default on their bond interest. It may be possible that with careful handling some of these securities may be made good, but they are unrealizable at the present time. I therefore consider the bank fully secured, if not unduly preferred, but expect no reversion from these securities to the company.

A statement of affairs is submitted herewith as part of this report. From this statement it will be seen that the total unsecured liabilities are estimated at \$3,000,000 and that my valuation of the assets, including the bonds deposited with the government, without providing for the expenses of liquidation and for the preferred claims, is \$985,000. I would like to make it clear that if business conditions improve, and if the first claims against many of the properties can be protected, the assets should realize considerably more than my valuations. The statement is prepared in a form which shows exactly where the shrinkage has occurred.

Prospects of Dividend.

At the date of my appointment I hoped that we should be able to realize \$250,000 immediately from the bonds held by the government for the depositors and creditors. Apparently this will not be paid in the near future, as the bonding companies are disputing liability. There is also a legal battle over the late Mr. Arnold's life insurance, so that meantime the most easily realized asset is the unpaid calls on the shares, which have a book value of \$181,000, which, roughly speaking, should be worth \$100,000. Unless this amount is called up, the permanent liquidator will be left with no ready cash to disburse now or in the near future to the depositors and creditors, and will possibly be in the awkward position of being unable to find enough money to meet the immediate costs of the liquidation.

As provisional liquidator I do not consider it my duty to go into the question of who is responsible for the present position. A full investigation into this question will no doubt be made by the permanent liquidator.

In conclusion, I consider it only fair to the province of British Columbia in particular, and to the Dominion of Canada in general to state that from my investigations up to date, it is amply proven to me that the present position of the Dominion Trust Company was bound to happen sooner or later, and that the present financial stringency caused by the war merely accelerated the climax.

I recommend that Messrs. Marwick, Mitchell, Peat and Company be retained to continue their investigations as they have now got the work well under way.

Yours truly,

(Signed)

C. R. DRAYTON,
Provisional Liquidator.

APPROXIMATE STATEMENT OF AFFAIRS OF DOMINION TRUST COMPANY.

As at October 26, 1914, (date of liquidation).

ASSETS.		
	Book Value (Net)	Estimated to Realize.
Cash on hand and in banks	\$ 18,567.35	\$ 18,567.35
Claim against Provincial Government of British Columbia on behalf of Depositors and Creditors		250,000.00
Calls on shares unpaid	181,000.00	100,000.00
Accounts Receivable	26,335.78	10,000.00
Balances due by Clients, Estates and Trusts	971,068.96	294,048.62
Loans	1,384,488.96	115,500.00
Shares in Other Companies	605,284.36	47,000.00
Bonds and Debentures	42,918.65	4,500.00
Equity in Office Premises	441,881.91	100,000.00
British Canadian Securities Limited— Shares and Advances (not including Debentures \$640,000.00 hypothecated to Royal Bank of Canada) ..	591,704.72	35,000.00
Reversion from Securities hypothecated to Bank of Scotland	31,108.02	11,100.00
Reversion from Securities hypothecated to Royal Bank of Canada	1,885,450.66	
Organization Expenses, etc.	72,333.58	
Total Assets	\$5,752,232.95	\$985,715.97
Deduct—		
Preferred Claims for Salaries and wages, per contra Net Free Assets available for distribution among un- secured creditors of \$3,000,000.00 without providing for the expenses of liquidation		15,000.00
		\$970,715.97

LIABILITIES.		
	Book Value.	Expected to rank.
Preferred— Salaries and Wages to the date of liquidation (esti- mated). Deducted from assets	\$ 15,000.00	
Fully Secured (deducted from assets)—		
Mortgage on Office Premises	225,000.00	
Royal Bank of Canada	167,427.35	
Bank of Scotland	8,843.98	
	\$ 401,271.33	

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