

THE PEOPLE'S CO-OPERATIVE TRUST REPOSED IN THEM

THE MOST TERRIBLE CRIME OF WHICH OLD GANG WAS GUILTY

The Darkest Page in the History of New Brunswick Politics.

How Pugsley and Tweedie Betrayed the Trust Placed In Them in the Central Railway Matter, which Involved Nearly a Million Dollars of the People's Money

Those inclined to criticize the financing of the Valley Railway should read carefully what Chief Justice Lundy and his associates in the Royal Commission, investigating the affairs of the Central Railway had to say in connection with the latter enterprise.

"Books of account in connection with the operation of the railway were kept in the company's office at St. John, say the commissioners, who go on to state: 'These books besides showing the revenue and operating expenses, show the amounts expended for betterment outside of the cost of the construction of the fifteen mile section and branches, and were well kept.'

"Besides the books kept at St. John, in 1904, after three years of the company's existence, during which the fifteen mile section and its branches had been constructed and the Central Railway purchased, an attempt was made at Fredericton to make up scattered data a ledger covering the financial affairs of the company from its organization to that date. The only accounts opened in this ledger were in connection with the People's Bank, the Bank of New Brunswick, the Bank of Montreal, and the Bank of British North America. Fredericton, the James Barnes Construction Company and Messrs. Evans & Elkins; the four bank accounts being simply a mass of figures affording little information. The whole transaction of the company with Evans & Elkins seems to have been attempted. In this ledger there are less than fifteen entries after the first of July, 1904, although the company's business extended to the first day of July, 1905. All the accounts put together cover only seven and a quarter pages of the book.

"Mr. Sharpe began what is called a cash book about the first of July, 1904, which was continued by Mr. Corbett after Mr. Sharpe's death on behalf of Mr. McAvity, first as president and afterwards as commissioner. This book was also made up from such data as was afforded by stubs of cheques, books, letters, etc., but not posted concurrent with the transactions. It shows the expenditure of part of the monies advanced by the government in connection with the railway since the first of July, 1904.

No Other Books Kept.

"Outside of these books, strange as the statement may seem, no books of account were ever kept by the Railway Company or by the Commissioners in connection with the railway, although the financial transactions connected with it involved an expenditure of over \$900,000. Some transactions which appeared in these books will be discussed later, as well as others which do not appear.

"As for books of record showing minutes of shareholders and directors' meetings; the shareholders' minutes begin with the minutes of the Provincial meeting held at Fredericton on the 7th May, 1901. The second meeting for the purpose of organization being held in St. John, May 1901, the following being present:

Ernest Hutchinson, Franklin Stetson, R. A. Irving, James Barnes, E. Byron Winslow, A. P. Barnhill, George Allen, William Pugsley, (by proxy), Hon. William Pugsley, Attorney General, ex officio, director; Hon. L. J. Tweedie, Provincial Secretary, ex officio, director.

"The last recorded meeting of the shareholders was held at the Government room, St. John, June 25th, 1903. Between the above dates only two meetings or adjourned meetings were held.

"At one of the above meetings, held on August 2nd, 1901, a resolution was passed to the effect that 'five hundred shares of the capital stock of the Company should be issued as fully paid up and non-assessable stock of the Company, and that ten of these shares be issued to each shareholder as a satisfaction of all their services as promoters of the Company, and that such allotment be in lieu of any allotment which otherwise would be made by reason of shares subscribed by them, and in satisfaction of the shares so subscribed by them, and that the remainder of the five hundred shares, or four hundred and thirty shares, should be issued to Charles N. Skinner in trust to distribute and allot the same to such persons as might in his opinion be entitled to receive the same as promoters of the Company, and in consideration of services rendered to the Company; and the acting of the said Charles N. Skinner, according to his own judgment and discretion

Mr. Pugsley and the officers of the Company.

"Mr. Pugsley, who apparently had the general management of the Company's affairs, kept no account and did not give much definite information. He had, he said, left the keeping of the accounts to Mr. George W. Allen and Mr. A. I. Trauman, both of whom had died before the investigation. On inquiry we were satisfied that Mr. Trauman kept no books that could throw light upon the disposition of the monies. Indeed from his position in the Company we cannot see how it would be especially incumbent upon him to do so, and we are also inclined to believe, after examining Mr. J. J. F. Winslow, who acted as Mr. Allen's clerk, that Mr. Allen, were he alive, could furnish little more data than that produced by Mr. Winslow. His successor, Mr. Winslow, who succeeded Mr. Allen as Secretary had attempted to make up the ledger before referred to, but beyond some general statements and the production of promissory notes and acceptances of the Company which had been discounted at the People's Bank, he could give no information as to details.

"The following officers were elected at this meeting: 'Ernest Hutchinson, Chatham—President. 'Franklin Stetson, St. John—Vice-President. 'George W. Allen, Fredericton—Secretary. 'E. Byron Winslow, Fredericton—Treasurer. 'Mr. Hutchinson, the president, Mr. A. P. Barnhill, Hon. L. J. Tweedie and Hon. Wm. Pugsley were appointed a committee to confer with the Central Railway Company and others to see upon what terms the amalgamation, meaning the amalgamation of the Central Railway, might be made, etc. The last recorded meeting of Directors was held in St. John, June 11th, 1902.

Between the above dates the following Directors' meetings were held:

'June 13th, 1901—Present, E. Hutchinson, President, A. P. Barnhill, Hon. Wm. Pugsley, George W. Allen. 'August 16th, 1901—Present, P. Stetson, Hon. Wm. Pugsley, A. P. Barnhill, W. Kitchen, G. W. Allen. 'August 18th, 1901—Present, P. Stetson, Hon. Wm. Pugsley, A. P. Barnhill, W. Kitchen, G. W. Allen.

'October 21st, 1901—Present, President E. Hutchinson, A. P. Barnhill, Hon. L. J. Tweedie, Hon. Wm. Pugsley. 'November 26th, 1901—Present, President E. Hutchinson, Hon. L. J. Tweedie, Hon. Wm. Pugsley, A. P. Barnhill.

Where 'The Gang' Got Control.

"So far as the records show these were the only meetings held of the directors, in carrying on a work involving such heavy expenditures and extending over a period of more than four years. We must note here that the meetings of both shareholders and directors were few and unimportant and showed that at an early date there was a complete abandonment of corporate action and an assumption of individual control on the part of a few.

"Notwithstanding the fact that by Statute the salaries of the Officers of the Company and the amount of wages paid its servants should be subject to the approval of the Lieutenant-Governor in Council, none of the books, papers or documents which were available show what salaries the President, Secretary-Treasurer, Directors and Solicitor were to get, what services they performed or, with the exception of a few payments, what remuneration they received or that any of these matters were even considered by either the Company or the Government. With a view of throwing light upon the financial transactions of the Company we called before us all its officers and all others who, in our opinion, could give us information.

Little Information.

"Mr. Ernest Hutchinson, the first President of the Company, was called before us. He joined the Company from a patriotic desire to see the coal mines of Queens County developed, later on in 1902 becoming dissatisfied with the way the business of the Company was being transacted he resigned, never having had any knowledge of the details of the business; Mr. Charles M. Allen, at one time Vice-President, and at another time acting as Solicitor for the Company, and at another time one of the managing committee, could tell us practically nothing about its affairs. Mr. William Kitchen, at one time a Director, was in the same position. Hon. L. J. Tweedie, who, being Provincial Secretary, was an ex-officio Director of the Company, claimed to know nothing about its financial transactions except what happened in Council, having left these matters to

remarkable that the Deputy Receiver General in charge of the Department's office at Fredericton had never seen these bonds and was never given an opportunity to register same, or keep a record of a matter of such grave importance, inasmuch as the credit of the Province was pledged for the principal and interest of the large sum of \$450,000. Indeed these bonds are now in fact a direct liability of the Province. Later on during the investigation we secured much of the desired information from Mr. Shaubolt, manager of The Royal Trust Company of St. John, who had a very clear record of the matter.

"As the bonds were dated July 1st, 1903, it will be seen that three coupons on each bond, covering a year and a half, until December 31st, 1904, being a year and a half interest on \$450,000 bonds at 4 per cent. (amounting to \$27,000) had previously accrued. Apparently the interest of these three first coupons had never been cashed and we could not find out what disposition was made of them. They should have been cashed off by Mr. McAvity and cancelled, and record kept of the same. There is no guarantee that at some time in the future some of these coupons may not be presented for payment by holders for value.

"Proceeding to locate, if possible, the account books (if any) of the company we called Mr. J. J. F. Winslow, who stated he succeeded the late Mr. George W. Allen as Secretary in 1904, having previously assisted Mr. Allen. He had kept no minutes of Directors' meetings as there had been none after his appointment, so far as he knew. He produced a book in which the last record of the Directors' meeting was held in St. John on the 11th, 1902, and he also produced the ledger before referred to in this report.

"We could not find a treasurer for the company who had ever been elected. We noted by the minute book that the late Mr. E. Byron Winslow was elected treasurer in May, 1901, but there is no record whatever of his having undertaken to discharge the duties of the office, and beyond the fact that he acted as chairman at one or two meetings held shortly after the Company was organized, there is nothing to show that he had any connection with the Company beyond signing some negotiable paper for the Company.

The Banking Transactions.

"We then called the managers of the People's Bank of New Brunswick, the Bank of Montreal and Bank of British North America. The first transaction recorded was at the People's Bank of New Brunswick on November 22nd, 1901, when a discount account was opened and many notes of the New Brunswick Coal & Railway Company were thereafter discounted from time to time, endorsed by Hon. F. P. Thompson and W. T. Whitehead, and secured by the sub-

sidies and later on by the government guarantee to deposit bonds and finally by the bonds themselves. By January, 1904, these notes accumulated to the sum of \$169,314.91, and were represented by a demand note which was charged up to a loan account. Interest charges to October 14th, 1905, brought the total up to \$176,611.53.

"According to Mr. Spurden, manager of the People's Bank at the time the larger part of this money was paid to Jas. Barnes and the James Barnes Construction Company, and according to Mr. Winslow, some amounts were deposited by Geo. W. Allen, secretary, to his private account in the Bank of Montreal and disbursements made by his private cheques. On inquiry at the Bank of Montreal it was found these cheques had been given up and no trace of them could be found.

Important Facts.

"In connection with the above account we here note some facts which call for special attention: "In December, 1901, an agreement was made between the People's Bank and the Company, by which the Bank agreed to advance to James Barnes, from time to time, according to progress, estimates per the Company's engineer, and apparently at this early stage of the Company's career, the only money spending on the part of the Company was being done by Jas. Barnes on the fifteen mile section. "Turning to the liability account of the People's Bank (which is simply a record of notes discounted), we find that from November 22nd, 1901, to December 31st, 1902, the Bank discounted the Company's notes to the extent of \$112,644.74. Then referring to the James Barnes account in the ledger produced by Mr. Winslow, we find that he received during that time on progress estimates only \$23,041.11, being \$39,603.63 less than the total moneys advanced by the Bank. This difference is pretty well accounted for by three notes: First, one for \$1,250, discounted January 22nd, 1902, marked on account 'A. G. B.' of the proceeds of which there was no trace; the second being the fifth note discounted by the Bank on February 5th, 1902, amounting to \$25,000, marked on account 'Evans', and third by a note for \$10,000, dated on November 19th, 1902, marked 'F. P. T.' As to the latter we could not trace what became of the proceeds, but in the case of the \$25,000 note (discounted February 5th, 1902) above mentioned we found that the proceeds thereof were placed to the credit of the Company, thus opening the only really checkable current account ever kept by the Company with the People's Bank.

The Mystery of the Cheques.

"This account was checked out in seven amounts and closed March 8th, 1902. It shows to whom the cheques

were made payable, but these cheques were handed to J. J. F. Winslow by the Bank on January 10th, 1904, and Mr. Winslow could not find them, so he stated. Four cheques amounting to \$5,262.68 were made payable to Geo. W. Allen, and we could find no trace of what became of the money. Two cheques dated February 8th, 1902, of \$4,000 and \$15,000 respectively were drawn payable to E. G. Evans. Turning to the account of Messrs. Evans & Elkins in the ledger produced by the former in St. John, which he swore contained an accurate account of all moneys received by Evans & Elkins on account of the sale of the road to the New Brunswick Coal and Railway Company, we found that the credits in February only \$9,500 received. As to what became of the difference, \$9,500, he could not account for it or explain it.

Besides the above described accounts kept at the People's Bank, Fredericton, later on there was running in that Bank three notes, a memorandum of which was given to the Deputy Receiver General by the Bank, October 14th, 1905, as follows: Notes N. B. Coal and Railway Co. favor James Barnes \$11,510.40 Favor James Barnes 7,140.69 Favor A. G. Blair, Jr. 934.96

Interest

\$19,686.00 12.73

\$19,878.78

"The notes were signed for the Coal and Railway Company by George McAvity, President and J. J. F. Winslow, Secretary. Mr. McAvity's cash book contained no entry or reference to the above transactions, although it was supposed to furnish a complete record of his connection and dealings on behalf of the Company.

"We assume the notes payable to Barnes were on account of the Barnes Construction Company, although the Company's ledger before mentioned does not show it, as the posting of that book did not extend past July, 1904.

The note to A. G. Blair, Jr., possibly was on account of the sum of \$2,500 voted him by resolution of the Board of Directors referred to elsewhere. The notes were dated respectively May 8th, 1905, May 17th, 1905, and May 25th, 1905, and drawn at three months, \$192.73 from being past due interest. The total amount of \$19,878.78 was paid through the Receiver General September 14th, 1905, being included in the cheque given the People's Bank on that date of \$43,419.11.

Some Other Transactions.

"Concurrent with the above descriptions at the People's Bank, there was deposited with the Bank of Montreal, Fredericton, in April, 1902, \$70,000, 3 per cent. Bonds guaranteed by the Province (replaced August 5th, 1903, by new issue at 4 per cent.) Advances had been made on notes of the Company against securi-

ty of these bonds to the extent of about \$60,000, but the manager of the Bank of Montreal could not show any light as to who had received the money when the notes were discounted as the Company kept no current account with his Bank. He stated that discount slips had been signed and cash drawn as the notes were negotiated. In March, 1905, the total loan amounting to \$60,000 was paid off out of the proceeds of sale of Bonds to Messrs. J. M. Robinson & Sons.

"We also found that a call loan had been made from the Bank of British North America, Fredericton, of \$18,000, April 14th, 1903, against the security of \$20,000 guaranteed 3 per cent. bonds.

Proceeds of loan were drawn out in two cheques, \$16,481.70 and \$1,518.30. As the cheques were not available we had no means of tracing this money. This loan was also paid off when the sale of bonds was made to Robinson and Sons, March, 1905.

"After Mr. Hutchinson retired from the presidency in 1902—early in 1903—perhaps earlier, it would seem that difficulty was experienced at Fredericton in procuring further loans and financial operations were therefore continued, in the main, in St. John. It is in evidence that there was no president from the date of Mr. Hutchinson's retirement in 1902 until Mr. McAvity was appointed June 30th, 1904.

"It may be noted that while at Fredericton the secretary, Mr. George W. Allen, seemed to handle the funds, and when Mr. McAvity became president he assumed that duty, and Mr. J. J. F. Winslow, who succeeded Mr. Allen, remained in Fredericton, being given practically nothing to do in connection with the company's affairs. During the interim between the presidency of Mr. Hutchinson and that of Mr. McAvity, so far as we can discover, the company's affairs were managed by Mr. Pugsley, Mr. Trauman, Mr. McAvity and to some extent by Mr. Skinner. Previous and during this period, too, all the subsidies voted had been used up, about \$400,000 of the guarantee bonds as well, and when Mr. McAvity took charge on June 30th, 1904, old bills for a large sum remained unpaid, and the government was called upon to forth direct advances to keep things moving."

The most interesting part of the story remains untold; and, on another occasion, we will tell what the commissioners found by an examination of the various banks in St. John, where accounts of the company had been kept.

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