

1. That the moneys were to be invested in or loaned upon such securities as the trust company should deem safe and advantageous, to be taken in the name of the trust company, but to be held by the trust company as trustee for the depositor.

Pay on Demand.

2. That the trust company should guarantee the repayment of the above mentioned sums upon demand, or upon fifteen days' notice at the option of the trust company, together with interest on the said sums at the rate of 4 per cent. per annum, etc.

It should be stated that there was earmarked by memorandum in the books of the company a sufficient amount of securities to cover the balance of deposits and uninvested trust funds in the hands of the company. In this earmarking, however, the specific securities supposed to be earmarked were not mentioned. In fact when the company's liabilities became pressing some of the securities supposedly earmarked on the books for the deposits and uninvested trust funds, were hypothecated to the Royal Bank for advances. As I am advised by my solicitors that it is very doubtful whether this earmarking will stand, I have disregarded it altogether.

Cannot Pay Depositors.

Under their Dominion charter the company were obliged to submit annually to the minister of finance, a statement setting forth the assets and liabilities of the company and the trust property held by it, made up to December 31st, in each year. Under the Trust Companies Regulation Act of British Columbia, 1911, the company had to forward to the minister of finance quarterly a report setting out all the assets and liabilities of the company and other statements giving details of certain of the items. Both the Dominion and the British Columbia Provincial Governments were therefore aware that this company was carrying a large amount of deposits.

The government has made a formal demand upon me as provisional liquidator to pay off the depositors, which, of course, it is impossible for me to do, and they are therefore calling upon the bonding company to pay them the sum of \$200,000, the amount of the bond. I am informed that the bonding company disputes the liability, and there will possibly be a long drawn out lawsuit, probably going to the Privy Council. I have interviewed the premier and attorney-general of British Columbia, and have tried to make them see the situation in the same light as I do, namely, that as the Dominion and British Columbia Governments knew that deposits should never have been taken, and as they were aware this was being violated, I think they should reimburse all depositors with the exception of the directors of the company. If the government do not do this, the question will arise as to whether the deposits taken on and after January 1st, 1913, will have any standing at all.

Highly Speculative Assets.

Passing now to the second cause of the liquidation, the investment by the company in highly speculative assets and in the shares and bonds of highly speculative companies, I would mention the following accounts, and the interest of the company in each:

	Approximate Interest.
British Canadian Securities, Limited	\$1,231,704.72
Western Canada City Properties, Limited	339,232.34
Alvo von Alvensleben, Limited	528,483.19
Syndicate No. 8, W. R. Arnold	392,664.35
Central Okanagan Lands, Limited; Columbia Valley Orchards, Limited; Seymour Arm Estates, Limited	870,959.56
Vancouver Industrial Sites, Limited	46,719.59
Grand total	\$3,409,763.75

In addition to the above amounts, there are large contingent liabilities, for example, Alvo von Alvensleben, \$514,421.68.

Loans Should Not Have Been Made.

In my opinion, not one of the above loans or advances were such as should have been made by a trust company. In addition to these advances, many of the above companies also received substantial advances from the British Columbia Securities, Limited. All of the accounts had small beginnings, but further advances were required from time to

time to protect the company's security, and at the present time the finances of nearly all of these companies are in a very bad shape. The advances to the British Columbia Securities are made up as follows:

Stock which is now valueless (being all the shares of the company except 17 shares held by the directors)	\$ 248,300.00
Debentures, security for which, in my opinion, is valueless, and for which the company will rank as ordinary creditors in the liquidation of the British Columbia Securities, Limited.	640,000.00
Advances for which no security is held	343,404.72
	\$1,231,704.72

Rank as Ordinary Creditors.

The company will rank as ordinary creditors for the debentures and advances, amounting to \$983,404.72, which may only pay between ten to twenty cents on the dollar. Many of the other companies are in bad financial condition, and will require careful handling if the company's security is to be protected. Under present conditions it is impossible to realize anything from such securities, and while they may be of some value ultimately, I have put no value on them in the statement now submitted.

As many of these securities have only what I term "think equities," their value depends largely on whether the first charges can be protected, and there will also arise the question in a great many cases whether, even if they can be protected, it would be wise for the liquidator to do so. To give one example, the company owns a property where there is a first mortgage of \$50,000 on the whole of it.

Money Sent, But Mortgage Unpaid.

A client sent to the company \$50,000 to place on first mortgage, which sum was placed on this property, but the first mortgage was not paid off. The client has, therefore, a second mortgage of \$50,000, making a total of \$100,000 prior claims against part of this property. The company have also started to erect upon part of this property a building which now is only partly finished, and upon which there are mechanics' liens of about \$7,000. It requires about \$13,000 to finish the building, yet this property was carried on the company's books as an asset of \$30,000. It is very doubtful, in my opinion, whether the company have any asset at all in this property.

No Separate Trust Account.

The third cause of liquidation stated above was the absence of a separate trust account for trust moneys in the hands of the company which were uninvested. At the date of the death of the late managing director there were in the hands of the company uninvested trust funds and clients' and agency moneys amounting to over \$1,000,000. This figure does not include deposits, which, at that date, also amounted to over \$900,000. In this connection it is noteworthy that the first item of business at meetings of the advisory committee of directors always was the receipt of a report by the secretary showing the bank balances.

No mention is made in the minutes, however, of the balance of uninvested trust funds on hand. It is, therefore, evident that trust and clients' funds were used for the purposes of the company, and I think it is safe to state that in recent years these moneys were used to keep the subsidiary and allied companies alive. It is impossible to go very fully into this phase of the situation with the incomplete information which I have at hand, but this feature will be fully brought out in the final report of the auditors.

Misappropriation of Funds.

The fourth cause of the present position was stated to be the misappropriation of trust funds and securities and the inability of the company to hand over trust funds when demanded. In addition to the trust funds mentioned above as uninvested, the company has made a large number of investments on behalf of clients which are contrary to their specific instructions. In the event of loss the company will be responsible and I expect claims against the company arising in this way will amount to a considerable figure. The company have also disregarded the fact that securities were earmarked or held in trust and have either hypothecated or sold them to other parties. This is a feature than cannot be fully discussed until the auditors have completed their investi-