

004303

COPY

Office of

Superintendent of Brokers

Victoria, B.C., Sept. 27th, 1935.

"SECURITIES ACT"

PROPERTY FILE

MEMORANDUM TO THE HONOURABLE THE ATTORNEY-GENERAL.

Re: Whitewater Mines Limited (N.P.L.)

This Company shut down operations in 1930, and when it made an application under the "Securities Act" last April I came to the conclusion, after study of the material, that the key to the situation was whether or not operations could be resumed on a profitable basis.

The Company was and is in a serious position since its liabilities include an amount of over \$155,000. due on certain notes which are now held by a bank. It would appear that the bank is requiring some liquidation of the notes, and that pressure would ultimately result in action against the Company, involving, no doubt, sale of its assets and entire loss to the shareholders. The holders of the notes are Miller Court and Company Limited \$72,000.00, W.H. Burgess (Managing-Director of the Company) \$24,000.00, and General J.W. Stewart \$21,000.00, the balance being made up of interest,\$38,000.00. It is assumed that full value was given for these notes.

The Company has already issued a considerable capital, namely 84,000 preference shares and 1,440,000 common shares, and it may be recalled that Miller Court and Company Limited were the underwriters and sponsors of the Company's shares in the boom which terminated in 1929. There is little doubt that that firm made considerable profit out of the sale of, and trading in, these shares. There was tremendous activity on the Exchange, and I think the shares at one time reached \$3.00.

The Attorney-General.

Sept. 27th, 1935

In order that the bank can be satisfied and the Company make a fresh start, the new scheme provided for an increase in capital by 1,000,000 shares - all of which were to be given to the three note holders in complete discharge of their claims, and the balance of 425,000 shares were to be sold at about 10 cents net to the Company. It was pointed out that the note holders were in effect taking shares at 16 cents. Today the market price is 5 cents to 6 cents.

It seemed to me that it would be futile for the Company and unfair to the public if the Company should reopen its property merely to conduct operations at a loss. A certain amount of activity on the Exchange would be inevitable and the public might be induced by reports that the Company was again operating to buy shares. I might draw your attention to the statement at the foot of the second page of Mr. Burgess' letter attached which intimates that the note holders would obtain a refund of their advances by selling their 1,000,000 shares. In other words these note holders, although selling shares or connected with the Company from its very inception are apparently not interested in it as an investment.

I asked for reports on the property but was unable to obtain anything later than a report by R. H. Stewart made in 1923, and by Arthur Lakes in 1928. I asked Dr. Walker, the Provincial Mineralogist, for his opinion and he pointed out that in the Department's report of 1930 there is a statement by Mr. O'Grady (The Resident Mining Engineer) of an examination made by him in that year. Dr. Walker says "the results of this examination were disappointing when compared to the large tonnage estimates of good grade ore that had previously been made. Only a relatively small tonnage of spathic iron and low grade zinc blende mineralization is indicated between the 1,100 and 1,400 foot levels." Mr. Burgess in some letter states that Mr. O'Grady did not see the whole mine, but as I have said, cannot produce any later report showing exactly what the blocked-out ore probably consists of, or what its prospects are. A portion of the property which Dr. Walker says is the higher grade has been leased for several years to one Ross, and a new lease for two years was made this year. Ross merely says that there is sufficient ore to keep the mill going at the rate of 200 tons a day; but that, according to Dr. Walker, would merely be low-grade material, and it seems to me at present prices could not possibly be profitable.

The Attorney-General.

Sept. 27th, 1935.

On June 13th I said to the Company's solicitor "with presumably experienced mining men on the Board the directors have fully canvassed the whole situation and satisfied themselves that a profit can be made". I have had nothing as evidence of that except generalities to the effect that the directors are confident, etc.

Referring again to Mr. Burgess' letter he merely intimates that the Company should "be getting ready to operate because there are prospects that the prices of lead and zinc will advance higher". Once the mill is in operation it would seem that work could be resumed at any time if prices warranted it.

I did not feel that an absolute refusal of the application should be made, but that if it was bona fide the shares to be issued to the note holders should not be marketable unless the Company could establish successful commercial production. I have therefore suggested an escrow of the 1,000,000 shares, and Dr. Walker also thought that advisable. Later I modified that requirement and agreed to certain releases as set out in Mr. Burgess' letter. I feel that if this is a real business proposition there should not be any opportunity to turn it into a stock exchange operation.

I might add that I have not heard from the Company's solicitor since July 23rd. I return the Premier's memorandum to yourself and his enclosure.

HGG/MH
Enc...

"H. G. GARRETT"

Superintendent of Brokers.