CANADIAN PACIFIC RAILWAY COMPANY

REPORT OF PROCEEDINGS

AT THE

ANNUAL MEETING OF SHAREHOLDERS

MAY 4, 1932

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REPORT

OF THE PROCEEDINGS AT THE FIFTY-FIRST ANNUAL MEETING OF THE SHAREHOLDERS HELD AT MONTREAL ON WEDNESDAY, MAY 4, 1932

The meeting assembled, in conformity with the notice convening the same, at noon, at the General Offices of the Company at Montreal.

The Chairman of the Company, Mr. E. W. Beatty, presided and the Secretary of the Company acted as Secretary of the meeting.

The notice calling the meeting having been read by the Secretary, the President, Mr. E. W. Beatty, in moving the adoption of the report on the affairs of the Company for the year ended December 31, 1931, which had been printed and distributed to the shareholders, said:—

While the Annual Report outlines in considerable detail the principal factors influencing the operations of the Company during the past year, it is perhaps desirable that I should review the situation in order that the shareholders may have a full appreciation of the extraordinarily difficult period through which your Company, in common with other transportation companies, is passing.

The year 1931 was a year of phenomenal contraction in the earnings of your rail system and practically every subsidiary enterprise. The Directors and officers of the Company, naturally, directed their efforts to a continuous attempt to effect economies which would in a measure offset the unprecedented fall in gross earnings.

As has been stated on several occasions, your property in years of prosperity was equipped and maintained so that, if a period of depression came, it would be in a position to withstand a siege, even if protracted. The wisdom of this policy has been demonstrated within the past thirty months, during which the world has been visited by an economic storm of unparalleled violence. As early as the summer of 1929 your officers, foreseeing the possible contraction of business, proceeded to husband your resources. A policy of strict economy was put into practice, and capital expenditures were confined to works of absolute necessity and to the completion of undertakings to which the Company was already committed. Notwithstanding the drastic measures of economy adopted the condition of the property is unimpaired, and the service is on a standard worthy of the Company's reputation built up with painstaking care during the past half-century.

In the process of post-war readjustment, certain uncontrollable increases in the cost of labour and of materials were imposed on railway companies. The proper relation between income and outgo could only be preserved either by a substantial increase in rates of carriage or by the introduction of major economies. A sufficient increase in rates was found to be unattainable, and your Directors and officers therefore found it necessary to give their attention to the alternative. The most effective way of economizing in operating expenses was by providing means for moving the largest possible tonnage of traffic with the fewest possible train miles and car miles. With your approval, your Directors therefore authorized large expenditures for the purchase of locomotives of higher power, and cars of greater capacity.

To admit of the operation of these new units, it was necessary to strengthen or replace many of the older bridges and structures, to lengthen sidings and yard tracks, to enlarge engine houses, to replace gravel ballast with crushed rock on a number of the principal lines, and to increase the weight of the rails in use over a considerable mileage. The most difficult and important work on this list was the strengthening of bridges, and this was steadily proceeded with over a period of years, until now the bridges on every important line of the System have been raised to the standard known as the "Cooper E 60" rating. A bridge of this description is designed to carry two locomotives double-heading, each having four pairs of driving wheels spaced at five feet centres and each driving axle carrying 60,000 pounds; these engines being followed by a train weighing 6,000 pounds per lineal foot. The capital expenditures for new locomotives and new cars of large capacity since 1919 was $72,582,000, and the amount expended on the other improvements to which reference has been made was $42,789,000.

As a result of the work to which I have referred, operating efficiency has been increased very materially. Larger trains are now being hauled, the number of gross tons moved per train mile growing from 1,264 in 1919 to 1,407 in 1931, an increase of 11.3%. There has been a sustained saving in fuel from year to year; in 1919 the fuel consumption per 1,000 gross ton miles was 153 pounds while in 1931 it was 114 pounds, a saving of 25.5%. In addition, the average speed of freight trains has steadily increased, and overtime and delays have been reduced. Train crew overtime per 1,000 freight train miles has been reduced from 17.3 hours in 1919 to 4.3 hours in 1931.

Principally on account of this increased efficiency, the direct freight train cost, consisting of enginemen's and trainmen's wages and miscellaneous train supplies, which in 1919 was 74.6c. for hauling 1,000 gross tons one mile, and which had increased in 1920 to a high figure of 91.2c., was reduced in 1931 to 54.7c., a decrease of 27% from 1919 and 40% from 1920. The total savings effected cannot readily be reduced to exact figures as they run through all the operating accounts, but they were most satisfactory.

Notwithstanding the stringent economies effected during the last two years, your equipment is still being maintained at a high standard. At the end of 1931, 93% of your freight cars were in serviceable condition, as compared with the average of 91% for Class 1 Roads in the United States; and 85% of your locomotives were in serviceable condition, as compared with 78% for Class 1 Roads in the United States.

It will be within your knowledge that the mileage freight rates on grain, the principal product handled on your Western Lines, are substantially less than those which United States railroads are permitted to charge. Over corresponding distances the rates charged in the United States range from 30% to 100% greater than those charged in Canada. Climatic conditions, which have a material bearing on operating costs, are more severe in Canada than south of the line. Wage scales in this country are relative to those of the United States; fuel costs are higher, and traffic density of Class 1 Railways in the United States is about 84% greater than that of your Company. It is a tribute to the operating efficiency and to the financial policies of your Company that the operating ratio reveals that these handicaps have been overcome.

The extraordinary decline of $67,393,000 in gross earnings since 1929 was offset by a reduction in operating expenses of $49,931,000, with the result that the operating ratio has only increased from 79.43% in 1929 to 81.96% in 1931. The Company in 1931 earned its fixed charges, its preference dividend and 63c. per share on its ordinary stock. Working Assets at the close of the year were $63,879,835 and Current Liabilities $14,090,869, an excess of $49,788,966, or a ratio of 4.5 times. The anticipated capital expenditures of approximately $4,000,000 for the year are materially less than those of previous years.

The Company's balance sheet shows the following principal changes from 1930: On the Assets side, the increase in railway rolling stock, lake and river steamers and hotels amounts to $30,694,072, made up of branch line construction, additions and improvements to main and branch lines, expenditures on leased and acquired lines and on rolling stock equipment. Your investment in ocean and coastal steamships increased by $2,262,730, representing mainly the final payment on the "Empress of Britain" of $2,194,836. Acquired securities increased $12,191,916. Of this amount $5,512,000 is due to the capitalization of advances made to Controlled Properties. Advances to Controlled Properties decreased $12,162,255 due to the capitalization of advances above stated, and the transfer to property investment of amounts advanced in excess of securities issued. Assets in lands and properties decreased $3,462,797, due mainly to our practice of writing down the value of unsold lands. Materials and supplies on hand decreased $3,962,710. Traffic balances decreased $1,521,094, largely due to the adjustment made in the Canadian Pacific Express Accounts by the writing off of outstanding balances accrued against that company. Cash in hand decreased $14,806,748.

On the Liabilities side, your capital stock increased $7,903,333, due to the issue of £1,625,000 preferred stock mentioned in the Annual Report. Equipment obligations increased $3,875,663, and Current Liabilities decreased $1,492,942. Reserves and Appropriations in the aggregate decreased $1,822,617, and the account "Premium on Capital Stock Sold" decreased $2,011,997, due principally to charging it with the discount on Preference Stock issued in the year. Net proceeds of lands and townsites decreased $4,108,795, due to excess of cancellations and expenses over sales and interest, expenses of the Department of Colonization and Development and interest on outstanding note certificates. The surplus revenue from operation decreased $19,242,978, and surplus in other assets increased $1,101,042.

The earnings and expenses during the first quarter of the year 1932 indicate that the reduction in gross earnings has not been substantially checked, though the percentage decreases for the months of February and March are less than for the month of January. Gross earnings during the three months decreased $6,508,000, and the economies effected throughout the system resulted in a decrease in working expenses of $6,060,000, leaving a moderate decrease in net earnings for the quarter of $448,000, or, in other words, the decrease in expenses has absorbed 93.1% of the decrease in gross earnings. Of the decrease in gross earnings approximately $1,000,000, or 17%, was due to lesser movement of grain.

The operations of your steamships have, of course, been seriously affected, due to decreased travel and interchange of commodities between Great Britain and Canada and between Canada and the Orient. The situation has not been made easier by the national character of the competition which has developed since the War, many lines having been assisted by Governments and States in the construction and operation of vessels. Notwithstanding this help, steamship companies, as a whole, have not been able to show anything like adequate earnings. Apart from moderate amounts received by way of compensation for the carriage of mails, your Company has not had any Government assistance in carrying on its very important service to and from Canadian ports. In reviewing the past ten years, your Directors are satisfied that the Company's practice of substituting modern for obsolete tonnage was absolutely sound, even though in recent years the earnings have not been satisfactory. Both travel and trade inevitably go to the newer and faster vessels, and your well-balanced fleet has been able to retain its full share of the traffic, a substantial portion of which would otherwise have been diverted elsewhere, with consequent heavy losses to your rail as well as your steamship lines.

At the end of 1931, your Company's investment in the Consolidated Mining & Smelting Company of Canada was represented by a holding of 291,034 shares of capital stock, or 51.64% of the shares outstanding. The total cost of your investment in the Consolidated Company was $15,228,394, and the total cash received on the investment as interest and dividends to the end of 1931 was $21,215,612, and in addition that company contributed by way of freight earnings during the last ten years an average of over $3,400,000 per year. The industry is the largest in British Columbia and its prosperity is a matter of vital importance to that Province, particularly the southern portion. Your investment in the Consolidated Company has been most fortunate, and has had valuable direct and indirect consequences to your Company's operations. A moderate strengthening in metal prices will restore the earning power of the Consolidated Company, and its manufacture of fertilizer promises to be a definite success.

A brief statement as to the sources of our revenues and the disposition made of them in 1931 may be of interest.

The Company's rail revenues were derived in the following percentages. From products of agriculture 21.62%; from manufacturing and miscellaneous commodities 22.64%; from passengers 15.92%; from products of mines 9.59%; from products of forests 5.50%; from products of animals 3.77%; from merchandise 4.36%; from special income 7.15%; from mail and express 4.45%; and from various small miscellaneous items 5%. Freight therefore contributed 67.48% and passenger, mail and express 20.37%.

In the disbursement of these revenues, working expenses of the railway take 76.10% of the revenue divided as follows: Transportation, including sleeping, dining and parlor cars 38.02%; maintenance of way and structures 13.8%; maintenance of equipment 12.83%; traffic, general expenses and taxes 10.92%. Fixed charges account for 14.38%, and dividends exclusive of that paid from surplus 9.03%. Pensions account for slightly less than one-half of one per cent, and lake and river steamers slightly more than that.

An analysis of expenditures indicates that salaries and wages account for 65.66%, materials and supplies 19.31%; fuel 10.35%; taxes 3.4% and loss and damage, injuries and insurance 1.28%.

An Act of Parliament, the application for which was referred to in the Annual Report, has been passed, authorizing the Company to issue from time to time additional consolidated debenture stock to an amount which, together with the secured obligations of the Company at such time outstanding, shall not exceed one-half of the Company's property investment.

Your Directors are persuaded that this legislation provides the Company with means of financing, at once conservative and flexible, enabling it to obtain new capital on favourable terms at times when conditions are unfavourable to the issue of ordinary or preference stock. Such conditions exist at the present time, and accordingly a resolution will be offered to you to authorize your Directors to issue and dispose of consolidated debenture stock in such amounts and at such times as they shall deem expedient, not exceeding in the aggregate fifty million dollars, for the purpose of defraying in part the capital cost of extensions, additions and improvements of the property of the Company heretofore made, and to be made during the current year.

Your Company has no major transportation enterprise in prosecution or in contemplation, but of necessity its policies will, subject to your approval, be open to revision if any important change in the economic or transportation situation should develop.

It is essential that the Company should at all times have a strong cash position, and that it should have liquid resources available. This consideration has led your Directors to ask your authority to restore to the treasury a portion of the moneys appropriated from surpluses in former years which have not been capitalized in any form.

Shareholders are aware that new forms of competition are seriously encroaching on railway earnings. Canada is developing and improving its waterways, making them available for larger tonnage at no cost to those that use them, thus permitting transport of goods at a cost below that which railways must charge. Private and public automobiles, buses and trucks operating on public highways are increasingly withdrawing traffic from the railways. Speedy transport is also taking place in the air. Wireless communication is rapidly coming into competition with telegraphs. Canada in the past has been peculiarly dependent on steam railways for opening its territory and providing proper communication and transportation facilities between the industrial East and the agricultural West. Obviously their future development and use must have regard to these new conditions. The whole subject is now being considered by the Royal Commission on Transportation, whose Report will be awaited with interest. Meantime, I can assure you that the subject is receiving the serious consideration of the officers of the Canadian National Railways and of your Company.

As I have mentioned on previous occasions, your Company is very intimately concerned with all measures which tend to improve the agricultural and industrial situation of the country and has been, perhaps, the most active and outstanding agency of colonization in Canada. It has always recognized the importance of the general question of settlement of vacant lands in the Dominion because of the national benefit that would thereby accrue, in which your Company would largely share.

From the frequent reports appearing in the press, you are familiar with the success that has thus far attended the efforts of the Colonization Departments of the railways, working in the closest co-operation with the Dominion Department of Immigration and Colonization in respect to "back-to-the-land" activities. A very large number of families and individuals from cities and towns with limited funds have been enabled not only to provide their own subsistence from the land, when previously they were exposed to the hazards of urban unemployment, but were also afforded the opportunities of permanent settlement.

While this particular type of settlement work is being continued, the question has inevitably arisen as to what is to be done about the settlement of suitable experienced families now in Canadian cities and towns who, while desirous of going on the land, are without funds. Many land settlement proposals have been made by provinces and municipalities, chiefly as measures to relieve unemployment. All of these, however, necessarily involve some form of assistance. In connection with these proposals it would seem that the important principle to bear in mind is that a significant proportion of permanent settlement would undoubtedly result. Given the safeguards of proper selection of families with respect to experience, judicious location, and other usual colonization factors, it does appear that there is need and room for some measure of assistance by the authorities referred to. This has been recognized, and you will recall from a recent announcement by the Dominion Government, that it is prepared to join with the provinces and municipalities in providing funds. It is considered desirable that the services and experience of the Department of Immigration and Colonization of your Company should be available in this undertaking, working in co-operation with the Government authorities.

Important as these considerations are, they form only a part of what awaits accomplishment in the necessary effort to improve general conditions now, and the necessity for giving due thought to the future. Canada is still predominantly agricultural. Your Company has always realized the necessity for the influx of capital into the country, and has, therefore, consistently held the view that the immigration of experienced agricultural families who have sufficient means to establish themselves on the land should be welcomed at all times.

With the prevailing prices of land, low cost of equipment and livestock, it is not difficult to appreciate the arguments of those who consider that every effort should be made to encourage the settlement of agricultural families of suitable type who will be a benefit to the country because of the capital and experience they bring with them, providing employment for others, and adding to the home market. In the "back-to-the-land" movement the country benefits because people are "helped to help themselves," the new capital and the energy of the agricultural settler providing an important stimulus and benefit to the Dominion both now and in the future.

Reliable statistics indicate that there are approximately thirty million acres of land still available for settlement in the Prairie Provinces, within a radius of fifteen miles of existing railway lines. Potential freight revenue from the settlement and productive use of vacant lands tributary to the railway is of vital interest to the Company. Present difficulties should not dull the memory of what has been accomplished in the past through well-directed colonization efforts, or obscure the view of what is necessary for the future.

I am glad to be able to say to you that all reports we receive indicate that the crop prospects in Western Canada are better at this season than at the same time in any of the last three years. A wheat crop of from four to five hundred million bushels, which it seems now might reasonably be anticipated, would be of incalculable benefit to the country as a whole, and to your Company.

There is also reason to hope that substantial benefit will accrue from the forthcoming Imperial Economic Conference. I have always held the view that the Dominions and the Motherland have it within their power to effect a marked improvement in Empire trade. It is to be hoped that wise counsel will prevail and much good result from the deliberations about to take place.

The Report was unanimously adopted upon the following resolution which was moved by Mr. E. W. Beatty and seconded by Sir Herbert S. Holt, viz.:—

Resolved—That the report on the affairs of the Company for the year ended December 31, 1931, now submitted, be and the same is hereby adopted and that the expenditures on capital account reported and recommended therein be and the same are hereby approved and authorized.

The following resolution respecting an agreement for the joint use of facilities at Saint John, New Brunswick, was submitted, and, on motion of Mr. W. B. Blackader, seconded by Mr. Henri Jonas, was unanimously adopted, viz.:—

Resolved—That the agreement dated as of January 1, 1927, between His Majesty the King in the right of the Dominion of Canada and the Company, now submitted to this meeting, whereby the Company has been granted the joint use and enjoyment of the passenger station and passenger facilities of the Crown at Saint John, New Brunswick, on the basis of paying one-half the interest charge on capital account and a wheelage proportion of maintenance and operation expenses, be and the same is hereby approved and ratified.

The following resolution relating to an agreement between the Canadian Pacific Railway Company, the Canadian Pacific Steamships, Limited, and the Canadian National Railway Company was submitted, and, on motion of Sir Thomas Tait, seconded by Mr. George B. Fraser, was unanimously adopted, viz.:—

Resolved—That the agreement, dated October 21, 1931, between this Company, the Canadian Pacific Steamships, Limited, and the Canadian National Railway Company, now submitted to this meeting, which agreement provides among other things that the Canadian National Company will act as Agent for Canadian Pacific Steamships, Limited, for the sale of passenger tickets and the booking of passenger, freight and express traffic to and from Canadian Atlantic ports and use its best endeavours and influence directly and through its Agencies to secure for Canadian Pacific ships a fair share with other steamship lines (having due regard to the relative standard and volume of services available) of such traffic including immigrant business, with an arrangement for the equal division between the two railway companies of the gross rail earnings from all unrouted westbound freight traffic unloaded from Canadian Pacific ships, destined to competitive points on the lines of the Canadian National and the Canadian Pacific or their connections, and for an equal division of the gross paid fares from all westbound passengers landed at Canadian Atlantic ports and at Portland, Maine, from the ships of the Canadian Pacific or of any other Company and travelling on colonist or immigrant class rail tickets beyond the port of disembarkation destined to points in Canada, and that Canadian Pacific passenger ships sailing to and from Saint John will call at Halifax on both westbound and eastbound voyages and freight ships sailing from Saint John will call at Halifax on eastbound voyages; the agreement to remain in effect for ten years and thereafter from year to year subject to cancellation on six months' notice; be and the same is hereby approved and ratified.

The following resolution authorizing the issue of Consolidated Debenture Stock was submitted and, on motion of Mr. William C. Finley, seconded by Mr. George Hogg, was unanimously adopted, viz.:—

Whereas by an Act of the Parliament of Canada, assented to on the third day of May, 1932, the Company may, in addition to the Consolidated Debenture Stock which it may issue under the authority of any previous Act, being first authorized so to do by the votes of at least two-thirds of the shareholders present or represented at an annual meeting, or at a special general meeting duly called for the purpose, issue from time to time Consolidated Debenture Stock to an amount which, together with the secured obligations of the Company at such time outstanding, shall not exceed one-half of the Company's property investment as shown by the last balance sheet; and

Whereas one-half of the Company's property investment as shown by the last balance sheet exceeds the secured obligations of the Company outstanding at this time by the amount of $140,025,-265.

Now therefore it is resolved that the Directors be and they are hereby authorized to issue and dispose of Consolidated Debenture Stock bearing interest at the rate of four per cent. per annum, in such amounts and at such times as they shall deem expedient, but not exceeding in the aggregate the amount of $50,000,000, for the purpose of defraying in part the capital cost of extensions, additions and improvements of the property of the Company heretofore made, and to be made during the current year.

The meeting then proceeded to the election of Directors and, on motion of Mr. E. W. Beatty, seconded by Hon. Frederick L. Beique, K.C., the following resolution was unanimously adopted, viz.:—

Whereas, in pursuance of By-law No. 6, Mr. Grant Hall, Mr. R. S. McLaughlin, Mr. E. R. Peacock and Mr. W. N. Tilley, K.C., Directors of the Company, retire from office at this meeting and the vacancy caused by the death of Sir Vincent Meredith requires to be filled at this meeting;

And Whereas five Directors, four to replace the said retiring Directors (who are, however, eligible for re-election) and one to fill the said vacancy, must be elected at this meeting for the term of four years as provided for in the said By-law;

It is resolved that a ballot be now taken for the election of five Directors for the term of four years to fill the vacancies created as above stated; that Lt.-Col. Wm. A. Grant and Mr. Wm. C. Finley be appointed scrutineers to take such ballot, and that the poll be closed when five minutes shall have elapsed without a vote being cast at such election.

The ballot having been taken and no further votes having been cast within the specified time, Lt.-Col. William A. Grant read the report of the Scrutineers, which declared that by a unanimous vote, Mr. Grant Hall, Mr. R. S. McLaughlin, Mr. E. R. Peacock, Mr.

W. N. Tilley, K.C., and Mr. John W. Hobbs were elected Directors for the term of four years, and the report was adopted.

The proceedings then terminated.

Chairman.

E. Alexander

Secretary.

At a meeting of the Board held immediately after the Shareholders' meeting Mr. E. W. Beatty was re-elected Chairman and President of the Company, and Mr. Grant Hall, Vice-President, and the following were appointed the Executive Committee:—

Mr. E. W. Beatty,
Mr. Grant Hall,
Sir Herbert S. Holt,
Mr. W. N. Tilley, K.C.
Hon. F. L. Beique, K.C.,
Sir Charles Gordon, G.B.E.