CANADIAN PACIFIC RAILWAY COMPANY

REPORT OF PROCEEDINGS

AT THE

ANNUAL MEETING OF SHAREHOLDERS

MAY 6, 1936

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REPORT

OF THE PROCEEDINGS AT THE FIFTY-FIFTH ANNUAL MEETING OF THE SHAREHOLDERS HELD AT MONTREAL ON WEDNESDAY, MAY 6, 1936

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, Sir Edward Beatty, G.B.E., 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, Sir Edward Beatty, G.B.E., in moving the adoption of the report on the affairs of the Company for the year ended December 31, 1935, which had been printed and distributed to the shareholders, said:—

Before proceeding with the business on the agenda, it is fitting that reference should be made to one of the most important events in world affairs since your last meeting—I refer to the death of His late Majesty King George V.

How secure in history is the place of this great man, this modest gentleman, this devoted servant of his Empire and father of his people, it is not necessary for anyone to proclaim. The fact was demonstrated clearly by the wave of sorrow, of admiration, and of genuine human sympathy for his beloved widow and family which passed over all the civilized world, and which was manifested in touching tributes from all peoples and, most especially, from our great neighbour on this Continent.

The stable institutions of our Empire have provided for the automatic succession to the Throne of his son, our present Sovereign, His Majesty King Edward VIII. His Majesty is more familiar with all parts of his world-wide Empire than any of his predecessors, and it is our great pride in Canada to feel that in peace and war his connections with this Dominion have been particularly close. His many visits to this country, and the personal contacts of thousands of Canadians with him give us a special feeling of affection for the personage who now occupies our ancient Throne, and symbolizes in himself the union of the Empire in which we are proud to claim membership. We take this opportunity of offering to His Majesty the respectful assurance of our steadfast loyalty and devotion.

The results of the Company's operations for the year 1935 have been fully portrayed in the Annual Report, which has been distributed. They reflect a progressive, though disappointingly slow, return to more normal conditions. The general recovery which became apparent during 1934 was scarcely maintained during the first eight months of 1935, but thereafter the advance was resumed, and has continued during the first four months of the current year. The improvement in Canadian business since the beginning of the year will, it is hoped, be followed by more normal production and shipment of grain in the autumn.

The gradual recovery of trade in the country is recorded in the 3.3% increase in the gross earnings of the Company. Working expenses increased by 6.1% and net earnings declined by $1,986,499. As noted in the Annual Report, the increase in working expenses was largely attributable to the extra work undertaken in the main locomotive and car shops, owing to the Company's participation in the Government's programme to provide increased employment, and to the revision of the scale of deductions from basic rates of pay. Apart from these two items, the increase in working expenses amounted to but 2%. The improvement in transportation indices which occurred during the year is recorded in the Report.

It is trite to point out that your Company is dependent on the economic condition of the staple industries tributary to its lines. The increase in gross earnings, which has been referred to, is definitely traceable to improvement in mining and lumbering operations, to the increase in newsprint and petroleum production, and to more active conditions generally in manufacturing centres. The tonnage movement of mining products increased 4.2 per cent., in conformity with the expansion experienced by this industry during the year. The all-time production record achieved by newsprint producers in 1935 was an important contributory factor in the 3.4 per cent. gain in the tonnage of forest products moved over your Company's lines. The general improvement in manufacturing and miscellaneous industries was reflected in a 5.7 per cent. increase in the rail movement of their products.

In striking contrast to these increases, declines were recorded in the movement of livestock and agricultural products which normally form such an important part of the traffic of your Company. The receipts from the movement of agricultural products during the year were only a little in excess of $27,000,000. They were less than in any year since 1914 and less than one-half of the peak figures of 1928—facts which must be emphasized in any accurate appraisal of the Company's position. The principal factor in this decline was diminished revenues from the grain movement. For the third successive year, Western Canada produced a wheat crop of much less than average proportions. The Dominion Bureau of Statistics has officially set the figure at 259,000,000 bushels, which compares with an average of 367,000,000 bushels during the previous ten years. The autumn movement of wheat, while slightly larger than during the previous year, was not sufficient to offset the reduction caused by the small export demand during the first half of the year. Some satisfaction can be derived from the fact that the succession of severe droughts experienced during the last few years in the southern portion of the prairies was interrupted in 1935, even though a widespread epidemic of rust, which developed in midsummer, followed by extensive frosts, had a very damaging and disappointing effect on crops which had shown excellent prospects in the late spring and early summer.

Latest reports from Western Canada indicate favourable soil conditions and, with a continuation of the present active export demand, it is reasonable to hope that the total grain movement will be substantially greater than for some years past. International commerce in wheat is an intricate business, dependent on climatic conditions throughout the world, and inseparably related to the political and fiscal policies of the nations. With every realization of the dangers and difficulties in the way, it is possible to record temperate optimism concerning the outlook. By reason of the smallness of the crops in Canada and other exporting countries, our carry-over of wheat into the next crop year promises to be greatly reduced. The theory of world overproduction of wheat appears to have been thoroughly discredited, and, as in the past, faith in the sound position of Canadian agriculture seems to be fully justified.

The downward trend in the importance of passenger revenue in relation to gross earnings has continued. Passenger fares are a live topic of discussion in Canada and the United States as a result of the recent order issued by the Interstate Commerce Commission requiring eastern railways subject to its jurisdiction to make drastic reductions in basic passenger rates effective June 2, 1936. The argument has been advanced that such a revision is required in order to bring traffic back to the railways. However, there is a great difference of opinion among railway officers as to what is the economic level for these rates. It will, no doubt, be necessary for Canadian railways to meet competitive rates established by United States carriers, but it is hoped, in conjunction with the Canadian National Railways, to adopt a policy with respect to rates in Canada which will protect and, if possible, increase the net revenues of the railways. The first step in this policy is being taken on June 1, 1936, when new experimental rates at lower levels will be put into effect.

"Other Income" for the year amounted to $8,145,494, an improvement of $1,481,701 over 1934. The major portion of this betterment is accounted for by an increase of $1,177,750 in the cash dividends received from The Consolidated Mining and Smelting Company of Canada, Limited. Your investment in that Company, consisting of 336,500 shares having a par value of $8,412,500, remained unchanged during the year. It represents a 51.6 per cent. interest, and is carried on the General Balance Sheet under the caption Miscellaneous Investments at cost, as indicated in the Report, and not at par value as some analysts in newspaper comment have inferred. The cost, $17,046,561, represents an average of $50.66 per share, compared with $205.00, the closing quotation for the stock on the Montreal Stock Exchange on December 31, 1935. Since the close of the year there has been a further appreciation in the market quotations of this stock, the price, on April 30, being $256.00.

Fixed charges for the year amounted to $24,159,938, a decrease of $418,087 from last year.

After payment of all operating expenses, taxes and fixed charges and accrual of full annual provision for depreciation of your ocean and coastal steamships, the balance of Income Account available for transfer to Profit and Loss Account was $2,832,083, an increase of $145,953 over the comparable figure for the previous year.

In view of misunderstandings apparent from comments on the Report, particularly in certain publications in Great Britain, it is desirable to review the nature of charges made against Profit and Loss Account during the year. Charges for "Loss on lines abandoned and on property retired and not replaced" amounted to $4,692,085. As explained in the Annual Report, an active policy of retiring unprofitable and excess property in order to secure more remunerative operations was followed during the year. While such a policy involves the writing down of the Company's assets and a corresponding reduction in the Profit and Loss balance on the General Balance Sheet, no cash disbursement is entailed. As a matter of fact, the economies effected through these abandonments and retirements will result in an improvement in cash returns. Thus the action taken must be regarded as favourable, rather than unfavourable, to your interests. The railway industry has in the last few years been subject to greater changes than at any time in the past. While it is impossible to say how much more property will eventually be affected, I think it will be agreed that the policy of reducing expenses by this means should be continued wherever possible. The item "Miscellaneous—Net Debit" represents other adjustments not applicable to the year's results, comprising largely items in which no cash disbursements are involved. Obviously, it is unnecessary to consider either of the charges mentioned in connection with dividend policy.

The situation is somewhat different with regard to the further appropriation of $4,000,000 made in 1935 for possible losses in respect of investment in lines in the United States controlled through stock ownership. It might not be amiss, therefore, to examine in detail the position of these United States companies. As pointed out at the last Annual Meeting, your investment in them is carried on the books of your Company at less than the book equity computed from their respective balance sheets. This condition still exists. The only material change during the year in the amount of this investment arose from the additional advances made to the Minneapolis, St. Paul and Sault Ste. Marie Railway Company, reference to which was made in the Annual Report.

Four principal companies are involved, a description of and comment on each of which follows:

The Aroostook Valley Railroad Company owns and operates an electric railway 32 miles in length in the State of Maine, connecting with the line of your Company at Washburn Junction. Your Company's control of this line enables it to participate to a substantial extent in the movement of the potato crop of Northern Maine. As shown in the Annual Report, your Company has guaranteed the interest on approximately $736,000 of Aroostook Valley bonds, but this road is in good financial condition and has been meeting its interest obligations regularly. During the past two years, its net earnings have been sufficient to pay dividends. There is no indication that it will require any financial assistance from your Company.

The Minneapolis, St. Paul and Sault Ste. Marie Railway Company (Soo Line) owns 3,204 miles of railway line (including 26 miles jointly owned with other companies) in the states of Michigan, Wisconsin, Minnesota, Montana, North Dakota and South Dakota, connecting with the lines of your Company at Sault Ste. Marie, Ontario, at Emerson, Manitoba, and at North Portal, Saskatchewan. Including trackage rights, it operates 3,249 miles of line. While the importance of this line in relation to your Company's operations has diminished considerably during the last twenty years owing to material changes particularly in the flour milling industry in the United States, nevertheless there still remains a considerable interchange of motor fuel, paper, lumber and machinery. It is also a valuable link in the movement of high class tourist traffic between Eastern and Central United States and the Rockies and Pacific Coast. The table of Contingent Liabilities included in the Annual Report shows that at the end of last year the obligations of your Company with respect to the securities of the Soo Line consisted of a guarantee of principal and interest on a balance of $575,000 due the Railroad Credit Corporation, which will be paid off in 1936, and guarantees of interest amounting to $4,174,650 per annum until 1938, when guarantees of interest amounting to $2,681,320 per annum expire. As stated in the Annual Report, the advances made to the Soo Line in 1935 amounted to $4,910,085, which enabled it to meet its interest charges and also to redeem $825,000 of notes issued in 1932 to the Railroad Credit Corporation which had been guaranteed by your Company as to both principal and interest. While it is expected that further assistance will be necessary, it is hoped that it will be in diminishing amounts. It is impossible at this time to determine how much of these advances will be recovered. Gross revenues of the Soo Line have been at a very low level during the past five years. The territory it serves has been affected by droughts and rust infection even to a greater extent than Western Canada. This has not only curtailed revenues from products of agriculture, but has restricted the entire business activity of the district. The loss in revenues has been relatively greater than the loss of most carriers in the United States. The earnings of the Soo Line in 1935 were 46 per cent. of the earnings for 1929, as compared with 55 per cent. for all Class I Roads. Revenues, which were $29,100,000 in 1929, reached a low point of $12,600,000 in 1932 and were approximately $13,400,000 in 1935. The financial condition of the Company has suffered accordingly.

The annual grain crop harvested and subsequently shipped to market over the Soo Line during the decade 1915-1924 reached a maximum of 83,500,000 bushels and was never less than 28,500,000. During the decade 1925-1934, the comparable figures were:

Year	Bushels	Year	Bushels
1925	55,400,000	1930	41,600,000
1926	30,600,000	1931	12,100,000
1927	54,100,000	1932	24,500,000
1928	56,800,000	1933	17,300,000
1929	32,900,000	1934	10,100,000

It is estimated that the corresponding figure for 1935 will be approximately 26,000,000 bushels. A large part of the increased movement from last year's crop will only be reflected in 1936 earnings. It will be manifest that the major factor required to stabilize earnings of the Soo Line at a higher level is a return of normal crop conditions. Latest reports at hand indicate some improvement in 1936 soil conditions in its territory. However, notwithstanding the expected improvement in earnings, the large maturities of bonds in 1938 create a very serious financial problem for the Soo Line, which is being carefully followed by your Directors in order to protect the investment of your Company and reduce the cash drain resulting from its guarantees.

While your Company has no direct investment in the Wisconsin Central Railway Company, a discussion of the Soo Line is not complete without reference to that Company. The Wisconsin Central owns 1,014 miles of railway line (including 16 miles owned jointly) in the states of Illinois, Michigan, Minnesota and Wisconsin. To gain entrance into the City of Chicago, the Soo Line leased the properties of the Wisconsin Central on April 1, 1909, for a term of 99 years. Voting control of the Preferred Stock of the Wisconsin Central was acquired by the Soo Line through exchange of its 4% Leased Line Certificates for a majority of such Preferred Stock. On December 2, 1932, a Receiver for the Wisconsin Central was appointed by the United States District Court for the District of Minnesota. Since December 3, 1932, the Soo Line has operated the properties of the Wisconsin Central as agent for the Receiver under an operating agreement which is subject to termination at any time by order of the Court or upon thirty days' written notice by either of the parties. A controversy has arisen as to whether the lease of April 1, 1909, has been terminated, but this has not been finally settled. The position of the Soo Line is that no further obligations exist with regard to the operation of this railway under the lease referred to. The Soo Line has guaranteed interest on $5,816,000 of bonds of the Wisconsin Central.

The story of the gross revenues of the Wisconsin Central is similar to that of the Soo Line. From $19,500,000 in 1929, they declined to a low point of $9,400,000 in 1933, from which they increased to $10,400,000 in 1935. The improvement which has taken place is encouraging, but there will have to be still further improvement before a successful plan of reorganization can be concluded. Apart from advances which the Soo Line may have to make on account of its guarantee of interest aggregating $232,640 per annum, it is not anticipated that the Wisconsin Central will require further financial assistance.

The Spokane International Railway Company owns 139 miles of railway line in the states of Washington and Idaho, connecting with the line of your Company at Kingsgate, British Columbia. Through its connections, it provides your Company with access to the North-western States and the Pacific Coast. The principal freight traffic interchanged comprises coal, forest products, fruits and vegetables. Since August 28, 1933, its properties have been operated by a Trustee appointed under an Act of Congress passed for the purpose of facilitating railroad reorganizations by giving due weight to the claims of the holders of all classes of securities while at the same time reducing delays and excessive expenses previously experienced. The Trustee operates 163 miles of line, including trackage rights and also including the property, 20 miles in length, of the Coeur d'Alene and Pend d'Oreille Railway Company, leased to the Spokane International for 50 years from July 1, 1910. The Spokane International has guaranteed principal and interest of $544,000 of bonds of the Coeur d'Alene and Pend d'Oreille Railway Company. There has been a progressive improvement in the results of operation of the Spokane International since the low point reached in 1932. The income deficit before fixed charges in 1935 was $14,858, a reduction of $38,461 from 1934. The Trustee has expressed hope of a moderate increase in business in 1936 and of some benefits from improved trade relations resulting from the recent agreement concluded between the United States and Canada. Your Company has not made any advances to the Spokane International since the Trustee was appointed. A reorganization of this property is contemplated as soon as earnings have shown sufficient sustained improvement to ensure the successful completion of such a plan. In the meantime, no further advances are likely to be required.

The Duluth, South Shore and Atlantic Railway Company (South Shore) owns 448 miles of railway line in the states of Michigan and Wisconsin, connecting with the line of your Company at Sault Ste. Marie, Ontario. Including trackage rights, it operates 550 miles of line and owns a dock at Marquette in the state of Michigan. Its principal traffic consists of ore and lumber. The direct interchange with your Company is not large, but it also serves as a feeder to the Soo Line. Your Company, as shown in the Annual Report, has guaranteed payment of an amount sufficient to meet principal instalments and interest on $781,000 First Mortgage 5% Bonds of the South Shore Dock Company, maturing serially to 1945, which were issued to finance in part the construction of the dock property at Marquette.

For some years prior to 1930, the earnings of the South Shore had been sufficient to pay all interest to other parties. It was not regularly paying interest to your Company, but it was able to finance its capital expenditures from its own resources. The result was that no advances were outstanding at that time. Subsequently the gross revenues of the South Shore declined even to a greater extent than those of the Soo Line, but the recovery has also been relatively greater. In 1929, they were $4,900,000, while, in 1932, they were only $1,600,000. From this low point, they have improved to some extent and totalled $2,300,000 in 1935. In 1930, the surplus of net income before interest was only nominal. In the three years 1931, 1932, and 1933, there were deficits before interest, the highest being $575,000 in the year 1932. Since that year there has been an improvement, and, in 1935, the net income of $375,000 was considerably more than the amount necessary to meet interest payable to security holders other than your Company. In the interval between 1929 and the present time, $403,000 was advanced to the South Shore towards the construction of the new dock at Marquette and $320,000 to meet maturing Equipment Trust obligations and interest payments. If the progress which has been made by the South Shore continues, repayment of these amounts can be reasonably expected. However, bonds aggregating $5,400,000 mature in 1937, and it may be desirable to effect reorganization with a view to simplifying the capital structure. Whether this is proceeded with or not, your Company should not be required to extend any further assistance to the South Shore and, in fact, should receive remittances either in repayment of advances or on account of interest on your Company's security investment.

Having regard to all the circumstances concerning these Companies, it was again considered desirable to reserve $4,000,000, the same amount as in each of the last three years, for the future writing down of your Company's investments therein. It is expected that the amount to be written off against this reserve will largely consist of adjustments in the costs of the equity stocks acquired prior to the time when the first of these appropriations was made. In the event of reorganization of the South Shore, an adjustment in the amount of your security investment may also result. It is impossible at this time to determine the amount of the final adjustments. For these reasons, the appropriations which have been made have been considered to be of an extraordinary nature chargeable against Profit and Loss and not against Income Account. Nevertheless, your Directors have felt that the necessity for making further advances to the Soo Line cannot be ignored in determining dividend policy.

At the last Annual Meeting, you were informed of the considerations which influenced your Directors in deciding that they would not be justified in declaring any dividend on the Preference Stock for the year 1934. While the operations for the year 1935 resulted in a slight improvement and the Company was able to transfer $2,832,083 from Income Account to Profit and Loss Account, it was a matter of regret to your Directors that after reviewing all the relevant factors they did not feel justified in making any dividend declaration in respect of the year under review. It is hoped that, with general improvement in business conditions which now seems to be under way, and with a betterment in Western agricultural conditions, a resumption of dividends at least in respect of the preference shares will be possible in the near future. Some preference shareholders have enquired as to whether the Directors would await a return to conditions which would permit payment of a full 4% on the preference shares before declaring any dividends. It will be the policy of the Directors to re-establish a dividend on such stock in whole or in part at the earliest possible date consistent with prudent administration.

The results of the first quarter of 1936 recently published show an increase of $2,800,000, or 10.8%, in gross earnings and an increase of $726,000, or 34.5%, in net earnings. Freight earnings show an increase of 12.0% and passenger earnings an increase of 5.0%. There has been a general improvement in the movement of most commodities during this period. Earnings from grain, newsprint and coal have shown marked increases.

Expenses for the first quarter of 1936 increased $2,100,000. Approximately one-third of this increase resulted from the increased volume of traffic handled. The remainder was due to increased maintenance expenses and to the fact that in the corresponding period of 1935 the deductions from basic rates of pay were 12%, whereas this year they were 10%. This difference will cease with the April accounts, as the 10% deduction became effective on May 1, 1935.

Maintenance of Way expenditures were slightly higher than a year ago, owing to two causes—first, heavy snow removal expenses by reason of the extreme winter conditions prevailing in Eastern Canada during February and the early part of March, and secondly, the unusually warm weather in the latter part of March which caused rapid melting of snows with resultant high water in several sections. Fortunately, the property damage was not extensive, although services to Saint John and Boston were interrupted for a short period.

Maintenance of Equipment expenditures increased approximately $900,000. In January, the main locomotive and car shops were operated an additional three days to complete the arrangement agreed upon with the Dominion Government for the relief of unemployment under which the Company undertook to expend $1,270,000 on equipment repairs in advance of the time when the work would otherwise have been done. In February and March, the shops worked two days less than in January, but this was one day more than in the same months in 1935. In order to complete the work of air-conditioning sleeping, parlour and observation cars for use in transcontinental and international services in time for the summer traffic, it has been necessary to work the Angus passenger shop for the full time permitted by the deliveries of material. Equipment in passenger cars to give a supply of filtered and heated or cooled air has become an accepted standard for long-distance passenger travel. Your Company's programme for the current year calls for the equipment of 129 cars of the classes referred to. A few cars for special purposes are being equipped with compression refrigerating units, but, on account of the moderate summer temperatures in Canada and the abundant supply of relatively inexpensive ice, the majority of cars will be fitted with ice cooling units at a lower cost.

Another development in connection with passenger cars has been the trend in recent years towards construction of lighter units to effect reductions in operating costs through the haulage of reduced tonnage. Weight is saved either by refinement of design or by the use of special lighter and stronger materials. The use of standard materials with refinement of design has the advantage of some reduction in first cost. To explore the possibilities of this method, your Company now has under construction sixteen passenger cars, sufficient for four complete trains to be used in local service. Each of these units represents a saving of approximately 30% of the weight of standard passenger cars of the same type.

It is satisfactory to record that as the outcome of meetings held recently in Europe the long standing differences of opinion among the Atlantic steamship operators with respect to the appropriate passenger rate classification of ships have been composed. This adjustment has involved the abolition, for the present at least, of the long established First Class designation on the Atlantic.

In ocean cruise activities, the Company's prestige is upheld in a splendid manner in the many world ports in which its flag is flown. Evidence continues to reach us of the excellent impression made upon South Africans by the recent calls at Cape Town and Durban of the "Empress of Britain," the largest and finest passenger ship ever docked in the ports of our sister Dominion.

The financial transactions of 1935 are outlined in the Annual Report. It will be recalled that in 1933, owing to the fact that the money markets of London, New York and this country were closed to ordinary financing, arrangements were made whereby a syndicate of Canadian banks advanced to your Company $60,000,000 to meet obligations maturing in 1933 and 1934. This loan was secured by pledge of Consolidated Debenture Stock aggregating $100,000,000, but, in view of the uncertain financial conditions then existing, it was considered necessary that the banks be further protected by the guarantee of the Dominion Government. $12,000,000 of this loan was retired in the year 1934, and I am glad to be able to advise you that since the close of the year 1935 the remainder of the loan has been refunded at lower interest rates through the sale of securities of your Company of various maturities up to fifteen years. It is a matter of justifiable pride that the Company once more has been able—entirely without cost to the Dominion of Canada—to meet its own obligations and release the Government from its contingent liability.

Some comment was occasioned with regard to the proposal to seek authority for the issue of $65,000,000 of ordinary capital stock before the full explanation contained in the Annual Report was generally circulated. As it may be desirable to continue the policy followed in recent years of issuing convertible bonds, the holders of which are given the right for a certain period to convert their securities into ordinary capital stock of the Company, and as under existing conditions the issue of such convertible bonds offers advantages to both the Company and the investor, you will be asked to approve a special resolution authorizing the issue of additional stock which will be available for such purposes.

This review would not be complete without some reference to the general railway situation in Canada, which has not changed materially since a year ago. Your Company, and indeed all railways on this continent, are being subjected to increasing competition from highway transport. It cannot be doubted that the motor vehicle has a permanent place in our economy, but it is equally true that the railroad has not been supplanted as the most important element in the transport field. It would appear that the proper function of the motor vehicle is to serve as a supplement to rather than as a substitute for railroads.

Highway transportation of freight, in its present form, has suffered from acute internal competition and cannot be regarded generally as a proven economic enterprise. Until a reasonable degree of stability is secured, your management would not feel justified in undertaking large scale measures of co-ordination.

It should be emphasized that the railways do not fear legitimate and fair competition from this source. They, being regulated, do protest against unsound competition from a source which is virtually unregulated, and which is not called upon to pay its full share of the cost of highways upon which it operates.

This Company has done much to meet this competition by the introduction of new tariffs affording reduced rates, and at the same time providing free pick-up and delivery service. The speeding up of freight trains has contributed greatly to the quality of railway services. The results so far have been encouraging, but it is perhaps too early to say just how far these experiments may profitably be carried.

As a result of the recent Interprovincial Conference, a Special Committee has been appointed to study the whole matter of regulation of highway transport, and it is to be hoped that their deliberations will assist greatly in the solution of this difficult question. The Canadian National Railways and your Company have co-operated in the formation of a Standing Committee of the Railway Association of Canada, the function of which is to study the legislative aspect of the problem and to carry on a campaign of education in which the position of the railways will be made known to the governments and the public.

An equally menacing form of competition to Canadian railways is to be found in subsidized waterways. Operators on these, who at one time were primarily occupied in moving bulk products, are increasingly encroaching on package and other freight. It is hoped that the Government will give active consideration to plans for making inland waterways self-supporting.

The development of the methods of transportation which compete with rail services has been very largely the result of large public expenditures made without any real consideration of the economic consequences. The railways are naturally interested in corrective measures, but it should not be forgotten that the interest of the taxpayers in the sound financial policies of public authorities is even more pressing.

Many and varied misconceptions exist as to the nature and effect of the plan for unified management of the two major railway systems which I have advocated as a means of relieving the country of its railway burden. Some have thought the plan would inflict hardship upon railway workers. A wisely controlled and humanely managed programme gradually applied would bring about substantial immediate savings that would steadily increase without detriment to railway labour until, in the course of a few years, the full benefit of this policy would be obtained. More general appreciation of the effectiveness of the safeguards which may be employed to prevent hardship will eventually result in a common understanding of the mutual interest of taxpayers, shareholders, management and men in placing the railway industry on a solid economic foundation.

Some have feared that under unified management the railways would become indifferent to the needs of shippers and communities. The protection of the public interest in this respect can be safely left to a regulatory body appointed by the Parliament of Canada with adequate powers for the judicial determination and enforcement of proper action. It must not be overlooked that highways, waterways, and airways, as well as competing railways in the United States, would continue to provide competition and set standards which a unified management could not ignore.

Some advance objections without mature thought. A paper recently stated that "consolidation is a defeatist's solution" and went on to claim that it was the existence of competition which "produces the huge business now being carried by our two railways each year." Actually, competition for traffic between railways consists of competition in service to split existing traffic. It makes the task of co-ordination with highway transport more difficult. To extend the competition which now exists between the railways to operations which it may be necessary for them to undertake on the highways would further accentuate the wasteful condition that now prevails. The elimination of competition on rails would enable the railways to follow a sound policy in respect of co-ordination with other forms of transportation and thereby increase the volume of railway traffic. This was the experience of the railways in Great Britain, where the adoption of a unification programme enabled them to co-ordinate their services with highway transportation in such a manner as to bring about a material increase in railway traffic with resultant benefit to the railway companies, their patrons, and employees.

Some hoped that co-operation with continuing competition offered the ideal solution of the railway problem. Optimistic estimates were presented to the Royal Commission four years ago of the savings that might be expected. The experience since the enactment of the Canadian National-Canadian Pacific Act of 1933 has shown conclusively the fundamental contradictions involved in this policy and the relatively small economies possible.

Some, realizing the failure of the co-operative plan, prophesy that there will be a sufficient increase in traffic to solve the financial problem arising from Canada's publicly owned railway system. More traffic is needed and, it is hoped, will materialize. The prophets do not agree as to the amount of traffic needed, or when it will be obtainable. Most of these prophets have not made even a cursory examination of the facts and understate the actual amount of the deficits of the Canadian National Railways. None take into their calculation the fact that compound interest, whether charged against the railway or not, must inevitably be paid by the people of Canada upon the aggregate of such annual deficits.

Some, in an effort to avoid the acceptance of a logical solution, have even toyed with the idea that there should be a general increase in freight rates. It is the considered opinion of your management that the objective to be sought is a decrease, rather than an increase, in the burden of the total transportation charges (including railway deficits) on the income of the people of Canada.

While all the views which have been outlined are being advanced with varying force and effect throughout the country, it is my opinion that there is a constantly and rapidly widening sense of realization on the part of all classes of the seriousness of the Canadian railway problem and the ruinous effect of burdensome taxation resulting therefrom. There is increasing evidence that the people of Canada, who for years have been lulled into a false sense of security and have been peculiarly apathetic to this problem, are beginning to awaken to the fact that the transportation requirements of the country need not continue their present drain on the public purse if a sound solution is adopted. With a more general acceptance of this broader view, it may be anticipated that the local and sectional jealousies, which are reflected in the political attitude to the problem, will undergo a metamorphosis. With this change, the political objections which have up to the present formed the real stumbling block to a sound and progressive plan for rationalizing the nation's railway facilities will disappear. The interest of your Company is inseparably linked with the general interest of Canada, and it should be its policy, unless a better plan is evolved, to continue to urge the operation of the two great Canadian railways under a unified management. The benefits of such a policy would be far more widely spread than the mere operating economies involved. It would increase business confidence and assist the Government towards balancing its budget. Important as is this question to your Company, it would be a mistake to regard its interest in the subject as arising purely from a desire to improve its own situation. The problem is basically one of public finance and your Company's concern in regard to it obviously arises from the identity of its interests with those of the nation as a whole.

Pending the adoption of a plan for unified management of the railways, or some other satisfactory solution of the railway problem, the policy of the Company will be to continue to operate with the greatest economy consistent with maintaining its position. The record of the Company since its inception is a proud one, particularly under the trying competitive conditions which have existed since the consolidation of the Government railways and during the unprecedented depression from which we are just emerging. This record has been made possible only by unstinted zeal, loyalty and sacrifice on the part of the officers and employees who have served it through the years.

While it is difficult to speak with complete assurance as to the future in view of the perplexing problems which the world and this country now face, it must be apparent to those not entirely blind to the realities of the situation in Canada that the country should steadily advance economically and commercially, that its resources are as great as, and even greater than formerly, that its people have retained in a large measure their faith in the Dominion and in themselves, but that debt and waste must be reduced if we are to realize the future which should be ours. Taxation—even higher taxation—may be necessary and will be borne with resignation, if not with enthusiasm, if, and only if, extravagance in public expenditure is eliminated and we bend our energies to putting our house in order so that we may earn and deserve the reputation of being honest, efficient and courageous in the conduct of our public affairs.

Given a reasonable increase in gross receipts, as a result of added industrial and agricultural prosperity, the revenues of your Company will mount. Its administrators can, and do, provide efficient management, but the outside economic factors which affect so greatly its gross income are largely beyond its control. It is for this reason that I stress the importance of these outside factors in my analysis of our results.

It is the earnest desire of your Directors that, with wise and efficient administration of your properties, the Company's earnings may be increased sufficiently to permit the early resumption of dividend distribution to its proprietors. We have grounds for hoping that this desired consummation may be realized in the near future, unless prevented by some world-wide catastrophe such as war or some other uncontrollable social or economic disturbance.

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

Resolved—That the Report on the affairs of the Company for the year ended December 31, 1935, 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 meeting then proceeded to the election of Directors and on motion of Sir Edward Beatty, G.B.E., seconded by Rt. Hon. Lord Shaughnessy, the following resolution was unanimously adopted:—

Whereas, in pursuance of By-law No. 6, Mr. D. C. Coleman, Mr. John W. Hobbs, Mr. R. S. McLaughlin, Sir Edward R. Peacock, G.C.V.O., and Mr. W. N. Tilley, K.C., Directors of the Company, retire from office at this meeting.

And whereas five Directors to replace the said retiring Directors, who are, however, eligible for re-election, must be elected at this meeting for the term of four years as provided for in 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. William A. Grant and Mr. William 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 Mr. D. C. Coleman, Mr. John W. Hobbs, Mr. R. S. McLaughlin, Sir Edward R. Peacock, G.C.V.O., and Mr. W. N. Tilley, K.C., were elected Directors for the term of four years, and the report was adopted.

The meeting was thereupon made special for the consideration of the special business mentioned in the notice convening the same, and the following resolution authorizing the issue of $65,000,000 additional Ordinary Capital Stock of the Company was submitted and, on motion of Sir Edward Beatty, G.B.E., seconded by Mr. Ross H. McMaster, was unanimously adopted, viz.:—

Whereas the Shareholders of this Company have heretofore from time to time authorized the issue of Ordinary Capital Stock to an aggregate amount of $385,000,000 which is divided into 15,400,000 shares of the par value of $25 each, including 2,000,000 shares authority for the issue of which was granted at a special meeting of the Shareholders held on May 6, 1931, and the proceeds of which are to be applied to the purposes referred to in the resolution authorizing such issue;

And whereas in the conditions prevailing since such last mentioned authority was granted the Directors deemed it advisable that the Company's requirements for the purposes referred to should be met by the issue of terminable securities with a right of conversion into Ordinary Capital Stock, subject to terms and conditions approved by the Directors;

And whereas in pursuance of this policy the Company has from time to time issued certain Collateral Trust Bonds, secured in each case by pledge of Perpetual Consolidated Debenture Stock of the Company, namely:

In 1932, $12,500,000 Convertible Ten-Year 6% Collateral Trust Bonds;

In 1934, $12,000,000 Convertible Fifteen-Year 4% Collateral Trust Bonds;

In 1936, $10,000,000 Convertible Fifteen-Year 3½% Collateral Trust Bonds (part of an issue of $15,000,000 Collateral Trust Bonds); and

$15,000,000 Convertible Nine and One-Half Year 3% Collateral Trust Bonds (part of an issue of $38,000,000 Collateral Trust Bonds);

the holders in each case being given the right to convert their Bonds into shares of the Ordinary Capital Stock of the Company in the ratio of four shares of the par value of $25 each to each $100 principal amount of the Bonds;

And whereas the Directors may deem it desirable in the future to follow similar methods of financing;

And whereas it is deemed advisable in the interest of the Company to issue additional Ordinary Capital Stock for the purposes referred to in this resolution to the amount of $65,000,000;

And whereas this meeting has been duly called for the purpose of authorizing such issue, all preliminary and legal requirements having been complied with;

Now therefore it is Resolved as follows, that is to say:

1. *That* the issue of additional Ordinary Capital Stock of the Company to the extent of 2,600,000 shares of the par value of $25 each be and the same is hereby authorized.

2. *That* the said 2,600,000 shares be issued by the Directors from time to time according to the requirements of the Company, and be disposed of by the Directors in such amounts, at such times, in such manner and form, at such price not less than par, and upon such terms of payment as the Directors may determine.

3. *That* the proceeds of the said issue be applied in improving the Company's property, adding to its facilities and equipment and in constructing such works and acquiring such property as in the opinion of the Directors are desirable in connection with the Company's business.

4. *That* the said issue or any part thereof may be disposed of by direct sale or may be allotted for the purpose of issue to the holders of any convertible terminable obligations heretofore or hereafter issued by way of refunding or otherwise for any of the purposes referred to in the next preceding paragraph hereof.

The proceedings then terminated.

Chairman.

Secretary.

At a meeting of the Board held immediately after the Shareholders' meeting Sir Edward Beatty, G.B.E., was re-elected Chairman and President of the Company, and Mr. D. C. Coleman, Vice-President, and the following were appointed the Executive Committee:—

Sir Edward Beatty, G.B.E.,
Mr. D. C. Coleman,
Sir Herbert S. Holt,
Mr. W. N. Tilley, K.C.,
Sir Charles Gordon, G.B.E.,
Mr. Ross H. McMaster.