CANADIAN PACIFIC RAILWAY COMPANY

REPORT OF PROCEEDINGS

AT THE

ANNUAL MEETING OF SHAREHOLDERS

MAY 4, 1938

CANADIAN PACIFIC RAILWAY COMPANY

REPORT

OF THE PROCEEDINGS AT THE FIFTY-SEVENTH ANNUAL MEETING OF THE SHAREHOLDERS HELD AT MONTREAL ON WEDNESDAY, MAY 4, 1938

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, 1937, which had been printed and distributed to the shareholders, said:—

At this, the 57th Annual Meeting of the Shareholders of the Company and the 20th Annual Meeting at which I have participated as President, I am conscious that we have passed through another year in which conditions, while improved, were still subnormal, with their inevitable effect on the Company's revenues.

In moving the adoption of the report of the Directors for the year 1937, it would appear unnecessary to elaborate the extensive explanations of the results of operation and the transactions recorded therein. One question which, however, has again been raised by commentators on the report is how long substantial charges to Profit and Loss for losses on property retired and not replaced may be expected to continue. As the extent of possible abandonments cannot be foreseen, an answer to this question cannot be given. It is important to realize, however, that these capital losses do not represent current disbursements in cash and need not be taken into consideration in determining dividend policy. The largest part represents the writing off of the capital investment in unremunerative lines abandoned. At the same time, the Company stands to benefit from the abandonment of these lines and superfluous facilities through the elimination of operating losses previously sustained and through the sale or use elsewhere of materials and property so released. Where abandonments of such lines can be effected consistent with obligations of service to the public, the Company will continue separately and jointly with the Canadian National Railways to seek such abandonments as a matter of sound business principle.

The gross earnings of the first quarter of 1938 have been quite disappointing, having declined $1,500,728, or 4.7%. The reduced volume of traffic to and from the United States and the slowing up of industrial activity in Eastern Canada account almost entirely for the loss in earnings.

Although traffic volume decreased, working expenses increased $893,735, or 3.2%. This increase was more than accounted for by the progressive restoration of the 10% deduction from basic rates of pay in accordance with agreement reached during the early part of last year. As set out in the report, 6% was restored in 1937; a further 2% was restored on February 1st of this year; and the final 2% on April 1st, resulting in the complete re-establishment of the basic rates in effect prior to 1931. It has been estimated that if these basic rates are continued in effect for the balance of the present year it will mean an increase in working expenses of $5,000,000 or approximately 4.1% over 1937. Events have proved that the agreement for restoration was more generous to employees than subsequent business conditions have warranted. The anomalous position has been reached where the basic rates have now been completely restored although earnings are at a lower level than they were at the end of 1931 when the employees agreed to the original deduction of 10% from such basic rates. When the agreement with the employees was effected at the beginning of last year, Canadian railway basic rates were from 4% to 6% less than those paid on United States railroads. Owing to the increases granted by United States railroads in August and October, the present rates in effect upon Canadian railways are from 10% to 14% lower than those paid on United States railroads.

Despite the enforcement of rigid economy, the decrease in gross earnings and increase in wage scales have resulted in a decline of net earnings for the first quarter of $2,394,463. Unless and until present favourable crop prospects are realized, all expenditures will continue to be curtailed in keeping with the lower volume of traffic and the burden imposed by the higher rates of pay.

It has been the policy of the Directors to keep the shareholders informed, through the annual reports and the proceedings at the annual meetings, of the condition of their property. Owing to the fact that it has been necessary during the long period of depression through which we have passed to conserve carefully the cash position of the Company, and, further, that certain inaccurate statements have circulated, it would appear timely that such a report should now be made in somewhat greater detail than in recent years.

The railway property from which your net earnings are derived is comprised of 17,186 miles of railway, of which 9,609 miles are owned, 7,123 miles leased, and 454 miles operated under trackage rights. All told, in the miles owned and leased there are 22,917 miles of track, of which 5,933 miles are in main lines, 2,558 miles in secondary main lines, 9,566 miles in branch lines, and 4,860 miles in yards, sidings, and industrial tracks.

First let us examine the rail situation. In the ten years ended in 1930 approximately 5,000 miles of track in main lines were relaid with heavier rail. Prior to and during the greater part of this period the major cause of removal of rail was poor track surface resulting from the battering down of rail ends under traffic. In the latter part of this period we began building up such battered rail ends by welding. It is conservatively estimated that the laying of this heavier rail and the welding will double, and may treble, the average life of rail in our main lines. Since 1930, welding has been continued and by moderate purchases of heavy rail our main line rail has been maintained in excellent condition. The average weight of rail in main lines has been raised from 85 lbs. per yard in 1920 to 99 lbs. per yard at the end of 1937. No extensive programme of increasing this average weight is contemplated, as our standard 100 lb. rail is considered most suitable for general main line use and heavier rail is only warranted where some special condition exists. Certain mountain territories required special consideration and 145 track miles of 130 lb. rail have already been laid there.

As the longer life of rail in main lines retarded the release from such lines of rail suitable for relaying in secondary main lines (in which the average weight is 86 lbs.) and in branches (in which the average weight is 75 lbs.) these lines have been maintained by the purchase, commencing in 1932, of the required quantity of new rail of a weight equal to or greater than that which it was to replace. In addition to ordinary maintenance which has been provided for as indicated, there is the ever present desirability of continuing the gradual replacement by heavier sections of the light rail still in existence on some of our branch lines. This is brought about to some extent by the gradual assignment of heavier motive power to branch lines as the older and lighter power is retired. On minor branch lines traffic is thin, demand for speed is not great, and it has been found economical to maintain light power to serve them.

From what has been said, it is apparent that, although somewhat larger maintenance expenditures for rail in connection with installation of heavier sections on some branch lines can be justified when earnings warrant, we are not now confronted with the necessity of increasing such expenditures to maintain our present rail standard.

Consider next the cross tie situation. The Company has approximately 64 million ties in its various tracks. Prior to 1922 very few of these were treated to preserve them from decay. In that year preservative treatment was commenced on a large scale and has since continued. At the present time 88% of the 16 million ties in main line tracks, 51% of the 37 million in other main tracks and 26% of the 11 million in other than main tracks are treated with creosote or zinc chloride. Of all ties in track 56% are now so treated, and this percentage is annually increasing. The average life of these treated ties is more than double that of untreated ties and, it is believed, may be three to four times that life. While in 1928 we required 250 new ties per mile of track, in 1937 we required only 165, and, in the latter year, the average condition of all ties was better than in the former year. Had we not been using treated ties, it would have been necessary to install nearly two million more in 1937 than was the case. The extended use of treated ties has resulted in substantially reducing the average annual cost of tie maintenance and, at the same time, has strengthened and improved the track. This benefit will continue.

Track is kept in line and surface by ballasting and surfacing operations. The amount of such work required varies with the amount of traffic handled and can be reduced for limited periods without injury to the property and without a corresponding increase in the subsequent amount of work to be performed.

Crushed rock is the best material for ballasting tracks carrying heavy or high speed traffic. The use of crushed rock was commenced by the Company in 1922, and, at the present time, over 2,500 miles of its main line tracks are so ballasted, over 100 miles being done during 1937. In view of present very serious curtailment in earnings, to which reference has already been made, it has been decided, as a measure of economy, not to proceed with the rock ballasting which had been planned for 1938. This decision merely involves the postponement of the time when an additional 100 miles of track will be brought up to a higher standard. It will not be detrimental to the property in the meantime.

On main lines where high speed services are operated, line and surface of the track must be maintained at a high standard and the maintenance of our present train schedules on such lines is proof of their adequacy in these respects. During the depression years, on branch lines, and to a less extent on secondary main lines, both of which are generally ballasted with gravel, the smaller volume of traffic has permitted a reduction in ballasting and surfacing operations. At all times, line and surface have been maintained in keeping with the requirements of the services on the various lines.

In our main lines there are 985 openings spanned by bridges with a total length of approximately 24 miles. All but 32 of these bridges are of steel or masonry construction. In our secondary main lines there are 556 bridges with a total length of about 15 miles, of which 220 are of timber. In our branch lines there are 1,809 bridges, of which 1,237 are of timber. In all cases the timber structures are adequate for the service they render and, in many cases, have been provided and will be maintained in that form because it meets the requirements of the particular situation most economically. All of our bridges are being maintained in safe and adequate condition. The elapsed time between the painting of steel bridges has been lengthened in some cases for a greater period than would have been considered desirable in more prosperous times. To avoid injury to these structures it appears that, irrespective of traffic volume, we have reached the point where some increase in expenditures for painting is to be expected. This will not materially increase total maintenance expenses.

Our major buildings and stations have been well maintained. Many of our less important frame buildings have not received as close attention in regard to paint as before the depression. However, this is principally a matter of appearance and can be corrected with relatively small outlay when conditions warrant.

From this statement it is apparent that even in recent years our important tracks, bridges and other structures have been well maintained and progressively, if somewhat slowly, improved and that the Company's fixed property is in first class condition.

Turning next to an analysis of the condition of the rolling stock of the Company. The steam locomotives, 1,955 in number, have an average tractive power of 36,657 pounds; 123 are less than 10 years of age; 199 are 10 to 20 years of age; 1,159 are 21 to 30 years of age; and 474 are over 30 years of age; the average is 25.7 years. What might appear at first sight to be a high average age is not peculiar to the Canadian Pacific, and, in spite of contrary views to which wide publicity is given, experience shows that this Company will have useful employment for many of its older locomotives for many years to come in services for which it is more economical to keep such locomotives in repair than to build new units to replace them.

Limited purchases of new locomotives have been made to ensure an ample modern motive power supply for high speed main line passenger and freight services. It is planned to continue limited purchases in replacement of units retired in order to maintain this adequate motive power supply. Should traffic rise materially above present levels, this programme will need to be expanded. Superheaters have been installed on 1,791 locomotives, automatic stokers on 233, feedwater heaters on 405, and boosters on 27. Other modern improvements, such as roller bearing engine trucks, power reverse gears, flange lubricators, smoke deflectors, and new types of boilers, have been applied as conditions have warranted. All these have served to postpone obsolescence and to effect greater economy and efficiency of operation.

At the end of 1937, of the serviceable locomotives, 84.1% were in good repair—more than sufficient for the traffic offering. It has always been considered economical to maintain motive power in first class condition. Notwithstanding the depression, our standards in this respect have not been reduced and there has been a progressive improvement in fuel performance. This performance is ample proof of the present efficiency of our motive power, the rate of fuel consumption in freight and passenger services being substantially lower than the average of Class I Railroads in the United States and also lower than that of any of the comparable large railways on this continent.

The Company has 79,966 freight cars of all types with an average capacity of 42 tons per car. Of these cars 81% are of all steel or steel underframe construction and 19% are wood. At the end of last year 93.2% were in serviceable condition. The cars have been kept well painted and their maintenance will compare favourably with that of other carriers. Improvements made from time to time have permitted the continued economical use of older units. Obsolete doors, roofs and ends have been replaced with modern types; cast steel truck sides, improved draft gear, and stabilized trucks have contributed to the reduction of car maintenance. Obsolete now for certain classes of freight service, many of the older wooden cars are working out the balance of their useful lives in less exacting services for which it would be uneconomical to use more expensive steel equipment. The Company has been purchasing a moderate number of modern freight cars in replacement of units retired. A regular programme of purchases tends to keep down the cost of these units. If conditions warrant, it is intended to continue regular purchases, expanding the programme as may be necessary to meet any substantial increase in traffic.

Next to be considered are the 3,025 units employed in passenger service, of which 53% are of steel or steel underframe construction and 47% wood. The interior and exterior of these cars have been kept well painted and varnished and the running gear in first class condition. With this class of equipment more than any other, obsolescence is a most important factor. The public, seeing the great improvements made in modern units produced for highly competitive main line services, immediately presses for the provision of like equipment for general use. Obviously, it is not feasible to change the entire character of all the rolling stock overnight, particularly as many of the passenger services are unremunerative. However, for our principal trains equipment has been provided which compares very favourably with the most modern equipment on the continent. This has required heavy expenditure for air-conditioning, a development which has greatly raised the standard of travel comfort. Part of this expenditure has been a capital charge, but it has also involved large charges to working expenses. As you have been advised, limited purchases of light weight equipment have been made for use in certain special services. The cost of such units has been relatively high, and it is to be hoped that means may be found for lowering such cost before a more extensive programme of replacement becomes necessary.

The Company owns 5,786 boarding, tool, and auxiliary cars and other work units which constitute essential equipment for the maintenance and operation of the railway. It is in this class that cars from other services spend the last of their working lives. Engaged exclusively in the Company's use, serviceability is the only consideration and units have been adequately maintained to that end.

From the foregoing, it will be apparent that there are two principal items in the cost of maintaining equipment, (a) repairs and (b) replacements. These two items are inter-dependent. It is a delicate matter requiring expert technical judgment to determine whether a unit of rolling stock should be repaired or be retired and replaced. As has been indicated, throughout the depression new purchases of rolling stock have been limited as far as possible, and every effort has been made to work out the remaining life of older stock. Consequently, more units have been retired than have been replaced, but in all cases the cost of units retired has been written out of investment account and, after allowing for salvage recovered, has been charged to working expenses. This is in accordance with the policy adopted in 1930, of which you were then advised. This policy has maintained the integrity of the investment account, but the charges to expenses have varied substantially. By reason of the liberal provision for renewals made prior to 1930, the equipment retirements in 1930 and 1931 were limited to cars destroyed, and those marked off as obsolete and beyond repair as they came through the yards in active service. Owing to reduced traffic, many units were stored and did not actively pass for review before inspectors. Since 1931, when the retirement charges were at a minimum, the retirement programme has been steadily increased and the charges to working expenses have been as follows:—

1931	$ 935,000	1935	$3,165,000
1932	1,006,000	1936	4,185,000
1933	2,136,000	1937	5,487,000
1934	2,645,000		

In the past there has been a great variation from year to year in rolling stock purchases. For this reason alone it cannot be expected that the number of units becoming due for retirement year by year will be uniform. Our experience has shown that the policy of providing for replacement or retirement of units as they are marked off to be destroyed is not altogether satisfactory. Moreover, in view of the steadily rising cost of units, it is necessary to anticipate in years to come larger retirement charges, as the more modern units bought at higher prices become obsolete. Your officers have been carefully considering the adoption of depreciation accounting for rolling stock, and, on account of the wide fluctuations in traffic volume which occur in this country, have come to the conclusion that, if adopted, it would be desirable and proper that the depreciation charges should be spread over the life of the rolling stock on the basis of the use made of it year by year. Preliminary study indicates that such a depreciation plan could be put into effect with only a moderate increase in the annual charges over the level of the charges for 1937. At the end of last year the rolling stock reserve amounted to $8,261,000. Moreover, prior to 1930 replacements of rolling stock with new units at higher prices were effected by charging the entire cost of such new units to working expenses and not making any charge against investment account, with the result that the cost of the units now in service exceeds by $48,000,000 the figure at which they are carried in property investment. The two amounts referred to, totalling over $56,000,000, would form a substantial nucleus for a depreciation reserve should it be possible to adopt the depreciation plan now under consideration. This matter is one of the subjects being considered by a Committee appointed by the Minister of Transport to revise the Canadian accounting classifications. The action taken by the Company will depend upon the probable outcome of the deliberations of that Committee.

Second only in importance to its railway system are the Company's ocean and coastal fleets, which comprise eighteen ocean and twenty-three coastal steamships, having an aggregate gross tonnage of 385,016 tons. Depreciation at 4% on the cost of these vessels (less estimated salvage) is being currently provided out of their earnings. The accumulated reserve at the end of last year amounted to almost $44,000,000, which, in the light of present experience, appears fully adequate.

Notwithstanding the fact that the *Empress of Britain* was designed ten years ago, she continues in the highest rank of merchant ships of the world, a tribute to the engineering and architectural skill of her designers. Her fuel consumption rate is still lower than that of any other merchant steamship afloat. Minor improvements from time to time are all that are likely to be necessary in order to maintain the high place which the flagship of your fleet has won.

Designed a year earlier than the *Britain*, the *Empress of Japan* is in the same satisfactory position. She has gained an enviable reputation with the travelling public and continues to hold the speed record for merchant ships on the Pacific. Important improvements made to the *Empress of Canada* have increased her speed and reduced her fuel consumption. She occupies a high standing in relation to her competitors.

Although new propulsion machinery was installed in the *Empress of Australia* eleven years ago, this famous ship is within sight of the period when she may be regarded as due for replacement. A similar condition exists with respect to the *Empress of Russia* and the *Empress of Asia*. All three ships have a long and creditable record of service. Few other ships have maintained their popularity to such a degree.

The four Atlantic Duchesses—*Atholl*, *Bedford*, *Richmond* and *York*—continue to hold their unique position on the St. Lawrence Route. Maintaining in season a weekly service of exceptional regularity, they are ideal vessels for the important passenger and freight traffic of the Glasgow, Belfast, Liverpool service.

The other Atlantic ships—*Montcalm*, *Montclare*, and *Montrose*—offer facilities equal to, if not better than, the majority of their competitors. Nevertheless, it may soon become advisable to examine their passenger accommodation to ascertain what improvements may be undertaken advantageously with due regard to economy.

The five *Beaver* express freight ships, designed and constructed to handle the large volume of high class and perishable freight between Canada and London, have met the exacting demands of this service with extraordinary success and receive increasing commendation from shippers. The speed of the *Beaver* ships has been well maintained. They are acknowledged to be the best Atlantic ships of their class and are noted for the efficient carriage of refrigerated cargo and for the maintenance of regularity of time schedule. Continuance for many years of this excellent performance may be anticipated, and there is no reason to believe that these ships will fall short of the necessary requirements during the remainder of their lifetime.

Your coastal fleet is composed mainly of modern vessels well maintained. No extensive programme of improvement or replacement is contemplated or necessary. In due course two or three of the relatively smaller and older vessels will be replaced, but this will be more or less a matter of routine.

The Company operates directly fifteen hotels, of which seven are located in the principal cities of Canada and the remainder at mountain and seaside resorts. These hotels contain 5,352 guest rooms, with an additional 315 guest rooms in cottages and bungalow camps, or a total of 5,667 guest rooms in the system. While hotels are not generally classified as transportation property, your investment in these hotels must be considered in many respects as an essential part of your world-wide travel services.

It will be recalled that in the years from 1925 to 1930 your Company undertook an extensive programme of renewals, replacements, and new construction in connection with its hotel properties. Extensive fire damage necessitated the practical reconstruction of the Chateau Frontenac, the Chateau Lake Louise and the Banff Springs Hotel. Growing patronage for the Palliser Hotel at Calgary and the Empress Hotel at Victoria led to the enlargement of these properties to make them more self-contained. Lack of adequate hotel facilities at Toronto and Regina was met by the construction of the Royal York and the Hotel Saskatchewan. The development in the tourist trade in Nova Scotia prompted the reconstruction of the Cornwallis Inn at Kentville and the Pines at Digby. With the co-operation of the Eastern Steamship Company a small hotel was constructed at Yarmouth.

All your hotel properties have been kept in good condition and, as a result of the construction which has been referred to, all the major ones, except the Royal Alexandra at Winnipeg and the Hotel Vancouver, are of modern construction. As you have been advised, annual appropriations from income are being made to provide for obsolescence. In 1937 this appropriation was at the rate of 2%. These hotels are in a position to handle greatly increased patronage for many years to come with only such improvement of plant and equipment as may be deemed advisable in order to follow the latest trend in hotel service on this continent. For example, in the Royal York all the public rooms are being air-conditioned. Similar improvements are being installed in the Terrace Club and Jacques Cartier Room at the Chateau Frontenac.

As to the Royal Alexandra Hotel, the time has come when some renovation is necessary. A start has already been made on bedrooms and bathrooms and will be carried on as conditions warrant during the next few years.

For some time your Directors have been aware that without modernization the Hotel Vancouver is not in condition to compete on equal terms with the newly constructed Canadian National Hotel which is expected to open for business next year and that two first class hotels could not be expected to operate successfully with the patronage offering at Vancouver. After lengthy negotiations an agreement has been reached to overcome the threatened duplication though some details yet remain to be adjusted. While the arrangement will involve a substantial capital loss for your Company as well as the sacrifice of its exclusive position in the hotel business at Vancouver, it will avoid the necessity of carrying out an expensive renovation of your present hotel. Instead of possible losses by both companies from the operation of separate hotels, there is a probability that, with the combined support of the two railway companies, the operation of the one hotel in the common interest will result in reasonable operating profits.

Turning to the communications department, the Company maintains 17,637 miles of pole line and 175,000 miles of wire, mostly copper, with extensive terminal facilities. Its commercial communication services reach all the important points in Canada. While in recent years equipment has been invented which has provided a large increase in the number of channels available for communication without increasing the outside physical plant in the same proportion, the latter is still the foundation of the system, and its renewal is a continuous process. By the insertion of factors of extraordinary strength for reinforcement at uniform separations, the service life of the pole lines has been considerably increased. New equipment has been purchased from time to time to take advantage of developments in transmission. Increased business in the newly developed fields of commercial communications, such as the supplying of telegraph networks for news and stock and commodity quotations and telephone lines for national or regional radio broadcasts, has resulted in all channels being utilized to the limit of their carrying capacity. Accordingly, after a lapse of several years, the expansion of the plant was resumed towards the end of last year. This expansion includes installation of the latest types of broadcast and carrier-current telegraph and telephone transmission equipment, the installation of large mileages of copper wire, and other related improvements. It is expected that this expansion, which is well advanced, will be completed before the end of the current year. Your Company will then enjoy, in addition to its physical wire circuits, the use of 200,000 miles of carrier-current channels or derived circuits, providing fully for present needs and some expansion. At the moment, there is no idle equipment in the communications service. The projects now in hand will not involve the removal of old equipment from service on account of obsolescence or depreciation. That which is replaced by more modern equipment of greater capacity will be used at other points where it may be expected to have many additional years of useful life.

I will not take your time to deal in detail with the other properties of the Company. Office buildings and all other property have been kept in good repair and modernized insofar as it was necessary in order to maintain earnings.

In concluding my remarks, I should like to emphasize that your many and varied properties are, generally, in excellent physical condition, and are carried in Property Investment at a figure below the cost of the items now comprised therein.

I should also briefly mention the two principal investments in properties not integral to the main undertaking.

The first is that in the United States railway subsidiaries now in course of reorganization, which, at the end of last year, including advances, aggregated $61,162,000. Much of this investment dates back to the early days of the Company and for many years it received interest and dividends therefrom, which amounted in the aggregate to $33,657,000. Most of the remainder represents the advances made to the Soo Line to make up deficiency in amount it had available to meet interest obligations guaranteed by your Company. Against possible loss in these investments the Company has appropriated reserves aggregating $23,508,000, making the net investment $37,654,000. It is impossible to forecast at this time what new securities will be received from the reorganized companies. The present situation in respect of each of these is set forth in the Annual Report.

The second is that in the Consolidated Mining and Smelting Company of Canada, Limited, amounting to $17,046,000, the market value of which at December 31, 1937, was in excess of $93,000,000. This investment, which consists of 1,682,500 shares and from which dividends of $5,888,750 were received in 1937, has proved to be a very satisfactory one.

The aggregate of all the assets of the Company is conservatively stated at the figure of $1,382,000,000, at which it is carried on the General Balance Sheet. On the whole there seems to be no reason to fear that the Company will not again earn a reasonable return on these assets. For some years past its business has been detrimentally affected by three major factors. It has shared in the depressed business conditions general throughout the world; it has experienced special difficulties owing to the small yields and low price of the major product of Canada's chief group of producers; and, in addition to the competition of other forms of transport with which it has had to contend in common with other railways throughout the world, it has been faced with the continued necessity of maintaining its position in competition with a state-owned system which meets it at practically every point of importance throughout the country.

The Dominion and the Company will benefit from any improvement in world economic conditions. The betterment of these conditions, which depends on many factors, is beyond the control of any individual country and is likely to be slow.

As to the drought in portions of Western Canada, your Directors are convinced, after detailed and comprehensive study, that there is no reason to regard this as a permanent condition. Reports from the grain belt last Autumn and to date this year indicate the probability of an improvement in conditions this season. Of course, in some very important areas sub-soil moisture is probably subnormal, and this may limit 1938 production in those areas despite the improved rainfall of the current season. However, there is reason to believe that Western Canada is now emerging from one of its recurring periods of insufficient rainfall and that we may look forward to definite improvement in grain yields during the present and future years.

The third detrimental factor—state competition—still persists. A Committee of the Senate is undertaking a study of the railway problem. Should the recommendations of this Committee result in the long overdue rationalization of the railway situation in Canada, the Company stands to share in the resulting benefits.

Many of the extensions and improvements, to which reference has already been made, were carried out prior to the world depression. The full benefits from these have not yet accrued to the Company, nor will they until traffic volume again returns to more normal proportions. Your well-located, well-constructed, and well-maintained properties are in condition to ensure efficient and modern transportation service for the nation. Even if the Company's properties continue to be operated separately and in competition with the Canadian National Railways, my considered view is that there is no reason for pessimism in regard to the future outlook of the Company. It is hardly necessary for me to repeat that, should they be joined with those of the Government-owned railway in a rationalized system, most important advantages would result to the owners of both properties.

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, 1937, 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 authorizing the issue of Consolidated Debenture Stock was submitted and, on motion of Mr. Malcolm C. Oswald, seconded by Mr. Arthur Terroux, was unanimously adopted, viz.:—

Resolved—That the Directors be and they are hereby authorized to issue and dispose of by way of sale or pledge, collateral or otherwise, Consolidated Debenture Stock bearing interest at the rate of Four Per Cent. (4%) per annum, in such amounts and at such times as they shall deem expedient, but not exceeding in the aggregate the amount which the Company is by law empowered to issue, for the purpose of defraying in part the capital cost of extensions and improvements of the property of the Company heretofore or at any time hereafter made, of refunding maturing obligations, of acquiring securities which the Company is authorized to acquire and of providing generally for capital requirements of the Company.

The following resolution relating to the acquisition of Secured Notes of the Minneapolis, St. Paul and Sault Ste. Marie Railway Company and the issue and pledge of Consolidated Debenture Stock for the purpose of such acquisition, was submitted, and, on motion of Mr. W. G. M. Shepherd, seconded by Mr. James Drury, was unanimously adopted, viz.:—

Whereas, pursuant to a resolution of the Board of Directors of December 13, 1937, and resolutions of the Executive Committee of January 24, 1938, the Company has acquired the outstanding Soo Line Notes to the amount of $6,162,245.50 payable to the Reconstruction Finance Corporation, which Notes are secured in part by the pledge of $6,250,000 of Soo Line 5½% First Refunding Mortgage Bonds maturing 1978, and $4,970,500 of the outstanding Soo Line Notes to the amount of $5,000,000 maturing February 1, 1938, held mainly by institutions and secured by the pledge of $6,250,000 of Soo Line Bonds of the same issue;

And whereas the pledged Bonds bear this Company's guarantee as to interest;

And whereas the purchase price of said Notes was $1,171,751.53 in cash and the balance in this Company's Serial 4% Secured Notes dated January 28, 1938, aggregating $9,935,000 maturing as to 6½% thereof on February 1 in each of the years 1939 to 1943 inclusive, and as to 13½% thereof on the same date in each of the years 1944 to 1948 inclusive, with the option to repay the principal of such Notes in whole or in part at any time before maturity;

And whereas for the purpose of securing the payment of each of this Company's Notes it was provided that the Company should pledge, deposit and keep on deposit as collateral security its Consolidated Debenture Stock to such an amount as, calculated at the market value thereof, less ten per cent, would be at least equal in value to the unpaid principal amount of such Note, which Debenture Stock is to be returned to the Company upon payment of such Note;

And whereas by a further resolution of the Executive Committee of January 24, 1938, it was provided in part that Consolidated Debenture Stock of the Company be issued not exceeding in the aggregate the amount of $15,000,000, which has been or may be pledged as collateral for the purpose aforesaid;

And whereas the said resolutions of the Executive Committee were ratified and confirmed by resolution of the Directors of February 14, 1938, *It is therefore resolved*—That the action of the Directors in providing for the acquisition of the said Soo Line Notes and the execution and delivery of the Notes of this Company in part payment therefor and the issue and pledge of this Company's Consolidated Debenture Stock to the amount aforesaid and such further amounts as may from time to time be required as collateral security for such Notes of this Company, be and is hereby approved, ratified and confirmed.

The following resolution relating to an agreement incorporating revised terms for the use of the lands and facilities of the St. Johnsbury and Lake Champlain Railroad Company and this Company at St. Johnsbury, Vermont, was submitted, and, on motion of Colonel E. M. Renouf, seconded by Mr. F. H. Hopkins, was unanimously adopted, viz.:—

Resolved—That the agreement, dated September 13, 1937, between the St. Johnsbury and Lake Champlain Railroad Company, the Maine Central Railroad Company and this Company, incorporating revised terms for the use of the lands and facilities of the St. Johnsbury and Lake Champlain Railroad Company and this Company at St. Johnsbury in the State of Vermont, the said agreement distributing the interest on the valuation of said lands and facilities and the expense of maintenance and operation thereof on the basis of use by the three companies, be approved, and the execution thereof by this Company be and is hereby ratified.

The following resolution relating to an agreement with the Canadian National Railway Company for the abandonment of operations by this Company between Linwood and Listowel in the Province of Ontario, was submitted, and, on motion of Mr. A. E. Francis, seconded by Mr. J. W. Tatley, was unanimously adopted, viz.:

Resolved—That the agreement dated January 15, 1938, between the Canadian National Railway Company and this Company whereby this Company is to abandon the operation of its line between Linwood and Listowel in the Province of Ontario, to discontinue its communications and express businesses at Listowel and in the territory between Linwood and Listowel, and to convey to the Canadian National Railway Company certain of its lands and facilities in Listowel, the said agreement embodying terms and conditions whereby the burden and advantage will be equitably distributed as between the parties thereto, be approved, and the execution thereof by this Company be and is hereby ratified.

The following resolution relating to an agreement with the Canadian National Railway Company for the abandonment of operations by the Canadian National Railway Company between Middleton Junction and Bridgetown in the Province of Nova Scotia, was submitted, and, on motion of Sir Thomas Tait, seconded by Lt.-Col. William A. Grant, was unanimously adopted, viz.:

Resolved—That the agreement dated January 15, 1938, between the Canadian National Railway Company and this Company whereby the Canadian National Railway Company is to abandon the operation of its line between Middleton Junction and Bridgetown in the Province of Nova Scotia and to convey to this Company certain of its lands and facilities in Bridgetown, the said agreement embodying terms and conditions whereby the burden and advantage to both parties will be equitably distributed as between the parties thereto, be approved, and the execution thereof by this Company be and is hereby ratified.

The following resolution relating to the lease by this Company of the railway and undertaking of The Winnipeg River Railway Company was submitted, and, on motion of Mr. William C. Finley, seconded by Mr. Alister F. Mitchell, was unanimously adopted, viz.:

Resolved—That the indenture of lease from The Winnipeg River Railway Company as Lessor to this Company as Lessee of which a draft is submitted to this meeting endorsed by the Secretary for the purpose of identification be, and the same is hereby sanctioned and approved, which indenture amongst other things demises to this Company for the term of ten (10) years the railway and undertaking of The Winnipeg River Railway Company, including the railway approximately 13.4 miles in length extending from Lac du Bonnet on the railway of this Company to Great Falls in the Province of Manitoba and all such extensions, branches and additions to the railway above described as The Winnipeg River Railway Company is now or may hereafter be authorized to construct, together with the appurtenances of them and of each of them at an annual rental of $1.00, this Company to have the option of renewing the lease on the same terms for a further period of five years and also the option of purchasing the railway at any time during the term of the lease or the renewal thereof.

And further resolved—That the President and Secretary be and they are hereby authorized to execute the said indenture on behalf of and under the Corporate Seal of this Company with such verbal changes, if any, as they may deem proper, not altering the substance thereof as above described.

The meeting then proceeded to the election of Directors, and on motion of Mr. S. M. Baylis, seconded by Mr. D. B. Seely, the following resolution was unanimously adopted:

Whereas, in pursuance of By-law No. 6, Sir Charles Gordon, G.B.E., Rt. Hon. Reginald McKenna, Mr. Ross H. McMaster, Mr. James A. Richardson and Mr. Morris W. Wilson, 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 Sir Charles Gordon, G.B.E., Rt. Hon. Reginald McKenna, Mr. Ross H. McMaster, Mr. James A. Richardson and Mr. Morris W. Wilson were elected Directors for the term of four years, and the report was adopted.

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; 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.