

REPORT OF THE DIRECTORS

OF THE

CANADIAN PACIFIC RAILWAY COMPANY,

*Submitted at the Adjourned Annual General Meeting of the Shareholders,
held at Montreal on the 13th June, 1885.*

A general balance sheet, with accounts and statements showing the position of the Company at 31st December, 1884, are herewith submitted to the Shareholders.

PROGRESS OF CONSTRUCTION.

The Directors beg to report that: During the past year, the work of construction on the main line has been prosecuted with uninterrupted energy and success; the promise made in May last to the Shareholders, in the Annual Report, "that the rails will be laid from Callender to Port Arthur within a year from this time," having been literally fulfilled.

On the Mountain Section the rails are now laid to a point near the summit of the Selkirks, forming a continuous rail connection from Montreal westward for a distance of nearly 2,500 miles.

On the Government Section between Port Moody (the present Pacific Ocean terminus) and Savona's Ferry, a distance of 213 miles, the rails have been laid; and this section of the line, which will soon be handed over by the Government to the Company, has been operated for some time past by the contractor who built it.

On the section between Savona's Ferry and the present end of the track, near the summit of the Selkirks, a distance of 203 miles (the only remaining gap between Montreal and the Pacific Ocean), the work is so far advanced, as to justify the expectation that the rails will be laid before the end of September—completing the track from end to end of the entire main line.

The Directors, therefore, can confidently assure the Shareholders that by the early spring of next year the through line from Montreal to the Pacific Ocean (a distance of 2,895 miles) will be finished and in perfect condition, thoroughly equipped, possessing every requisite facility for doing its work economically and efficiently, and at least equal to the best of its competitors in all respects; particularly as to curves and gradients, permanent way and rolling stock; the quality and character of the railway being far above the standard fixed in the contract with the Government. The Company will then have built and equipped 2,244 miles of railway within five years from the time it began work.

FINANCIAL POSITION.

In considering the financial position of the Company, it may be well to remind the Shareholders, that at the beginning of the present year there remained in the hands of the Government an unexpended cash balance of \$8,633,082 available for the work under contract with the Government. This sum, as has already been officially stated, is sufficient to complete the work remaining to be done according to the terms of the contract.

It will be remembered that under the contract with the Government it was stipulated that the line to be built by the Company should be of a quality and character equal to the Union Pacific Railway as it was in February, 1873. But since that date the Union Pacific Railway has been greatly improved, and other Pacific railways of a high class have been built, and it will be obvious to the Shareholders that in order to ensure the complete success of the enterprise, as a commercial undertaking, it is absolutely necessary that the railway, on its opening for through traffic, shall be in all respects, at least equal in efficiency to any of its transcontinental competitors as they now exist; and that it should be provided with ample facilities for taking care of its rapidly increasing local traffic.

Recognizing this necessity, the Directors have made during the past year large expenditures for rolling stock, grain elevators, terminal and other facilities, and for the general improvement of the lines in operation—all necessary to secure the requisite high standard of efficiency, though not fully foreseen at the time the contract was made with the Government.

The amount expended towards this object during the past year was \$4,702,684, and this sum, it will be noticed, accounts for the greater part of the floating debt shown in the balance sheet. Further additions to the equipment are now being made; additional facilities will have to be provided immediately; and the usual improvements incident to all new lines must be made from time to time. All the various needs of a new railway in a new and rapidly-growing country, and everything necessary to secure economical and efficient operation, and the full development and permanent control of its traffic, must be supplied.

For these purposes, the estimated amount required will be as follows:—

For sleeping cars, passenger cars, dining cars, baggage, mail and express cars, emigrant cars, box and cattle cars, conductors' cars, derrick, tool and other auxiliary cars, locomotives, hand cars, push cars, track tools, semaphores and other equipment requisite for operation of line, also for restoring construction locomotives to good working condition.....	\$1,000,000
For elevators at Port Arthur, Fort William, Montreal, etc.; coal-bunkers, Montreal; additional real estate, Montreal and elsewhere; revetment walls at Montreal; additional depots and tracks and other facilities, Montreal and other points; additional yard room and tracks, coal and other docks, and other terminal facilities at Fort William and Port Arthur.....	1,500,000
For divisional shops and machinery at nine points, coal docks and machinery at two points on Lake Superior section; station buildings, section houses and miscellaneous buildings at various points; additional station sidings and crossing tracks at various points; extension of divisional yards; additional engine houses; improvement in water supply; additional tanks; permanent bridge work at the various crossings of Bow River and on other sections; additional ballasting, filling trestles and raising roadway.....	600,000
For completion of telegraph system—main line and branches.....	275,000
For connection with Coal Harbour and English Bay; shops, buildings, docks, tracks and other facilities at Pacific terminus.....	760,000
Contingent expenditures.....	910,000
	<u>\$5,045,000</u>

At the end of December last, according to the balance sheet submitted, the total assets of the Company amounted to \$216,711,725.58, as under:—

2,658 miles railway and appurtenances, including steamships and telegraph lines.....	\$115,173,416 26
713 miles railway, built by Government and given to Company free as part of subsidy.....	35,000 000 00
21,399,737 acres agricultural land, valued at \$2 per acre.....	42,799,474 00
Amount in hands of Government to pay 9 years 3 per cent. dividend on capital stock of Company.....	14,288,288 87
Balance due on lands sold.....	2,078,286 56
Land Grant Bonds in Treasury.....	728,500 00
Outside assets.....	6,643,759 89
Total assets.....	<u>\$216,711,725 58</u>

Represented by total liabilities amounting to..... \$106,914,306 00
As under:—

Capital stock.....	\$65,000,000
Canada Central bonds.....	1,823,333
Quebec Province (due on account Q. M. O. & O. Railway).....	3,500,000
Dominion Government loan.....	26,007,512
Land Grant bonds (outstanding).....	3,688,000
Floating debt.....	6,895,461
	<u>\$106,914,306 00</u>

Assuming that the re-arrangement of the Company's finances now under the consideration of Parliament becomes law, and that the \$15,000,000 mortgage bonds provided for under this re-arrangement are sold at par, the following may be taken as the prospective financial position of the Company at the 1st of June next (1886); after having expended the \$8,633,082 remaining in the hands of the Government for the completion of the main line, after having provided for the payment of the floating debt amounting to \$6,895,461, and after having expended the estimated \$5,045,000 required for additional equipment and facilities:—

ASSETS.

2,658 miles railway and appurtenances, including steamships and telegraph lines.....	\$128,851,498
713 miles built by Government, forming part of subsidy.....	35,000,000
21,399,737 acres of land valued at \$2 per acre.....	42,799,474
Amount remaining in hand to pay 3 per cent. dividend on capital stock for 7½ years.....	12 528,029
Balance due on lands sold.....	2,078,286
Outside assets.....	6,643,759
Cash balance from proceeds mortgage bonds.....	3,059,539
	<u>\$230 960,585</u>

LIABILITIES.

Capital stock.....	\$65 000,000
Canada Central bonds.....	1 823,333
Province of Quebec.....	3,500,000
Government loans (secured by bonds).....	20,000,000
* Government loan balance (secured by lands).....	9,880,912
First mortgage bonds (outstanding).....	15,000,000
* Land Grant bonds.....	3,688,000
	<u>\$118,892,245</u>

The Fixed Charges will then be approximately as follows:—

\$20,000,000 Government loan, 4 per cent.....	\$800,000
\$15,000,000 first mortgage bonds, 5 per cent.....	750,000
\$3,500,000 due Government Quebec (account Q. M. O. & O. Railway), 5 per cent.....	175,000
\$1,823,000 Canada Central bonds and sinking fund, 6 per cent.....	107,400
Rental leased lines.....	778,434
	<u>\$2,610,834</u>
Add	
\$9,880,912 Government loan, secured on land grant, 4 per cent.....	395,236
Total fixed charges.....	<u>\$3,006,070</u>

As the Shareholders are already aware, persistent efforts of the enemies of the Company at home and abroad to destroy confidence in the enterprise have been so far successful, that the \$35,000,000 of unsold shares of the Capital Stock of the Company have become practically useless as an available resource. The Directors have in consequence been obliged to apply to the Dominion Government for a modification of the terms of the Act under which the loan of last year was granted to the Company. And a measure is now before the Dominion Parliament which provides amongst other things for the cancellation of the \$35,000,000 of unsold shares, and the substitution thereof of \$35,000,000 five per cent. first Mortgage Bonds. The measure also provides for the postponement of the payment of the indebtedness of the Company to the Government, amounting to \$29,880,912, to 1st May, 1891, and for the reduction of the rate of interest from five per cent. to four per cent.; the Government agreeing to accept \$20,000,000 of the proposed bonds as security for the payment of an equal amount of the debt; and, as security for the payment of the remaining \$9,880,912, to retain a first lien on the unsold land of the Company, subject to the outstanding Land Grant Bonds.

This measure does not afford means for so complete and advantageous an arrangement of the Company's affairs as would have been attained under the conditions suggested in the President's letter of the 18th March last, a copy of which and of the resolution based thereon, now before Parliament, will be found in the Appendix to this Report. But the proceeds of the \$15,000,000 of First Mortgage Bonds which will be available for use by the Company will be sufficient to enable it to pay the floating debt, and to provide for all the additional equipment and facilities which will be needed to place the carrying powers of the Company, and its accommodations for traffic, in the highest condition of convenience and efficiency. But the Company is being pressed in several quarters for extensions and additional facilities beyond its main line, some of which it desires to provide; and although the Directors hope that the measure proposed may also enable them to meet the more important of these requirements, it remains to be seen how far the Government measure, in reducing so largely the relief the Company requested, may not restrict its power of providing for the extensions of its connections which the Company and the public, and it is believed the Government also, desire to see carried out; and may not also interfere with the intention and wish of the Company to anticipate the period of the repayment of the Government loan.

* These items will be reduced by land sales.