

Two used North Star M2 aircraft were purchased during the year and the net book value of these aircraft was brought into line with the depreciated value of similar aircraft already owned by the Airlines by charges to Flight Equipment Depreciation Accounts.

During the year the remaining five of the twenty-seven DC3 aircraft became fully depreciated with a residual value of \$5,000 each.

Interest on Capital Invested

Interest at the rate of 3 per cent was paid to the Canadian National Railway Company on its investment in the capital stock of the company.

Non-Operating Income—Net

Temporary cash investments consisting of Canadian National Railway 2 $\frac{3}{8}$ per cent guaranteed bonds and 3 per cent bonds and debentures guaranteed by the Provinces of Ontario and Quebec carried at cost in the Balance Sheet at 31st December 1950, were sold during the year and the resultant loss has been charged against Non-Operating Income. Credits to this account comprise interest earned on temporary cash investments, interest on deposits with the Canadian National Railways and discounts earned on purchases. In the case of the Atlantic Services the expense arose through the sale of foreign currencies.

CONSOLIDATED BALANCE SHEET

Assets and Liabilities

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such accounts have not been verified by direct communication with the individual debtors and creditors.

A physical inventory of material and supplies was taken late in 1951. We have received a certificate from the responsible officers to the effect:—

- (a) That the quantities were determined by actual count, weight of measurement or by a conservative estimate where such actual basis was impracticable, and
- (b) That the inventory pricing was based on latest invoice price for new materials, and that proper allowance for condition has been made in pricing usable second-hand, obsolete and scrap materials.

Ledger values were brought into agreement with the physical inventory by a charge to operating expenses of \$8,000.

During the year surplus funds of \$11,000,000 made available through accumulated depreciation accruals, were deposited with the Canadian National Railways. Interest at the rate of 3 per cent was paid to the Airlines on these deposits.

The Insurance Fund investments consist of securities of the Government of Canada, Canadian National Railways (Guaranteed by the Government of Canada), Provinces of Ontario and Quebec and securities guaranteed by the Province of Ontario, together with cash and sundry current assets. The year-end market value of these securities was 11.08 per cent less than cost.

Advance payment on purchase of Aircraft represents an advance of 25 per cent on the purchase of five Lockheed Super Constellations due for delivery in late 1953.

Capital assets are carried on the basis of cost, less accrued depreciation.

Insurance Reserve

The Insurance Reserve amounts to \$4,572,000 of which \$3,010,000 is applicable to the North American Services and \$1,562,000 to the Atlantic