

five-year period. By the addition of one-half of the estimated annual saving under unification at the end of the fifth year, namely \$30,000,000, to the net earnings of \$1,260,000 as shown by the Canadian Pacific balance sheet for last year, that company's annual net earnings would be increased at the end of five years to \$31,260,000. Deducting from this amount 4 per cent interest on the non-cumulative stock, roughly five and a half million dollars, would leave net earnings for the Canadian Pacific of \$25,760,000, equal to 7.68 per cent on the ordinary stock as carried on the books of the company. While this takes in the miscellaneous earnings of the Canadian Pacific, it is a very good showing for the railway.

Does any honourable senator think the country would be satisfied with this result of unification? It offers but a partial release from our heavy annual railway deficits. It, I believe, is the best we can hope for under the plan, as I think we can take Sir Edward Beatty's estimate of savings to be the maximum obtainable under almost any conditions.

It is always difficult to make a complete and correct analysis of any balance sheet unless you make the balance sheet yourself.

Some Hon. SENATORS: Hear, hear.

Hon. Mr. McRAE: A casual review of the balance sheet of the Canadian Pacific for last year would indicate that assets aggregating about \$150,000,000, with earnings of \$7,363,000, are quite separate from the railway, and are not a part of the unification proposal. The unified plan applies only to the Canadian Pacific lines in Canada and does not include ocean and coastal steamships, miscellaneous investments, mortgages, insurance fund investment, deferred payments on lands and town-sites, and unsold lands and other properties, all of which we should not be far afield in estimating at \$150,000,000. It does not appear that the proposal includes the current assets of the company, being largely its working capital, aggregating about \$50,000,000.

As an instance of the difficulty in arriving at a fair conclusion as to the balance sheet, I might mention the share holdings of the Canadian Pacific Railway in the Consolidated Mining and Smelting Company. On page 29 of the railway's report for last year will be found reference to the Consolidated Mining and Smelting holdings, under the heading "Par value or principal amount." Here you find this investment carried on the books of the railway at \$8,412,500. It is generally understood that the Canadian Pacific controls this great mining corporation. By reference to the dividends received for 1938 as compared with the previous year, which are shown on

Hon. Mr. McRAE.

page 7 of the report, under the heading "Other income," the exact shareholdings of the Canadian Pacific can be arrived at. These figures disclose that it owned 1,682,500 shares of Consolidated Mining and Smelting Company out of a total outstanding capital of 3,277,335 shares, or 51½ per cent of the issued capital. Taking the present market price of Consolidated Mining, as quoted on the Toronto Exchange last week, at \$40 a share, we find that the holdings of the Canadian Pacific in this company, while carried on the books at \$8,412,500, have a market value of \$67,000,000. Here is a nice little reserve of about \$60,000,000 put away for a rainy day. It furnishes a very definite answer to those who say that the Canadian Pacific cannot carry on.

In fairness to the Canadian Pacific let me say, I quite appreciate that while these assets were acquired from the earnings of the railway, they are quite aside from the railway operation itself. The company's proposal is to put into the unified railway corporation only the railway itself, to correspond with the property which the National Railways could place under unification. As a matter of fact, the unification proposal includes only the Canadian lines of the Canadian Pacific Railway. The operation of them undoubtedly shows a deficit.

It will be observed, on page 7 of the Canadian Pacific Railway's annual report for last year, that income other than from railways aggregated \$7,363,000, after depreciation, etc.—a decrease from \$11,629,713 in 1937. If in order to arrive at the actual results of the Canadian Pacific Railway as an operating unit we eliminate this \$7,363,000 from the earnings and deduct the net surplus of \$1,262,000 for the year, as shown on page 4, it is but fair to assume that on the railway operations alone there was a deficit of roughly \$6,000,000. This might be slightly affected by earnings, if any, on Canadian Pacific hotels, details of which are not disclosed in the annual statement, although they would form a part of unification. Honourable senators will appreciate that because of the limited information available my deductions may be slightly incorrect, but they will be sufficiently accurate for our consideration.

I may say to the House that I do not think the statements of either of our railway systems present a true picture such as would be disclosed by a business institution which was desirous of safeguarding future annual statements of the company. I have long felt that under the extreme necessity of reducing deficits and putting on the best financial face possible our railways have not made ample