

considerable quantity in advance of our immediate requirements, &, therefore, for the moment we do not feel the pinch in this respect. But then this increase goes through the whole of the steel & iron trade, & the increases between Jan. & Aug. this year have varied from 50% to something like 150%. For instance, steel boiler plates have increased by 125% in value, & steel tank plates by 136%. The result of all this—and it affects, of course, every other company as well as ours—is hesitation & reluctance to embark upon new works. We all of us shall postpone as many important works as we possibly can in the hope that prices will come down, & the fact of our abstention, coupled with the fact that a large quantity of new capital will probably go into this industry, will tend, I hope, to bring prices down. Meanwhile, we must watch things very carefully, & we shall certainly not embark in any unnecessary expenditure. Even in the case of lumber, of which you would think there was such an unlimited supply in Canada, the price has also risen in every class by about 19½%. As to rates, I am sorry I have nothing very satisfactory to tell you—in fact, Mr. Hays reports that the open tariffs are lower than ever. The only remedy for this state of things, as far as I can see, is that which I have mentioned upon one or two occasions previously—namely, legislation by the U.S. Congress. I think that the mind of the public is being gradually crystalized to recognize the fact that something must be done for the railways in that respect, to allow them to pool their earnings, & to give them the legal power to enforce contracts among themselves. You see, as I said before, there are always these conflicting elements at work in the administration of the great railways. First of all, the natural pressure of increased expenditure, & against that the countervailing efforts of the management to introduce more economical methods of working, & also, of course, to obtain more profitable business. You will remember what Mr. Hays said last year, "that to save money you must spend money," & that must be our note, I am afraid, for some time to come.

We shall have to ask you to pass a resolution approving of the agreement which has been entered into between our Co., subject to your approval, & the Dominion Government, for the lease to the Intercolonial Ry. of running powers over a portion of our line. The matter has been mentioned on one or two previous occasions, but it is only now that we are in a position to ask you to give your formal sanction to the arrangement, because it was only in Aug. last that the Act of the Dominion Parliament received the Royal Assent. The matter hung fire for some little time in consequence of the opposition of the Senate. The Bill passed the Lower House last year, & when it went to the Senate certain modifications in the agreement were insisted upon so that it was thrown out, but this year it was reintroduced, & modifications have been made which do not affect the general purport of the agreement, & the matter is now complete. I must explain to you generally what the nature of the agreement is. The chief points are, that in consideration of the joint use by the Intercolonial Ry. of the G.T. bridge across the Chaudiere River & the joint use of the G.T. Ry. & property between Ste. Rosalie & St. Lambert stations, together with the use of our railway & property between & including Ste. Rosalie & Bonaventure station, Montreal, the use of the Victoria bridge & of the termini in that city, the G.T. Co. is to receive a yearly rental of \$140,000, payable in equal monthly instalments, & also a share of the cost of maintaining the railway appurtenances & appliances between & including Ste. Rosalie & Bonaventure station, of the Chaudiere bridge & connections, & also the cost of maintaining the tracks of

the Victoria bridge in the proportion that the combined engine & car mileage of the I.C.R. trains, made over each of the above-mentioned joint sections, bears to the total combined engine & car mileage running over the said joint sections during each month. There are also provisions as to the I.C.R. paying a portion of salaries & wages & also imposing upon them the obligation, in the event of doubling the track or erecting new stations, that they shall pay 4% on a proportion of the capital outlay. There are also provisions for the conduct of traffic, the application of receipts, & arbitration in case of necessity. I must explain to you that the point to which the Senate took exception, & which was afterwards conceded by the Government, was this: Under the agreement an arrangement was to be entered into between the two companies for the interchange of traffic, & inasmuch as the traffic arrangement was to run concurrently & continuously with the main agreement for 99 years, it was objected that the Government would tie its hands for too long a time. That matter has been conceded, & is now arranged that the traffic agreement may be put an end to at any time on 6 months' notice. It is a matter of no great importance to us, because we feel thoroughly convinced that there can be no reasonable chance of competition in view of the great convenience to the I.C.R. afforded by our valuable terminals at Montreal. That is explained in the supplementary agreement which will have to be approved by you. May I take the agreement as read? (Voices: "Yes.") I will take the opportunity of mentioning in respect to this arrangement, that it is one that recommends itself to the judgment of the board, & I hope it will to yours. It is part of the policy which we have pursued for the last 3 or 4 years of entering into friendly agreements with our connecting lines. The result is that at present we are in receipt of rents under 3 of these agreements—namely, that with the Wabash, that with the C.P.R., with respect to its running powers between Toronto & Hamilton, & the present agreement. The aggregate which we receive now as a yearly rental amounts to about £86,000, which will be increased in view of the progressive increase in the rent payable by the Wabash, to over £100,000 a year. That is a very comfortable amount to come yearly into our coffers, irrespective of other considerations.

Now I come to a matter of considerable interest & importance which has engaged the anxious consideration of the board for some time past—I allude to the position of the Chicago & G.T.R. You are familiar with the history of that line. You know how it was built up mainly by the energy & ability of Sir Joseph Hickson, formerly General Manager of this Co. You know it is a line which runs from Port Huron to Chicago, a distance of 335 miles. You know it is our great means of communication with the West, & that we also have a very large financial interest in the undertaking. But what perhaps you may not be aware of, if you have not studied our reports very closely, is the fact that there has gradually accumulated a very large indebtedness from the Chicago & G.T. Co. to the G.T. The Chicago & G.T. has not been in a position to raise capital for the improvement of its line, because the conditions of the 2nd mortgage preclude any amount being raised in excess of the 1st mortgage. The consequence of that has been that it has had to fall back upon the G.T., & that large sums have been advanced for many years past for general capital purposes, & for loans on rolling stock indebtedness, cars, & so forth. That amount at the present time is no less than about £650,000, & I think I may take credit to ourselves in saying that since the present board came into office, no addition has been made to that indebtedness. Indeed, I may say we have been able to decrease the amount by

some £11,000. But over and above that indebtedness, we have, under the traffic agreements which we could not evade, advanced over this period of years about £695,000; the consequence is, up to the present moment, we have had to put our hands into our pockets to the extent of between £1,300,000 & £1,400,000. Well, the condition of the Chicago & G.T. line is not at all satisfactory, particularly when you have to take into consideration that it is competing with other vigorous & wealthy lines running out of Chicago, & it has become perfectly obvious that if the Chicago & G.T. is to hold its own against this competition, it must spend a considerable sum of money in doubling the track & improving the grades. It is a matter of the most absolute necessity. Therefore, the question arose, how was this to be done? & we considered that a very opportune moment presented itself for the consideration, & I hope, the settlement of this question, in view of the fact that on Jan. 1 next a large number of 1st mortgage bonds fall due, & at that time the traffic guarantee under which these bonds receive their interest ceases, & I may just remark that we, the G.T., are not responsible for the principal. The Chicago & G.T. Co., let me remind you, is a separate corporation, & an American line. It is maturing a scheme which it is hoped will place the Co. upon a thoroughly sound & paying basis, & at the same time provide sufficient funds to carry out these indispensable improvements to which I have alluded. I am not in a position to go further into the question to-day, but a circular will shortly be issued by the Chicago & G.T. board to the mortgage bondholders, stating the proposals which they deem it their duty to make in the general interest, & to carry such a plan, which is so desirable for all parties concerned, into effectual operation, the co-operation of the Chicago & G.T. bondholders, as well as of the other creditors of that Co., of which the G.T. Co. is the chief, will be invited, & I think I may say on your behalf that any assistance consistent with the protection of your interests the G.T. Co. can render will be cheerfully afforded with a view of placing the Chicago & G.T. Co. in a permanently self-supporting position.

There are no further topics of prominent interest on which I need dilate to-day, & I have only a few words to say in conclusion. We may look back, I think, with justifiable satisfaction upon what we have done during the last 3 or 4 years. I think we may also fairly say that the prospect in the immediate future is bright. In the current ½-year, although it is a little premature to estimate exactly what the outcome will be at Dec. 31, yet so far for the 1st 2 months of the ½-year our net receipts have exceeded those of the corresponding period for last year by £43,000, & for the first 14 weeks of the ½-year, concluded 5 days ago, the gross increase of receipts has been £178,000. The general outlook is promising. The crops are good. I believe that the harvest is not likely to realize altogether the expectations that were formed a few weeks ago, but, at the same time, it is an excellent harvest, & in all other respects business is going ahead in a manner which has never been seen before, either in the U.S. or in Canada. Prosperity—to use Mr. Gladstone's expression—is advancing by leaps & bounds. The aggregate amount of exports & imports in Canada has been enormously increased. There have been large budget surpluses, almost a new feature in the history of Canadian finance. The banks say they have never had such a year before. Money is freely subscribed for new companies, and, in short, there seems to be enterprise all round. Therefore, I say, for the immediate future we have nothing to apprehend. Yet, at the same time, it is my duty to point out to you that prosperous times cannot always last, & we must be prepared for vicissitudes in the