

point, and so long as these conditions continue no improvement can be expected in net revenue.

Construction and Betterments—Prior to the war the company had in western Canada a number of branch lines under construction, but work on these lines, owing to limitation on spending of capital moneys, and also the difficulty of obtaining material, was necessarily discontinued. Since the signing of the armistice, urgent requests from settlers along the projected lines were renewed, and after many delegations from various sections of the prairie provinces had been received by your directors and the executive, and after the entire situation had been carefully reviewed, a programme of construction was adopted providing for the completion of certain partly constructed and projected lines which would serve new districts where settlement had preceded the railway and where the settlers were suffering most through lack of transportation facilities. Provision for this construction programme and for the company's betterment and equipment requirements, have been made in the government estimates for the current year and the work is under way. Due to the difficulty of securing material, expenditures beyond those actually required for current operation where not incurred during the war, and the shortage in some respects was so great that actual operating requirements could not always be met, with the result that in the year under review, only a comparatively small amount of betterment work could be undertaken. For this reason the programme of betterment work submitted by the management for the present year was an extensive one, and your directors have approved the expenditure of a substantial sum to be devoted to providing improvements to the physical property of your system.

New Equipment—To provide for additional train service and to take care of new mileage, equipment was ordered and delivered during the year as follows—60 consolidation locomotives; 10 six-wheel switching locomotives; 10 passenger refrigerator cars; 140 forty ton freight refrigerator cars; 5,000 forty ton steel underframe and side frame box cars; 300 thirty ton wooden stock cars; 500 forty ton steel frame flat cars; 250 fifty ton steel underframe gondola cars; 250 fifty ton wooden dump cars; 25 fifty ton steel tank cars; 15 forty ton steel tank cars.

Lines Acquired—The Toronto Suburban Ry. (operated by electricity) with 46 miles of suburban line from Toronto to Guelph, and 19 miles of urban lines, mostly within the City of Toronto, and the Toronto Eastern Ry. (electric) with 19 miles of partly constructed line between Bowmanville, Oshawa and Whitby, Ont., have been acquired by your company. The operations of these lines will be included with those of the Niagara, St. Catharines and Toronto Ry. in a separate statistical statement, the net return alone being included in the system accounts.

Leaside Terminals—The first units of the Leaside terminals at Toronto, which were about completed at the close of 1918, were put into operation in the early summer of 1919. This plant will provide repair facilities for Ontario lines which have hitherto lacked suitable shop accommodation. The shops are conveniently located near the North Toronto terminals in which your lines have a

joint interest with the C.P.R.

Montreal Tunnel—On Oct. 21, 1918 last, service through the Montreal tunnel was inaugurated, and since then, regular service between Montreal, Ottawa and Toronto has been given, using the new short line between Hawkesbury and Montreal.

Ocean Steamship Services—Early in 1918 the Dominion Government, realizing the need for a mercantile fleet to develop Canadian export trade, placed orders with Canadian shipbuilding firms for a large number of ocean-going steamships. The government has arranged for these ships to be operated by a company under the charter name of the Canadian Government Merchant Marine Ltd., the directors of which company are members of your board. Up to date 12 ships have been delivered, and the following services have been established; Between Montreal and St. John's, Nfld., Cuba, the West Indies, South America and various United Kingdom ports, which services will continue from Halifax, or St. John, during the winter. Cargoes have also been carried to French ports, and from Vancouver to United Kingdom ports via the Panama Canal, and a service from Vancouver to Australia is just about to be established. Additional services have been arranged for as soon as further vessels are delivered by the builders, and the operation of the boats is confidently expected to reflect most satisfactory results in the building up of Canadian trade and from which the Canadian National Rys. should receive substantial benefits in traffic returns.

Vancouver-Victoria Car Ferry—During the year, the car ferry Canora was completed at Quebec, and made the trip from there to Vancouver via the Panama Canal. It is now in regular operation between Vancouver Island and the mainland.

Organization—Immediately following their appointment, the directors took up the reorganization of the official staff of the Canadian Northern Ry. System. This matter was under way when, by order in council passed on Nov. 20, 1918, your directors were constituted a board of management for the Canadian Government Railways. This necessitated a more extensive rearrangement of official personnel, and the amalgamation of the staffs of the two systems. In anticipation of post-war developments, the Resources Department has been strengthened and is carrying on active work. It will handle immigration matters.

The use of the collective title "Canadian National Railways," as representing both the Canadian Northern System and the Canadian Government lines, was authorized by order in council passed Dec. 20, 1918, and by special act of the Dominion of Canada, the Canadian National Ry. Co. has been incorporated, in order that the various railways under federal control may be operated by the new company for the government.

The members of your board have made inspections of most of your lines, and additional inspection trips will be made from time to time, so that your board may have first hand information as to the general condition, upkeep and operation of the railway.

Your board is glad to welcome back to the service of the railway those officers and employees who have been serving with Canada's expeditionary forces in the great war. To those who have suffered bereavement, the directors desire to convey their sincere sympathy. The

board expresses to the management and employees its thanks for loyal and efficient services rendered throughout the year. In this connection it should be remembered that the epidemic of influenza created conditions of great hardship, and resulted in overtaxing those on whom fell the burden of carrying on, during the periods when many employees were forced to remain out of service. To the families of those who succumbed to the attack of this dread disease, the board desires to tender its sympathetic condolences and to record its sense of loss by the death of a number of valued officers and employees.

Income Statement Year Ended Dec. 31, 1918.

Revenue	\$47,310,011.91
Subsidiary miscellaneous earnings	1,752,700.59
	\$49,062,712.50
Working Expenses	\$44,062,949.94
Taxes, rentals, joint facilities, etc.	1,599,325.32
	45,662,275.26
Net earnings	\$ 3,400,437.24
Fixed charges—Canadian Northern Ry.	\$ 6,875,465.58
Fixed charges—Affiliated companies	4,301,207.57
Interest on demand and short term notes—Government	3,926,279.61
Other	2,795,294.22
	17,898,236.98

Deficit carried to profit and loss statement	\$14,497,809.74
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Profit and Loss Statement at Dec. 31, 1918.

Deficit on income account	\$14,497,809.74
Discount, etc., on funded debt	694,624.97
Taxes accrued to Dec. 31, 1918	409,657.67
Adjustment interest on D.R.L. and Winnipeg Ry. bonds included in D.W.P.R. account in C.N.R. accrued interest statement, Sept. 30, 1917	24,999.99
	\$15,627,092.37
Less delayed income, debits and credits, credit balance	47,237.24
	\$15,579,855.13
Adjustment of land sales	936,101.83
Net deficit	\$14,643,753.30
Surplus brought forward	32,575,977.91
Total surplus to Dec. 31, 1918, carried to balance sheet	\$17,932,224.61

Operating Revenues Years Ended Dec. 31.

%	1918	Class	1917	%
16.54	7,824,444.44	Passenger	7,055,427.81	17.01
77.65	36,735,869.46	Freight	32,012,791.03	77.19
.52	245,187.12	Mails	249,983.06	.62
2.04	964,617.55	Express	856,402.77	2.06
3.25	1,539,893.34	Miscellaneous	1,295,417.17	3.12
100.00	47,310,011.91	Total	41,470,021.84	100.00

Operating Expenses Years Ended Dec. 31.

%	1918	Class	1917	%
20.56	9,060,264.79	Maintenance of way and structures	7,059,883.88	20.75
19.29	8,498,673.11	Maintenance of equipment	6,086,901.56	17.89
1.81	797,191.68	Traffic expenses	777,121.18	2.29
54.26	23,907,348.28	Transportation expenses	18,247,439.92	53.62
1.31	576,071.12	Miscellaneous operations	546,378.12	1.61
2.77	1,223,410.96	General expenses	1,308,927.77	3.84
100.00	\$44,062,949.94	Total	\$34,026,652.43	100.00

Summary of Revenues and Expenses Years Ended Dec. 31.

%	1918	Class	1917	%
	\$47,310,011.91	Operating revenues	\$41,470,021.84	