According to the estimate submitted by the company, the fixed charges for the year ending June 30, 1917, will be $16,539,638, but the Dominion and British Columbia governments have undertaken to pay $4,514,507 under certain agreements. "This leaves the company to find out of net revenue about $2,500,000 more than it had available this year. An income of $2,500,000 net implies an increase of at least $9,000,000 gross, and the company itself does not venture to expect a greater increase of gross than $7,000,000.

"The above agreements to pay interest are only for two and three years respectively. The company's estimate for the year ending June 30th, 1921, is that they will then have fixed charges amounting to $18,300,000, and this burden they will have to bear unaided. (This includes interest on $2,250,000 on the new capital estimated by the company as necessary to be spent in the five years. This estimate we regard as quite inadequate.) To carry it they would need a gross revenue of $61,000,000, assuming working expenses at the moderate ratio of 70 per cent. We cannot think it safe to assume that such a result will be easy to attain.

"The Canadian Northern Railway have taken and still continue to take an unjustifiable sanguine view of its possibilities. In 1914, when the company was applying to parliament for debentures, it submitted estimates for the years 1916-18, on what was described as a very conservative basis. The estimate for gross earnings for 1916 was $54,000,000, with net earnings of $15,120,000. The fact has been that the gross earnings have been $35,476,000 and net earnings $9,373,000.

C.N.R. Did Not Meet Bonded Indebtedness.

"A further fact has been that for the year ending June 30th, 1916, interest upon $25,000,000 income debenture stock was passed, interest was charged against capital to the amount of $5,445,389, and the company was still $248,000 short of the money required to meet its bonded indebtedness.

"The company submitted an estimate to us for the five years, 1917-21. The estimate submitted to parliament for the year ending June 30th, 1917, was, gross earnings $61,000,000, net $17,700,000. The revised estimate submitted to us by the company is, gross $42,590,000, net $11,500,000. The estimate submitted to Parliament for the year June 30th, 1918, was, gross $67,000,000, net $20,100,000. The revised estimate now submitted to us by the company is, gross $48,185,000, net $13,395,000.

"We think the new estimate made for us, even though more conservative than the former, is still too sanguine. We see no reason to think that the traffic will increase to any such figure as that indicated.

"We think that $40,000,000 for equipment, and perhaps $30,000,000 for additions and betterments, would be a moderate estimate of the system's needs in the next five years, assuming that the system remains separate and independent.

"We sum up the Canadian Northern situation as follows: The company is not at present able, and will not for some years to come be able, to meet its fixed charges. It will, we doubt not, increase its net earnings as the years go by. But the increased net earnings will be fully absorbed for some years to come by the interest on new capital, which must be put in, if the system is to render efficient service. The company has not now, and as far as we can see will not have in the near future, such credit as to enable it to raise the necessary capital. As we have already shown, the public investment, direct and indirect, in the Canadian Northern system amounts to $298,000,000. We do not recommend further public investment in the system, as at present constituted."

The property investment of the Canadian Northern Railway as stated in the balance sheet of June 30th, 1916, is $494,112,489. This figure has admittedly been written up to include $100,000,000 of capital stock issued without any cash consideration. "We find $37,000,000 to be maximum possible cost of the Canadian Northern system as at present existing."

Professor Swain's physical valuation of the system shows a total reproduction cost of $397,441,567. From this he deducts for depreciation $40,031,889, making the cost of the reproduction of the property in its present condition, $357,409,678. This, however, does not include equipment to the value of $56,590,418 (pre-war prices). Depreciation of equipment to the extent of $11,250,433 makes the present value $45,339,985.

C.N.R. Liabilities Equal to Its Assets?

"Putting the two valuations together, we have $402,749,663 as a fair cost of reproducing the entire physical Canadian Northern system in its present condition. Now the outstanding liabilities (bonds, debentures, notes and bank and other loans) of the company exceed $400,000,000.

"Reckoning on this basis, the liabilities are practically equal to the reproduction cost of the physical property. But the physical property does not all belong to the Canadian Northern shareholders. There are minority holdings in some of the subsidiary undertakings which imply a reduction of more than $10,000,000 in assets belonging to the Canadian Northern shareholders.

"We find, then, that on the physical basis, the value of the property of the Canadian Northern shareholders is distinctly less than the amount of the liabilities against it. On this basis the equity of the shareholders must be regarded as non-existent.

"A third basis of estimate is the value of the property for sale as a going concern. A purchaser would not consider either original cost or reproduction cost as of much importance. The price he would pay would be based on earning power, present and potential. On this basis he would consider how far the Canadian Northern is at present short of covering its fixed charges, how long it will take to reach equilibrium, how much new capital will have to be spent, how soon a dividend may be expected and at what rate. Calculating on this basis, in the light of the figures set out above, it is evident that no purchaser would offer for the property a sum amounting to the total of its liabilities.

Conclusions Regarding the Canadian Northern.

"We conclude, therefore, that the shareholders of the company have no equity either on the ground of cash put in, or on the ground of physical reproduction cost, or on the ground of the saleable value of their property as a going concern. If, then, the people of Canada have already found, or assumed responsibility for, the bulk of the capital; if they must needs find what further capital is required; and if they must make up for some years to come considerable deficits in net earnings, it seems logically to follow that the people of Canada should assume control of the property. We return later to the Canadian Northern Company in order to set out our recommendations as to its ownership and management in