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5TH MARCH, 1953.

CANADIAN NATIONAL RAILWAY SYSTEM

The Honourable the Minister of Transport,
Ottawa, Canada.
Sir,

We have audited the accounts of the Canadian National Railway System for the year ended the 31st December, 1952 under authority of The Canadian National-Canadian Pacific Act, 1936, and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting and financial officers at Headquarters having as a common objective the securing of maximum internal protection to the System in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The System is further protected by fidelity bond insurance with outside underwriters. The audit tests were carried out in the offices of System Headquarters, Regions and Separately Operated Properties in Canada, the United States, London (England) and Paris (France).

Our audit of the accounts included the verification of the Consolidated Balance Sheet and the Consolidated Income Account and certification thereof.

Apart from those pertaining to the Trans-Canada Air Lines and the non-operating Canadian Government Merchant Marine, Limited, the holdings in the capital stocks of the Affiliated Companies are insufficient to give voting control and accordingly the Companies are not treated as units of the System nor have their accounts been audited by us. In the majority of instances they are audited by joint committees composed of System accountants and representatives of outside interests.

THE CANADIAN NATIONAL RAILWAYS CAPITAL REVISION ACT, 1952

In previous reports, we have called attention, amongst other matters, to the disproportionate ratio of fixed charges to operating revenues in comparison with other railways in North America, and also to the desirability of a uniform system of accounting for Canadian railroads.

Under date, the 4th July, 1952, Royal Assent was given to The Canadian National Railways Capital Revision Act, 1952, an act to revise the capital structure of the Canadian National Railway Company, and to provide for certain other financial matters. The Consolidated Balance Sheet at the 31st December, 1952 gives effect to the revision of the capital structure, and the reduction of interest payable to the Government of Canada through the exchange of interest-bearing debt for Preferred Stock is reflected in the Consolidated Income Account.

In compliance with Section 6 of the Act, the Minister of Finance purchased during the year from the Company at par 18,486,540 four per cent preferred shares of one dollar par value equal to three per cent of the gross operating revenues of the system for the eleven months ended the 30th November, 1952. 1,770,042 additional preferred shares were purchased in January 1953, of a par value equivalent to three per cent of the gross operating revenues for the month of December.