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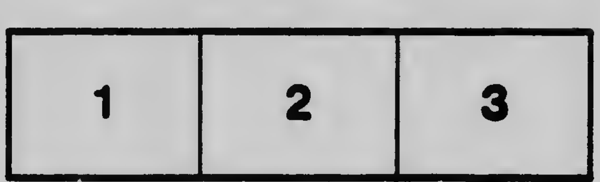

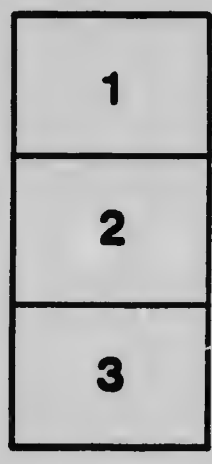

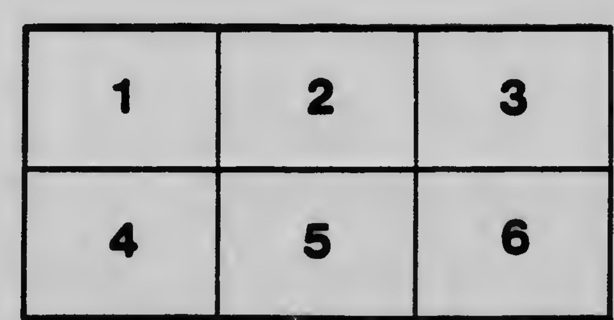

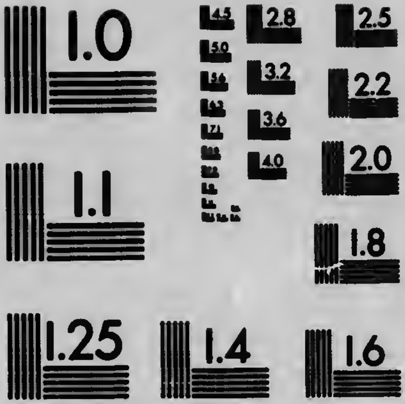
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WITH LORD SHAUGHNESSY'S COMPLIMENTS

ompany

DERS

ADDRESS OF
THE RT. HON. LORD SHAUGHNESSY, K.C.V.O., *Chairman*

Compared with the returns for the calendar year 1916 the Thirty-seventh Annual Report of the Directors now before you for consideration and approval shows an increase in gross revenue from transportation of $12,660,000, but this amount was more than absorbed by the working expenses, which increased $16,590,000, so that the net income from transportation in 1917 was less by $3,930,000 than it was in the previous calendar year.

Notwithstanding the larger volume of traffic in 1917, it will be gathered from the statistics incorporated in the Report that there was a substantial decrease in traffic train mileage and loaded car mileage, indicating still further improvement in operating efficiency. In normal times this should be reflected in the working expenses, but its effect was minimized by the higher scale of wages and the enhanced cost of fuel and other materials required for the maintenance and operation of the railway that prevailed during the year and that added $15,250,000 to the operating expenses.

These conditions were not exceptional in the case of your Company, but applied in a proportionate degree to all the other Canadian carriers.

In view of the abnormal and constantly increasing cost of railway operation, the Board of Railway Commissioners, after due deliberation, authorized an increase of ten to fifteen per cent. in specified zones in the tariff of charges for the carriage of passengers and freight. This concession to the Railway Companies to assist them in meeting, in part, the increased cost of the transportation services that they are providing

Canadian Pacific Railway Company

ANNUAL MEETING OF SHAREHOLDERS
MAY 1st, 1918

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To enable the weaker Companies to reap the benefit of the higher rates, and at the same time to meet the objections that had been urged to the participation of the Canadian Pacific in like benefits, the Government decided to permit the advance in rates for the carriage of traffic authorized by the Board of Railway Commissioners to become effective March 15th, 1918, but concurrent with this decision there was an Order of the Governor-General in Council under the War Measures Act, substantially as follows:—

> 1. The Canadian Pacific Railway Company, hereinafter called "the Company," shall pay to the Government of Canada the following special taxes:
>
> *1st.*—One half of its net earnings from railway operation in excess of seven per cent. on its Common Stock (after paying fixed charges, appropriation for Pension Fund, and dividends on Preferred Stock).
>
> *2nd.*—Income tax on the Company's special income (inclusive of all the Company's income, except earnings from railway operations), under the provisions of The Income War Tax Act, 1917, or any amendment thereof hereafter enacted.

Provided that the total amount to be paid each year by the Company shall not be less than—

(1) The Company's net earnings in such year from railway operations, and from special income as defined above, in excess of 10% on its Common Stock (after paying fixed charges, appropriation for Pension Fund and dividends on Preferred Stock), up to $7,000,000, or

(2) The amount by which its net earnings from railway operations exceed the net earnings from railway operations for the fiscal year ended December 31st, 1917, due to the increase in freight and passenger rates granted by the Order of the Board of Railway Commissioners, dated 26th December, 1917.

3. Payment in full of special taxes under this order shall in respect of earnings from and after January 1st, 1918, relieve the Company of liability under the Business Profits War Tax Act, 1916, and any other Dominion Act of like nature hereafter enacted, and (save as hereinbefore provided) under the Income War Tax Act, 1917.

4. This Order shall be deemed to have come into force and effect on the first day of January, 1918, and to continue in force and effect during the present war, and until further ordered.

Briefly stated, this Order-in-Council not only deprives your Company of any improved revenue that might result from the higher tariff, but imposes upon it a measure of taxation discriminatory in character, and therefore your Company might with propriety question its fairness or justification. A state of war, with its enormous demands upon the National Treasury, and other financial burdens brought upon the Country by an unfortunate railway policy, coupled with the thriving condition of your Company's affairs, were in all probability taken as furnishing reasonable warrant for the Government's action

Since the outbreak of war your Company has deemed it a duty to render to Canada and the Allies all the practical and financial assistance in its power, and while it is not possible with constantly changing conditions to form at this time even an approximate estimate of the tax, the amount, whatever it may be, will be paid without protest or embarrassment to your finances. It must not be assumed that in the adoption of this measure the Government was actuated by any spirit of hostility to the Company. On the contrary, it may be stated without reservation that at no other time has your Company enjoyed the confidence and support of Parliament, the Government and the people to a greater extent than at present. Nor should the Government's action be assumed to forecast a policy in the future that might jeopardize investments in Canadian Government, Municipal, or Corporation Securities.

What is commonly called "Canada's Railway Problem" has, for some months past, occupied a place in the attention of the Canadian people second only to the affairs of war, and expedients designed to lighten the burden imposed on the Public Treasury by the railway situation have been considered and discussed by the Public and the Press.

Not unnaturally your Company has, by reason of its outstanding position in the business affairs of the Country, been brought into the discussion. It was evident that some of the writers and speakers who took part had but imperfect information or were guided by traditional misconception when dealing with the affairs of your Company.

Although more than 90% of its securities are owned abroad, your Company is essentially Canadian in its inception, progress and aspirations, and therefore the Directors feel that it is not out of place at this time to give you, for the information of the Canadian public as well as the investors in the property, a brief review of some salient features of the Company's financial policy and progress leading up to its present stable position.

Under the terms of the contract of October 21st, 1880, between the Government of Canada and the Syndicate acting for the Canadian Pacific Railway Company in anticipation of the Charter, the Government undertook to give, by way of subsidy, to assist the Company in carrying its enterprise to successful completion, certain sections of railway between Lake Superior and Winnipeg and between Savonas and Port Moody in British Columbia then in process of construction under Government auspices, $25,000,000 in cash and 25,000,000 acres of land suitable for settlement. After work had been in progress for two or three years it was found that the cost was substantially in excess of the estimates, and the Company applied to the Government for further temporary aid by way of loans. When, in 1885, the repayment of the loans was being arranged, the Government decided to accept in part payment a return of 6,700,000 acres of the Land Grant in place of $10,000,000 in cash; in effect, therefore, the subsidy consisted of $35,000,000 in money, 18,300,000 acres of land, and the sections of railway in process of construction by the Government to which reference has already been made.

At the outset the Company had expected to raise the requisite funds for the execution of the work by sales in the English market of Capital Stock and of Bonds secured by the Land Grant, thus keeping the railway property free from bonded debt, but it soon became manifest that this was impossible, and, therefore, Parliament was asked to authorize and did authorize the issue of $35,000,000 5% First Mortgage Bonds and $65,000,000 Ordinary Share Capital. Despite a determined effort on the part of the Directors to give confidence to investors by depositing in cash with the Government of Canada an amount sufficient to meet a Government guarantee of dividend at the rate of 3% per annum on the Common Stock for ten years, unfriendly influences at home and abroad were so prejudicial in the English, American and Continental markets that the original $65,000,000 only yielded to the Treasury of the Company an average of somewhat less than 46% of its face value. The unwillingness of investors to pay a higher figure for the Stock in those early days need not be considered extraordinary, however, when we learn that as late as 1895, when the railway had been completed and in operation for more than nine years, the Stock was offered in the market at as low as 33%, with but few takers.

In 1885 the President of the Company, now Lord Mount Stephen, induced Baring Brothers to find purchasers for the $35,000,000 First Mortgage Bonds, and by this means the Company was enabled to repay the loans from Government and to meet its floating debt.

It was evident that the main line described in the Agreement, serving as it did thousands of miles of territory almost uninhabited, could not be kept going unless it was brought into touch with the more important commercial centres of Eastern Canada and was provided with branch lines and connections that would contribute traffic to its rails, and, therefore, arrangements were made to reach Montreal, Ottawa, Toronto, and at later stages Quebec, Hamilton, the more important manufacturing towns in Ontario and Quebec, and the Winter port at St. John, N.B., and connections were established at various points along the frontier from the Atlantic to the Pacific with railway systems in the United States. These extensions, feeders and connections were obtained by agreements with a number of Canadian Companies for the acquisition or lease of their properties, the consideration in most cases being a guarantee of interest on their securities by way of rental, and in other cases the Company's credit was utilized for the construction of new lines. In circumstances when the interchange of traffic was a matter of prime importance, the connecting lines in Canada were only built to the International Boundary after the Company had taken the requisite steps to ensure the observance of traffic agreements by the railway lines on the other side of the International Boundary.

Inevitably this policy would lead to a variety of securities in the shape of Bonds assumed by the Company with reference to acquired properties or created and issued to furnish money for construction of new lines, each series secured by a mortgage on the particular property to which it applied.

In order to avoid this undesirable situation the Company decided, with the consent of Parliament, to utilize Consolidated Debenture Stock for the purchase or conversion of existing Bonds, and to provide funds for building or acquiring such additional mileage as might appear to be required from time to time for the advantage of the Country and the Company. This Consolidated Debenture Stock is perpetual and irredeemable, differing from a mortgage bond in that it gives no right of foreclosure in the event of default. The holders have a first claim on the revenues of the Company for their semi-annual dividends after the working expenses and taxes or fines have been paid, and the contract demands of existing bond-holders have been satisfied. If by any chance the Company failed to pay, within a fixed period, the dividend accrued on the Consolidated Debenture Stock the holders of that Stock would become the Shareholders of the Company and would control its affairs until the default was made good, when the property would automatically pass back to the Preference and Ordinary Shareholders.

In the early period of its history the Company was beset by many difficulties and disappointments, but on the whole its progress was not unsatisfactory.

In 1899 the Company had 7,000 miles of railway; its gross earnings were $29,200,000 and after the payment of working expenses there were net earnings of $12,200,000; the funded debt secured by Mortgage Bonds was $47,200,000; Debenture Stock had been sold to the amount of $54,237,000, and the annual fixed interest charges were $6,800,000; while in 1916 the operated system comprised 13,000 miles, with net earnings of $50,000,000 and an increase of only $3,500,000 in the annual interest charges.

Capital Expenditure

After 1899 the Company's traffic commenced to show considerable growth and the necessity for more rolling stock equipment and for traffic facilities and improvements of every possible description became imperative. Year by year with the great expansion of business throughout the Country the demand for adequate facilities became more pressing, and the records show that in the years 1902-1914 inclusive, the Company expended for second tracks, reduction of gradients, terminals, freight yards and facilities, work shops, machinery, and improvements of every character chargeable to Capital, $206,300,000, and for cars, locomotives and other equipment $130,000,000. To meet this expenditure of $336,300,000 Debenture Stock could not legally be utilized and Preference Stock could be issued and sold only in limited amounts. In these circumstances the Directors decided to ask the Ordinary Shareholders of the Company to provide funds as these were required from time to time by taking further allotments of Common Stock.

In the thirteen years mentioned the Shareholders were offered and accepted $195,000,000 of Common Stock for which they paid $262,100,000. Out of this, $33,750,000 of Canadian Pacific First Mortgage Bonds were paid off and retired, and $26,200,000 was used to pay the cost of railway lines acquired or constructed and of additional steamships with reference to which no Bonds or Debentures were sold. The remaining amount, $202,150,000, was supplemented by the sale of Preference Stock and Equipment Notes that brought in $56,500,000, making a total of $258,650,000 to apply against expenditures of $336,300,000. The further sum necessary, namely, $77,650,000, was provided from the surplus revenue of the Company. Thus the Company was put in a position to deal efficiently and economically with a large and ever-increasing volume of traffic, and at the same time was able to reduce its bonded debt, the requisite money being provided by the owners of the property who were willing to venture their money on Canada's present and future stability. They were encouraged by the annual accounts of the Company which, year by year, showed most gratifying results and gave ample warrant for every statement made by the Directors.

Notwithstanding the low price at which it was necessary to sell the original $65,000,000 of Common Stock, as already explained, the entire $260,000,000 of this Stock outstanding has yielded to the Treasury in cash an average of $112 for each $100 of Stock, and if the additional amount supplied for capital expenditure from the surplus belonging to the Shareholders be taken into account, the Shareholders paid an average of $143 for each $100 of Stock that they hold.

In 1916 the railway system operated directly by the Company and included in the traffic returns had reached 13,000 miles, or 6,000 miles more than in 1899, but the bonded debt had been decreased from $47,200,000 to $3,650,000 and the Consolidated Debenture Stock outstanding was more by $122,000,000. The net revenue from operation had grown from $12,200,000 to $50,000,000 in round figures, while the annual fixed charges were only $3,500,000 more than in 1899. In 1916 the amount available for distribution to Ordinary Shareholders after providing for fixed charges, dividend on Preference Stock, appropriations for Pension Fund, and other purposes, was about $34,000,000, or over 13% on the Common Stock. Of this, 7% was paid to the Shareholders and the balance added to the surplus. In 1917 the mileage operated had increased to 13,400 miles, but the net earnings were less by $3,930,000 although the gross income was larger by $12,660,000, the shrinkage being due to the additional cost of labour, fuel and material of every description.

The progress of the Company has, indeed, been marvellous, and it might readily occur to the casual observer that advantageous terms for the carriage of traffic must have contributed to the result. This is not the case. A reference to the statistics of the Interstate Commerce Commission and to the Annual Reports of the railway companies will show that the average rate per passenger per mile and the average rate per ton per mile, for the carriage of passengers and freight respectively, received by the Canadian Pacific were lower than those received by any combination of railways South of the International Boundary constituting a through route from the Atlantic to the Pacific Ocean.

But it may be asked how is it possible under these conditions for the Canadian Pacific to attain such results when it be taken into account that the rates of pay to employees in every branch of the service are at least as high as, and the cost of its rails, fuel and other material required for the maintenance and operation of its lines is higher than in the case of railway lines in corresponding territory in the United States. The answer is simple. The achievement may be attributed primarily to the policy pursued for so many years of keeping down the annual fixed interest charges while extending its rails into new productive territory as opportunity offered, and improving the standard and efficiency of its property as revenue warranted; but the economies naturally attending the long haul of traffic over its own rails to its own terminals with none of the heavy tolls for handling, switching and kindred services at common points of junction that other companies are required to bear, the opportunity to make the maximum use of its own equipment with the consequent saving in the cost of car hire, and the lesser amount required for general and traffic expenses as compared with any combination of competing lines to the South, coupled with operating economies to which it is not necessary to refer in detail, were factors of great importance that are now being neutralized by insatiable wage demands and soaring prices.

Other Investments and Resources

Thus far we have been dealing only with the creation, operation and financial progress of the Company's rail transportation system, comprising its railways in Canada and in the State of Maine, with such accessories as lake and river steamers, grain elevators, parlor and sleeping cars, etc.

In the annual reports of the Directors to the Shareholders giving the results of the Company's operations only the revenue from these sources is taken into account, and after proper deductions for operating expenses, annual interest charges and special appropriations, the balance is available for dividends. As already stated, it has been the practice for some years to distribute to the Ordinary Shareholders an annual dividend on a 7% basis, and to carry the remainder to surplus account for improvements to the property and for the general purposes of the Company.

But besides this revenue from its transportation system the Company receives a substantial annual return on investments of one character or another that have come into existence during the past thirty-five years. The Special Income from these investments, exclusive of receipts from land sales, is in excess of $10,000,000 per annum, out of which the Ordinary Shareholders have been receiving a further annual dividend of 3%.

In the early days of the Company it was the practice of railway corporations on this Continent and elsewhere to divest themselves of auxiliary enterprises not essentially connected with the operation of the railway, such as Express Companies, Telegraphs, Terminal Warehouses, etc., by disposing of them to corporations engaged in these several kinds of business activity, or to individuals. Too frequently, through one channel or another, those intimately associated with the railway companies' affairs succeeded in acquiring for themselves most valuable and productive properties, and little criticism would have been aroused if the Canadian Pacific had adopted the same policy. But this was not done. All of these revenue-producing attributes were reserved and developed for the advantage and benefit of the Shareholders, and the resulting profit to the Company's exchequer is very substantial indeed. Every terminal yard, station and property over the entire system belongs to the Company itself, and was acquired or created with money furnished by the Shareholders, the aggregate amount reaching very large figures.

Land Grants appertaining to lines purchased or leased in perpetuity, coal mines, metal mines, smelters and other assets that now play such an important part in the Annual Balance Sheet of the Company, might also have been coveted and acquired by what are commonly known as the "Insiders," had any such spirit inspired the Board of Directors from time to time, but not a penny was permitted to slip through such a channel. Indeed, it might be said that while the individual credit of Directors was on more than one occasion asked and freely granted at the initial stages of a transaction, no consideration was ever given excepting the refund of out-of-pocket expenses and bank interest; nor was anything more expected.

At times, and more particularly during the busy months of the Autumn, there was considerable difficulty about securing sufficient ocean space on steamers sailing from Canadian ports for the export traffic carried on the Company's lines, and to remedy this the Elder Dempster Atlantic Fleet, comprising fifteen steamships, was purchased in 1902.

At a later date the Canadian Shareholders of the Allan Line Steamship Company opened negotiations for the sale to the Canadian Pacific of all the share capital of the Allan Company. The transaction was carried out to the satisfaction of both parties, and for several years the business was conducted under the Allan name and through the Allan Agencies.

The earnings of these steamship lines were devoted in a large part to the payment of the floating debt that the Company had assumed at the time of the purchase, and the construction and acquisition of additional steamships.

The development of business on the Pacific Coast of Canada demanded a number and class of vessels (and a consequent investment of capital) quite beyond the reach of the Navigation Company that was performing this service in connection with the railway, and to meet this requirement the Canadian Pacific decided to acquire the steamers then performing the service, at a price acceptable to the owners. This having been done, the Company proceeded immediately to enlarge and improve the Fleet by purchase and construction from time to time of larger, faster and more modern ships for the encouragement and care of the business. The policy proved satisfactory and remunerative. This Ocean and Coastal Steamship property, secured by a comparatively small demand on capital account, has a market value in excess of $65,000,000 on the basis of present market prices.

It is not necessary to describe in detail the manner in which other properties and assets that came to the Company from one source or another, but mainly through acquired railways, were nursed and developed to a profit producing stage. It is sufficient to know that they belong to the Shareholders of the Canadian Pacific, and that the money necessary for their acquisition or development came from the surplus income of the Company and, therefore, of its Shareholders.

The Land Interests

The Company's Land Grant is a source of serious anxiety to financial doctrinaires who have only half studied the subject. They appear to have forgotten, or to have never known, that as late as 1888 when the railway had been in operation for some time, the Dominion Government consented, as a consideration for some concessions under the Charter, to guarantee the interest on $15,000,000 Land Grant Bonds, but would in no circumstances guarantee the payment of the principal, which would have given the security increased market value, although the Bonds had fifty years to run and only represented a value of about 75c. per acre. There is no doubt that at that time the Government could have recovered the whole Land Grant at the price per acre just mentioned.

For many years this Land Grant was a great drag on the Company. Interest had to be met on the Land Grant Bonds whose proceeds had been devoted to the purposes of the railway, and although considerable sums were spent on an immigration propaganda land sales were disappointing and unsatisfactory, and the prices yielded the Company only from $1.50 to $2.50 per acre after the selling expenses had been paid. It was not until 1898 that agricultural lands in Western Canada attracted buyers in any number, and even in that year, when 348,000 acres were sold, and in the three subsequent years the net return to the Company was only about $2.80 per acre. These prices were realized from sales of comparatively small parcels. The value placed on these lands in large areas by investors may be gathered from the fact that at the end of 1901 the shares of the Canada North West Land Company could have been bought in open market at a price equivalent to $1.45 per acre, for the 1,555,000 acres belonging to that Company at the time.

Shortly after the Canadian Pacific contract was made, the Federal Parliament commenced to vote grants of land in very large areas by way of subsidy for the construction of railway lines in Western Canada to many companies incorporated for the purpose. Most of these companies never materialized, but it was necessary to establish reserves from which their selections could be made, if by chance they came into being while the subsidy agreements were in force, and other companies (before the advent of the Canadian Northern) built some miles of railway, secured the land to which they were entitled, and then collapsed. All of this had an important bearing on the time required to select the lands earned by the construction of the Canadian Pacific, because of the difficulty about having reserves defined in districts where the character of the land would meet the requirements of the agreement; and to satisfy the last 3,000,000 acres of its Grant the Company consented to accept lands along the line West of Medicine Hat in what was then known as the "semi-arid" district, where there was little or no water, a very uncertain rainfall and other conditions that made the lands practically valueless. To recover this tract it was decided to adopt a plan of irrigation, and an expenditure of over $15,000,000 was made in the construction of the requisite works and ditches in the Eastern and Western Blocks, comprising about 2,240,000 acres. Of this area, that was not previously worth five cents an acre for practical purposes, the portions that can be served by the ditches command high prices, and a considerable percentage of the balance is improved in value by reason of the water supply, so we find that in 1904 the Company was willing to expend, and forthwith proceeded to expend, with a view to making useless lands productive and to encourage the settlement of territory adjacent to its railway, a sum of money in excess of the amount that it would have been willing to accept for the entire Land Grant sixteen years before.

Meanwhile the Company year by year made every effort and an expenditure approximating $17,000,000 in the encouragement of immigration, and to forward the sale and settlement of such lands as it had received. A most important factor in securing settlers who would purchase farms was the construction of thousands of miles of principal and branch lines not contemplated by the original Charter. Indeed, the Canadian Pacific as defined in that Charter, with its attendant Land Grant, would have been a sorry investment if left by itself.

To recapitulate, 14,000,000 acres of the original Canadian Pacific Land Grant have been sold to date, yielding in round figures $94,000,000, or an average of $6.72 per acre, but against this there were the expenditures during thirty years for immigration propaganda, agencies, commissions, and other expenses incident to sales, and the outlay for irrigation works, which made the net return to the Company less than $5.00 per acre. Naturally, the 4,300,000 acres that remain unsold will command much higher figures. In all this no account is taken of the vast sums spent by the Company in the construction of branch lines to open up the lands, nor of the tax on the Company's resources during the period required to bring to a productive basis these branch lines, which at the outset earned neither interest nor, in most cases, operating expenses.

With the exception of the comparatively small advantage given to the Shareholders when, in 1914, they were offered the 6% Note Certificates secured by outstanding land contracts, all of the net money that came to the Company from the sale of these lands was devoted to the railway property, taking the place of that much capital and reducing the Company's annual interest charges proportionately.

The exemption from taxes of the Canadian Pacific Land Grant for a period of 20 years after their selection has been a source of considerable adverse comment, but the delay in selection was largely due to circumstances already explained, over which the Company had no control, and it is manifest that at the time the Grant was made, and for some years after, no one could have afforded to take the lands as a free gift if they were subject to taxation. When the lands were sold, however, the purchaser became a tax payer, and the records show that the 14,000,000 acres thus far sold have brought to the Public Treasury in taxes an amount exceeding $20,000,000.

The Ten Per Cent. Clause

The Dominion Railway Act in force in 1880, when the contract was made for the construction of the Canadian Pacific Railway, authorized a return of Fifteen Per Cent. on the capital invested by any railway company in its enterprise before the tariffs for the carriage of passengers and freight could be scaled down by the Government authority named in the Statute, but in the contract with the Canadian Pacific Railway Company, confirmed by Act of Parliament, this limit was reduced to Ten Per Cent. per annum. This is what is known as the "Ten Per Cent. Clause" in the Company's Charter. Years ago this Clause became ineffective when the Company admitted that the net earnings had reached Ten Per Cent. on the capital invested, and its Tariffs came under the control and supervision of the Board of Railway Commissioners.

The suggestion made in some quarters that the spirit and intent of this Clause was to limit the Company's dividends to Ten Per Cent. is entirely out of harmony with the clear, unquestionable language of the instrument. The Clause had no more relation, direct or indirect, to the Canadian Pacific dividends than it had to the dividends of any other Railway

Company, or of any commercial or industrial corporation. The Company has been and is absolutely untrammelled in the declaration of such annual dividends as the Directors may feel justified in declaring out of the revenue, and Seventeen Per Cent. instead of Ten Per Cent. per annum might properly have been distributed from the average earnings of the railway and the income from investments and extraneous assets during the past few years, had the Directors not been convinced that a prudent and conservative policy was in the best interest of the property.

The total capitalization of the Canadian Pacific Railway Company's transportation system, comprising 13,400 miles of railway in Canada operated directly by the Company, with the rolling stock equipment and steamboat craft on inland waters, its splendid terminal stations and facilities, and other accessories, is $623,000,000, but this amount is far below the actual cost of the property, which, excluding the cost estimated at $31,000,000 of the sections of railway constructed by Government and handed over to the Company, is carried in the books at $687,000,000, after having been reduced by $131,000,000 provided from surplus earnings, land sales and other sources, expended on the property and written off without being capitalized. So that, based upon cost, the transportation system represents an outlay of $818,000,000, or about $61,000 per mile, which is lower than the average cost per mile of the other principal Canadian railways, and about half the cost per mile of the railway syst[illegible] Grand Trunk in Canada, based upon its outstanding ca[illegible].

In addition to the mileage to which reference is made, the Company owns or controls 948 miles of railway lines in Nova Scotia, Quebec and British Columbia that are operated separately for economic or other reasons, but their affairs have no reference to the figures that have been quoted.

The great benefits resulting from the conservative financial policy pursued by the Canadian Pacific Directorate are strikingly illustrated by the fact that the net earnings per mile required to meet the annual interest charges on the Grand

Trunk, Canadian Northern, Grand Trunk Pacific and National Transcontinental railways, would suffice to cover the annual interest charges, dividend on the Preference Stock, and 7% dividend on the Common Stock of the Canadian Pacific.

Extraneous Investments

The extraneous investments and available resources belonging to the Shareholders of the Canadian Pacific are quite distinct from the transportation system and play no part in the transportation accounts. They are made up of the Ocean and Coastal Steamship Lines, investments authorized by Parliament in shares of Railway Companies outside of Canada, made, in most cases, many years ago when the shares that now command high prices had only a nominal market value, Government Securities and Loans, money set aside for investment, and other items, amounting in the aggregate to $137,000,000, and available resources in unsold lands, amounts payable on lands already sold, coal mining and other properties, having an estimated present and prospective value of $116,000,000, after providing for the retirement of the outstanding Note Certificates.

The total appraisement of these items, namely, $253,000,000, is substantially below the market value. Large as is the amount, it was not accumulated by speculation or risky exploitation. Apart from the temporary loans and money it represents the accumulated worth of properties and resources many of which had little or no value when they came into the possession of the Company, but were developed and safeguarded until they became profitable.

Doubtless such development in its conception and execution had its selfish side, but no one familiar with the details of Canada's progress in the last quarter of a century will deny that every work of development undertaken by the Company, quite aside from its railway enterprise and its vigorous immigration policy, has given to the Country a return infinitely greater than any received by the Company or its Shareholders.

Summary

Summarized it would appear:—

1. That the Canadian Pacific Railway, as originally designed, forms but a small part of the present great system with its comprehensive operating traffic and business organization, through which in normal times thousands of people are brought every year to and through Canada from all portions of the civilized world, thus helping to people the Country and to bring her vast resources under general notice.

2. That the cost of the transportation system as described in this Memorandum was $818,000,000 against which there is outstanding capital of all classes amounting to $625,000,000.

3. That every share of $100 Ordinary Stock in the hands of the public represents the payment into the Company's Treasury of $112 in cash, and $31 from surplus income, or a total of $143.

4. That it has been the Company's policy to avoid mortgage debt and mandatory interest charges with their attendant dangers.

5. That lands and resources capable of development, belonging to the original Company or that came into its possession through the acquisition of other railways, have been husbanded, developed and utilized so successfully and advantageously that, distinct from their railway transportation system, the Shareholders have extraneous assets valued on a moderate basis at $253,000,000.

6. That the highest dividend paid to Shareholders from transportation revenue, namely, 7% per annum, is only equivalent to 2¼% per annum on the cost of the railway system, and if the dividend of 3% from Special Income be added, making a total of 10% per annum, the distribution is less than 2½% on a conservative valuation of the Company's total assets.

7. That the average rates per passenger mile and per ton mile for the carriage of passengers and freight, respectively, received by the Canadian Pacific were lower than those received for the same services by any combination of railway lines in the United States constituting a through route between the Atlantic and the Pacific Ocean.

8. That the wages paid by the Canadian Pacific in every branch of its service are at least as high as, and the cost of its rails, füel and general supplies is higher than United States railway companies are required to pay, and in all of these items the increase in both Canada and the United States has been abnormal since the outbreak of the War.

9. That the Company's successful effort to keep its capitalization substantially below the real value of its property and assets deserves the commendation of the Canadian people and should not, in any case, be made a pretext for penalizing the Company when rates for the carriage of traffic, or other matters relating to general railway policy, are before Parliament or Government for consideration and decision.

The Shareholders and Directors of the Company have always been impressed with the idea that the interests of the Company are intimately connected with those of the Dominion, and no effort or expense has been spared to help in promoting the development of the whole Country.