WINNIPEG ELECTRIC COMPANY

FORTY-FIRST ANNUAL REPORT
NINETEEN THIRTY-THREE

THE

ANNUAL REPORT

OF

WINNIPEG ELECTRIC COMPANY
FOR THE FISCAL YEAR ENDED
THIRTY-FIRST OF DECEMBER
NINETEEN THIRTY-THREE

Submitted at the Forty-first Annual Meeting
held on the tenth day of April
Nineteen thirty-four

DIRECTORS:

EDWARD ANDERSON, K.C., *President*

W. R. BAWLF, *Vice-President*

W. J. BULMAN	J. B. WOODYATT
A. J. NESBITT	N. J. BREEN
S. L. FULLER	J. B. COYNE, K.C.
W. H. CARTER	P. A. THOMSON
J. A. McPHAIL	A. J. THOMAS

EDWARD ANDERSON, K.C., *President and General Manager*

J. S. MACKENZIE, *Treasurer*

L. PALK, *Secretary*

Report of the President and Directors Winnipeg Electric Company

For the year ended December 31, 1933

To the Shareholders of Winnipeg Electric Company:

The continuing depression brought further decreases in the business of the Company in 1933. Again, reduced earnings necessitated sacrifices by the shareholders and employees in order to give service and to maintain the property in safe operating condition. Wage rates and salaries were again reduced, some employees laid off, and other economies effected, while no dividends were paid. Interest on the refunding mortgage stock and bonds, due October 2, 1933, has not been paid.

UTILITIES

The Gross Earnings of the Electric, Railway and Gas Utilities continued to decrease, as was the experience of business generally. Many of those now unemployed in Greater Winnipeg are, in normal times, steady patrons of the Street Railway and also customers of our Electric and Gas Utilities. Many who are still employed have had their incomes so drastically reduced that they, also, find themselves unable to utilize our various services to the same degree as formerly.

Gross Receipts of the Electric Utility were 3.3% less in 1933 than in the preceeding year, while it was not possible to effect any material reduction in operating expenses, with the result that the net showing was slightly poorer than in the preceding year. Under normal conditions a material increase in earnings could have been expected.

Railway Utility earnings were substantially lower than in 1932. Riding showed approximately the same percentage decrease as in the previous year, namely, 9 percent. *The Labour Gazette*, published by the Federal Department of Labour, shows that employment in Winnipeg at the close of 1933 was 26 percent less than at the close of 1929, and this, with other contributing factors, explains the decrease in riding during 1933 of 38 percent from the 1929 level. Owing to an increase in fares, gross revenues for 1933 do not show a decrease of similar degree, being 28 percent under 1929. Cities in the United States and Canada having populations between 250,000 and 500,000 report an average decrease in riding during this period of 37 percent. Economies in operation, including a reduction in salaries and wages and reductions in service, which decreased riding made possible, resulted in a decrease in operating expenses sufficient to offset five-sixths of the loss in gross earnings for the year. Despite these economies, the showing of this utility was far from satisfactory, and during 1933 it fell far short of meeting the charges necessary to maintain efficient service and keep the system in a satisfactory financial condition.

As a result of the Company's application for relief from payment of the 5 percent railway gross earnings tax, paving charges and snow removal charges, the Legislature, at its 1933 session, passed an Act authorizing the Municipal and Public Utility Board to further examine into the problem of public passenger transportation in the metropolitan area in and about the City of Winnipeg, and gave it authority to prepare a detailed plan to provide an adequate system of street transportation for the area, the same to be submitted at the present session of the Legislature with draft Act or Acts to give effect to the plan. The Board made its investigation and filed its report, and the Bill to make it effective was introduced into the House by the Attorney General, receiving its first reading on the 19th of March, 1934.

This Bill provides for the segregation of the railway utilities of Winnipeg Electric Company, Winnipeg, Selkirk & Lake Winnipeg Railway Company and Suburban Rapid Transit Company in a new company, the shares of which are to be held by Winnipeg Electric Company as trustee for the bondholders and other secured creditors. A commission with supervisory powers is set up with a right of appeal in all cases to the Municipal and Public Utility Board. If this Bill is passed by the Legislature, the 5% gross earnings tax, special assessments and paving charges, as well as provincial taxes, would be wiped out.

The gross earnings of the Gas Utility were adversely affected by reason of the conditions already indicated. Loss of the revenue of its largest customer, the Mid-West Glass Limited, which discontinued operations towards the end of 1932, was responsible for the major part of the decrease in gross revenues of 16% from 1932 earnings. Operating expenses were reduced substantially, but not sufficiently to meet the loss experienced from the reduced sale of gas. During the year purchase of American coal was discontinued; the gas plant is now operated entirely with Canadian coal, which in 1933 was cheaper than American coal.

DIVIDENDS

No dividends on the common stock have been paid since August 1, 1930, and in the last quarter of 1931 dividends on the preferred stock were suspended.

BOND INTEREST

Interest on $4,380,000 of 5 percent refunding mortgage stock and $7,000,000 of 6 percent refunding mortgage bonds, due on October 2, 1933, covering the six months ended October 1, 1933, has not been paid.

GENERAL CONDITIONS

The value of farm production in the Prairie Provinces during the year shows a substantial decrease from 1932, due principally to the reduction in the volume of grain produced. While wheat prices during the period August 1 to December 31, 1933, have been higher than a year ago, the value of wheat inspected during this period was only about two-thirds of the value for the corresponding period of 1932. The uncertainty of the market outlook for Canadian wheat is a major factor retarding improvement of conditions in Western Canada.

The cost of government continues to present a serious handicap to business. During the past four years, while the volume of business has contracted substantially, while prices and incomes have been drastically reduced, the requirements of governments, including the provision of necessities of life to the unemployed, have become increasingly heavy.

The mining industry in Manitoba continues to develop, and presents a bright spot in the rather uncertain picture. In 1933, the amount of gold and silver produced showed a substantial gain, which more than offset decreased production of copper and zinc due to temporary suspension of operations by one of our two large producers of these metals. Last year, for the first time, the value of Manitoba mineral production exceeded the expenditure in mining enterprizes. The outlook for rapid development of Manitoba mining is very promising. Several mines are served by the Manitoba Power Company, in which your Company has a controlling interest. During the past year there was a substantial increase in power sold for mineral production, and the current year will show further expansion in this field.

IMPROVEMENTS TO COMPANY'S PROPERTY

No major improvements to the Company's property were effected during the year under review.

The usual extensions, in the form of poles, wires, transformers and meters, in the case of the Electric Utility, and of service mains and meters in that of the Gas Utility, were made to take care of new customers.

FINANCIAL REORGANIZATION

Due to continued depressed business conditions and the consequent falling off in the revenues of the Company, and more particularly the revenue of the Railway Utility, it was found necessary to defer payment of the interest on the Company's 6 percent 30-year Refunding Mortgage Bonds that was payable on October 2nd, 1933. On this account and the financial position of the Northwestern Power Company Limited, whose bonds Winnipeg Electric Company guaranteed, a complete reorganization of the whole financial structure of Winnipeg Electric Company and its associated companies is considered advisable. As a result Protective Committees have been formed to look after the interests of the holders of the various bond issues, and these committees are at present engaged on working out a plan of reorganization. In addition, separate committees have been formed to take care of the interests of the preferred and common shareholders.

FINANCIAL OPERATIONS

No permanent financing was done by the Company during 1933. Additions to property, such as extensions to provide service to customers, were provided for out of cash from earnings

As at December 31st, 1933, Winnipeg Electric Company held 135,862 shares of Manitoba Power Company Limited, or 100 more than at the close of the previous year. Winnipeg Electric Company's holdings in Manitoba Power Company Limited represent 90.6 percent of the total issued capital stock of 150,000 shares.

The loyal and efficient services rendered by the executives and employees in conducting the affairs of your Company and its subsidiaries are most gratefully acknowledged.

EDWARD ANDERSON,
President.

WINNIPEG ELEC

BALANCE SHEET

ASSETS

PHYSICAL PROPERTIES at Reproduction Cost as appraised by J. G. White Engineering Corporation, as of 31st December, 1916, and additions since		$34,495,093.86
SINKING FUNDS:		
First Refunding Mortgage 30-year 5% Sinking Fund Gold Bonds of Winnipeg Electric Company at par value	$1.971,000.00	
Uninvested in hands of Sinking Fund Trustees	48,719.61	
		2,019,719.61
Advances to and Stock and Bonds held in Subsidiary and other Companies at Book Value		7,518,953.20
CURRENT AND WORKING ASSETS:		
Cash in Bank and on Hand	$ 274,576.86	
Cash in Bank—Special Accounts (held for Bond Interest, etc.)	249,964.77	
Consumers' and Other Accounts Receivable, less Reserve for Doubtful Accounts	443,978.09	
Working Funds and Deposit with Workmen's Compensation Board, etc.	35,364.11	
Material and Supplies, Construction and Operation, at cost, as certified by a responsible official of the Company	516,242.56	
		1,520,126.39
Deferred Charges to Operation and Insurance Premiums and Other Expenses paid in advance		290,269.29
		$45,844,162.35

AUDITORS' REPORT

To the Shareholders of Winnipeg Electric Company, Winnipeg.

We have audited the books and accounts of Winnipeg Electric Company for the year ended 31st December, 1933, and report that we have received all the information and explanations we have required. Subject to the value of the investments in and advances to subsidiary and other companies (which is further affected by interest on bonds and other obligations of Northwestern Power Company Limited not having been earned), and to the adequacy of the reserve for depreciation, in our opinion the above Balance Sheet is properly drawn up so as to present a true and correct view of the state of the Company's affairs, according to the best of our information and the explanations given to us, and as shown by the books of the Company.

(Signed) GEORGE A. TOUCHE & CO.

Chartered Accountants,
Auditors.

Winnipeg, 26th March, 1934.

TRIC COMPANY

At 31st December, 1933

CAPITAL AND LIABILITIES

Capital Stock:			
Cumulative Preferred Stock—			
Authorized 50,000 7% Shares of $100.00 each and 50,000 6% Shares of $100.00 each. Issued and Outstanding 50,000 Shares of 7% Cumulative Preferred Stock		$ 5,000,000.00	
Common Stock of No Par Value—			
Authorized 500,000 Shares. Issued and Outstanding 244,772 Shares		13,866,255.77	
			$18,866,255.77
Funded Debt (as per Schedule):			
Bonds—First Refunding Mortgage 30-year 5% Sinking Fund Gold Bonds, redeemable 1st January, 1935	$5,000,000.00	$5,000,000.00	
Bonds acquired for account of Sinking Fund, held by Trustees	1,971,000.00		
Outstanding in hands of Public	$3,029,000.00		
30-year 6% Refunding Mortgage Bonds redeemable 2nd October, 1954		7,000,000.00	
		$12,000,000.00	
Mortgage Stock—5% Refunding Mortgage Stock redeemable 2nd October, 1954		4,380,000.00	
			16,380,000.00
Current and Accrued Liabilities:			
Notes Payable to Bankers (Secured)		$ 1,250,000.00	
Notes Payable (Unsecured)		25,000.00	
Accounts Payable (Material and Supplies, Operating and Construction)		242,168.46	
Wages and Salaries Payable		61,801.65	
Consumers' Security Deposits		44,004.37	
Other Liabilities		242,634.81	
Interest on Funded Debt—On 5% First Mortgage Bonds (Payable 2nd of January, 1934)		125,000.00	
On 5% and 6% Refunding Mortgage Stock and Bonds (Payable 2nd of October, 1933)		319,500.00	
Accrued on 5% and 6% Refunding Mortgage Stock and Bonds (Payable 2nd of April, 1934)		158,763.80	
Other Interest Accrued		47,768.27	
			2,516,641.36
Deferred Liabilities (Payable in Instalments):			
Pavement Charges, Lake of the Woods and Lac Seul Storage Charges			112,076.85
Reserves—Accrued Depreciation		$6,950,601.24	
Sinking Fund Reserve		425,110.00	
Miscellaneous, including Reserve for Injuries and Damages		174,944.18	
			7,550,655.42
Surplus			418,532.95
			$45,844,162.35

Note—No Dividend has been declared or paid on Preferred Stock since October, 1931.

Contingent Liabilities:

In respect of the Principal and Interest on the Bonds of and other guarantees in connection with:		
Manitoba Power Company, Limited		$12,500,000.00
Northwestern Power Company, Limited (Interest is in default since 2nd July, 1932)		12,152,200.00
Suburban Rapid Transit Company		500,000.00
Winnipeg, Selkirk & Lake Winnipeg Railway Company—		
Bonds due 2nd July, 1933	$44,500.00	
Interest on Bonds due 2nd July, 1933	1,112.50	
Interest on Bonds due 2nd January, 1934	1,112.50	
		46,725.00

WINNIPEG ELECTRIC COMPANY

FUNDED DEBT

At 31st December, 1933

BONDS:			
First Refunding Mortgage 30-year 5% Sinking Fund Gold Bonds, redeemable 1st January, 1935	$5,000,000.00	$5,000,000.00	
Bonds acquired for account of Sinking Fund, held by Trustees	1,971,000.00		
Outstanding in hands of Public	$3,029,000.00		
30-year 6% Refunding Mortgage Bonds, redeemable 2nd October, 1954		7,000,000.00	
			$12,000,000.00
MORTGAGE STOCK:			
5% Refunding Mortgage Stock or Bonds, redeemable 2nd October, 1954, total issue		£2,713,000.0.0	
Less converted into dollars at $4.87 and issued as 30-year Refunding Mortgage 6% Bonds	£1,437,371.13.3		
Pledged as Security for Notes to Bankers	375,628. 6.9		
		1,813,000.0.0	
Outstanding in Hands of Public		£ 900,000.0.0	
			4,380,000.00
			$16,380,000.00

WINNIPEG ELECTRIC COMPANY

INCOME ACCOUNT

For the Year Ended 31st December, 1933

GROSS EARNINGS FROM OPERATION		$5,102,682.47
OPERATING EXPENSES, excluding Taxes and Depreciation		3,304,255.66
NET OPERATING INCOME		$1,798,426.81
Miscellaneous Income (net)		110,508.25
GROSS INCOME		$1,908,935.06
Interest charged on Mortgage Stock, Bonds, Bank Loans, etc.	$961,885.23	
Taxes	332,718.32	
Depreciation	546,080.54	
Foreign Exchange on Bond Interest	36,500.00	
Other Income Deductions	4,420.08	
		1,881,604.17
NET INCOME		$ 27,330.89

SURPLUS ACCOUNT

Balance, 1st January, 1933	$395,393.26	
Sundry Adjustments (net)	4,191.20	
		$ 391.202.06
NET INCOME for the year 1933, brought down		27,330.89
SURPLUS, 31st December, 1933		$ 418,532.95

NOTE—Net Income for the year 1933 is without making any provision for Dividends on Preferred Stock.

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PRIVATE REPORT

ON BEHALF OF

PREFERRED SHAREHOLDERS

WINNIPEG ELECTRIC COMPANY

MAY 1ST, 1933

FOREWORD

The following report on the affairs of Winnipeg Electric Company made by W. S. Ronald, C.A., Chairman of Preferred Shareholders' Committee, was, on the request of all shareholders present, read to the adjourned annual general meeting of the Company held at the Royal Alexandra Hotel, Winnipeg, May 3rd, 1933.

On the conclusion of the presentation the report was unanimously adopted with thanks and ordered printed and sent to all shareholders of the Company.

RONALD, GRIGGS & CO.
Chartered Accountants
REPRESENTED IN THE PRINCIPAL CITIES ACROSS CANADA, AND IN THE
U.S.A., CUBA, WEST INDIES AND GREAT BRITAIN
TRUST & LOAN BUILDING
WINNIPEG
CANADA

May 1st, 1933.

TO THE PREFERRED SHAREHOLDERS,
WINNIPEG ELECTRIC COMPANY.

Early in 1932 the Preferred Shareholders resident in Greater Winnipeg, met in general mass meeting at the call of the President, to be informed by him as to the company's finances and as to various problems and conditions which were operating against the company's ability to continue to pay dividends. After a full review at that time, a general committee of twenty-five shareholders was drafted, and they in turn elected me their Chairman, and I have continued to be such throughout the intervening period.

During the year, and especially within the past few months, I have been frequently interviewed, and communicated with by letter, upon a variety of subjects incident to the company's position; such for example, as to its operating revenues, its operating expenses, its managerial expenses, its financial commitments in respect of affiliate companies, the difficulties with the City of Winnipeg, the prospect of a resumption of dividend payments, etc., etc.

To all of such enquiries I have made reply in appropriate terms, according to the facts as I have understood them, and have endeavored so far as possible, to clear away certain misconceptions which have, through gossip, taken on the appearance of reality. Despite sincere efforts to correct the exaggerations in the gossip, its circulation has persisted to a wholly unwarranted extent.

Being a professional investigator by occupation, I have made direct enquiries from time to time where I saw that the interest of the Preferred Shareholders might be affected, and finally proposed to the President that he should permit me to make an independent study of the company's financial records, accounts and private files and dockets, for such number of years as I might choose, so that from the company's actual records I could determine the facts. This proposal was promptly agreed to by Mr. Anderson, and in my presence he instructed the Financial Vice-President to allow me full and free access to the record department and the contents of the books, without reservation, and those instructions have been complied with.

In pursuance of the above arrangements, I have made an inspection, which for the object to be attained, was sufficiently broad to reveal that suspension of dividends was not only warranted but inescapable. I shall now endeavor to convey to you the facts as I have independently determined them.

My studies have embraced a period of five years, viz: 1928, 1929, 1930, 1931, 1932. As 1929 was the peak year as to composite total of all revenue, and also as to the revenue of and number of passengers carried by the transportation department, I shall confine my main references to the four year period from 1929 to 1932, both inclusive.

At the outset I desire to make it clear that the business of the company is divided into three separate divisions, namely:

I—Electric Utility (Domestic and commercial light and power).

II—Railway (Transportation—Greater Winnipeg and environs).

III—Gas.

The revenues are departmentized, and the figures that reach the account books are derived from separate sources, so that there is no likelihood of any department not getting its due and proper credit.

The expenses of operating these divisions are also kept separate and distinct from each other, and with but few exceptions it is possible to allocate expenses direct to a particular division, but where a joint service is performed by any employee or a group of employees, and where a joint purchase of materials is made, then the amount chargeable to the several departments benefitting is disposed of on a pro-rata basis.

This is an appropriate place to say that the company maintains an internal audit staff, whose duty it is to check up everything, and see to it that the departmental accounts are properly debited and credited with the transactions that belong to them respectively. In addition to this internal arrangement, the company's accounts are subjected to an outside audit by a representative firm of Chartered Accountants whose certificate appears on the printed balance sheet. With these safeguards I am prepared to adopt the view that no inside bookkeeping practices are detrimental to the shareholders.

Passing now to a discussion of the operating results, I have personally examined the year-end book-keeping summarizations for each of the fiscal years 1928, 1929, 1930, 1931, 1932, from which I assembled data appertaining to the company's operations. When I had completed my own compilations, I examined the published financial statements, and found that the operating results shown therein were in agreement with my own independent findings. Having thus tabulated the operating experience for a five-year span upon a cross-section plan, I was enabled to clearly follow the ebb and flow of all the operating factors, the most important of which I shall now present, viz.:

As previously stated, the year 1929 was the peak in several respects, and for that year—

The revenue from all departments reached a total of	$6,415,539.98
In the Railway department the total revenue was	3,710,791.04
And the total number of passengers carried was	61,238,734

In the following year, 1930—

The total revenue from all departments had dropped	$ 337,484.61
down to	6,078,055.37
In the Railway department alone the drop was the consequential sum of	285,883.39
Which resulted in a new low department total of	3,424,907.65
and the number of passengers carried had decreased 7,184,241 from the previous year's total of sixty-one million odd down to	54,054,493

In the year 1931 the downward trend continued as undernoted, i.e.—

The total revenue from all departments dropped a further	$ 360,152.89
To a new low of	5,717,902.48
Again the Railway department led in the decline of revenues with a very sizable shrinkage of	275,384.38
down to the lowest total of the four-year period	3,149,523.27
and the number of passengers carried had dropped 8,184,237 from the fifty-four million odd total of 1930 down to a new figure of	45,870,256

In the 1932 year just past, and the one for which the annual accounts are now being submitted, the revenue trend has continued downwards, the total of all departments being less than 1931 by	$ 189,453.05
to a new low aggregate of	5,528,449.43
In the Railway division alone the drop below the 1931 figure has been	163,861.94
The department total being a new low for all of the years reviewed, namely	2,985,661.33
In number of passengers carried there is again a big shrinkage under the 1931 aggregate, viz.	4,257,610
The total for the whole of 1932 having been only	41,612,646

Taking the foregoing figures for the 1932 year and setting them off comparatively with those of 1929 as follows, the downward trend in only the operating divisions is especially noteworthy, as under—

All departments—

Total revenue, 1929	$6,415,539.98
Total revenue, 1932	5,528,449.43
Total decline in four years	$ 887,090.55 *

which departmentally is made up as follows—

Railway department—

Total revenue, 1929	$3,710,791.04
Total revenue, 1932	2,985,661.33
Comparative total dollar decline in four years	$ 725,129.71
Number of passengers carried by railway, 1929	61,238,734
1932	41,612,646
Comparative total passenger decline in four years	19,626,088

In the other departments the comparative figures are as follows—

Electric—Total revenue, 1929	$1,992,974.30
Total revenue, 1932	1,999,037.79
Comparative increase in four years	$ 6,063.49
Gas— Total revenue, 1929	$ 711,774.64
Total revenue, 1932	543,750.31
Comparative decrease in four years	$ 168,024.33

Bringing all of the operating department results for the years 1929 and 1932 together, it is found that the—

Railway revenues have shrunk	$ 725,129.71
Gas revenues have shrunk	168,024.33
Total shrinkage of the two	$ 893,154.04
From which deduct the very minor increase in the Electric department of	6,063.49
Producing a *net revenue decrease* as already stated of	$ 887,090.55 *

which consists with the *aggregate* decline I have already quoted.

Bringing into account here a reduction of $328,173.49 in non-operating income (which will be referred to later) and adding same to the stated operating declines, it is found that the total shrinkage of revenue as between 1929 and 1932 is the large sum of $1,215,264.04.

At this point the obvious query will be—what has been done about expenses? Upon that aspect of the matter I have made careful review and found a marked reduction. It should, however, be noted—in fact it must be emphasized as being a general rule—that falling revenue is always several jumps in advance of possible expense reductions. Declining income is always first in the order of events embraced within the ambit of any contraction of business, and only as a secondary incident in the problem raised by revenue shrinkage does the question of operating cost retrenchment come up. It is well known to every man charged with the conduct of any business that retrenchment in operating departments, the capacity of which has been gradually built up to handle a high level of offered volume, can seldom if ever keep pace with falling revenue. On the contrary, it always trails along behind, no matter whether business is on the upgrade or downgrade, because the man has not yet been born who can forecast the extent and duration of any business cycle of even only ordinary measure. How incapable the best of the world's brains have been for dealing with a world condition of business stagnation, is amply shown by the ravages of the unchecked depression which has not only heavily penalized private enterprise, but has also found its way into the affairs of nations.

Applying the above principle to Winnipeg Electric affairs, it is a fact that all expenses have been materially reduced during the revenue slump period, as the following figures will clearly show, but the reduction has lagged considerably behind revenue shrinkage, e.g.—

Operating expenses—

Total of all departments, 1929	$3,541,259.66	
Total of all departments, 1932	3,097,145.66	
Reduction between the two stated years		$444,114.00

General administrative; consisting of salaries of officers and staff, office supplies and stationery and printing, insurance, law expenses, etc., etc.

Total of all departments, 1929	$ 527,632.57	
Total of all departments, 1932	476,560.62	
Reduction between the two stated years		51,071.95
Combined reduction between the two stated years		$495,185.95

The foregoing expense decrease of $495,185.95 partially offsets the shrinkage of $887,090.55 in net operating revenue and thus, based on the 1929 figures, the company has, during 1930-1931 and 1932 suffered a net decline of $391,904.60 in operating returns. To this must be added the following non-operating items, i.e.—

(a) In 1929 there was an income from rent of privileges and equipment; dividends from affiliated companies, etc., totalling.................$469,092.15

In 1932 all of the above totalled only........... 140,918.66

The shrinkage from 1929 to 1932 being the difference—namely............................$328,173.49

(b) In 1929 taxes (including City percentage) and depreciation totalled....................$861,210.31

In 1932 the same items totalled............... 896,620.74

The difference being an increase in 1932 over the 1929 level of..................................$ 35,410.43

(c) In 1929 the total of interest on Funded Debt and bank borrowings and other miscellaneous financial charges, exclusive of U.S. Exchange, and including income tax when assessed, amounted to...........................$980,660.90

In 1932 the same items totalled............... 973,897.18

The difference being a net reduction in 1932 of $ 6,763.72

(d) In 1929 the total of U.S. Exchange on financial settlements amounted to only....$ 4,374.18

In 1932 this item had mounted to.... 48,690.08

Thus in the elapsed span of years the cost to the company of U. S. financial settlements (not including the cost of settling for supplies which were obtained from the U.S.) had uncontrollably increased.................................. 44,315.90

The net difference between items C and D being an increased cost of.............................. 37,552.18

Combining A, B, C and D, the total of adverse trends has amounted to............................ $401,136.10

The aggregate difference between the 1929 net results and those of 1932 is the sum of the hereinbefore stated net operating shrinkage of \$391,904.60 and the total of \$401,136.10 just mentioned, in all.. \$793,040.70

This is the exact difference between the 1929 published profits of \$969,494.51, and the 1932 profits of \$176,453.81 as now submitted in the annual report certified by the company's external auditors.

It is well known to all in business today that Governmental policies have, in increasing measure, added considerably to the cost of doing business, through the imposition of taxes and other charges, and I believe that it is fair to the officials of Winnipeg Electric that I should give a few facts to illustrate what this has meant.

The Gasoline tax is one item. In 1932 the company used a total of 422,711 gallons, upon which the Government tax at 5 and 7 cents per gallon has amounted to............................\$26,838.77

In 1928 the tax was only 3 cents per gallon, and if that rate had been in force in 1932 on the gallonage above stated, the tax would have amounted to only............................ \$12,681.33

Hence by reason of the increased rates, the company suffered, through incidents beyond its own control, to the extent of....\$14,157.44

In another direction, it is found that in the matter of coal purchased for the gas plant there has been an uncontrollable increase in cost through the action of foreign exchange, and the imposition of a Government excise tax. In 1928 there was practically no disparity in the relative value of U.S. and Canadian currencies, and the cost of exchange was practically nil. There was also no excise tax at that time.

However, in 1932 the conditions were different,

and the cost of exchange in settling for purchases of U.S. coal was...\$20,080.41

and the cost of excise tax was.................................. 1,832.67

or a total for the two of..21,913.08

By combining the foregoing items of Gasoline tax and U.S. Exchange on coal settlements, and excise tax, a grand total of \$36,070.52 is shown, which is a 1932 uncontrollable operating expense, against which no offsetting revenue increase has been possible.

Before leaving this review of the operating accounts, I desire to touch upon the question of the President's salary, and the expense load of the executive and record department. It has come to me directly and indirectly from Preferred Shareholders, and through street gossip, that your President is being paid as high as $50,000 per year, and that others in so-called high positions are also receiving extravagant salaries. I have looked into this whole matter carefully, have called for and been allowed to examine pay rolls and financial records, and now conclusively know that all such rumors are unfounded, and have grossly exaggerated the facts.

The policy of not publishing a lot of miscellaneous inside detail is not one especially adopted by Winnipeg Electric, it is a general custom with all public companies, and I shall ask the Preferred Shareholders to accept the statement that having regard for the manifold character of the services given by Winnipeg Electric, the managerial expenses appear to be reasonable, and proportionately less than other similar companies of comparable activity, as same may be judged from published data. I assure you that I have in my survey observed, that in line with the general trend of the times, all salaries have been cut several times, and it appears that wherever possible other economies have been and are continuing to be applied.

The administrative group of expenses apart from salaries, including insurance, office supplies, printing and stationery, law expenses, injuries and damages, etc., have been reduced between 1929 and 1932 as follows:

1929 total	$376,197.18
1932 total	328,686.61
This difference being a net comparable reduction of	$ 47,510.57

It has been suggested that Winnipeg Electric is being charged for power by associate companies at a rate which enables the power companies to earn undue profits at the expense of Winnipeg Electric Company. According to records which I have seen, the rate charged to Winnipeg Electric for power is less than the reported cost of power in seventeen other cities, including New York, Boston, Seattle, Toronto, Montreal, Regina, etc. The rate is also considerably less than that charged to many big users throughout the Greater Winnipeg District.

On the whole it is my opinion that there has been no discrimination against the Winnipeg Electric for the benefit of any of the affiliated companies in the matter of power charges.

In my survey I have noted the trend of the company's financial condition, and it need hardly be stressed that a consequential shrinkage of $1,215,264.04 in the income account, as hereinbefore exemplified, could not be sustained without an adverse financial effect. The company has felt the pinch and in the circumstances must conserve every dollar of cash to ensure the payment of its operating charges.

The facts herein set out as to the major decline in revenue and profits, and the effect thereof upon the company's financial position; and the proven fallacy of the excessive salary rumor which has been the cause of so much unnecessary criticism, will, I hope, contribute in a definite way to a better understanding by the Preferred Shareholders of the trend of company business and the worries and difficulties arising therefrom.

My survey, as a Preferred Shareholder and on behalf of the whole body of Preferred Shareholders, has been facilitated by company officials in every way required, and being, as previously stated, a professional investigator, I have known what to look for, and also have known that I was being provided with bona-fide records.

My conclusion is that the company has been justified in deferring dividends on preferred shares for at least the following reasons:—

1. Falling income has made serious inroads on the company's ability to finance satisfactorily.

2. In view of the above it has been necessary to conserve every dollar of profit for financial requirements and it has been impossible to finance the maintenance of the property in a proper state of efficiency.

3. Net profits, even after skimping maintenance charges to inescapable necessities, have been less than the amount required for preferred dividend purposes.

Until the revenue greatly improves and works a marked betterment in the financial position, there cannot be a resumption of dividends, and there should be no resumption until the ravages of the times upon the company's finances have been very materially repaired, and if I may include a further comment, based on the review which I have made, it appears that perhaps the company was unwise in not suspending dividends sooner than it did.

The position of Winnipeg Electric in the matter of affiliated companies is generally well known, and is the subject of reference in the annual reports of the President, and in the external auditors accounts separately submitted.

The discussions between the company and City officials, have been given a generous measure of publicity. I have, as Chairman of your committee, appeared before committees of the Legislature and have followed closely the presentations of both sides, and I have presented petitions on behalf of the body of Preferred Shareholders. The impressions which I have derived from that contact are foreign to the object of my independent enquiries on behalf of the Preferred Shareholders, as herein reported on, and I shall not discuss them.

In conclusion, I desire to state that this entire report has been compiled in my own office, and the expressed conclusions *have not been influenced by company officials directly or indirectly or by any other interested person.*

Respectfully submitted,

W. S. RONALD, C.A.

Chairman Preferred Shareholders Committee.