

# TRANS-CANADA AIR LINES

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## ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1937

McGill University  
School of Commerce  
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## BOARD OF DIRECTORS

### *Elected by Shareholders:*

S. J. HUNGERFORD.....	Chairman and President, Canadian National Railways.....	Montreal
JAMES Y. MURDOCH, K.C.....	Director, Canadian National Railways.....	Toronto
H. J. SYMINGTON, K.C.....	“ “ “ “ .....	Montreal
WILFRID GAGNON.....	“ “ “ “ .....	Montreal

### *Appointed by Governor in Council:*

C. P. EDWARDS.....	Chief of Air Services, Department of Transport.....	Ottawa
J. A. WILSON.....	Controller of Civil Aviation, Department of Transport.....	Ottawa
GEO. HERRING.....	Chief Superintendent of Air and Land Mail Services, Post Office Dept.....	Ottawa

## OFFICERS

President.....	S. J. HUNGERFORD*
Vice-President in Charge of Operations.....	P. G. JOHNSON
Assistant to Vice-President in Charge of Operations.....	D. R. MACLAREN
Secretary.....	W. H. HOBBS*
Treasurer.....	C. D. COWIE*
Comptroller.....	T. H. COOPER*
Counsel.....	E. E. FAIRWEATHER*
Director of Publicity.....	W. S. THOMPSON*

\*Officers of Canadian National Railways.

# TRANS-CANADA AIR LINES

## FIRST ANNUAL REPORT

OF THE

DIRECTORS OF THE TRANS-CANADA AIR LINES

YEAR ENDED DECEMBER 31, 1937.

### *To the Shareholders:*

In submitting the first report of the directors, which is for the period from the incorporation of the corporation to December 31st, 1937, it is felt that it might be convenient for record purposes to set forth in summary form the more important provisions of the act of the Parliament of Canada under which the corporation came into being and is authorized to conduct the business of commercial aviation throughout Canada and outside of Canada.

The act, which is Chapter 43 of the Statutes of Canada, 1937, and may be cited as "The Trans-Canada Air Lines Act, 1937", was assented to on April 10th, 1937.

The authorized capital of the corporation is \$5,000,000, divided into shares of \$100 each. Such shares were to be offered for subscription to the Canadian National Railway Company at par and, subject to the limitations hereafter referred to, the railway company was authorized to purchase, hold, sell and dispose of the shares; but it may not sell or dispose of more than 24,900 of the 50,000 shares except with the approval of Parliament. The shares are not transferable except to such persons engaged or interested in aviation as are approved by the Minister of Transport. No shares may be held by any person other than a British subject resident in Canada or a corporation incorporated under the laws of Canada or of any Province, and controlled by British subjects ordinarily resident in Canada. The Minister of Transport may at any time, with the approval of the Governor in Council, acquire all of the shares at book value.

The management of the corporation is vested in a board of directors of seven, four elected by the shareholders and three appointed by the Governor in Council. The directors need not be shareholders, but no person may be elected or appointed as a director or continue to hold office as such who is not a British subject who has been continuously resident in Canada for not less than five years prior to the date of his election or appointment.

The Governor in Council may authorize the Minister of Transport to enter into a contract with the corporation (to be known as the Trans-Canada contract) for a period of not less than ten years, for the organization, operation and maintenance by the corporation of lines of aircraft between points and over routes to be designated from time to time by the Governor in Council. The schedule of services is subject to approval of the Governor in Council on the joint recommendation of the Minister of Transport and the Postmaster General. The charges for the transport of passengers and goods are to be on a competitive basis with other similar transportation services in North America. The corporation is to furnish adequate modern aviation equipment, two-way communication service, and the hangars and other buildings and equipment required for its services. The Government is responsible for the operation and maintenance of emergency landing fields, lights and radio beams, and the furnishing of weather reports, without charge to the corporation; provided that when the revenues of the corporation in the opinion of the Minister will permit, charges may be imposed such as are charged for other similar competing coast to coast services in North America. The contract is to provide that during the "initial period", which is the period commencing on the date of the contract and ending on December 31st, 1939, there shall be paid to the corporation at the end of each calendar year, out of moneys to be appropriated by Parliament for the purpose, a subsidy equal to the deficit, if any, resulting from operations during such calendar year.

The act also provides that the Governor in Council may authorize the Postmaster General to enter into a contract with the corporation for the transport of mails. The rates payable therefor in respect of the initial period are to be fixed by the terms of such contract. In the month of January 1940 and in every year thereafter while the Trans-Canada contract is in force, the Governor in Council on the joint recommendation of the Minister of Transport and the Postmaster General shall fix the rates for the current year. If in the preceding year the corporation incurred a deficit, such rates shall be fixed so as to produce an increase in the sum total to be paid the corporation equal to the deficit; and, on the other hand, if in the preceding year the corporation earned a surplus the rates for the current year shall be fixed so as to produce a decrease in the sum total to be paid the corporation equal to one-half the amount of the surplus earned in the preceding year; provided, however, that the rates so fixed shall not be lower than rates payable for other similar coast to coast transport of mails in North America.

Operating expenses as defined by the act include an allowance equal to five per cent per annum on the capital invested, also allowances for depreciation and insurance.



## ORGANIZATION AND PERSONNEL

The first step in organizing the corporation, which was taken by the provisional directors named in the act, was to offer the shares of the capital stock to the Canadian National Railway Company for subscription at par. Such offer was duly accepted and the shares subscribed. Three directors were appointed by Order-in-Council dated May 5th, 1937, and a few days later at the first shareholders' meeting there were elected the four directors required to make up the full board.

The directors held their first meeting on May 11th, 1937. Immediate consideration was given to the important question of the person to be selected to organize the operations of the corporation. It was realized that while much flying had been done in Canada and the personnel connected therewith had gained an enviable reputation, the inauguration of a regular scheduled transcontinental service of the type and magnitude contemplated by the act presented special problems in organization and operation. The equipment to be used was larger and faster than anything theretofore regularly operated in the Dominion; instrument and radio range flying as contrasted with contact flying would be required throughout; a complete radio communication and dispatching system had to be provided; and there were numerous other features which were new so far as this country was concerned. Large scale operations embracing all of these features had, however, been established in the United States for some years. After mature deliberation the directors came to the conclusion that it would be desirable to obtain the services of an experienced United States air lines executive, and Mr. Philip G. Johnson was appointed as Vice-President in charge of operations. Mr. Johnson had been associated with commercial aviation in the United States from 1917, and had been Vice-President and later President of the Boeing Airplane Company, Seattle; President of United Aircraft & Transport Corporation, New York; and President of United Air Lines, Chicago. The directors consider that they were fortunate in obtaining Mr. Johnson's services.

Mr. D. R. MacLaren, a former Wing Commander in the Royal Canadian Air Force, and latterly Assistant General Manager, Pacific Lines, Canadian Airways Limited, was appointed assistant to Mr. Johnson.

It was further considered essential that certain experienced technical officers be employed to carry out an organization and training programme in their respective fields and the following positions were created:

- Chief Technical Adviser.
- Technical Adviser, Maintenance and Overhaul.
- Technical Adviser, Flying.
- Technical Adviser, Meteorology and Dispatch.
- Technical Adviser, Communications.

The head office of the corporation is at Montreal and the Vice-President is located there. As, however, the air fields and other necessary facilities were more fully advanced in Western Canada it was apparent that operations could be developed there more quickly than in the east. Winnipeg was, therefore, selected as the location of the operating headquarters and as the centre for the training of personnel.

The total personnel as of December 31st, 1937, numbered 71. A very high standard and a considerable background of experience are required of all operating staff engaged. An intensive programme of training and instruction is proceeding with respect to all operating positions. The co-ordinated effort of a highly trained personnel is the objective, with safety of operations the all important consideration.

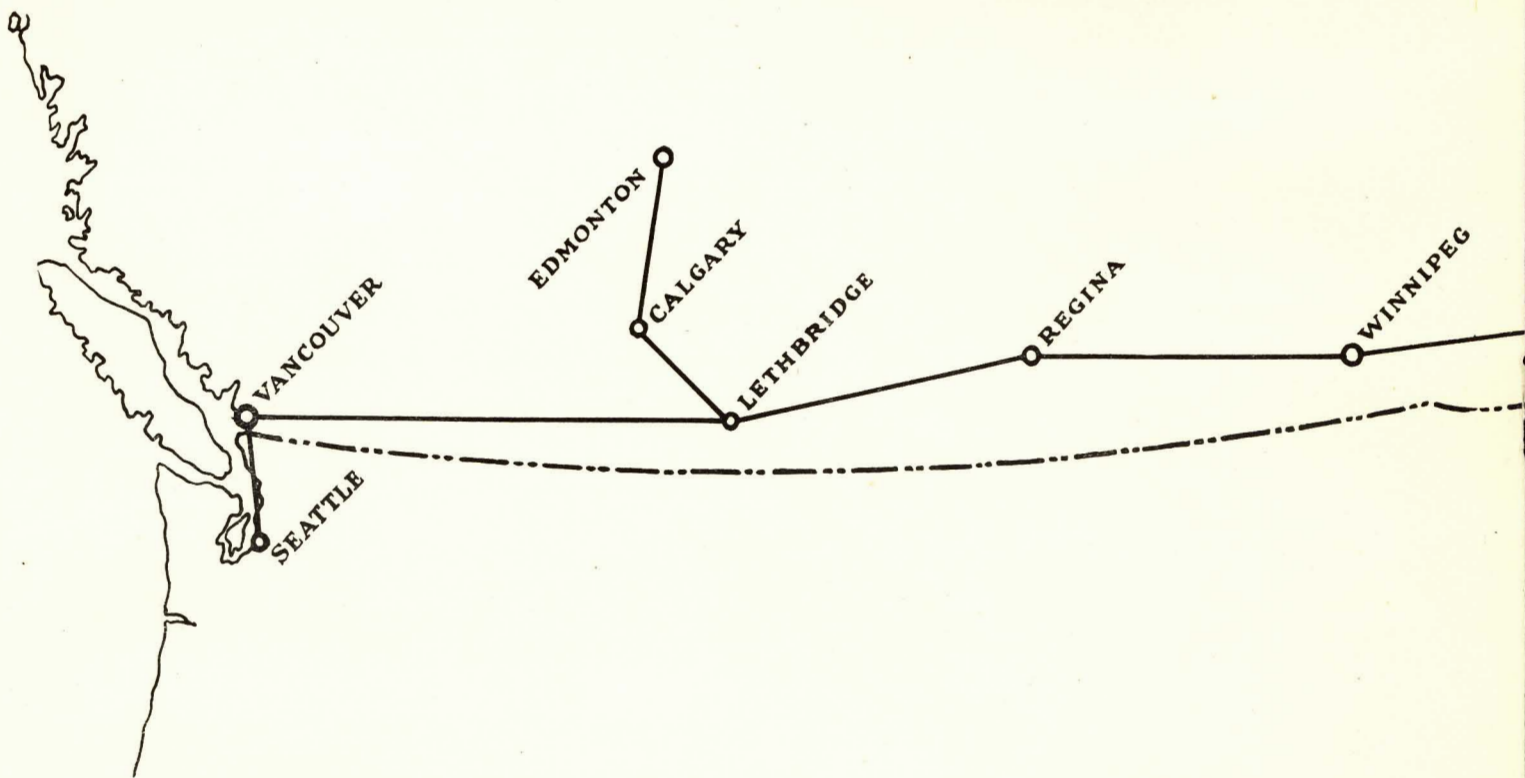
A certain measure of co-ordination exists between the corporation and the Canadian National Railway Company. The railway company at present furnishes services in the following departments: Accounting, Advertising and Publicity, Legal, Medical, Purchasing, Secretarial and Treasury. This arrangement makes for convenience and economy.

## OPERATIONS

Most of the activities during 1937 have necessarily been preliminary to operation. Shortly after his appointment the Vice-President made a survey by air and on the ground of the entire proposed route between Vancouver and Montreal. Later in the year a survey was also made of the proposed route east of Montreal. As has been noted already, the provision of emergency landing fields, radio beam equipment and certain other facilities is the responsibility of the Government (Department of Transport). There has been, and continues to be, complete collaboration between the officers of the corporation and of the department in these matters.

Satisfactory arrangements have been entered into by the corporation for use of the municipal airports and other facilities at Winnipeg, Regina, Lethbridge, Cranbrook and Seattle. A temporary arrangement is in effect at Vancouver, and negotiations are in hand looking to a term agreement. Preliminary discussions have been had with the municipal authorities at Calgary and Edmonton. Arrangements for the use of airports east of Winnipeg are under consideration.



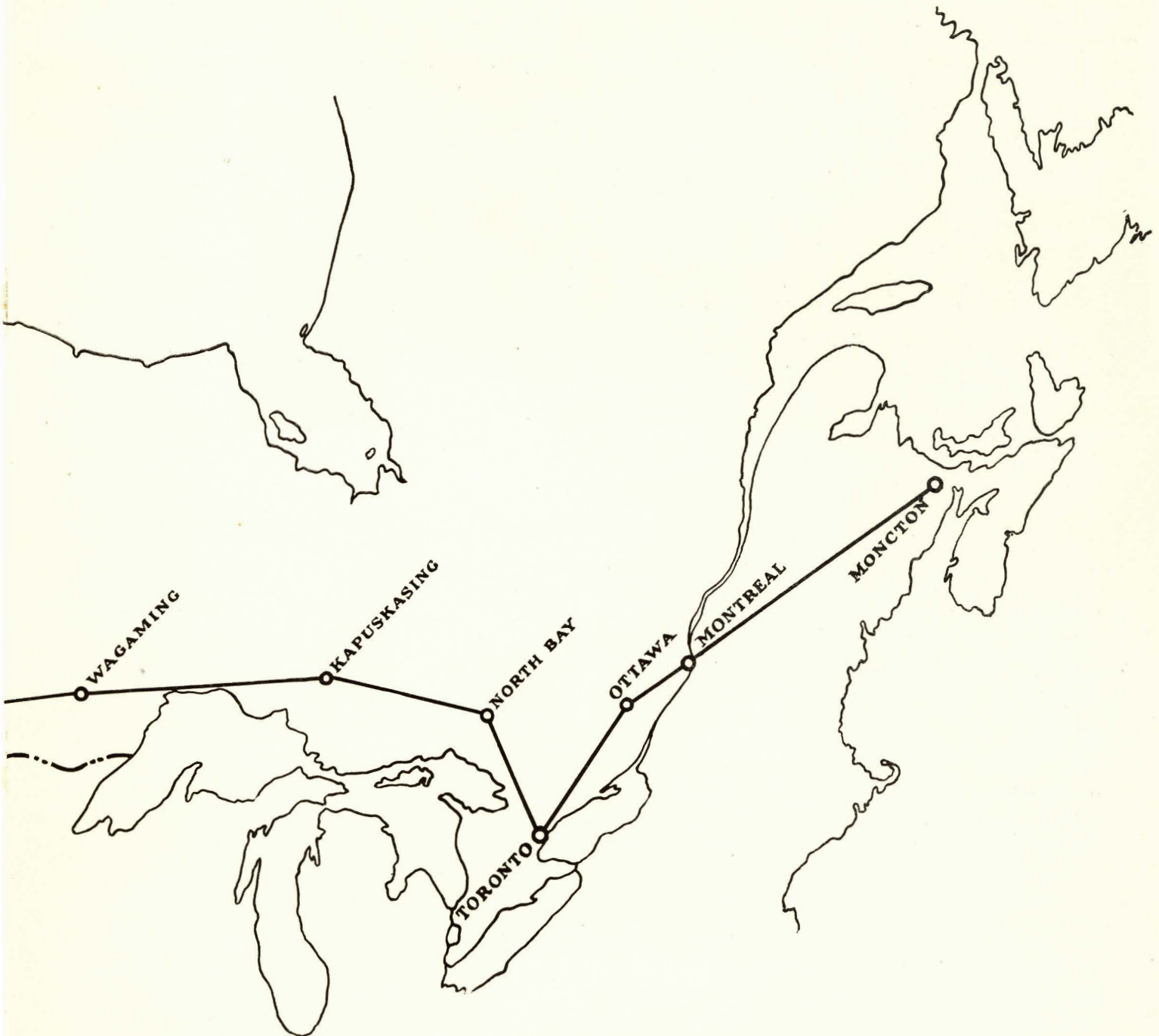




## TRANS-CANADA AIR LINES

The photograph on the left shows one of the Trans-Canada airliners departing from Vancouver on a regular scheduled trip with passengers and mails for Seattle. Trans-Canada Air Lines have been flying over this route since September 1, 1937.

The map below shows other routes, linking east and west, over which the services of the Trans-Canada Air Lines are being extended.





It is the policy of the corporation to make use wherever possible of the existing facilities available at the airports. Few, however, have hangar space suitable for the accommodation of large transport aeroplanes, which is necessary at terminal points where space is required for spare or standby equipment. It has been necessary for the corporation to arrange for the construction of its own premises at Winnipeg and Lethbridge, and it is expected that the buildings will be ready in the near future. A standard design of hangar has been developed which will permit of expansion for the housing and proper servicing of the largest type of aircraft as and when necessary. At Winnipeg the facilities will include a complete overhaul shop and office accommodation.

The first commercial operation of the corporation was the Vancouver-Seattle service, on which passengers and mails are carried. This service was taken over as of September 1st, 1937, with the equipment and staff used therein, from Canadian Airways Limited. The equipment consisted of two Lockheed Electra model 10A aeroplanes which had been purchased by the Canadian Airways Company late in 1936, one Stearman single engine bi-plane, and various spare parts. The results of operation of this service are reflected in the income statement which accompanies this report. With the co-ordination of facilities which will be possible with the inauguration of the main line service into Vancouver certain economies will be effected which will materially improve the performance of this service.

During the last few months of the year considerable flying for training purposes was done between Winnipeg and the Coast. A scheduled training service carrying mail between Winnipeg and Vancouver was inaugurated on March 1st, 1938. Passenger services will not be operated until all airport and airway facilities have been thoroughly tested and tried under actual operating conditions.

The question of the routes to be flown with mail has received much consideration. It is proposed, subject to the required approval of the Governor in Council, that in the initial stages the routes shall be as follows:

Transcontinental—Moncton-Vancouver via Montreal, Ottawa, Toronto, North Bay, Kapuskasing,  
Winnipeg, Regina, Lethbridge.  
Lethbridge-Calgary-Edmonton.  
Vancouver-Seattle.

It is anticipated that in the future certain international mail routes will be made part of the Trans-Canada system. This matter is receiving consideration and involves an agreement between Canada and the United States. Conversations relative to this phase have already been held between the two governments.

In the initial stages, all routes will be flown with mail during the daylight hours. As soon as facilities are available and in operation night flying will be instituted in order to give the greatest expedition to the movement of mails between the communities served.

The Trans-Canada contract, to which reference has already been made, has been executed in 1938. It is for a period of ten years effective from June 1st, 1937. Negotiations are in progress with the Post Office Department with reference to the mail contract also provided for in the act.

## EQUIPMENT

As at December 31st. the flight equipment (exclusive of the Stearman plane at Vancouver which is held as a standby to protect the Vancouver-Seattle air mail service) consisted of five Lockheed Electra model 10A aeroplanes. These are twin engined monoplanes with passenger accommodation for ten, a crew of two, cargo capacity of 800 lbs., and cruising speed (with full load at 10,000 feet above sea level) of 175 miles per hour. There are on order ten 14H model Lockheed aeroplanes. These machines have passenger accommodation for eleven, crew of three, cargo capacity of 2,700 lbs., and a cruising speed of 200 miles per hour. Four are expected to be delivered in the early spring and six late in the summer. The equipment on hand or ordered will be sufficient for all of the operations now in contemplation.

Ground radio equipment has been purchased and installed between Winnipeg and Vancouver, and the stations east of Winnipeg will be equipped as required.

## FINANCIAL

### Balance Sheet:

The balance sheet submitted herewith reflects aggregate calls of seventeen per cent (\$850,000) on the capital stock. Of the funds thus received \$492,597.92 has been expended for the purchase of aircraft and other equipment.

### Income Statement:

The income statement for the initial development and operating period, namely from June 1st. to December 31st, 1937, reflects a deficit of \$111,005.07. This includes organization and development expenses of \$93,798.20, and interest on capital investment of \$8,054.79. It also includes the result of the separate



operating and training service between Vancouver and Seattle from September 1st. to December 31st, 1937. The revenue from such service was \$16,278.68, and the operating expenses were \$25,430.76, which included \$6,206.80 for depreciation and \$2,667.06 for self-insurance.

**Depreciation:**

Depreciation is being accrued on all equipment and property by charges to operating expenses. Rates are in line with those used by the major air transport companies of the United States, as similar operating conditions may be expected and a comparable type of equipment is used. Depreciation charges in 1937 totalled \$21,386.14.


**Insurance:**

Full insurance coverage is carried with outside underwriters for loss of aircraft, property or other equipment, by fire, explosion, lightning, etc., and for passenger, public and employer's liability. A self-insurance reserve is provided by a charge to operating expenses for loss or damage to aircraft by reason of crash.

**GENERAL**

In conclusion it may be said that the development of the operating organization has been carried forward vigorously, and that satisfactory progress has been made. The training programme, although hampered to some extent by winter conditions, is well advanced. The character of the personnel is high and all concerned are working in a fine spirit of enthusiasm and co-operation. The future development of the corporation is faced with confidence. Difficulties inherent in the initial stages of organization have been surmounted and momentum attained. There is every reason to expect that the objective of a first-class air transport service across Canada, forging another link between the Atlantic and the Pacific, will be achieved in the year 1938.

For the Directors,



President.

Montreal, March 18th, 1938.



## BALANCE SHEET AT

## ASSETS

## CURRENT AND ACCRUED ASSETS:

Cash .....	\$ 270,716.87	
Working Fund Advances .....	1,915.03	
Special Deposits .....	25.00	
Accounts Receivable .....	10,365.20	
Balances Receivable from Agents .....	393.33	
Motor Fuels and Lubrication Oils .....	315.21	
Materials and Supplies .....	21,754.06	
Dominion of Canada Subsidy Accrued .....	111,005.07	\$416,489.77

## DEFERRED DEBITS:

Prepayments—Rent and Insurance .....		9,282.66
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## FIXED ASSETS:

Property and Equipment .....	\$ 492,597.92	
Less Accrued Depreciation .....	21,386.14	471,211.78
		<u>\$896,984.21</u>

## CERTIFICATE

We have examined the books and records of the Trans-Canada Air Lines for

We certify that, in our opinion, the above Balance Sheet is properly drawn 31st. December, 1937 and that the relative Income Account for the initial develop

10th. March, 1938.



31st. DECEMBER, 1937.

LIABILITIES

CURRENT AND ACCRUED LIABILITIES:

Accounts Payable.....	\$ 23,211.15	
Salaries and Wages Accrued.....	4,704.31	
Other Accrued Liabilities.....	799.29	\$ 28,714.75
		<hr/>

DEFERRED CREDITS:..... 695.43

RESERVES:

Insurance Reserve.....	\$ 9,519.24	
Interest Accrued on Capital Invested.....	8,054.79	17,574.03
		<hr/>

CAPITAL STOCK:

Common Stock Subscribed—Par Value.....	\$5,000,000.00	
Less Uncalled Subscriptions to Common Stock.....	4,150,000.00	850,000.00
		<hr/>
		<u>\$896,984.21</u>

T. H. COOPER  
Comptroller

OF AUDITORS

the initial development and operating period ended the 31st. December, 1937.  
up so as to exhibit a true and correct view of the affairs of the Air Lines as at the  
ment and operating period ended the 31st. December, 1937 is correctly stated.

GEORGE A. TOUCHE & CO.,  
Chartered Accountants.

## INCOME ACCOUNT

FOR THE INITIAL DEVELOPMENT AND OPERATING PERIOD  
1st. JUNE, 1937 TO 31st. DECEMBER, 1937.

OPERATING REVENUE:	
Passenger .....	\$ 3,610.22
Mail .....	12,627.00
Express .....	10.40
Excess Baggage .....	31.06
Total Revenue .....	<u>\$ 16,278.68</u>
OPERATING EXPENSES:	
Aircraft Operation and Maintenance .....	\$ 20,098.74
Ground Operation and Maintenance .....	1,582.88
Traffic and General Administration .....	3,664.62
General Taxes .....	84.52
Total Expenses .....	<u>\$ 25,430.76</u>
NET DEFICIT VANCOUVER-SEATTLE SERVICE (from 1st. September) .....	\$ 9,152.08
ORGANIZATION AND DEVELOPMENT EXPENSE .....	\$ 93,798.20
INTEREST ON CAPITAL INVESTMENT .....	8,054.79
DEFICIT to be reimbursed by Dominion Subsidy .....	<u><u>\$111,005.07</u></u>







