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CANADIAN PACIFIC RAILWAY COMPANY

ANNUAL REPORT

FOR THE
YEAR ENDED DECEMBER 31

1940

MONTREAL, MARCH, 1941

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CANADIAN PACIFIC RAILWAY COMPANY

NOTICE TO SHAREHOLDERS

The Sixtieth Annual General Meeting of the Shareholders of this Company, for the election of Directors to take the places of the retiring Directors and for the transaction of business generally, will be held on Wednesday, the seventh day of May next, at the principal office of the Company, at Montreal, at twelve o'clock noon, daylight saving time.

The Ordinary Stock Transfer Books will be closed in Montreal, Toronto, New York and London at 3 p.m. on Tuesday, the fifteenth day of April. The Preference Stock Books will be closed in London at the same time.

All books will be re-opened on Thursday, the eighth day of May.

By order of the Board,

F. BRAMLEY,
Secretary.

MONTREAL, March 10, 1941.



BOARD OF DIRECTORS.

SIR EDWARD BEATTY, G.B.E.	- - - - -	MONTREAL.
L. J. BELNAP	- - - - -	do
COL. HENRY COCKSHUTT	- - - - -	BRANTFORD.
D. C. COLEMAN	- - - - -	MONTREAL.
AIMÉ GEOFFRION, K.C.	- - - - -	do
G. BLAIR GORDON	- - - - -	do
HON. ERIC W. HAMBER	- - - - -	VICTORIA.
JOHN W. HOBBS	- - - - -	TORONTO.
SIR HERBERT S. HOLT	- - - - -	MONTREAL.
RT. HON. REGINALD MCKENNA, P.C.	- - - - -	LONDON, ENG.
ROBERT S. McLAUGHLIN	- - - - -	OSHAWA.
ROSS H. McMASTER	- - - - -	MONTREAL.
BRIG.-GEN. FRANK S. MEIGHEN, C.M.G.	- - - - -	do
SIR EDWARD PEACOCK, G.C.V.O.	- - - - -	LONDON, ENG.
RT. HON. ARTHUR B. PURVIS, P.C.	- - - - -	MONTREAL.
ROBERT C. STANLEY	- - - - -	NEW YORK.
W. N. TILLEY, K.C.	- - - - -	TORONTO.
MORRIS W. WILSON	- - - - -	MONTREAL.

EXECUTIVE COMMITTEE.

SIR EDWARD BEATTY, G.B.E.	D. C. COLEMAN
SIR HERBERT S. HOLT	ROSS H. McMASTER
RT. HON. ARTHUR B. PURVIS, P.C.	W. N. TILLEY, K.C.

OFFICERS

CHAIRMAN AND PRESIDENT	- - - - -	SIR EDWARD BEATTY, G.B.E.	MONTREAL.
VICE-PRESIDENT	- - - - -	D. C. COLEMAN	do
SECRETARY	- - - - -	F. BRAMLEY	do
ASSISTANT SECRETARY	- - - - -	I. R. COLLINS	do
GENERAL COUNSEL	- - - - -	E. P. FLINTOFT, K.C.	do
GENERAL SOLICITOR	- - - - -	G. A. WALKER, K.C.	do
ASST. TO THE VICE-PRESIDENT	- - - - -	H. C. GROUT	do
GENERAL EXECUTIVE ASSISTANT	- - - - -	J. O. APPS	do

FINANCIAL AND ACCOUNTING DEPARTMENTS

VICE-PRESIDENT AND TREASURER	- - - - -	L. B. UNWIN	MONTREAL.
ASSISTANT TO VICE-PRESIDENT	- - - - -	J. A. DUNDAS	do
ASSISTANT TREASURER	- - - - -	F. G. MILLEN	do
ASSISTANT TREASURER	- - - - -	A. E. H. CHESLEY	do
COMPTROLLER	- - - - -	E. A. LESLIE	do
ASSISTANT COMPTROLLER	- - - - -	W. R. PATTERSON	do
ASSISTANT TO COMPTROLLER	- - - - -	S. J. W. LIDDY	do

TRAFFIC DEPARTMENT

VICE-PRESIDENT	- - - - -	GEORGE STEPHEN	MONTREAL.
PASSENGER TRAFFIC MANAGER	- - - - -	R. G. McNEILLIE	do
ASST. PASS. TRAFFIC MGR., EASTERN LINES	- - - - -	E. F. L. STURDEE	do
ASST. PASS. TRAFFIC MGR., WESTERN LINES	- - - - -	N. R. DESBRISAY	WINNIPEG.
OVERSEAS PASSENGER MANAGER	- - - - -	IAN WARREN	MONTREAL.
STEAMSHIP PASSENGER TRAFFIC MANAGER	- - - - -	WM. BAIRD	do
ASST. STEAMSHIP PASSENGER TRAFFIC MGR.	- - - - -	H. B. BEAUMONT	do
FREIGHT TRAFFIC MANAGER	- - - - -	C. E. JEFFERSON	do
ASST. FREIGHT TRAFFIC MGR., EASTERN LINES	- - - - -	G. HIAM	do
ASST. FREIGHT TRAFFIC MGR., WESTERN LINES	- - - - -	H. W. GILLIS	WINNIPEG.
FOREIGN FREIGHT TRAFFIC MANAGER	- - - - -	W. M. KIRKPATRICK	MONTREAL.

Eastern Lines:

OPERATING DEPARTMENT

VICE-PRESIDENT AND GENERAL MANAGER	- - - - -	H. J. HUMPHREY	TORONTO.
ASSISTANT GENERAL MANAGER	- - - - -	N. M. McMILLAN	do
ASST. TO VICE-PRESIDENT & GENERAL MANAGER	- - - - -	S. M. GOSSAGE	do
GEN. SUPT. NEW BRUNSWICK DISTRICT	- - - - -	T. C. MACNABB	SAINT JOHN.
GEN. SUPT. QUEBEC DISTRICT	- - - - -	J. K. SAVAGE	MONTREAL.
GEN. SUPT. ONTARIO DISTRICT	- - - - -	H. A. GREENIAUS	TORONTO.
GEN. SUPT. ALGOMA DISTRICT	- - - - -	B. J. QUILTY	NORTH BAY.

Western Lines:

VICE-PRESIDENT	- - - - -	W. M. NEAL	WINNIPEG.
GENERAL MANAGER	- - - - -	W. A. MATHER	do
ASST. TO VICE-PRESIDENT	- - - - -	C. E. STOCKDILL	do
ASST. GEN. MANAGER, BRITISH COLUMBIA DIST.	- - - - -	C. A. COTTERELL	VANCOUVER.
GEN. SUPT. ALBERTA DISTRICT	- - - - -	E. D. COTTERELL	CALGARY.
GEN. SUPT. SASKATCHEWAN DISTRICT	- - - - -	H. J. MAIN	MOOSE JAW.
GEN. SUPT. MANITOBA DISTRICT	- - - - -	W. S. HALL	WINNIPEG.
CHIEF ENGINEER	- - - - -	J. E. ARMSTRONG	MONTREAL.
CHIEF OF MOTIVE POWER AND ROLLING STOCK	- - - - -	H. B. BOWEN	do
MANAGER, DEPARTMENT OF PERSONNEL	- - - - -	GEORGE HODGE	do
GENERAL SUPT. OF TRANSPORTATION	- - - - -	G. T. COLEMAN	do
MANAGER OF SLEEPING AND DINING CARS	- - - - -	T. M. McKEOWN	do
GENERAL MGR. OF COMMUNICATIONS	- - - - -	W. D. NEIL	do
CHIEF COMM. OF IMMIGRATION AND COLONIZATION	- - - - -	J. N. K. MACALISTER	do
GENERAL PURCHASING AGENT	- - - - -	B. W. ROBERTS	do
GENERAL MANAGER OF HOTELS	- - - - -	H. F. MATHEWS	do
MANAGER, DEPT. OF NATURAL RESOURCES	- - - - -	S. G. PORTER	CALGARY.
ORIENTAL MANAGER	- - - - -	D. DRUMMOND	HONG KONG.
ACTING EUROPEAN MANAGER	- - - - -	F. W. MOTTLEY, Trafalgar Square	LONDON.
DEPUTY SECRETARY AND REGISTRAR OF TRANSFERS	- - - - -	F. J. WHIDDETT, 8 Waterloo Place	do

TRANSFER AGENTS

Bank of Montreal Trust Company, 64 Wall Street	- - - - -	NEW YORK.
The Royal Trust Company, 105 St. James Street W.	- - - - -	MONTREAL.
The Royal Trust Company, 66 King Street W.	- - - - -	TORONTO.

CANADIAN PACIFIC RAILWAY COMPANY

SIXTIETH ANNUAL REPORT

OF THE

DIRECTORS OF CANADIAN PACIFIC RAILWAY COMPANY

YEAR ENDED DECEMBER 31, 1940

To the Shareholders:

The accounts of the Company for the year ended December 31, 1940, show the following results:—

INCOME ACCOUNT	
Gross Earnings.....	\$170,964,897.01
Working Expenses (including taxes).....	135,325,458.93
Net Earnings.....	\$ 35,639,438.08
Other Income.....	10,692,163.30
	<u>\$ 46,331,601.38</u>
Fixed Charges.....	\$25,380,715.44
Interest on bonds of Minneapolis, St. Paul & Sault Ste. Marie Railway Company, guaranteed as to interest by your Company.....	805,830.00
	<u>26,186,545.44</u>
Net Income.....	\$ 20,145,055.94
Dividends on Preference Stock:	
2% paid October 1, 1940.....	£564,069.10.10 \$ 2,521,390.85
2% payable February 1, 1941.....	564,069.10.10 2,521,390.85
	<u>5,042,781.70</u>
Balance transferred to Profit and Loss Account.....	<u>\$ 15,102,274.24</u>

NOTE—Particulars of Gross Earnings, Working Expenses and Other Income, are shown on page 22.

PROFIT AND LOSS ACCOUNT

Profit and Loss Balance December 31, 1939.....	\$ 141,353,502.86
Balance of Income Account for the year ended December 31, 1940...	15,102,274.24
	\$ 156,455,777.10

DEDUCT:

Amount credited investment reserve owing to impairment in investment in Minneapolis, St. Paul & Sault Ste. Marie Railway Company.....	\$ 10,000,000.00	
Loss on lines abandoned and on property retired and not replaced.....	1,539,475.25	
Miscellaneous—Net Debit.....	871,006.39	
	12,410,481.64	
Profit and Loss Balance December 31, 1940, as per Balance Sheet....	\$ 144,045,295.46	

Net Income for the year amounted to \$20,145,055, being \$10,362,907 greater than in 1939.

RAILWAY EARNINGS AND EXPENSES

The comparative results of railway operations were as follows:

	1940	1939	Increase or Decrease
Gross Earnings.....	\$170,964,897	\$151,280,699	\$ 19,684,198
Working Expenses (including taxes).....	135,325,459	122,756,880	12,568,579
Net Earnings.....	\$ 35,639,438	\$ 28,523,819	\$ 7,115,619
Expense ratios:			
Including taxes.....	79.15%	81.15%	2.00
Excluding taxes.....	74.61%	78.26%	3.65

GROSS EARNINGS increased by \$19,684,198, or 13.0%. Each month contributed to this increase with the exception of September during which there was a substantial reduction owing to the absence of the usual heavy movement of grain.

FREIGHT EARNINGS increased by \$15,493,585, or 12.9%, and were greater than those of any year since 1929.

Earnings from grain and grain products showed a decrease of \$4,171,034, or 13.1%. The total handling of all grains during the year amounted to 166 million bushels, as compared with 203 million bushels in 1939, an average of 155 million bushels for the years 1930-1939 (during which grain production was generally sub-normal) and an average of 254 million bushels for the years 1925-1929. Delayed movement of the 1939 crop resulted in increases in grain earnings during the early months of the year, but these were more than offset by reductions in the autumn months.

The Prairie Provinces wheat crop of 525 million bushels in 1940 was second only to the 1928 crop of 545 million bushels, the largest in the history of these Provinces. However, with much of the normal export market closed as a result of the war, the terminal elevators were over-taxed, and it became necessary to hold a large part of the wheat on farms or in country elevators. At the end of the year it was estimated that only 30 per cent. of the crop had been moved, as compared with about 60 per cent. in 1939 and 70 per cent. in 1938.

Apart from grain, freight earnings increased 22.2%, gains being shown in every important class of commodity except fruits and vegetables and anthracite coal. There were particularly heavy movements of manufactured goods, construction materials, petroleum products, bituminous coal, coke, and miscellaneous freight. Owing to lack of ocean tonnage on the Pacific large consignments of lumber and timber moved from British Columbia to eastern ports for shipment overseas, and special rates were provided for this movement. The inability of producers of pulp and paper in enemy-controlled parts of Europe to reach American markets was an important factor leading to increased movement of these commodities from Canada. There was a substantial gain in shipments of dressed meats and packing house products to the United Kingdom. Ores and concentrates and refinery and smelter products moved in increased volume. Owing to wartime conditions, there was a notable change in the geographical distribution of originating tonnage. Losses in the Prairie Provinces were more than counterbalanced by impressive increases in the East and in British Columbia.

PASSENGER EARNINGS increased by \$2,784,687, or 17.8%, as a result both of military movements and of increased business activity. Among the adverse features were the virtual disappearance of ordinary passenger traffic in connection with the Atlantic steamships and a considerable reduction in travel through Pacific Coast ports. Unfortunately, during the summer widespread publicity was given to false reports of difficulties encountered by United States citizens in entering and leaving Canada. These tended to interfere with tourist traffic in the early part of the season, but later their effect was largely overcome by intensive publicity in which your Company participated.

OTHER EARNINGS increased by \$1,405,925, or 9.2%, notwithstanding a decrease of \$2,236,232 in steamship traffic commissions, which were discontinued on February 1, as explained at the last annual meeting. Under this heading the largest increase was in express earnings, but sleeping car, dining car, news service and other passenger train revenues also showed considerable gains. There was also a substantial improvement in switching and storage revenues and other miscellaneous items.

WORKING EXPENSES increased by \$12,568,579, or 10.2%. Excluding taxes, the increase was \$9,163,205, or 46.55% of the increase in gross earnings. The ratio of working expenses (excluding taxes) to gross earnings of 74.61% was the lowest ratio of any year since 1917, with the exception of 1926 when it was 74.41%.

MAINTENANCE OF WAY AND STRUCTURES EXPENSES increased by \$2,119,456, or 10.9%. During the year 1,473,986 treated and 1,609,582 untreated ties were placed in track. New rail laid totalled 229 single track miles. Rock ballast was applied to 108 single track miles between Winnipeg and Fort William, completing the rock ballasting of the main line between these points.

MAINTENANCE OF EQUIPMENT EXPENSES increased by \$4,955,668, or 17.2%. Effective January 1, depreciation for rolling stock was provided on the basis of use. This involved charges to maintenance to the amount of \$10,317,760, as compared with charges for retirements in 1939 of \$7,411,151. The difference of \$2,906,609 reflects the increase in the use of rolling stock as well as the change in the method of accounting. Expenditure on locomotive repairs amounted to \$8,864,494 and included the shopping of 572 engines for heavy repairs. The boilers of 15 passenger locomotives were completely renewed, and new tenders were provided for 19 freight locomotives. Expenditure on freight train car repairs amounted to \$6,489,285 and included main shop overhauling of 11,738 freight cars. Passenger train car repairs amounted to \$5,034,367 and included the overhauling of 1,167 passenger cars. At the close of the year 89.5% of locomotives and 96.0% of freight cars were in serviceable condition, as against 85.6% and 96.5%, respectively, at the end of 1939.

TRANSPORTATION EXPENSES increased by \$3,344,182, or 6.1%. They amounted to 33.97% of gross earnings as compared with 36.18% in 1939. This was the best ratio yet attained. The improvement in transportation performance is further indicated by the following comparisons:

	1940	1939
Freight train fuel consumption—pounds per 1,000 gross ton miles	97	99
Freight train load—tons	1,747	1,717
Freight train speed—miles per hour	17.5	17.2
Gross ton miles per freight train hour	30,653	29,573

OTHER WORKING EXPENSES increased by a net amount of \$2,149,273. As a result of the changed method of accounting for the cost of soliciting ocean steamship traffic, to which reference has previously been made, traffic expenses incurred on account of the ocean steamships have been charged directly against their earnings and are no longer included in

railway working expenses. In 1940, expenses so charged amounted to \$1,611,692. The expenses of the Immigration and Colonization Department, amounting to \$231,837, were included in traffic expenses instead of being charged to Land Surplus as in previous years. While some of the work of this department is still directly related to the sale of lands, the greater part of its activities now has in view the long term traffic benefits brought about by increased settlement and the development of the resources of the country. During the year the salaries of the senior officers and the fees of the Directors were restored to the basic rates of 1930. Taxes were higher by \$3,405,373, bringing railway tax accruals for the year up to \$7,765,865, an increase of 78.1%.

OTHER INCOME

Other income totalled \$10,692,163, an increase of \$3,927,312, or 58.1%.

Dividend income increased by \$77,822. There was an increase of \$420,625 in dividends received from The Consolidated Mining and Smelting Company of Canada, Limited, which were at the rate of \$2.25 per share as compared with \$2.00 in 1939, but this was partially offset by a decrease in other dividends.

Net income from interest, exchange, separately operated properties and miscellaneous sources increased by \$87,527. Interest received on deferred payments under land contracts, which heretofore has been credited to Land Surplus, was included for the first time under this caption.

The operation of ocean and coastal steamships resulted in a net profit of \$3,075,910, as compared with a net loss in 1939 of \$71,274. As reported at the last annual meeting, commencing with their first voyage from the United Kingdom after February 1, most of your Company's Atlantic fleet were requisitioned by the Ministry of Shipping to be operated for the account of the British Government. Some details of hire for requisitioned vessels remained unsettled at the end of the year, and the items affected have been estimated for inclusion in the year's results. As your fleet was intensively used throughout the year, the withdrawal of vessels from service for normal overhaul was necessarily restricted, but adequate provision for maintenance has been made in the accounts. Depreciation was accrued on all ships at the same rate (5%) as adopted by the British Ministry of Shipping in its chartering arrangements. Four of your Company's ocean vessels, having a gross tonnage of 78,666, were sunk by enemy action during 1940, and at the end of the year your fleet was reduced to 246,072 gross tons. The operation of coastal steamships resulted in increased earnings, and no damage of an important nature was sustained by vessels in this service during the year.

There was an improvement of \$614,779 in net earnings of hotel, communication and miscellaneous properties, of which amount hotel operations accounted for \$228,406 and communications \$217,686.

FIXED CHARGES AND GUARANTEED INTEREST

Calculated on the same basis as last year, there was an actual decrease of \$206,909 in fixed charges. However, owing to the inclusion under this caption of \$886,932 interest on the Twenty Year 4½% Sinking Fund Note Certificates heretofore charged against Land Surplus, fixed charges are shown at a figure \$680,023 greater than a year ago. The amount charged Income Account for guaranteed interest on Soo Line bonds is the same as that accrued in 1939.

DIVIDENDS

Dividends aggregating \$5,042,782, representing 4% on the non-cumulative Preference Stock, were declared from the net income of the year. Your Directors decided that no action should be taken with respect to a dividend for the year 1940 on the Ordinary Capital Stock.

PROFIT AND LOSS ACCOUNT

Following negotiations with the Trustees of the Soo Line certain changes in traffic arrangements with that company were brought about during the year which, it is estimated, will result in an increase in your Company's net earnings of approximately \$400,000 per annum on traffic interchanged with that company. The change has necessitated a reduction in the estimate of prospective earnings and consequently of the probable capitalization of the reorganized Soo Line. This and other considerations which have developed during our discussions with the Trustees and representatives of the bondholders have indicated the necessity of making additional provision for impairment in your investment in the Soo Line, and an amount of \$10,000,000 was accordingly appropriated from Profit and Loss and credited to investment reserve. However, it may be pointed out that the benefit to your Company from the gain in net earnings above referred to will be much greater than any probable return on the additional junior securities which might otherwise have been received from a larger capitalization of the reorganized company.

Loss on lines abandoned and on property retired and not replaced amounted to \$1,539,475. This loss represents the cost of facilities no longer required under conditions and operating methods now prevailing. The lines abandoned were the following:—Ste. Therese to St. Eustache in the Province of Quebec—six miles; Gertrude to O'Donnell in the Prov-

ince of Ontario—three miles; and Vernon to Okanagan Landing in the Province of British Columbia—four miles.

LAND ACCOUNTS

During the year, 99,933 acres of agricultural lands were sold for \$807,678, an average price of \$8.08 per acre. This included 2,173 acres of irrigated land which were sold at an average of \$44.83 per acre, and 97,760 acres of other land at an average of \$7.27.

Cash receipts on land account totalled \$2,596,776, including \$232,959 from petroleum rights, coal land rents and royalties and gas royalties. Collections on farm contracts were poor as a result of the slow disposition of the 1940 crop, but this was more than offset by increases in initial instalments and deferred payments on timber land and other contracts. Disbursements for land and irrigation expenses, including taxes, totalled \$1,394,462, and net cash receipts amounted to \$1,202,314.

In pursuance of the policy of rendering assistance to farmers in the Western Provinces who have suffered from adverse conditions throughout the year, your Company continued its concessions on substantially the same terms as in former years. Since 1932, the rebates of interest and concessions for cash payments to holders of farm contracts have totalled \$16,842,458.

BALANCE SHEET

The General Balance Sheet and supporting schedules are in their usual form. The liability for all bonds, notes and equipment obligations of the Company, including the Twenty Year $4\frac{1}{2}\%$ Sinking Fund Note Certificates previously carried as a separate item, is recorded under a new caption, Funded Debt.

In connection with the adoption of depreciation accounting for rolling stock, \$48,134,205 was added to your Company's investment in rolling stock to bring it up to the original cost of the units presently in service. An equal amount was concurrently credited to Rolling Stock Depreciation Reserve. As has been previously explained, the excess of the cost of units in service over book values arose during the years prior to 1930 when units of rolling stock retired were replaced with new units of greater capacity and at higher prices without making any charge against investment account.

The cost of the four ocean vessels lost during the year, aggregating \$23,061,243, was retired from property investment and this cost, less insurance recoverable in respect of the basic values agreed upon with the British Government, was charged against amounts already provided in Steamship Depreciation Reserve. This insurance has been set aside in

a Steamship Replacement Fund which, at the close of the year, totalled \$18,620,840. Cash as received in settlement of claims, together with interest earned by the fund, has been and will be invested in readily marketable securities until such time as conditions are favourable for replacing the tonnage lost. In accordance with the new War Risk Insurance arrangements, which became effective May 8, 1940, further insurance recoveries aggregating more than £600,000 with respect to the vessels other than the "Beaverburn" (which was governed by prior arrangements) are to be placed to the credit of your Company by the Ministry of Shipping in an interest bearing account. The total of the credits to this account will represent the maximum additional amount recoverable as an offset to any increased cost of replacement which may occur. It may be drawn upon, under conditions set forth by the Minister of Shipping, as replacements are effected.

It has become apparent that there is no prospect of realizing any value in the reorganization of The Duluth, South Shore & Atlantic Railway Company from the \$3,000,000 Income Certificates of that company issued in 1912 which your Company holds. This asset has, therefore, been written off against investment reserves previously provided. It is anticipated that the book value of your Company's remaining investments in the South Shore will be approximately equal to the amount of the securities which will be issued to your Company in the reorganization.

FINANCE

Serial 3% Collateral Trust Bonds to the amount of \$1,000,000 were redeemed, and \$1,152,500 6% Collateral Trust Bonds, due 1942, were purchased and cancelled. The \$15,000,000 2½% Collateral Trust Bonds, maturing April 1, 1941, were called for redemption on October 1. Of these bonds, \$14,146,000 had been redeemed by the end of the year. The amount owing with respect to the remaining \$854,000 of bonds is included in the balance sheet under Other Current Liabilities. Consolidated Debenture Stock to the amount of \$19,792,600, pledged as collateral to these bonds, was released and cancelled.

Equipment obligations to the amount of \$3,254,769 matured and were paid, and Consolidated Debenture Stock to the amount of \$268,000, pledged under Series "D", was released and cancelled. An amount of \$2,731,467 was deposited with the Trustee of the Equipment Trust maturing July 1, 1944. Under the terms of the agreement covering that Trust, the Trustee purchased and cancelled \$927,000 of the Equipment Trust Certificates.

Serial 4% Secured Notes to the amount of \$638,285 were redeemed on February 1, and on such redemption Consolidated Debenture Stock to

the amount of \$1,306,100 was released and cancelled. Later in the year, owing to the decline in its market value it became necessary to deposit further amounts of Consolidated Debenture Stock to an aggregate of \$8,883,600 as additional security for the balance of the Notes. In October, owing to the improvement in its market value, stock to the amount of \$5,814,400 was withdrawn and cancelled.

Twenty Year 4½% Sinking Fund Secured Note Certificates to the amount of \$784,500 were purchased by the Trustee and cancelled.

Repayment was made to the Dominion Government of \$210,940 in reduction of the liability for loans made on account of unemployment relief.

On March 1, \$2,000,000 of the 3% Serial Secured Notes, maturing on December 1, were prepaid. On December 2, the notes of this issue, maturing December 1, 1941, and December 1, 1942, and aggregating \$4,000,000, were prepaid. As a result of such prepayments Consolidated Debenture Stock to the amount of \$3,600,000 was released and cancelled, and 100,000 shares of Capital Stock of The Consolidated Mining and Smelting Company of Canada, Limited, were released.

The financial transactions for the year set forth above resulted in the retirement without refunding of \$29,929,680 of bonds, notes and other obligations, and in a reduction of \$21,897,500 in the amount of Debenture Stock issued as collateral.

New equipment to the value of \$9,951,490 was acquired during the year, and the cost was covered by a hire-purchase agreement entered into with the Dominion Government. Under the agreement the principal amount is repayable in equal annual instalments of \$663,432 from June 6, 1941, to June 6, 1955, with interest at the rate of 3½% per annum on the unpaid balance, payable semi-annually.

PENSIONS

Working expenses during the year were charged with \$3,372,570, representing contributions and levies for pensions and annuities in respect of employees who come under your Company's pension plan and the United States Railroad Retirement Act. Included was the first of a number of special annual contributions of \$400,000 authorized by your Directors to be made directly to the Pension Trust Fund. Actuarial reports have shown that, at the existing wage and employment levels, the outlay for pensions will continue to increase for a number of years. Thereafter, as the proportion of the allowance paid from the Pension Trust Fund increases, the cost to your Company will decline somewhat and then become stabilized. The special annual contributions are

designed to assist in meeting the anticipated peak period of cost. Pension allowances paid by your Company during 1940 amounted to \$2,893,545.

Employees retired during the year and eligible for allowances under your Company's pension plan numbered 636. Deaths and other causes removed 271 pensioners from the roll, and at December 31 the number of survivors and their distribution by ages were as follows:

Under 60 years of age	242
From 60 to 64 years of age inclusive	437
From 65 to 70 years of age inclusive	1,971
Over 70 years of age	1,514
	4,164

MINNEAPOLIS, ST. PAUL & SAULT STE. MARIE RAILWAY COMPANY

The comparative railway operating results of this company were as follows:

	1940	1939	Increase
Gross Earnings	\$16,669,060	\$14,873,396	\$ 1,795,664
Working Expenses (including taxes) ...	14,632,782	14,030,423	602,359
Net Earnings	\$ 2,036,278	\$ 842,973	\$ 1,193,305

Increased traffic in grain and iron ore was largely responsible for the improvement in gross earnings. The grain crop harvested in the area tributary to the Soo Line was the largest since 1930, amounting to approximately 40 million bushels as compared with 34 million in 1939. Maintenance of way and structures accounted for more than half of the increase in working expenses, with transportation making up most of the balance. Net earnings, though improved, were still far from adequate for interest requirements.

Negotiations between your Company and representatives of holders of Soo Line Bonds have recently resulted in an agreement in principle and the Trustees of the Soo Line are now engaged in the preparation of a plan of reorganization for submission to the Court and the Interstate Commerce Commission. It is expected that the plan will be filed before April 1, 1941.

Of the various actions, mentioned in the annual report for 1939, claiming that the obligation of your Company under its guarantee of interest on the First Consolidated Bonds remains in effect until the principal amount is paid, one action has been dismissed for want of jurisdiction and in another, which has come to trial, judgment was given in favour of your Company. No appeal has been taken in either of

these cases. The other actions referred to, including that in the Circuit Court of Cook County, Illinois, are still pending.

THE DULUTH, SOUTH SHORE & ATLANTIC RAILWAY COMPANY

The comparative railway operating results of this company were as follows:

	1940	1939	Increase
Gross Earnings.....	\$2,569,730	\$2,272,514	\$ 297,216
Working Expenses (including taxes).....	2,290,008	2,189,427	100,581
Net Earnings.....	\$ 279,722	\$ 83,087	\$ 196,635

The increase in gross earnings resulted largely from improvement in general freight traffic. More than three-quarters of the increase in working expenses was for maintenance.

Negotiations with representatives of holders of First Mortgage Bonds were continued during the year, but the institution by certain holders of an action to settle the questions underlying the allocation of new securities has delayed the filing of a plan of reorganization. The time within which a plan must be filed has been extended by the court to May 31, 1941.

RATES AND SERVICES

Except for twelve new agreed charges, put into effect during the year and the special rates covering the export movement of lumber and timber from British Columbia, which have been previously mentioned, there was no material change in the general level of freight rates. The freight revenue per ton mile was the lowest since 1918, being 0.84 cents as compared with 0.85 cents in 1939.

Partly as a result of heavy military traffic at low rates, passenger revenue per passenger mile reached the lowest level since 1916, being 1.97 cents as compared with 2.06 cents in 1939. Local bargain excursion traffic was heavier than in the previous year.

The capacity of your Company to meet the growing demands upon it for fast and efficient freight and passenger service was further increased by the delivery to it during the year of the rolling stock to which reference was made in the last annual report and of 200 of the freight cars ordered subsequently. Of the 29 new locomotives received, 12 of the Pacific type were placed in freight service on sections of the main line having relatively light grades; 12 of the heavy Mikado type were assigned to territories having more severe operating conditions; and 5 of the Royal Hudson type, oil burning and equipped with boosters, have been assigned to passenger service west of Revelstoke, B.C. The Pacific type and the Royal Hudson type are suitable for both heavy passenger and fast freight service. The 1,500 new freight cars received consisted of 1,000 standard 40-ton steel box cars, 200 70-ton steel gondola cars, 200 refrigerator cars

equipped with overhead brine tanks, and 100 automobile cars of the latest type. Ten 70-foot mail and express cars of all-steel construction were received and put into service on main line passenger trains during the year.

WARTIME ACTIVITIES

At the outbreak of war, your Company placed all of its facilities, services and staff at the disposal of the Governments of Great Britain and Canada, and has taken measures to insure the fullest co-operation with every Government agency. With its well maintained properties and equipment it has been able to meet, efficiently and expeditiously, all calls made upon it as a result of the expansion of national productive activities and the transportation of His Majesty's forces and war supplies.

The manufacturing facilities of your Company's shops are being used increasingly for the production of materials of war. Tanks and other equipment are being made at the Angus Shops in Montreal, and preparations are being made to produce naval guns and mountings at the Ogden Shops in Calgary.

All of your Company's ocean steamships are now either in naval service or being operated for the account of the British Government. On February 5, the freight steamship "Beaverburn" was torpedoed and sunk. On October 26, your Company's flagship, the "Empress of Britain," after defending herself gallantly against an attack by enemy aircraft, was set on fire by bombs, and was torpedoed and sunk while being towed to port. On November 5, the freight steamship "Beaverford" was sunk by an enemy raider, and in December the "Montrose," which had been commissioned as an armed cruiser, was torpedoed and sunk. On November 9, the "Empress of Japan" was attacked by aircraft, but, through the courage and skill of her officers and crew, escaped with only slight damage. It is with the deepest regret that the loss of 401 officers and men must be reported as a result of these encounters.

The steamship "Niagara" of the Canadian Australasian Line, Limited, in which your Company has a one-half interest, was sunk by a mine on June 18, fortunately without loss of life.

An Air Services Department has been organized by your Company in co-operation with the British Ministry of Aircraft Production and is performing important services connected with the movement of military aircraft. Your Company is reimbursed only for the direct costs incurred in performing these services.

The Chairman and President of your Company has continued to act as the representative in Canada of the British Ministry of Shipping, assisted by a number of traffic and steamship officers. A large number of the directors, officers and employees of your Company have been engaged

in advisory, executive and technical duties in many of the war activities of the United Kingdom and the Dominion.

In addition to the services rendered by the members of your Company's staff in connection with the foregoing activities, 2,399 officers and employees had, up to the end of 1940, enlisted in the armed forces, while a large number of others are preparing for military or naval service in reserve units and training corps.

Other wartime activities have been encouraged and facilitated. The National Registration of your Company's officers and employees in Canada was carried out with the fullest co-operation of those concerned. War Saving Stamps have been placed on sale at all your Company's agencies in the Dominion, and an active campaign has been carried on throughout the system to encourage the regular purchase of War Savings Certificates by means of deductions from wage and salary cheques. A special appeal, sponsored by the employees, has been made for contributions of old gold to the "Canadian Pacific Golden Bomber Fund," and a substantial amount has already been collected. Red Cross units and other patriotic activities have been organized extensively among the employees, and the use of your Company's facilities has been made available for such purposes.

During the year your Directors authorized a contribution of \$150,000 to a committee established under the auspices of the Government of Canada to conduct special scientific research in connection with war activities, in collaboration with the National Research Council.

The spread of the conflict throughout Europe has seriously affected your Company's activities. All the agencies in territory occupied by the enemy have been abandoned. The members of the staff evacuated from these offices have been zealous in the protection of your Company's interests, often at considerable personal hazard. The officers and employees in Great Britain, and other zones of active combat, deserve the highest commendation for their continued conduct of business under circumstances of great danger. Your Company's office building at Southampton was demolished in a bombing raid.

CAPITAL EXPENDITURES

In anticipation of your confirmation, your Directors authorized capital appropriations for the year 1940 amounting to \$4,991,093 in addition to those approved at the last annual meeting. Of this amount \$3,568,939 was for the purchase of new rolling stock of which 200 gondola cars were received during the year and the balance, consisting of 300 twin hopper coal cars, 25 first class coaches and 10 baggage and express cars, are for delivery in 1941.

Capital appropriations for the present year, for which your approval will be requested, total \$15,146,313, the principal items being as follows:

Replacement and enlargement of structures in permanent form.....	\$ 179,421
Additions and betterments to stations, freight sheds, coaling and watering facilities and engine houses.....	1,023,178
Ties, tie plates, rail anchors and miscellaneous roadway betterments.....	1,653,270
Replacement of rail in main and branch line tracks with heavier section....	616,953
Installation of automatic signals.....	84,620
Additions and betterments to shop machinery.....	209,120
Additional terminal and side track accommodation.....	442,477
New rolling stock.....	9,730,950
Additions and betterments to rolling stock.....	740,591
Additions and betterments to hotels.....	39,586
Additions and betterments to communication facilities.....	344,567

The appropriations for new rolling stock provide for the purchase of 35 Pacific type locomotives, 250 twin hopper coal cars, 250 three hopper coal cars, 500 box cars, 150 automobile cars, 25 conductors vans and 25 first class coaches. The interior finish for the first class coaches will be applied in your Company's Angus Shops.

CO-OPERATION WITH THE CANADIAN NATIONAL RAILWAYS

Studies with a view to co-operative projects under the provisions of the Canadian National-Canadian Pacific Act were continued throughout the year, but only one additional project, the abandonment of 24.6 miles of Canadian National line between St. Canut and Cushing Junction, Quebec, was made effective. The territory formerly served by this line is now served exclusively by your Company, and the net economy secured by the abandonment, estimated at \$24,000 per annum, is being shared equally between the two railways.

During the year, the Board of Transport Commissioners issued orders approving applications involving abandonment of 108.7 miles of line, and disallowing abandonment in respect of 56.7 miles. At the end of the year, applications remaining before the Board comprised 372.3 miles of line, including 238.1 miles operated by your Company.

Co-operative measures now in effect are estimated to produce an annual net economy of \$1,172,000, one-half of which accrues to each Company, while projects pending, most of which are subject to approval by the Board of Transport Commissioners, are estimated to produce a further joint saving of \$705,000 per annum.

AGREEMENTS

The following agreements made by your Directors will be submitted for your approval:—

1. Agreement dated June 15, 1940, between the Canadian National Railway Company and your Company made pursuant to the Canadian

National-Canadian Pacific Act of 1933, which directs the two companies to endeavour to agree upon co-operative measures, plans and arrangements for the purpose of effecting economies and providing for more remunerative operations. Under this agreement the Canadian National Railway Company agrees to abandon the operation of its line of railway paralleling the line of your Company between Cushing Junction and a point approximately two miles easterly of St. Canut in the Province of Quebec, a distance of 24.6 miles, and to discontinue its communications and express businesses in the territory between Cushing Junction and the said point, the burden and advantage resulting from the abandonment to be equitably distributed between the two companies by a monthly payment by your Company to the Canadian National Railway Company of \$502 which may be commuted by a capital sum payment of \$120,674.

2. Agreement dated as of January 1, 1938, between His Majesty the King, represented by the Minister of Transport, and your Company, whereby your Company is granted the right to have its tracks connected with the tracks of His Majesty at points in the City of Fredericton and the Town of South Devon in the Province of New Brunswick and to operate its trains, engines and cars with its own crews over the tracks of His Majesty between Fredericton and South Devon for the purpose of passing over the bridge of His Majesty across the St. John River and of turning trains, engines and cars on the wye tracks of His Majesty in Fredericton, all for a period of 21 years renewable as therein provided and on terms and conditions whereby your Company is to pay to His Majesty 40% of the interest at 4½% per annum upon the joint section capital account as agreed to from time to time, 40% of rentals paid on such leased property as may be added to the joint section, a wheelage proportion of the maintenance and operation expenses of the joint section, and a charge of \$1.00 for each turning movement on the wye tracks.

STOCK HOLDINGS

The holdings of the Capital Stock of your Company at December 31 were as follows:

	ORDINARY		PREFERENCE		TOTAL
	No. of Holders	Percentage of Stock	No. of Holders	Percentage of Stock	Percentage of Stock
Canada.....	26,408	18.04	158	.94	12.98
United Kingdom and other British.....	19,204	53.03	25,557	95.96	65.75
United States.....	15,366	22.63	56	.26	16.00
Other Countries.....	3,541	6.30	590	2.84	5.27
	<u>64,519</u>		<u>26,361</u>		

CHANGES IN DIRECTORATE

It is with deep regret that your Directors record the death, on September 10, of the Honourable J. Marcelin Wilson, who had been a member of the Board since August, 1935.

Mr. L. J. Belnap was appointed a Director to fill the vacancy caused by the death, in 1939, of Sir Charles Gordon, and Mr. Aimé Geoffrion, K.C., was appointed to succeed the Honourable Mr. Wilson.

RETIRING DIRECTORS

The undermentioned Directors will retire from office at the approaching annual meeting. They are eligible for re-election:

SIR EDWARD BEATTY, G.B.E.

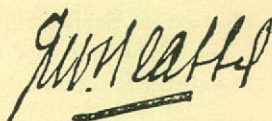
MR. AIMÉ GEOFFRION, K.C.

MR. G. BLAIR GORDON

RT. HON. ARTHUR B. PURVIS, P.C.

It is with sincere appreciation that your Directors acknowledge the continued efficiency and unfailing loyalty of the officers and employees of your Company under conditions of great national stress.

For the Directors,

A handwritten signature in dark ink, appearing to read "J.W. Beatty". The signature is written in a cursive style with a horizontal line underneath the name.

President.

MONTREAL, March 10, 1941.

CANADIAN PACIFIC
GENERAL BALANCE

ASSETS

PROPERTY INVESTMENT:

Railway, Rolling Stock, Inland Steamships, Hotel, Communication and Miscellaneous Properties . . .	\$ 846,653,117.55	
Improvements on Leased Railway Property	96,959,008.67	
Ocean and Coastal Steamships	81,784,632.96	
Stocks, Bonds and Other Securities of Leased, Controlled and Jointly Controlled Railway Companies and Wholly Owned Companies	195,967,035.74	
	\$ 1,221,363,794.92	

OTHER INVESTMENTS:

Miscellaneous Investments—Cost	\$ 26,312,067.27	
Advances to Controlled and Other Companies	25,937,756.67	
Mortgages Collectible and Loans & Advances to Settlers	3,769,892.39	
Insurance Fund Investments	8,265,674.54	
Deferred Payments on Lands and Townsites	32,267,948.44	
Unsold Lands and Other Properties	24,689,654.62	
Steamship Replacement Fund	18,620,839.99	
	139,863,833.92	

CURRENT ASSETS:

Material and Supplies	\$ 18,857,226.37	
Agents' and Conductors' Balances	9,267,656.83	
Miscellaneous Accounts Receivable	8,095,957.09	
Cash	38,029,312.29	
	74,250,152.58	

UNADJUSTED DEBITS:

Insurance Prepaid	\$ 150,762.30	
Unamortized Discount on Bonds	2,307,418.09	
Other Unadjusted Debits	448,514.87	
	2,906,695.26	

\$ 1,438,384,476.68

NOTE—Particulars of securities held for account of the Company, of obligations of the Company in respect of the principal of securities of other companies owning railway lines operated under lease, and of contingent liabilities of the Company are set out in the accompanying schedules.

RAILWAY COMPANY

SHEET, DECEMBER 31, 1940

LIABILITIES

CAPITAL STOCK:

Ordinary Stock	\$ 335,000,000.00	
Preference Stock—4% Non-cumulative	137,256,921.12	
		\$ 472,256,921.12

PERPETUAL 4% CONSOLIDATED DEBENTURE STOCK.. \$ 479,421,128.74

LESS: Pledged as collateral to bonds, notes and equipment obligations	183,982,900.00	
		295,438,228.74

FUNDED DEBT
 \$ 219,101,211.95 | |

LESS: Securities and cash deposited with Trustee of 5% Equipment Trust	11,311,736.70	
		207,789,475.25

CURRENT LIABILITIES:

Audited Vouchers	\$ 5,150,263.36	
Pay Rolls	3,232,097.26	
Net Traffic Balances	731,338.08	
Miscellaneous Accounts Payable	4,577,649.68	
Accrued Fixed Charges and Guaranteed Interest ..	2,476,046.62	
Unmatured Dividend Declared	2,521,390.85	
Other Current Liabilities	5,282,400.36	
		23,971,186.21

DEFERRED LIABILITIES:

Dominion Government Unemployment Relief... \$	3,428,162.71	
Miscellaneous	2,404,201.38	
		5,832,364.09

RESERVES AND UNADJUSTED CREDITS:

Rolling Stock Depreciation Reserve	\$ 61,792,225.52	
Hotel Depreciation Reserve	7,117,252.69	
Steamship Depreciation Reserve	51,988,550.56	
Investment Reserves	17,526,313.32	
Insurance Reserve	8,265,674.54	
Contingent Reserves	5,184,830.86	
Unadjusted Credits	2,711,098.18	
		154,585,945.67

PREMIUM ON CAPITAL AND DEBENTURE STOCK..... 68,551,646.45

LAND SURPLUS..... 65,913,413.69

PROFIT AND LOSS BALANCE..... 144,045,295.46

\$ 1,438,384,476.68E. A. LESLIE,
Comptroller.

AUDITORS' CERTIFICATE:

We have examined the Books and Records of the Canadian Pacific Railway Company for the year ending December 31, 1940, and having compared the above Balance Sheet and related schedules therewith, we certify that in our opinion it is properly drawn up so as to show the true financial position of the Company at that date, and that the Income and Profit & Loss Accounts correctly set forth the result of the year's operations.

Montreal, March 7, 1941.

PRICE, WATERHOUSE & CO.,
Chartered Accountants.

GROSS EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1940

Freight	\$ 135,831,653.25
Passenger	18,401,748.33
Mail	3,606,468.04
Express	4,501,620.03
Sleeping, Parlor and Dining Car and Miscellaneous	8,623,407.36
Total	<u>\$ 170,964,897.01</u>

WORKING EXPENSES FOR THE YEAR ENDED DECEMBER 31, 1940

Maintenance of Way and Structures	\$ 21,620,374.82
Maintenance of Equipment	33,756,404.01
Traffic	4,878,914.69
Transportation	58,074,037.18
Miscellaneous Operations	2,668,822.94
General	6,674,052.22
Transportation for Investment—Cr.	113,012.84
Railway Tax Accruals	7,765,865.91
Total	<u>\$ 135,325,458.93</u>

OTHER INCOME FOR THE YEAR ENDED DECEMBER 31, 1940

Dividends	\$ 4,279,886.83
Net income from interest, exchange, separately operated properties and miscellaneous	2,708,627.76
Net earnings from ocean and coastal steamships after provision of \$4,564,785.59 for depreciation. (Results of vessels chartered by British Government have had to be estimated in part)	3,075,909.72
Net earnings from hotel, communication and miscellaneous properties after provision of \$1,402,207.27 for depreciation of hotels	627,738.99
Total	<u>\$ 10,692,163.30</u>

FIXED CHARGES FOR THE YEAR ENDED DECEMBER 31, 1940

RENT FOR LEASED ROADS:

Alberta Railway & Irrigation Company.....	\$ 1,590.00	
Algoma Eastern Railway.....	111,325.00	
Atlantic & North-West Railway.....	253,066.66	
Calgary & Edmonton Railway.....	218,357.60	
Connecticut & Passumpsic Rivers Railroad.....	246,000.00	
Dominion Atlantic Railway.....	168,500.00	
Fredericton & Grand Lake Coal & Railway.....	55,105.79	
Glengarry & Stormont Railway.....	41,250.00	
Guelph Junction Railway.....	31,599.81	
Joliette & Brandon Railway.....	5,000.00	
Lacombe & North Western Railway.....	13,685.00	
Lindsay, Bobcaygeon & Pontypool Railway.....	20,000.00	
Montreal & Atlantic Railway.....	33,120.00	
New Brunswick Railway System.....	390,186.74	
Ontario & Quebec Railway.....	1,234,794.90	
Quebec Central Railway.....	634,754.42	
St. Lawrence & Ottawa Railway.....	38,933.34	
St. Stephen & Milltown Railway.....	2,050.00	
Southampton Railway.....	907.16	
Tobique Railway.....	8,468.70	
Toronto, Hamilton & Buffalo Railway.....	8,717.42	
Winnipeg River Railway.....	1.00	
		\$ 3,517,413.54

INTEREST ON DEBENTURE STOCK AND FUNDED DEBT:

Perpetual 4% Consolidated Debenture Stock.....	\$ 11,817,529.16	
Equipment Obligations.....	2,268,260.79	
20 Year 4½% Collateral Trust Gold Bonds.....	900,000.00	
25 Year 5% Collateral Trust Gold Bonds.....	1,500,000.00	
30 Year 4½% Collateral Trust Gold Bonds.....	1,125,000.00	
Convertible 10 Year 6% Collateral Trust Bonds..	701,163.34	
Convertible 15 Year 4% Collateral Trust Bonds..	480,000.00	
Serial 3% Collateral Trust Bonds.....	33,750.00	
Convertible 15 Year 3½% Collateral Trust Bonds..	350,000.00	
5 Year 2½% Collateral Trust Bonds.....	221,634.18	
Convertible 9½ Year 3% Collateral Trust Bonds..	450,000.00	
Serial 4% Secured Notes.....	304,958.41	
Serial 3% Secured Notes.....	180,287.67	
Serial 3½% Secured Notes.....	140,000.00	
20 Year 4½% Secured Note Certificates.....	886,931.61	
		21,359,515.16

INTEREST ON UNFUNDED DEBT.....	121,590.61
AMORTIZATION OF DISCOUNT ON FUNDED DEBT.....	382,196.13

\$ 25,380,715.44

CHANGES IN PROPERTY INVESTMENT
YEAR ENDED DECEMBER 31, 1940

RAILWAY, ROLLING STOCK, INLAND STEAMSHIPS, HOTEL, COMMUNICATION AND MISCELLANEOUS PROPERTIES:	
Balance at December 31, 1939.....	\$ 792,330,598.36
Additions and Betterments (less retirements):	
Railway.....	\$ 22,537.41
Rolling Stock.....	5,431,372.72
Inland Steamships.....	Cr. 4,607.47
Hotel, Communication and Miscellaneous Properties.....	739,011.89
	6,188,314.55
Addition to investment to record rolling stock units at cost thereof.....	48,134,204.64
Total December 31, 1940, as per Balance Sheet.....	\$ 846,653,117.55
IMPROVEMENTS ON LEASED RAILWAY PROPERTY:	
Balance at December 31, 1939.....	\$ 95,800,809.78
Additions and Betterments (less retirements):	
Railway.....	\$ 1,369,144.61
Rolling Stock.....	Cr. 210,945.72
	1,158,198.89
Total December 31, 1940, as per Balance Sheet.....	96,959,008.67
OCEAN AND COASTAL STEAMSHIPS:	
Balance at December 31, 1939.....	\$ 104,840,546.17
Additions and Betterments (less retirements):	
Ocean.....	Cr. 23,061,243.21
Coastal.....	5,330.00
	Cr. 23,055,913.21
Total December 31, 1940, as per Balance Sheet.....	81,784,632.96
STOCKS, BONDS AND OTHER SECURITIES OF LEASED, CONTROLLED AND JOINTLY CONTROLLED RAILWAY COMPANIES AND WHOLLY OWNED COMPANIES:	
Balance at December 31, 1939.....	\$ 199,317,035.74
REDEEMED:	
\$250,000.00 1st Mortgage Income Bonds Seignior Club Community Association Limited.....	Cr. 250,000.00
1000 Shares Preferred Stock The Alberta Stock Yards Company, Limited... Cr.	100,000.00
WRITTEN OFF:	
\$3,000,000.00 Income Certificates The Duluth, South Shore & Atlantic Rail- way Company.....	Cr. 3,000,000.00
	Cr. 3,350,000.00
Total December 31, 1940, as per Balance Sheet.....	195,967,035.74
PROPERTY INVESTMENT December 31, 1940, as per Balance Sheet.....	\$ 1,221,363,794.92

STOCKS, BONDS AND OTHER SECURITIES OF LEASED, CONTROLLED AND
JOINTLY CONTROLLED RAILWAY COMPANIES AND WHOLLY
OWNED COMPANIES AT DECEMBER 31, 1940

LEASED RAILWAY COMPANIES		Par Value or Principal Amount
ALBERTA CENTRAL RAILWAY COMPANY		
† Mortgage Bonds.....	4%	\$ 2,240,000.00
† Capital Stock.....		50,000.00
ALBERTA RAILWAY & IRRIGATION COMPANY		
† Mortgage Bonds.....	4%	1,676,000.00
† Capital Stock.....		3,223,500.00
ALGOMA EASTERN RAILWAY COMPANY		
† Preferred Stock.....		1,000,000.00
† Common Stock.....		2,000,000.00
AROOSTOOK RIVER RAILROAD COMPANY		
† Capital Stock.....		793,550.00
ATLANTIC & NORTH-WEST RAILWAY COMPANY		
† 1st Mortgage Bonds, Eganville Branch.....	4%	302,400.00
† Guaranteed Capital Stock.....	5%	3,240,000.00
† Common Stock.....		180,000.00
BRITISH COLUMBIA SOUTHERN RAILWAY COMPANY		
† 1st Mortgage Bonds.....	5%	1,175,000.00
† Capital Stock.....		172,200.00
CALGARY & EDMONTON RAILWAY COMPANY		
† Mortgage Bonds.....	4%	7,440,000.00
† Capital Stock.....		1,000,000.00
CAMPBELLFORD, LAKE ONTARIO & WESTERN RAILWAY CO.		
† Mortgage Bonds.....	4%	11,895,000.00
† Capital Stock.....		125,000.00
COLUMBIA & KOOTENAY RAILWAY & NAVIGATION COMPANY		
† 1st Mortgage Bonds.....	4%	1,277,500.00
† Capital Stock.....		250,000.00
COLUMBIA & WESTERN RAILWAY COMPANY		
† 1st Mortgage Bonds.....	5%	5,691,000.00
† Capital Stock.....		925,000.00
DOMINION ATLANTIC RAILWAY COMPANY		
† 2nd Debenture Stock.....	4%	924,666.67
† Extension Debenture Stock.....	4%	1,423,500.00
† Mortgage Bonds.....	4%	1,700,000.00
† Preference Stock.....	5%	1,313,122.00
† Ordinary Stock.....		1,101,848.93
ESQUIMALT & NANAIMO RAILWAY COMPANY		
† Mortgage Bonds.....	4%	7,832,000.00
† Capital Stock.....		2,500,000.00
FREDERICTON & GRAND LAKE COAL & RAILWAY COMPANY		
† 1st Mortgage Bonds.....	4%	465,000.00
† Capital Stock.....		140,000.00
GEORGIAN BAY & SEABOARD RAILWAY COMPANY		
† Mortgage Bonds.....	4%	4,840,000.00
† Capital Stock.....		250,000.00
GRAND RIVER RAILWAY COMPANY		
† Mortgage Bonds.....	4%	426,000.00
† Capital Stock.....		125,000.00
GREAT NORTH WEST CENTRAL RAILWAY COMPANY		
† 1st Mortgage Bonds.....	5%	1,375,000.00
† Capital Stock.....		500,000.00
GUELPH & GODERICH RAILWAY COMPANY		
† Mortgage Bonds.....	4%	2,415,000.00
† Capital Stock.....		125,000.00
INTERPROVINCIAL & JAMES BAY RAILWAY COMPANY		
† Mortgage Bonds.....	5%	3,850,000.00
† Capital Stock.....		34,000.00
JOLIETTE & BRANDON RAILWAY COMPANY		
† Capital Stock.....		300,000.00
KASLO & SLOCAN RAILWAY COMPANY		
† Mortgage Bonds.....	5%	531,000.00
† Capital Stock.....		1,000,000.00
Carried forward.....		\$ 77,827,287.60

LEASED RAILWAY COMPANIES—Continued

		Par Value or Principal Amount
<i>Brought forward</i>		\$ 77,827,287.60
KETTLE VALLEY RAILWAY COMPANY		
†	Mortgage Bonds.....	4% 15,210,000.00
†	2nd Mortgage Bonds.....	4% 1,507,000.00
†	Capital Stock.....	375,000.00
KINGSTON & PEMBROKE RAILWAY COMPANY		
†	Mortgage Bonds.....	4% 1,075,000.00
	1st Preferred Stock.....	995,450.00
	2nd Preferred Stock.....	136,450.00
	Common Stock.....	2,045,900.00
KOOTENAY & ARROWHEAD RAILWAY COMPANY		
†	1st Mortgage Bonds.....	5% 780,000.00
†	Capital Stock.....	250,000.00
KOOTENAY CENTRAL RAILWAY COMPANY		
†	Mortgage Bonds.....	4% 5,340,000.00
†	Capital Stock.....	250,000.00
LACOMBE & NORTH WESTERN RAILWAY COMPANY		
†	Mortgage Bonds.....	4% 2,300,000.00
†	Capital Stock.....	500,000.00
LAKE ERIE & NORTHERN RAILWAY COMPANY		
†	Consolidated Mortgage Bonds.....	4% 2,317,500.00
	Capital Stock.....	1,398,725.00
LINDSAY, BOBCAYGEON & PONTYPOOL RAILWAY COMPANY		
†	Capital Stock.....	200,000.00
MANITOBA & NORTH WESTERN RAILWAY COMPANY		
†	1st Mortgage Bonds.....	5% 160,600.00
†	1st Mortgage Bonds.....	6% 2,628,000.00
†	Mortgage Bonds.....	5% 12,196,000.00
†	Debenture Stock.....	5% 613,200.00
†	Preference Stock.....	415,000.00
†	Capital Stock.....	5,613,113.63
MANITOBA SOUTH WESTERN COLONIZATION RAILWAY Co.		
†	1st Mortgage Bonds.....	5% 2,613,000.00
†	Capital Stock.....	700,000.00
MIDLAND-SIMCOE RAILWAY COMPANY		
†	Capital Stock.....	250,000.00
MONTREAL & ATLANTIC RAILWAY COMPANY		
†	Mortgage Bonds.....	5% 2,165,000.00
	Capital Stock.....	2,480,000.00
MONTREAL & OTTAWA RAILWAY COMPANY		
†	1st Mortgage Bonds.....	5% 1,636,250.00
	Capital Stock.....	197,000.00
NAKUSP & SLOCAN RAILWAY COMPANY		
†	Mortgage Bonds.....	5% 1,211,750.00
†	Capital Stock.....	300,000.00
NEW BRUNSWICK SOUTHERN RAILWAY COMPANY		
†	Mortgage Bonds.....	4% 500,000.00
†	Capital Stock.....	49,000.00
NICOLA, KAMLOOPS & SIMILKAMEEN COAL & RAILWAY Co.		
†	Mortgage Bonds.....	4% 1,175,000.00
†	Capital Stock.....	250,000.00
NORTHERN COLONIZATION RAILWAY COMPANY		
†	Mortgage Bonds.....	4% 1,118,000.00
†	Capital Stock.....	300,000.00
ONTARIO & QUEBEC RAILWAY COMPANY		
	Common Stock.....	5,000.00
ORFORD MOUNTAIN RAILWAY COMPANY		
†	Mortgage Bonds.....	4% 702,000.00
†	Capital Stock.....	501,000.00
OTTAWA, NORTHERN & WESTERN RAILWAY COMPANY		
†	Mortgage Bonds.....	4% 3,075,000.00
†	Capital Stock.....	804,000.00
ST. LAWRENCE & OTTAWA RAILWAY COMPANY		
	Preference Stock.....	466,000.00
ST. MARY'S & WESTERN ONTARIO RAILWAY COMPANY		
†	Mortgage Bonds.....	4% 356,500.00
†	Capital Stock.....	250,000.00

Carried forward.....

\$155,238,726.23

LEASED RAILWAY COMPANIES—Continued		Par Value or Principal Amount
<i>Brought forward</i>		\$155,238,726.23
ST. MAURICE VALLEY RAILWAY COMPANY		
† Mortgage Bonds.....	4%	945,000.00
† Capital Stock.....		500,000.00
SASKATCHEWAN & WESTERN RAILWAY COMPANY		
† 1st Mortgage Bonds.....	5%	181,040.00
† Capital Stock.....		232,500.00
SHUSWAP & OKANAGAN RAILWAY COMPANY		
† Mortgage Bonds.....	4%	1,250,000.00
† Capital Stock.....		741,000.00
SOUTH ONTARIO PACIFIC RAILWAY COMPANY		
† Mortgage Bonds.....	4%	495,000.00
† Capital Stock.....		200,000.00
TILSONBURG, LAKE ERIE & PACIFIC RAILWAY COMPANY		
† Mortgage Bonds.....	4%	1,067,500.00
† Capital Stock.....		400,000.00
TORONTO, GREY & BRUCE RAILWAY COMPANY		
† Capital Stock.....		596,000.00
VANCOUVER & LULU ISLAND RAILWAY COMPANY		
† 1st Mortgage Bonds.....	5%	455,000.00
† Capital Stock.....		25,000.00
WALKERTON & LUCKNOW RAILWAY COMPANY		
† Mortgage Bonds.....	4%	740,000.00
† Capital Stock.....		19,000.00
WEST ONTARIO PACIFIC RAILWAY COMPANY		
† Capital Stock.....		21,000.00
Cost.....	\$ 134,063,536.43	Total
		<u>\$ 163,106,766.23</u>

CONTROLLED RAILWAY COMPANIES*

AROOSTOOK VALLEY RAILROAD COMPANY		
† Capital Stock.....		\$ 240,000.00
MINNEAPOLIS, ST. PAUL & SAULT STE. MARIE RAILWAY Co.		
† 1st Consolidated Mortgage Bonds.....	4%	3,993,000.00
† Secured Notes.....	6%	4,989,000.00
† Secured Notes.....	4%	6,733,758.30
THE DULUTH, SOUTH SHORE & ATLANTIC RAILWAY Co.		
† Marquette, Houghton & Ontonagon Railroad Company Mortgage Bonds.....	6%	1,071,000.00
† 1st Consolidated Mortgage Bonds.....	4%	15,107,000.00
MINERAL RANGE RAILROAD COMPANY		
† General Mortgage Bonds.....	4%	1,000,000.00
† Consolidated Mortgage Bonds.....	4%	177,800.00
† Consolidated Mortgage Bonds.....	5%	234,500.00
† Hancock & Calumet Railroad Company Con- solidated Mortgage Bonds.....	5%	180,375.00
Cost.....	\$ 28,811,571.76	Total
		<u>\$ 33,726,433.30</u>

JOINTLY CONTROLLED RAILWAY COMPANIES

NORTHERN ALBERTA RAILWAYS COMPANY		
† 1st Mortgage Bonds.....	5%	\$ 10,150,000.00
† Capital Stock.....		312,500.00
TORONTO, HAMILTON & BUFFALO RAILWAY COMPANY		
† Capital Stock.....		1,469,500.00
TORONTO TERMINALS RAILWAY COMPANY		
† 1st Mortgage Bonds.....	5%	12,980,000.00
† Capital Stock.....		250,000.00
Cost.....	\$ 24,204,526.00	Total
		<u>\$ 25,162,000.00</u>

†Denotes complete ownership.

*The properties of all these Companies, except the Aroostook Valley Railroad Company, are being operated by Trustees under Section 77 of Bankruptcy Act of United States, and the investment in the stocks thereof has been written off.

WHOLLY OWNED COMPANIES		Par Value or Principal Amount
CANADIAN PACIFIC EXPRESS COMPANY		
Capital Stock.....		\$ 3,000,000.00
CANADIAN PACIFIC RAILWAY AGENCY (BELGIUM) S.A.		
Capital Stock.....	Cost	8,000.00
CANADIAN PACIFIC RAILWAY (FRANCE) S.A.		
Capital Stock.....	Cost	9,693.66
CANADIAN PACIFIC RAILWAY (GERMANY) G.m.b.H.		
Capital Stock.....	Cost	135.96
CANADIAN PACIFIC RAILWAY (ITALY) S.A.I.		
Capital Stock.....	Cost	2,576.43
CANADIAN PACIFIC STEAMSHIPS, LIMITED		
Capital Stock.....		34,407.34
CANADIAN PACIFIC TRANSPORT COMPANY, LIMITED		
Capital Stock.....		50,000.00
CHATEAU FRONTENAC COMPANY		
Common Stock.....		280,000.00
EASTERN ABATTOIRS, LIMITED		
Capital Stock.....		5,700.00
LADYSMITH WATER COMPANY, LIMITED		
Capital Stock.....		50,000.00
MERSEY TOWING COMPANY, LIMITED		
Common Stock.....		165,904.67
QUEBEC CENTRAL TRANSPORTATION COMPANY		
Capital Stock.....		42,000.00
St. JOHN BRIDGE & RAILWAY EXTENSION COMPANY		
1st Mortgage Bonds.....	5%	125,000.00
Capital Stock.....		200,000.00
SEIGNIORY CLUB COMMUNITY ASSOCIATION, LIMITED		
1st Mortgage Income Bonds.....	5%	3,865,000.00
Capital Stock—No Par Value—10,000 Shares.	Cost	500,000.00
THE ALBERTA STOCK YARDS COMPANY, LIMITED		
Preferred Stock.....		350,000.00
Common Stock.....		86,000.00
THE NEW BRUNSWICK COLD STORAGE COMPANY, LIMITED		
Cumulative Preference Stock.....		25,000.00
Capital Stock.....		50,000.00
THE SCOTTISH TRUST COMPANY		
Capital Stock.....		250,000.00
Cost.....	\$ 8,887,401.55	Total \$ 9,099,418.06

SUMMARY		Par Value or Principal Amount
	Cost	
Leased Railway Companies.....	\$ 134,063,536.43	\$ 163,106,766.23
Controlled Railway Companies.....	28,811,571.76	33,726,433.30
Jointly Controlled Railway Companies.....	24,204,526.00	25,162,000.00
Wholly Owned Companies.....	8,887,401.55	9,099,418.06
	<u>\$ 195,967,035.74</u>	<u>\$ 231,094,617.59</u>

We have examined all the Securities, including those listed above, held for account of the Canadian Pacific Railway Company, by the Treasurer, and have received certificates from the Custodians, for those deposited with the Banks and Trust Companies for safe custody, and having compared them with the records of the Company, find them correct and in order.

PRICE, WATERHOUSE & CO.,
Chartered Accountants.

Montreal, March 7, 1941.

MISCELLANEOUS INVESTMENTS AT DECEMBER 31, 1940

	Par Value or Principal Amount
Cambridge Collieries Company 1st Mortgage Bonds.....	\$ 251,440.00
Canadian Australasian Line, Limited Capital Stock.....	2,433,300.00
Canadian Pacific Car & Passenger Transfer Company, Limited Common Stock.....	200,000.00
Lethbridge Collieries, Limited Capital Stock.....	880,000.00
Lord Nelson Hotel Company, Limited Cumulative Preference Stock.....	350,000.00
Common Stock—No Par Value.....	Cost 4,500.00
Midland Simcoe Elevator Company, Limited Capital Stock.....	392,000.00
New Jersey Bridge Construction Company Capital Stock.....	5,000.00
The Consolidated Mining & Smelting Company of Canada, Limited Capital Stock.....	8,412,500.00
The Pennsylvania-Ontario Transportation Company Capital Stock.....	187,500.00
The Public Markets, Limited Capital Stock.....	575,000.00
The Quebec Salvage & Wrecking Company, Limited Capital Stock.....	180,000.00
Vancouver Hotel Company Limited Capital Stock.....	75,000.00
Other Investments.....	Cost 4,218,169.90
Cost.....	\$ 26,312,067.27
	Total \$ 18,164,409.90

CAPITAL AND DEBENTURE STOCKS AT DECEMBER 31, 1940

	Total as per Balance Sheet			
ORDINARY STOCK:				
Issued: 13,400,000 shares—\$25 Par Value.....				\$ 335,000,000
PREFERENCE STOCK—4% NON-CUMULATIVE:				
Issued: £28,203,477—in amounts of £1 and multiples thereof.....				\$ 137,256,921
PERPETUAL 4% CONSOLIDATED DEBENTURE STOCK:				
	Sterling	United States	Canadian	
		Currency	Currency	
Issued.....	£ 47,350,321	\$ 193,726,100	\$ 55,256,800	\$ 479,421,128
Less pledged as collateral.....	—	128,726,100	55,256,800	183,982,900
	<u>£ 47,350,321</u>	<u>\$ 65,000,000</u>	<u>—</u>	<u>\$ 295,438,228</u>

FUNDED DEBT AT DECEMBER 31, 1940

	RATE	DATE OF ISSUE	DATE OF MATURITY	CURRENCY IN WHICH PAYABLE	PRINCIPAL OUTSTANDING
EQUIPMENT OBLIGATIONS:					
†Equipment Trust.....	5%	July 1, 1929	July 1, 1944	Canadian or United States	\$19,889,000.00
Equipment Trust Series "C".....	4½%	Dec. 1, 1930	Serially to Nov. 30, 1945	United States	4,750,000.00
*Equipment Trust	3% 2½%	Feb. 1, 1937	Serially to	Canadian	6,164,000.00
Series "D".....		Feb. 1, 1937	Jan. 31, 1952	United States	6,164,000.00
Equipment Trust Series "E".....	3%	June 1, 1938	Serially to May 31, 1953	Canadian	10,296,000.00
Equipment Agreement Dominion Government	3%	Dec. 15, 1937	Serially to Jan. 1, 1950	Canadian	4,407,692.31
Equipment Agreement Dominion Government	3½%	June 6, 1940	Serially to June 6, 1955	Canadian	9,951,489.64

****COLLATERAL TRUST****BONDS:**

Twenty Year Gold Bonds.....	4½%	Sept. 1, 1926	Sept. 1, 1946	Canadian or United States	20,000,000.00
Twenty-five Year Gold Bonds.....	5%	Dec. 1, 1929	Dec. 1, 1954	Canadian or United States	30,000,000.00
Thirty Year Gold Bonds.....	4½%	July 1, 1930	July 1, 1960	Canadian or United States	25,000,000.00
Convertible Ten Year Bonds..... (Conversion privilege has terminated)	6%	Mar. 15, 1932	Mar. 15, 1942	Canadian	11,347,500.00
Convertible Fifteen Year Bonds..... (Conversion privilege termin- ates July 2, 1941)	4%	July 2, 1934	July 2, 1949	Canadian	12,000,000.00
Serial Bonds.....	3%	Feb. 15, 1936	Serially to Feb. 15, 1941	Canadian	1,000,000.00
Convertible Fifteen Year Bonds..... (Conversion privilege termin- ates February 15, 1944)	3½%	Feb. 15, 1936	Feb. 15, 1951	Canadian	10,000,000.00
Convertible Nine and One-half Year Bonds.. (Conversion privilege termin- ates April 1, 1944)	3%	Apr. 1, 1936	Oct. 1, 1945	Canadian	15,000,000.00

****NOTES:**

Serial Secured Notes....	4%	Jan. 28, 1938	Serially to Feb. 1, 1948	United States	8,658,430.00
†Serial Secured Notes....	3% 3½%	Dec. 1, 1939	Serially to	Canadian	{ 2,000,000.00 4,000,000.00
			Dec. 1, 1945		

NOTE CERTIFICATES:

Twenty Year Sinking Fund Secured Note Certificates.....	4½%	Dec. 15, 1924	Dec. 15, 1944	Canadian	18,473,100.00
					\$219,101,211.95

†Securities and cash deposited with Trustee aggregate \$11,311,736.70.

*Secured in part by pledge of Perpetual 4% Consolidated Debenture Stock aggregating, in principal amount, \$3,082,000.00.

**Secured by pledge of Perpetual 4% Consolidated Debenture Stock aggregating, in principal amount, \$180,900,900.00.

†Secured in part by pledge of 180,000 shares of the Capital Stock of The Consolidated Mining & Smelting Company of Canada, Ltd.

OBLIGATIONS IN RESPECT OF PRINCIPAL OF SECURITIES OF
COMPANIES OWNING RAILWAY LINES OPERATED UNDER LEASE
AT DECEMBER 31, 1940

DESCRIPTION	RATE	PRINCIPAL OUTSTANDING	NATURE OF OBLIGATION
ALGOMA EASTERN RAILWAY COMPANY			
First Mortgage Bonds, maturing March 1, 1961.....	5%	\$ 2,226,500.00	Indemnity to the Lake Superior Corporation against liability under its guarantee of principal.
ATLANTIC & NORTH-WEST RAILWAY COMPANY			
First Mortgage Redeemable Debenture Stock, maturing January 1, 1957..	4%	6,326,666.67	Guarantee of principal and interest.
CALGARY & EDMONTON RAILWAY COMPANY			
Consolidated Debenture Stock, terminable January 1, 2002.....	4%	5,458,940.00	Guarantee and assumption of payment of principal upon expiry of lease (January 1, 2002) or in alternative, renewal of lease.
JOLIETTE & BRANDON RAILWAY COMPANY			
First Mortgage Bonds, maturing January 1, 2000.....	4%	125,000.00	Covenant in lease to pay principal upon expiry of term (January 1, 2000).
LACOMBE & NORTH WESTERN RAILWAY COMPANY			
First Mortgage Debenture Bonds, maturing October 22, 1943.....	5%	273,700.00	Assumption of liability of Province of Alberta under its guarantee of principal.
QUEBEC CENTRAL RAILWAY COMPANY			
Second Mortgage Debenture Stock, maturing January 1, 1963.....	3½%	1,644,933.33	Guarantee of principal in favour of Trustees.
Third Mortgage Bonds, maturing January 1, 1963.....	5%	1,644,933.33	Guarantee of principal in favour of Trustees.

The amounts of the above obligations are stated in Canadian currency, those payable in currencies other than Canadian having been converted at par of exchange.

The interest on these obligations is included as part of Rent for Leased Roads in Fixed Charges.

CONTINGENT LIABILITIES AT DECEMBER 31, 1940

OBLIGATIONS IN RESPECT OF SECURITIES OF CONTROLLED COMPANIES
NOT OPERATED OR WHOLLY OWNED

Description	Rate	Principal Outstanding	Nature of Obligation
AROOSTOOK VALLEY RAILROAD COMPANY			
First and Refunding Mortgage Bonds, maturing July 1, 1961....	4½%	\$ 455,832.00*	Guarantee of interest.
First and Refunding Mortgage Bonds, Series "A", maturing August 1, 1957.....	5½%	280,500.00	Guarantee of interest.
*Includes \$217,689.00 held in Sinking Fund.			
LORD NELSON HOTEL COMPANY, LIMITED			
First Mortgage Sinking Fund Bonds, maturing November 1, 1947.....	4%	600,000.00	Guarantee of interest.
MINNEAPOLIS, ST. PAUL & SAULT STE. MARIE RAILWAY COMPANY†			
Second Mortgage Bonds, maturing January 1, 1949.....	4%	3,500,000.00	Guarantee of interest.
First Refunding Mortgage Bonds, Series "B", maturing July 1, 1978.	5½%	24,606,000.00*	Guarantee of interest.
†Of the First Consolidated Mortgage Bonds which matured on July 1, 1938, \$56,863,000.00 of the 4% and \$8,136,000.00 of the 5% were guaranteed as to interest by your Company. These bonds were not redeemed at maturity and several actions have been commenced by holders of some of them, claiming that the obligation of your Company under its guarantee of interest thereon extends beyond their maturity. Your Company is advised that its guarantee terminated with the instalment of interest due July 1, 1938, and that it has a good defence to these actions.			
*Includes \$12,500,000.00 pledged as collateral for notes, all of which, except \$11,000.00, are owned by your Company.			

OTHER CONTINGENT LIABILITIES

In addition to the foregoing, there are certain other contingent liabilities which may be briefly described as follows:—

MIDLAND SIMCOE ELEVATOR COMPANY, LIMITED.—Joint and several guarantee with Mr. James Playfair (deceased) of principal and interest of 5% construction loan amounting to \$480,000.00.

NORTHERN ALBERTA RAILWAYS COMPANY.—Agreement binding your Company jointly and equally with Canadian National Railway Company to indemnify the Government of Alberta against liability under its guarantee of principal of \$7,000,000.00 First Mortgage 4% Debenture Stock maturing February 16, 1942, and \$2,420,000.00 First Mortgage 4½% Bonds maturing October 22, 1944, of the Edmonton, Dunvegan and British Columbia Railway Company. These obligations have been assumed by the Northern Alberta Railways Company, which is controlled jointly with the Canadian National Railway Company. The contingent liability of your Company in respect of the principal of these obligations is \$4,710,000.00. The interest on these obligations has also been assumed by the Northern Alberta Railways Company and forms part of its Fixed Charges. One-half of the income deficit of that company is taken up currently in "Other Income."

SOUTH SHORE DOCK COMPANY.—Guarantee of payment to Trustees of a rental sufficient to pay interest on and retire principal of \$439,000.00* First Mortgage 5% Bonds, maturing serially to 1945.

*Includes \$23,000.00 held by Trustees.

TORONTO, HAMILTON AND BUFFALO RAILWAY COMPANY.—Joint and several agreement with Michigan Central Railroad Company, New York Central Railroad Company and Canada Southern Railway Company to make up to Toronto, Hamilton and Buffalo Railway Company any interest which it is unable to provide on \$2,000,000.00* Consolidated Mortgage 4½% Bonds, Series "A", maturing August 1, 1966.

*Includes \$128,000.00 held in the Treasury of the issuing company.

The amounts of the above contingent liabilities are stated in Canadian currency, those in currencies other than Canadian having been converted at par of exchange.

LAND SURPLUS ACCOUNT

Land Surplus December 31, 1939.....		\$ 67,454,828.04
Land and Townsite Sales.....	\$ 2,280,685.72	
Miscellaneous Receipts.....	676,889.07	
		<u>2,957,574.79</u>
		\$ 70,412,402.83
DEDUCT:		
Land and irrigation expenses.....	\$ 764,724.33	
Taxes.....	629,737.26	
Inventory value of lands sold.....	1,529,275.00	
Land contracts cancelled.....	\$ 1,762,826.31	
Less: Inventory value of lands reacquired.....	632,472.00	
	<u>1,130,354.31</u>	
Miscellaneous adjustments.....	444,898.24	
		<u>4,498,989.14</u>
Land Surplus December 31, 1940, as per Balance Sheet.....		<u><u>\$ 65,913,413 69</u></u>

MILEAGE AT DECEMBER 31, 1940

CANADIAN PACIFIC RAILWAY—		Miles Operated
New Brunswick District	.....	841.8
Quebec	“	1,666.7
Ontario	“	1,416.0
Algoma	“	1,221.5
Manitoba	“	2,530.8
Saskatchewan	“	3,624.3
Alberta	“	3,168.8
British Columbia	“	2,022.6
Dominion Atlantic Lines	.....	304.0
Quebec Central Lines	.....	356.6
Total	.....	17,153.1
CANADIAN PACIFIC ELECTRIC LINES—		
Grand River Railway	.....	18.4
Lake Erie & Northern Railway	.....	51.0
		<u>69.4</u>
		17,222.5
CONTROLLED RAILWAY COMPANIES—		
Aroostook Valley Railroad	.....	32.1
Minneapolis, St. Paul & Sault Ste. Marie Railway	.....	3,224.2 [⊗]
The Duluth, South Shore & Atlantic Railway	550.0	
Mineral Range Railroad	.....	26.4
		<u>576.4[⊗]</u>
		3,832.7
		<u>21,055.2</u>

[⊗]The properties of these Companies are being operated by Trustees under Section 77 of Bankruptcy Act of United States.

ROLLING STOCK

(Including equipment of leased subsidiaries)

Locomotives	.....	1,708
First and second class Passenger, Tourist Sleeping, Baggage, Mail and Express Cars*	.....	2,191
First class Sleeping, Parlor and Dining Cars	.....	606
Freight Cars (all kinds)	.....	73,606
Conductors Vans	.....	1,104
Boarding, Tool and Auxiliary Cars and other Work Equipment	.....	4,731

*Includes 22 Cars in Toronto, Hamilton and Buffalo Line Service in which the Company owns 36.04% interest.

INLAND STEAMSHIPS

Alberta	Granthall	Minto
Assiniboia	Keewatin	Moyie
Athabasca	Kelowna	Naramata
Bonnington	Manitoba	Rosebery
Columbia		Sicamous
Gross Tonnage.....		21,748

HOTELS AT DECEMBER 31, 1940

The Digby Pines.....	Digby, N.S.	Royal Alexandra.....	Winnipeg, Man.
Cornwallis Inn.....	Kentville, N.S.	Saskatchewan.....	Regina, Sask.
Lakeside Inn.....	Yarmouth, N.S.	Palliser.....	Calgary, Alta.
Algonquin.....	St. Andrews, N.B.	Banff Springs.....	Banff, Alta.
McAdam.....	McAdam, N.B.	Chateau Lake Louise..	Lake Louise, Alta.
Chateau Frontenac...	Quebec, Que.	Emerald Lake.....	Emerald Lake, B.C.
Royal York.....	Toronto, Ont.	Empress.....	Victoria, B.C.

Hotel Vancouver—Operated by the Vancouver Hotel Company Limited on behalf of the Canadian National and Canadian Pacific Railways.

OCEAN STEAMSHIPS

Beaverbrae	Empress of Asia
Beaverdale	Empress of Australia
Beaverhill	Empress of Canada
Duchess of Atholl	Empress of Japan
Duchess of Bedford	Empress of Russia
Duchess of Richmond	Montcalm
Duchess of York	Montclare
Gross Tonnage.....	246,072

COASTAL STEAMSHIPS

Kyuquot	Princess Louise
Motor Princess	Princess Maquinna
Nanoose	Princess Marguerite
Nootka	Princess Mary
Princess Adelaide	Princess Norah
Princess Alice	Princess Victoria
Princess Charlotte	Qualicum
Princess Elaine	Transfer No. 3
Princess Elizabeth	" 4
Princess Helene	" 7
Princess Joan	" 8
Princess Kathleen	
Gross Tonnage.....	60,279

TRANSPORTATION AND TRAFFIC STATISTICS

	Year 1940	Year 1939	Increase or Decrease	
			Amount or Number	Per Cent
AVERAGE MILES OF ROAD OPERATED.....	17,158.7	17,175.9	17.2	.10
TRAIN MILEAGE				
Freight.....	23,379,054	21,198,912	2,180,142	10.28
Passenger.....	15,998,882	15,804,417	194,465	1.23
Motor.....	623,289	593,653	29,636	4.99
Total Transportation Service.....	40,001,225	37,596,982	2,404,243	6.39
LOCOMOTIVE MILEAGE				
Freight.....	26,025,160	23,412,016	2,613,144	11.16
Passenger.....	16,601,454	16,412,031	189,423	1.15
Switching—Road and Yard.....	9,458,249	8,581,184	877,065	10.22
Total Transportation Service.....	52,084,863	48,405,231	3,679,632	7.60
CAR MILEAGE				
FREIGHT				
Loaded.....	586,035,603	524,480,811	61,554,792	11.74
Empty.....	301,639,135	262,711,384	38,927,751	14.82
Caboose.....	24,426,472	22,114,442	2,312,030	10.45
Total.....	912,101,210	809,306,637	102,794,573	12.70
PASSENGER				
Coaches.....	39,017,277	38,109,151	908,126	2.38
Sleeping, Parlor and Observation.....	39,970,302	37,105,457	2,864,845	7.72
Dining.....	6,119,785	5,814,154	305,631	5.26
Other.....	40,675,273	39,924,293	750,980	1.88
Total.....	125,782,637	120,953,055	4,829,582	3.99
Total Transportation Service.....	1,037,883,847	930,259,692	107,624,155	11.57
FREIGHT TRAFFIC—RAIL				
Freight revenue.....	\$134,659,475	\$119,347,237	\$15,312,238	12.83
Tons—Revenue freight.....	36,745,946	33,030,062	3,715,884	11.25
Tons—Non-revenue freight.....	5,057,822	4,596,200	461,622	10.04
Tons—All freight.....	41,803,768	37,626,262	4,177,506	11.10
Ton miles—Revenue freight.....	16,027,797,892	14,036,898,592	1,990,899,300	14.18
Ton miles—Non-revenue freight.....	1,623,907,522	1,383,117,119	240,790,403	17.41
Ton miles—All freight.....	17,651,705,414	15,420,015,711	2,231,689,703	14.47
AVERAGES PER MILE OF ROAD				
Freight revenue.....	\$7,848	\$6,949	\$899	12.94
Train miles.....	1,363	1,234	129	10.45
Total freight train car miles.....	53,157	47,119	6,038	12.81
Ton miles—Revenue freight.....	934,092	817,244	116,848	14.30
Ton miles—All freight.....	1,028,732	897,770	130,962	14.59
AVERAGES PER TRAIN MILE				
Freight revenue.....	\$5.76	\$5.63	\$0.13	2.31
Loaded freight car miles.....	25.07	24.74	.33	1.33
Empty freight car miles.....	12.90	12.39	.51	4.12
Total freight train car miles.....	39.01	38.18	.83	2.17
Ton miles—Revenue freight.....	685.56	662.15	23.41	3.54
Ton miles—All freight.....	755.02	727.40	27.62	3.80
AVERAGES PER LOADED CAR MILE				
Freight revenue (cents).....	22.98	22.76	.22	.97
Ton miles—All freight.....	30.12	29.40	.72	2.45
MISCELLANEOUS AVERAGES				
Revenue per ton of freight.....	\$3.66	\$3.61	\$0.05	1.39
Revenue per ton mile of freight (cents).....	0.840	0.850	.010	1.18
Miles hauled—Revenue freight.....	436.18	424.97	11.21	2.64
Miles hauled—Non-revenue freight.....	321.07	300.93	20.14	6.69
Miles hauled—All freight.....	422.25	409.82	12.43	3.03

TRANSPORTATION AND TRAFFIC STATISTICS—Continued

	Year 1940	Year 1939	Increase or Decrease	
			Amount or Number	Per Cent.
CLASSIFICATION OF REVENUE TONNAGE CARRIED				
Products of Agriculture.....	9,193,776	9,896,795	703,019	7.10
Animals and Products.....	757,153	692,762	64,391	9.29
Products of Mines.....	14,238,096	12,370,753	1,867,343	15.09
Products of Forests.....	3,963,578	3,114,210	849,368	27.27
Manufactures and Miscellaneous.....	7,754,112	6,176,766	1,577,346	25.54
Total Carload Traffic.....	35,906,715	32,251,286	3,655,429	11.33
All less carload freight.....	839,231	778,776	60,455	7.76
Total Carload and L.C.L. Traffic.....	36,745,946	33,030,062	3,715,884	11.25
PASSENGER TRAFFIC—RAIL				
Passenger revenue.....	\$18,202,300	\$15,475,903	\$2,726,397	17.62
Passenger service train revenue.....	\$28,778,858	\$24,517,571	\$4,261,287	17.38
Revenue passengers carried.....	7,781,227	7,255,491	525,736	7.25
Revenue passenger miles.....	925,331,787	751,483,806	173,847,981	23.13
AVERAGES PER MILE OF ROAD				
Passenger revenue.....	\$1.061	\$901	\$160	17.76
Passenger service train revenue.....	\$1.677	\$1,427	\$250	17.52
Train miles.....	969	955	14	1.47
Total passenger train car miles.....	7,331	7,042	289	4.10
Revenue passenger miles.....	53,928	43,752	10,176	23.26
AVERAGES PER TRAIN MILE				
Passenger revenue.....	\$1.10	\$0.94	\$0.16	17.02
Passenger service train revenue.....	\$1.73	\$1.50	\$0.23	15.33
Total passenger train car miles.....	7.57	7.38	.19	2.57
Revenue passenger miles.....	55.67	45.83	9.84	21.47
AVERAGES PER CAR MILE—PASSENGER				
Passenger revenue (cents).....	21.39	19.10	2.29	11.99
Revenue passenger miles.....	10.87	9.27	1.60	17.26
MISCELLANEOUS AVERAGES				
Revenue per passenger.....	\$2.34	\$2.13	\$0.21	9.86
Revenue per passenger mile (cents).....	1.97	2.06	.09	4.37
Miles carried—Revenue passengers.....	118.92	103.57	15.35	14.82
TOTAL TRAFFIC—RAIL				
AVERAGES PER MILE OF ROAD				
Train miles—Transportation service.....	2,331	2,189	142	6.49
Car miles—Transportation service.....	60,487	54,161	6,326	11.68
Operating revenues.....	\$9,915	\$8,791	\$1,124	12.79
Operating expenses.....	\$7,375	\$6,842	\$533	7.79
Net operating revenue.....	\$2,540	\$1,949	\$591	30.32
AVERAGES PER TRAIN MILE				
Operating revenues.....	\$4.25	\$4.02	\$0.23	5.72
Operating expenses.....	\$3.16	\$3.13	\$0.03	.96
Net operating revenue.....	\$1.09	\$0.89	\$0.20	22.47
TOTAL TRAFFIC—RAIL AND INLAND WATER LINES				
Operating revenues.....	\$171,535,476	\$152,148,993	\$19,386,483	12.74
Operating expenses.....	\$127,559,593	\$118,396,388	\$9,163,205	7.74
Net operating revenue.....	\$43,975,883	\$33,752,605	\$10,223,278	30.29
Tax accruals, net of hire of equipment and joint facility rents.....	\$8,336,445	\$5,228,786	\$3,107,659	59.43
Net earnings.....	\$35,639,438	\$28,523,819	\$7,115,619	24.95
Per cent. operating expenses to operating revenues..	74.36	77.82	3.46	4.45
Payroll charged operating expenses.....	\$75,136,085	\$72,220,688	\$2,915,397	4.04
Per cent. payroll to operating revenues.....	43.80	47.47	3.67	7.73
Per cent. payroll to operating expenses.....	58.90	61.00	2.10	3.44

