

Canadian Pacific Limited

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Annual Report 1975



Canadian Pacific Limited

Board of Directors

*W. A. Arbuckle, *Chairman of the Company*, Celanese Canada Limited, Montreal

†W. J. Bennett, O.B.E., *President*, Iron Ore Company of Canada, Montreal

*F. S. Burbidge, *President*, Canadian Pacific Limited, Montreal

*Keith Campbell, *Vice-President*, Canadian Pacific Limited, Montreal

Allan Findlay, Q.C., *Partner*, Law Firm of Tilley, Carson & Findlay, Toronto

G. Arnold Hart, M.B.E., *Chairman of the Executive Committee of the Board*, Bank of Montreal, Montreal

Allard Jiskoot, *Chairman of the Board of Managing Directors*, Pierson, Heldring & Pierson N.V., Amsterdam, The Netherlands

David Kinnear, *Director*, Eaton's of Canada Limited, Toronto

H. J. Lang, *Chairman and Chief Executive Officer*, Canron Limited, Montreal

Donald C. Matthews, *President and General Manager*, Highland Stock Farms Ltd., Calgary

*W. Earle McLaughlin, *Chairman and President*, The Royal Bank of Canada, Montreal

J. H. Moore, *President*, Brascan Limited, Toronto

Paul L. Paré, *President and Chief Executive Officer*, Imasco Limited, Montreal

The Rt. Hon. Lord Polwarth, T.D., D.L., *Director*, Bank of Scotland, Edinburgh, Scotland

*†Claude Pratte, Q.C., *Advocate*, Quebec

Lucien G. Rolland, *President and General Manager*, Rolland Paper Company, Limited, Montreal

A. M. Runciman, *President*, United Grain Growers Limited, Winnipeg

F. H. Sherman, *President and Chief Executive Officer*, Dominion Foundries and Steel, Limited, Hamilton

*Ian D. Sinclair, *Chairman and Chief Executive Officer*, Canadian Pacific Limited, Montreal

Denis W. Timmis, *President and Chief Executive Officer*, MacMillan Bloedel Limited, Vancouver

The Hon. John N. Turner, P.C., Q.C., *Partner*, Law Firm of McMillan, Binch, Toronto

†Kenneth A. White, *President and Chief Executive Officer*, The Royal Trust Company, Montreal

Norman E. Whitmore, *President*, Wascana Investments Limited, Regina

*Ray D. Wolfe, *Chairman and Chief Executive Officer*, The Oshawa Group Limited, Toronto

*Member of the Executive Committee

†Member of the Audit Committee

Officers

Ian D. Sinclair, *Chairman and Chief Executive Officer*, Montreal

F. S. Burbidge, *President*, Montreal

Keith Campbell, *Vice-President*, Montreal

Corporate Services

J. K. Dakin, *Vice-President Administration*, Montreal

Donald S. Maxwell, Q.C., *Vice-President Law and General Counsel*, Montreal

J. A. McDonald, *Vice-President Corporate Development*, Montreal

P. A. Nepveu, *Vice-President Finance and Accounting*, Montreal

J. C. Ames, *Secretary*, Montreal

J. P. T. Clough, *Comptroller*, Montreal

D. E. Sloan, *Treasurer*, Montreal

1976 Annual General and Special General Meeting

The Annual General Meeting and Special General Meeting of the Shareholders is to be held on Wednesday, May 5th, 1976, at Le Château Champlain, Place du Canada, Montreal, at eleven a.m. (daylight saving time, if operative).

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Stock Transfer Agents

The Royal Trust Company,
1648 Hollis Street, Halifax, N.S. B3J 2X1;
Brunswick House,
1 King Street, Saint John, N.B. E2L 1G1;
630 Dorchester Boulevard West,
Montreal, P.Q. H3B 1S6;
Royal Trust Tower, Toronto-Dominion
Centre, Toronto, Ontario M5W 1P9;
287 Broadway,
Winnipeg, Manitoba R3C 0R9;
101 McCallum Hill Building,
Regina, Saskatchewan S4P 0R6;
600 7th Avenue S.W.,
Calgary, Alberta T2P 0Y6;
Royal Trust Tower, Bentall Centre,
555 Burrard Street,
Vancouver, B.C. V6C 2K5.

Bank of Montreal Trust Company,
2 Wall Street, New York, New York 10005

Deputy Secretary,
8 Waterloo Place,
London SW1Y 4AQ, England

Stock Holdings

The number of registered holdings of the voting capital stock of the Company at December 31, 1975 was 75,347.

The distribution by countries of total voting rights of the Ordinary and Preference Stock at that date was as follows:

Canada	66.21%
United States	16.41
United Kingdom	8.60
Other Countries	8.78
	<u>100.00%</u>

Stock Listings

Debenture Stock (Sterling) listed on:
London Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Stock (Sterling) listed on:
Montreal, Toronto, Vancouver and
London, Eng. Stock Exchanges

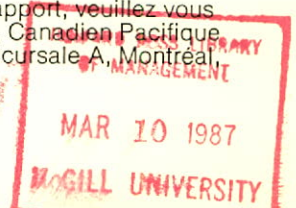
Preference Stock (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and
London, Eng. Stock Exchanges

Preferred Shares, Series A listed on:
Montreal, Toronto, Vancouver and
London, Eng. Stock Exchanges

Ordinary Stock listed on:
Montreal, Toronto, Vancouver, New York
and London, Eng. Stock Exchanges

Shareholders having inquiries should write to:
J. C. Ames, Secretary,
Canadian Pacific Limited,
P.O. Box 6042, Station A,
Montreal, Canada,
H3C 3E4

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au secrétaire, Canadian Pacific Limited, C.P. 6042, succursale A, Montréal, Canada H3C 3E4



To the Shareholders

Consolidated net income of the Company in 1975 amounted to \$174.9 million, or \$2.40 per Ordinary share, compared with restated \$194.4 million, or \$2.67 per share, in 1974. In 1975 the Company changed its accounting from the cash to the accrual basis for compensation paid CP Rail for passenger service and branch line losses under the National Transportation Act. This change was made because earlier uncertainties and limitations affecting determination and payment of the losses have now been resolved. Results of CP Rail for the years 1970 to 1974 have been restated to give retro-active effect to the change.

Dividends of 84.5¢ on the Ordinary shares compare with 86¢ in 1974. Of the 1975 dividends, 43¢ per share was the proceeds of dividends from Canadian Pacific Investments Limited, the same as in 1974, while 1.5¢ per share was the proceeds of dividends from Canadian Pacific Air Lines, Limited, compared with 3¢ per share in the prior year.

Summarized Statement of Income of Canadian Pacific Limited

	1975	1974	Increase or (Decrease)
	(in millions)		
Net income from:			
CP Rail	\$ 31.7	\$ 44.6	\$(12.9)
CP Trucks	2.9	(0.1)	3.0
CP Telecommunications	1.4	0.7	0.7
CP Air	(6.4)	2.5	(8.9)
CP Ships	14.6	18.6	(4.0)
Miscellaneous	4.2	1.8	2.4
CP Investments Limited	120.6	114.2	6.4
Equity in income of subsidiary not consolidated	5.9	7.8	(1.9)
Income before extraordinary items	174.9	190.1	(15.2)
Extraordinary items	—	4.3	(4.3)
Net income	\$174.9	\$194.4	\$(19.5)
Per Ordinary share:			
Income before extraordinary items	\$2.40	\$2.61	\$(0.21)
Net income	2.40	2.67	(0.27)
Dividends	0.845	0.86	(0.015)

The natural resource and other activities of Canadian Pacific Investments Limited provided 69% of the year's net income, and transportation, telecommunications and miscellaneous income the balance.

The lower earnings of rail, air and ships were a reflection primarily of depressed economic conditions and continuing escalation of costs. Other factors also played some part. Chief among these were strikes in the Canadian pulp and paper and asbestos industries, port strikes on the B.C. Coast, on the St. Lawrence River and in the United Kingdom, and the continuing large world surplus of oil carrying vessels.

Further growth in income from CP Investments Limited was attributable mainly to oil and gas, coal mining, and real estate activities and the consolidation for a full year of results of The Algoma Steel Corporation, Limited. PanCanadian Petroleum benefited from higher prices for natural gas and oil, and increased production from Fording Coal was marketed at higher prices. Marathon Realty expanded its earnings base and increased returns from existing properties. In contrast, Cominco had lower income, mainly due to softened markets for lead and zinc. Pacific Logging suffered a loss because of poor demand for logs and lumber, labour disruptions and severe weather. Operations of Great Lakes Paper were closed down early in September by a strike which was not settled until February 1976. Weakened markets for steel and delays and difficulties experienced with new facilities adversely affected the results of Algoma Steel. Investment income declined mainly because of a write-off of expenditures incurred during CPI's participation in groups planning gas pipelines from the Arctic and a reduction in dividend income from the investment portfolio.

Significant developmental activity during the year included a vigorous exploration program by PanCanadian Petroleum, progress by Cominco in bringing new mines into production and in constructing an ammonia-urea complex, expansion by CP Hotels in the international field, completion by Algoma Steel of new facilities and continuation of work on the final phase of Great Lakes Paper's plant expansion. Pursuant to an offer it made early in 1976, CP Investments purchased 5,454,275 common shares, equal to 67.6% of the outstanding stock, of Steep Rock Iron Mines Limited. In addition to the mine it is now operating, Steep Rock owns a property in the Lake St. Joseph area of northern Ontario, which property it is seeking to bring into production.

Summarized Statement of
Net Income from
CP Investments Limited

	1975	1974	Increase or (Decrease)
	(in millions)		
Oil and gas	\$ 59.8	\$ 40.3	\$ 19.5
Mines and minerals	53.8	48.7	5.1
Forest products	1.8	12.0	(10.2)
Iron and steel	21.8	14.2	7.6
Real estate	7.7	5.6	2.1
Hotels and food services	3.3	4.5	(1.2)
Finance	1.4	0.8	0.6
Other operations	(0.4)	—	(0.4)
Investment income	(7.2)	4.5	(11.7)
	142.0	130.6	11.4
Interest of outside CPI shareholders	21.4	16.4	5.0
Net income to CP Limited	\$120.6	\$114.2	\$ 6.4

Canadian Pacific Limited presented a brief to the Royal Commission on Concentration of Corporate Power and the Chairman of the Company appeared before the Commission to provide additional information. The Company's brief and presentation stressed Canada's need for strong companies capable of competing internationally.

In 1975 the Company entered the insurance business through the newly incorporated Chateau Insurance Company, licensed to transact all classes of insurance other than life. The Company also announced its participation with another company in Unitank Limited, a new company established to study, and evaluate, opportunities in the field of terminal storage and transportation of bulk liquids. Canadian Pacific Consulting Services Limited enjoyed substantial growth in 1975 as it expanded both volume and scope of its consulting services. It secured the largest contract in its history, covering provision of technical assistance to the Indonesian Railways over a two-year period.

There is widespread agreement that the performance of the Canadian economy and the economies of Canada's trading partners will improve in 1976. There is also virtual unanimity that while the rate of inflation may decline, inflation will continue to be a major threat to economic stability. In Canada, the effectiveness of the Government's anti-inflation program is still to be tested. Despite the handicaps it imposes on business, the business community is supporting the program in the hope that it may encourage greater realism in the demands that are made on the economy.

As in 1975, the most favourable prospects for growth of the Company's income are in the activities of the CP Investments group. Earnings from oil and gas and from real estate are expected to increase, and there should be recovery in the forest products group. While the outlook may improve later in the year, at present it appears that steel, base metals and fertilizers will do well to match their 1975 performance. If the forecasts of moderate economic growth are realized, all the transportation operations except ships should do better.

The Directors are grateful to employees for the efficient performance of their duties and to customers for their continuing support.

For the Directors,



President

Montreal, March 8, 1976.



Chairman and
Chief Executive Officer

CP Rail

Net income from CP Rail amounted to \$31.7 million, a decrease of \$12.9 million from restated income of \$44.6 million for 1974. The decrease was primarily due to a drop in traffic combined with the impact of cost increases.

The economic recession, together with a series of labour disruptions at ports and in Canadian industry, resulted in a decline in the volume of freight traffic despite large increases in grain and coal movements.

Costs continued to climb throughout 1975 — wage increases amounted to just under 16% for the year, pension expenses went up 26%, diesel fuel price increased 17% and other materials 20%.

To restrain the growth in expenses, action was taken on a number of fronts. In transportation, a highly successful program was launched to lower train service costs through increasing the tonnage carried by each train. Attention was also given to reducing yard switching costs. Programs to improve work planning systems for equipment repairs were developed. Owing to the decline in traffic, the repair program for the year was cut back. Administrative and overhead functions were reviewed and improved methods introduced wherever possible.

In April 1975, the Federal Government appointed two commissions of inquiry to consider aspects of grain handling and transportation in Western Canada. One commission is examining costs and revenues of grain traffic and the other is assessing the rail needs of grain producers and communities in Western Canada in the light of changing circumstances. CP Rail has a vital stake in the satisfactory resolution of the long-standing problem of uneconomic grain rates, and is giving every assistance to the work of both commissions.

Contract discussions with the Associated Railway Unions on a new contract for 1976 were broken off at the end of January. The wage offer made by CP Rail was the maximum indicated by the wage guidelines under the Government's anti-inflation program. The Government has appointed the Hon. Mr. Justice Emmett Hall conciliation commissioner in the dispute.

CP Trucks

Net income from CP Trucks, at \$2.9 million, showed substantial improvement over 1974, when a loss of \$104,000 was incurred. Increased revenues were derived from favourable changes in traffic mix, higher rates and the inclusion for the first time of Smith (U.S.) revenues. Stringent cost control and an extensive reorganization of operations in Western Canada were responsible for containing the rise in expenses.

A modest volume growth is expected in 1976, together with some further improvement in the quality of traffic handled and some increase in rates. Expenses will continue to be carefully controlled, with savings carrying over from the revamping of operations in Western Canada. The reorganization of operations into coast-to-coast divisions for each of trucking, express and specialized services, begun in 1975, will be functioning for the full year and should benefit results.

CP Telecommunications

Net income of \$1.4 million from telecommunications was \$716,000 more than in 1974. Revenues increased \$7.6 million, or 14%, partly from higher prices and partly from greater volume. Despite a high wage settlement and inflationary pressures on prices of materials and supplies, the rise in expenses was held to \$6.9 million, or 13%.

Operating in a highly regulated industry, where delays are frequent before rate increases are approved, CP Telecommunications earned less than 7.5% on its investment in 1975. An application, jointly with CN Telecommunications, is soon to be filed requesting a rate increase to be effective July 1, 1976, to cover increased expenses and also to bring the rate of return closer to that being earned by competitors in the communication field. The application will comply fully with regulations of the Anti-Inflation Board.

CP Air

Sharply lower rates of traffic growth and inflationary pressures on costs combined to give CP Air its first loss in thirteen years. The loss amounted to \$6.4 million, compared with a profit of \$2.5 million in 1974. In view of the poor results, the company did not declare a dividend in the second half of the year.

Revenues reached a record high of \$332.1 million, an increase of \$52.7 million, or 19%, over 1974. Higher fares and additional passenger volume accounted for most of this increase. Available seat miles for the year were up some 13% as a result of the introduction into service of two Boeing 747 aircraft late in 1974 and two Boeing 727-200 aircraft in the early months of 1975. Reflecting slower growth in traffic, the passenger load factor declined to 59.3% from 61.4% in 1974.

Expenses went up \$61.5 million, or 22%. This was attributable to operation of additional capacity, including service on a new route, and to escalation of labour and fuel costs. A concerted effort was made to adjust operations to traffic volumes being experienced; a degree of success was evident in the increase of only 2% in flying hours and a decrease in the number of employees notwithstanding the growth in operations. Attempts to raise fares encountered some delays in obtaining necessary approvals and in some cases the increases granted were insufficient to meet the additional cost burdens.

The Vancouver-Los Angeles service was inaugurated in April 1975, as was service between Winnipeg and Amsterdam. In 1975 the company operated an advance booking charter program during the peak summer period, as well as continuing its inclusive tour charters. It is intended to expand charter operations in 1976 to meet growing demand for low cost group travel.

Discussions have continued with Canadian Government officials with a view to obtaining greater flexibility for CP Air's transcontinental service and to being allowed to operate more than 25% of the seat mile capacity on the route. The changes proposed would improve service in this important market, while permitting more efficient utilization of aircraft.

A copy of the financial statements of CP Air for 1975 can be obtained by writing to the Secretary at 1900 Granville Square, 200 Granville Street, Vancouver, B.C. V6C 2R1.

CP Ships

Net income from CP Ships of \$14.6 million in 1975 was \$4.0 million lower than in 1974. Earnings from the container operations of Canadian Pacific Steamships, Limited, fell \$5.2 million, while income from CP (Bermuda) was up \$1.2 million.

Net income from CP Steamships, Limited, amounted to \$1.3 million in 1975. During most of the first half of the year operations were disrupted and traffic was lost as a result of labour disputes at the ports of Quebec City and Tilbury. In addition, the general slump in North Atlantic trade caused a sharp reduction in volume, which was accentuated by strikes in a number of Canadian industries that are normally heavy users of container services. As a result of the drop in traffic, rate levels were under pressure at year end.

Some recovery in trade can be expected in 1976, but it is not likely to be vigorous. Until there is marked improvement, rate structures will continue to be vulnerable and competition for traffic will be intense.

CP (Bermuda) also faced severe problems in 1975 as worldwide movements of oil and of bulk raw materials were curtailed due to the economic recession. Net earnings of CP (Bermuda) in 1975 amounted to \$13.2 million. Of this amount \$9.5 million arose from sale of the right to interest subsidies and settlement for breach of a charter.

The immediate outlook for 1976 is not favourable. Of the 25 vessels that will be in the CP (Bermuda) fleet by October 1976, only 13 are expected to recover full costs of operation in the year. The other 12 vessels are expected to trade at a loss which will be lower than the alternative lay-up costs. In order to be in a position to take advantage of any firming in the market, vessels will be employed on a short term or spot basis rather than committed for longer periods at currently depressed rate levels.

Beyond 1976, prospects are good for the smaller size geared bulk carriers, of which CP (Bermuda) will have nine by the end of 1977. Larger bulk carriers, of which there will be seven by mid-1977, are in a less favourable position and recovery in their markets is likely to be more gradual. The market for the eight product tankers in the fleet should steadily strengthen as refineries are located closer to crude sources and as obsolescence overtakes a significant number of the vessels in the world fleet. Intermediate size crude tankers, of which CP (Bermuda) has two, should benefit from increased demand in the North Sea and on Suez Canal routes. Indications are least encouraging over the next few years for very large crude carriers, in view of the substantial surplus of tonnage hanging over the market. The company has three of these vessels, of which two are employed into the 1980's. The third will come off charter in mid-1976.

CP Investments Limited

Net income from CP Investments Limited was \$120.6 million in 1975 compared with \$114.2 million in 1974.

PanCanadian Petroleum Limited had substantially increased income, due to higher prices for crude oil and natural gas. Crude oil production was 16% lower than in 1974, mainly because of limitations on exports to the United States. During the year PanCanadian completed a three-year drilling program of the shallow gas reserves in southern Alberta. Construction of related production facilities is nearing completion, and gas sales from this project in 1976 will boost gas production significantly. Exploration in Canada in 1975 resulted in important gas discoveries in Alberta, west of Edmonton, in the Foothills west of Calgary, and in the Southern Plains. In the United States, PanCanadian and partners drilled successful gas wells in the Gulf of Mexico and in Wyoming, and undertook geophysical and seismic surveys in Utah and California. The company participated in exploration wells in Iran, Indonesia and the North Sea and completed seismic work on concessions acquired in Greenland.

Cominco Ltd. had lower earnings than in 1974, and income of CPI from its 54% interest in Cominco amounted to \$39.7 million for the year, down \$6.9 million. The decrease was mainly due to reduced sales of lead and zinc in response to poor demand. The price of zinc remained firm throughout 1975 but world prices for lead declined sharply during the first half of the year. It was a good year for fertilizers, in spite of a softening in the market for phosphates in the second half. Cominco's wholly-owned U.S. subsidiary, Cominco American Incorporated, enjoyed record sales and earnings and the 63%-owned Black Angel Mine in Greenland had another successful year. Earnings of Pine Point

Mines Limited, owned 69% by Cominco, were adversely affected by cost increases and lower ore grades. Cominco's Rubiales zinc-lead project in Northern Spain and the ammonia-urea complex in Alberta are both expected to be in operation before the end of 1976.

Fording Coal Limited earned \$17.7 million compared with \$1.2 million in 1974. CPI's share, including its equity in Cominco's 40% interest, amounted to \$14.4 million. In addition, CPI received \$2.9 million in ownership payments, compared with \$895,000 in 1974. Coal sales and shipments reflected a higher price for coal, effective April 1, and increased production.

The Great Lakes Paper Company, Limited experienced a downturn in net income from the record 1974 level because of the strike of paperworkers that shut down operations early in September 1975, and was not settled until February 1976. CPI's 55.6% share of the income of Great Lakes amounted to \$3.6 million, compared with \$8.2 million in 1974. Shipments of building products were up because of completion of the new particleboard-waferboard plant and the expansion of stud lumber capacity during the first quarter of 1975. Construction of the new 250,000 ton-per-year kraft pulp mill, the final phase of the expansion program, is expected to be completed during the latter part of 1976.

Pacific Logging Company Limited had a net loss of \$1.8 million compared with a profit of \$3.8 million in 1974. Log and lumber prices remained at the unprofitable levels of late 1974, while costs continued to rise because of wage increases and governmental constraints. Log production was down more than 25%, due to weak markets, strikes and severe weather. Pacific Logging is adding a second production line to its Saltair lumber mill on Vancouver Island.

Algoma Steel Corporation's earnings in 1975 were below those of the previous year. However, CPI's income from Algoma was higher in 1975, because of consolidation of results for the full year. Algoma's production and shipments were adversely affected by weakened demand for steel and by delayed construction of new facilities and related start-up problems. Product price increases fell short of meeting higher costs of production. Dominion Bridge Company, Limited, in which Algoma has a 43% interest, contributed \$12.4 million to Algoma's earnings in 1975, compared with \$9.4 million in the prior year. During 1975, CPI purchased shares in Dominion Bridge which gave it a direct interest of 2%.

Marathon Realty Company Limited had another successful year as revenues and earnings set new highs. Returns from existing properties were higher and new projects were brought to completion. In Peterborough, Ontario, the enclosed shopping mall, office building and hotel of Peterborough Square were completed and a second phase is planned. In Montreal, the 15-storey office building in which CP Telecommunications is a major tenant, was opened on January 1, 1976 and is fully leased. During the year, Marathon increased its holdings to acquire the controlling interest in Marathon Aviation Terminals Limited, a company engaged in development and ownership of aviation-related facilities.

CP Hotels Limited experienced lower earnings in 1975, reflecting the effect of the economic recession on business travel and convention and tourist business. In February 1975, CP Hotels leased the Hamburg Plaza Hotel in West Germany and in May took over management of the Jerusalem Plaza in Israel. In October, a Red Oak Inn was opened in Peterborough, Ontario. A Chateau Flight Kitchen was completed at Montreal's Mirabel International Airport and food services were further expanded with the opening of the first Village Station Restaurant at Leaside in Toronto. During the year, construction began on a luxury hotel at Mirabel International Airport, to be completed in 1977.

The major addition to CPI's investment portfolio in 1975 was 121,087 common shares of Rio Algom Limited, purchased under a rights issue.

Net investment income was significantly lower in 1975 because of a \$6.2 million write-off of costs of CPI's participation in Canadian Arctic Gas Study Limited and the Polar Gas Project, suspension of dividends from MacMillan Bloedel and the removal of Algoma Steel from the portfolio on consolidation of that company's results from mid-1974.

A copy of the 1975 annual report of Canadian Pacific Investments Limited can be obtained by writing to the Secretary of that company at Windsor Station, Montreal, Quebec H3C 3E4.

Finance

Consolidated interest on long term debt and debenture stock amounted to \$134.4 million in 1975, an increase of \$36.2 million over the previous year. Long term debt outstanding at year end, at \$1,536 million, was \$340 million higher than at the end of 1974. Major new borrowings of Canadian Pacific Limited were an issue of U.S. \$42 million 10½% fifteen-year Equipment Trust Certificates and an issue of \$60 million of 11¼% twenty-year Collateral Trust Bonds. During the year Cominco Ltd. issued \$60 million of 10¾% twenty-year debentures, Algoma Steel \$65 million of 11% twenty-year debentures, CP Hotels \$30 million of 11¾% twenty-year bonds and Great Lakes Paper \$35 million of 11¼% twenty-year bonds. Subsequent to year end, Canadian Pacific Securities entered the Euro-Canadian dollar market with an issue of \$35 million 9¾% six-year notes.

Directorate

Effective December 31, 1975, Mr. Henry S. Wingate retired from the Board. The Directors desire to record their recognition and appreciation of the service rendered by Mr. Wingate during the long period of his association with the Company.

The Hon. John N. Turner, P.C., Q.C., was appointed a Director to succeed Mr. Henry S. Wingate.

Summary of Significant Accounting Policies

General

Basic financial reporting and consolidation policy

Canadian Pacific Limited (CPL) has organized its enterprises into two distinct groups. CPL, directly and through subsidiaries, carries on the transportation enterprises. Canadian Pacific Investments Limited (CPI), in which CPL held 85.14% of the common shares (83.66% of total voting shares) at December 31, 1975 (86.15% and 84.15% respectively at December 31, 1974), is the vehicle through which all other operations are carried on.

The consolidated financial statements include the financial statements of CPL and all subsidiary companies with the exception of those of Soo Line Railroad Company, which operates a railroad in the Northwestern United States and is regulated by the Interstate Commerce Commission. CPL accounts for its investment in this company, which is 56% owned, by the equity method, and its summarized financial information is presented on page 18.

The statement of consolidated income on page 10 is designed to present clearly CPL's income from each of its two major operating groups. Income from transportation is further segregated between the major functions — rail, trucks, telecommunications, air and ships. A similar breakdown of income by function is presented on page 14 for the operations carried on through CPI. The significant accounting policies of each group are described below, and should be read in conjunction with the financial statements, the other financial information and the notes to consolidated financial statements.

Foreign exchange

Items in foreign currencies have been translated into Canadian dollars at current rates, except for properties and related depreciation, investments, long term debt and debenture and capital stocks, for which historical rates have been used. Gains or losses on exchange translation are included in or charged to income.

Pensions

In addition to current service costs, charges to income include annual payments on account of past service liabilities. Such liabilities are being funded over varying periods to 2027.

Income taxes

The companies follow the tax allocation basis of accounting for income taxes whereby tax provisions are based on accounting income and taxes relating to timing differences between accounting and taxable income are deferred.

Earnings per share

Fully diluted earnings per share are calculated on the assumption that all preferred shares of CPI are converted at the beginning of the year.

Transportation

Income reporting by function

As explained above, CPL operates its various transportation enterprises as separate profit centres. CP Rail, comprising railway and coastal steamship operations, and CP Telecommunications, are departments of CPL. The remaining profit centres CP Trucks (Canadian Pacific Transport Company, Limited), CP Air (Canadian Pacific Air Lines, Limited) and CP Ships (Canadian Pacific Steamships, Limited, Canadian Pacific (Bermuda) Limited and CanPac International Freight Services Limited) are operated through wholly-owned subsidiary companies.

In order to present fairly the results by profit centre, charges for services performed by one profit centre for another, which are made at normal tariff or other arm's length rates, are not eliminated. Consolidated net income is not affected by this practice. Rent for leased railroads and interest on consolidated debenture stock is assigned to CP Rail, while other interest paid by CPL is allocated to CP Rail, CP Telecommunications and miscellaneous income as appropriate. Interest paid by other transportation companies is charged to their respective profit centres.

Income taxes charged by CPL are allocated to CP Rail, CP Telecommunications and miscellaneous income on the basis of accounting income as adjusted for non-taxable items. Taxes of other transportation companies are charged to their respective profit centres.

Properties

Maintenance and repairs are charged to expenses as incurred. Major additions and replacements generally are capitalized with the exception of the following which are charged to expenses:

1. Labour costs relating to track material replacements.
2. Renewals of parts of units of railway property which do not constitute "major renewals" as defined by the Uniform Classification of Accounts for Class 1 Common Carriers by Railway of the Canadian Transport Commission.

Depreciation

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property. For railway and telecommunication properties, the rates used are as authorized by the Canadian Transport Commission. When depreciable property is retired or otherwise disposed of, the total book value (less salvage) is charged to accumulated depreciation.

Estimated service lives used for principal categories of assets are as follows:

Road diesel locomotives	20 years
Railway freight cars	30 years
Ships	20 to 25 years
Aircraft	12 to 15 years
Trucks	10 to 12 years

Non-Transportation**Income reporting by function**

The non-transportation activities are carried on by CPI through its various subsidiary companies. These, classified by line of business, are as follows:

		Percent owned by CPI
Oil and gas	PanCanadian Petroleum Limited	87.10%
Mines and minerals	Cominco Ltd.	53.96%
	Fording Coal Limited	} 60% CPI and 40% Cominco
	CanPac Minerals Limited	
Forest products	Pacific Logging Company Limited	100%
	The Great Lakes Paper Company, Limited	55.55%
Iron and steel	The Algoma Steel Corporation, Limited	51.03%
Real estate	Marathon Realty Company Limited	100%
Hotels and food services	Canadian Pacific Hotels Limited	100%
Finance	Canadian Pacific Securities Limited	100%
	CanPac Leasing Limited	100%
Other operations	CanPac AgriProducts Limited	100%
	Commandant Properties, Limited (acquired from CPL January 1, 1975)	100%

The financial statements of Algoma Steel are consolidated with effect from the beginning of July 1974 when it became a subsidiary.

Investment in Dominion Bridge Company, Limited, owned 43.33% by Algoma Steel and 1.92% by CPI, is accounted for by the equity method. The equity in net income of Dominion Bridge is included in sales and operating revenue of Iron and Steel.

With the exception of interest, (amounting to \$16,355,000 in 1975 and \$13,026,000 in 1974), there are no significant intercompany charges within the CPI group of companies. Interest has been eliminated from CPI revenues and expenses in the CPL statement of consolidated income on page 10. In the analysis of CPI's operations on page 14, in order to present fairly the results by activity, the interest charges have not been eliminated. CPI's net income is not affected by this practice.

Inventories

Raw materials and products of mining operations are valued generally at the lower of cost (determined on the monthly average method) and net realizable value. Stores and materials are valued at cost less appropriate allowances for obsolescence.

Finished products and work in process of iron and steel operations are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost and replacement cost.

Other inventories (principally related to forest product operations) are valued at the lower of cost (generally average cost) and net realizable value.

Lease revenue

The excess of aggregate rentals less lease acquisition costs over the cost of leased assets is recorded as income over the term of the lease in decreasing amounts pro rata to the declining balance of the investment not yet recovered. All leases are fully funded and gains arising from residual values of leased assets are reflected in earnings only when realized.

Accounting for oil and gas properties

The full cost method of accounting is followed for oil and gas properties, whereby all costs related to the exploration for and the development of oil and gas reserves are capitalized. Such costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

Accounting for mining properties

Expenditures on general mineral exploration are charged to earnings as incurred. Expenditures incurred in the investigation of identified properties and in the development of mines are capitalized.

Capitalized expenditures, together with the costs of certain investments in mining companies, are amortized against earnings by charges for depletion based on the mineral resources position.

Accounting for iron and steel properties

Depreciation of manufacturing plant and equipment is provided on the straight-line basis at rates intended to write off these assets over their estimated economic lives. Mining equipment and mine development costs are amortized on a unit of production basis over the estimated recoverable iron ore and coal reserves.

Expenditures on exploration for, investigation of, and holding, raw material properties are charged to earnings as incurred. Interest incurred on funds borrowed directly to finance the development of new raw material properties is capitalized during the period of construction and initial development. Such interest is included in the charge to earnings for depreciation and amortization when production commences in commercial quantities.

Accounting for real estate properties

Land is carried at cost. Development costs and carrying costs, net of incidental revenue, are capitalized for land currently being developed or on which development is expected within five years, providing the book value of the land does not exceed market value. Carrying costs of all other land are included in operations.

Buildings and construction in progress are carried at cost, including interest during construction, pre-completion operating costs less any revenue, and other direct development expenses.

The sinking fund method of providing for depreciation is used for major real estate developments. The sinking fund method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually. Under this method depreciation charged to income in later years will be substantially higher than the amount charged in earlier years.

Accounting for other properties

Depreciation and amortization of other properties are charged to earnings, generally on the straight-line basis, over the estimated economic lives of the facilities involved.

Interest on long term debt incurred to finance major expansion programs under forest products and hotels and food services is capitalized during the construction period.

Statement of Consolidated Income

For the Year ended December 31

1975

1974

(in thousands)

CP Rail		
Revenues (Page 15)	\$1,021,953	\$ 965,088
Expenses including income taxes	990,262	920,515
Net income	31,691	44,573
CP Trucks		
Revenues	171,406	146,873
Expenses including income taxes	168,529	146,977
Net income	2,877	(104)
CP Telecommunications		
Revenues	62,182	54,602
Expenses including income taxes	60,740	53,876
Net income	1,442	726
CP Air		
Revenues	332,120	279,470
Expenses including income taxes	338,518	277,029
Net income	(6,398)	2,441
CP Ships		
Revenues	115,043	116,604
Expenses including income taxes	100,472	97,980
Net income	14,571	18,624
Miscellaneous		
Net income	4,200	1,827
CP Investments Limited (Page 14)		
Revenues	1,948,569	1,566,382
Expenses including income taxes	1,727,288	1,351,503
	221,281	214,879
Minority interest	100,698	100,646
Net income	120,583	114,233
Equity in Income of Subsidiary not Consolidated	5,897	7,785
Income before Extraordinary Items	174,863	190,105
Extraordinary items after income taxes (Page 15)	—	4,253
Net Income	\$ 174,863	\$ 194,358
Earnings per Ordinary Share		
Income before extraordinary items	\$2.40	\$2.61
Net income	2.40	2.67

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Statement of Consolidated Retained Income

For the Year ended December 31		1975	1974
		(in thousands)	
	Balance, January 1		
	As previously reported	\$1,234,093	\$1,121,230
	Restatement of government payments (Page 20)	30,182	21,353
	As restated	1,264,275	1,142,583
Add:	Reduction in insurance reserve	4,000	—
	Net income for the year	174,863	194,358
		1,443,138	1,336,941
Deduct:	Net increase in minority interest arising from exercise of warrants in 1974 and conversion of preferred shares of CPI	2,648	7,832
	Dividends		
	7¼ % Preferred shares	2,396	2,663
	4% Preference stock	537	541
	Ordinary stock (per share — 1975 — 84.5¢; 1974 — 86¢)	60,555	61,630
	Total dividends	63,488	64,834
	Balance, December 31	\$1,377,002	\$1,264,275

Statement of Changes in Consolidated Financial Position

For the Year ended December 31		1975	1974
		(in thousands)	
Source of Funds	Income before extraordinary items	\$ 174,863	\$ 190,105
	Add/(Deduct)		
	Depreciation, depletion and amortization	257,190	226,135
	Deferred income taxes	54,682	49,492
	Equity in net income of companies accounted for by the equity method	(18,471)	(12,137)
	Dividends from companies accounted for by the equity method	7,328	7,554
	Minority interest in income of subsidiaries	100,698	100,646
	Funds from operations	576,290	561,795
	Reduction in insurance fund	4,000	—
	Sales of investments	6,557	7,845
	Proceeds from disposal of properties	26,182	36,570
	Capital stock issued by a subsidiary	—	10,694
	Issuance of long term debt	556,138	386,063
	Working capital of subsidiaries acquired and consolidated	—	69,942
	Sundries (net)	17,730	(954)
		\$1,186,897	\$1,071,955
Application of Funds	Additions to properties	\$ 730,851	\$ 593,480
	Additions to investments	18,280	46,578
	Additions to lease receivables (net)	20,810	23,287
	Investment in subsidiaries acquired and consolidated	—	96,353
	Reduction in long term debt	216,205	147,056
	Redemption of preferred shares	3,174	4,398
	Dividends declared	63,488	64,834
	Dividends paid minority shareholders of subsidiaries	48,088	46,497
	Increase in working capital	86,001	49,472
		\$1,186,897	\$1,071,955

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

Assets

December 31		1975	1974
		(in thousands)	
Current Assets	Cash and temporary investments, at cost (approximates market)	\$ 389,113	\$ 275,775
	Accounts receivable	505,852	486,081
	Rail materials and supplies, at cost or less	91,587	67,291
	Other inventories	361,238	266,456
		1,347,790	1,095,603
Insurance Fund, at cost	(approximate market \$2,531,000; 1974 — \$5,928,000)	3,270	6,754
Receivables under Leases	Amount due under lease agreements after one year	78,733	50,451
	Less: Deferred income	22,124	14,652
		56,609	35,799
Investments	Subsidiary company not consolidated	72,476	69,982
	Portfolio, at cost (market value \$186,934,000; 1974 — \$165,365,000) (Page 16)	217,990	220,948
	Other (Page 16)	218,365	202,659
		508,831	493,589
Properties, at cost (Page 16)	CP Rail	2,700,481	2,609,925
	CP Trucks	110,303	98,898
	CP Telecommunications	164,652	155,064
	CP Air	409,428	371,235
	CP Ships	380,637	355,943
	Miscellaneous	32,848	29,235
	CP Investments Limited	3,038,660	2,590,971
		6,837,009	6,211,271
	Less: Accumulated depreciation, depletion and amortization	2,606,538	2,436,481
		4,230,471	3,774,790
Other Assets and Deferred Charges		88,861	88,720
		\$6,235,832	\$5,495,255

**Auditors' Report
to the Shareholders
of
Canadian Pacific Limited:**

We have examined the consolidated balance sheet of Canadian Pacific Limited and subsidiary companies as at December 31, 1975 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for the year then ended. For Canadian Pacific Limited and for those other companies of which we are the auditors and which are consolidated in these financial statements, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied upon the reports of the auditors who have examined the financial statements of the other consolidated subsidiaries, which include Cominco Ltd., The Algoma Steel Corporation, Limited, The Great Lakes Paper Company, Limited and Canadian Pacific (Bermuda) Limited and of Soo Line Railroad Company which is accounted for by the equity method.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for government payments as described in Note 7 of the Notes to Consolidated Financial Statements, on a basis consistent with that of the preceding year.

Price Waterhouse & Co., Chartered Accountants, Montreal, Quebec, March 5, 1976.

Consolidated Balance Sheet

Liabilities

December 31

1975 1974

(in thousands)

Current Liabilities	Bank loans	\$ 113,919	\$ 56,966
	Accounts payable and accrued liabilities	603,306	539,893
	Notes and accrued interest payable	273,269	172,586
	Income and other taxes payable	62,523	135,571
	Dividends payable	36,313	38,733
	Long term debt maturing within one year	141,877	121,272
		1,231,207	1,065,021
Deferred Liabilities		44,343	36,126
Insurance Reserve		3,270	6,754
Long Term Debt (Page 17)		1,536,268	1,195,999
Perpetual 4% Consolidated Debenture Stock (Page 18)		292,549	292,549
Minority Shareholders' Interest in Subsidiary Companies (Page 19)		625,510	571,711
Deferred Income Taxes		501,301	445,837
Shareholders' Equity	Preferred shares (Page 19)		
	Authorized — 23,655,139 shares of a par value of \$10 each		
	Issued — 3,273,285 7¼ % Cumulative Redeemable Series A shares (1974 — 3,610,256)	32,733	36,103
	Preference stock — 4% non-cumulative		
	Authorized — an amount not exceeding one-half the aggregate amount of Ordinary stock outstanding		
	Issued — £865,319 in amounts of £1 and multiples thereof	4,211	4,211
	— in amounts of \$3 and multiples thereof	11,539	11,539
		15,750	15,750
	Ordinary stock		
	Authorized — 100,000,000 shares of a par value of \$5 each		
	Issued — 71,662,280 shares	358,311	358,311
	Premium on stock	113,603	113,408
	Other paid-in surplus	103,985	93,411
	Retained income	1,377,002	1,264,275
		2,001,384	1,881,258
		\$6,235,832	\$5,495,255

Approved on behalf of the Board:
Ian D. Sinclair, Director
F. S. Burbidge, Director

Other Financial Information

CP Investments Limited —
Net Income

	1975	1974
	(in thousands)	
Oil and gas		
Gross operating revenue	\$159,590	\$130,572
Expenses including income taxes	90,927	84,329
	68,663	46,243
Interest of outside shareholders	8,858	5,926
Net income	59,805	40,317
Mines and minerals		
Gross operating revenue	892,954	860,802
Expenses including income taxes	792,659	754,330
	100,295	106,472
Interest of outside shareholders	46,476	57,749
Net income	53,819	48,723
Forest products		
Sales and operating revenue	128,917	153,598
Expenses including income taxes	124,288	134,820
	4,629	18,778
Interest of outside shareholders	2,857	6,709
Net income	1,772	12,069
Iron and steel		
Sales and operating revenue	558,914	253,138
Expenses including income taxes	515,962	225,108
	42,952	28,030
Interest of outside shareholders	21,097	13,858
Net income	21,855	14,172
Real estate		
Gross rentals and other income	59,607	50,694
Expenses including income taxes	51,927	45,112
	7,680	5,582
Interest of outside shareholders	18	—
Net income	7,662	5,582
Hotels and food services		
Gross operating revenue	105,976	86,129
Expenses including income taxes	102,646	81,622
Net income	3,330	4,507
Finance		
Gross operating revenue	38,381	30,799
Expenses including income taxes	37,007	30,019
Net income	1,374	780
Other operations		
Gross operating revenue	10,348	599
Expenses including income taxes	10,757	641
Net income	(409)	(42)
Investment income		
Gross income	10,237	13,077
Expenses including income taxes	17,470	8,548
Net income	(7,233)	4,529
Income before interest of outside CPI shareholders	141,975	130,637
Interest of outside CPI shareholders	21,392	16,404
Net income	\$120,583	\$114,233

Other Financial Information

Rail Revenues	1975	1974
	(in thousands)	
Freight revenue	\$ 887,666	\$803,301
Passenger services	21,497	21,891
Other railway	26,188	19,868
Coastal steamships	16,486	15,834
Government payments	70,116	104,194
	\$1,021,953	\$965,088
	<hr/>	
Income Taxes	1975	1974
	(in thousands)	
Charged to income before equity in income of subsidiary and extraordinary items —		
Current	\$ 103,791	\$155,285
Deferred	54,682	49,492
	158,473	204,777
Charged to extraordinary items —		
Current	—	187
	\$ 158,473	\$204,964
	<hr/>	
Interest Expense	1975	1974
	(in thousands)	
Long term debt and debenture stock	\$ 134,358	\$ 98,178
Short term debt	24,587	20,910
	\$ 158,945	\$119,088
	<hr/>	
	Interest capitalized on funds borrowed to finance capital projects amounted to \$10,592,000 (1974 — \$4,102,000).	
	<hr/>	
Depreciation, Depletion and Amortization Charged to Expenses	1975	1974
	(in thousands)	
CP Rail	\$ 74,736	\$ 72,828
CP Trucks	5,808	4,986
CP Telecommunications	9,110	8,033
CP Air	26,143	18,837
CP Ships	13,222	9,597
Miscellaneous	764	910
CP Investments Limited		
Oil and gas	19,205	20,382
Mines and minerals	57,343	57,734
Forest products	12,718	10,847
Iron and steel	29,837	15,728
Real estate	2,861	2,298
Hotels and food services	4,703	3,904
Other operations	740	51
	\$ 257,190	\$226,135
	<hr/>	
Extraordinary Items	1975	1974
	(in thousands)	
Gain on sale of land after income taxes	\$ —	\$ 4,253

Other Financial Information

Investment Portfolio
as at December 31, 1975

	Number of shares	Percentage of outstanding voting shares	Cost	Approximate market value
(in thousands)				
Common Stocks				
Husky Oil Ltd.	354,000	3.65	\$ 4,053	\$ 6,284
MacMillan Bloedel Limited	2,849,600	13.40	82,560	50,951
MICC Investments Limited	410,500	7.19	1,880	4,002
Norcen Energy Resources Limited	358,200	1.62	5,015	3,313
Rio Algom Limited	1,331,956	9.88	30,823	38,960
TransCanada PipeLines Limited	4,501,457	14.21	52,703	48,976
Union Carbide Canada Limited	825,300	8.25	18,375	16,300
Other			7,342	6,363
			202,751	175,149
Preferred Stocks			7,424	4,611
Bonds, Debentures and Notes			7,815	7,174
			\$217,990	\$186,934

Other Investments

	1975	1974
(in thousands)		
Dominion Bridge Company, Limited, at cost plus equity in undistributed net income	\$ 64,282	\$ 52,939
Others, at cost		
Tara Exploration and Development Company Limited	26,903	26,877
Northern Alberta Railways Company	25,340	25,340
Panarctic Oils Ltd.	27,190	20,615
Tilden Iron Ore Company	18,725	13,408
The Toronto Terminals Railway Company	9,182	9,235
Other	46,743	54,245
	\$218,365	\$202,659

Properties and
Accumulated Depreciation,
Depletion and Amortization

	1975		1974	
	(in thousands)			
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Net
CP Rail (a)	\$2,700,481	\$1,295,787	\$1,404,694	\$1,347,946
CP Trucks	110,303	47,232	63,071	57,374
CP Telecommunications	164,652	73,516	91,136	88,337
CP Air	409,428	145,511	263,917	248,726
CP Ships (b)	380,637	42,494	338,143	326,429
Miscellaneous	32,848	14,779	18,069	13,320
CP Investments Limited				
Oil and gas	484,526	138,501	346,025	281,852
Mines and minerals	873,729	319,167	554,562	474,005
Forest products	408,377	137,056	271,321	197,997
Iron and steel	857,524	339,957	517,567	447,857
Real estate	274,953	18,117	256,836	207,533
Hotels and food services	131,405	32,014	99,391	78,990
Other operations	8,146	2,407	5,739	4,424
Total	3,038,660	987,219	2,051,441	1,692,658
	\$6,837,009	\$2,606,538	\$4,230,471	\$3,774,790

(a) Includes \$45,420,000 (1974 — \$46,827,000) securities of leased railway companies.

(b) Includes \$10,151,000 (1974 — \$29,651,000) foreign currency deposits held to cover instalments payable on vessels under construction.

Other Financial Information

Long Term Debt

	1975	1974
	(in thousands)	
Canadian Pacific Limited		
Collateral Trust Bonds		
Six year 8¼ % , due 1977	\$ 20,000	\$ 20,000
Twenty-five year 5% , due 1983	37,401	37,401
Twenty year 8½ % , due 1989	6,452	6,906
Twenty-one year 8⅞ % , due 1992	50,000	50,000
Twenty year 10.35% , due 1994	74,250	71,528
Twenty year 11¼ % , due 1995	60,000	—
Equipment Trust Certificates		
Series "P", 5% , due 1977-1981	8,924	10,709
Series "R", 6⅞ % , due 1982	11,085	12,544
Series "S", 6.9% , due 1983	9,794	11,354
Series "T", 8¼ % , due 1984	17,833	20,940
Series "U", 8½ % , due 1989	23,426	24,327
Series "V", 10⅞ % , due 1990	43,260	—
Bank loans and sundry borrowings, due 1976-1985	179,366	154,704
Canadian Pacific Air Lines, Limited		
Bank loans, 6% , due 1975-1984	—	13,872
Canadian Pacific (Bermuda) Limited — mortgages, due 1976-1982	26,482	31,850
Canadian Pacific Steamships, Limited		
Bank loans, due 1976-1979	9,735	13,197
Canadian Pacific Transport Company, Limited		
Bank loans	12,308	12,513
Canadian Pacific Investments Limited		
Income debentures, 5¾ % -7½ % , due 1976-1979	93,700	27,000
Bank and sundry borrowings, due 1978	5,000	42,511
The Algoma Steel Corporation, Limited		
Sinking fund debentures, 5¼ % , due 1978	11,660	12,172
Sinking fund debentures, 7⅞ % , due 1987	25,200	26,385
Sinking fund debentures, 8¾ % , due 1991	34,000	34,000
Sinking fund debentures, 10⅜ % , due 1994	50,000	50,000
Sinking fund debentures, 11% , due 1995	65,000	—
Notes, 8½ % , due 1991	22,000	16,500
Short term — convertible into term loans to 1977	50,000	25,000
Other	5,452	4,653
Canadian Pacific Hotels Limited		
First mortgage sinking fund bonds, 8⅞ % , due 1992	20,000	20,000
First mortgage sinking fund bonds, 11⅞ % , due 1995	30,000	—
Sundry — due 1976-1985	9,299	959
Canadian Pacific Securities Limited		
Sinking fund debentures, 9½ % , due 1990	24,250	25,000
Sinking fund debentures, 9⅜ % , due 1990	38,800	40,000
Sinking fund debentures, 8¼ % , due 1993	15,000	15,000
Notes, 10⅞ % , due 1980	5,000	—
Debentures, 10½ % , due 1984	30,000	30,000
Bank loan, 7% , due 1979	25,000	25,000
CanPac Leasing Limited — bank loans, due 1976-1980	18,781	22,240
Cominco Ltd.		
Sinking fund debentures, 8½ % , due 1991	64,850	65,000
Sinking fund debentures, 10⅞ % , due 1995	60,000	—
Bank loans, due 1977-1984	27,660	—
Subsidiaries of Cominco Ltd.	71,355	85,240
Fording Coal Limited — bank loans, due 1976-1978	48,029	65,067
The Great Lakes Paper Company, Limited		
Sinking fund bonds, 4% , due 1975	—	3,750
Sinking fund bonds, 8% , due 1989	17,650	18,200
Sinking fund bonds, 11¼ % , due 1995	35,000	—
Debentures, 5¾ % , due 1975	—	1,075
Carried forward	\$1,493,002	\$1,146,597

Other Financial Information

Long Term Debt
(continued)

	1975	1974
	(in thousands)	
Brought forward	\$1,493,002	\$1,146,597
Marathon Realty Company Limited		
Sundry loans and mortgages payable 1976-2006	56,138	24,836
Bank loans, due 1976-1983	28,625	28,000
PanCanadian Petroleum Limited		
Sinking fund debentures, 8½%, due 1992	25,000	25,000
Sinking fund debentures, 8¼%, due 1992	25,000	25,000
Bank loans, due 1977-1983	39,946	57,468
Other companies	10,434	10,370
	1,678,145	1,317,271
Less: Long term debt maturing within one year	141,877	121,272
	\$1,536,268	\$1,195,999

Collateral Trust Bonds of Canadian Pacific Limited are secured by pledge of Perpetual 4% Consolidated Debenture Stock aggregating in principal amount \$535,285,000 at December 31, 1975 (1974 — \$386,193,000).

Of the aggregate bank loans of \$501,000,000 included above, approximately \$331,000,000 bear interest at rates which fluctuate (in certain cases within defined limits) with the lender's prime commercial rate.

Foreign currency long term debt translated at current rates at December 31, 1975 would be \$450,699,000, which is \$489,000 more than the amount at which it is carried above.

Annual maturities and sinking fund requirements for the five years following 1975 are: 1976 — \$141,877,000; 1977 — \$143,104,000; 1978 — \$127,383,000; 1979 — \$136,366,000; 1980 — \$107,012,000.

Perpetual 4%
Consolidated Debenture
Stock

	Sterling (in thousands)	United States Currency	Canadian Currency	Total
Issued	£46,757	\$252,500	\$347,785	\$827,834
Less: Pledged as collateral	—	187,500	347,785	535,285
	£46,757	\$ 65,000	\$ —	\$292,549

Sterling translated at Can. \$4.86% to the £1; U.S. dollars on the basis of one Canadian dollar equals one U.S. dollar. At December 31, 1975, translated at current rates, the net amount outstanding would be \$161,501,000.

Summarized Financial
Information of Soo Line
Railroad Company
(U.S. Currency)

	1975	1974
	(in thousands)	
Income Statement		
Operating revenues	\$161,155	\$179,792
Net operating income	\$ 19,049	\$ 24,049
Other income — net	3,871	5,451
Fixed charges and contingent interest	(6,207)	(5,893)
Provision for income taxes	(6,300)	(9,300)
Net income	\$ 10,413	\$ 14,307
Canadian Pacific Limited equity in net income (Canadian currency)	\$ 5,897	\$ 7,785
Condensed Balance Sheet		
Current assets	\$ 66,025	\$ 66,669
Investments and special funds	13,813	8,822
Net properties	242,744	240,314
Other assets	1,430	2,004
	\$324,012	\$317,809
Current liabilities	\$ 38,566	\$ 40,094
Long term debt	97,318	95,774
Other liabilities	1,834	3,010
Deferred income taxes	35,900	33,000
Shareholders' equity	150,394	145,931
	\$324,012	\$317,809

Notes to Consolidated Financial Statements

1. Preferred Shares

The series A preferred shares are redeemable at the Company's option after January 1, 1978 at \$10.50 per share on or before January 1, 1981; at \$10.25 thereafter and on or before January 1, 1984; and \$10.00 thereafter. In addition, shares may be purchased for redemption at any time subject to certain price restrictions.

The Company is obligated to apply up to \$2,000,000 in each year to the purchase of series A preferred shares, if available at a price not exceeding \$10.50 per share plus costs of purchase. The price decreases to \$10.25 after January 1, 1981 and \$10.00 after January 1, 1984.

In 1975, 336,971 shares were purchased for \$3,174,000; in 1974, 438,637 shares were purchased for \$4,398,000.

2. Minority Interest

The minority shareholders' interest in subsidiary companies is comprised as follows:

	1975	1974
	(in thousands)	
PanCanadian Petroleum Limited	\$ 22,717	\$ 17,322
Cominco Ltd.	233,048	217,775
The Great Lakes Paper Company, Limited	26,561	23,768
The Algoma Steel Corporation, Limited	188,605	176,236
Canadian Pacific Investments Limited		
4¾% convertible preferred shares, series A	20,701	27,577
Common share equity	133,471	109,033
Other	407	—
	\$625,510	\$571,711

Each CPI preferred share, series A, is convertible at the option of the holder to November 1, 1977 into two common shares of CPI, and is redeemable at CPI's option at \$20 per share.

3. Pensions

At December 31, 1975, there were unfunded liabilities, determined by actuarial evaluations, of \$478,000,000 which is being funded by a series of equal annual payments ending from 1989 to 1992, and \$271,000,000 which is being funded by equal annual payments to 2027.

Pension expense, including current service costs and payments on account of unfunded liabilities, was \$105,000,000 in 1975 (1974 — \$82,000,000).

4. Commitments

The Company and its subsidiaries had placed orders or were otherwise committed to capital expenditures in the amount of \$335,000,000.

Annual commitments for rent for leased roads amount to approximately \$2,600,000.

Commitments for rent for freight cars and locomotives leased for varying periods through to 1999 amount to \$110,000,000. Commitments under other long term leases amount to \$127,000,000.

At December 31, 1975 PanCanadian Petroleum had expended \$26,800,000 on equipment and design with respect to an ammonia complex which has an estimated cost on completion in 1977 of \$81,000,000. If PanCanadian is not successful in fulfilling the conditions requisite to the issuance of an industrial development permit by the Alberta government, management expects that it will be able to dispose of its present investment in the project without significant loss.

Other investments include advances to Tilden Iron Ore Company (participant in a cost sharing joint venture to produce iron ore pellets) by a subsidiary of Algoma Steel. The subsidiary is entitled to receive its share of pellets, estimated at 1.2 million gross tons per annum, and is committed to pay its 47 per cent share of Tilden's costs, including amounts sufficient to repay its share of that company's long term debt amounting to \$4,200,000 in each of 1976 and 1977, \$4,600,000 in 1978 and \$3,000,000 in each of 1979 and 1980. Algoma Steel has entered into agreements under which it may be called upon to invest amounts in the subsidiary which would be available to meet such commitment of the subsidiary. At December 31, 1975, 47 per cent of Tilden's long term debt is \$53,600,000.

The participants in the joint venture have entered into an agreement to expand production facilities by late 1979 subject to the fulfillment of certain conditions. To complete the expansion by the required time certain expenditures and commitments have been made and the subsidiary is committed at December 31, 1975 to provide \$16,900,000 for such expenditures and commitments under certain circumstances. An interim line of credit has been arranged by the participants to assist in financing these expenditures and commitments and at December 31, 1975 the subsidiary's share of loans under this line of credit amounted to \$3,000,000, repayment of which has been guaranteed by Algoma.

5. Contingent Liabilities

The Company is a defendant in two suits by certain minority shareholders of Ontario and Quebec Railway Company, the railway of which the Company operates under a perpetual lease, claiming alleged misuse of the assets and also entitlement to the proceeds from the sale of Ontario and Quebec Railway Company's surplus lands. In the alternative, damages of \$125,000,000 and \$400,000,000 are claimed. Counsel have advised that in their opinion these suits can be successfully defended.

6. Fully Diluted Earnings Per Share

Fully diluted earnings per share for 1975, calculated on the basis described in the Summary of Significant Accounting Policies, would be \$2.35.

Notes to Consolidated Financial Statements

7. Government Payments to CP Rail

Prior to 1975, claims for branch line and passenger service losses could not be made in the current year, and compensation paid under the terms of the National Transportation Act was received and recorded subsequent to the end of the year concerned. There were also uncertainties as to the amount the Company would be entitled to recover in respect of a year, as the basis for calculation of the amounts of loss had not been finally determined. Accordingly, loss recoveries were not recorded until the cash was actually received.

In 1975, the uncertainties regarding determination of the amounts recoverable were substantially resolved and under the Railway Advance Payment Regulations, pursuant to Appropriation Act No. 4, 1975, it became possible to file claims and receive payment on a current basis. As a result, the Company has changed its accounting for the loss compensation from the cash basis, which is no longer appropriate, to the accrual basis and CP Rail results for the years 1970 to 1974 have been restated to give retroactive effect to this change. The effect has been to increase CP Rail's results as follows:

	Government Payments	Income Taxes	Net Income
	(in thousands)		
1970	\$10,425	\$5,220	\$5,205
1971	17,765	8,780	8,985
1972	10,212	5,675	4,537
1973	6,153	3,527	2,626
1974	16,173	7,344	8,829

8. Anti-Inflation Legislation

The Company and certain of its subsidiaries are subject to controls on prices, profits, compensation and dividends instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975. The production of crude oil and natural gas and the rental of real property are exempt from the guidelines published under the Act.

9. Subsequent Events

In January 1976 Canadian Pacific Securities issued \$35,000,000 of 9¾% Guaranteed Notes due in 1981.

Pursuant to an offer mailed to the shareholders of Steep Rock Iron Mines Limited on January 19, 1976, CPI acquired 5,454,275 common shares, or 67.6% of the outstanding stock, of Steep Rock at a price of \$3.00 per share.

In March 1976 Algoma Steel filed a preliminary prospectus for an issue of Tax Deferred Preference Shares.

Five-Year Summary

	1971	1972	1973	1974	1975
	(in thousands)				
Net income from:					
CP Rail	\$ 32,286*	\$ 39,123*	\$ 35,189*	\$ 44,573*	\$ 31,691
CP Trucks	(731)	760	(3,007)	(104)	2,877
CP Telecommunications	1,243	2,314	1,312	726	1,442
CP Air	2,140	5,161	4,199	2,441	(6,398)
CP Ships	6,323	3,281	3,114	18,624	14,571
Miscellaneous	6,074	4,858	5,233	1,827	4,200
CP Investments Limited	25,963	35,180	63,772	114,233	120,583
Equity in income of subsidiary not consolidated	3,119	4,465	8,997	7,785	5,897
Income before extraordinary items	76,417	95,142	118,809	190,105	174,863
Extraordinary items	4,884	1,931	6,179	4,253	—
Net income	\$ 81,301	\$ 97,073	\$124,988	\$194,358	\$174,863
Per Ordinary share					
Income before extraordinary items	\$ 1.02	\$ 1.27	\$ 1.60	\$ 2.61	\$ 2.40
Net income	1.09	1.30	1.69	2.67	2.40
Dividends	\$ 0.66	\$ 0.70	\$ 0.77	\$ 0.86	\$ 0.845
Market price — High (Toronto Stock Exchange) — Low	\$14 ³ / ₈ 11 ¹ / ₈	\$16 ³ / ₄ 13 ⁷ / ₈	\$19 ¹ / ₄ 14	\$17 ³ / ₄ 10 ¹ / ₂	\$17 ¹ / ₈ 12 ⁵ / ₈
Price/earnings ratio — High — Low	13 10	13 11	11 8	7 4	7 5

*Restated

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