# Canadian Pacific Railway Company

# 4% Consolidated Debenture Stock

# Information and Discussion Paper

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# EXECUTIVE SUMMARY

- The acquisition by CP of Kansas City Southern again raises a long unresolved issue in CP's capital structure

- CP's 4% perpetual consolidated debenture stock (CDS) is a small class of obsolete securities without the features normally attaching to modern debt or equity instruments.

- The CDS constitutes a first charge over the whole of the undertaking, railways, works, rolling stock, plant property and effects of the Company, with certain exceptions.

- The USD denominated CDS contains a gold payment clause which, although unlikely to be reinstated or enforced by the U.S. or Canadian Courts in most circumstances, creates ongoing uncertainty and limitations.

- The continuing existence of the CDS limits CP's flexibility in its financing activities and in any business combinations or restructurings which CP might contemplate, including the merger with KCS.

- In 1996 CP was unable to convert the CDS into a more modern instrument with retraction provisions enabling it to call in and eliminate the CDS when required.

- Between 1996 and 2001, CP eliminated all the other 19th century securities in its capital structure.

- A well-designed Plan of Arrangement which fully retracted the CDS would remove the constraints and potential liability arising from the CDS and free CP to pursue its corporate and financing objectives with a clean balance sheet.

## CORPORATE HISTORY OF CANADIAN PACIFIC RAILWAY COMPANY

*... and many a fortune lost and won, and many a debt to pay*

(Gordon Lightfoot - Canadian Railway Trilogy)

Canadian Pacific Railway Company ("CPRC") was incorporated by Letters Patent in 1881 pursuant to The *Canadian Pacific Railway Act* and was governed by this special Act and subsequent amendments passed by the Parliament of Canada for over 100 years.

In 1971, CPRC adopted the name Canadian Pacific Limited ("CPL") to reflect the diversity of its business operations which by then had expanded to included real estate, hotels, energy, ships, airline and forestry interests.

In 1984, CPL was continued under the *Canada Business Corporations Act* ("CBCA"). In moving to the jurisdiction of this modern corporate statute, it became subject to a more extensive and flexible regime of corporate governance which included mechanisms such as the section 192 Plan of Arrangement provisions.

In 1990, CPL attempted, pursuant to a section 192 Plan of Arrangement, to spin-out a significant portion of its real estate assets represented by Marathon Realty Ltd. This plan was ultimately declined by the Ontario Courts after a "fairness hearing" that highlighted the uncertain or ambiguous equity entitlements and rights of the 4% Preference Shares.

In 1996, CPL undertook a reorganization under which it became a wholly owned subsidiary of a new publicly held company that assumed the name Canadian Pacific Limited ("New CPL"). Rather than roll the railway and other assets down into the new subsidiaries, CPL rolled all of its non-rail assets up into the New CPL and reverted to its original CPRC name. As part of this Plan of Arrangement, the 4% Preference Shares were converted into common shares after extensive negotiations with the majority holder, and the longstanding dual class share structure was simplified.

CPL attempted to address the CDS at the time and while it succeeded in retiring a portion of the class, about 1/3 remained, particularly the USD denominated instruments. New CPL committed to maintain a AAA rating on the CDS and provide a supporting letter of credit from a major Canadian bank.

In 1998, New CPL and CPRC eliminated the remaining classes of antiquated securities in a Plan of Arrangement with the Ontario & Quebec Railway Company ("O & Q") and the Toronto Grey & Bruce Railway Company ("TG & B") security holders.

In 2001, New CPL and its subsidiaries undertook a final reorganization (the "Starburst") and split into five separately owned public companies. The shares of the railway subsidiary CPRC were transferred to a newly incorporated public company known as Canadian Pacific Railway Limited ("CPRL") which is the Canadian Pacific entity we know today. Post 2001, references to "CP" or the "Company" refer to CPRL and its subsidiaries, including CPRC, collectively, as the context requires.

## HISTORY OF THE 4% PERPETUAL CONSOLIDATED DEBENTURE STOCK

In the course of its long corporate history, and particularly in the early days of acquiring and building the transcontinental railway network, CPRC issued or assumed a variety of debt and equity securities. Notable among these were its 4% Preference Shares, Perpetual 4% Consolidated Debenture Stock (the "CDS"), the O & Q Permanent Debenture Stock and shares, and the TG & B First Mortgage Bonds. None of these instruments had the comprehensive set of terms commonly found in more modern corporate securities and consequently each of these instruments have been the subject of controversy and litigation at one time or another.

In the 1990s, through a series of arrangements under the *Canada Business Corporations Act,* CPL, CPRC and New CPL successfully retired or exchanged all of the 4% Preference Shares, the O & Q Permanent Debenture Stock and shares, the TG & B First Mortgage Bonds and about two-thirds of the CDS.

The continuing existence of a small number of the CDS constitutes a potentially serious impediment in CP's capital structure which limits its financing alternatives and constrains its corporate flexibility in major restructurings, mergers and similar initiatives.

The current proposal to combine CP and KCS presents an opportunity to finally eliminate this 19th century legacy in CP's capital structure, which KCS would, in any event, be unwise to accept.

### Origin and Rights

The Perpetual 4% Consolidated Debenture Stock was originally authorized by an Act of Parliament in 1889 and issued in several public offerings between 1893 and 1937 to consolidate debts incurred or assumed in connection with the construction and expansion of the transcontinental railway network.

The CDS constitutes a first charge upon and over the whole of the undertaking, railways, works, rolling stock, plant, property and effects of the Company, with certain exceptions. It is now also secured by a letter of credit issued by a Canadian bank following the 1996 Plan of Arrangement and the Company has committed to maintain a AAA rating.

The CDS was issued in US dollars and pounds Sterling. The US dollar certificates specify that interest is payable twice a year in $20 gold coin (1 oz) of the United States of America. The Sterling version of the CDS does not have a similar "gold" feature. The US interest payments have been made in paper currency since a Joint Resolution of the US Congress outlawed gold payment clauses in 1933, although this Resolution was repealed in October 1977.

The CDS, unlike some of the other old securities, are widely held, a factor which has made it more difficult to deal with the entire class. In 1996, various groups came forward to represent the CDS. However, particularly on the U.S. side, none was able to arrange an all-encompassing resolution. As a result, while two-thirds of the CDS holders agreed to a non-compulsory exchange or buy-out offer, the entire class was not extinguished.

The CDS therefore remains the last 19th century "antiquated" security in CP's capital structure.

## The CDS in the 1996 Plan of Arrangement

In early 1996, CPL announced a Plan of Arrangement designed to establish its railway operations as a separate subsidiary. The common and preference shareholders of "Old CPL" received equivalent shares of the restructured parent company ("New CPL") and the railway assets were left in "Old CPL" which resurrected and readopted the original Canadian Pacific Railway Company name.

The Old CPL common and preference shares were converted into a single class of New CPL common shares, thereby eliminating an awkward two class share system in which the old and obscure class of preference shares had indeterminate equity rights. CPL's U.S. Debenture holders were offered a "consent fee" to approve the transaction, payable to holders who responded to the solicitation.

A non-compulsory offer to redeem or exchange the CDS at approximately two times its then market value was made and accepted by many of the CDS holders. The remaining CDS continued as an obligation of CPRC and were no longer a direct obligation of New CPL. However, New CPL was required to provide a letter of credit issued by a Canadian chartered bank to secure the principal amount outstanding and one year's interest on the CDS, and to maintain a AAA credit rating for the security.

Interestingly, in the 1996 Plan of Arrangement the "subsidiary" spun out its "parent", a structure apparently designed to avoid any change of ownership of the rail assets which might impact the rights of the CDS holders.

## Attempts to Deal with CDS in 1996

CPL originally proposed a cash or share offer equivalent to about 1.5X the then market price to the CDS holders who wished to convert, and a modernization of the CDS instrument to increase the interest rate to 5% and provide for retraction at par for those who elected or were deemed to retain their CDS. As the "default" option was retention, this plan assured that the CDS would not be wholly eliminated at that time. However, the addition of a retraction provision in a modernized instrument would have, at least, allowed CPL the ability to call in the CDS at par when future circumstances required.

After lengthy negotiations and Court hearings, as well as a Voting Agreement reached with 21.9% of the CDS (primarily Sterling holders represented through Barclays Bank) the offer to

CDS holders was amended to raise the cash or share conversion to 2X the market price, provide an irrevocable standby letter of credit in support of the CDS and to maintain a AAA credit rating. The letter(s) of credit secure and provide for payment of the principal amount of CDS outstanding plus a year's interest in the event of the winding up or insolvency of CPRC, or other non-payment event. The efforts to create a modern instrument with redemption or retraction rights were abandoned at the time.

The offer made to the holders of the CDS resulted in $120.4 MM of the then outstanding $186.6 MM being retired for cash or CPL shares. The vast majority of the Sterling CDS and approximately half of the U.S. CDS were exchanged. The significant difference in acceptance rates between the USD and Sterling holders was presumed to reflect the gold payment provision applicable only to the U.S. CDS.

The Court process in 1996, and the subsequent appeal, did not determine the substantive merits of the various rights attaching to the CDS, but only resulted in a "stand pat" situation. Mr. Justice Blair, in his Reasons, noted "**a feature of the US CDS here is that they are stated to be payable in gold coin, a feature which - if enforceable - makes them worth perhaps twenty-one times their value as expressed in dollar terms**". At that time the price of gold was around $420 USD, not today's $1,750.

## Outstanding CDS

Prior to the 1996 Plan of Arrangement there were £46,759,621 and US $65,000,000 CDS outstanding, having an approximate value of CDN $186,000,000.

At year end 2001, following the Starburst, there was CDN $63.9MM in CDS outstanding, of which CDN $50.9MM was USD denominated and CDN $13MM was Sterling.

At year end 2020, there was CDN $45MM in CDS outstanding, of which CDN $39MM was USD denominated and CDN $6MM was Sterling (GBP).

## THE CDS PROBLEM

The CDS is a small class of obsolete security without the features normally attaching to modern debt or equity instruments and there is currently no mechanism in the security's terms or at law which permits CP to unilaterally retract any or all the CDS.

While market purchases or private offers from time to time may reduce the number of CDS outstanding, many of the instruments have undoubtedly been lost, and therefore any transaction which requires all the bondholders to actively respond will not result in the elimination of the whole class.

While the CDS is outstanding, CP is unable to offer a first charge in connection with its senior debt instruments, including the funding required to complete the KCS acquisition.

The uncertainty regarding the gold payment rights and the potential value of the CDS also constitute a significant obstacle in the event of any restructuring, merger, acquisition or other business combination involving CP. In the case of the proposed combination with KCS, the KCS shareholders should be unwilling to accept this unquantified liability, and proper due diligence will require that it be eliminated as a condition of completing the transaction.

## THE SOLUTION

CPL and CPRY successfully, albeit reluctantly, dealt with and eliminated all the other 19th century securities in the capital structure prior to the 2001 Starburst. The 4% preference shares were exchanged in CPL's 1996 Plan of Arrangement. The O&Q and TG & B securities were similarly eliminated in a subsequent Plan of Arrangement.

A Plan of Arrangement, combining features of the previous transactions would result in the complete conversion or retraction of the CDS and the elimination of this last anachronism in CP's capital structure.

## TERMS OF A PLAN OF ARRANGEMENT

A successful Plan of Arrangement would necessarily consider and include these elements.

### Complete Redemption of All CDS

- Mandatory/compulsory redemption of the entire class of CDS, with no retention option

This is, of course, essential from CP's point of view as only the complete elimination of this class of securities and its unique attributes gives CP the necessary and desired benefits.

### Redemption Amount

- Redemption amount with a sufficient premium to compensate CDS holders for the mandatory retraction of their security, including any past or future rights under the gold payment clause and the loss of a stable and guaranteed rate of return.

While there may be a wide range of valuations, the previous history does provide some guidelines as to a fair and reasonable arrangement that would attract sufficient support and meet the "fairness" standard contained in the statute.

The conversion price for the 4 % Preference shares in 1996 was at a substantial premium to reflect the unique nature and attributes of this instrument. In that case it was, at least, easier to come to a firm agreement as one group held a majority of the Preference shares.

In connection with the 1998 Plan of Arrangement, CP originally offered to purchase the O+Q shares for $650 and increased this to $800 per share. The final agreed amount was $2,300, an increase of 300% over the initial CP offer. The process for arriving at this value was very imprecise and involved lengthy negotiations between CP and the Pope Group who held or represented a substantial portion of the securities.

In 1996, the non-compulsory offer for the CDS was approximately 2X the prevailing market price. A compulsory offer would likely have to exceed this level to be successful and attract the necessary acceptance level.

## Consent Fee

- Consent fee payable to CDS holders who respond and support plan

The consent fee is a similar concept to that used to secure support from the CPL's U.S. Debenture holders in the 1996 Plan of Arrangement. As the CDS are widely held, the consent fee is an additional inducement and mechanism to encourage a sufficient voting response to approve the Plan.

## Cash or Share Payment

- The redemption amount and consent fee would be payable in cash or CP shares, with the default option being cash.

The CDS holders can be provided with the option to accept payment in CP shares which will, presumably, provide a tax deferral. The default option of cash will ensure that the entire class is redeemed and will result in a benefit to CP, as it is unlikely that 100% of the CDS will ever be surrendered, and the remaining payment obligation will ultimately expire.

## Voting Threshold

- This is the acceptance level required and set by the Court to approve the arrangement.

For a compulsory redemption to be binding upon the entire class, it is likely that the Court will require an approval level of at least 2/3 of the independent CDS holders.

## BENEFITS TO CP

A Plan of Arrangement which eliminated the CDS would improve CP's position on both the financing and any corporate restructuring or reorganization involved in completing the KCS acquisition.

It would also remove possible objections from the KCS side.

### Eliminate Gold Clause Uncertainty

- Retracting the CDS eliminates a potential impediment to the KCS transaction. KCS would be imprudent to expose its shareholders to the uncertain and unquantified liability of the CDS. The existence of the gold clause restricts certain corporate actions which CP may undertake in connection with the acquisition and integration of KCS. The prospect of past or future interest payments being made in gold coin at $20 per ounce (now over $1,700) would be forever precluded.

### Improved Debt Security

- Without the CDS, CP would be able to secure its senior debt as a first charge on the railway assets and undertaking for the first time in over 125 years. This is significant, as CP requires an estimated 9.3B in financing to complete the KCS transaction.

### Cost Efficiencies

- The proposed plan ends the ongoing costs of maintaining the CDS, the cost of the letters of credit (annual premium and trustee fees), as well as the administrative costs of maintaining a very small class of security holders. CP would also be relieved of its commitment to maintain a AAA credit rating on the CDS.

- The Plan of Arrangement would finally and ultimately eliminate the CDS instruments which are lost and convert them into an unsecured and non-interest bearing liability for a period of time (two years), at which point, the obligation would expire.

## DISCLOSURE

The writer is a beneficial owner of CDS and has represented CP security holders in several of the Plans of Arrangement discussed in these notes.

# APPENDICES

## SAMPLE PROSPECTUS FOR 4% CONSOLIDATED DEBENTURE STOCK

## CDS CERTIFICATE AND TRANSCRIPTION

# APPENDICES

## SAMPLE PROSPECTUS FOR 4% CONSOLIDATED DEBENTURE STOCK

NO. 377 P. 7 0889

SWORN BEFORE ME THIS ... DAY OF

## $25,000,000

# Canadian Pacific Railway Company

## 4% Coupon Consolidated Debenture Stock

**PERPETUAL** **NON-CALLABLE**

**Secured by a First Charge on the Entire Undertaking, Subject to Certain Priorities Stated Below.**

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Interest payable January 1 and July 1, in New York City, in U. S. gold coin.
Issuable in coupon form in denominations of $100, $500, $1,000 and multiples of $1,000. Exchangeable for fully registered certificates.

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**Outstanding in the hands of the public (including this issue) $232,644,882.**

Application will be made to list on the New York Stock Exchange the Consolidated Debenture Stock now offered.

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*The following description of the Consolidated Debenture Stock has been summarized principally from a letter, dated December 19, 1921, addressed to us by E. W. Beatty, Esquire, President of the Canadian Pacific Railway Company:*

The Canadian Pacific Railway Company 4% Consolidated Debenture Stock is authorized by Act of Parliament of the Dominion of Canada passed in 1889 and subsequent Acts.

By the terms of the Act the stock is a first charge upon and over the whole undertaking, railways, works, rolling stock, plant, property and effects of the Company, excepting lands received by way of subsidy, subject however to the payment of working expenses, and to certain priorities in respect to charges, which now consist of securities aggregating approximately $38,631,724, issued in respect to only 1,642 miles of railroad, while the lines embraced in the Canadian Pacific Railway's traffic returns aggregate 13,402.2 miles.

The interest on the Consolidated Debenture Stock is therefore a first charge, subject to the above-mentioned priorities, upon the net earnings of the Company derived from the operation of its railway lines.

The net earnings of the railway system in the year ended December 31st, 1920, were $33,153,044.60, while the net earnings from ocean and coastal steamships, telegraphs, hotels, investments, etc., were $10,966,447.81, or a total of $44,119,492.41. The interest and dividend requirements of the securities underlying the Debenture Stock were $1,907,396.20 and the interest charges on the Consolidated Debenture Stock were $7,181,537.30, which together with rentals and interest on equipment obligations made total fixed charges for the year 1920 of $10,778,408.99.

The Debenture Stock has priority over $80,681,921.12 Preference Stock and $260,000,000 Common Stock. The Preference Stock has received dividends without interruption since its issuance in 1893 at the rate of 4% per annum. The Common Stock has paid dividends continuously since 1882, with the exception of the year 1895. The rate since 1912 has been 10% per annum.

At present quotations the preference and common stocks represent an equity of over $357,000,000.

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## Price 78 and interest yielding 5.13%

The Consolidated Debenture Stock is offered when, as and if issued and received by us. It is expected that temporary certificates of the Company will be ready for delivery on or about January 4, 1922, exchangeable for definitive engraved Consolidated Debenture Stock, when available.

All legal matters in connection with the purchase and sale of this issue of Consolidated Debenture Stock, is subject to the approval of our counsel, Messrs. Shearman & Sterling, New York City, and by counsel for the Canadian Pacific Railway Company.

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THE NATIONAL CITY COMPANY NEW YORK

# The National City Company

**National City Bank Building, New York**

Uptown Office: National City Building. (42nd St. at Madison Ave.)

**Offices in more than 50 cities in the United States and Canada.**

R 136-12-21

# Canadian Pacific Railway Company

## THE COMPANY

The Canadian Pacific Railway Company operates directly about 13,402 miles of railway, the main lines of which extend from St. Johns, New Brunswick, to Vancouver, British Columbia. It also controls through majority stock ownership 4,963 miles located principally in the United States, making the total mileage of the system 19,661 miles. In addition the Company operates directly its own steamship lines to European and Asiatic ports.

## THE CONSOLIDATED DEBENTURE STOCK

The Consolidated Debenture Stock is the premier security of the Canadian Pacific Railway Company.

This stock is authorized by an Act of Parliament of the Dominion of Canada, passed in 1889, and subsequent Acts. By the terms of the Act of 1889 the Stock, subject to certain priorities created in respect to charges existing at the time of issue, and to the payment of any penalty imposed for non-compliance with the requirements of "The Railway Act" respecting returns to be made to the Minister of Railways and Canals, and to the payment of working expenses as defined by law, is a first charge upon and over the whole of the undertaking, railways, works, rolling stock, plant, property and effects of the Company (except lands received by way of subsidy); including all rights of the Company in the several railways held by it under lease and all branches or extensions of the said railways now held by the Company either as lessees or proprietors thereof.

The interest on the Consolidated Debenture Stock is, therefore, a first charge subject to the priorities referred to above, upon the net earnings of the Company derived from its operation of its railway lines.

The priorities mentioned in the Act as being outstanding in 1889 now aggregate approximately \$38,651,724. These securities are issued in respect to only 1,642 miles of railroad, while the lines embraced in the Canadian Pacific Railway traffic returns aggregate 13,402.2 miles.

The Consolidated Debenture Stock is not redeemable and is entitled to interest at the rate of 4% per annum, payable semi-annually on January 1 and July 1. Upon the sale of the \$25,000,000 now offered there will be outstanding in the hands of the public an aggregate amount of \$232,644,882. Issues of the stock may be made from time to time when authorized by Act of Parliament and by at least two-thirds of the votes of the Preference and Common shareholders present or represented at a Special General Meeting called for the purpose.

## EARNINGS

The net earnings of the Canadian Pacific Railway System in the year ended December 31, 1920, were \$33,153,044.60, while the net earnings from ocean and coastal steamships, telegraphs, hotels, investments, etc., were \$10,966,447.81, or a total of \$44,119,492.41. The interest and dividend requirements of the securities underlying the Consolidated Debenture Stock were \$1,907,396.20 and interest charges on the Consolidated Debenture Stock were \$7,181,587.30, which together with rentals and interest on equipment obligations made total fixed charges for the year 1920 of \$10,775,408.99. For the past ten and one-half years the Company has earned a yearly average of 4.74 times the fixed charges.

In the ten months ended October 31, 1921, net earnings have increased \$1,754,196 or 6½% over the corresponding period in 1920.

The following table gives the condensed income account of the Company for the ten and one-half year period July 1, 1910, to December 31, 1920, showing total operating revenues, amount available for fixed charges and net income:

| Year Ended June 30 | Total Oper. Revenue | Available for Fixed Charges | Fixed Charges | Net Income |
|---|---|---|---|---|
| 1911.......... | $104,167,808 | $42,732,215 | $10,011,071 | $32,721,144 |
| 1912.......... | 123,319,541 | 49,561,277 | 10,524,937 | 39,036,340 |
| 1913.......... | 139,395,700 | 54,089,589 | 10,876,352 | 43,213,237 |
| 1914.......... | 129,814,824 | 48,897,956 | 10,227,311 | 38,670,645 |
| 1915.......... | 98,865,210 | 43,049,807 | 10,446,510 | 32,603,297 |
| 1916.......... | 129,481,886 | 57,243,586 | 10,306,196 | 46,937,390 |
| 1916*.......... | 76,717,965 | 36,146,047 | 5,132,551 | 31,013,496 |
| 1917**........ | 152,389,335 | 55,290,635 | 10,229,143 | 45,061,492 |
| 1918**........ | 157,537,698 | 42,437,162 | 10,177,513 | 32,259,649 |
| 1919**........ | 176,929,060 | 41,982,373 | 10,161,510 | 31,820,863 |
| 1920**........ | 216,641,349 | 44,119,492 | 10,775,409 | 33,344,083 |

* Six months ended December 31.
** Year ended December 31.

## EQUITY

The Consolidated Debenture Stock has priority over $80,681,921.12 Preference Stock and $260,000,000 Common Stock. The Preference Stock has received regular 4% dividends without interruption since its issuance in 1895. The Common Stock has paid dividends continuously since 1882 with the exception of the year 1895. The rate since 1912 has been 10% per annum. At present market prices the Preference and Common Stocks indicate an equity of over $357,000,000.

## PRICE RECORD

The Canadian Pacific Railway Consolidated Debenture Stock has been listed for many years on the London Stock Exchange. Its high price was 118½ in 1902 and for the fourteen years preceding the outbreak of the World War, averaged well above the average prices of premier American railroad first mortgage bonds, viz:

| | |
|---|---|
| Average price Canadian Pacific Debenture Stock ........................ | 107 5/8 |
| " " Atchison, Topeka & Santa Fe General 4s .................... | 100 1/8 |
| " " Northern Pacific Prior Lien 4s ............................ | 101 3/8 |
| " " Union Pacific First Mortgage Land Grant 4s ................ | 102 |

The information contained in this circular has been obtained from sources which we regard as reliable. We do not guarantee but believe it to be correct.

# The National City Company

**Main Office: National City Bank Building, New York**

**Uptown Office: National City Building. (42nd St. at Madison Ave.)**

PRINCIPAL CORRESPONDENT OFFICES

| | | | | |
|---|---|---|---|---|
| ALBANY, N. Y.<br>TEN EYCK BLDG. | CLEVELAND, OHIO<br>GUARDIAN BLDG. | LOUISVILLE, KY.<br>MARION E. TAYLOR BLDG. | PITTSBURGH, PA.<br>FARMERS' BANK BLDG. | SAINT PAUL, MINN.<br>STATE SAVINGS BANK BLDG. |
| ATLANTA, GA.<br>10 PEACHTREE ST. | DAVENPORT, IOWA<br>PUTNAM BLDG. | MILWAUKEE, WIS.<br>FIRST WIS. NAT'L BANK BLDG. | PORTLAND, ME.<br>UNION MUTUAL BLDG. | WASHINGTON, D. C.<br>[illegible] ST., N. W. |
| ATLANTIC CITY, N. J.<br>[illegible] BLOCK | DENVER, COLO.<br>[illegible] STREET | MINNEAPOLIS, MINN.<br>BUILDERS' EXCHANGE BLDG. | PORTLAND, ORE.<br>YEON BUILDING | WILKES-BARRE, PA.<br>MINERS' BANK BLDG. |
| BALTIMORE, MD.<br>CHARLES & FAYETTE STS. | DETROIT, MICH.<br>[illegible] ST. | NEWARK, N. J.<br>KINNEY BUILDING | PROVIDENCE, R. I.<br>INDUSTRIAL TRUST BLDG. | MONTREAL, CANADA<br>[illegible] NOTRE DAME ST. WEST |
| BOSTON 9, MASS.<br>10 STATE STREET | HARTFORD, CONN.<br>CONN. MUTUAL BLDG. | NEW ORLEANS, LA.<br>[illegible] BARONNE ST. | ROCHESTER, N. Y.<br>WILDER BUILDING | TORONTO, CANADA<br>10 KING ST. EAST |
| BUFFALO, N. Y.<br>ELLICOTT SQUARE BLDG. | INDIANAPOLIS, IND.<br>FLETCHER SAV. & TRUST BLDG. | OMAHA, NEB.<br>FIRST NAT'L BANK BLDG. | SAN FRANCISCO, CAL.<br>[illegible] CALIFORNIA ST. | LONDON, E. C. 2, ENG.<br>4 LONDON WALL BLDGS. |
| CHICAGO, ILL.<br>137 SO. LA SALLE ST. | KANSAS CITY, MO.<br>[illegible] BALTIMORE AVE. | PASADENA, CAL.<br>[illegible] BANK BLDG. | SEATTLE, WASH.<br>HOGE BUILDING | GENEVA, SWITZERLAND<br>1 RUE DE LA TOUR DE L'ILE |
| CINCINNATI, OHIO<br>FOURTH NAT'L BANK BLDG. | LOS ANGELES, CAL.<br>[illegible] SO. SPRING STREET | PHILADELPHIA, PA.<br>[illegible] CHESTNUT ST. | ST. LOUIS, MO.<br>[illegible] OLIVE STREET | TOKIO, JAPAN<br>TOKIO KAIJO BUILDING |

CONFIDENTIAL

# Canadian Pacific Railway Company

Office of the President

Montreal, December 19th, 1921.

The National City Company,
National City Bank Building,
New York, N. Y.

Dear Sirs:

Referring to your purchase of Twenty-five Million Dollars ($25,000,000) Canadian Pacific Railway Company Four per cent. Consolidated Debenture Stock, I beg to advise you that said Stock is authorized by an Act of Parliament of the Dominion of Canada passed in 1889 and subsequent acts.

By the terms of the Act of 1889 the Stock, subject to the priorities created in respect to charges existing at the time of such issue, and to the payment of any penalty imposed for non-compliance with the requirements of "The Railway Act" respecting returns to be made to the Minister of Railways and Canals, and to the payment of working expenses as at present defined by law, is a first charge upon and over the whole of the undertaking, railways, works, rolling stock, plant, property and effects of the Company, except lands received by way of subsidy including all the rights of the Company in the several railways held by it under lease and all branches or extensions of the said railways now held by the Company either as lessees or proprietors thereof.

The interest on the Consolidated Debenture Stock is, therefore, a first charge, subject to the prior securities referred to above, upon the net earnings of the Company derived from the operation of its railway lines.

The underlying securities mentioned in the Act as being outstanding prior to 1889 now aggregate approximately $38,651,724. These securities are issued in respect to only 1,642 miles of railroad, while the lines embraced in the Canadian Pacific Railway traffic returns aggregate 13,402.2.

The net earnings of the railway system in the year ended December 31st, 1920, were $33,153,044.60, while the net earnings from ocean and coastal steamships, telegraphs, hotels, investments, etc. were $10,966,447.81, or a total of $44,119,492.41. The interest and dividend requirements of the securities underlying the Debenture Stock were $1,907,396.20 and the interest charges on the Consolidated Debenture Stock were $7,181,587.30, which together with rentals and interest on equipment obligations made total fixed charges for the year 1920 of $10,775,408.99.

The Consolidated Debenture Stock is not redeemable and is entitled to interest at the rate of not exceeding Four Per Cent per annum, payable semi-annually on the first days of January and July. There will be outstanding in the hands of the public, including the $25,000,000 mentioned, an aggregate amount of $232,644,882. Issues of the Stock may be made from time to time when authorized by Act of Parliament and by at least two-thirds of the votes of shareholders present or represented at a Special General Meeting called for the purpose.

In the event of default continuing for ninety days of the payment of a portion of an instalment of the interest due, constituting not less than 10 per cent of such instalment of interest, on the outstanding Consolidated Debenture Stock, holders of Debenture Stock issued and outstanding shall have the right to vote thereon as shareholders at all Meetings of the shareholders of the Company in the proportion of one vote for every One hundred dollars thereof, and shall have all the rights and powers of preference and ordinary shareholders, and from and after the period at which holders of the Consolidated Debenture Stock acquire such right, the preference and ordinary shareholders, or holders of the common stock shall cease to have the right to vote or act as shareholders of the Company until all interest in arrear shall have been paid.

The Debenture Stock has priority over $80,681,921.12 Preference Stock and $260,000,000 common stock. The Preference Stock has received dividends without interruption since its issuance in 1895 at the rate of Four per cent per annum. The common stock has paid dividends continuously since 1882, with the exception of the year 1895. The rate since 1912 has been Ten per cent per annum.

Yours very truly,

CANADIAN PACIFIC RAILWAY COMPANY

(Signed) E. W. BEATTY,

President.

# CDS CERTIFICATE AND TRANSCRIPTION

AFFIDAVIT OF ... SWORN BEFORE ME THIS ... DAY OF ... A Commissioner etc.

"THIS IS EXHIBIT " C " TO THE
Affidavit / Statutory Declaration Of
Sworn To This Day Of 20 ,
Before Me
A Commissioner for Oaths / A Notary Public in and for the Province of Alberta

CANADA

CANADIAN PACIFIC RAILWAY COMPANY
PERPETUAL FOUR PER CENT CONSOLIDATED DEBENTURE STOCK

This is to Certify that the Bearer is the owner of

One Thousand Dollars

(in currency of the United States of America) of the perpetual Consolidated Debenture Stock of the Canadian Pacific Railway Company, bearing interest at the rate of four per cent per annum payable half-yearly on January 1 and July 1, in each year, in gold coin of the United States of America at the Agency of the Bank of Montreal in the Borough of Manhattan, City and State of New York, United States of America, upon presentation and surrender, as they severally mature, of the interest coupons hereto attached.

This certificate bears coupons for the payment of interest to and inclusive of January 1, 2002, and after they shall all have matured the Company will, on presentation and surrender of this Certificate, issue to the holder a new certificate in substantially similar form and of like intent for the same amount of the Consolidated Debenture Stock, bearing coupons for future interest. The said Consolidated Debenture Stock is issued under the provisions of the Act of the Parliament of Canada, 52 Victoria, Chapter 69, entitled "An Act respecting the Canadian Pacific Railway Company," and subsequent Acts supplemental thereto, to which Acts and the By-Laws of the Company reference is made for a statement of the security of the said Consolidated Debenture Stock, and the rights of the holders thereof. Copies of the said Acts and By-Laws are on file at the office of the Transfer Agent of the Company in the said Borough of Manhattan, City of New York. The Consolidated Debenture Stock represented by this Certificate is transferable by delivery hereof: but the holder may exchange this Certificate with all unmatured interest coupons at the said office of the Transfer Agent for a certificate for the same amount of the Consolidated Debenture Stock registered in his name bearing interest as aforesaid, but without interest coupons and transferable at the said office of the Transfer Agent by the registered owner in person or by his duly authorized attorney. In like manner any such registered certificate may be exchanged for a certificate in bearer form for the same amount of the Consolidated Debenture Stock, bearing coupons for interest as aforesaid payable to bearer. Coupon certificates are issued only in denominations of $100, $500 and $1000, and registered certificates only in denominations $100 and multiples of $100, but certificates of any such denominations may be exchanged for certificates of other such denominations for the same amount of the Consolidated Debenture Stock.

For any such exchange and for any registered transfer of Consolidated Debenture Stock the Company may require the payment of a sum sufficient to reimburse it for any government tax or charge connected therewith and a further sum not exceeding Two Dollars for each new certificate issued upon such exchange or transfer. This Certificate shall not be valid until countersigned by the Transfer Agent and by the Registrar of Transfers.

THIS CERTIFICATE IS ISSUED IN SUBSTITUTION FOR AND PURSUANT TO A PRIOR CERTIFICATE BEARING THE SAME SERIAL NUMBER

In Witness Whereof, the Company has caused this Certificate to be signed by its President or on his behalf by an official appointed for that purpose by the Board of Directors and by the Secretary or Assistant Secretary of the Company and the attached interest coupons to be executed with the facsimile signature of its Secretary.

FOR THE PRESIDENT, BY AUTHORITY OF THE BOARD OF DIRECTORS:

COUNTERSIGNED

THIS ______________________

BANK OF MONTREAL TRUST COMPANY
(new york) transfer agent,

BY

______________________

AUTHORIZED SIGNATURE.

SECRETARY,

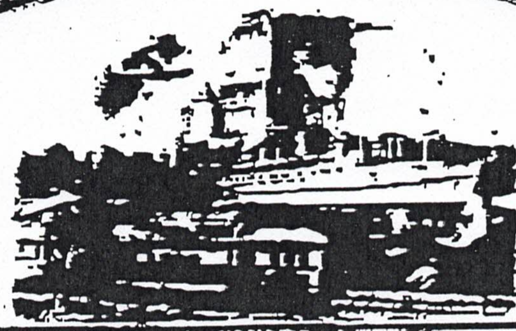
COUNTERSIGNED AND REGISTERED

THIS ______________________

MANUFACTURERS HANOVER TRUST COMPANY
(new york) registrar of transfers,

______________________

AUTHORIZED OFFICER.



CANADA

# CANADIAN PACIFIC RAILWAY COMPANY

№ G37762 — № G37762

**Perpetual Four Per Cent Consolidated Debenture Stock**

This is to Certify that the Bearer is the owner of

**One Thousand Dollars**

in currency of the United States of America of the perpetual Consolidated Debenture Stock of the Canadian Pacific Railway Company bearing interest at the rate of four per cent per annum payable half-yearly on January 1 and July 1 in each year in gold coin of the United States of America at the Agency of the Bank of Montreal in the Borough of Manhattan City and State of New York, United States of America upon presentation and surrender as they severally mature of the interest coupons hereto attached.

This Certificate bears coupons for the payment of interest to and inclusive of January 1, 2002 and after they shall all have matured the Company will on presentation and surrender of this Certificate issue to the holder a new certificate in substantially similar form and of the extent for the same amount of the Consolidated Debenture Stock bearing coupons for future int[illegible] Stock is issued under the provisions of the Acts of the Parliament [illegible] ing the Canadian Pacific Railway Company and [illegible] laws of the Company reference is made for [illegible] and the rights of the holders thereof [illegible] of the Company in the said Debenture [illegible] represented by this Certificate is [illegible] all unmatured interest coupons [illegible] the Consolidated Debenture Stock [illegible] and transferable at the [illegible] duly authorized attorney. In [illegible] bearer form for the same amount [illegible] and payable to bearer. Coupon [illegible] registered certificates only in denominations [illegible] may be exchanged for certificates of other [illegible] Debenture Stock.

For any such exchange and for [illegible] the Company may require the payment of a sum sufficient to reimburse it for any government tax or charge connected therewith and a further sum not exceeding Two Dollars for each new certificate issued upon such exchange or transfer. This Certificate shall not be valid until countersigned by the Transfer Agent and by the Registrar of Transfers.

THIS CERTIFICATE IS ISSUED IN SUBSTITUTION FOR AND PURSUANT TO A PRIOR CERTIFICATE BEARING THE SAME SERIAL NUMBER

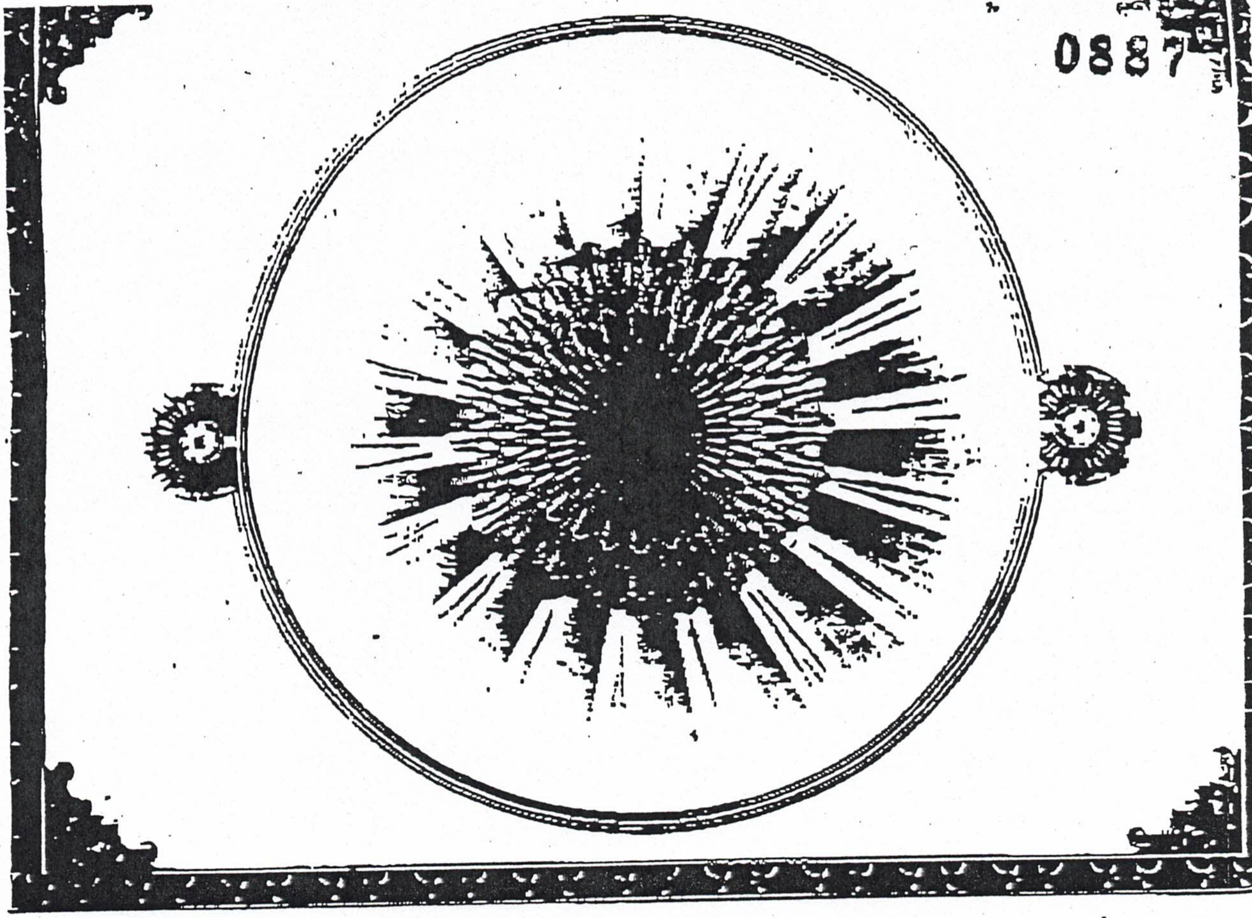
In Witness Whereof, the Company has caused this Certificate to be signed by its President or on his behalf by an official appointed for that purpose by the Board of Directors and by the Secretary or Assistant Secretary of the Company and the attached interest coupons to be executed with the facsimile signature of its Secretary.

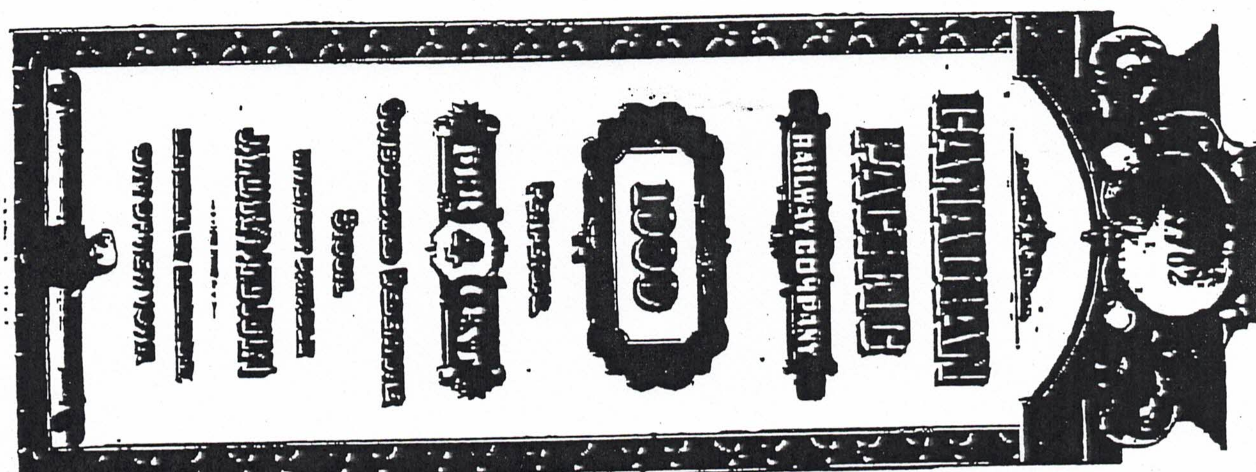
ASSISTANT

MAY [illegible] 1979

BANK OF MONTREAL TRUST COMPANY

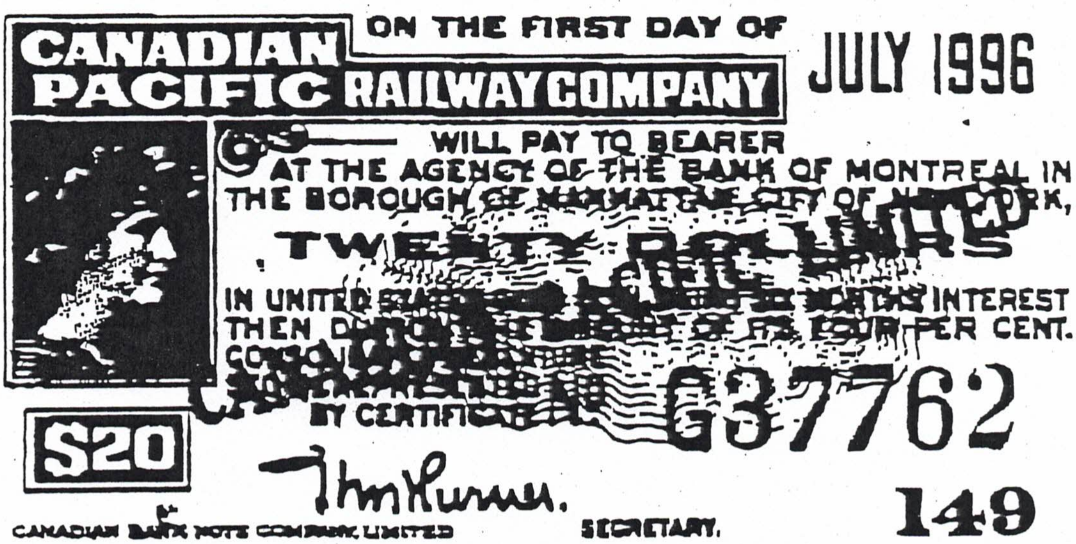
0887






Certificates of any of the denominations of $1000, $500 or $100, at any time outstanding when surrendered with all unmatured interest coupons attached and upon payment of charges as herein provided may be exchanged for certificates of any other of such denominations for an equal aggregate amount bearing numbers not contemporaneously outstanding with unmatured interest coupons attached.

0888



CANADIAN PACIFIC RAILWAY COMPANY

ON THE FIRST DAY OF JULY 1996

WILL PAY TO BEARER
AT THE AGENCY OF THE BANK OF MONTREAL IN
THE BOROUGH [illegible] CITY OF N[illegible]ORK,

TWE[illegible] D[illegible]LLARS

IN UNITED [illegible] MONTHS INTEREST
THEN D[illegible] FOUR PER CENT.
CONSOL[illegible]
[illegible]
BY CERTIFIC[illegible]

G37762

$20

SECRETARY.

CANADIAN BANK NOTE COMPANY, LIMITED

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