

After completion of its primary objective, the Canadian Northern decided to push eastward from Port Arthur, Ont., and westward from Edmonton, Alta., and to become truly a transcontinental system. Subsidiary companies were formed under whose charters construction of these extensions was commenced and carried forward until early in 1914.

The financing of the Canadian Northern had been accomplished largely through government guarantees; in the early stages by the Provincial Governments and later by the Dominion Government. As the Company grew in importance, it reached the stage where it could use its own credit for financing and thereby raised large sums of money by the issue of perpetual debenture stock and convertible income charge debentures. However, because of the outbreak of World War I and owing to the financial stringency prevailing at that time, the Canadian Northern, Grand Trunk and Grand Trunk Pacific were unable to meet previous commitments. The Dominion Government thereupon appointed a Royal Commission to investigate the general railway situation in Canada.

The Royal Commission was appointed in 1916, under the Chairmanship of A. H. Smith, then President of the New York Central Railroad, and included Sir Henry Drayton, then Chairman of the Board of Railway Commissioners, and A. C. Acworth, an authority on English railways. The Commission was called upon to report on the status of Canada's three transcontinental railways, the reorganization considered necessary, and the best method of procedure should one or more lines be acquired by the Government.

In 1917, Sir Henry Drayton and A. C. Acworth presented to Parliament the Drayton-Acworth majority report, recommending that the Government take over the Grand Trunk, Grand Trunk Pacific, and Canadian Northern Railways and operate them, together with the Intercolonial and National Transcontinental, as one system. The Commission had come to this conclusion—though it pointed out the objections to such a government-operated system—because this appeared to be the only manner in which maintenance of adequate rail transportation could be assured, dislocation of Canadian credit avoided, and Government investment protected. A. H. Smith presented a minority report dissenting from the majority report.

The Commission's majority report was accepted by the Government and, in 1917, a Bill was introduced in Parliament implementing its recommendations and providing for the taking over of the Canadian Northern by the Canadian Government. In September 1918, the Government appointed a new Board of Directors charged with the operation of the Canadian Northern Railways. In November 1918, the management of the Canadian Government Railways was entrusted to the Board of Directors of the Canadian Northern Railway Company and in December of the same year, the use of the collective title "Canadian National Railways" was authorized.

It was recognized that, because of the interrelations of the Grand Trunk with the Grand Trunk Pacific, further study would have to be made before these railways could be absorbed into the newly-founded system, and negotiations were entered into with the Grand Trunk to determine the basis upon which the Government would acquire its properties.