

1. The Act of Union provided that "it shall be the duty of the Government and Parliament of Canada, to provide for the commencement, within six months after the Union, of a railway connecting the River St. Lawrence with the city of Halifax, in Nova Scotia, and for the construction thereof without intermission, and the completion thereof with all practicable speed."

The Government felt it to be their duty to carry out this provision of the constitution with all possible diligence. A great portion of the route had been so far surveyed in former years that it was believed it could be placed under contract in the course of last summer or autumn.

2. It was, however, necessary, before doing this, to place the loan; and the Finance Minister, in the course of his negotiations with the Imperial Government in July 1863, intimated that he would only raise one-half the authorised amount until the progress of the works made it necessary to provide the remainder.

3. In the course of negotiations with the financial agents, Messrs. Baring and Glyn, the Finance Minister endeavoured to postpone the payments on the loan to as remote a day as possible; but it was thought that it would militate against the success of the operation if the last instalments were deferred beyond April 1869, or if the privilege of paying by anticipation were not accorded to the subscribers.

4. When the loan was contracted for, a considerable number of the subscribers availed themselves of this option, and a large amount of money was paid in by anticipation.

As interest on the entire loan of two millions (three-fourths bearing four per cent., and one-fourth bearing five per cent.) began in July 1863, and was payable by Canada from that day, it became the obvious duty of the Government so to place the money received as that an undue loss of interest might be avoided.

5. The Minister of Finance accordingly requested Messrs. Baring and Glyn, the financial agents, to endeavour to do so at the best rates they could, "compatible with perfect security and immediate convertibility;" but these gentlemen informed the Government that in the present state of the money market, and consistently with these conditions, they could not obtain a higher rate of interest than one per cent. per annum.

Had they been able to have placed the deposits at any reasonable rate, the Government would have been relieved from the necessity of seeking other means of temporarily employing the instalments.

6. Under the circumstances mentioned, the Government had, however, to consider what other means, on the like conditions of immediate convertibility and perfect security, were open to them as a temporary investment.

7. The Government of Canada was, at that time, about issuing securities to provide for certain engagements of the Dominion which it was desirable to fund or otherwise meet; and it was considered that no better or more perfect security than those adverted to could be provided in which to place a portion of the moneys, lying comparatively unproductive, until these moneys were required to be disbursed to the contractors on the works.

8. The Government had not ceased to urge the completion of the surveys with all possible speed, and they endeavoured to push on the letting of the works as rapidly as possible. All the sections, on which the location surveys were sufficiently advanced, were accordingly let last winter by public tender. They are seven in number, 162 miles in length, and the cost is estimated at 5,000,000 dollars. On these sections operations are being actively prosecuted, and the contractors are entitled to payment as the works proceed.

9. The engineers have been continually engaged in locating the remaining sections, and these will be placed under contract as rapidly as possible. On one portion of the route a railway had been already built by a private company, about 36 miles in length. The propriety of acquiring this line, and making it a portion of the Intercolonial, was always contemplated as a possibility, and if the negotiations having that object in view, which began some time ago, are concluded, it will involve an immediate large cash outlay, in addition to the payment of the current works, out of the Intercolonial Fund.

10. It will thus be seen that the most energetic steps were taken from the outset to accelerate the progress of the works, and that the Government are not open to the suspicion of having deferred their prosecution for one hour, but that on the contrary they have endeavoured to carry out, with the utmost promptitude and good faith, the obligations entailed upon them by the Act of Union, with reference to the Intercolonial Railway.

11. It may be asked why the loan could not have been postponed for some months, or a less amount issued, inasmuch as it now appears that the whole of the money will not be spent for some time? To this inquiry there are obvious and conclusive answers. The Government could enter into no contracts, nor negotiate for the acquisition of any intermediate portion of the line, until they saw that the money was available. A considerable sum had actually been spent on surveys, &c. &c., by anticipation. The money market was then unusually favourable, and it might have been a most serious matter, in a pecuniary point of view, to the Dominion, if the loan had been deferred until a condition of things arose which might have entailed on Canada the payment for 35 years of a higher rate of interest. The financial agents of the Government considered the time unusually opportune. Her Majesty's Government were in full possession of all the circumstances, and gave their unqualified