

unquestionable duty to have dealt with the funds in the manner they have done, and to a much greater extent than it has been practicable for them to do, they would be unwilling that any issue of an unsatisfactory nature should arise between them and Her Majesty's Government.

If the right of controlling the funds had been asserted by Her Majesty's Government before the Loan was issued, your Excellency's Advisers have already indicated what their duty would have been; but now that the securities have been actually issued, and that obligations of good faith on the part of both Governments as to this instalment of the Loan make the issue irrevocable, and when the amount cannot be returned to the public, grave difficulties arise, and they will await the judgment of Her Majesty's Government on the facts now communicated to them, before submitting any recommendation to your Excellency on the subject.

Meanwhile they cannot, with a proper regard to the responsibilities of their position, recede from the assertion of what they believe to be their undoubted right and bounden duty, of continuing to control and manage the Loan to the exclusion of all other authority, however much they may regret that the necessity of making such an assertion is now for the time forced upon them.

In conclusion, your Excellency's Advisers feel that it is no light thing at the outset of the new career on which Canada is entering, that any suspicion should attach to its reputation for financial integrity and upright dealing; and they cannot but express their deep regret, that in a matter which in their judgment admits of no possible question, and of which they believe neither the right nor propriety is open to controversy, expressions should have been publicly used, having a tendency to throw doubt on the scrupulous exactitude of the Government in its financial dealings.

They do not doubt that, on due consideration, Her Majesty's Government will frankly recognise that Canada has the undoubted right to control and manage the fund in question; that considerations of what is due to her own honour, and the trust under which that fund was received, must alone guide her; that no arrangements have been made or proposed with reference to it, which are open even to criticism; and that the opinions expressed and instructions given to your Excellency under a misconception of the facts will be recalled.

(signed) *Wm. H. Lee,*
Clerk of Privy Council.

STATEMENT, No. 1—Of the Intercolonial Railway Account.

THE proceeds of the International Loan went into the General Cash Balances in the hands of the financial agents in London and in Canada; but by Order in Council a special account was to be kept, without distinguishing the proceeds of the 1,500,000*l.* of the Guaranteed Loan from the 500,000*l.* raised for the same purpose on the sole security of Canada. The account was to be credited with the proceeds of the loan as received, and debited with the charges incidental to the negotiation, and with the expenditure on the works. Certain securities were to be held as an investment, and certain special receipts, apart from ordinary revenue, viz., the deposits in Government Savings Banks, the deposits under the law by Insurance Companies, and the repayments of the original loan to the Great Western Railway Company, were to be further invested as they came in. Any balance of the special account not covered by such investments was to be invested in Exchequer Bills, bearing five per cent. interest, and receivable for all public dues. A statement is made out monthly of the account, including interest accrued, and the investment in Exchequer Bills is revised monthly, either by the cancelling of those already issued, or by a further issue, as the state of the account may require.

The Intercolonial Loan Account and the corresponding investment stood as follows on 1st June 1869, since which date instructions have been sent to the financial agents in London to purchase a further amount of 50,000*l.* of Canadian securities; and a further investment of 500,000 dollars has been made by special deposit in the Bank of Montreal at four per cent. On the 1st July the Exchequer Bills will be reduced by a similar amount.

INTERCOLONIAL RAILWAY ACCOUNT.

<i>Dr.</i>	<i>Dols.</i>	<i>cts.</i>
To charges of negotiating Loan - - - - -	168,658	04
To expenditure on works - - - - -	220,081	64
To investments, India Bonds - - - - -	681,333	32
	<i>Dols.</i>	<i>cts.</i>
To investments, Canadian securities purchased in London - - - - -	243,333	33
Less—applied to Sinking Fund - - - - -	36,500	00
	206,833	33
To investments, Canadian securities purchased in Canada - - - - -	27,166	67
To invested with Bank of Montreal - - - - -	1,500,000	00
To Balance invested in Exchequer Bills - - - - -	7,627,910	18
Total - - - - -	<i>Dols.</i>	10,481,983 18