

to cancel the surplus debt of \$10,506,088 with which Ontario and Quebec had under the B. N. A. Act, entered the Dominion, and upon which had been charged interest; in other words, we contended that the Dominion by those Acts, assumed that surplus debt as at the date of Confederation. The Act of 1873 assumed the principal; the Act of 1884 gave us the interest. It was agreed at the conference that our contention should be carried out in the accounts, and that the debt with which Ontario and Quebec jointly, should be entitled to enter confederation, should be placed in the accounts at \$73,006,088 instead of \$62,500,000 as in the former accounts, as the amount of liabilities assumed by the Dominion according to the balance sheet of July 1st, 1867, were only \$72,234,587, the old Province in the amended accounts really enters confederation with a credit balance of \$771,501.82.

This arrangement simplified the settlement very greatly, as the Dominion having assumed all the sums charged against the old Province up to 1873, the Provinces had no interest in examining into their correctness, we therefore accepted them as correct and proceeded to the examination of the charges from 1873 to the present time. Some corrections were made and this branch of the accounts with the exception of four or five items was settled and agreed to by all parties.

I am sorry that the negotiations that were opened with Quebec for an arbitration to adjust some matters in connection with this settlement in which the two Provinces have adverse interest, have fallen through for the present. It appears that some misunderstanding has taken place as to what was understood at a personal conference with Mr. Mercier and his Treasurer. Mr. Mowat, myself and other members of the Government understood that the Land Improvement Fund particularly, was to be referred, as well as the interest on the Common School Fund and other matters. Mr. Mercier, it appears, understood that the interest on the Common School Fund only was to be referred.

To shew clearly what our understanding was, it was announced to the House last Session that the Land Improvement Fund was to be referred, and we took power in the Act providing for the arbitration to refer this question and all other matters. Mr. Mercier only asked from his Legislature, power to refer the Common School Fund. It is unfortunate that