

With reference to these subsidies and the transfer thereof, I beg leave to remark :

1. That the subsidy granted by the Act of the Legislature, 45 Vic., chap. 23, was granted "in aid of the construction of a railway from Metapedia to Gaspé Basin;" and by the Act 49-50 Vic., chap. 76, it is provided: "That no such subsidy shall become due or payable for any part of the road less than ten continuous and uninterrupted miles completed."

2. That the transfer of the 14th June, 1888, is for the sum "of \$70,000 payable to the Railway Company under an order of the Lieutenant Governor in Council, on completion of the fifth and sixth sections of ten miles each;" and all such sums so ordered to be paid to the Company, being part of the ten thousand acres per mile, converted at thirty-five cents per acre, have been paid to the Manager of the Ontario Bank, authorized by the Railway Company to receive them in virtue of the transfer.

3. That the Government has not undertaken to pay to or hold for the manager of the bank the full amount of the subsidy on the twenty (20) miles of road, but has held the transfer as an authority to pay to the bank such sums as might be from time to time earned by the company.

4. That the clause of the contract which provides that should the contractor at any time fail, refuse or neglect to pay any sum due for work done or supplies furnished, &c., the company may pay any of such claims and charge the same as a payment on account of the contract, would prevent the contractor from availing himself of the transfer of subsidy to the extent of such payments.

5. The transfer to the bank gave it only the right of the company to said subsidy and it cannot be denied that the Government could legally pay those claims with said subsidy.

On the 5th October, 1889, prior to the signification of the transfer by Macfarlane to the Manager of the Ontario Bank, the Lieutenant Governor in Council, in view of the state of affairs that had arisen on the Baie des Chaleurs Railway in consequence of the non-payment of amounts due for labour, right of way, material furnished, &c., and of the neglect and refusal of the company to comply with repeated notifications by the Government engineer, respecting certain defective and insufficient work on the line, ordered an enquiry to be made and appointed a Commissioner for that purpose.

On the 25th November, 1889, after receipt of a report by the said Commissioner, who had examined and verified by the evidence of the sub-contractor the equity of the claims, the Lieutenant Governor in Council ordered the balance of the subsidy, granted by the Legislature on the said twenty (20) miles of railway, to be placed in the hands of a Civil Service officer, in order that he might proceed to the spot and use such balance in the discharge of such claims.

I am instructed by the Honourable the Prime Minister and Acting-Treasurer to say that in the disastrous state of affairs that had occurred on the railway there was no other course open to the Government than that pursued, and in so doing he cannot admit, in view of the above record of the facts connected with the subsidy and its transfer, that the Government has acted either with hardship or injustice. At the same time, the Government recognizes the injustice done to the bank by the railway company or its contractors, and it desires, if there is any way in which it can be accomplished, to protect the bank against the loss of moneys advanced in good faith.

I have the honour to be, Sir,
Your obedient servant,

H. V. MACHIN,
Assistant-Treasurer, P.Q.