

determine to have the same constructed, either as a part of the Canadian Pacific Railway, or as an independent line, and they are particularly induced to make the following proposition, as they fear that the short line from Victoria to Esquimalt will not be remunerative unless the road is built from Esquimalt to Nanaimo:—

1. The Company will agree to construct, equip and maintain a railway, upon such line as may be selected by the Dominion Government, and of such gauge and description as may be determined upon, and will complete the same within three years from the final survey and location of the line.

2. The Dominion Government, in consideration of the foregoing, to grant to the Company \$15,000 per mile for the line between Esquimalt and Nanaimo. The money to be paid in such manner as may be agreed upon as the work progresses.

3. The Dominion Government also to transfer to the Company a belt of land twenty miles wide, along the line of such road, including in such transfer ten acres of such of the Indian Reserves at Victoria, Esquimalt and Nanaimo, for depots and terminal purposes; and that if any of the lands within such belt have been alienated, other contiguous lands of like value and acreage be transferred, and also that the Dominion Government arrange with the Government of British Columbia to exempt such lands from taxation for the period of ten years, or for such time as may be agreed upon.

4. The Dominion Government to guarantee interest not exceeding 5 per cent. per annum, upon any bonds which may be issued by the Company to raise additional capital to complete the road.

5. For the purpose of securing the Government against loss upon such guarantee, the Company will agree to execute a first mortgage upon the road and its appurtenances in favor of the Government, and will also create a sinking fund out of the net earnings of the road to pay the annual interest as it accrues and redeem the bonds at maturity.

6. The Dominion Government to have the right at any time after the completion of the Canadian Pacific Railway, or after a connection has been made between the Pacific end of such overland railway and the Esquimalt and Nanaimo Railway, to take over the last named road with its appurtenances by paying off, or assuming the payment at maturity, of the bonds issued by the Company for the use of the road, and refunding to the Company the interest which may have been paid thereon, and any other sums with interest which may have been expended upon or for the use of the road, over and above the moneys contributed by the Dominion Government, or moneys raised upon bonds as before mentioned.

7. The Company begs leave to submit the foregoing proposition as the basis for an arrangement for building the Esquimalt and Nanaimo Railway, subject to such reasonable alterations as may be necessary to meet the views of the Dominion Government.

I have the honor to be, Sir, respectfully, your obedient servant,

HERBERT GASTON, *Secretary.*

Right Hon. Sir JOHN A. MACDONALD,
Premier of the Government of the Dominion of Canada.

OTTAWA, 1st February, 1879.

SIR,—I have to acknowledge receipt of your letter of the 6th instant, submitting on behalf of the Victoria and Esquimalt Railway Company certain proposals to serve as a basis of an arrangement under which the said Company would be willing to undertake the construction of the Esquimalt and Nanaimo branch of the Canadian Pacific Railway.

I am, Sir, your obedient servant,
F. BRAUN, *Secretary.*

HERBERT GASTON, Victoria, B.C.