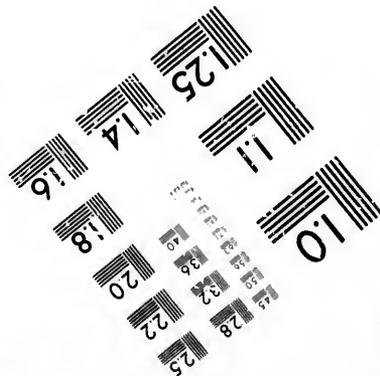
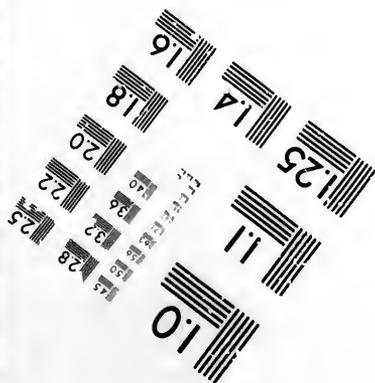
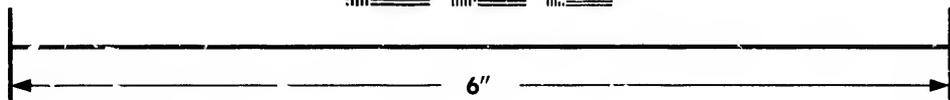
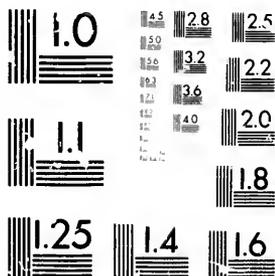


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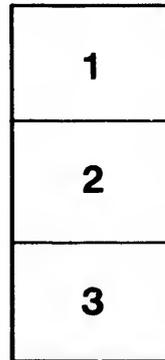
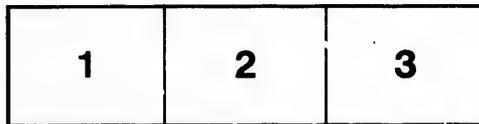
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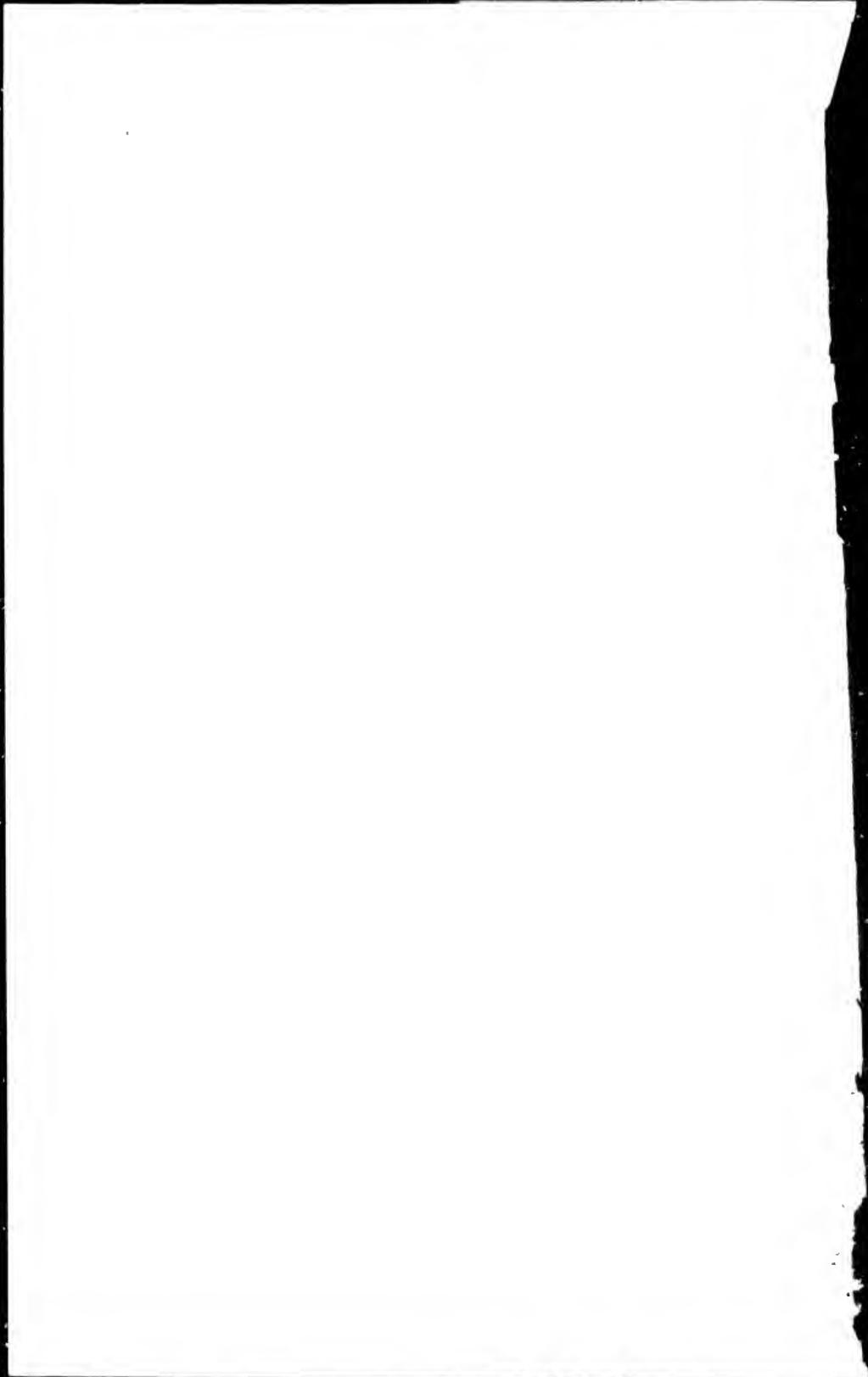
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MR. POTTER'S LETTER
ON
CANADIAN RAILWAYS,
REVIEWED,

In an Official Communication Addressed to the

HON. ALEXANDER MACKENZIE,
PREMIER OF THE DOMINION.

BY
C. J. BRYDGES.

OTTAWA.

1875.

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RAILWAY DEPARTMENT,
Montreal, 5th June, 1875.

HON. A. MACKENZIE,
Minister of Public Works.

SIR,—In compliance with the instructions which I received from you, I have carefully read Mr. Potter's letter, dated 13th April last, to the *London Times*, upon the subject of Canadian Railways.

In accordance with the instructions which you gave me, I carefully examined the statements made and compared them with the figures which I found in the reports of the different Companies dealt with in Mr. Potter's letter.

I now enclose you the result of the review which I have made of Mr. Potter's letter—the figures in the main being taken from the reports of the Companies themselves.

The cost of the different sections of the Grand Trunk Railway, I obtained from a perusal of the Parliamentary Returns, where these matters were fully gone into, many years ago.

I believe the examination which I have made is in accordance with the instructions you gave to me, and I now submit it to you as a review of the statements, so unfavorable to Canada, which are contained in Mr. Potter's letter to the *Times*.

I have the honor to be, Sir,

Your obedient Servant,

C. J. BRYDGES,
General Superintendent of Government Railways.

A REVIEW.

THE letter which Mr. Richard Potter, the President of the Grand Trunk Railway Company of Canada, addressed to the London *Times* on the 13th April, 1875, is a document designed to damage in every possible way, the credit of Canada, and to prevent if possible any investment in that country, being favorably regarded in the English money market.

The *Times* previously to the appearance of Mr. Potter's letter had stated the amount of English Capital invested in Canadian Railways to be no less than £38,000,000, nearly all of which it stated to be unproductive.

Mr. Potter's letter was obviously intended to emphasize that idea, and if possible to prevent the investment of any more money on Canadian Railways for the avowed and obvious purpose of the selfish interests of the Grand Trunk Company.

In the interest of truth it is desirable, and necessary, to closely examine Mr. Potter's statements. If they are true, it should be clearly established that they are so,—if they are not true, it is proper that the statements of the President of the Grand Trunk Railway should be placed in their proper light. If the English President of a great Canadian Railway does not know its history, and especially its financial history, and that of his neighbors, he has no right to become a censor of financial morals, and seek to injure the credit of a British Colony by reckless and false averments.

This paper proposes to deal with the different subjects treated in Mr. Potter's letter, commencing with his own Company, the Grand Trunk, the largest corporation in Canada.

Mr. Richard Potter in his letter of the 13th April, last, states with reference to the Grand Trunk, that it was largely subsidized by Canada, and that a loan of £3,112,500 which the Company accepted as such, and promised to pay 6 per cent upon yearly and forever, was by the liberality of the country, ultimately converted for the time into practically a free gift, and upon which no interest has been paid for 15 or 16 years.

This is certainly not any evidence of grasping conduct on the part of Canada; on the contrary, it is conclusive evidence of the scrupulous fairness and generosity of Canada, which did not attempt to enforce the terms of the arrangement proposed by the Company when the loan was made, but when the Company fell into difficulties, generously altered the terms upon which it had been made originally.

Mr. Potter then states that in addition to that loan the Company raised amongst themselves, £12,000,000 to £13,000,000, in which by some occult process of reasoning not known to ordinary mortals, he includes what he alleges to be a loss of £1,000,000 by the English contractors, Messrs. Peto & Co., although obviously no such sum was or could be included in the Capital account, and he then says that the whole Capital so invested in the Grand Trunk, only received £80,000 in the year 1874, in the shape of interest, notwithstanding the fact that since 1869, an additional sum of £4,000,000 had been raised and spent for the purposes of the Company.

The last report of the Company, up to the 31st December, 1874, states the total nominal capital to be rather more than £30,000,000, and this amount has obviously been assumed by the Editor of the *Times* in making up his estimate of the total of £38,000,000 of English capital sent to Canada to build Railways.

But in addition to the £30,000,000 shewn in the Grand Trunk capital account, there is a further sum of nearly £7,000,000, being the capital of the various lines leased by the Company, and upon which it pays interest.

The *Times* states the Grand Trunk capital at £30,000,000 as set out in their report, and Mr. Potter would make it out £16,000,000 or £17,000,000. There is here a very startling discrepancy. The President of the Company, fresh from the preparation of the past year's statements, calls the amount £16,000,000 or very little more than one-half of the figure quoted by the *Times*.

The truth will prove to be that *both* are very great exaggerations as to the amount of English capital actually expended.

It is easy to prove this. At the end of 1862 the Grand Trunk line was opened throughout, and had been so for more than a year. The Commissioner sent out from England to investigate the position of the Company, reported in July, 1862, that "the credit of the Company may now therefore be restored, and the railway worked without any danger of interruption commercially, and to an increasing net profit."

Further on he states that the Act obtained that year contained "permissive powers to raise £500,000 of Equipment Mortgage Bonds proposed by the late Committee (of shareholders.) I do not, however, recommend that these powers be wholly or even partially made use of for the present." He gave his reason for thus recommending that, for the present, no further capital be expended, because in his opinion, the existing facilities were sufficient for the work to be done.

The accounts to the 31st December, 1862, subsequently submitted to the Shareholders, showed that to that date there had been expended £12,000,000, of which £3,112,500 had been provided by the Government of Canada. At the same time a further sum of upwards of £3,000,000 was charged to capital for interest paid to Bond and Shareholders during the construction of the works, but not one farthing of this amount was ever expended upon the Railway.

The only money raised and spent upon the Railway since 1862 was as follows:—

Equipment Bonds, under Act of 1862.....	£ 500,000
2nd. Equipment Bonds, authorized in 1867.....	500,000
Proceeds of £7,500,000 of shares placed at 19 pc. realizing in cash.....	1,425,000
Proceeds of £650,000 of debenture stock, under Act of 1874, and issued at about 12 pc. discount, say.....	575,000
	<hr/>
	TOTAL, £3,000,000

The above is the total amount of new capital raised and spent upon the railway since 1862, only £1,500,000 of which is a liability upon the Company for interest, and the balance was taken simply as a lottery.

The real capital of the Company is therefore to-day for cash actually expended, £15,000,000 instead of £37,000,000, and of the smaller amount £3,112,500 or upwards of 20 per cent., is provided free of all present cost to the Company by Canada. How far the course pursued by the Grand Trunk Company will affect the future position of the loan may become a very serious and important question.

The accounts of the Company for the year 1862, shew that they earned a profit from the working of the Railway of upwards of £150,000. The accounts for the year 1874 shew that the profit earned had increased to upwards of £460,000, so that the profit in 14 years had increased in a much larger ratio than the new capital raised and expended.

It is necessary now to consider what the real cost of the railway has been in cash.

Beginning at the west, the contract for building the line from Detroit to Port Huron was £420,000. This included iron rails, stone and iron bridges, and large station buildings and docks at Detroit and Port Huron. This for 60 miles was £7,000 a mile.

The line from Toronto to Sarnia, opposite Port Huron, was called 172 miles, and cost £1,375,000, or nearly £7,500 a mile. This included iron rails, stone and iron bridges, rolling stock, station buildings, and 18 months' interest during construction.

The London branch cost for 22 miles £8,000 a mile, or £176,000.

These three lines, aggregating 254 miles, were constructed by Canadian contractors, who never complained that the foregoing sums did not leave them a fair profit on their work.

The next section from Toronto to Montreal, 333 miles, was built by Peto & Co., at a contract price of £8,000 a mile. It was not such heavy work as the line from Toronto to Sarnia, and it is a fact that the Canadian contractors who built the western sections of 254 miles offered Peto & Co. £1,000 a mile for their contract, which was refused. It is hardly fair after that, and the fact that the contract was for £500 a mile more than the western sections, to talk of the Company having anything to do with any loss which the English contractors may have stated they sustained.

The line from Richmond to Quebec was contracted for and built at £8,000 a mile for 96 miles.

The Riviere du Loup line cost £8,000 a mile for 118 miles.

The Three Rivers line cost £210,000 for 35 miles.

The line from Montreal to Portland, 292 miles, was built by local companies and was assumed and leased by the Grand Trunk Company. The real cost was less than £8,000 a mile. For the lease of the Portland line the Grand Trunk Company assumed very onerous terms, amounting to a rent charge of £105,000 a year.

The Company also leased the Buffalo and Lake Huron line 161 miles long—the actual cash cost of which did not reach £7,000 a mile, or £1,127,000 for which the Grand Trunk now pay a rental of £66,000 a year, or 6 per cent. on its cash cost.

The Company also lease the Champlain lines 83 miles long which cost about £6,000 a mile, or a total of about £500,000 for which a rent is now paid of about £25,000 a year, or about 5 per cent. on its cost.

The Galt branch was also purchased and has cost, for 13 miles, about £50,000.

The Company has also built the Victoria Bridge at Montreal, at a cost of £1,400,000—also the International Bridge at Buffalo, at a cost of less than £300,000.

It has provided additional rolling stock, ballasting signals, stations, sidings and other facilities, at a cost of about £1,500,000.

And it has changed its gauge at a cost of about £1,000,000.

From the foregoing statements, its cost can be accurately stated as follows :—

Detroit Line	60 miles.....	£ 420,000
Sarnia and Toronto	172 ,,	1,375,000
London Branch.....	22 ,,	176,000
Toronto and Montreal ..	333 ,,	2,664,000
Richmond and Quebec..	96 ,,	768,000
Riviere du Loup Line ..	118 ,,	944,000
Three Rivers Line.....	35 ,,	210,000
Portland Line.....	292 ,,	2,336,000
Buffalo Line.....	161 ,,	1,127,000
Champlain Line.....	83 ,,	500,000
Galt Branch	13 ,,	50,000
Victoria Bridge.....	2 ,,	1,400,000

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International Bridge	300,000
Additional Rolling Stock, sidings, &c.....	1,500,000
Change of Gauge	1,000,000

£14,770,000

This sum of £14,770,000 is the actual cost to the Company, including eighteen months' average interest paid by the contractors, during its construction, of the entire line between Riviere du Loup and Detroit. The total length now operated is 1,387 miles, so that the average cash cost per mile is not quite £11,000.

That this is correct, is proved by the fact that the average cost of the present mileage of 798 miles of the Great Western Railway, (including all its branches, as in the case of the Grand Trunk,) is not quite £11,000 a mile, with its gauge changed, a superabundant supply of rolling stock and sidings, and its entire line nearly all relaid with steel rails.

The cost of the Intercolonial Railway, built by the Government of Canada, with stone and iron bridges throughout, steel rails, and in every respect the best built road upon the continent of America, will be about £8,500 a mile.

The real cash cost of the Grand Trunk Railway is therefore more than represented by the sum above named of nearly £15,000,000. It could be built in first-class shape to-day for less than that amount. Of the actual cost of £14,770,000, £3,112,500 was advanced to the Company by the Government, leaving the actual cash outlay of the proprietors of the Company £11,657,500, or, in round figures, say £12,000,000.

Upon the actual outlay 4 per cent. is £466,000.

The Company's own accounts for 1874 show that they earned a net profit of about £460,000, so that they nearly earned a full 4 per cent. upon their actual outlay. Their own statements also announce that when their line is fully relaid with steel, they will increase the net revenue of 1874 by a large amount, making the actual return nearer 5 per cent. than 4 per cent. upon the real cash cost of the line.

The truth about the Grand Trunk, then, is that, upon the real cash cost of the line, it is earning more than the average return of English railways.

But it has chosen to add to its capital very large paper dividends,—to issue bonds and shares at an enormous discount,—and to pay away its large net earnings of nearly £500,000 a year in preferential dividends at high rates upon portions of its capital, thus unduly benefitting certain holders of its securities at the expense of others, and so preventing a fair and average return upon the whole.

The Company in 1862 agreed for 10 years, to pay dividends upon its bonds by an issue of fresh bonds for which no money passed into the coffers of the Company. It has thus added several millions to its nominal capital, but not one farthing of this fictitious amount has ever been paid or expended as part of the cost of the Road.

The present yearly profit of nearly half a million sterling is derived from the traffic of Canada, and the trade tributary to the Railway.

Mr. Potter's charge against Canada of not rendering a fair return upon the capital actually expended upon the building of the Grand Trunk, is therefore absolutely false. It pays a fair interest upon its real cost,—the cause of its present difficulties being mainly the onerous bargains which the Company itself made with the lines it leased—the unwise paper additions to its capital for money which was never received or expended,—and the lottery system which was adopted in issuing enormous masses of securities at a frightful and ruinous discount.

The Grand Trunk will pay upon its cost, if its capital account is made

to honestly represent its real cash outlay, but it can never be anything but a bye-word in financial circles in Canada or England so long as it retains a fictitious and worthless capital account upon which it falsely complains of not earning interest or dividends.

The original estimate of the traffic expected on the Grand Trunk was less than £1,500,000 per annum. In June, 1874, it exceeded £2,130,000, but the cost of working a Canadian Railway has proved to be much greater than its original promoters anticipated.

Mr. Potter makes the extraordinary statement that his Railway is uncompleted with along the whole line from Riviere du Loup to Quebec, Montreal and Toronto.

Is it possible that the President of the Grand Trunk Railway is ignorant of the fact, that his Railway runs almost within sight, for the entire distance he names, of Lake Ontario and the River St. Lawrence, the finest system of inland water communication in the world?

Mr. Potter's next statement that the only sum earned by the Company and divided amongst the shareholders in the year 1874 was £80,000, is equally untrue, as it has been shown that the profit derived from the working of the Railway during 1874, was £460,000, equal to an average of nearly 4 per cent. upon the entire cash cost of the Railway contributed by the English proprietors.

So much for the Grand Trunk.

The next large Canadian Company which Mr. Potter attempts to crush in his statement is the Great Western.

The capital of that Company is now about £8,500,000, not including some of the branches it works. It was opened in 1854, when it was 230 miles long, and its capital was less than £3,000,000. Its length now, including branches, is nearly 800 miles. Its capital has been mainly raised at par, and comparatively speaking but little interest during construction has been charged to capital.

To the end of 1874 it has been in operation for 21 years.

During that period it has paid out of its net earnings for interest upon its bonds a total of £2,191,850, or an average of £104,373, for each of the 21 years it has been running.

It has never been in default for an hour in one farthing of the interest due upon its bonds.

It has also, during the 21 years, paid out of its nett earnings, upon

its ordinary and preference shares, a total amount in dividends of £2,450,089, or an average for each of the 21 years of £116,670.

It has thus paid to its bond and shareholders, during 21 years, out of its net earnings, an average sum yearly of upwards of £221,000 sterling.

It is quite true that the financial panic in the United States which took place in 1873, prostrated the trade of this country, from which no revival has yet taken place, and consequently the shareholders received no dividend in 1874. But the bonds have all been paid in full.

The same thing happened in 1859, caused by the great panic of 1857-58. Then the bonds, as now, regularly received their interest. But the shares for 18 consecutive months went without any dividend. When the results of that panic passed away, and trade resumed its ordinary condition, dividends upon the shares were resumed, and beginning at about 2 per cent., rose to 6 and $6\frac{1}{2}$ per cent., until the panic of 1873 again temporarily vastly depressed the trade and traffic of this continent, and has again caused a suspension of dividends.

The same circumstances have affected American railways, many of which have been compelled to let their bonds go to protest, and some have even been placed in the charge of officers appointed by Courts of Law.

But the inevitable revival of trade will again make the Great Western Company, as was the case after 1859, a remunerative undertaking.

The next subject of attack by Mr. Potter is the Canada Southern, a line opened for traffic at the very time that the great panic of 1873 occurred. That Company has had no time yet to prove what it is worth. It has certainly not been the cause of the depression in the Great Western up to the present time at any rate.

Its capital has been raised almost entirely in Canada and the United States, only about £200,000 of its bonds having been taken in England.

But the President of the Grand Trunk is wonderfully ignorant upon this as well as many other matters referred to in his letter.

He states that the charter was granted "to a Canadian gentleman who may be fairly called a dealer in charters."

Is it possible that Mr. Richard Potter is ignorant that the charter for that line was first granted by the old Parliament of Canada, as far back as April, 1835, the Great Western Railway itself being only chartered in 1845, or 10 years afterwards? The Canada Southern, under varying names, had its charter amended and extended in 1847, in 1851, in 1855, in 1858, and in 1859.

In fact it was a struggle in the early history of the Great Western Railway, if that line, as now actually constructed going down to the level of Lake Ontario, should be built, or the old chartered line, now the Canada Southern, keeping on the level of Lake Erie, should be the one adopted. It is probably mainly the delay which the Great Western Company permitted to take place in supplying the country south of it with railway accommodation, which caused the building at last of the Canada Southern.

The Parliament of Canada simply gave the needful authority for the carrying out of charters which had for upwards of 35 years been on its statute book—the Government gave no aid to the line—but the country through which it ran evinced its desire for its construction by making large grants of municipal bonds as free gifts to the company.

The wisdom of building it may be questioned, but that is for the parties who found the money to settle for themselves, and certainly no grounds exist for the attack which Mr. Potter has thought it his interest to make upon the credit of Canada and its Government.

The next important line which Mr. Potter attacks is the Northern of Canada. To that company the Government lent £450,000 sterling, upon which for the last 15 years it has received no interest at all, and has now agreed to accept £100,000 in full payment of principal and all arrears of interest. This certainly is not a ground for Mr. Potter to attack the credit of Canada upon.

He then states that "the original share capital (of the Northern Company)" has also been wiped out "by a reconstruction act."

Unfortunately for Mr. Potter's accuracy, it happens that the stock, so far from having been "wiped out" is now a great question, as regards its value, between the holders of it and the company. The latter desire to buy it up at a discount, and the former decline to take less than par.

It is also a fact that the Northern Company is regularly paying the interest upon its bonds, all of which are held in England, but has not paid dividends upon its share capital, nearly all of which is held in Canada.

The truth about the Northern Railway is therefore a direct and complete condemnation of the wild and reckless statements of Mr. Potter.

Two small lines next draw forth Mr. Potter's severe blows. One, the Prescott and Ottawa, he states was built with English capital which "has proved a total loss." The facts are that the Railway was built by muni-

cipal bonuses issued by the counties through which the line runs and by private subscriptions of shares in Canada. An English iron firm supplied the rails for 54 miles, about 6,000 tons, and worth £50,000, for which they took first mortgage bonds. They also bought, or advanced £25,000 on, the same class of bonds.

Those bonds went to default, and by legal process the English holders were made sole owners of the property, wiping out, to use Mr. Potter's expression, all the sums advanced by the municipalities and private shareholders in Canada.

The iron firm referred to, now own the property which cost them, for the original rails, and for what they have subsequently advanced, about £125,000. It is a fact that very recently they refused to sell the property for £200,000, and the line is now being worked at a steady and increasing profit.

It is in this case the Canadian capital which has been wiped out, and the English capital which is receiving and will secure in the future all the profit.

The history of the next line Mr. Potter refers to—the Canada Central—is almost identical, the Canadian capital has been “wiped out,” and the firm that supplied the iron originally, sold its interest for about £180,000.

But the most extraordinary of Mr. Potter's attacks is reserved “for two short 3 ft. 6 in. narrow gauge lines from Torouto, called the Toronto, Grey & Bruce, and Toronto & Nipissing, which have been opened now “for two years.”

With the exception of £1,500 a mile, on the Toronto, Grey & Bruce, for which bonds were sold in England, the whole of the capital for these two lines was raised in Canada.

The interest upon the bonds of both lines has been scrupulously and regularly paid as it became due. This fact, Mr. Potter himself admits, but in the same sentence that he does so, he thinks it consistent with the dignity of the President of a great Railway Company, to sneer at the prospects of two Companies which yield him a considerable and increasing traffic, and to insinuate doubts upon the credit of the Companies, one of which he has used to endeavour to aid him in his competition with his western rival for the trade of the Counties of Bruce and Grey.

Nothing more paltry than this, is to be found throughout Mr. Potter's

extraordinary attack upon the credit of the country, from which his own Company derives its profits,—from which it has already asked and received many most valuable favors,—and which it doubtless will again come to for favors in the future.

It is only necessary to refer to one more instance of Mr. Potter's virulent attack. In speaking of the Intercolonial he settles to his own satisfaction the loss which that line is to involve in working. But, as the line is not yet open, Mr. Potter's statement about it may be classed with his remarkable sneers at the credit of his allies, the narrow gauge railways.

Mr. Potter is perhaps ignorant of the fact that for years his Company has been urgently pressing upon Canada the construction of the Intercolonial Railway, in the belief and hope that it would be a valuable feeder to the traffic of the Grand Trunk Railway, with which it connects at Riviere du Loup. He cannot be ignorant that the whole cost of its construction, as such feeder to his Company, has been found by Canada, amounting to between £4,000,000 and £5,000,000, and that the building of it was made obligatory upon Canada by the terms of the Confederation Act, passed by the Imperial Parliament in March, 1867.

Why Mr. Potter should make this outlay by the Government, which the reports of his own Company and by his own recorded speeches treat as a most valuable adjunct to the future prosperity of the Grand Trunk, a ground of violent attack upon the credit of Canada, is incomprehensible, but would seem to be an important question for the consideration of the holders of the securities of the Grand Trunk Company itself.

It is no part of this paper to deal with the particular Company, the defeat of which was the object of Mr. Potter's violent attack upon Canada, and all its railway undertakings.

But it is a duty to expose the unfair, unjust, and false statements which Mr. Potter, the President of the Grand Trunk Railway, has ventured to make.

It has been proved from the reports and documents of his own Company, that the statement that upwards of £30,000,000 of English capital has been hopelessly sunk in his railway, is not true.

It has been shewn that the actual cash sent from England and expended in building and completing the line has been less than £12,000,000, and that a net profit was earned in 1874 of £460,000, or 4 per cent. upon the actual cash expenditure upon the Grand Trunk Railway.

It has been proved that the statement that only £80,000 was divided amongst the English shareholders in 1874, was not true, the amount of £460,000 having been earned and paid according to the Company's own statements.

It has been proved that the Great Western Company has paid from its net earnings during 21 years, an aggregate amount, for interest on bonds, and dividends on shares, all held in England, of no less than £1,642,000, or an average of £221,000 a year.

It has been proved that the Northern Railway has not "wiped out" its share capital,—that it is regularly paying the interest upon its bonds which are all held in England—and that any portion of its capital which is not being paid upon, is almost entirely held in Canada.

It has been shown that the two short lines mentioned by Mr. Potter,—the Prescott and Ottawa and the Canada Central,—have had their Canadian and not their English capital "wiped out." That all the money found by Canada for the construction of those lines has been sunk for the exclusive benefit of the English firms who supplied the rails and took bonds thereof in payment.

It has been shown that the two narrow gauge lines, the capital for which has almost entirely been found in Canada, have thus far honestly paid their interest as it became due, and it is hoped will continue to do so, despite Mr. Potter's sneers and insinuations against their credit.

That an attack so violent, so unnecessary, and so generally unwise, should have had so absolute a want of foundation to rest upon, seems almost incomprehensible.

The attack has been so obviously false and overdone, that it can only recoil upon its author, and unfortunately must do so, also upon the Company of which he is President.

With the recovery of the trade of this Continent from its present depression, Canada will provide a fair rate of interest upon the actual cash outlay expended by English capitalists in constructing railways by private companies.

The construction of local lines, now in progress, are almost entirely being built by Canadian capital and credit,—they are nearly all feeders to existing lines—and if they are in some cases being constructed in advance of actual wants they are opening up important districts of country for settlement, and developing for the benefit of the whole country and its industries, the population and wealth of Canada.

Canada has already expended, at her own cost, about £12,000,000 in aid of existing private railways, and in constructing feeders to their traffic. She is now also expending large sums annually for railways into her new Western Territory, and in furtherance of British policy on this continent by a railway connection between the Atlantic and Pacific oceans.

And despite the attacks upon her credit by Mr. Richard Potter, the President of the Grand Trunk Railway Company, she will continue to advance in prosperity, and in offering a home to those, who seek her shores to better the position in which they find themselves; in the country which Canada delights to honor and respect, and whose policy and interests, conjointly with her own, it is her highest aim to promote and develop on the continent of America.

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