

CORRESPONDENCE

BETWEEN

THE HON. WM. NAPIER,

ON BEHALF OF THE

ENGLISH SHAREHOLDERS OF THE GRAND TRUNK
RAILROAD COMPANY,

HONBLE. WM. CAYLEY,

(INSPECTOR GENERAL)

WITH

Introductory Memorandum on the subject of the Grand Trunk
Railroad of Canada.



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1856.

CORRESPONDENCE.

No. 1.

INSPECTOR GENERAL'S DEPARTMENT,

6th May, 1856.

SIR,

I have now the honor, in reply to your request, to furnish you with a Memorandum of the terms on which after much anxious consideration, the Government conceive they would be justified in recommending to Parliament the granting of aid to the Grand Trunk Rail Road. You, Sir, cannot be insensible to the many difficulties which beset this question, or the differences of opinion which exist as to the best mode of disposing of them; and as the further course of the Government may materially be influenced by the opinion which you, as the accredited Agent of the English Proprietary, may entertain of the practical result to be expected from the outline of the scheme which I have sketched, I shall be obliged by you favoring me with your views thereon, which I may submit to His Excellency the Governor General and my Colleagues in the Government.

I have the honor to remain,
yours faithfully,
W. CAYLEY.

To the Honorable
W. NAPIER.

No. 2.

May, 1856.

Proposal for relief to Grand Trunk Railway Company.

1st. The Company to be empowered to issue Preferential Bonds to the amount of £2,000,000 sterling.

2d. The Bonds not to be issued until the Railway is finished and in operation from St. Thomas to Stratford.

3rd. The proceeds of the £2,000,000, to be paid over to the Provincial Agents in London, and released on certificate of Receiver General, on proof of progress of work.

4th. The proceeds to be appropriated as follows, viz :

London to St. Mary's, Stratford and Sarnia	
Branch.....	£450,000
Subsidiary Lines at Port Hope, Cobourg and	
Prescott.....	100,000
Victoria Bridge.....	800,000
St. Thomas and Rivière du Loup.....	525,000
Three Rivers' Branch.....	125,000
	<hr/>
	£2,000,000

5th. The St. Mary and London Branch, and subsidiary Lines to be completed by the..... 1st. September, 1857.
 The Stratford and Sarnia..... 1st. September, 1858.
 The Three Rivers and Arthabaska.... 1st. January, 1859.
 The Victoria Bridge..... 1st. January, 1860.
 The St. Thomas and Rivière du Loup 1st. January, 1860.

If any portion of the Roads above specified originally entitled to the guarantee, be not completed at the date provided, the Company will return to the Government £3,000 sterling for every mile remaining unfinished, credit being given to the Company for so much in payment of the Provincial Guarantee.

REPLY

To the Letter of the Honorable WILLIAM CAYLEY, Inspector General, to the Honorable WILLIAM NAPIER, on behalf of the Shareholders of the Grand Trunk Railway Company of Canada.
 TORONTO, 7th May, 1856.

SIR,

I have the honor to acknowledge your favor of the 6th instant, enclosing " a memorandum of the terms on which after " much anxious consideration the Government conceive they " would be justified in recommending to Parliament the granting " of aid to the Grand Trunk Railroad."

Before proceeding, Sir, to give as requested " my opinion as " the accredited Agent of the English proprietary of the practical " results to be expected from the outline of the Scheme sketched " out," I desire notwithstanding the disappointing results now to be considered, to express my great satisfaction that the Government of these Provinces have, by the scheme now presented, acknowledged the principle that aid or relief should be granted to the enterprize in its depreciated financial condition, and I would

further observe that in respectfully submitting the following remarks on such scheme for the information of His Excellency the Governor General and of the Government, I beg leave to offer my best thanks for the Statement in your communication that the further course of the Government "may materially be influenced by "my opinion," and it shall, Sir, be my earnest endeavour faithfully to discharge the responsible duty assigned to me, by expressing my opinion as to the Commercial value of the aid proposed by the Government, and also by once more submitting such a scheme of Relief as under the least favourable aspect would be considered to be material assistance by the Shareholders.

Passing over for the present the 2nd and 3rd, and the 1st part of the 5th paragraph of the Memorandum, I will proceed in the first instance, to compare the obligations to be assumed by the Company under the Government proposal with those yet remaining to be completed under the existing arrangements between the Company and the Province.

The works to be executed after the completion of the line from Brockville to Stratford are:

The road from Stratford to Sarnia which will cost the Company say.....	£ 400,000
The Victoria Bridge do do....	1,150,000
And the St. Thomas and Rivière-du-Loup Line.....	560,000

Making a total outlay on Works of.....£2,110,000

Which with an allowance for Interest (accruing on the preferential Bonds which it will be necessary to issue during the completion of the works) and for contingencies in winding up the contracts, involves the necessity of raising the total amount of say....£2,590,000

The works to be executed under the Government proposal are:

The Road from St. Mary's to London which would cost the Company say.....	176,000
The Road from Stratford to Sarnia do	400,000
The Victoria Bridge do	1,150,000
The Three Rivers Branch do	240,000
The St. Thomas and Rivière-du-Loup do	560,000
Subvention to the Port Hope, Cobourg and Prescott Railways.....	100,000

and adding as before for Interest and Expences in

winding up the contract.....	420,000
Making a total of.....	<u>£3,046,000</u>

As therefore the Government proposal is only to allow the Company to raise the sum of.....£2,000,000 already shewn to be insufficient by..... 500,000 under the existing arrangements, there would remain a deficiency of..... 1,046,000

Assuming then that the Company assent as no doubt they would under proper facilities, to the desire of the Government to make the additional arrangements contemplated in their Memorandum as an aid to the tributaries or feeders of the Grand Trunk Railway, and which I have reason to believe, although forming no part of the existing contracts, would nevertheless in a general point of view, be beneficial to the Company, there would yet be a deficiency of £1,046,000.

It will be acknowledged therefore that the new Capital of two million which it is proposed should be raised by the Company by preferential Bonds, is under the most favorable circumstances inadequate to the requirements of the Government proposal, by the large amount of a million sterling, unless indeed a portion of this amount could be raised by Municipal Bonds.

Permit me Sir, now to recall your attention to the two requirements under the existing circumstances which it will be unanimously agreed are necessary to be attained by any scheme now to be adopted viz:

First,—Funds for the completion of the enterprize, the deficiency being principally due to the unlooked for depreciation of the stock during the last twelve months.

Second,—The resuscitation of the undertaking itself.

It has already been shewn that the Government proposal does not attain the first object;

Let the capacity of the scheme as to the second, and equally, if not more important requirement be carefully tested?

This will best be done by shortly stating, that the new Capital to be raised by the Company by preferential Bonds, would, by the Government proposal, increase the first charge above the Company's Bondholders from £3,111,500 to £5,111,500, and the total debt above the Shareholders from £5,266,000 to £7,266,000.

Now, it will not be controverted that the second requirement above alluded to can only be attained, more or less, by some direct

demonstration by the Government and Legislature of confidence by the people of Canada in the ultimate prosperity of their national Railway enterprise.

How, then, does the Government proposal meet this greatly-to-be-desired and, indeed, imperative object?

Simply by asking those Shareholders, more than two-thirds of whom must, by the provisions of 18 Victoria, chap. 33, clause 7, give their consent, and who alone could be expected to subscribe the £2,000,000 *pro rata* to their respective holdings, completely to forego for several years the small prospect of a Dividend of say 2 per cent. on their investment, which it has been shown in Table No. 1 of the memorandum on the Guarantee Scheme, would probably accrue over the average of the first five years from the opening of the line, before Christmas next, in its whole length up to Stratford.

Remembering, Sir, that it is as much for the good of the Province as to the interest of the Shareholders, that this Railway should be brought to a rapid and successful completion, the proposal of the Government to raise the debt above the Shareholder from £5,266,000 to £7,266,000, is simply and in the plainest language to inform the Capitalists and Public of Great Britain, that the People of Canada have no confidence whatsoever in their greatest Railway undertaking.

Sir, it has been fully demonstrated that the proposal of the Government signally fails to accomplish either of the objects sought to be attained for the relief of the enterprize.

Were there, in my opinion, the slightest chance even of its acceptance by the Company, I should have deemed it incumbent to have advised with the Board of Directors here before forwarding my reply, but, under the actual circumstances, I feel it is my painful duty at once to communicate, for the information of His Excellency the Governor General and of the Government, that, even if assented to, the money could not by any possibility whatever be raised by the Shareholders, and the Scheme would therefore be wholly inoperative.

Sir, while I feel strongly the many difficulties which, as stated by you, "beset this question, and the differences of opinion which exist as to the best mode of disposing of them," and while I acknowledge, on behalf of the Committee of Shareholders, with many thanks, the individual and collective kindness and courtesy of the Government in the facilities afforded me for explanation, I

regret extremely that the result should be a Scheme which is completely impracticable of execution.

To refer once more, Sir, to your courteous statement, that the further course of the Government may materially be influenced by my opinion, as the accredited Agent of the English proprietary, I willingly avail myself once more of the opportunity thus afforded, earnestly to point out, for the consideration and grave reflection of His Excellency the Governor General and the Government of these Provinces, that the decision now to be arrived at must and will prove a crisis in the Railway History of Canada and that the Government proposal, which if persisted in must prove a death blow to the credit of the National Railway undertaking, which was received in the British money market under the auspices of the then Government, is dealt at a moment when the Executive of the older and younger states of the world are attracting to their respective Countries the Capital necessary for their Railway development by giving a minimum guarantee on the investment of the Public, and thus pledging the Confidence of their Nations in their own prosperity; a pledge Sir, which, as has elsewhere been stated, has in no one known instance resulted in any loss, in respect of the guarantees, so given, amounting in France alone to the sum of Thirty millions sterling per annum.

I adhere Sir, to my conviction that the Guarantee scheme is the only remedy completely adequate to the existing emergency, and which offers the same advantages to all legitimate subsidiary Railway Enterprise; but I desire again to make the often repeated statement that the Shareholders will readily assent to any scheme which would afford material relief to the Company, if on consideration it should prove to be comprehensive and final, and not merely one administering to the actual necessities of the moment.

This I beg leave to remind you Sir, may be largely effected by the scheme proposed in the memorial presented to His Excellency the Governor General by the Board of Directors, viz: by the conversion of the Provincial mortgage into Stock of the Company, with additional Guarantee to the Western Section of the line and the Victoria Bridge, and with power to the Company to raise the funds necessary for the completion of the work by a first charge on the undertaking; and a most reasonable modification between which basis and the existing arrangements of the Company's Capital, I had the honor to submit to you on the 5th instant, and

which I need hardly repeat appears to be the last possible compromise capable of affording any relief to the Company.

I have the honor to submit that scheme once more, viz :

First, New Capital by preference Bonds of the Company of.....	}	£2,500,000
Second, Existing Provincial Bonds to the amount of.....		
(the Interest of which to be paid by the Government for 5 years.)		
Third, the existing Company's Bonds...		2,144,500
Fourth, remainder of existing Province Bonds to be converted into.....	}	2,500,000
Company's stock and Company's stock and Company's share Capital.....		
		£3,000,500

The advantage of this modification is, that it in no way affects the position of the debt now existing above the Company's Bondholders and Shareholders, who will then readily raise the necessary Capital for the completion of the undertaking, while the Province, on the other hand, by engaging to pay the interest on their £3,111,500 for five years, would afford the Shareholders a reasonable prospect of a moderate and immediate return on their investment, and the confidence of the Country would be exhibited by their willingness to share to the extent of £2,500,000 of its existing first mortgage, in the risks or profits of the undertaking with the present Shareholders.

In extension of the plan so submitted, I am now prepared to consider how far it may be possible to meet the expressed desire of the Government to secure the lines to London and Thret-Rivers, as well as to aid the Cobourg, Port Hope and Prescott Railways, by the following proposal :

The Government to convert their entire Mortgage into Share Capital ;

The Company to be authorized to issue £3,000,000 of preferential Bonds ;

And the fourth and fifth sections of your proposal to apply to this intended arrangement.

I feel, Sir, that I have discharged my duty as the representative of the Shareholders, in submitting, on their behalf, a proposal, the moderation of which will, I am sure, be recognized and appreciated.

In conclusion Sir, I respectfully appeal to the Governor General and the Government, in the definitive settlement of this most

important question, well to weigh the great responsibility attaching to their decision; for while the risk of any possible loss to the Province by the modification above set forth, are reduced to a minimum, the disappointment of the just expectations of the Shareholders would in the words of Mr. T. M. Weguelin, the Governor of the Bank of England and Chairman of the Committee of Shareholders, deal an incurable blow to the undertaking, and would undoubtedly re-act for years to come on the development of the Railway Enterprise of Canada.

I shall have the honor to lay your communication and this reply before the Board of Directors.

I have the honor to be

Sir

Your obedient servant,

WILLIAM NAPIER,

On behalf of the Committee of Shareholders
of the Grand Trunk Railway Company
of Canada.

To the Honorable

WILLIAM CAYLEY,
Inspector General,
&c., &c., &c.

No. 4.

TORONTO, May 12th 1856.

SIR,

Having observed the publication in the *Daily Globe* of your Letter and Memorandum of the 6th instant, to myself, and having heard that an unauthorized and incorrect copy of my reply thereto is being circulated in some of the Provincial Journals—it is due to myself as to you Sir, to inform you that I have in no way been a party directly or indirectly, to the publication of a confidential and incomplete correspondence on such a grave subject, as the affairs of the Grand Trunk Company. It was my duty Sir, pursuant to my instructions to advise confidentially with certain gentlemen, the Authorities of the Grand Trunk Company, upon any correspondence with the Government on this subject, and it was my desire to place each Member of the Executive Government in possession of such correspondence in such a shape as to enable the better comprehension of the difficulties under consideration.

I consulted my advisers and made such arrangements under distinct assurances of that secrecy which is imperative in such matters, and it has given me the deepest pain to witness the result, which by any attempt to prejudge the intentions of the Government, outlined by a sketch inviting my remarks and counter suggestions, must necessarily be damaging to the interests of the Railway and of the Country which are inseparably connected.

I have the honor to be

Sir

Your obedient, &c.

WILLIAM NAPIER,

On behalf of the Committee of Shareholders
of the Grand Trunk Ry. Co. of Canada.

The Honorable

WILLIAM CAYLEY,
Inspector General.
&c., &c., &c.

TORONTO, 14th May, 1856.

SIR,

Within the next few days a proposal for the relief of the Grand Trunk Railway Company will, I believe, be brought before the Legislature of this Province.

As I am daily informed that the public are desirous of obtaining information as to the views of the Shareholders of the Company, upon the various schemes which would seem more or less available for the relief of the enterprize, I desire your kind permission, Sir, to avail myself of the only means open to me of explaining my views on the part of the Shareholders, on the question about to be submitted to the consideration of the Legislature, by addressing you a public letter on this important subject, and which presents itself for solution under two heads :

First—The means of providing the funds adequate for the completion of the Railway ; the present deficiency being principally due to the unlooked for depreciation of the Stock during the last twelve months.

Second—The resuscitation of the credit of the undertaking.

Whatever may have been, Sir, the financial or other mistakes on the part of the Company, you will agree that the chief object now to be attained is the rapid completion of the Railway in its fullest development, and which it will be allowed is as much to the interest of the Province as of the Shareholders.

Any scheme therefore which is presented, should be adequate to this end, or it would necessarily fail to secure the object in view, and would occasion a delay of a whole working season, at least, in the prosecution of the remaining engagements of the Company, after the completion of the line between St. Thomas and Stratford, (exclusive of the Victoria Bridge.)

Before proceeding, Sir, to consider what alteration of the existing Contract between the Company and the Province, would to a greater or lesser extent effect the object in view, it is desirable that I should give a clear statement of the existing financial arrangement for providing the necessary funds.

The Company's Capital is constituted as follows :

No. 1.

1st. By 6 per cent. Government Bonds.....	£3,111,500
2nd. " " Company's "	2,144,500
3rd. " Company's Shares.....	4,306,400
Total.....	<u>£9,562,400</u>

On the completion in the approaching autumn of the line from St. Thomas to Stratford, exclusive of the Victoria Bridge, the expended Capital of the Company will stand thus :

1st. 6 per cent. Government Bond.....	£3,111,500
2nd. 6 per cent. Company's do	1,744,500
3rd. Share Capital.....	3,006,400
Total.....	<u>£7,862,400</u>

The difference between..... £9,562,400 (No.1)
as above, and..... 7,862,400

Namely..... £1,700,000

is therefore the nominal amount of the Company's Capital yet available for the construction of the remainder of the Contract between the Company and the Province, and is composed of

Unissued B Shares (nominal value).....	£1,300,000
Unissued B Bonds "	400,000

Together (nominal value) £1,700,000

Had the Company in the first instance allotted to the public the B Shares and B Bonds, the sum would be available for, and would complete the remainder of the original engagements between the Company and the Province, less any amount of additional expenditure now seen to be necessary; but as these Shares were not so issued to the public, and as from circumstances which could scarcely have been anticipated, the value of this Stock, if forced upon the market, as it must be, could scarcely be named, it becomes necessary that in any scheme proposed for the relief of the enterprize, such an alteration of the existing arrangement of the Company's Capital should be made as would enable the realization of the necessary amount at par, instead of at 50 per cent. discount, as the case will stand, if no relief be now given.

I have said that the amount under the existing arrangements to be replaced at par, is £1,700,000, but I believe that in reality the sum is much larger, and may be stated as follows :

1. For the completion of the Victoria Bridge.....	£1,150,000
2. For the line to Sarnia.....	400,000
3. Provision for additional Rolling Stock and sidings and accommodation required for the development of the traffic.....	400,000
4. Interest on the new Capital to be created, for the time required for the completion of the whole line.....	250,000

Making the sum of £2,200,000

As against the amount as above stated of..... £1,700,000
 But assuming that the £400,000 of B Bonds be floated or taken in payment for works at par, the deficiency to be made good under any scheme now to be passed into law, would be £1,800,000

Let it be assumed that in round numbers, £2,000,000 is the sum necessary to be raised for the completion of the existing arrangements, between the Company and the Province, and for such additional Rolling Stock and accommodation as it appears will be required, and including other liabilities not named.

It is evident that in the present difficulty, a step must be taken by both parties towards its solution, or else nothing further could be completed by the Company, than the line between St. Thomas

and Stratford, exclusive of the Bridge, and the rest of the work must inevitably remain unexecuted, until the gradual development of the traffic shall have placed the Company in a position to raise the necessary funds.

Meanwhile the complete isolation of the line will protract for a long time, that development of the traffic which can only be more rapidly obtained by the immediate execution of the remainder of the works.

During this interval of time the Province would necessarily be called upon to pay the interest upon their Bonds, amounting on £3,111,500 to £186,690 per annum.

It is not for a moment assumed that if no relief be afforded to the Company, and that if after the completion of the line from St. Thomas to Stratford, the remainder of the works should be suspended for want of funds, that the Province would enforce their first claim, or would take any of the profits of the line, towards the interest on their Bonds, until the traffic should have developed so far as to give the Shareholders a reasonable return, say 5 per cent. upon their investment. At such time of course the Government would be fairly entitled to compel the Shareholders to raise the capital necessary for the completion of the works, which, however, they in their own interest would only be too glad to do, when enabled by their financial circumstances.

It is then evident, if matters come to a stand still, as they must, if no relief be afforded, that the Province would continue to pay the sum of £186,690 per annum, being the amount of interest on their Bonds, for some years to come.

If this position of affairs be assented to, it will not be difficult to devise a scheme more or less valuable for the relief of the Company, and which will effect all the objects in view, without entailing any additional sacrifice upon the Province.

But before so doing, permit me to shew that it is the existing Shareholders of this Company alone, who under any circumstances can be expected to raise the additional capital required; for which purpose the 7th Clause of 18 Victoria, Cap. 33, is quoted.

“ In case it should be deemed expedient by the said Grand Trunk Railway Company at any time or times hereafter to increase the Capital of the said Company, such increase may be effected by Resolution of the Directors of the said Company, sanctioned and approved by two-thirds at least of the Votes of the Shareholders present in person or by proxy, at a General Meeting convened with special notice of the intended object ;

“ and the further Capital so authorized may be raised by mortgage
 “ or Bond, or by the issue of new Shares of such denominations,
 “ and with such terms and conditions, and at such times and to
 “ such persons and in such manner as the Shareholders so present
 “ in person or by proxy, shall by the like proportion of votes ap-
 “ prove or direct ; Provided that no mortgage bond or issue of
 “ new Shares, under this Act, shall affect or impair the priority of
 “ the Government’s claim for any Government guarantee already
 “ given, or hereafter to be given to the Grand Trunk Railway
 “ Company of Canada, or affect or impair or postpone the security,
 “ by bond or mortgage of any individual upon the said road, with-
 “ out his consent in writing.”

It is thus seen that the consent of two-thirds of the Shareholders is necessary for the creation of any new capital at all, and that the consent of the Company’s Bondholders must be given to the creation of any preferential shares affecting or postponing their existing security.

Is it not also quite clear that the Shareholders who alone can be expected to subscribe the necessary £2,000,000 will only do so upon good evidence that by the additional subscriptions, their prospects during the next five years will be improved? Now it has been shewn by Table No. 1, of the Memorandum on the guarantee Scheme, that even if the western extension of the line be at once completed, the Shareholders cannot expect to divide more than two per cent on the average of the next five years ; consequently it is quite imperative that while calling upon them to improve the value of their depreciated property, by an additional outlay, the Scheme proposed should be calculated to improve their prospects, and thus to give confidence.

When I first had the honor of explaining in this Country the views of the Shareholders, I submitted their suggestions for complete relief viz : “ The Guarantee Scheme,” a Memorandum of which has already been circulated for the information of the public.

While thus fulfilling the first duty assigned to me, I did not fail at the same time, to develop any adequate or material Scheme of Relief which might be proposed, and I have not failed to perform this duty to the utmost of my power.

The Scheme of Relief which, after much consideration during the last four weeks, with persons of all opinions and of various social positions, seems to me, to be the most prevalent, is the conversion of the first mortgage of the Province into Stock of the Company, with power to raise, by preferential Shares of Bonds, upon the

whole amount the sum necessary for the completion of the Works, as follows:

No. 2.

1st. Preference Bonds of the Company.....	£2,000,000	
2nd. Company 6 per cent Bonds.....	2,144,500	
3rd. { Government Stock.....£3,111,500 }		8,262,400
{ Company Stock..... 3,006,400 }		

Such an evidence of willingness, on the part of the people of Canada, to share with the Stockholders the risks or profits of the undertaking, would be accepted by the public in England, as such a mark of confidence as would certainly justify and enable the Shareholders and Bondholders in their own interest, to raise the necessary sum by a first charge on the undertaking.

This proposal is the most simple, and failing the Guarantee Scheme, would be the most effectual. Several propositions have however been submitted for consideration, principally modifications between the total conversion of the mortgage of the Province into Stock, and the existing arrangements of the Company's Capital, as already explained; (No. 1); one only, however, to avoid confusion, would seem to me to be the most suitable for present consideration, and which would be adequate to enable the raising of the required funds, viz :

No. 3.

1st. Preferential Bonds of the Company.....	£2,000,000	
2d. { Company's 6 per cent Bonds..... }	2,144,500	
{ Provincial Bonds..... }	3,111,000	
{ The interest of the latter to be paid by }		
{ the Province for five years. }		
3rd. Share Capital.....	£3,006,400	

It is clear that, if the Provincial Mortgage be not converted into Stock of the Company, as by No. 2, the next thing is to place it on a level with the Company's Bonds, (No. 3) and to apportion the profits of the Line to the relative claims, but to make this scheme of any commercial value whatever, it is absolutely necessary that the interest upon the Province Bonds should be paid for the first five years, being the time remaining for the completion of the Line in all its intended development; thus allowing the Shareholders, during that time, a maximum, possible profit, of say 5 per cent on their investment, for if the profits are at once to be apportioned to the Province in respect of their claim, the manifest result is that nothing or at any rate not one per cent would be available for Dividend on the Stock.

At the end of five years, there can be no moral doubt that the development of traffic on the completion of the whole undertaking will be such as to afford 5 per cent to the Shareholders, in addition to all the first charges on the undertaking, when of course the apportionment of profits as above mentioned to the Province would commence.

It is then upon the condition of the payment of the interest upon the Government Bonds for the first five years that the success of the scheme No. 3 depends, and as it has already been assumed that if no relief be afforded and the remainder of the works after the completion of the line to Stratford be suspended, that the Province would not foreclose their first Mortgage and would not take any of the earnings of the line until the Shareholders had attained a reasonable return on their investment, and that therefore the Province would for several years be necessitated to pay the interest on their Bonds, is it not to the advantage of the Province at once to engage to pay that interest for five years and thus to enable the Shareholders to raise the necessary funds and rapidly to execute those works, the completion of which alone can possibly develop the traffic and ensure the continuance of that large increase in the value of all property in Canada which has already resulted since the commencement of the Railway system.

Believing therefore that the Public and the Legislature desire to pass such a measure into law as shall be adequate to raise the necessary sum of £2,000,000, the choice of measures is principally limited, (failing the Guarantee scheme),

First, To a conversion of the Province Bonds into Stock of the Company, being the most effectual measure.

Secondly, To the alternative of placing the Province Bonds upon the same footing as the Company's Bonds, and agreeing to pay the Interest for five years.

In each case permitting the Company to raise the £2,000,000 by preference Bonds.

Thus a very simple alternative is submitted and one which will readily be understood and decided upon, and I earnestly invite the Public and the commercial men of this Country to examine these statements and to declare how it would be possible for the Company to raise the necessary £2,000,000, if placed in any worse position than the second alternative above submitted.

It should be distinctly understood that the Shareholders are quite willing to have any alteration of the existing engagements between the Company and the Province, based upon a condition

that the line from St. Thomas to Stratford, exclusive of the Victoria Bridge, shall be completed in the current year, and on any other proper stipulations.

The adoption of the first or even of the second alternative above described, by affording the Company the means of extrication from their present embarrassments would avert the disastrous depreciation of the Company's Stock, which will necessarily result from a failure to obtain during the present session of the Canadian Parliament adequate or material relief, and would enable the rapid prosecution of all the works remaining to be completed after the opening of the Line from St. Thomas' to Stratford (exclusive of the Victoria Bridge), any delay in which would be most prejudicial to the development of the resources of the Country.

Apologizing for the hasty and imperfect manner in which these explanations and suggestions are necessarily submitted,

I have the honor to be, Sir,

Your very obedient &c.,

WILLIAM NAPIER,

On behalf of the Committee of
Shareholders of the G. T. R. C. of C.

To the Honorable

WILLIAM CAYLEY,
Inspector General,
&c., &c., &c.

INSPECTOR GENERAL'S OFFICE,

TORONTO, May 26, 1856.

SIR,

I have now the honor to acknowledge the receipt of your communications of the 7th, 12th and 14th instant, together with statistical tables and calculations.

These communications would have been acknowledged at an earlier period but for recent events and changes in the Government, which have rendered delay unavoidable.

I am also in receipt of your note of the 12th, in which you state, that it is due to me as well as to yourself, to inform me that you have in no way been a party, directly or indirectly, to the publication of a confidential and incomplete correspondence, and that mutual assurances of that secrecy which is imperative in such matters, had been given by yourself and the authorities of the

Grand Trunk Company, with whom it was your duty, pursuant to your instructions, to advise confidentially.

On this point, I beg to assure you, that no declaration on your part was necessary to satisfy the Government that the proceeding to which you refer, was had without your knowledge, and that you did not fail to impress upon the gentlemen you consulted, the irregularity of anticipating the close of your negotiations as the more convenient and usual period for giving publicity in matters of such importance.

Referring now to your communication of the 7th May, I observe in your prefatory remarks, an expressing of satisfaction that the Government acknowledge the principle that aid should be granted to the Grand Trunk enterprise in its depreciated financial condition: this observation seems to call for some notice to guard against misconception.

The Grand Trunk Railroad is justly regarded as an enterprise of primary interest to Canada, and promising materially to develop her resources when carried to completion. That the Government and Legislature have entertained this feeling, is abundantly shown by the provisions of the original Charter of incorporation granting Provincial aid, by the modifications introduced into the Railway Act in the autumn of 1854, at the desire of the Company, and again in the spring of 1855, by the addition of £900,000 to the Provincial guarantee.

The application now made by the Company for further aid arises, as I am informed by you, from the necessity to make other provision for funds adequate for the completion of the Railway, the present deficiency being principally due to the unlooked for depreciation of the Stock during the last twelve months.

This depreciation altho' deeply to be regretted, and productive of financial embarrassment to the Company, of no ordinary magnitude, arising out of the extent of the works in progress, does not in the opinion of the Government, constitute a claim as a matter of right to further Provincial aid; and while they appreciate the efforts made by the Company to carry on their engagements during a lengthened period of financial depression, and are prepared to consider any suggestions made for their relief, and to render every assistance which can be legitimately afforded, they desire that this point should be kept in view in the consideration of the important subject under discussion.

I have, now Sir, to make you acquainted with the views of the Government upon the further details, which tho' discussed in

conversation, have not been formally placed before you in writing; these details (founded on the assumption that the memorandum which I had the honor to communicate to you on the 6th, and to which the Government adhere, is acceptable to the Company as the basis of the present negotiations,) define the position in which, in the opinion of the Executive, the Provincial guarantee, should stand, and the mode in which provision might be made for the accruing interest while the works are in progress.

The Provincial guarantee at present stands as a first charge on the road, and consequently would stand second in the event of the authorized issue of preferential bonds, and would thus have a prior claim to all profits arising from the road after the Preference Bonds had been provided for until the interest was covered. This position if insisted on, might lead to some misgivings in the minds of the bondholders, that their interests would be prejudiced in standing behind five millions of prior claims.

With the view to meet any difficulty of this nature, and as an evidence of the conviction which the Government entertain that the road when completed will be remunerative, they will be prepared to recommend to the Legislature to place the Province claim, to dividend on the same footing with the Company's bondholders.

The second point, the payment of accruing interest, on the Province Bonds, while the works are in progress, may be provided for in one of two ways, either by adding it to the original guarantee, and thereby increasing the Provincial lien on the road, or by the Province receiving an equivalent in share capital until the works are completed, and the road in full working, and it is confidently expected in paying condition—this period as it is necessary to fix a limit may be taken at five years.

In adopting one or other of these two alternatives, the Government would be prepared to receive your suggestions on behalf of the Company.

I have now stated in substance the extent of aid which the Government would feel themselves justified in recommending to Parliament, and I will close this letter with a short explanation with reference to the auxiliary lines referred to in my memorandum of the 6th, viz : the two projected lines, to London in the West and Three-Rivers on the St. Lawrence, and those of Port Hope, Cobourg and Prescott. The following extract from your letter bears on this subject :

“ Assuming then that the Company assent, as no doubt they would under proper facilities, to the desire of the Government to make the additional arrangements contemplated in this memorandum, as an aid to the tributaries or feeders of the Grand Trunk, and which I have reason to believe, although forming no part of the existing contract, would nevertheless, in a general point of view, be beneficial to the Company.”

Upon this I have only to repeat my remark that it is in this point of view alone “ that these lines would prove beneficial to the Company,” that the Government have made the suggestions contained in my first memorandum, it is by no means their desire to impose fresh obligations involving the construction of new lines on the Company, but it is at the same time my duty to state that it is not in contemplation to abandon any sections of the line forming part of the undertaking, as defined by existing engagements.

The facilities to which you refer would have to be arranged with third parties, the Shareholders in these several roads, the action of the Government in this respect, being confined to the deferring the prior claim of the Province, so as to enable the Company to raise the necessary capital.

The Three-Rivers branch was first brought under my notice, if I am not mistaken, by the Engineer of the Grand Trunk, as calculated to form a valuable aid, and towards which the neighbouring townships were prepared to contribute £75,000.

The London branch has always been favourably received by the Grand Trunk authorities, and a deputation from London waited on the Directors of the Company last autumn, offering every assistance in their power towards the undertaking.

The Prescott line is at this moment admitted to be of very material assistance to the Grand Trunk, in sustaining the traffic returns of the road between Brockville and Montreal ; but I believe I have said enough to remove every misconception of the views of the Government on this head, in proposing to authorize the raising of means for all or any of these several objects.

It may be that one and all would prefer working independently of each other. The stake that the Province has in the Grand Trunk is, in the opinion of the Government, a sufficient ground to warrant the offer to promote such arrangements, mutually beneficial to the parties concerned, as promise to bring material aid to your enterprise, developing its traffic and opening up the country.

In conclusion, I beg you to believe that the Government, and not the Government only but the Province, appreciate the struggles made by the Company to bring this undertaking to a successful issue, and that the assistance offered, though falling short, it may be, of the expectation of the Company, is tendered in the earnest hope that it may prove effectual.

Thanking, you Sir, for the courteous tone of your communications,

I have the honor to be,

Your most obedient servant,

(Signed.) WM. CAYLEY,

Inspector General.

To the Honorable

WM. NAPIER.

R E P L Y

To the Letter of the 26th May, of the Honorable WILLIAM CAYLEY, Inspector General, by The Honorable WILLIAM NAPIER, on behalf of The Committee of Shareholders of the Grand Trunk Railway Company of Canada.

TORONTO, May 30th, 1856.

SIR,

I have the honour to reply to your favour of the 26th instant, received yesterday, acknowledging my communications of the 7th and 12th and 14th instant, and also my note of the 12th instant, and acquainting me "with the views of the Government upon the further details" (in respect to the proposed relief to the Grand Trunk Company) "which though discussed in conversation" have not been formally placed before me in writing, and "stating in substance the extent of aid" (to the Company) "which the Government would feel themselves justified in recommending to Parliament."

Before proceeding, Sir, to state, on behalf of the Shareholders, my adherence to the substance of the measure of relief thus proposed on the part of the Government, permit me to express my best thanks for the obliging terms in which you have acknowledged my note of the 12th instant, in reference to the unwarrantable publication in one of the Daily Journals of your letter to me and memorandum of the 6th instant.

It is necessary likewise that I should notice a misconception which has arisen from an observation in my letter of the 7th instant. It was never intended to convey an expression of opinion on be-

half of the Shareholders, that they seek for relief in their present embarrassments, as a matter of right ; I desired only to state my satisfaction that the Government, by their proposal, acknowledged the principle that, in the unfortunate juncture of affairs, arising from causes, many of which could never have been foreseen, it is as much in the interest of the Province as of the Company, to assist in the development of a scheme of relief, which, by mutual concessions and exertions, would furnish the Company with means successfully to carry out an enterprise which has already, in anticipation of its completion, contributed to an extraordinary advance in the assessed value for taxation of the real and personal property of the Province, as evinced by the increase in Upper Canada alone from—

£36,678,890 in 1852,

to

£57,142,108 in 1855,

and this at a time of War, when neighbouring States have suffered a considerable depreciation.

I have now the honor, Sir, to express my great satisfaction under existing circumstances (and assuming the consent of the Government to my choice of the alternatives offered respecting the consideration to be received by the Province for the Interest to be paid on their Bonds during five years), with the measure of financial aid to the Company, which the Government are prepared to recommend to Parliament during the present Session.

Assuredly, Sir, it cannot afford that complete relief which the Shareholders so confidently hoped for, when they respectfully submitted the Guarantee scheme to the consideration of the Province,—nor will it give as much confidence to the English public as would have resulted from the conversion of the Provincial mortgage into Company's Stock, as suggested in the Memorial of the Directors to His Excellency the Governor General ; but it will, in my opinion, afford very material relief, and justify and enable the subscription by the Shareholders of the funds necessary for the completion of the existing engagements between the Company and the Province. And remembering, Sir, as I do, the anxious negotiations on this subject in the past six weeks,—the extraordinary facilities which the Government have afforded me for official and private explanations and suggestions, and the various grave difficulties which have appeared to render any solution in the present Session, of the embarrassments of the Company, almost impracticable, I

desire frankly to acknowledge that, in my opinion, with the explanations which it will be my duty to give, the proposed measure will be accepted with gratitude by the Shareholders.

I now proceed to state, in figures—

First,—The order of apportionment of net profits under the existing constitution of the Company's Capital; and

Second,—The new position which would be assumed under the proposed Government measure.

First,—

Apportionment of net profits under existing arrangements :

1. By 6 per cent. on Provincial Bonds, to the amount of	£3,111,500
2. By Atlantic and St. Lawrence Lease or	£73,500
per annum.....
3. By 6 per cent. on Company's Bonds, to the amount of	2,144,500
4. By Company's Share Capital, to the amount of	4,306,400
	<hr/>
Total Capital.....	£ 9,562,400
	<hr/>

Second,—

Order of apportionment of net profits under the proposed measure :

1. By 6 per cent. on Company's preferential Bonds, to raise (for the completion of the Company's engagements and including certain other permissive arrangements, and also further expenditure not originally anticipated,) the sum of.....	£2,000,000
2. Atlantic and St. Lawrence Lease, as above.....
3. Apportionment of remaining profits :	
To 6 per cent. on Company's Bonds.....	£2,144,500
And to 6 per cent. on Provincial Bonds.	3,111,500
	<hr/>
	5,256,000
4. Company's Share Capital.....	3,006,400
	<hr/>
Total Capital.....	£10,262,400
	<hr/>

With an undertaking by the Province to pay the interest on their Bonds for five years, being the time necessary to enable the completion of the Railway and the development of the through traffic.

You, Sir, have pointed out two alternatives in respect of the nature of the consideration to be received by the Province for such payment of the interest on their Bonds, and have stated that

the Government are prepared to consider my suggestions thereon on behalf of the Company.

It is my duty, Sir, respectfully to state that if any equivalent be considered absolutely necessary in the case of the Railroad, and which has not been exacted by the Province under circumstances exactly similar, viz, the large outlay (in proportion to the then development of the country), made on roads, bridges, and other works which have been given up to the Public without any consideration, then, the conversion of such interest into share capital is the only course which could command confidence and which in my opinion would be assented to by the Shareholders.

By the conversion of such five years interest into Company Stock, the total Capital would be £11,189,800.

The only point, Sir, now remaining to be considered is the proposition that a portion of the £2,000,000, permitted to be raised by the Company on preferential Bonds, should, at their discretion, be applied to the execution and assistance of railway works other than those included in the existing engagements between the Company and the Province, and while I acknowledge that some of the projects, such as the aid proposed to the Port Hope, Cobourg, and Prescott Railway, would, from my own enquiries, prove remunerative to the Grand Trunk Company, if proper security should be given for the respective loans, yet, I desire Sir, to recall your attention to the statement in my letter of the 14th instant, shewing that the sum of £2,000,000, (embracing certain allowances for additionnal rolling stock and other accommodation for traffic and for interest on the preferential Bonds, which were not included in the calculations attached to the memorandum on the guarantee scheme, these having, for convenience at the time, been made on the basis of the original Capital of the Company), will, in round numbers be required for the satisfactory fulfilment of the engagements of the Company remaining to be completed after the opening of the Line from St. Thomas to Stratford.

Looking forward however, with confidence to brighter prospects within the next two years, I venture to express an opinion that the sum of £2,000,000, should be the maximum amount permitted to be raised by the Company by preferential Bonds, for all the purposes of present engagements (by arrangements with and under the control of the Government) and including the extra expenses, and the works and assistance additionally suggested by the Government, provided that the Government shall, in

the case of the additional lines of Railway, detailed in your Memorandum of the 6th instant, give to the Company, every assistance in their power, with the various Municipalities interested, and who shall be ready to afford their aid.

In conclusion, Sir, it will be gratifying indeed, to the Shareholders, after two years of doubts and of gloom, to receive the welcome assurance conveyed in your letter of "The conviction entertained by the Government that the Road when completed will be remunerative," and also of the due appreciation by the Government and by the Province of the struggles made by the Company during the protracted financial crisis which it is hoped will be terminated by the measure of relief now to be submitted to Parliament by the Government.

I have the honor, Sir, to thank you for the continued courtesy and obliging facilities I have received at your hands from the commencement of these negotiations, now, I hope to be as successfully concluded, as permitted by inherent difficulties and existing circumstances, and I beg leave, Sir, to remain.

Your very obediently
and respectfully,

WILLIAM NAPIER,

On behalf of the Committee of Shareholders
of the Grand Trunk Railway Company
of Canada.

To the Honorable
WILLIAM CAYLEY,
Inspector General,
&c., &c., &c.

NOTE.—All figures in this communication represent the amounts in *sterling*, unless *currency* is particularly stated.

No. 3.

(Copy.)

SIR,

I have the honor to enclose the copy of a letter I have received this afternoon from the Honorable John Ross, President of the Grand Trunk Railway Company, and also a copy of a Minute passed at a Board held this day for the purpose of receiving and

considering your letter to me of the 26th instant, and my reply of the 30th instant and concurring in the views expressed therein.

I have the honor to be,

Sir,

Your obediently and respectfully,

WILLIAM NAPIER,

On behalf of the Shareholders of
the G. T. R. Company.

The Honorable
WILLIAM CAYLEY,
Inspector General.

No. 4.

(Copy.)

TORONTO, 3RD JUNE, 1856.

MY DEAR SIR,

The Board Meeting summoned for this day in accordance with the request contained in your letter to me of yesterday's date was held this morning, and I have much pleasure in sending you a copy of the Minutes.

The Government Members of the Board, did not of course, desire to attend the meeting to pronounce an opinion in favour of their own measure, but you will observe that the Directors who were present, unanimously concurred in the views accepting the Government proposition.

Believe me, my dear Sir,

Yours very truly,

(Signed) JOHN ROSS.

The Honorable
WILLIAM NAPIER.

No. 5.

(Copy.)

A meeting of the Directors of the Grand Trunk Railway Company summoned by the President at the request of the Honorable William Napier, representative of the Committee of English

Shareholders, was held at the Speaker's Room of the Legislative Council on Tuesday, the 3rd June, 1856.

PRESENT :

E. P. TACHE,
JOHN ROSS,
GEORGE CRAWFORD,
W. H. PANTON,
JAMES BEATY,
G. F. WHITEMORE.

Letter from the Honorable W. Napier, to the President bearing date, 2nd Instant, was read. Copy of letter of Honorable W. Cayley of 26th May, setting forth the details of the scheme which the Government propose to recommend to Parliament to aid the Grand Trunk Railway Company, and Mr. Napier's reply bearing date the 30th instant, was also read, when it was unanimously resolved, by the Directors present representing the Shareholders, to concur in the views conveyed to Mr. Cayley by Mr. Napier in his letter of the 28th instant.

(Signed,) JOHN ROSS,
President.

And the Board adjourned.

TORONTO, June 6th 1856.

SIR,

It is, Sir, perhaps better that I should forward for your information the answer which I should otherwise have had the honour to address to the Honorable Col. Taché, in reply to his communication of this day's date, enclosing me the draft of an additional clause which it is proposed to add to the Resolutions in respect of the Grand Trunk Company, now to be moved by the Government in the House of Assembly, and also a copy of a joint letter of the 22nd November, 1854, by the Honorable John Ross and Sir Cusack Roney, President and Managing Director of the Company, addressed to J. C. Chapais, Esquire, M. P. P., and Joseph Cauchon, Esquire, M. P. P.

Taking Sir, into consideration and in connection with one another, the pledge and undertaking given in the above mentioned letter of the President and Managing Director of the Company, the observation in his communication of the Honorable the Premier of the Government, viz: "that the insertion of the proposed clause," will obviate some of the objections which have been raised against the proposed extension of relief, and being

personally able to confirm the latter representations, I feel justified in giving my adherence on the part of the Committee of Shareholders to the additional clause in question.

It is satisfactory also to be in possession of evidence by which I believe the proposed Line, would by good management, in a very short time, pay its own working expenses, and I cannot but look forward without apprehension to a more prosperous result than has hitherto been contemplated when the effect on the traffic of this Section, of the Resources to be anticipated and made available, by the completion of the Turnpike road from Rivière-du-Loup to the Frontiers of the Province of New Brunswick, is remembered—and keeping in view the ultimate extension of the Line to the Junction with the railways of New Brunswick and Halifax.

I have the honour to be

Sir

Your very obediently and respectfully,

WILLIAM NAPIER,

On behalf of the Committee of
Shareholders of the Gd. Tk. Ry. Co.
of Canada.

To the Honorable

WILLIAM CAYLEY,
Inspector General,
&c., &c., &c.

(Copy.)

QUEBEC, November 22d, 1856.

DEAR SIRS,

We beg on behalf of the Board of the Grand Trunk Railway Company of Canada, to give you this Pledge and Undertaking that the line from St. Thomas to L'Islet will be completed and opened for traffic on or before the 1st January 1857, and that the line from L'Islet to Rivière Ouelle will be completed and opened for traffic on or before the 1st January, 1859.

You are aware that under the powers of our present Bill, we can only get an extension of time for the construction of any portion of the Railway by authority of the Governor in Council, and we hereby authorize you to lodge this letter with the Provincial Secretary, in order that it may be a bar to the Company obtaining

any extension of time for the portion of the Railway above mentioned beyond the times we have above indicated.

We are, Dear Sirs,

Yours faithfully,

(Signed), JOHN ROSS, President.

C. P. RONEY, Managing Director.

J. C. Chapais, Esq. M. P. P.

Jos. Cauchon, Esq. M. P. P.