GOVERNMENT OF BRITISH COLUMBIA

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AUDITORS' REPORT

ON

Investigation into the Financial Relations of the Government with the Canadian Northern Pacific Railway Company up to December 31st, 1916, and as regards the Construction of Terminals, up to May 31st, 1917

BY

PRICE, WATERHOUSE & COMPANY

THE GOVERNMENT OF
THE PROVINCE OF BRITISH COLUMBIA.

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1917

FINANCIAL RELATIONS

OF THE

Government with the Canadian Northern Pacific Railway Company up to December 31st, 1916

VANCOUVER, B.C., May 12th, 1917.

To the President of the Executive Council
of the Provincial Government of British Columbia.

SIR,—In accordance with instructions received from the Honourable John Oliver, Minister of Railways and Agriculture, which were embodied in an Order in Council dated January 30th, 1917, we have conducted, in conjunction with our examination into the Provincial accounts, an investigation into the financial relations of the Government with the Canadian Northern Pacific Railway Company up to December 31st, 1916. Our examination, pending the receipt of further instructions, has been confined to the books kept in the Vancouver office of this Company, and has not included an examination of what may be termed the financial records, which we understand are kept in Toronto. We annex hereto statements as follows:—

Exhibit 1.—Statement of moneys deposited to the credit of the Minister of Finance in connection with the British Columbia Government's guarantee of the Canadian Northern Pacific Railway Company's main line securities sold and pledged up to December 31st, 1916; prepared from data obtained in the Government Treasury Department and from correspondence received by that Department from the Canadian Northern Pacific Railway Company.

Exhibit 2.—Statement of moneys deposited to the credit of the Minister of Finance in connection with the British Columbia Government's guarantee of the Canadian Northern Pacific Railway Company's branch lines securities pledged up to December 31st, 1916; prepared from data obtained in the Government Treasury Department and from correspondence received by that Department from the Canadian Northern Pacific Railway Company.

Exhibit 3.—Statement of moneys deposited to the credit of the Minister of Finance in connection with the British Columbia Government's guarantee of the Canadian Northern Pacific Railway Company's terminals securities sold up to December 31st, 1916; prepared from data obtained in the Government Treasury Department and from correspondence received by that Department from the Canadian Northern Pacific Railway Company.

Exhibit 4.—Statement showing summary of total construction cost to December 31st, 1916, of the Canadian Northern Pacific Railway Company's main line, branch lines, and terminals; prepared from those records of the Company produced for inspection at Vancouver.

Exhibit 5.—Statement showing divisional construction cost to December 31st, 1916, of the Company's main line; prepared from those records of the Company produced for inspection at Vancouver.

Exhibit 6.—Statement showing cost to December 31st, 1916, of each of the Company's branch lines; prepared from those records of the Company produced for inspection at Vancouver.

Exhibit 7.—Statement showing cost to December 31st, 1916, of each of the Company's terminals; prepared from those records of the Company produced for inspection at Vancouver.

Exhibit 8.—Statement of cost to December 31st, 1916, showing names of contractors and amounts earned by them for construction on the Company's main line, branch lines, and terminals; prepared from those records of the Company produced for inspection at Vancouver.

Exhibit 9.—Statement showing amounts that were payable to the Canadian Northern Pacific Railway Company in respect of work done on the main line to December 31st, 1916, according to subparagraph (*d*) of paragraph 9 of the agreement set forth in the Schedule to chapter 3, Statutes of 1910, our reading of which has been confirmed by the Attorney-General's Department.

Exhibit 10.—Statement showing amounts that were payable to the Canadian Northern Pacific Railway Company in respect of work done on the branch lines to December 31st, 1916, according to section 8 of chapter 57, Statutes of 1913, our reading of which has been confirmed by the Attorney-General's Department.

Exhibit 11.—Statement showing amounts that were payable to the Canadian Northern Pacific Railway Company in respect of work done on terminals to December 31st, 1916, according to section 7 of chapter 59, Statutes of 1913, our reading of which has been confirmed by the Attorney-General's Department.

With regard to the annexed statements and our investigation generally, we desire to report as follows:—

BRIEF GENERAL HISTORY.

The Canadian Northern Pacific Railway Company was incorporated by chapter 4 of the Statutes of 1910, with a share capital of $25,000,000, divided into 250,000 shares of $100 each.

The provisional directors were William Mackenzie, President of the Canadian Northern Railway Company; Donald D. Mann, Vice-President of the Canadian Northern Railway Company; Roderick J. Mackenzie, Contractor; David Blythe Hanna, Third Vice-President of the Canadian Northern Railway Company; and Andrew D. Davidson, Financier.

The Act incorporating the Company provided, *inter alia*:—

(1.) That the head office of the Company was to be in the City of Victoria, in the Province of British Columbia, or in such other place, as fixed by by-law of the Company, within British Columbia:

(2.) That the Company had authority to construct and operate railway-lines with a gauge of 4 feet 8½ inches within the Province of British Columbia, as follows:—

(*a.*) A line connecting with the main line of the Canadian Northern Railway Company at some point at or within the eastern boundary of the Province of British Columbia; thence through the Province, through the City of New Westminster, to a point in the City of Vancouver and also to a point at or near English Bluff, south of the Fraser River, a distance of approximately 500 miles:

(*b.*) From a point in the City of Victoria to a point on or near Barclay Sound, on the Island of Vancouver, a distance of approximately 100 miles:

(*c.*) Such other lines within the Province as may be from time to time authorized by order of the Lieutenant-Governor in Council:

(3.) That the money raised upon the capital stock of the Company was to be applied to the making, equipping, and maintaining of the railways which the Company was authorized to construct:

(4.) That the Company was to commence business as soon as $100,000 of capital stock was subscribed for and allotted, and as soon as 10 per cent. of this amount was paid into some chartered bank of Canada:

(5.) That the Company was empowered to issue and sell or pledge bonds, debentures, debenture stock, or other securities (not including preferred or common stock) to an amount not exceeding $60,000 a mile:

In addition to the above, the Company was authorized to issue securities for the purpose of acquiring, constructing, or obtaining any necessary or convenient terminal properties, etc.:

(6.) That the directors may pay or agree to pay in paid-up stock or in bonds or debentures of the Company such sums as they may deem expedient to engineers or contractors or for right-of-way or materials, plant, or rolling-stock:

(7.) That the Company may amalgamate, with the consent of the Lieutenant-Governor in Council, with the Canadian Northern Railway Company or such other company as may be approved as aforesaid.

The incorporation of the Canadian Northern Pacific Railway Company was effected pursuant to a previous agreement entered into by the Canadian Northern Railway Company with the

Hon. (now Sir) Richard McBride, as Minister of Mines for the Province of British Columbia, on January 17th, 1910. This agreement was given the effect of a Statute as Schedule (A) to chapter 3 of Statutes of 1910, and under it the Canadian Northern Railway Company covenanted, *inter alia:*—

(1.) That the Canadian Northern Pacific Railway Company "shall and will well, truly, and faithfully lay out, make, build, construct, complete, equip, maintain, and operate, or cause to be operated, continuously" the lines of railway before described in this report:

(2.) That the Canadian Northern Pacific Railway Company will commence or cause to be commenced the works provided for in the agreement within three months after the execution by the Government of the trust deeds securing the securities to be guaranteed by the Government, and that the said works shall be fully completed on the 1st day of July, 1914:

(3.) That the Canadian Northern Pacific Railway Company will erect and maintain within three miles of the City of Victoria all the workshops, repair-shops, and roundhouses which it may require in connection with the line to be constructed on Vancouver Island:

(4.) That the Canadian Northern Pacific Railway Company will provide and maintain adequate terminal facilities in connection with its business at the City of Vancouver and at the City of Victoria:

(5.) That the Canadian Northern Railway Company agrees to indemnify the Government against all payments which it may make under the terms of the agreement, and against all loss which it may be put to so far as the same shall be repayable by the Canadian Northern Pacific Railway Company, and against all interest which the agreement provides the Canadian Northern Pacific Railway Company will repay, and against all losses to which the Government may be put in enforcing its guaranteed securities as and when the same are payable, repayable, or incurred:

(6.) That the Canadian Northern Pacific Railway Company will furnish to the Government security for the construction and equipment of the aided lines, in accordance with the terms of the agreement, in the sum of $500,000, in a manner satisfactory to the Government:

(7.) That the Canadian Northern Pacific Railway Company shall cause to be legally issued bonds, debentures, debenture stock, or other securities for a total amount equal to $35,000 per mile for each of the two lines of railway to be aided under the terms of the agreement, payable in not less than thirty years, with interest at 4 per cent. per annum. The total number of miles of railway to be covered by such securities shall not exceed 600 miles in all:

(8.) That the Canadian Northern Pacific Railway Company will agree that it shall not apply at any time to be declared a work for the general advantage of Canada.

The Government agreed that it would guarantee as to principal and interest the securities above mentioned, and the agreement provided that, when they are so guaranteed, the securities should be delivered to the Canadian Bank of Commerce, or such other bank or banks as the Canadian Northern Pacific Railway Company and the Government may approve, to be delivered by the bank on the order of the Canadian Northern Pacific Company from time to time to the purchasers or pledgees thereof; and, upon the moneys realized by sale, pledge, or otherwise of such securities being paid directly by the purchaser, subscriber, pledgee, or lender into the bank, the Bank of Scotland, or Lloyds Bank, or such other bank or banks, as the case may be and as the Government may approve, to the credit of a special account or accounts in the name of the Minister of Finance for the Province of British Columbia, the balance at the credit of the said special account or accounts should be credited with interest at such rate as may be agreed upon between the Canadian Northern Pacific Railway Company and the bank holding same.

The agreement also provides that the balances standing to the credit of the Minister of Finance shall from time to time be transferred to the Canadian Northern Pacific Railway Company, in monthly payments, as far as practicable, as the construction of the aided lines of railway is proceeded with to the satisfaction of the Government; and from time to time, as the work of construction proceeds, the Government shall, out of the said balances, certify to the

bank the amount to be transferred to the credit of the Canadian Northern Pacific Railway Company, in monthly payments, as far as practicable, such sums as are justifiable, having regard to the proportions of work done, and material and supplies purchased for the railway, as compared with the whole work done and to be done thereon, pending completion of the aided lines. The interest earned on the balances standing to the credit of the Minister of Finance shall be transferred by the Government to the Canadian Northern Pacific Railway Company, to assist such Company in paying the interest accruing on any outstanding securities guaranteed by the Government.

The Government covenanted, *inter alia*:—

(1.) To convey to the Canadian Northern Pacific Railway Company by a free grant a right-of-way not exceeding 100 feet in width for the aided lines of railway, in so far as the same extends or shall extend through vacant Crown lands of the Province of British Columbia:

(2.) To convey to the Canadian Northern Pacific Railway Company by a free grant such vacant Crown lands of the Province of British Columbia as may be necessary for sidings, stations, embankments, cuts, bridges, culverts, drains, etc., in such locality and area as the Lieutenant-Government in Council may deem reasonable and necessary:

(3.) To license the Canadian Northern Pacific Railway Company free of charge to take from any vacant Crown lands of the Province of British Columbia, with the approval of the Chief Commissioner of Lands, all standing timber, gravel, and other material which may be necessary for the construction of the aided railway:

(4.) To convey to the Canadian Northern Pacific Railway Company by a free grant any vacant Crown lands which the Company may desire for the purpose of establishing divisional points or townsites along the aided lines. So far as the acreage belonging to the Government permits, these grants shall consist of 1,280 acres at each divisional point and 640 acres at each townsite. The land so to be granted shall be administered under the terms of an appropriate agreement between the Government and the Canadian Northern Pacific Railway Company, and shall provide that such of the granted lands as are not required for the railway purposes of the Company shall be administered by the Company as townsites for the joint benefit of the Government and the Company, in the proportion of two-thirds to the Company and one-third to the Government:

(5.) That the Canadian Northern Pacific Railway Company and its capital stock, franchises, income, tolls, and all properties and assets which form part of or are used in connection with the operations of its railway shall, until the 1st day of July, 1924, be exempt from all taxation whatsoever levied by, with, or under the authority of the Legislature of the Province of British Columbia:

(6.) To permit the Canadian Northern Pacific Railway Company the use of the Government bridge at Westminster for the purposes of the operation of the aided railway; the length of such bridge shall not be considered as guaranteed mileage:

(7.) That the time as fixed in the agreement for the completion of the aided lines may, for any reasonable cause, be extended by the Lieutenant-Governor in Council.

In the Statute ratifying the agreement it is provided that the Government may guarantee additional securities, not exceeding $35,000 per mile, for such additional lines of railway in the Province as may be agreed upon.

In addition to the securities guaranteed as before mentioned—viz., $21,000,000 (being 600 miles at $35,000 per mile)—the Province has under further enactments guaranteed as to principal, and interest at 4½ per cent., securities as follows:—

(1.) For the purpose of aiding the Company in the construction of its branch lines, 339 miles at $35,000 per mile	$11,865,000 00
(2.) For the purpose of further aiding the Company in the construction of its branch line from New Westminster Bridge to Vancouver, 11 miles at $10,000 per mile	110,000 00
(3.) For the purpose of further aiding the Company in the construction of its main line, 500 miles at $10,000 a mile	5,000,000 00
(4.) For the purpose of aiding the Company in the construction of its terminals	10,000,000 00

EXHIBIT 1.

It will be noted that the total main line securities guaranteed by the Government is $26,000,000. This amount is constituted as follows:—

500 miles at $35,000 per mile	$17,500,000 00
500 miles at $10,000 per mile (additional)	5,000,000 00
100 miles at $35,000 per mile	3,500,000 00
Total	$26,000,000 00

We are informed by F. C. Gamble, Esq., the Government's Chief Railway Engineer, that the actual length of the main line, other than that portion on Vancouver Island, is 498.6 miles, and there may, therefore, as between the Government and the Company, be an overguarantee in respect of 1.4 miles amounting to $63,000.

It will be noticed that the cost of disposing of the First Mortgage Guaranteed 4-per-cent. Debenture Stock amounted to £171,600 18s. 10d., or approximately 4.57 per cent. We have been unable to obtain an analysis of this amount, and whether or not it is excessive would depend on the rate of discount (if any) at which the securities were sold.

We have been advised by the Company's Toronto office that the deduction of £19,056 12s. 9d. represents accrued interest on the securities sold, and that this sum was held in London and applied towards paying interest on the Company's securities. The advice states that the accrued interest on securities at the date of sale was included in the purchase price.

It was stipulated by Order in Council that the Company's main line securities were not to be pledged below 80 per cent. It will be observed that securities amounting to £4,000 have been pledged at approximately 50 per cent.

We have, through the Deputy Minister of Finance, requested the Company to ask the registrar of its securities to confirm direct to us the total amount of main line securities sold and pledged up to December 31st, 1916. We have not as yet received this confirmation.

We have been informed that the Company's main line is not yet completed, and in this connection it will be observed that all the proceeds of the main line securities guaranteed by the Government have been released.

EXHIBIT 2.

It will be observed that the total securities guaranteed by the Government in respect of the Company's branch lines is $11,975,000, and that securities amounting to $5,543,527.50 have been pledged up to December 31st, 1916, leaving securities with a par value of $6,431,472.50 available for issue. The Government's guarantee is on the basis of $35,000 per mile for 339 miles and an additional $10,000 per mile for eleven miles, made up as follows:—

Westminster Bridge to Vancouver	11 miles.	
Westminster Bridge to Steveston	15 „	
Victoria to Union Bay (now Patricia Bay)	18 „	
Extension, Barclay Sound North	150 „	
Kamloops-Vernon Branch	145 „	
Total	339 miles at $35,000 per mile,	$11,865,000
Additional guarantee, Westminster Bridge to Vancouver, 11 miles at $10,000 per mile		110,000
Total		$11,975,000

It is stated on page 4 of the report dated December 1st, 1916, made by the Government's Chief Railway Engineer, that the line from Victoria to Patricia Bay is completed, and that the length of the line is 15.2 miles, and not 18 miles as mentioned in the Statute. There may, therefore, as between the Government and the Company, be an overguarantee in respect of 2.8 miles amounting to $98,000.

We have been unable to obtain information as to the exact nature of the deduction for interest and commission, amounting to £30,745, which makes the net amount realized approximately 66.65 per cent., which is 3.35 per cent. below the minimum as fixed by Order in Council

dated October 20th, 1915. As far as we could ascertain, this deduction was not authorized by an Order in Council. From the information available, it is not clear why an amount should be deducted for interest from the proceeds of securities pledged.

We have, through the Deputy Minister of Finance, requested the Company to ask the registrar of its securities to confirm direct to us the total amount of branch lines securities sold and pledged up to December 31st, 1916. We have not as yet received this confirmation.

It will be observed that $2,978,455.36 have been released from the proceeds of guaranteed branch lines securities up to December 31st, 1916. The balance of cash in bank at December 31st, 1916—viz., $860,652.31—has been reconciled with a certificate received by us from the depositary.

EXHIBIT 3.

It will be observed that the total amount of the Government's guarantee in respect of the Company's terminals is $10,000,000 (which is $671,175 less than the total prospective cost as shown on Exhibit 11), and that securities amounting to $8,614,000 have been sold up to December 31st, 1916, leaving securities still available for issue amounting to $1,386,000.

The cost of issue of the terminal securities sold amounts to £124,425, of 7.03 per cent. We have been unable to obtain an analysis of this amount, and whether or not it is excessive would depend on the rate of discount at which the securities were sold. The amount of £8,245 12s. 10d. represents accrued interest on securities to date of sale. We are advised that this amount was included in the purchase price and was retained in London to apply towards payment of interest on the Company's securities.

It will be noted that up to December 31st, 1916, the amount of $3,614,977.31 had been released to the Company out of the proceeds of terminal securities. The balance of cash in bank at December 31st, 1916—viz., $4,339,837.12—has been reconciled with a certificate received by us from the depositary.

EXHIBITS 4, 5, 6, 7, AND 8.

It will be observed from Exhibit 4 that the total cost to December 31st, 1916, of the Company's main line, branch lines, and terminals, as shown by those books of the Company which were produced to us at Vancouver, is $46,794,611.90, and that towards this total cost the Government had, up to December 31st, 1916, released out of the proceeds of guaranteed securities the sum of $30,104,970.31. We have been unable to ascertain from what source the Company obtained the additional moneys expended—viz., $16,689,641.59—as represented by the difference between the total moneys released and the total cost as shown on Exhibit 4.

The details of which Exhibit 4 is a summary will be found on Exhibits 5, 6, 7, and 8. It will be noted on reference to Exhibit 8 that the total value of construction-work done by contractors to December 31st, 1916, amounts to $30,306,145.05, and that the greater portion of this work was done by the Northern Construction Company, Limited, either as separate contractors or jointly with other contractors. We have been unable to ascertain whether the contracts and sub-contracts were let by tender or otherwise.

The resident engineers' estimates supporting the amount of work done by contractors, as shown on Exhibit 8, were verified as to quantities and classifications with the estimates furnished to the Company's auditor by its chief engineer. The arithmetical accuracy of the estimates was tested by us, and the prices used in the chief engineer's estimate were verified by comparison with those mentioned on the schedules attached to copies of the contracts produced. We were informed that the original contracts duly signed and executed are on file in the Company's office at Toronto. Mr. T. H. White, the Company's chief engineer, has certified that the contracts produced were true and correct copies of the originals. The contracts in all instances were made with Mackenzie, Mann & Company, Limited.

We were informed that neither Mackenzie, Mann & Company, Limited, nor Sir William Mackenzie, nor Sir Donald Mann were connected or interested in any way with the Northern Construction Company, Limited, nor with any of the other contractors mentioned on Exhibit 8. Information was furnished to us to the effect that Mackenzie, Mann & Company, Limited, were to receive from the Canadian Northern Pacific Railway Company certain commissions, etc., as consideration for acting as its fiscal agents and for supervising the construction of its lines, terminals, etc. We have not been able to ascertain what amount (if any) was paid to Mackenzie, Mann & Company, Limited, in this connection.

All of the items constituting the total cost shown on Exhibit 4 have been paid, according to those records of the Company which were produced to us at Vancouver, with the exception of $792,198.27, which amount represents contractors' retentions amounting to $203,360.77 and sundry items outstanding amounting to $588,837.50.

A comprehensive test was made by us of the vouchers substantiating the payments made up to December 31st, 1915. The vouchers for payments made for the year 1916 were not available for our inspection. We were informed by Mr. J. E. Haight, the Company's auditor at Vancouver, that the vouchers covering these payments were in Toronto.

It will be observed on reference to Exhibit 8 that the Company has executed work to the value of $6,550,757.78, and that this amount chiefly represents pay-rolls and cost of materials in connection with bridge-work, etc., carried out by the Company itself on the Yellowhead Pass Division of the main line. No engineer's estimates covering this work were produced for our inspection.

Main line—	
Engineering location	$ 431,790 18
Engineering construction	1,886,584 52
Overhead charges	344,274 12
Victoria and Patricia Bay—	
Engineering location	14,870 39
Engineering construction	58,428 83
Overhead charges	11,487 55

We are assured by the Government's Chief Railway Engineer that the above items of cost (as shown on Exhibits 5 and 6) are not excessive when compared to similar charges entering into the construction of other railways.

Right-of-way	$3,172,026 66
Real-estate terminals	3,154,979 68

A comprehensive test was made by us of the title deeds for the property comprising the above, as shown on Exhibit 4, with the result that those examined were all found to be in the name of the Company. Mr. J. E. Haight has certified to us that the title to all right-of-way and real estate purchased by the Canadian Northern Pacific Railway Company in connection with its main line, branch lines, and terminals is vested in the Canadian Northern Pacific Railway Company. We ascertained, however, that this certification did not include all the right-of-way and real estate used by the Canadian Northern Pacific Railway Company in connection with its lines and terminals, and we were informed that this is occasioned by the fact that in many instances agreements to purchase right-of-way and real estate have not as yet been completed.

It will be observed on reference to Exhibit 6 that the Company has acquired right-of-way in connection with the line from Westminster Bridge to Vancouver, between which points, we understand, the Company has running rights over the tracks of the Great Northern Railway Company. The Government's Chief Railway Engineer has informed us that he has eliminated the cost of this right-of-way from the estimate submitted by the Company.

We were informed that the real estate amounting to $572,415.06 acquired by the Company for terminal purposes at Port Mann, as shown on Exhibit 7, was purchased from Mr. A. D. McRae, who was acting for the Port Mann Townsite Company, and that the purchase price was fixed by Mr. McLeod, General Manager of the Canadian Northern Pacific Railway Company.

As far as we have been able to ascertain, none of the lands granted to the Company, pursuant to subparagraph (*d*) of paragraph 12 of the agreement set forth in the Schedule to chapter 3, Statutes of 1910, for townsite purposes have as yet been subdivided, and that, therefore, up to December 31st, 1916, nothing was due to the Government in respect of its third interest in these lands.

Maintenance	$333,010 19

We were informed that this amount represents the cost of keeping the road in good order until it was finally completed.

V. & B.S. charter	$27,601 82
Vancouver Island & Eastern Railway	25,000 00

We have been unable to ascertain what these two items represent. It is the impression, however, of the officials at the Company's office at Vancouver that they represent the purchase price of certain franchise rights acquired by the Canadian Northern Pacific Railway Company.

Purchase of New Westminster Southern Railway $256,500 00

This represents the cost of nine miles of line purchased from the above Company on Division No. 1 of the Canadian Northern Pacific Railway Company's main line. We were informed that the amount of the purchase was paid in Toronto. No receipt for the amount paid was produced to us.

Overhead $426,504 10

The individual items comprising the above will be seen on the detailed Exhibits 5, 6, and 7. The overhead charges have not been allocated to the various lines and terminals on the Company's books at Vancouver. We have apportioned the charges under this heading to the various lines and terminals of the Company on a basis of cost to December 31st, 1916. We have not included in this charge interest on bank overdrafts during construction amounting to $3,872,450.31, nor interest on the guaranteed securities during construction, as it would appear that the inclusion of these items would not be in conformity with the clauses (in the Statutes pertaining to the Government's railway guarantees) dealing with the transfer by the Government to the Company of the interest earned on the proceeds of the guaranteed securities standing to the credit of the Minister of Finance.

EXHIBIT 9.

According to our interpretation of the Statutes governing the payment to the Company for the proportionate value of work done to December 31st, 1916 (which has been confirmed by the Attorney-General's Department), there have been amounts paid in excess as follows:—

Exhibit 9—Main line	$2,426,927 81
Exhibit 10—Branch lines	2,127,519 29
Exhibit 11—Terminals	1,117,117 52
Total	$5,671,564 62

We have not calculated the amounts paid in excess in respect of each branch line or terminal or of each of the two sections of the main line, as it is evident from the mortgages securing the guaranteed debenture stock that the security for the stock sold and pledged is the completed lines and terminals.

We have assumed that the final length of the main line and the adjusted length of the total branch lines, as determined by the Government's Chief Railway Engineer, was ascertained and known to the Minister of Railways on or before the date on which the last moneys were released in the case of the main line, and on or before December 31st, 1916, in the case of the branch lines. We are assured by the Government's Chief Railway Engineer that the final length of the main line and the adjusted length of the branch lines do not include the length of the Government's bridge at New Westminster, nor the length of the line over which the Company has running rights from this bridge to the City of Vancouver.

The total prospective cost of the Company's main line, branch lines, and terminals as at December 31st, 1916, was obtained by us from the Government's Chief Railway Engineer. As no estimates for work done were submitted by the Company after the dates on which the proceeds of guaranteed securities were exhausted, we have had to assume, in ascertaining the amounts paid in excess, that all items entering into the value of work done and not covered by the estimates furnished to the Government would be passed by the Government's Chief Railway Engineer. The amounts eliminated by the Government Railway Department from the estimates submitted consist principally of real estate.

It will be observed that we have taken the net amount credited to the Minister of Finance in respect of guaranteed securities sold and pledged as being the amount of the Government's guarantee for the purpose of ascertaining the amount payable to the Company for the proportionate value of work done. The fact that there are guaranteed securities still available for issue does not, in our opinion (which has been confirmed by the Attorney-General's Department), render any adjustment necessary. As the securities guaranteed by the Province in respect of the main line, branch lines, and terminals are secured by both sections of the main line, all of the branch lines, and all of the terminals, respectively, there can, therefore, only be released such proportion of the proceeds of guaranteed debenture stock as the value of work done bears to the total prospective cost in each case.

We have noticed that the Government's Chief Railway Engineer, in his letters addressed to the Minister of Finance from time to time, has, in effect, recommended that the total value of work done on the Company's main line, as shown on the estimates submitted, be transferred out of the proceeds of guaranteed securities to the credit of the Company. In the case of work done on the branch lines and terminals, the amounts of the estimates (with the exception of the first ones submitted) have not been recommended for payment, but commended to the consideration of the Government.

It is mentioned in the various Statutes relating to the Government's guarantees that the proceeds of guaranteed securities credited to the Minister of Finance shall not be construed as being public moneys received by the Province. This has the effect, we understand, of placing these funds outside the jurisdiction of the Auditor-General's Department. We are of the opinion that authority should be given (by Statute or otherwise) to the Auditor-General to audit all payments proposed to be made from moneys standing to the credit of the Government in connection with the securities which have been guaranteed by the Province.

GENERAL.

In the Statutes pertaining to the Government's guarantee of railway securities there appears to be no provision for the creation at any time of a sinking fund, either out of earnings or otherwise, for the redemption at maturity of securities guaranteed by the Province.

Section 28 of chapter 4, Statutes of 1910, states, *inter alia*, that the Canadian Northern Pacific Railway Company shall have power to issue and sell or pledge bonds, debenture stock, or other securities (not including preferred or common stock or securities issued for terminal purposes) to an amount not exceeding $60,000 per mile. We have been unable to ascertain what securities (other than those mentioned herein), if any, have been issued in conformity with the above, or what aid the Company obtained other than the Provincial guarantees.

In this connection it will be observed that the total prospective cost of the Company's main line and branch lines, as mentioned in Exhibits 9 and 10, is $61,738,843.90, or $66,044.97 per mile, or a total excess of $5,650,843.90 over the borrowing powers of the Company as fixed by the Statute of Incorporation. This is important when it is remembered that, according to the Statute of Incorporation, the Company's capital stock is not to exceed $25,000,000, and, according to information furnished to us, $24,960,000 of this capital stock has been issued for consideration other than cash.

We have observed that the Dominion Trust Company is one of the trustees mentioned in the mortgage dated June 23rd, 1914, securing 4½-per-cent. Second Charge Guaranteed Debenture Stock to the extent of $10,000 per mile on the Mainland section of the Canadian Northern Pacific Railway Company's main line. We understand that the Trust Company above mentioned is in liquidation, and it would therefore appear necessary that another trustee be substituted.

The security for the guaranteed bonds as mentioned in the various mortgages is stated to be upon the specific lines and terminals to be aided, and upon the tolls, incomes, rents, and revenues thereof, and upon the rolling-stock, equipment, and property of the Canadian Northern Pacific Railway Company acquired for the purpose of and used in connection with the aided lines, etc. Information as to who owns the equipment and rolling-stock, etc., used on the aided lines was not available, but the general understanding is that it is vested in a corporation other than the Canadian Northern Pacific Railway Company.

The dates fixed by Orders in Council on or before which the aided lines of the Canadian Northern Pacific Railway Company are to be completed are as follows:—

	Miles.	Date on or before which Lines are to be completed.
Vancouver Island, extension Barclay Sound North	150	July 1st, 1917.
Kamloops to Vernon, thence to Lumby, etc.	145	
Westminster Bridge to Vancouver	11	July 1st, 1917.
Westminster Bridge to Steveston	15	
Victoria to Union Bay (now Patricia Bay)	18	May 1st, 1917.
Main Line Section on Vancouver Island to Barclay Sound,	100	July 1st, 1917.

We have examined share certificates, agreements, etc. (as shown below), deposited as securities for the construction and equipment of the aided lines.

Main Line.—Securities deposited pursuant to sub-paragraph (*n*) of paragraph 7 of the agreement set forth in the Schedule to chapter 3, Statutes of 1910:—

Stock Certificates Nos. 22 to 26, inclusive, each for 1,000 shares of $100 each, fully paid up, in the capital stock of the Canadian Northern Railway Company, dated Toronto, July 16th, 1902, in the name of Mackenzie, Mann & Company, Limited, endorsed in blank $500,000 00

Branch Lines.—Vancouver Island (extension, Barclay Sound North); Kamloops to Vernon, thence to Lumby, etc. Securities deposited pursuant to subsection (2) of section 6, chapter 32, Statutes of 1912:—

Stock Certificate No. 90 for 1,000 shares of $100 each, fully paid up, in the capital stock of the Canadian Northern Railway Company, dated Toronto, February 26th, 1914, in the name of Mackenzie, Mann & Company, Limited, endorsed in blank $100,000 00

Westminster Bridge to Vancouver.

Westminster Bridge to Steveston.

Victoria to Union Bay (now Patricia Bay).

There appears to be no provision in the Statute for the deposit of securities in connection with the above lines.

Additional Guarantee.—In respect of the Mainland section of the main line and the branch line from Westminster Bridge to Vancouver. Securities deposited pursuant to subsection (2) of section 5, chapter 61, Statutes of 1914:—

Stock Certificate No. 91 for 10,000 shares of $100 each, fully paid up, in the capital stock of the Canadian Northern Railway Company, dated Toronto, May 22nd, 1914, in the name of Mackenzie, Mann & Company, Limited, endorsed to His Majesty the King, represented by the Hon. the Minister of Railways of the Province of British Columbia $1,000,000 00

The above security is deposited subject to certain conditions as set out in the agreement dated May 22nd, 1914, between the Canadian Northern Railway Company of the first part, and the Canadian Northern Pacific Railway Company of the second part, Mackenzie, Mann & Company, Limited, of the third part, and His Majesty the King, representing the Province of British Columbia by the Hon. the Minister of Railways of the said Province, of the fourth part.

Section 6 of chapter 61, Statutes of 1914, requires that security be deposited amounting to $100,000. As far as we could ascertain, no securities were deposited pursuant to the above. A letter, however, attached to Stock Certificate No. 90 for 1,000 shares of $100 each, fully paid up, in the capital stock of the Canadian Northern Railway Company, deposited as before mentioned, pursuant to subsection (2) of section 6, chapter 32, Statutes of 1912, would appear to show that it was agreed between the Canadian Northern Pacific Railway Company and the then Attorney-General (the Hon. W. J. Bowser) that the capital stock deposited under subsection (2) of section 6, chapter 32, Statutes of 1912, should also be taken as the security required under section 6, chapter 61, Statutes of 1914.

Terminals.—There appears to be no time fixed in the Statute on or before which the Company's terminals are to be completed, nor any provision for the deposit of securities in connection therewith.

The foregoing report and the attached exhibits may be, and probably are, incomplete by reason of our not having had access to all the records of the Company, and they are submitted subject in every way to the information which may be contained in those records of the Company which were not produced for our inspection.

In conclusion, we desire to acknowledge our appreciation of the facilities afforded us in conducting our investigation by the auditor and office staff of the Company at Vancouver.

We have the honour to be,

Sir,

Your obedient servants,

PRICE, WATERHOUSE & Co.

Exhibits.

EXHIBIT 1.—STATEMENT OF MONEYS DEPOSITED TO THE CREDIT OF THE MINISTER OF FINANCE IN CONNECTION WITH THE BRITISH COLUMBIA GOVERNMENT'S GUARANTEE OF THE CANADIAN NORTHERN PACIFIC RAILWAY COMPANY'S MAIN LINE SECURITIES SOLD AND PLEDGED UP TO DECEMBER 31ST, 1916; PREPARED FROM DATA OBTAINED IN THE GOVERNMENT TREASURY DEPARTMENT AND FROM CORRESPONDENCE RECEIVED BY THAT DEPARTMENT FROM THE CANADIAN NORTHERN PACIFIC RAILWAY COMPANY.

	Par Value. £ s. d.		Deduct.	£ s. d.		Amount realized. £ s. d.
Securities sold—						
First Mortgage Guaranteed 4% Debenture Stock ...	3,757,515 0 0		Interest paid in London on C. N. P. R. Co.'s securities ...	19,056 12 9		
			Cost of issue	171,600 18 10	or approx. 4.57%	3,566,857 8 5
Securities pledged—						
First Mortgage Guaranteed 4% Debenture Stock ...	553,553 0 0		Discount	110,710 12 0	or approx. 20%	442,842 8 0
First Mortgage Guaranteed 4% Debenture Stock ...	4,000 0 0		Discount	1,961 19 2	or approx. 50%	2,038 0 10
Second Mortgage Guaranteed 4½% Debenture Stock	1,027,397 5 2		Discount	205,479 13 2	or approx. 20%	821,917 12 0
Totals	£5,342,465 5 2			£508,809 15 11		£4,833,655 9 3
	equivalent at $4.866 to £1 $26,000,000 00					equivalent at various remittance rates of exchange to

Amount credited to Minister of Finance in respect to securities sold and pledged*	$23,511,537 64
Interest earned on bank balances to November 30th, 1916†	240,672 68
Total deposited to credit of Minister of Finance	$23,752,210 32
Total main line securities guaranteed by the British Columbia Government (maturity date, April 2nd, 1950)	$26,000,000 00
Securities sold and pledged as above	$26,000,000 00

* This amount has been released (under authority of Orders in Council) to the Canadian Northern Pacific Railway Company on certified estimates for work done submitted to the Government up to December 31st, 1916.

† This amount has been released to the Canadian Northern Pacific Railway Company in accordance with subparagraph (*d*) of paragraph 9 of the agreement set forth in the Schedule to chapter 3, Statutes of 1910.

EXHIBIT 2.—STATEMENT OF MONEYS DEPOSITED TO THE CREDIT OF THE MINISTER OF FINANCE IN CONNECTION WITH THE BRITISH COLUMBIA GOVERNMENT'S GUARANTEE OF THE CANADIAN NORTHERN PACIFIC RAILWAY COMPANY'S BRANCH LINES SECURITIES PLEDGED UP TO DECEMBER 31ST, 1916; PREPARED FROM DATA OBTAINED IN THE GOVERNMENT TREASURY DEPARTMENT AND FROM CORRESPONDENCE BY THAT DEPARTMENT FROM THE CANADIAN NORTHERN PACIFIC RAILWAY COMPANY.

Securities pledged—	Par Value. £ s. d.	Deduct.	£ s. d.		Amount realized. £ s. d.
First Mortgage Guaranteed 4½% Debenture Stock..	58,581 0 0	Discount	11,716 4 0	or 20%	46,864 16 0
First Mortgage Guaranteed 4½% Debenture Stock..	417,000 0 0	Discount	117,000 0 0	or approx. 28%	300,000 0 0
First Mortgage Guaranteed 4½% Debenture Stock..	663,500 0 0	Discount	190,500 0 0	or approx. 28.71%	442,255 0 0
		Interest and commission	30,745 0 0	or approx. 4.64%	
Totals	£1,139,081 0 0		£349,961 4 0		£789,119 16 0
	equivalent at $4.866 to £1 $5,543,527 50				equivalent at various remittance rates of exchange

Amount credited to Minister of Finance in respect of securities pledged*	$3,839,107 67
Interest earned on bank balances to November 30th, 1916†	68,574 59
Total deposited to credit of Minister of Finance	$3,907,682 26
Total branch lines securities guaranteed by the British Columbia Government (maturity date, April 2nd, 1950)	$11,975,000 00
Securities pledged as above	5,543,527 50
Securities unissued	$ 6,431,472 50

* $2,978,455.36 of this amount has been released (under authority of Orders in Council) to the Canadian Northern Pacific Railway Company on certified estimates for work done submitted to the Government up to December 31st, 1916.

† This amount has been released to the Canadian Northern Pacific Railway Company in accordance with section 8 of chapter 57, Statutes of 1913.

EXHIBIT 3.—STATEMENT OF MONEYS DEPOSITED TO THE CREDIT OF THE MINISTER OF FINANCE IN CONNECTION WITH THE BRITISH COLUMBIA GOVERNMENT'S GUARANTEE OF THE CANADIAN NORTHERN PACIFIC RAILWAY COMPANY'S TERMINALS SECURITIES SOLD UP TO DECEMBER 31ST, 1916; PREPARED FROM DATA OBTAINED IN THE GOVERNMENT TREASURY DEPARTMENT AND FROM CORRESPONDENCE RECEIVED BY THAT DEPARTMENT FROM THE CANADIAN NORTHERN PACIFIC RAILWAY COMPANY.

Securities sold—	Par Value. £ s. d.		Deduct. £ s. d.	Amount realized.
First Mortgage Guaranteed 4½% Debenture Stock..	1,770,000 0 0	Interest paid in London on C.N.P.R. Co.'s securities..	8,245 12 10	
		Cost of issue	124,425 0 0 or 7.03%	
Totals	£1,770,000 0 0		£132,670 12 10	£1,637,329 7 2
	equivalent at $4.866 to £1 $8,614,000 00			equivalent at various remittance rates of exchange

Amount credited to Minister of Finance in respect of securities sold*	$7,954,814 43
Interest earned on bank balances†	558,261 69
Total deposited to credit of Minister of Finance	$8,513,076 12
Total terminal securities guaranteed by the British Columbia Government (maturity date, April 2nd, 1950)	$10,000,000 00
Securities sold as above	8,614,000 00
Securities unissued	$ 1,386,000 00

* $3,614,977.31 of this amount has been released (under authority of Orders in Council) to the Canadian Northern Pacific Railway Company on certified estimates for work done submitted to the Government up to December 31st, 1916.

† This amount his been released to the Canadian Northern Pacific Railway Company in accordance with section 7 of chapter 59, Statutes of 1913.

EXHIBIT 4.—STATEMENT SHOWING SUMMARY OF TOTAL CONSTRUCTION COST TO DECEMBER 31ST, 1916, OF THE CANADIAN NORTHERN PACIFIC RAILWAY COMPANY'S MAIN LINE, BRANCH LINES, AND TERMINALS; PREPARED FROM THOSE RECORDS OF THE COMPANY PRODUCED FOR INSPECTION AT VANCOUVER.

	Main Line.		Branch Lines.	Terminals.	Together.
	Mainland.	Vancouver Is.			
Engineering location	$ 360,367 45	$ 71,422 73	$ 277,630 49	$ 614 07	$ 710,034 74
Right-of-way	553,453 23	573,631 25	2,044,942 18	....	3,172,026 66
Real estate (terminals)	....	....	....	3,154,979 68	3,154,979 68
Engineering construction	1,631,507 00	255,077 52	190,134 65	50,423 75	2,127,142 92
Clearing	494,135 90	198,668 87	123,247 39	8,537 75	824,589 91
Grubbing	119,530 09	56,432 33	14,667 77	29,724 75	220,354 94
Grading	18,810,045 77	1,139,176 46	1,403,914 88	8,319 08	21,361,456 19
Bridges and culverts	4,562,338 20	320,191 22	237,827 37	1,829 67	5,122,186 46
Rails and fastenings	3,350,949 98	1,685 97	178,965 05	16,311 36	3,547,912 36
Ties	478,836 47	250 20	30,546 70	3,953 30	513,586 67
Switches and frogs	33,237 58	243 50	10,495 43	1,451 76	45,428 27
Track-laying	327,473 69	425 92	48,063 77	989 23	376,952 61
Ballasting	685,955 90	....	43,937 98	971 26	730,865 14
Station and freight-sheds	163,412 93	....	....	63,842 32	227,255 25
Water-stations	139,388 02	....	2,227 62	9,196 59	150,812 23
Crossings and cattle-guards	34,238 06	403 40	6,402 13	....	41,043 59
Telegraph-lines	127,328 00	....	3,550 59	....	130,878 59
Fencing	118,403 60	38,716 98	21,426 21	....	178,546 79
Ballast-pits	33,443 55	1,324 92	3,150 70	....	37,919 17
Maintenance	324,537 71	19 50	8,452 98	....	333,010 19
Tunnels and subways	1,948,709 79	....	....	....	1,948,709 79
Shops and engine-houses	191,497 28	....	....	224,243 66	415,740 94
Draining and sewers	618 38	....	....	58,313 99	58,932 37
Coal docks and stations	10,489 63	....	....	....	10,489 63
Snow-sheds	18,776 19	....	....	....	18,776 19
Kamloops spur	53,627 80	....	....	....	53,627 80
Ice-house	....	....	....	4,178 58	4,178 58
Track-scales	....	....	....	7,512 71	7,512 71
Ferry-slips	....	....	....	65,385 44	65,385 44
Filling	....	....	....	329,476 70	329,476 70
Bunk-houses	....	....	....	18,449 89	18,449 89
Sea-wall	....	....	....	34,928 19	34,928 19
Piling for temporary tracks	....	....	....	6,210 79	6,210 79
Wharves	....	....	....	50,249 72	50,249 72
Piling for wharf	....	....	....	19,103 98	19,103 98
Warehouses	....	....	....	8,167 26	8,167 26
Board	....	....	2,083 64	....	2,083 64
V. & B. S. charter	....	....	27,601 82	....	27,601 82
Vancouver Island & Eastern Railway	....	....	25,000 00	....	25,000 00
New Westminster and Southern Railway	256,500 00	....	....	....	256,500 00
Overhead charges	319,878 08	24,396 04	41,925 35	40,304 63	426,504 10
Total construction cost	$35,148,680 28	$2,682,066 81	$4,746,194 70	$4,217,670 11	$46,794,611 90*
Details shown on	(Exhibit 5.)	(Exhibit 5.)	(Exhibit 6.)	(Exhibit 7.)	

*Towards the total cost the British Columbia Government has released (under authority of Orders in Council) to the Canadian Northern Pacific Railway Company, on certified estimates submitted up to December 31st, 1916, the sum of $30,104,970.31 out of proceeds of guaranteed securities.

EXHIBIT 5.—STATEMENT SHOWING DIVISIONAL CONSTRUCTION COST TO DECEMBER 31ST, 1916, OF THE COMPANY'S MAIN LINE; PREPARED FROM THOSE RECORDS OF THE COMPANY PRODUCED FOR INSPECTION AT VANCOUVER.

	MAINLAND.														Total Construction Cost of the Mainland Section.	VANCOUVER ISLAND.			Total Construction Cost of the Vancouver Island Section.	Total Construction Cost of Main Line.
	Division No. 1.	Division No. 2.	Division No. 2a.	Division No. 3.	Division No. 4.	Division No. 5.	Division No. 6.	Division No. 7.	Division No. 8.	Division No. 9.	Division No. 10.	Division No. 11.	Division No. 12.	Yellowhead Pass Division.		Division A.	Division B.	Division C.		
Engineering location	$ 8,550 51	$ 6,907 07	$ 4,607 56	$ 20,695 97	$ 37,578 14	$ 19,937 68	$ 20,275 71	$ 22,984 63	$ 6,208 62	$ 14,141 28	$ 13,543 20	$ 44,438 97	$ 61,244 04	$ 79,254 07	$ 360,367 45	$ 25,100 16	$ 19,999 08	$ 26,323 49	$ 71,422 73	$ 431,790 18
Right-of-way	258,959 74	40,173 90	4,944 09	9,815 89	20,618 92	5,159 76	21,712 01	37,154 40	23,371 08	58,917 27	26,547 00	16,691 87	15,131 73	14,255 57	553,453 23	488,373 84	27,060 65	58,196 76	573,631 25	1,127,084 48
Engineering construction	104,011 83	55,287 65	27,594 01	126,283 92	188,378 27	117,970 72	111,849 46	99,775 67	103,689 55	97,144 02	93,927 96	177,552 71	166,684 15	161,357 08	1,631,507 00	113,994 82	41,538 20	99,544 50	255,077 52	1,886,584 52
Clearing	59,718 73	25,561 16	13,226 21	21,838 53	36,550 75	16,005 60	10,719 80	4,889 71	3,401 45	19,142 91	31,404 31	81,943 74	73 721 33	96,011 67	494,135 90	58,078 23	43,834 34	96,756 30	198,668 87	692,804 77
Grubbing	27,071 00	12,920 32	4,033 07	638 92	2,526 32	17 50	108 50	775 25	1,569 75	5,604 91	12,922 37	16,180 13	13,099 80	22,062 25	119,530 09	12,069 81	12,253 96	32,108 56	56,432 33	175,962 42
Grading	740,373 95	465,995 43	569,295 93	2,293,130 00	2,221,060 48	1,467,954 05	1,280,357 35	968,977 91	797,805 88	601,486 72	653,537 92	2,139,536 24	1,470,357 37	3,140,176 54	18,810,045 77	612,822 81	176,797 64	349,556 01	1,139,176 46	19,949,222 23
Bridges and culverts	141,681 90	107,945 10	22,015 21	238,602 35	1,123,924 80	247,832 30	347,402 81	597,404 80	281,884 79	279,498 13	52,939 34	434,811 93	222,805 89	463,589 75	4,562,338 20	180,155 88	32,978 42	107,056 92	320,191 22	4,882,529 42
Rails and fastenings	300,136 31	106,723 41	78,526 37	150,754 06	200,347 91	138,511 53	156,434 98	197,407 83	200,129 39	262,057 71	305,834 14	477,741 99	251,230 79	525,113 56	3,350,949 98	1,685 97	....	....	1,685 97	3,352,635 95
Ties	60,077 32	16,370 40	12,631 60	26,111 99	27,011 40	17,707 60	29,753 63	23,922 70	29,143 85	35,439 55	39,997 95	52,884 59	17,769 75	90,014 23	478,836 47	250 20	....	...	250 20	479,086 67
Switches and frogs	4,400 38	2,712 71	666 20	1,536 60	2,907 40	1,044 96	1,746 71	2,298 80	2,947 82	1,533 21	2,223 77	6,143 22	1,999 82	1,075 98	33,237 58	243 50	....	....	243 50	33,481 08
Track-laying	32,960 36	9,426 17	11,319 15	20,744 50	29,894 00	15,667 93	26,835 00	21,741 87	18,492 42	21,020 97	19,642 87	34,626 13	13,477 95	51,624 37	327,473 69	425 92	....	....	425 92	327,899 61
Ballasting	61,476 63	19,360 98	14,949 78	30,783 18	33,271 03	19,781 27	30,576 30	25,719 20	32,964 00	54,376 61	51,942 90	95,831 46	48,268 86	166,653 70	685,955 90	....	....	....	....	685,955 90
Stations and freight-sheds	24,163 08	9,396 90	1,182 23	4,133 27	13,876 78	5,967 67	5,613 81	6,270 76	7,328 34	18,303 24	11,114 81	21,794 08	7,818 78	26,449 18	163,412 93	....	....	....	....	163,412 93
Water-stations	14,761 57	8,586 28	....	3,056 97	8,043 65	5,483 83	6,205 02	5,936 50	3,519 74	20,317 85	11,321 38	12,019 06	7,828 55	32,307 62	139,388 02	....	....	....	....	139,388 02
Crossings and cattle-guards	25,066 61	1,265 49	28 80	....	....	9 00	48 00	217 08	416 08	4,227 45	331 05	271 72	1,494 36	862 42	34,238 06	403 40	....	....	403 40	34,641 46
Telegraph-lines	12,649 48	3,767 21	2,863 93	5,943 04	7,596 39	4,084 52	6,609 42	5,098 42	7,073 84	8,752 00	8,975 99	14,038 06	9,223 23	30,652 47	127,328 00	....	....	....	....	127,328 00
Fencing	29,392 06	9,568 71	2,636 70	331 00	2,320 43	1,461 76	73 25	9,814 93	13,239 00	25,335 49	23,329 04	901 23	....	....	118,403 60	27,505 73	6,406 25	4,805 00	38,716 98	157,120 58
Ballast-pits	32,978 30	....	....	82 00	....	....	....	....	....	383 25	....	....	....	....	33,443 55	....	....	1,324 92	1,324 92	34,768 47
Maintenance	16,539 70	8,624 93	14,319 20	56,006 12	55,954 54	16,147 32	11,269 15	18,754 39	10,545 96	16,421 87	16,298 13	44,702 85	22,153 09	16,800 46	324,537 71	19 50	....	....	19 50	324,557 21
Tunnels and subways	....	....	35,808 50	650,922 34	71,723 89	97,449 12	262,241 15	94,602 92	385,732 33	....	....	59,172 98	191,905 68	99,150 88	1,948,709 79	....	....	....	....	1,948,709 79
Shops and engine-houses	....	....	....	....	35,943 81	....	....	....	....	63,221 59	....	38,062 71	....	54,269 17	191,497 28	....	....	....	....	191,497 28
Coal docks and stations	....	....	....	....	112 35	....	....	....	....	9,983 88	....	393 40	....	...	10,489 63	....	....	....	....	10,489 63
Snow-sheds	....	....	....	....	....	9,182 65	....	....	....	....	....	....	....	9,593 54	18,776 19	....	....	....	....	18,776 19
Kamloops Spur	....	....	....	....	....	....	....	....	....	53,627 80	....	....	....	....	53,627 80	....	....	....	....	53,627 80
Draining	....	....	....	....	....	....	....	....	....	....	....	618 38	....	....	618 38	....	....	....	....	618 38
New Westminster & Southern Railway	256,500 00	....	....	....	....	....	....	....	....	....	....	....	....	....	256,500 00	....	....	....	....	256,500 00
	$2,211,468 56	$910,593 82	$820,648 54	$3,661 410 56	$4,119,641 26	$2,207,376 77	$2,329,832 06	$2,143,747 77	$1,929,463 89	$1,670,937 71	$1,375,834 13	$3,770,357 45	$2,596,215 17	$5,081,274 51	$34,828,802 20	$1,521,129 77	$360,868 54	$775,672 46	$2,657,670 77	$37,486,472 97
Add: Overhead charges—																				
Engineering equipment	....	....	....	....	....	....	....	....	....	....	....	....	....	....	7,552 56	....	..	....	576 01	8,128 57
Plant and tools	....	....	....	....	....	....	....	....	....	....	....	....	....	....	18,989 16	....	....	....	1,448 24	20,437 40
Team account	....	....	....	....	....	....	....	....	....	....	....	....	....	....	10,192 84	....	....	....	777 38	10,970 22
Office furniture	....	....	....	....	....	....	....	....	....	....	....	....	....	....	6,177 63	....	....	....	471 15	6,648 78
General expense	....	....	....	....	....	....	....	....	....	....	....	....	....	....	129,979 75	....	....	....	9,913 12	139,892 87
Office expense	....	....	....	....	....	....	....	....	....	....	....	....	....	....	32,484 21	....	....	....	2,477 46	34,961 67
Executive and accountancy	....	....	....	....	....	....	....	....	....	....	....	....	....	....	110,397 12	....	....	....	8,419 62	118,816 74
Official car maintenance	....	....	....	....	....	....	....	....	....	....	....	....	....	....	4,104 81	....	....	....	313 06	4,417 87
Totals	....	....	....	....	....	....	....	....	....	....	....	....	....	....	$35,148,680 28	....	....	....	$2,682,066 81	$37,830,747 09*

* Towards this total cost the British Columbia Government has released (under authority of Orders in Council) to the Canadian Northern Pacific Railway Company, on certified estimates submitted up to December 31st, 1916, the sum of $23,511,537.64 out of proceeds of guaranteed main line securities sold and pledged as noted on Exhibit 1.

EXHIBIT 6.—STATEMENT SHOWING COST TO DECEMBER 31ST, 1916, OF EACH OF THE COMPANY'S BRANCH LINES; PREPARED FROM THOSE RECORDS OF THE COMPANY PRODUCED FOR INSPECTION AT VANCOUVER.

	Westminster Bridge to Vancouver.	Westminster Bridge to Steveston.	Kamloops to Vernon.	Victoria to Union Bay (now Patricia Bay).	Extension, Barclay Sound North.	Together.
Engineering location	....	$ 4,664 54	$ 84,938 81	$ 14,870 39	$ 173,156 75	$ 277,630 49
Right-of-way	$405,673 52	42,777 63	714,131 59	856,916 83	25,442 61	2,044,942 18
Engineering construction	....	13,622 13	16,036 42	58,428 83	102,047 27	190,134 65
Clearing	....	4,038 75	21 00	14,963 64	104,224 00	123,247 39
Grubbing	....	2,267 50	....	8,584 87	3,815 40	14,667 77
Grading	....	24,885 67	13,157 46	93,904 31	1,271,967 44	1,403,914 88
Bridges and culverts	....	106,465 37	11,789 66	46,338 57	73,233 77	237,827 37
Ties	....	11,402 53	2,689 65	16,454 52	....	30,546 70
Rails	....	66,639 63	20,861 30	91,464 12	....	178,965 05
Other track material (frogs and switches)	....	453 54	448 90	9,592 99	....	10,495 43
Ballast	....	10,356 31	....	22,569 69	....	32,926 00
Track-laying	....	24,959 96	6,417 05	16,686 76	....	48,063 77
Surfacing	....	....	....	11,011 98	....	11,011 98
Fencing	....	7,254 17	313 61	13,858 43	....	21,426 21
Crossings	....	349 59	3 75	6,048 79	....	6,402 13
Water-stations	....	...	....	2,227 62	....	2,227 62
Telegraph-lines	....	56 50	84 04	152 95	3,257 10	3,550 59
Board	....	208 21	....	1,875 43	....	2,083 64
Maintenance	....	7,160 57	476 59	815 82	....	8,452 98
Ballast-pits	....	....	1,000 00	2,150 70	....	3,150 70
V. & B.S. charter	....	....	....	....	27,601 82	27,601 82
Vancouver Island & Eastern Railway	....	....	....	....	25,000 00	25,000 00
Add: Overhead charges—						
Engineering equipment	85 33	68 90	183 62	271 23	380 81	989 89
Plant and tools	214 54	173 22	461 68	681 95	957 46	2,488 85
Team account	115 16	92 98	247 81	366 05	513 94	1,335 94
Office furniture	69 80	56 35	150 20	221 85	311 48	809 68
General expenses	1,468 50	1,185 71	3,160 18	4,667 87	6,553 75	17,036 01
Office expenses	367 01	296 33	789 78	1,166 58	1,637 90	4,257 60
Executive and accountancy	1,247 26	1,007 07	2,684 07	3,964 61	5,566 37	14,469 38
Official car maintenance	46 37	37 45	99 80	147 41	206 97	538 00
Totals	$409,287 49	$330,480 61	$880,146 97	$1,300,404 79	$1,825,874 84	$4,746,194 70*

*Towards this total cost the British Columbia Government has released (under authority of Orders in Council) to the Canadian Northern Pacific Railway Company, on certified estimates submitted up to December 31st, 1916, the sum of $2,978,455.36 out of proceeds of guaranteed branch lines securities pledged as noted on Exhibit 2.

EXHIBIT 7.—STATEMENT SHOWING COST TO DECEMBER 31ST, 1916, OF EACH OF THE COMPANY'S TERMINALS; PREPARED FROM THOSE RECORDS OF THE COMPANY PRODUCED FOR INSPECTION AT VANCOUVER.

	Port Mann.	New Westminster.	Vancouver.	Steveston.	Union Bay (now Patricia Bay).	Victoria.	Together.
Engineering location	....	....	$ 614 07	....	....	The Company has not commenced work on this terminal at December 31st, 1916.	$ 614 07
Real estate	$ 572,415 06	$1,720,764 08	355,298 67	$393,505 69	$112,996 18		3,154,979 68
Engineering construction	17,083 28	1,948 06	28,649 38	....	2,743 03		50,423 75
Bridges, etc	1,829 67	....	....	....	....		1,829 67
Stations and office buildings	5,577 82	....	58,264 50	....	....		63,842 32
Water-stations	9,196 59	....	....	....	....		9,196 59
Shops and engine-houses	224,243 66	....	....	....	....		224,243 66
Ice-house	4,154 08	....	....	....	....		4,154 08
Storehouse	24 50	....	....	....	....		24 50
Track-scales	7,512 71	....	....	....	....		7,512 71
Ferry-slips	29,740 36	....	....	....	35,645 08		65,385 44
Ballast	971 26	....	....	....	....		971 26
Drainage and sewers	3,419 07	....	54,894 92	....	....		58,313 99
Ties	2,866 90	....	1,086 40	....	....		3,953 30
Frogs and switches, etc	1,451 76	....	....	....	....		1,451 76
Filling	9 75	....	322,455 93	....	7,011 02		329,476 70
Bunk-houses	18,449 89	....	....	....	....		18,449 89
Sea-wall	....	....	34,928 19	....	....		34,928 19
Piling for temporary tracks	....	....	6,210 79	....	....		6,210 79
Wharves	16,351 51	....	....	....	33,898 21		50,249 72
Clearing	8,537 75	....	....	....	....		8,537 75
Grubbing	29,724 75	....	....	....	....		29,724 75
Grading	8,319 08	....	....	....	....		8,319 08
Rails and fastenings	16,311 36	....	....	....	....		16,311 36
Track-laying	989 23	....	....	....	....		989 23
Piling wharf	19,103 98	....	....	....	....		19,103 98
Warehouses	8,167 26	....	....	....	....		8,167 26
Add: Overhead charges—							
Engineering equipment	229 25	392 45	196 51	89 64	43 77		951 62
Plant and tools	576 38	986 72	494 08	225 39	110 06		2,392 63
Team account	309 39	529 64	265 21	120 98	59 08		1,284 30
Office furniture	187 51	321 00	160 74	73 32	35 81		778 38
General expenses	3,945 33	6,754 06	3,381 94	1,542 76	753 36		16,377 45
Office expenses	986 00	1,687 96	845 20	385 56	188 28		4,093 00
Executive and accountancy	3,350 93	5,736 50	2,872 42	1,310 33	639 86		13,910 04
Official car maintenance	124 60	213 30	106 80	48 72	23 79		517 21
Totals	$1,016,160 67	$1,739,333 77	$870,725 75	$397,302 39	$194,147 53	.....	$4,217,670 11*

*Towards this total cost the British Columbia Government has released (under authority of Orders in Council) to the Canadian Northern Pacific Railway Company, on estimates submitted to December 31st, 1916, the sum of $3,614,977.31 out of proceeds of the guaranteed terminals securities sold as noted on Exhibit 3.

EXHIBIT 9.—STATEMENT SHOWING AMOUNTS THAT WERE PAYABLE TO THE CANADIAN NORTHERN PACIFIC RAILWAY COMPANY IN RESPECT OF WORK DONE ON THE MAIN LINE TO DECEMBER 31ST, 1916, ACCORDING TO SUBPARAGRAPH (D) OF PARAGRAPH 9 OF THE AGREEMENT SET FORTH IN THE SCHEDULE TO CHAPTER 3, STATUTES OF 1910, OUR READING OF WHICH HAS BEEN CONFIRMED BY THE ATTORNEY-GENERAL'S DEPARTMENT.

The part of subparagraph (*d*) of paragraph 9 of the agreement set forth in the Schedule to chapter 3, Statutes of 1910, which governs the method of payment reads as follows:—

"And from time to time, as the work of construction proceeds, the Government, by the Minister of Finance, or other duly appointed representative of the Government, shall, out of the said balances, certify to the bank the amount to be transferred from the said account to the credit of the Pacific Company, or its nominees, in monthly payments as far as practicable, such sums as are justifiable, having regard to the proportion of work done and material and supplies purchased for the said railway, as compared with the whole work done and to be done thereon pending completion of the said lines."

The interpretation of which is represented by the following fraction:—

Amount of work done	of	the total amount credited to the Minister of Finance in respect of guaranteed main line securities sold and pledged	=	proportionate value payable to the Company in respect of work done to December 31st, 1916 (including work passed by the Government on Estimates Nos. 1 to 34, and assuming that all items entering into the value of work done and not covered by the above estimates would be passed by the Government's Chief Railway Engineer).
Estimated total cost (as fixed by the Government's Chief Railway Engineer)				

Which, when applied, is shown as follows:—

Total value of work done as shown on Exhibit 5	$37,830,747 09		
Deduct: Amount eliminated by Government's Chief Railway Engineer from estimates of work done submitted by the Company up to the date when the proceeds of guaranteed main line securities were exhausted	4,281 85		
	$37,826,465 24		
Multiplied by the net amount credited to the Minister of Finance in respect of securities sold and pledged	$23,511,537 64		
Divided by the estimated total cost of 598.6 miles of road (this being the final length of the line as determined by the Government's Chief Railway Engineer)..	$42,180,451 45	= proportionate value payable to the Company in respect of work done up to December 31st, 1916	$21,084,609 83
		Total amount paid on Estimates Nos. 1 to 34 by the Government to the Canadian Northern Pacific Railway Company out of the net amount credited to the Minister of Finance in respect of main line securities sold and pledged	23,511,537 64
		Total payments made in excess of the proportionate value of work done to December 31st, 1916, according to our interpretation of subparagraph (*d*) of paragraph 9 of the agreement set forth in the Schedule to chapter 3, Statutes of 1910, which has been confirmed by the Attorney-General's Department	$ 2,426,927 81

EXHIBIT 10.—STATEMENT SHOWING AMOUNTS THAT WERE PAYABLE TO THE CANADIAN NORTHERN PACIFIC RAILWAY COMPANY IN RESPECT OF WORK DONE ON THE BRANCH LINES TO DECEMBER 31ST, 1916, ACCORDING TO SECTION 8, CHAPTER 57, STATUTES OF 1913, OUR READING OF WHICH HAS BEEN CONFIRMED BY THE ATTORNEY-GENERAL'S DEPARTMENT.

The part of section 8, chapter 57, Statutes of 1913, which governs the method of payment reads as follows:—

"And from time to time, as the work of construction proceeds, the Province, by the Minister of Finance, or other duly appointed representative of the Province, shall, out of the said balances, certify to the bank the amount to be transferred from the said account to the credit of the Company, or its nominees, in monthly payments as far as practicable, such sums as are justifiable, having regard to the proportion of work done and material and supplies purchased for the said railway as compared with the whole work done and to be done thereon pending completion of the said lines."

The interpretation of which is represented by the following fraction:—

Amount of work done Estimated total cost (as fixed by the Government's Chief Railway Engineer)	of	the total amount credited to the Minister of Finance in respect of guaranteed branch lines securities sold and pledged	= proportionate value payable to the Company in respect of work done to December 31st, 1916 (including work passed by the Government on Estimates Nos. 1 to 5, and assuming that all items entering into the value of work done and not covered by the above estimates would be passed by the Government's Chief Railway Engineer).

Which, when applied, is shown as follows:—

Total value of work done as shown on Exhibit 6	$ 4,746,194 70	
Deduct: Amount eliminated by Government's Chief Railway Engineer from estimates of work done submitted by the Company up to December 31st, 1916	411,087 92	
	$ 4,335,106 78	
Multiplied by the net amount credited to the Minister of Finance in respect of securities sold	$ 3,839,107 67	
Divided by the estimated total cost of 336.2 miles of road (this being the mileage after deducting from the estimated mileage—viz., 339 miles mentioned in the Statute—the difference between the estimated and the actual mileage of the line from Victoria to Patricia Bay—viz., 2.8 miles)	$19,558,392 45	= proportionate value payable to the Company in respect of work done up to December 31st, 1916 ..... $ 850,936 07
		Total amount paid on Estimates Nos. 1 to 5 by the Government to the Canadian Northern Pacific Railway Company out of the net amount credited to the Minister of Finance in respect of securities sold 2,978,455 36
		Total payments made in excess of the proportionate value of work done to December 31st, 1916, according to our interpretation of section 8, chapter 57, Statutes of 1913, which has been confirmed by the Attorney-General's Department .. $2,127,519 29

EXHIBIT 11.—STATEMENT SHOWING AMOUNTS THAT WERE PAYABLE TO THE CANADIAN NORTHERN PACIFIC RAILWAY COMPANY IN RESPECT OF WORK DONE ON TERMINALS TO DECEMBER 31ST, 1916, ACCORDING TO SECTION 7, CHAPTER 59, STATUTES OF 1913, OUR READING OF WHICH HAS BEEN CONFIRMED BY THE ATTORNEY-GENERAL'S DEPARTMENT.

The part of section 7, chapter 59, Statutes of 1913, which governs the method of payment reads as follows:—

"From time to time, as the construction of the terminals is proceeded with to the satisfaction of the Province, the Province shall, by the Minister of Finance, or other duly appointed representative of the Province, pay to the Company, or its nominee, out of the balance to the credit of the said special account such sums as are justifiable, having regard to the portion of work done and materials and supplies purchased for the terminals as compared with the whole work done and to be done thereon pending the completion of the terminals respectively."

The interpretation of which is represented by the following fraction:—

Amount of work done / Estimated total cost (as fixed by the Government's Chief Railway Engineer) of the total amount credited to the Minister of Finance in respect of guaranteed terminal securities sold = proportionate value payable to the Company in respect of work done to December 31st, 1916 (including work passed by the Government on Estimates Nos. 1 to 25, and assuming that all items entering into the value of work done and not covered by the above estimates would be passed by the Government's Chief Railway Engineer).

Which, when applied, is shown as follows:—

Total value of work done as shown on Exhibit 7	$4,217,670 11	
Deduct: Amount eliminated by Government's Chief Railway Engineer from estimates of work done submitted by the Company up to December 31st, 1916	1,288,362 70	
	$2,929,307 41	
Multiplied by the net amount credited to the Minister of Finance in respect of securities sold	$7,954,814 43	
Divided by the estimated total cost of terminals	$9,328,825 00 =	proportionate value payable to the Company in respect of work done up to December 31st, 1916 ..... $2,497,859 79
		Total amount paid on Estimates Nos. 1 to 25 by the Government to the Canadian Northern Pacific Railway Company out of the net amount credited to the Minister of Finance in respect of securities sold 3,614,977 31
		Total payments made in excess of the proportionate value of work done to December 31st, 1916, according to our interpretation of section 7, chapter 59, Statutes of 1913, which has been confirmed by the Attorney-General's Department .. $1,117,117 52

Financial Relations of the Government with the Canadian Northern Pacific Railway Company, as regards the Construction of Terminals up to May 31st, 1917

VANCOUVER, B.C., July 17th, 1917.

Hon. John Oliver,
Minister of Railways, Victoria, B.C.

SIR,—Pursuant to the instructions contained in your letter of June 29th, 1917, we have inquired into the position of the Provincial Government's relations with the Canadian Northern Pacific Railway Company, as regards the construction of terminals, as at May 31st, 1917. We have prepared and annex hereto the following statements:—

Exhibit 1.—Statement showing amounts payable to the Canadian Northern Pacific Railway Company in respect of work done on terminals to May 31st, 1917, segregated to show the proportions applicable to the several terminals; also the proportionate application of the valuation placed upon securities unsold.

Exhibit 2.—Statement showing cost at May 31st, 1917, of each of the Canadian Northern Pacific Railway Company's terminals; prepared from those records of the Company produced for inspection at Vancouver.

Exhibit 3.—Statement showing amounts payable to the Canadian Northern Pacific Railway Company in respect of work done on terminals to December 31st, 1916, segregated to show the proportions applicable to the several terminals; also the proportionate application of the valuation placed upon securities unsold.

Our present investigation has been carried out as supplementing our report dated May 12th, 1917, which covered our investigation of the Government's relations with the Canadian Northern Pacific Railway Company as at December 31st, 1916 (with regard to the main line, branch lines, and terminals), but in this case we are, as requested, reporting upon the terminals only.

The instructions embraced in your letter of June 29th directed that a valuation should be given to the unsold securities guaranteed by the Province in respect of terminals, and we have taken the unsold securities at 78.55 per cent. of par value, that rate being the valuation we understand to have been advanced, for purposes of calculation, by the Department of Finance.

The conclusions presented by the attached statements as regards all terminals as at May 31st, 1917, may be summarized in brief as follows:—

Overpayments in cash to May 31st, 1917, on the basis of work done by the Company to and including Estimate No. 33, less funds released by the Government to and including Estimate No. 31..	$139,864	78
Add: Amounts since released on Estimates Nos. 32 and 33 (after deducting $127,500 included on Estimate No. 33 in respect of real estate not acquired by Company at May 31st, 1917).....	253,910	33
Total overpayments in cash after deducting funds released in respect of Estimates Nos. 32 and 33.....	$393,775	11
Deduct: Proportionate credit allowable to Company upon valuation of unsold securities at 78.55 per cent.....	567,453	50
Balance representing amount available for further releases to Company (from cash and credit for unsold securities) on the basis of work done to May 31st, 1917, as per Exhibit 2.....	$173,678	39

The above balance of $173,678.39 is substantially represented by:—

Retentions	$ 78,779	35
Deductions from Estimate No. 33 for May, 1917, temporarily withheld by Government.....	53,577	41
Proportion of overhead charges to December 31st, 1916, included in Exhibit 2 (52.1220 per cent. of $40,304.63).....	21,009	58
Total.....	$153,366	34

We have also submitted in Exhibit 3 a statement of the terminal accounts as at December 31st, 1916, on the same basis as the position at May 31st, 1917, as per Exhibit 1, and the conclusions presented thereby may be summarized in brief as follows:—

Overpayments in cash to December 31st, 1916, on the basis of work done by Company to and including Estimate No. 27, less funds released by Government to and including Estimate No. 25.....	$148,811 42	
Add: Amounts released in January and February, 1917, on Estimates Nos. 26 and 27 for work done in November and December, 1916..	213,425 16	
Total overpayments in cash after adding funds released in respect of Estimates Nos. 26 and 27.....		$362,236 58
Deduct: Proportionate credit allowable to Company upon valuation of unsold securities at 78.55 per cent.....		474,382 62
Balance representing amount available for further releases to Company (from cash and credit for unsold securities) on the basis of work done to December 31st, 1916, as per Exhibit 3.....		$112,146 04

The above balance of $112,146.04 is partially represented by:—

Retentions.....	$ 29,362 29
Proportion of overhead charges to December 31st, 1916 (43.5732 per cent. of $40,304.63).....	17,562 02
Total.....	$ 46,924 31

Our figures as now presented as at December 31st, 1916 (Exhibit 3), show an overpayment in cash of $148,811.42, whereas the overpayment to December 31st, 1916, on a cash basis, as set forth in Exhibit 11 of our report dated May 12th, 1917, was stated as $1,117,117.52, or a difference of $968,306.10. We have found that all of the deductions previously stated by us as eliminated by the Government's Chief Railway Engineer from estimates of work done submitted by the Company up to December 31st, 1916—viz., $1,288,362.70—should not have been applied as deductions as at December 31st, 1916, but that the sum of $152,802.19 (*see* Exhibit 3) should have been deducted as of that date. The elimination of the difference of $1,135,560.51 in the deductions accounts for the difference between the previously reported overpayment as at December 31st, 1916, on a cash basis and the overpayment on a cash basis as at that date now indicated by Exhibit 3. Our error in this connection was occasioned by the fact that the deductions stated to us by the Government's Chief Railway Engineer—viz., $1,288,362.70—were later found to have been temporary disallowances only from time to time and not permanently deducted from the Company's estimates, while the items amounting to $152,802.19 now deducted on Exhibit 3, although carried on the Company's books, have by agreement between the Company and the Government's Chief Railway Engineer been kept out of both the estimates of the Company and the certificates of the Government. The sum of $152,802.19 has been deducted by us from the book figures as at May 31st, 1917, in preparing Exhibit 1.

It will be noted by reference to Exhibit 1 that the cost of the Union Bay (now Patricia Bay) terminal to May 31st, 1917, is greater than the amount heretofore taken as the prospective cost by the sum of $5,577.30. In making an application of the funds earned to date in respect of the various terminals, we have, for the purpose of balancing the results for the separate terminals with the figures for all of the terminals, necessarily had to state the value of work done on the Patricia Bay terminal as 102.7382 per cent. of the prospective cost. The result on this basis shows that there would be a cash overdraft of $10,774.22 in the funds arbitrarily assigned to Patricia Bay on a proportional basis.

Our examination of the records of the Company at Vancouver for the five months to May 31st, 1917, has been conducted along lines similar to our previous examination as at December 31st, 1916, and we have examined a considerable portion of the disbursement vouchers for the five months to May 31st.

We trust that the foregoing remarks and the accompanying statements may afford you all information desired, but will be glad to furnish any further details required, upon request.

We have the honour to be,

Sir,

Your obedient servants,

PRICE, WATERHOUSE & CO.

EXHIBIT 1.—STATEMENT SHOWING AMOUNTS PAYABLE TO THE CANADIAN NORTHERN PACIFIC RAILWAY COMPANY IN RESPECT OF WORK DONE ON TERMINALS TO MAY 31ST, 1917, SEGREGATED TO SHOW THE PROPORTIONS APPLICABLE TO THE SEVERAL TERMINALS; ALSO THE PROPORTIONATE APPLICATION OF THE VALUATION PLACED UPON SECURITIES UNSOLD.

	Port Mann.	New Westminster.	Vancouver.	Steveston.	Union Bay (now Patricia Bay).	Victoria.	Together.
Estimated total cost of terminals as per figures furnished by the Government's Chief Railway Engineer	$1,237,540 00	$2,017,575 00	$4,544,400 00	$472,500 00	$203,685 00	$853,125 00	$9,328,825 00
Proportions of total	13.2658%	21.6273%	48.7136%	5.0649%	2.1834%	9.1450%	100.0000%
Total value of work done by Company to May 31st, 1917, as per statement annexed	1,129,239 41	1,802,464 97	1,427,409 77	293,990 59	209,262 30	....	4,862,367 04
Proportions of total	23.2241%	37.0697%	29.3563%	6.0462%	4.3037%	....	100.0000%
Percentage of total value of work done to May 31st, 1917, to estimated total cost	91.2487%	89.3382%	31.4103%	62.2202%	102.7382%	....	52.1220%
Funds credited to Minister of Finance to May 31st, 1917, in respect of securities sold, segregated in the proportions the prospective cost of each terminal bears to the total prospective cost of all terminals	1,055,269 78	1,720,411 58	3,875,076 48	402,903 39	173,685 42	727,467 78	7,954,814 43
Proportions of total	13.2658%	21.6273%	48.7136%	5.0649%	2.1834%	9.1450%	100.0000%
Apportionment of available funds earned by Company on the basis of the percentage of work done on each terminal to the prospective cost of each terminal	962,919 88	1,536,984 67	1,217,173 12	250,687 29	178,441 27	....	4,146,206 23
Percentages	91.2487%	89.3382%	31.4103%	62.2202%	102 7382%	....	52.1220%
Apportionment of funds released to Company as measured by the percentage of work done on each terminal to the total work done to May 31st, 1917	995,401 42	1,588,833 67	1,258,231 86	259,144 42	184,459 64	....	4,286,071 01
Proportions of total	23.2241%	37.0697%	29.3563%	6.0462%	4.3037%	....	100.0000%
Overpayments to May 31st, 1917, on above basis	32,481 54	51,849 00	41,058 74	8,475 13	6,018 37	....	139,864 78
Funds still available for completion of work from proceeds of securities sold and credited to Minister of Finance to May 31st, 1917	59,868 36	131,577 91	2,616,844 62	143,758 97	*10,774 22*	727,467 78	3,668,743 42
Valuation placed upon unsold securities by Department of Finance, 78.55 per cent. of par value, segregated in the proportions the prospective cost of each terminal bears to the total prospective cost of all terminals	144,425 16	235,457 06	530,346 43	55,141 72	23,770 74	99,561 89	1,088,703 00
Proportions of total	13.2658%	21.6273%	48.7136%	5.0649%	2.1834%	9.1450%	100.0000%
Proportion of valuation placed upon unsold securities represented by the percentage of value of work done to prospective cost	131,786 08	210,353 10	166,583 40	34,309 29	24,421 63	....	567,453 50
Percentages	91.2487%	89.3382%	31.4103%	62.2202%	102.7382%	....	52.1220%
Proportion of valuation placed upon unsold securities applicable to work not done as represented by the difference between value of work done to May 31st, 1917, and prospective cost	12,639 08	25,103 96	363,763 03	20,832 43	*650 89*	99,561 89	521,249 50 (47.8780%)

EXHIBIT 2.—STATEMENT SHOWING COST TO MAY 31ST, 1917, OF EACH OF THE CANADIAN NORTHERN PACIFIC RAILWAY COMPANY'S TERMINALS; PREPARED FROM THOSE RECORDS OF THE COMPANY PRODUCED FOR INSPECTION AT VANCOUVER.

	Port Mann.	New Westminster.	Vancouver.	Steveston.	Union Bay (now Patricia Bay).	Victoria.	Together.
Engineering location	....	....	$ 614 07	....	....	The Company had not commenced work on this terminal at May 31st, 1917.	$ 614 07
Real estate	$ 572,432 06	$ 1,781,206 69	407,490 43	$290,193 89	$117,837 10		3,169,160 17
Engineering construction	19,803 40	2,343 64	33,007 12	....	3,840 94		58,995 10
Bridges, etc	2,060 45	....	....	....	....		2,060 45
Stations and office buildings	7,367 17	....	359,553 95	....	....		366,921 12
Water-stations	19,277 99	....	....	....	....		19,277 99
Shops and engine-houses	224,355 96	....	....	....	....		224,355 96
Ice-houses	4,154 08	....	....	....	....		4,154 08
Storehouse	24 50	....	....	....	...		24 50
Track-scales	9,733 71	....	....	....	....		9,733 71
Ferry-slips	30,860 70	....	....	....	44,027 42		74,888 12
Ballast	33,729 01	....	....	....	....		33,729 01
Drainage and sewers	3,426 27	....	90,248 68	...	....		93,674 95
Ties	6,068 97	....	1,116 85	....	....		7,185 82
Frogs, switches, etc	4,310 00	....	....	....	....		4,310 00
Filling	41,666 46	....	457,530 13	....	7,011 02		506,207 61
Bunk-houses	18,449 89	....	....	....	....		18,449 89
Sea-wall	....	....	63,314 85	....	....		63,314 85
Piling for temporary tracks	....	....	6,210 79	....	....		6,210 79
Wharves	16,351 31	....	....	....	34,691 81		51,043 32
Bulk-heads	....	2,293 01	....	....	....		2,293 01
Clearing	8,537 75	....	....	....	....		8,537 75
Grubbing	29,724 75	....	....	....	....		29,724 75
Grading	8,319 08	....	....	....	....		8,319 08
Rails and fastenings	30,607 47	....	....	....	....		30,607 47
Track-laying	989 23	....	....	....	....		989 23
Piling wharf	19,103 98	....	....	....	....		19,103 98
Warehouses	8,175 63	....	....	....	....		8,175 63
Total construction cost to May 31st, 1917	$1,119,530 02	$1,785,843 34	$1,419,086 87	$290,193 89	$207,408 29		$4,822,062 41
Add: Overhead charges to December 31st, 1916—							
Engineering equipment	229 25	392 45	196 51	89 64	43 77		951 62
Plant and tools	576 38	986 72	494 08	225 39	110 06		2,392 63
Team account	309 39	529 64	265 21	120 98	59 08		1,284 30
Office furniture	187 51	321 00	160 74	73 32	35 81		778 38
General expenses	3,945 33	6,754 06	3,381 94	1,542 76	753 36		16,377 45
Office expenses	986 00	1,687 96	845 20	385 56	188 28		4,093 00
Executive and accountancy	3,350 93	5,736 50	2,872 42	1,310 33	639 86		13,910 04
Official car maintenance	124 60	213 30	106 80	48 72	23 79		517 21
Totals	$1,129,239 41	$1,802,464 97	$1,427,409 77	$293,990 59	$209,262 30	.....	$4,862,367 04

EXHIBIT 3.—STATEMENT SHOWING AMOUNTS PAYABLE TO THE CANADIAN NORTHERN PACIFIC RAILWAY COMPANY IN RESPECT OF WORK DONE ON TERMINALS TO DECEMBER 31ST, 1916, SEGREGATED TO SHOW THE PROPORTIONS APPLICABLE TO THE SEVERAL TERMINALS; ALSO THE PROPORTIONATE APPLICATION OF THE VALUATION PLACED UPON SECURITIES UNSOLD.

	Port Mann.	New Westminster.	Vancouver.	Steveston.	Union Bay (now Patricia Bay).	Victoria.	Together.
Estimated total cost of terminals as per figures furnished by the Government's Chief Railway Engineer	$1,237,540 00	$2,017,575 00	$4,544,400 00	$472,500 00	$203,685 00	$853,125 00	$9,328,825 00
Proportions of total	13.2658 p.c.	21.6273 p.c.	48.7136 p.c.	5.0649 p.c.	2.1834 p.c.	9.1450 p.c.	100.0000 p.c.
Total value of work done by Company to December 31st, 1916, as shown on Exhibit 7 attached to our report dated May 12th, 1917 (less amounts eliminated from estimates by Government's Chief Railway Engineer and by the Company—viz., *Port Mann* $28,480.39 and Steveston $124,321.80, total $152,802.19)	987,680 28	1,739,333 77	870,725 75	272,980 59	194,147 53	....	4,064,867 92
Proportions of total	24.2979 p.c.	42.7895 p.c.	21.4208 p.c.	6.7156 p.c.	4.7762 p.c.	....	100.0000 p.c.
Percentage of total value of work done to December 31st, 1916, to estimated total cost	79.8099 p.c.	86.2091 p.c.	19.1604 p.c.	57.7737 p.c.	95.3175 p.c.	....	43.5732 p.c.
Funds credited to Minister of Finance to December 31st, 1916, in respect of securities sold, segregated in the proportions the prospective cost of each terminal bears to the total prospective cost of all terminals	1,055,269 78	1,720,411 58	3,875,076 48	402,903 39	173,685 42	727,467 78	7,954,814 43
Proportions of total	13.2658 p.c.	21.6273 p.c.	48.7136 p.c.	5.0649 p.c.	2.1834 p.c.	9.1450 p.c.	100.0000 p.c.
Apportionment of available funds earned by Company on the basis of the percentage of work done on each terminal to the prospective cost of each terminal	842,209 69	1,483,151 27	742,480 14	232,772 19	165,552 60	....	3,466,165 89
Percentages	79.8099 p.c.	86.2091 p.c.	19.1604 p.c.	57.7737 p.c.	95.3175 p.c.	....	43.5732 p.c.
Apportionment of funds released to Company as measured by the percentage of work done on each terminal to the total work done to December 31st, 1916	878,363 57	1,546,830 71	774,357 06	242,767 42	172,658 55	....	3,614,977 31
Proportions of total	24.2979 p.c.	42.7895 p.c.	21.4208 p.c.	6.7156 p.c.	4.7762 p.c.	....	100.0000 p.c.
Overpayments to December 31st, 1916, on above basis	36,153 88	63,679 44	31,876 92	9,995 23	7,105 95	....	148,811 42
Funds still available for completion of work from proceeds of securities sold and credited to Minister of Finance to December 31st, 1916	176,906 21	173,580 87	3,100,719 42	160,135 97	1,026 87	727,467 78	4,339,837 12
Valuation placed upon unsold securities by Department of Finance, 78.55 per cent. of par value, segregated in the proportions the prospective cost of each terminal bears to the total prospective cost of all terminals	144,425 16	235,457 06	530,346 43	55,141 72	23,770 75	99,561 89	1,088,703 00
Proportions of total	13.2658 p.c.	21.6273 p.c.	48.7136 p.c.	5.0649 p.c.	2.1834 p.c.	9.1450 p.c.	100.0000 p.c.
Proportion of valuation placed upon unsold securities represented by the percentage of value of work done to prospective cost	115,265 58	202,985 45	101,616 51	31,857 41	22,657 67	....	474,382 62
Percentages	79.8099 p.c.	86.2091 p.c.	19.1604 p.c.	57.7737 p.c.	95.3175 p.c.	....	43.5732 p.c.
Proportion of valuation placed upon unsold securities applicable to work not done as represented by the difference between value of work done to December 31st, 1916, and prospective cost	29,159 58	32,471 61	428,729 92	23,284 31	1,113 07	99,561 89	614,320 38 (56.4268 p.c.)

VICTORIA, B.C.:
Printed by WILLIAM H. CULLIN, Printer to the King's Most Excellent Majesty.
1917.

GOVERNMENT OF BRITISH COLUMBIA

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AUDITORS' REPORT

ON

Investigation into the Financial Relations of the Government with the Pacific Great Eastern Railway Company up to the date when the proceeds of the Company's Debenture Stock were exhausted

BY

PRICE, WATERHOUSE & COMPANY

THE GOVERNMENT OF
THE PROVINCE OF BRITISH COLUMBIA.

PRINTED BY
AUTHORITY OF THE LEGISLATIVE ASSEMBLY

VICTORIA, B.C.
Printed by WILLIAM H. CULLIN, Printer to the King's Most Excellent Majesty
1917

FINANCIAL RELATIONS

OF THE

Government with the Pacific Great Eastern Railway Company, up to the Date when the Proceeds of the Company's Debenture Stock were exhausted.

VANCOUVER, January 22, 1917.

To the President of the Executive Council of the Provincial Government of British Columbia.

PACIFIC GREAT EASTERN RAILWAY COMPANY.

SIR,—In accordance with instructions received from the Hon. John Oliver, Minister of Railways and Agriculture, we have conducted, in conjunction with our examination of the Provincial accounts, an investigation into the financial relations of the Government with the Pacific Great Eastern Railway Company, up to the date on which the proceeds of the Company's debenture stock were exhausted, and annex hereto the following statements:—

Exhibit I.—Statement of moneys deposited to the credit of the Minister of Finance in connection with the British Columbia Government's guarantee of the Pacific Great Eastern Railway Company's securities.

Exhibit II.—Statement showing analysis of estimates as furnished the British Columbia Government by the Pacific Great Eastern Railway Company under chapter 34, Statutes 1912, and upon which moneys were released by Orders in Council.

Exhibit III.—Statement showing the disposition of moneys received by the Pacific Great Eastern Railway Company from the British Columbia Government on Estimates Nos. 1 to 41.

Exhibit IV.—Statement showing amounts that were payable to the Pacific Great Eastern Railway Company in respect of estimates submitted to November 30, 1915, according to subsection (*d*) of section 9, chapter 34, 1912, and amendments, our reading of which has been confirmed by the Attorney-General's Department.

With regard to the annexed statements we desire to report as follows:—

EXHIBIT I.

It will be noted that the total of securities guaranteed by the Government amounts to $20,160,000, which is on the basis of $42,000 per mile for 480 miles, as mentioned in the Statutes, and not for 476.1 miles, the final length of the road, as determined by the Company. You will notice that the cost of the issue of the First Mortgage Guaranteed 4½ per cent. Debenture Stock, excluding discount, amounts to $440,439.22, being approximately 3.09 per cent., which is not excessive as compared with the cost of the British Columbia Government loan made in England at about the same date.

It will be observed that there was an amount of $231,644.83 deducted in London to pay interest on the Pacific Great Eastern Railway Company's securities, and that the Company subsequently refunded $139,207.36 of this amount (out of moneys received from the Provincial Government on estimates), leaving $92,437.47 as a payment which was not, as far as we could ascertain, authorized by an Order in Council.

The securities were sold in London through Messrs. Brown, Shipley and Company, the fiscal agents of the Pacific Great Eastern Railway Company. We have requested the Pacific Great Eastern Railway Company to ask Messrs. Brown, Shipley and Company to confirm, direct to us, the total amount of securities issued by them, and until we receive this confirmation we have no complete verification as to whether the total amount of securities as shown by the records of the Company as issued, are all that have been issued. We may state, however, that the periodical payments of interest exactly equal the amount of interest payable on the securities shown as outstanding.

EXHIBIT II.

We are advised by Mr. Gamble, the Government's Chief Railway Engineer, that the amount of estimates for location engineering, construction engineering and overhead charges, representing charges outside the Welch contract, are not excessive when compared to similar charges entering into the construction of other railroads. We might mention that the item executive and accountancy includes $1,000 per month paid to Mr. D'Arcy Tate, Vice-President of the Company, for salary and legal services, and that the item of general expenses includes legal services amounting to $14,822 paid to outside solicitors.

Howe Sound and Northern Railway, $193,068.62.—The purchase price of this line of railroad is the amount passed by Mr. Gamble after he had revised the figure claimed by the Company on its estimate which was, we understand, with the exception of the charges for right-of-way, based on the Welch contract prices. The purchase price of $193,068.62 was allocated as follows, according to receipts examined by us:—

Trustee of the Howe Sound and Northern Railway Company	$ 5,000 00
Foley, Welch & Stewart	188,068 62
Total	$193,068 62

We were informed that the amount paid Foley, Welch & Stewart was to reimburse them for the amount they had already paid to the trustee. In the revised figures furnished by Mr. Gamble in connection with this purchase, there is an arithmetical error amounting to $5,765.76. the extension of 29,120 feet of culvert timber at $22 per thousand being shown as $6,406.40 instead of $640.64. This amount should be recovered by the Pacific Great Eastern Railway Company from Foley, Welch & Stewart and refunded to the Government, or deducted by the Government from the next estimate furnished by the Pacific Great Eastern Railway Company.

The title to the right-of-way included in this purchase, amounting to $83,690, still stands in the name of the vendors, who we understand are now amalgamated with the Pacific Great Eastern Railway Company.

We might mention that the contractor, P. Welch, is operating the line purchased from the Howe Sound and Northern in conjunction with that portion of the road which he has constructed and is operating under the terms of his contract with the Pacific Great Eastern Railway Company, but so far as we can ascertain he is not paying anything to the Company for the privilege of operating the 7.06 miles of road which he did not construct, nor anything for the benefit of certain contracts which we understand were included in the purchase of the Howe Sound and Northern.

Right-of-way, $316,309.19.—The estimates under this head are constituted as follows:—

Cost of land purchased	$139,416 16
Land surveyors (approximately)	25,000 00
Partial payment on land at Vancouver terminal	52,000 00
Fees and expenses of counsel, salary of right-of-way agent, appraisal expenses, cost of removal of obstructions, recording deeds, etc. (approximately)	99,893 03
Total	316,309 19

We examined a duplicate-signed deed in favour of the Company for each parcel of land purchased. In most cases a certificate or other evidence of title was attached. None of the land as evidenced by the deeds was purchased from the Pacific Great Eastern Development Company.

Constructing Railroad, $17,365,572.65.—The estimates furnished by the contractor and submitted to the Government by the Company were certified to by Mr. John Callaghan, the chief engineer of the Pacific Great Eastern Railway Company, and again certified by Mr. R. D. Thomas, auditor of the Pacific Great Eastern Railway Company. The arithmetical accuracy of estimates was tested by us, and it was ascertained that the prices stated thereon were the contract prices.

It will be observed that retentions amounting to $1,583,030.21 were owing to P. Welch on Estimates Nos. 1 to 40. It was the policy of the Government, up to May, 1915, to withhold retentions on estimates furnished under the Welch contract, but estimates submitted after

May, 1915, were paid in full. In July, 1915, the Government paid to the Company the amount of $766,319.69, being half the retentions they had withheld. In this connection it will be noticed, on reference to Exhibit III., that the amounts retained have not been kept separate and available for eventual payment, but have been used by the Company towards the payment of sundry items and interest on its securities and bank loan, notwithstanding that the same had been specifically struck out of the estimates by the Government.

EXHIBIT III.

The amounts paid by the Company for work performed under the Welch contracts have been verified by receipts from the contractor. Receipted vouchers and other evidences of payment were produced to us in verification of the interest paid. Of the expenditure outside the Welch contract, receipts aggregating $332,484.78 were examined by us, and the remaining disbursements, which consist principally of payments for salaries and sundry supplies, were verified by the Company's records. We have already referred in our remarks under Exhibit II. to the fact that these charges are not considered excessive by Mr. Gamble.

EXHIBIT IV.

We have assumed that the final length of the road as determined by the Company—viz., 476.1 miles—was ascertained and known to the Minister of Finance on or before the date on which the last moneys were released to the Company. We have based the estimated cost of 476.1 miles, on the total estimated cost of 480 miles, as agreed to by Mr. Gamble and Mr. Callaghan, chief engineer of the Company. In ascertaining the amount payable to the Company for the proportionate value of work done to November 30th, 1915, we have assumed the following as being in accordance with the Statutes:—

(1.) That the total cost of construction and materials is the total of Estimates Nos. 1 to 41 as furnished by the Company after excluding items which have been eliminated from the estimates by the Government:

(2.) That the net amount credited to the Minister of Finance in respect of guaranteed securities sold and pledged, is the amount of the Government's guarantee for the purpose of ascertaining the amounts payable to the Company.

According to our interpretation of the Statutes governing the payment to the Company for the proportionate value of work done to November 30th, 1915 (which has been confirmed by the Attorney-General's Department in a memorandum dated January 20th, 1917, addressed to the Honourable the Minister of Railways), there has been an amount of $5,704,316.50 paid in excess, as shown in Exhibit IV. We have noticed that Mr. Gamble has, up to Estimate No. 19, recommended to the Executive Council that the amounts of the estimates be transferred to the credit of the Company, but from Estimates Nos. 20 to 41 he does not recommend the amounts for payment, but commends them to the consideration of the Council.

We shall be glad to furnish any further information you may desire in connection with our investigation.

We have the honour to be,
Sir,
Your obedient servants,
PRICE, WATERHOUSE & CO.

EXHIBIT I.—STATEMENT OF MONEYS DEPOSITED TO THE CREDIT OF THE MINISTER OF FINANCE IN CONNECTION WITH THE BRITISH COLUMBIA GOVERNMENT'S GUARANTEE OF THE PACIFIC GREAT EASTERN RAILWAY COMPANY'S SECURITIES.

Securities issued—			
First Mortgage Guaranteed 4½% Debenture Stock			$14,234,805 00
Deduct—			
Discount		$470,687.29 or 3.31%	
Underwriters' commission and brokerage	$428,564.97		
Expenses	4,474.94		
Exchange	7,399.31	440,439.22 or 3.09%	
Total cost of issue		$911,126.51 or 6.40%	
Interest on Pacific Great Eastern Company's securities paid in London	$231,644.83		
Less—Refunded by Company out of moneys released to them by the Government on estimates	139,207.36	92,437.47	1,003,563 98
Amount credited to Minister of Finance in respect of securities sold			$13,231,241 02
Securities pledged—			
Amount credited to Minister of Finance in respect of securities pledged, being a loan paid in monthly instalments by the Union Bank of Canada, secured by the undermentioned debenture stock			4,800,000 00
First Mortgage Guaranteed 4½% Debenture Stock		$2,565,195.00	
Second Mortgage Guaranteed 4½% Debenture Stock		3,360,000.00	
		$5,925,195.00	
Interest earned on bank balances (total securities guaranteed by British Columbia Government, $20,160,000)			215,738 42
Total deposited to credit of Minister of Finance			$18,246,979 44

EXHIBIT II.—STATEMENT SHOWING THE ANALYSIS OF ESTIMATES AS FURNISHED THE BRITISH COLUMBIA GOVERNMENT BY THE PACIFIC GREAT EASTERN RAILWAY COMPANY UNDER CHAPTER 34, STATUTES 1912, AND UPON WHICH MONEYS WERE RELEASED BY ORDERS IN COUNCIL.

Location engineering (salaries and expenses of engineers)		$ 206,295 68
Construction engineering, Divisions 1 to 6 (salaries and expenses of engineers)		524,711 42
Overhead charges—		
Engineering equipment (pack horses, transits, levels, and engineers' instruments)	$32,035.62	
Office furniture	5,539.00	
Office expenses	44,060.67	
General expenses	44,696.42	
Executive and accountancy	63,788.04	
Insurance	140.00	190,259 75
Howe Sound and Northern Railway (purchase price)		193,068 62
Right-of-way, Divisions 1 to 6		316,309 19
Total estimates furnished by the Company, being expenditure outside the Welch contract		$ 1,430,644 66
Constructing railroad—		
Cost per Estimates Nos. 1 to 40 furnished by P. Welch and submitted by the Company	$17,365,572.65	
Less—Retentions	1,583,030.21	15,782,542 44
Retentions on P. Welch contract, $766,319.69 of which was previously withheld by Government		816,710 52
Interest earned on bank balances		211,780 91
Partial payment on Estimate No. 41		5,300 91
Total		$18,246,979 44

EXHIBIT III.—STATEMENT SHOWING THE DISPOSITION OF MONEYS RECEIVED BY THE PACIFIC GREAT EASTERN RAILWAY COMPANY FROM THE BRITISH COLUMBIA GOVERNMENT ON ESTIMATES NOS. 1 TO 41.

Total amount released by Government as shown on Exhibit II.			$18,246,979 44
Expended by the Pacific Great Eastern Company according to its records, as follows:			
P. Welch for work performed under contract	$15,610,150.00		
Expenditures outside the Welch contract	1,427,848.92		
Interest on securities issued and bank loan	1,021,647.60		
On Estimate No. 41 (only part payment of which was received from Government)	8,334.82		
Payment of sundry items included in estimate, but disallowed by Government	9,600.16		
Expenses of organization, $500, and advertising, $2,500, not included in estimates by Company	3,000.00		
Portion of interest deducted from proceeds of securities sold refunded by Company out of moneys received on estimates	139,207.36	$18,219,788.86	
Balance being cash in bank and advances		27,190.58	
Total released by Government			$18,246,979 44

EXHIBIT IV.—STATEMENT SHOWING AMOUNTS THAT WERE PAYABLE TO THE PACIFIC GREAT EASTERN RAILWAY COMPANY IN RESPECT OF ESTIMATES SUBMITTED TO NOVEMBER 30, 1915, ACCORDING TO SUBSEC. (D) OF SEC 9, CHAP. 34, 1912, AND THE "PACIFIC GREAT EASTERN AID ACT, 1914," OUR READING OF WHICH HAS BEEN CONFIRMED BY THE ATTORNEY-GENERAL'S DEPARTMENT.

The part of subsection (*d*) of section 9 which governs the method of payment reads as follows:—

"And from time to time as the work of construction proceeds, the Government by the Minister of Finance, or other duly appointed representative of the Government, shall, out of the said balances, certify to the bank the amount to be transferred from the said account to the credit of the Company, or its nominees, in monthly payments as far as practicable such sums as are justifiable, having regard to the proportion of work done and materials and supplies purchased for the said railway as compared with the whole work done and to be done thereon pending completion of the said line."

The interpretation of which is represented by the following fraction:—

$$\frac{\text{Amount of work done}}{\text{Estimated total cost (as fixed by the Government's Chief Railway Engineer and the Chief Engineer of the Company)}} \text{ of the total amount credited to the Minister of Finance in respect of guaranteed securities sold and pledged} = \text{Proportionate value of work done (as passed by the Government on Estimates Nos. 1 to 41) payable to the Company.}$$

Which, when applied, is shown as follows:—

Total of work done as passed by the Government on Estimates Nos. 1 to 41	$18,888,599 78		
Multiplied by the net amount credited to the Minister of Finance in respect of securities sold and pledged	18,031,241 02		
Divided by the estimated total cost of 476.1* miles of road (this being the final length of the line as determined by the Pacific Great Eastern Railway Company)	27,620,481 19	= proportionate value of work done (as passed by the Government on Estimates Nos. 1 to 41) payable to the Company	$12,330,882 03
		Total amount paid on Estimates Nos. 1 to 41 by the Government to the Pacific Great Eastern Railway Company out of the net amount credited to the Minister of Finance in respect of securities sold and pledged..	18,035,198 53
		Total payments made in excess of the proportion of the estimates payable, according to our interpretation of subsection (*d*) of section 9, chapter 34, 1912, and the "Pacific Great Eastern Aid Act, 1914," which has been confirmed by the Attorney-General's Department	$ 5,704,316 50

* Based on the estimated total cost of 480 miles as agreed to by the Government's Chief Railway Engineer and the Engineer of the Pacific Great Eastern Railway Company.