

Exhibit No.
917, page 7.

depreciation and charges of betterments to repairs was that the Company made no such entries in its books. On the other hand, he has no hesitation despite the lack of such entries in including the alleged surplus values supposed to have been created in this way in the earned profits of the Company, for on page 7 of the statement headed "Summary of Operations 1905 to 1936", Exhibit No. 917, he includes these alleged surplus values to the extent of \$17,265,728.17 in the so-called earned profits. The fallacy of such an attempted distinction is manifest.

The attempt, however, to establish the contention that there were \$17,265,728.17 of "approximate surplus values in plant provided by over-depreciation and excessive charges to operations for equipment, repairs, etc.", failed completely.

Exhibit No.
917, page 7.

It will be noted that in endeavouring to establish this figure the Commission auditor did so by taking the difference between the net book value on the cost basis of the fixed assets and the approximate present depreciated value of the fixed assets taken from an insurance appraisal (page 7, Exhibit No. 917).

Evidence,
pages 13793
and 13833
and following.

It should be mentioned in passing that there is no justification for taking as the real value of the fixed assets an insurance appraisal made for a particular purpose by insurance underwriters, that is to say, for the purpose of establishing the maximum value to which the fixed assets could be insured. Mr. Glassco in his evidence has pointed out the relative casualness of such an insurance appraisal as compared with the appraisal made by the Canadian Appraisal Company Limited in 1920 and the danger of trying to rely upon such an insurance appraisal as a basis for establishing the real present value of the assets appraised.

Evidence,
pages 13765
and following
and 13789
and following.

Even assuming however, that the Commission auditor was proceeding on a satisfactory basis in using the values shown by an insurance appraisal, there is nothing to establish that the surplus values shown by such an appraisal, as compared with the net book value on cost basis, are the result of over-depreciation or charges of betterments to repairs.

In the first place, Mr. Glassco established that up to 1920 there had been, if anything, a very small under-depreciation, and he stated that he could not say whether there has been any over-depreciation between 1920 and the present time. He pointed out, however, in this connection that during the period from 1920 onwards the Company never wrote off for depreciation more than was permitted by the income tax authorities.

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