(*k*) The depreciation policy of the company was found to be conservative from the point of this investigation. In this connection it was established that the property accounts were written up on an appraisal valuation some years ago, but depreciation was based upon the depreciated cost balances and not against appraisal valuations. The Income Tax return to the Dominion Government for 1930 shows that the rates producing the depreciation figure included in operating costs was some three-quarters of a million dollars under what was allowable by the Income Tax Department. This understatement of cost is due primarily to the fact that the Company depreciates on the basis of reducing property balances whereas they could quite properly depreciate upon the basis of original cost.

(*l*) Refinery inventories of crude oil, in-process products and finished products were priced upon the lower of cumulative costs or market valuations of the original crude oil content at both the beginning and the end of the year 1930. In-process products were first applied as finished products and inventory prices reduced by the cost of completing the specific refining processes. Depreciation and prorated administration charges were not included as cost elements at the beginning of the year 1930, whereas allowance was made for these factors in determining the basis for inventory pricing at the end of the year, thereby reducing the 1930 refinery costs.

In connection with the refinery inventories, it should be noted that losses due to falling prices of crude oil and other materials have been absorbed in refinery production costs during the year and are not related to the basis of pricing the respective inventories.

Marketing inventories were based upon refinery billing prices plus laying down charges, and include an element of profit anticipation affecting the costs for the year to the extent of the excess profit in the ending inventory over that in the beginning inventory for the year 1930.

(*m*) The private books of Imperial Oil Limited were made available to us for the purpose of reconciling the net profit from the refinery and marketing operations in Canada as submitted by the Company in evidence, with the final profit of the Company from all sources. The reconciliation was made and no items affecting the basis of the Company's statement of refinery and marketing earnings were disclosed as a result of the examination of the private books.

Our final conclusion in the matter of operating costs as a whole is that the Company's records showed no evidence of "cost loading" by reason of affiliations in the United States and South America or because of any unfavourable accounting practices but rather that the total costs, if anything, were understated because of the Company's outlined policy in the treatment of such matters as fire insurance premiums, depreciation rates, contingency reserve charges and inventory pricing.

The total costs are free of charges for interest as might be related against funded debt or as a charge imposed by a parent company in the form of rental for use and operation of the refineries and marketing stations and equipment. In other words, the financing of Imperial Oil Limited has been effected through the sale of capital stock and the investment of a proportion of surplus earnings in extensions of plant and equipment facilities.