South American seaboard points, computed on the Mid-Continent posted well prices, according to specific gravities, and transportation differentials to the Gulf ports of the United States.

The crude oil production of the International Petroleum group in South America sold to Imperial Oil Limited aggregated 20 per cent of the total, the balance of 80 per cent being disposed of in world trading.

(*c*) Crude oil purchases in the Turner Valley field from both the Royalite Oil group and non-affiliated companies were made on the basis of the content value of the productions in competition with crude oil from the Montana and Mid-Continent districts plus laying down charges to the western refineries.

(*d*) Casinghead gasoline was purchased from both affiliated and non-affiliated companies at competitive prices, whilst compounding materials, grease ingredients, candle wicking, etc., were purchased in the main from non-affiliated companies.

(*e*) Transportation charges made by affiliations of Imperial Oil Limited owning and operating pipe lines in the United States were based on Interstate Commerce Commission rates and charges for coastwise and inland lake tankers and rail tankers, were based upon competitive rate structures of non-affiliated transportation companies.

Transportation charges, including those originating on pipe lines, as made by the International Petroleum group are embodied in the f.o.b. prices at South American seaboard points and automatically take into account the competitive transportation differentials to the Gulf ports of the United States.

(*f*) Royalty agreements were examined and it was found that the rates of costing royalties in respect of the gasoline cracking process as levied by affiliated companies were less than those levied by non-affiliated companies. The royalty costs—less any relative credits when earned—of affiliated companies are operated by a pooling arrangement and spread over the member companies on the basis of gasoline production.

(*g*) Administration charges originating at executive headquarters but costed against refining and marketing operations embodied such items as advertising, headquarters' salaries, travelling expenses, printing and stationery, annuities and pensions, etc.

(*h*) The Contingency Reserve Charge included in costs applying to Accounts Receivable is the subject of some doubt in our mind as to its sufficiency to meet the purposes for which it was created. It should be borne in mind, however, that neither the selling policy nor the resulting potential loss could be considered a normal recurring circumstance.

(*i*) Tests of the changes in the Property Accounts and Repair Accounts disclosed no improper treatment of Depreciation Reserves in the matter of property retirements, nor the inclusion of any capitalizable items in repair costs.

(*j*) Fire Insurance protection for the Company's investment in plant, equipment, and inventories of merchandise was not included in the costs of refining and marketing, ostensibly because the Company maintains and controls its own fire insurance funds. The Company could have quite properly included the equivalent of tariff insurance rates on all insurable property in determining the total operating costs for 1930.