United Fuel Investments, Limited

ANNUAL REPORT

For the Fiscal Year Ended March 31, 1960

UNITED FUEL INVESTMENTS, LIMITED

HEAD OFFICE, HAMILTON, ONTARIO

Board of Directors

R. L. O'Brian
F. Palin, F.C.A.
J. M. Pigott
David P. Rogers
R. L. Warren
T. Weir, F.C.A.

Officers

David P. Rogers, *President*
R. L. O'Brian, *Vice-President*
T. P. Pinckard, *General Manager of Subsidiary*
F. Palin, F.C.A., *Comptroller, Secretary and Treasurer*
K. J. Burnett, *Assistant General Manager of Subsidiary*
W. M. Common, *Assistant Secretary and Assistant Treasurer*
V. M. Wagar, C.A., *Assistant Comptroller and Assistant Treasurer*

* * *

United Fuel Investments, Limited is a holding company owning all of the outstanding shares of:

United Gas Limited, distributing natural gas in the City of Hamilton, the Towns of Oakville, Burlington, Dundas, Milton, Georgetown and Acton, the Village of Waterdown and other areas adjacent to those municipalities in the Counties of Halton and Wentworth in the Province of Ontario. As of April 1, 1959 United Gas Limited acquired all of the assets and undertaking of its wholly-owned subsidiary, United Suburban Gas Company, Limited, and arrangements are being made to surrender the charter of that Company.

* * *

On December 15, 1959 United Fuel Investments, Limited sold its entire holdings of capital stock in a former wholly-owned subsidiary, Hamilton By Product Coke Ovens, Limited, which manufactured coke and related by-products in the City of Hamilton.

REPORT OF THE BOARD OF DIRECTORS OF

UNITED FUEL INVESTMENTS, LIMITED

ON OPERATIONS FOR THE FISCAL YEAR ENDED MARCH 31, 1960

Hamilton, Ontario
June 7, 1960

To the Shareholders:

With the completion in 1958 of the conversion to natural gas of the entire gas distribution system of United Gas Limited, there was no longer a market for the sale of manufactured gas produced in the ovens of Hamilton By Product Coke Ovens, Limited, formerly a wholly-owned subsidiary of United Fuel Investments, Limited. In addition, for the past several years the demand for standard grades of coke manufactured by the Coke Company had been constantly diminishing. While an expanding market for high quality coke for foundry and metallurgical purposes was being developed, the much longer coking time for this process, together with constantly rising production costs, as well as increasing maintenance costs due to the age of the plant, reduced substantially the net profits formerly derived from the coking operations. Consequently, when offers were received from companies interested in acquiring all of the shares in the capital stock of the Coke Company at prices which would include full value for the land holdings of that Company, the Directors of United Fuel Investments, Limited determined that one of such offers should be accepted, and on December 15, 1959 all of the shares of Hamilton By Product Coke Ovens, Limited owned by United Fuel Investments, Limited were sold.

Under the terms of the agreement for the sale by United Fuel Investments, Limited, of its holdings of the capital stock of Hamilton By Product Coke Ovens, Limited the profits of the Coke Company after October 31, 1959 were for the account of the purchaser. Thus the revenue and expenses of the Coke Company for the seven months period ended October 31, 1959 only are included in the consolidated operating results for the fiscal year ended March 31, 1960 referred to in this report.

Consolidated net earnings for the fiscal year ended March 31, 1960 amounted to $275,557 as compared with $137,376 for the prior fiscal year, an increase of $138,181.

The net operating results of the Company and its subsidiaries, as separate entities, for the past two years are summarized as follows:

	Profit or *Loss* (−) for Fiscal Year ended March 31		Increase in Profit
	1960	1959	1960 over 1959
United Fuel Investments, Limited (exclusive of dividends received from subsidiaries)	$ 30,077	$(−) *14,929*	$ 45,006
United Gas Limited	214,971	144,064	70,907
Hamilton By Product Coke Ovens, Limited	30,509*	8,241	22,268
	$275,557	$137,376	$138,181

*Seven months to October 31, 1959

During the year ended March 31, 1960 an additional $2,568,107 was spent on gas property additions, betterments and replacements to make gas available to areas not previously served, as well as to improve and expand gas service in areas already being served. While the volume and value of gas sales for the year were substantially higher than the estimates (as published in the prospectus of United Gas Limited dated March 24, 1958), costs were also greater than estimated, particularly sales promotion costs because of the keen competition from suppliers of other forms of fuel and energy, and pipeline maintenance costs incurred to assure efficiency in the distribution of larger volumes of natural gas through the older sections of the plant.

The annual financial statements of the Company consolidated with its wholly-owned subsidiary for the fiscal year ended March 31, 1960, with comparisons for the prior fiscal year and also the auditors' report thereon are incorporated with this report.

OPERATING RESULTS

Consolidated operating results of your Company for the fiscal year ended March 31, 1960 as compared with the previous fiscal year were as follows:

	Fiscal year ended March 31 1960	1959	Increase or *decrease* (−) for 1960
Gross revenue from sales:			
gas	$6,669,922	$5,372,339	$ 1,297,583
coke and by-products	1,655,900	3,478,065	(−) *1,822,165*
Other income	181,538	124,923	56,615
	$8,507,360	$8,975,327	$(−) *467,967*
Operating and maintenance costs, exclusive of items shown separately below	$7,015,208	$7,585,738	$(−) *570,530*
Depreciation	413,251	511,263	(−) *98,012*
Amortization of natural gas conversion costs	103,200	99,300	3,900
Interest on bonds and bank loans and other funded debt charges	364,144	375,850	(−) *11,706*
Total costs and expenses exclusive of income taxes	$7,895,803	$8,572,151	$(−) *676,348*
Profit before income taxes	$ 611,557	$ 403,176	$ 208,381
Income taxes	336,000	265,800	70,200
Net profit for the year	$ 275,557	$ 137,376	$ 138,181

Note: Because of a change in the accounting procedures of United Gas Limited to conform more closely with current public utility accounting methods, for comparative purposes some of the prior year's figures referred to in this report have been re-stated on the revised basis, but the amounts involved are not significant.

Gas Sales

Gas sales for the fiscal year ended March 31, 1960 totalled 5,766,958 M.C.F. (thousand cubic feet), an increase of 1,499,746 M.C.F., or 35.1%, over the prior year. Revenues from gas sales at $6,669,922 were $1,297,583, or 24.2%, higher than for the prior year. The following summary indicates that substantial increases were attained in the volume and value of all classifications of gas sales:

	Volume of gas sales in M.C.F.			Gross revenue in dollars		
	Year to March 31 1960	% of total	% over previous year	Year to March 31 1960	% of total	% over previous year
Class of customers						
Residential	2,605,994	45.2	14.6	$3,867,285	58.0	12.7
Commercial	754,814	13.1	35.9	900,002	13.5	33.2
Industrial	2,406,150	41.7	67.4	1,902,635	28.5	50.3
	5,766,958	100.0	35.1	$6,669,922	100.0	24.2

The average prices received per M.C.F. of gas sold during the past two years were as follows:

	Fiscal year to March 31 1960	1959
Residential —average price per M.C.F.	$1.48	$1.51
Commercial —average price per M.C.F.	1.19	1.22
Industrial —average price per M.C.F.	.79	.88
Total —average price per M.C.F.	$1.16	$1.26

A total of 45,710 customers were being served at March 31, 1960, a net increase of 1,020 during the year.

The average consumption per residential account in the 1960 fiscal year was 62.2 M.C.F. compared with 55.8 M.C.F. for the previous fiscal year. For commercial accounts the average consumption was 254.3 M.C.F. compared with 222.5 M.C.F. in the prior year.

During the fiscal year ended March 31, 1960 the average temperatures prevailing during the heating season were somewhat warmer than normal, while for the prior fiscal year the heating season temperatures were slightly colder than normal. This had an adverse effect on gross revenues from gas sales for space heating purposes for the fiscal year ended March 31, 1960, although increases in the number of customers on the lines and the number of customers using gas for space heating purposes offset the effects of the milder weather.

EXPENSES

Total expenses of the Company, exclusive of income taxes, for the fiscal year ended March 31, 1960 amounted to $7,895,803, or $676,348 less than for the previous year. This decrease in costs occurred as follows:

Cost of products sold decreased $834,006.

Cost of products produced in the coking plant for the seven months period ended October 31, 1959 was $1,638,734 less than for the full fiscal year ended March 31, 1959. Gross revenue from the sale of such products was $1,822,165 less than for the previous year.

The cost of gas purchased for resale during the fiscal year ended March 31, 1960 was $804,728 higher than for the prior year, due mainly to the greater volume of gas required to meet the demand on the system.

Distribution, Selling, General and Administrative Expenses Increased $263,476.

While the sale of the Coke Company resulted in a reduction of $111,069 in such costs applicable to that Company for the fiscal year ended March 31, 1960, the total of such expenses incurred by United Fuel and United Gas as separate entities was $374,545 greater than for the prior year.

An increase in the number of regular and casual employees required to operate and maintain the additional gas plant facilities constructed in recent years and to extensively rehabilitate existing plant facilities consequent upon the introduction of natural gas; generally higher wage and salary rates; higher costs arising from expanded promotional and advertising programs; rising municipal property tax costs because of higher mill rates and taxes levied on additions to pipelines and other properties; and increased prices for materials and services required to carry on operations all contributed to these increased expenses.

Depreciation decreased $98,012.

Provisions for depreciation were made on the same basis as for last year. However, after disposing of and writing out of Property Account certain plant and equipment of United Gas Limited not required in the natural gas business and after allocating to certain expense and property accounts a portion of the provision for depreciation in accordance with the revised accounting procedures, depreciation charged directly to operations of that Company was $23,845 less than for the prior year. Depreciation provided against the Coke Company Property Account to October 31, 1959 was $74,167 less than the amount provided during the entire fiscal year ended March 31, 1959.

Amortization of Natural Gas Conversion Costs increased $3,900.

Net expenditures during the years 1955 to 1959 to complete the conversion to natural gas of appliances in customers' premises previously using manufactured gas amounted to $1,018,533. These costs are being carried forward as a deferred expense and are being amortized over a period of approximately 10 years from date of expenditure. The pro rata charge of $103,200 to Profit and Loss Account for this purpose during the fiscal year ended March 31, 1960 was $3,900 greater than for the prior year. The unamortized balance carried forward at March 31, 1960 to be written off in future years was $787,134.

Interest on Bonds and Bank Loans and other Funded Debt Charges decreased $11,706.

The decrease in interest costs was due primarily to operations for the prior year reflecting interest charges on $500,000 par value 4¼% Hamilton By Product Coke Ovens, Limited bonds for the full year, whereas costs for the fiscal year to March 31, 1960 include such interest expense for 7 months only.

Income Taxes increased $70,200.

The increase in income taxes was due to the higher profits and an increased federal income tax rate in effect for the fiscal year ended March 31, 1960 as compared with the prior year.

While income taxes charged against income for the year amounted to $336,000 the amount of taxes payable in respect of the year amounts to $112,000. The difference of $224,000 results from claiming for tax purposes total capital cost allowances and amortization of natural gas conversion costs in an amount greater than the charges for these purposes for the year recorded in the accounts. This difference, together with similar tax reductions for prior years amounting to $521,700 is applicable to those future periods when the total depreciation and amortization of natural gas conversion costs recorded in the accounts will be greater than amounts which may be claimed for tax purposes. Accordingly the accumulated difference of $745,700 is shown on the balance sheet in the item "Accumulated tax reductions applicable to future years."

CONSOLIDATED FINANCIAL POSITION

Consolidated working capital of the Company at March 31, 1960 was $3,190,238 as compared with $1,865,579 at March 31, 1959. The following summary indicates the receipts and disbursements of working capital during the fiscal year ended March 31, 1960:

Receipts of Working Capital:		
Portion of net amount realized on sale of shares in Hamilton By Product Coke Ovens, Limited representing increase in consolidated working capital		$3,460,538
Net earnings for year as shown on Statement of Consolidated Profit and Loss	$ 275,557	
Amounts charged to earnings for depreciation and amortization which do not represent cash outlay	583,938	
Reduction in income taxes payable resulting from claiming for tax purposes capital cost allowances and natural gas conversion costs in an amount greater than the depreciation and amortization recorded in the accounts	224,000	1,083,495
Provision for doubtful accounts no longer required		37,488
Total working capital made available		$4,581,521
Disbursements of Working Capital:		
Gross expenditures on Property Account of United Gas Limited, less salvage	$2,568,107	
Dividends on capital stock paid or provided for	429,689	
Paid up pensions, less tax thereon	112,348	
Deposit with trustees for bondholders	85,638	
Increase in deferred charges, etc.	57,080	
Retirement of funded debt	4,000	3,256,862
Resulting in an increase in consolidated working capital during the year of		$1,324,659
Consolidated working capital at beginning of year		1,865,579
Consolidated working capital at end of year		$3,190,238

Property Account expenditures during the year, net of salvage, of United Gas Limited, consisted of:

Additions to and extensions of property	$1,767,371	
Replacements and renewals of property	800,736	
Total expenditures		$2,568,107

As a result of the Property Account changes referred to above, the sale of the Coke Company properties and the write-offs of certain former United Gas Limited plant facilities not required in natural gas operations, the gross book value of Property Account decreased during the year by $4,250,943 and at March 31, 1960 amounted to $14,764,761.

The Property Account disposals and renewals, and after allowing for depreciation provisions for the year, resulted in accumulated depreciation as at March 31, 1960 being $2,658,442, a reduction of $5,643,132 from the prior year.

The sale of the Coke Company properties resulted in "Premium paid on acquisition of subsidiary company" carried on the Balance Sheet under the Property caption being reduced during the year by $2,824,124, leaving the amount of $1,255,831 applicable to United Gas Limited.

Dividends totalling $429,689 were paid on the capital stock of the Company during the year as follows:

Class "A" Cumulative Preference Shares—	
Four quarterly dividends of $ .75 each per share, or a total of $3.00 per share, on 90,000 shares outstanding	$270,000
Class "B" Non-Cumulative Preference Shares—	
Dividend of $1.00 per share paid July 2, 1959 on 69,689 shares outstanding	69,689
Common Shares—	
Dividend of $1.00 per share paid July 2, 1959 on 90,000 shares outstanding	90,000
	$429,689

PERSONNEL

As at March 31, 1960 there were 457 regular employees on the payrolls of the Company, an increase of 43 during the year. Wage and salary payments made to employees, including those engaged on a temporary basis during the construction season, totalled $1,847,228 for the year ended March 31, 1960, or $421,021 in excess of the total for the prior year. This increase reflects not only the greater number of regular as well as casual employees on the payrolls, but also further general increases in wage and salary rates made during the year. In addition, Company contributions to the pension and group insurance plans maintained for regular employees and to which the employees also contribute, amounted to $101,580, an increase of $13,287 as compared with the year ended March 31, 1959. (The comparisons made in this paragraph are after excluding the employees of the Coke Company for the year ended March 31, 1959.)

All employees of the Company are aware of the need to carry out their duties with safety and efficiency constantly in mind. To further these requirements the Company has continuing plans for carefully training employees in proper operating, appliance installation and servicing methods. Safety programs, with active employee participation, designed to keep employees informed on methods of combating hazards which they may encounter in performing their duties, are also carried on.

GAS SUPPLY

Throughout the past year the Company continued to receive the major portion of its gas requirements under the agreement dated December 2, 1957 between Ontario Natural Gas Storage and Pipelines Limited (a wholly-owned subsidiary of Union Gas Company of Canada, Limited) and United Gas Limited. Under a separate contract entered into during the year with Ontario Natural Gas Storage, United Gas Limited is currently purchasing at a reduced price gas available to service an industrial customer under a special rate seasonal supply contract. Additional gas is available to United to service the possible seasonal and interruptible requirements of prospective industrial customers with whom discussions for special rate gas are continuing.

A relatively small volume of gas is also being purchased from local production.

FUTURE OF THE COMPANY

With the conversion of the Company's entire gas service area to the use of natural gas, the sale of Hamilton By Product Coke Ovens, Limited and the reduction of the function of United Fuel Investments, Limited to the point where it is a holding company owning all of the outstanding shares of only one subsidiary, namely, United Gas Limited, it is considered that the main reason for the continued existence of United Fuel Investments, Limited no longer exists.

Union Gas Company of Canada, Limited, engaged in the distribution and other phases of the natural gas business, owns all except 93 of the 90,000 outstanding common shares (the voting stock) of United Fuel Investments, Limited. Because of the change in status of United Fuel Investments, Limited your Directors and Management are discussing with the Directors of Union Gas Company of Canada, Limited ways and means of integrating the operations of Union Gas Company and United Gas Limited with a view to improving the over-all efficiency. No definite decisions on the matter have as yet been reached.

In the event that such discussions and negotiations should lead to the voluntary liquidation or dissolution of United Fuel, the assets of that Company remaining after payment of liabilities would, in accordance with the terms of its charter, be distributed to shareholders as follows:

The holders of 6% Cumulative Redeemable Class "A" Preference Shares of the par value of $50.00 would each receive $60.00 per share and accrued dividends;

The holders of Non-Cumulative Class "B" Preference Shares of the par value of $25.00 would each receive $30.00 per share; and

The holders of the Common Shares would be entitled to any balance remaining after the foregoing payments and after provision for certain taxes which would become payable in connection with the distribution.

GENERAL

The presently contemplated plant extension, improvement and replacement program of the Company during the fiscal year commenced April 1, 1960 will require the expenditure of approximately $2,750,000. It is expected that this entire program will be financed from working capital already available to the Company and to be made available from operations.

Current earnings of the Company are affected by the fact that practically the full amount of expenses incidental to operating new plant facilities accrue from the date they are put into service, but a market build-up period of a few years on a progressive basis is usually required before the additional volume of sales made possible by such plant expansion contributes fully to the earnings of the Company. Earnings are also affected by the necessity to spend large sums on the repair and renewal of pipeline facilities, particularly those which have been in service for a great many years, to assure efficiency in distributing the constantly increasing volumes of natural gas, and by constantly increasing labour, material and supplies, services and tax costs. However, with continuing progress being made in building up gas sales volume, your Directors are confident that the expansion program of the past few years will favourably affect future net profits.

The appreciation of the Board of Directors is expressed to all employees of the Company who through their willingness and co-operation throughout another year of wide expansion and progress contributed materially to the maintenance of a high standard of service in all departments.

On behalf of the Board of Directors,

DAVID P. ROGERS
President.

AUDITORS' REPORT

To the Shareholders of
United Fuel Investments, Limited:

We have examined the consolidated balance sheet of United Fuel Investments, Limited and its wholly-owned subsidiary as at March 31, 1960 and the statement of consolidated profit and loss and accumulated earnings retained for use in the business for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and statement of consolidated profit and loss and accumulated earnings retained for use in the business are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at March 31, 1960 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.,
Chartered Accountants

Hamilton, Canada,
June 2, 1960.

UNITED FUEL INV

(Incorporated under the

AND ITS WHOLLY-

Consolidated

MARCH

(with comparative

ASSETS

	March 31, 1960	March 31, 1959
PROPERTY (note 1):		
Distribution systems, transmission lines, land, buildings, equipment, franchises, rights, etc.—at cost	$14,764,761	$19,015,704
Less accumulated depreciation	2,658,442	8,301,574
	$12,106,319	$10,714,130
Premium paid on acquisition of subsidiary company	1,255,831	4,079,955
	$13.362,150	$14,794,085
CURRENT:		
Cash	$ 376,342	$ 1,119,427
Government of Canada bonds and treasury bills at amortized cost which approximates market value, plus accrued interest	2,381,195	
Accounts receivable less allowance for doubtful accounts	1,163,863	1,177,206
Inventories valued at the lower of cost or market	558,845	1,198,050
Income taxes recoverable		17,419
	$ 4,480,245	$ 3,512,102
DEFERRED AND OTHER ASSETS:		
Funds on deposit with trustee for bondholders	$ 85,638	
Prepaid expenses and deferred charges	112,051	$ 120,021
Balances to be amortized in future years:		
Natural gas conversion costs	787,134	892,624
Discount and expenses on issue of funded debt	160,440	169,320
Stores and spare equipment		130,441
	$ 1,145,263	$ 1,312,406
	$18,987,658	$19,618,593

Approved on behalf of the Board:

DAVID P. ROGERS, *Director*

ROLAND L. O'BRIAN, *Director*

STMENTS, LIMITED

ws of Canada)

WNED SUBSIDIARY

alance Sheet

, 1960

ures at March 31, 1959)

LIABILITIES

	March 31, 1960	March 31, 1959
SHAREHOLDERS' EQUITY:		
Capital (note 2)—		
Class "A" 6% cumulative preference shares of $50 each— Authorized and issued—90,000 shares	$ 4,500,000	$ 4,500,000
Class "B" non-cumulative preference shares of $25 each— Authorized and outstanding—69,689 shares	1,742,225	1,742,225
Common shares of no par value— Authorized and issued—90,000 shares	50,000	50,000
Contributed surplus arising from discount on redemption of Class "B" preference shares	417,220	417,220
Accumulated earnings retained for use in the business	3,746,506	4,240,925
	$10,455,951	$10,950,370
FUNDED DEBT:		
5¼% first mortgage sinking fund bonds of United Gas Limited due October 1, 1977—		
Originally authorized and issued—$6,500,000		
Outstanding	$ 6,496,000	$ 6,500,000
DEFERRED:		
Accumulated tax reductions applicable to future years (note 3)	$ 745,700	$ 521,700
CURRENT LIABILITIES:		
Accounts payable and accrued charges	$ 1,014,812	$ 824,752
Accrued interest on bonds	170,520	177,705
Income and other taxes payable	37,175	76,566
Dividend payable	67,500	67,500
Funded debt of subsidiary maturing December 1, 1959		500,000
	$ 1,290,007	$ 1,646,523
	$18,987,658	$19,618,593

UNITED FUEL INVESTMENTS, LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARIES

Statement of Consolidated Profit and Loss and Accumulated Earnings Retained for use in the Business

For Year Ended March 31, 1960
(with comparative figures for 1959)

		Year ended March 31	
		1960	1959
PROFIT AND LOSS			
OPERATING REVENUE AND OTHER INCOME:			
Gross revenue from gas sales		$6,669,922	$5,372,339
Coke and by-product sales		1,655,900	3,478,065
Other operating income		181,538	124,923
		$8,507,360	$8,975,327
OPERATING EXPENSES AND INTEREST:			
Operating and maintenance costs exclusive of items shown separately below		$7,015,208	$7,585,738
Depreciation (note 6)		413,251	511,263
Amortization of natural gas conversion costs		103,200	99,300
Bond and other interest including bond discount and expense amortized (less interest charged to construction in 1959, $11,051)		364,144	375,850
		$7,895,803	$8,572,151
PROFIT BEFORE INCOME TAXES		$ 611,557	$ 403,176
INCOME TAXES (note 3)		336,000	265,800
NET PROFIT FOR YEAR (note 1)		$ 275,557	$ 137,376
ACCUMULATED EARNINGS RETAINED FOR USE IN THE BUSINESS			
Balance at beginning of year		$4,240,925	$4,463,238
Add:			
Net profit for year		275,557	137,376
Provision for taxes on income in prior years, no longer required			70,000
		$4,516,482	$4,670,614
Deduct:			
Dividends declared—			
Class "A" 6% preference shares		$ 270,000	$ 270,000
Class "B" preference shares		69,689	69,689
Common shares		90,000	90,000
		$ 429,689	$ 429,689
Deductions resulting from sale of subsidiary—			
Remainder of premium paid on acquisition of shares in 1928 (note 1)		265,427	
Provision for past service pension expense of employees of subsidiary, $232,148, less resulting reduction in income tax, $119,800	$112,348		
Less provision for doubtful accounts of subsidiary no longer required	37,488	74,860	
		$ 769,976	$ 429,689
Balance at end of year		$3,746,506	$4,240,925

Notes to Consolidated Financial Statements
March 31, 1960

(1) Sale of subsidiary—

On December 15, 1959 the parent company sold all of the outstanding shares of its wholly-owned subsidiary, Hamilton By Product Coke Ovens, Limited. Under the terms of the agreement, the profits of the subsidiary after October 31, 1959 were for the account of the purchaser. The accompanying statement of consolidated profit and loss therefore includes the profits of the subsidiary for the seven months ended October 31, 1959.

The proceeds of the sale exceeded the shareholders' equity as shown by the balance sheet of Hamilton By Product Coke Ovens, Limited by a substantial amount. This excess was applied in reduction of the premium originally paid on acquisition of the shares in 1928 ($2,824,124) and the portion of the premium not so absorbed, $265,427, is deducted from consolidated accumulated earnings retained for use in the business.

(2) Capital Stock—

The Class "A" preference shares are redeemable at the option of the company or by purchase in the open market for cancellation at a price not exceeding $60.

The Class "B" preference shares are non-voting and have a preference only on winding up. They participate pro-rata with the common shares in any payment of dividends over and above the cumulative preferential dividends payable on the Class "A" preference shares. The Class "B" preference shares are redeemable only through purchase for cancellation by the company in the open market at a price not exceeding $30.

(3) Accumulated tax reductions—

As a result of claiming allowances for tax purposes in excess of the recorded depreciation and amortization of natural gas conversion costs, income taxes payable will be less than the current year's provisions by $224,000 ($142,000 in 1959), and accordingly this amount is included in the balance sheet in the item "Accumulated tax reductions applicable to future years".

(4) Natural gas contract—

By contract dated December 2, 1957, United Gas Limited, a wholly-owned subsidiary company, has agreed to purchase from Ontario Natural Gas Storage and Pipelines Limited annual amounts of natural gas ranging from 6 billion cubic feet in the calendar year 1960 to 14.5 billion cubic feet in the calendar year 1970 and subsequent years. United Gas Limited is obliged to take or in any event pay for a minimum of 75% of the stipulated volume for each contract year.

(5) Capital expenditures—

Capital expenditures of approximately $2,750,000 have been approved by the directors for the fiscal year ending March 31, 1961.

Notes to Consolidated Financial Statements
March 31, 1960

(6) Provision for depreciation—

Total depreciation provided for the year ended March 31, 1960 amounted to $471,858. Of this amount, $413,251 was charged directly as an operating expense and the remainder of $58,607 was allocated partly to sundry expense accounts and partly to property accounts. In the year ended March 31, 1959, the total provision for depreciation of $511,263 was charged directly as an operating expense.

(7) Remuneration of directors, officers and legal advisers—

The expenditures of the year ended March 31, 1960 include remuneration of directors (other than executive officers) $9,068, payments to legal advisers, $21,277, and remuneration of executive officers, $38,994.