United Fuel Investments,
Limited

and

Subsidiary Companies

Twenty-Second Annual Report
For the Fiscal Year Ended
March 31, 1950

TWENTY-SECOND ANNUAL REPORT

OF THE DIRECTORS OF

UNITED FUEL INVESTMENTS, LIMITED

FOR THE FISCAL YEAR ENDED MARCH 31, 1950

Hamilton, Ontario,
June 9, 1950.

To the Shareholders:

In this Report your Directors deal with various matters of interest concerning the operations of United Fuel Investments, Limited, and its wholly-owned Subsidiaries for the fiscal year ended March 31, 1950. Incorporated herein are the Consolidated Balance Sheet of the Company and its Subsidiaries as at March 31, 1950, and related Statements of Profit and Loss and Earned Surplus for the fiscal year ended March 31, 1950, with comparative figures for the previous fiscal year, together with the Report of your Auditors.

OPERATING RESULTS

A condensed comparison of consolidated operating results for the fiscal year ended March 31, 1950, with those of the previous fiscal year for your Company and its wholly-owned subsidiaries is as follows:

	Fiscal Year Ended March 31, 1950	Fiscal Year Ended March 31, 1949	Increase or *Decrease* for 1950
Gross revenue from sales	$7,644,637	$7,962,747	*$318,110*
Other income	83,405	89,453	*6,048*
Total income	$7,728,042	$8,052,200	*$324,158*
Cost of products sold	$5,252,678	$5,474,206	*$221,528*
Distribution, selling, general and administrative expenses	892,783	812,453	80,330
Provision for depreciation	288,031	251,126	36,905
Interest and other funded debt charges	160,857	162,979	*2,122*
Amortization of manufactured gas change-over costs	14,800	14,800	—
Total expenses, exclusive of taxes on income	$6,609,149	$6,715,564	*$106,415*
Profit before taxes on income	$1,118,893	$1,336,636	*$217,743*
Provision for taxes on income	444,100	457,000	*12,900*
Net profit transferred to Consolidated Earned Surplus Account	$ 674,793	$ 879,636	*$204,843*

REVENUES

There was a decrease of $318,110 in gross revenue from sales for the fiscal year ended March 31, 1950 as compared with the previous fiscal year as follows:

Coke Sales:	Gross revenue from sales for fiscal year ended March 31, 1950	Increase or *Decrease* compared with previous fiscal year
Company production	$4,205,975	*$152,780*
Purchased for resale	60,043	*181,620*
Total	$4,266,018	*$334,400*
Gas Sales	2,888,972	97,228
Tar and other residuals sales	489,647	*80,938*
Total Sales	$7,644,637	*$318,110*

The decrease of $152,780 in gross revenue from sales of coke produced by your Company was attributed to a reduction of $1.00 per ton in the average price received per ton of such coke sold during the year, although there was an increase of 8,212 tons, or 3%, in total volume of sales. There was a decrease of 14,503 tons, or 76.1%, in volume of sales of coke purchased from other producers for resale by your Company, resulting in a decrease of $181,620 in gross revenue from this source.

The purchase and resale by your Company of coke produced in other plants now represents a very small portion of the Company's operations. This practice arose during the war years and continued during the period immediately after the war when it was the policy of your Company to purchase coke for resale from all available sources to meet the requirements of its customers. With the demand for and supply of solid fuels returning to a more normal basis the requirements of all customers for coke can now be met almost entirely by production from the Company's ovens.

The reduction in average price received per ton of coke sold resulted from competitive conditions during the year in the solid fuels market. The resulting decrease in gross revenue was offset somewhat by a reduction in the net cost of coke produced.

As at March 31, 1950 there were only 180 tons of coke on hand as compared with 10,800 tons at March 31, 1949.

The increase of $97,228 in gross revenue from gas sales was attributed to an increase of 3.6% in the volumes of gas sold to commercial and industrial customers at slightly higher average rates offset in part by a reduction of 2.5% in volume of sales to residential customers, although the average rate received for residential sales was somewhat higher. During the year there was a slight increase in the number of meters on the lines.

The decrease of $6,048 in Other Income arises mainly from a reduction in volume of coal handled over the Company's dock for other coal importers on a tonnage price basis.

EXPENSES

There was a reduction of $106,415 in total expenses of your Company exclusive of taxes on income for the fiscal year ended March 31, 1950, as compared with the previous fiscal year. This decrease is attributed mainly to the following:

Cost of products sold decreased $221,528. Due to the substantial reduction in volume of sales of purchased coke the cost of sales of purchased coke was reduced by $167,923. The cost of gas purchased for resale decreased $3,933, an increase in the volume of such purchases being offset by a reduction in unit cost. The cost of all products produced and sold by your Company decreased $49,672 mainly because the previous year's costs included a charge of $158,839 to write down inventories to market value and only a nominal amount was required for this purpose during the fiscal year ended March 31, 1950.

Coal is the most important raw material used in the production of coke and gas in the plants of your Company, and substantially all coal purchased is imported from the United States. Thus any changes in the cost per ton of coal at the mines or in any of the other items entering into the laid-down cost of coal on the Company's dock have an important effect on the operating costs of your Company. During the fiscal year ended March 31, 1950, over-all costs were reduced substantially by a reduction in cost of coal laid down on your Company's dock, although this saving was more than offset by increased processing costs and the reduction in the average selling price per ton of coke sold.

The net increase of $80,330 in total distribution, selling, general and administrative expenses was due mainly to increased gas distribution costs arising from higher labor and material costs, increased coke selling cost, and greater provision for contingent expenses. Reduced temporary bank loans of the Coke Company required to finance seasonal purchases of coal and other raw materials during the summer months resulted in lower interest payments on such borrowings.

Net appliance sales of $285,033 were 54% in excess of the previous fiscal year. While advertising, commissions paid and other appliance selling expenses were substantially higher due to these increased sales, the net profit of the Appliance Sales Department was $9,484 compared with $4,670 for the previous year.

Provision for depreciation was greater by $36,905 as the result of plant additions and because depreciation write-offs were increased to the maximum amounts permitted for Dominion income tax purposes under the recently revised regulations of the Department of National Revenue.

Interest and other funded debt charges were less by $2,122 due to debt retirement.

CONSOLIDATED FINANCIAL POSITION

As at March 31, 1950, the working capital of your Company, after deducting $200,000 par value of First Collateral Mortgage Serial Bonds, Series "A" due December 1, 1950, amounted to $2,078,042, an increase of $386,108 during the year. The following statement shows in summarized form the income from profits during the year and the allocation made of these funds.

Net earnings for the year after all charges except provision for taxes on income	$1,118,893	
Less: Provision for Dominion and Provincial taxes on income	444,100	$ 674,793
Add: Charges against earnings which do not represent cash disbursements:		
Depreciation	$ 288,031	
Amortization of manufactured gas change-over cost	14,800	
Amortization of bond discount and bond issue expenses	9,876	312,707
Provision for taxes on income of prior years no longer required and credited to Earned Surplus Account		100,000
Refundable portion of taxes on income received during the year		24,880
Total funds made available		$1,112,380
Accounted for as follows:		
Dividends on capital stock paid or provided for	$ 270,000	
Cost of additions to fixed assets (net)	249,957	
Net increase in sundry deferred items	6,315	
	$ 526,272	
First Collateral Mortgage Serial Bonds, Series "A", maturing December 1, 1950	200,000	726,272
Resulting in an increase in net current assets of		$ 386,108
Working capital at beginning of year		1,691,934
Working capital at end of year		$2,078,042

Gross expenditures on Property Account additions and replacements amounted to $258,230 as follows

Coke Company:		
Plant additions	$ 68,507	
Plant replacements	28,477	$ 96,984
Gas Companies:		
Plant additions	$ 97,626	
Plant replacements	63,620	161,246
		$258,230

During the year plant items with a gross book value of $75,520 were disposed of realizing $8,273, thus reducing the net expenditure on Property Account to $249,957. After allowing for these additions and reductions Property Account was increased by $182,710 and Reserve for Depreciation and Renewals Account was increased $220,783, resulting in a decrease of $38,073 in the net book value of Property Account.

On December 1, 1949, $200,000 par value of First Collateral Mortgage 3% Serial Bonds, Series "A", matured and were retired at par.

Dividends of $270,000 were paid during the year, being four quarterly dividends of 75c. per share, or a total of $3.00 per share, on the Class "A" Cumulative Preferred Shares.

During the year the amount of $100,000 provided from Earned Surplus Account in the fiscal year ended March 31, 1946 as a Reserve for Contingencies was restored to Earned Surplus Account as it is considered that the contingent reserve is no longer required.

NATURAL GAS

In recent months various interests have informed your Management of the possibility that large volumes of natural gas would be imported from the United States and become available in the vicinity of the markets served by your Company. After consideration of the operating and economic problems which would arise in the event that sufficient natural gas became available on a firm long term basis to make it feasible for your Company to convert to the distribution of natural gas, and after giving due consideration to certain production and marketing problems arising from the operation of the present manufacturing facilities, your Company decided to join in the efforts to import natural gas from the United States.

While no commitments have been entered into by your Company with any prospective importer of natural gas, steps have been taken to acquaint governmental authorities having jurisdiction of the need for and benefits to be derived from an assured supply of natural gas for distribution in your Company's franchise areas.

Your Company filed with the Federal Power Commission of the United States a Petition to Intervene in the proceedings in which Panhandle Eastern Pipe Line Company, a United States company, requested that Commission to approve, among other things, its proposal to export large volumes of natural gas to Ontario. Permission to intervene was granted by the Federal Power Commission and your Company filed evidence with that Commission in support of its contention that a supply of natural gas should be made available to your Company.

The hearing before the Federal Power Commission at Washington, D.C., is now in recess and will resume on a date to be set by the Commission. Your Management and Directors intend to follow all phases of these proceedings closely to the end that natural gas may become available to your Company in quantities and at a price which will warrant your Company entering into a long term contract for such gas.

PERSONNEL

As at March 31, 1950, there were 447 regular employees on the payrolls of your Company. All regular employees are eligible to subscribe to the Company's plans of group life insurance on their own lives, and sickness and accident with hospitalization and surgical fee benefit insurance for themselves and dependents, premium costs being borne jointly by the Company and the employees. All regular employees receive annual vacations with pay for various periods dependent upon length of service.

In concluding this Report your Directors wish to record their appreciation of the co-operative spirit which has prevailed between all employees and departments in a sincere effort to maintain operations at a high level of efficiency throughout the year.

On behalf of the Board of Directors.

DAVID P. ROGERS,
President.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of United Fuel Investments, Limited and its subsidiaries, Hamilton By Product Coke Ovens Limited, United Gas and Fuel Company of Hamilton Limited, The Wentworth Gas Company Limited and The United Suburban Gas Company Limited, as at March 31, 1950 and the statements of consolidated profit and loss and earned surplus for the year ended on that date. In connection therewith we made a general review of the accounting methods and, without making a detailed audit of the transactions, examined or tested the accounting records of the companies. We have obtained all the information and explanations we required.

We report that in our opinion the accompanying consolidated balance sheet and related statements of consolidated profit and loss and earned surplus have been drawn up so as to exhibit a true and correct view of the state of the combined companies' affairs at March 31, 1950, and of the results of their operations for the year ended on that date, according to the best of our information, the explanations given us and as shown by the books.

CLARKSON, GORDON & CO.,
Chartered Accountants.

Hamilton, Canada,
May 25, 1950

UNITED FUEL INVESTMENTS, LIMITED
AND ITS SUBSIDIARIES

Statement of Consolidated Profit and Loss for Year Ended March 31, 1950

(with comparative figures for the year 1949)

	1950		1949	
Profit from operations before charging bond interest, depreciation, etc. and, in 1949, after absorbing inventory losses of $158,839 (further inventory losses of $140,500 in 1949 were charged against the inventory reserve carried forward from 1948)		$1,567,781		$1,750,741
Deduct:				
Interest on bonds including premium on United States funds	$ 150,981		$ 153,103	
Bond discount absorbed	9,876	160,857	9,876	162,979
		$1,406,924		$1,587,762
Provision for depreciation		288,031		251,126
Net profit before providing for income taxes		$1,118,893		$1,336,636
Provision for income taxes		444,100		457,000
Net profit for year		$ 674,793		$ 879,636

Note: The expenses of the companies for the year ended March 31, 1950 include:

Remuneration of directors (not including executive officers)	$ 5,250
Payments to counsel, solicitors and legal advisers	6,300
Remuneration of executive officers	26,400

Statement of Consolidated Earned Surplus for Year Ended March 31, 1950

(with comparative figures for the year 1949)

	1950	1949
Balance at beginning of year	$2,106,360	$1,496,724
Add:		
Net profit for year as above	674,793	879,636
Reserve for taxes on income *re* prior years no longer required	100,000	
Reserve for contingencies no longer required	100,000	
	$2,981,153	$2,376,360
Deduct: Dividends on 6% preferred shares	270,000	270,000
Balance at end of year	$2,711,153	$2,106,360

UNITED FUEL INV

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Consolidated

March 31,

(with comparative figures

ASSETS

	March 31, 1950	March 31, 1949
PROPERTY:		
Comprising gas and coke manufacturing plants, transmission lines, distribution system, real estate, buildings, automobiles, fixtures, franchises, rights, organization expenses, interest during construction, etc.	$11,980,515	$11,797,805
Less: Reserve for depreciation and renewals	5,663,234	5,442,451
	$ 6,317,281	$ 6,355,354
Note: The above assets are valued at cost with the exception of assets of United Gas and Fuel Company of Hamilton Limited acquired prior to March 31, 1929 aggregating $3,909,743, which are included at the values at which they were carried in the books of that company at that date.		
PREMIUMS paid on acquisition of subsidiary companies	4,079,955	4,079,955
	$10,397,236	$10,435,309
CURRENT ASSETS:		
Cash on hand and in banks	$ 1,581,887	$ 181,474
Investment in Government of Canada Bonds at cost and accrued interest		209,015
Accounts receivable less reserve	767,771	762,315
Inventories as determined and certified by the management and valued at the lower of cost or market	614,263	1,818,692
	$ 2,963,921	$ 2,971,496
DEFERRED AND OTHER ASSETS:		
Bond discount, commissions and expenses less amounts written off	$ 95,448	$ 105,324
Deferred charges and prepaid expenses	156,054	161,698
Stores and spare equipment	269,244	273,262
Funds on deposit with trustee for bondholders	38,822	37,646
Refundable portion of taxes on income	5,752	30,632
	$ 565,320	$ 608,562
	$13,926,477	$14,015,367

Approved on behalf of the Board.

DAVID P. ROGERS, *Director.*

S. B. SEVERSON, *Director.*

ESTMENTS, LIMITED

Companies Act, Canada)

SUBSIDIARIES

Balance Sheet

1950

as at March 31, 1949)

LIABILITIES

	March 31, 1950	March 31, 1949
CAPITAL AND SURPLUS:		
Capital:		
Class "A" 6% cumulative preferred shares of $50 each redeemable at the option of the company or by purchase in the open market for cancellation at a price not exceeding $60:		
Authorized and issued . . . 90,000 shares	$ 4,500,000	$4,500,000
Class "B" non-cumulative preferred shares of $25 each purchasable in the open market by the company for cancellation at a price not exceeding $30:		
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
Capital surplus arising from discount on redemption of Class "B" preferred shares	417,220	417,220
Consolidated earned surplus	2,711,153	2,106,360
	$ 9,420,598	$ 8,815,805
FUNDED DEBT:		
First collateral mortgage serial and sinking fund bonds:		
Authorized $5,500,000, whereof originally issued $4,500,000:		
3% Serial bonds Series "A" due December 1, 1950		$ 200,000
4% Sinking fund bonds Series "A" due December 1, 1959	$ 2,300,000	2,300,000
3¾% Serial bonds Series "B" due December 1, 1951 to 1956 (payable in Canadian or United States funds at the option of the holder)	1,200,000	1,200,000
	$ 3,500,000	$ 3,700,000
RESERVE ARISING FROM EXCHANGE ON SALE OF SERIES "B" BONDS IN UNITED STATES FUNDS	$ 120,000	$ 120,000
CURRENT LIABILITIES:		
Accounts payable and accrued charges including meter deposits	$ 285,677	$ 533,049
Accrued interest on bonds	48,701	49,195
Reserve for income taxes	284,001	429,818
Dividend payable	67,500	67,500
First collateral mortgage serial bonds Series "A":		
—due December 1, 1950	200,000	
—matured December 1, 1949		200,000
	$ 885,879	$ 1,279,562
RESERVE FOR CONTINGENCIES		$ 100,000
	$13,926,477	$14,015,367

UNITED FUEL INVESTMENTS, LIMITED

AND

SUBSIDIARY COMPANIES

Officers

D. P. ROGERS	*President*
S. B. SEVERSON	*Vice-President*
T. P. PINCKARD	*General Manager of Subsidiaries*
F. PALIN, C.A.	*Comptroller, Secretary and Treasurer*
W. M. COMMON	*Assistant Secretary and Assistant Treasurer*

Directors

H. D. HANCOCK	S. B. SEVERSON
R. L. O'BRIAN	C. E. WEGER
D. P. ROGERS	T. WEIR

SUBSIDIARY COMPANIES

HAMILTON BY PRODUCT COKE OVENS LIMITED—
Manufacturing coke, gas and by-products in Hamilton, Ontario.

UNITED GAS AND FUEL COMPANY OF HAMILTON LIMITED—
Distributing gas in Hamilton, Ontario.

THE WENTWORTH GAS COMPANY LIMITED—
Distributing gas in Dundas, Waterdown, Burlington and other territory adjacent to Hamilton, Ontario.

THE UNITED SUBURBAN GAS COMPANY LIMITED—
Distributing gas in Oakville, Bronte, Port Nelson and Burlington Beach, Ontario.