United Fuel Investments

Limited

and

Subsidiary Companies

Fourteenth Annual Report

March 31st, 1942

FOURTEENTH ANNUAL REPORT

OF THE DIRECTORS OF

UNITED FUEL INVESTMENTS LIMITED

FOR THE YEAR ENDED MARCH 31st, 1942

Hamilton, Ontario, June 19, 1942.

To the Shareholders:

Your Directors present herewith the Fourteenth Annual Report of your Company covering the operations for the fiscal year ended March 31st, 1942. Incorporated in the report is the Consolidated Balance Sheet of the Company and its subsidiaries as at 31st March, 1942, with the related Profit and Loss and Surplus Accounts showing the comparative figures for the corresponding period last year, and the Auditors' Report to the Shareholders.

OPERATIONS

Consolidated Net Profits of your Company and its wholly-owned subsidiaries for the year, as compared with the previous year, are as follows:

	Year ended 31st March			
	1942		1941	
Net profit for the year before provision for depreciation, reserve for inventory and taxes on income		$1,254,343		$1,113,502
Less: Provision for regular depreciation on plant and equipment . . .	$ 250,409		$239,741	
Amortization of plants purchased for war production.	147,417	397,826	63,580	303,321
Net profit before providing for inventory reserve and taxes on income . .		$856,517		$810,181
Less: Provision for future price decline in inventory values	50,000		50,000	
Provision for income and excess profits taxes	385,000	435,000	353,000	403,000
Net profit for the year.		$421,517		$407,181

The increase in consolidated profits before taxes on income was attributable mainly to increased gross profit from the sale of coke, including coke purchased for re-sale by your Company, as the result of increased coke selling prices, and to a substantial increase in the volume and average rate received for gas sold for industrial purposes. The larger gross revenues derived from sales were, however, offset in part by increases in production costs, provisions for depreciation and distribution expenses.

Total volume of manufactured gas sales increased approximately 31%, due almost entirely to increased volume of sales to war industries, although there was a nominal increase in gas sales for domestic and commercial purposes, even after allowing for a substantial decrease in the volume of gas sold to these consumers for househeating purposes. This larger volume of sales together with higher average rates received for gas sold for industrial purposes resulted in gross revenue from the sale of manufactured gas being 38% greater than for last year.

There was a decrease of approximately 20% in gross revenue from natural gas sales due to a decrease of 30% in volume of such sales. This reduction occurred in sales of natural gas for househeating and industrial purposes and resulted from a decrease in volume of natural gas available to your Company for re-sale.

Throughout the year production costs increased steadily due to higher laid-down cost of coal, increased production labor and material costs and cost of operating the new plants constructed for wartime production, which plants require large volumes of oil, liquid propane and other materials. There was also an increase in the rate for natural gas purchased by your company for redistribution to its consumers.

Total gas distribution, general and administrative and selling expenses increased approximately $54,000 net. Gas distribution expenses were higher than last year due to the larger volume of gas sales, increased labor costs (including the cost-of-living bonus required to be paid under Government regulations) and increased material costs. General expenses were also higher due mainly to increased provision for contingent expense while coke and gas selling expenses were less than for last year.

Inventories have been priced at the lower of cost or market, and the total value as thus determined has been reduced by the appropriation from earnings of $50,000 as a reserve against future decline in values, thus increasing to $100,000 the reserve now being carried against this contingency.

To meet the increasing demand for gas by war industries and to make up deficiencies of natural gas supplies, a plant to produce propane gas was installed during the year at a cost of $359,672, thus enabling your company to increase materially the volume of gas production. As the propane plant was constructed to meet a temporary increased demand for gas occasioned by the war, it was considered advisable to amortize the cost over a relatively short period as in the case of the additional gas production facilities completed in the prior year. An amount of $147,417 has been provided from this year's earnings for depreciation and amortization of these wartime plant facilities, as compared with $63,580 provided for this purpose last year.

CONSOLIDATED FINANCIAL POSITION

At 31st March, 1942, the net working capital of your Company amounted to $1,475,422, as compared with $1,537,509 at 31st March, 1941, a reduction of $62,087. The following statement shows in summarized form the cash income from profits during the past year and the disposition made of these funds.

Net earnings for the year before providing for inventory reserve and taxes on income		$856,517	
Less: Provision for income and excess profits taxes	$385,000		
Provision for future price decline in inventory values	50,000	435,000	$421,517
Add: Charges against earnings which do not represent cash disbursements:			
Depreciation		250,409	
Amortization of plants purchased for war production		147,417	
Amortization of bond discount		21,586	419,412
			$840,929
DISPOSITION OF FUNDS:			
Cost of additions to fixed assets (net)		$467,872	
Dividends on capital stock paid or provided for		270,000	
Cost of $117,000 par value of Companies' bonds purchased for sinking funds		121,594	
Increase in inventory of stores and spare equipment		36,852	
Cost of 3,184 Class "B" Preferred Shares purchased for cancellation		11,986	
		$908,304	
Sundry items (net)		5,288	$903,016
Net decrease in working capital			$62,087

The net increase in fixed assets after deducting plant replaced and written off amounted to $447,475, the major portion of which is represented by the cost of the propane gas facilities already referred to. The increase in reserve for depreciation and renewals amounted to $377,429.

Funded debt has been reduced $117,000 by retirements through sinking funds and bonds purchased in anticipation of sinking fund requirements, as follows:

COKE COMPANY:	
First mortgage bonds	$52,500
General mortgage bonds	15,500
UNITED GAS COMPANY:	
First mortgage bonds	49,000
	$117,000

Dividends of $270,000 were paid during the year, being four quarterly dividends of 75 cents each per share, or a total of $3.00 per share, on the 6% cumulative preferred Class "A" shares.

During the year 3,184 Class "B" Non-Cumulative Preferred Shares of your Company were purchased for cancellation at a total cost of $11,986. The difference between the par value and cost of these shares amounting to $67,614 has been credited to Capital Surplus Account.

GENERAL

Despite the additions made to plant during the past two years, gas production facilities are still inadequate for the anticipated requirements of war industries. To meet this situation the Dominion Government has begun the construction of a plant to produce gas and coke on property adjacent to your Company's present coke oven plant. Negotiations are being carried out with a view to your Company operating this new government-owned plant and marketing its products.

In order that war industries may have available for them a larger volume of gas, the Power Controller for Canada prohibited the sale of gas burning equipment for any purpose without a permit and prohibited your Company supplying gas to heat commercial premises where the equipment in such premises could be converted to the use of hard fuel. An Order effective June 15th, 1942, prohibits the supply of gas to all convertible central heating equipment.

Your Directors, in their report for the year ended 31st March, 1941, stated that a further extension to gas manufacturing facilities at a cost of $450,000 had been authorized. However, due to the inability to obtain oil such extension was not made, but in lieu thereof the propane plant referred to above was constructed at a cost of $359,672.

We are pleased to report that 25 employees of your Company have joined the armed forces of Canada for active service and have been granted leave of absence. Many other employees are serving in the reserve army or are engaged in various wartime activities.

Your Directors again express their appreciation of the loyal and efficient service of the employees of the Company during the past year.

On behalf of the Board of Directors.

S. B. SEVERSON,
Vice-President.

UNITED FUEL INVESTMENTS LIMITED

AND ITS SUBSIDIARIES

HAMILTON BY PRODUCT COKE OVENS LIMITED, UNITED GAS AND FUEL COMPANY OF HAMILTON LIMITED (and its subsidiary The Wentworth Gas Company Limited) and THE UNITED SUBURBAN GAS COMPANY LIMITED

Consolidated Statement of Profit and Loss for the Year ended 31st March 1942

(With comparative figures for the year 1941)

	1942		1941	
Profit from operations before charging bond interest, depreciation, etc.		$1,592,202.87		$1,456,567.89
Deduct:				
Interest on bonds including premium on United States funds	$ 311,804.37		$ 316,431.42	
Bond discount absorbed and premium on bonds redeemed for sinking fund	26,055.84	337,860.21	26,634.03	343,065.45
		$1,254,342.66		$1,113,502.44
Provision for depreciation on the bases approved by companies' consulting engineer	$ 250,408.98		$ 239,741.19	
Amortization of plants erected for war requirements	147,417.17	397,826.15	63,580.35	303,321.54
Net profit before providing for inventory reserve and taxes on income		$ 856,516.51		$ 810,180.90
Provision for future price decline in inventory values	$ 50,000.00		$ 50,000.00	
Provision for income and excess profits taxes	385,000.00	435,000.00	353,000.00	403,000.00
Net profit for year		$ 421,516.51		$ 407,180.90

Note.—The expenses of the companies for the year ended 31st March, 1942, include:

Remuneration of directors (not including executive officers)	$ 2,400.00
Payments to counsel, solicitors, and legal advisers	4,628.62
Remuneration of executive officers	23,700.00

Consolidated Earned Surplus Account

	1942		1941	
Balance at beginning of year		$1,017,300.44		$ 914,400.39
Net profit for the year as above		421,516.51		407,180.90
Coal overage re prior years	$ 31,436.84			
Less provision for income and excess profits taxes thereon	12,574.74	18,862.10		
		$1,457,679.05		$1,321,581.29
Deduct:				
Dividends on 6% preferred shares	$ 270,000.00		$ 270,000.00	
Additional taxes on income in respect to prior years		270,000.00	34,280.85	304,280.85
Balance at end of year		$1,187,679.05		$1,017,300.44

UNITED FUEL INV

AND ITS

HAMILTON BY PRODUCT COKE OVENS LIMITED,
LIMITED (and its subsidiary The Wentworth Gas Company Limited)

Consolidated

31st

ASSETS

	31st March 1942	31st March 1941
PROPERTY:		
Comprising gas and coke manufacturing plant, transmission lines, distribution systems, real estate, buildings, automobiles, fixtures, franchises, rights, organization expenses, interest during construction, etc.	$11,725,381.66	$11,277,906.23
Deduct reserve for depreciation and renewals	4,151,131.17	3,773,702.28
	$ 7,574,250.49	$ 7,504,203.95
The above assets are shown at their book value.		
PREMIUMS:		
Paid on acquisition of subsidiary companies	4,079,954.68	4,079,954.68
	$11,654,205.17	$11,584,158.63
CURRENT ASSETS:		
Cash on hand and in banks	$ 507,038.10	$ 690,757.39
Investment in securities of Dominion of Canada at cost and accrued interest:		
3% Victory bonds due 1951-1954	251,642.74	
Treasury bills		200,000.00
Accounts receivable less reserve	715,706.98	729,333.02
Inventories as determined and certified by the management from book records and valued at the lower of cost or market, less reserve of $100,000 in 1942 and $50,000 in 1941 for future price decline in inventories.	1,035,357.36	737,603.29
	$ 2,509,745.18	$ 2,357,693.70
DEFERRED AND OTHER ASSETS:		
Bond discount	$ 211,681.90	$ 233,267.74
Deferred charges and prepaid expenses	148,811.35	130,644.94
Stores and spare equipment	113,572.14	76,720.54
	$ 474,065.39	$ 440,633.22
	$14,638,015.74	$14,382,485.55

AUDITORS' REPORT TO

We have examined the consolidated balance sheet of United Fuel Investments Limited and its subsidiaries, Hamilton By Product Coke
United Suburban Gas Company Limited, as at 31st March, 1942, and the statements of consolidated profit and loss and earned surplus for the
and examined or tested accounting records but we did not make a detailed audit of the transactions. We have obtained all the information

Depreciation of capital assets has been provided for on the bases approved by the consulting engineer of the companies in 1942 with the
respectively. Subject thereto we report that in our opinion, based upon our examination, the above consolidated balance sheet and the attached
companies' affairs at 31st March, 1942, and of the consolidated results of their operations for the year ended on that date, according to the

ESTMENTS LIMITED

SUBSIDIARIES

UNITED GAS AND FUEL COMPANY OF HAMILTON
AND THE UNITED SUBURBAN GAS COMPANY LIMITED

Balance Sheet

March 1942

LIABILITIES

	31st March 1942	31st March 1941
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	$ 4,500,000.00	$ 4,500,000.00
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 issued . . 90,000 shares		2,250,000.00
Less redeemed during the year ended 31st March, 1942 3,184 shares		
Outstanding 31st March, 1942 86,816 shares	2,170,400.00	
Common shares of no par value:		
Authorized and issued . . . . 90,000 shares	50,000.00	50,000.00
Capital surplus arising from discount on redemption of Class "B" preferred shares	67,613.80	
Consolidated earned surplus	1,187,679.05	1,017,300.44
	$ 7,975,692.85	$ 7,817,300.44
FUNDED DEBT:		
General mortgage 6½% bonds due 1st July, 1956	$ 450,000.00	$ 450,000.00
Hamilton By Product Coke Ovens Limited:		
First Mortgage 5% bonds due 1st November 1955 (Series A)	2,224,500.00	2,277,000.00
General Mortgage 6% bonds due 1st April 1956 . .	626,500.00	642,000.00
United Gas and Fuel Company of Hamilton Limited:		
First Mortgage 5½% bonds due 1st July 1948 (payable as to principal and interest in United States funds) .	1,327,000.00	1,376,000.00
Second Mortgage 5% bonds due 1st April 1959 (guaranteed by Hamilton By Product Coke Ovens Limited).	1,000,000.00	1,000,000.00
	$ 5,628,000.00	$ 5,745,000.00
CURRENT LIABILITIES:		
Accounts payable and accrued charges including meter deposits	$ 310,454.78	$ 264,368.76
Accrued interest on bonds	117,449.95	120,300.22
Reserve for income, excess profits and other taxes	538,918.16	368,016.13
Dividend payable	67,500.00	67,500.00
	$ 1,034,322.89	$ 820,185.11
	$14,638,015.74	$14,382,485.55

Approved on behalf of the Board.

S. B. SEVERSON, *Director.*
DAVID P. ROGERS, *Director.*

THE SHAREHOLDERS

Ovens Limited, United Gas and Fuel Company of Hamilton Limited (and its subsidiary, The Wentworth Gas Company Limited) and The
year ended on that date. In connection therewith we reviewed the system of internal control and the accounting procedures of the companies
and explanations we required.
exception of plants erected for war requirements during the past two years which are being amortized over periods of three and four years,
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
best of our information, the explanations given us and as shown by the books of the companies.

HAMILTON, CANADA, 16th June, 1942. CLARKSON, GORDON, DILWORTH AND NASH, *Chartered Accountants.*

UNITED FUEL INVESTMENTS LIMITED

Officers

S. A. Morse	*President*
S. B. Severson	*Vice-President*
T. P. Pinckard	*General Manager of Subsidiaries*
*Lieut.-Col. T. Weir, M.C.	*Comptroller, Secretary and Treasurer*
F. Palin, C.A.	*Acting Comptroller, Secretary and Treasurer*

* On Active Service.

Directors

H. D. Hancock	R. L. O'Brian
S. B. Irelan	D. P. Rogers
S. A. Morse	S. B. Severson

SUBSIDIARY COMPANIES

Hamilton By Product Coke Ovens Limited—
Manufacturing gas, coke and by-products in Hamilton, Ont.

The United Suburban Gas Company Limited—
Distributing manufactured gas in Oakville, Bronte, Port Nelson and Burlington Beach, Ontario.

United Gas and Fuel Company of Hamilton Limited—
Distributing manufactured and natural gas in Hamilton, Ont., and its wholly-owned subsidiary:

The Wentworth Gas Company Limited—
Distributing natural gas in Dundas, Waterdown, Burlington and other territory adjacent to Hamilton, Ontario.

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