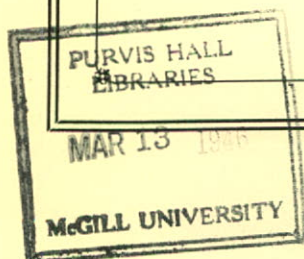


United Fuel Investments
Limited
and
Subsidiary Companies



Thirteenth Annual Report

March 31st, 1941



THIRTEENTH ANNUAL REPORT
OF THE DIRECTORS OF
UNITED FUEL INVESTMENTS LIMITED
FOR THE YEAR ENDED MARCH 31st, 1941

Hamilton, Ontario,
June 7, 1941.

TO THE SHAREHOLDERS:

Your Directors present herewith the Thirteenth Annual Report of your Company covering the operations for the fiscal year ended 31st March, 1941. Incorporated in the report is the Consolidated Balance Sheet of the Company and its subsidiaries as at 31st March, 1941, 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 profit for the year after interest charges, depreciation and provision of \$63,580.35 for amortization of additional gas manufacturing facilities constructed during the year, but before provision for income and excess profits taxes and a reserve against possible future decline in inventory values amounted to \$810,180.90 as compared with \$608,549.22 for the preceding fiscal year. However, due to the enactment of the Excess Profits Tax Act by the Dominion of Canada and to the increase in earnings, total provisions for income and excess profits taxes amounted to \$353,000.00, which was \$217,750.77 in excess of the amount of \$135,249.23 provided for last year. A reserve of \$50,000.00 has also been provided out of earnings as a reserve against possible future declines in inventory values. After making these provisions for taxes on income and for inventory reserve, the consolidated net profit for the year was \$407,180.90, which compares with \$473,299.99 last year.

Direct taxes of all Companies (Municipal, Provincial and Dominion), including the income and excess profits taxes mentioned above, paid or provided for out of the year's profits totalled \$441,227.51 and an additional amount of \$34,280.85 for income and excess profits taxes applicable to prior years was paid and charged directly to Surplus Account, increasing to \$475,508.36 the total direct taxes paid or provided for during the year. Provision for total direct taxes last year amounted to \$221,351.35.

The increase in consolidated profits before taxes on income was attributable mainly to larger gross revenue derived from the sale of approximately the same volume of coke as last year at higher selling prices, offset in part by increased production costs, and to a substantial gain in the volume of sales of manufactured gas.

Total volume of manufactured gas sales increased approximately 14%, due almost entirely to increased volume of sales to war industries, there having been only a moderate gain in volume of sales of manufactured gas for domestic and commercial 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 21% greater than for last year. There was a decrease of approxi-

UNITED FUEL INVESTMENTS LIMITED

mately 11% in the volume of natural gas sales due to decreased sales for industrial purposes, offset in part by a small increase in the volume of sales for domestic and commercial purposes. However, as a result of an increase in the average rate received for sales of industrial gas, gross revenue from total sales of natural gas was only 2% less than for the previous year.

Total gas distribution, general and administrative and selling expenses increased approximately \$65,000 net. Gas distribution operating and maintenance expenses were higher than last year due to the larger volume of gas sales and increased labor and material costs. General and administrative expenses were also higher, while there were reductions in coke sales department and gas sales promotion expenses.

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.

To meet the large demand for gas on the part of war industries your Company constructed an extension to its gas manufacturing plant thereby increasing the daily production of gas by approximately 3,500,000 cubic feet. The required expenditure of approximately \$210,000 was made to meet a temporary increased demand for gas occasioned by the war and it was considered advisable to amortize the cost over a relatively short period. An amount of \$63,580.35 has been provided from this year's earnings for this purpose.

CONSOLIDATED FINANCIAL POSITION

At 31st March, 1941, the net working capital of your company amounted to \$1,537,509 as compared with \$1,511,094 at 31st March, 1940, an improvement of \$26,415. The following statement shows in summarized form the cash income from profits during the past year and what disposition has been made of these funds:

Net earnings for the year before providing for inventory reserve and taxes on income				\$810,181
<i>Less:</i> Provision for income and excess profits taxes	\$353,000			
Provision for future price decline in inventory values	50,000	403,000		\$407,181
<i>Add:</i> Charges against earnings which do not represent cash disbursements:				
Depreciation			\$239,741	
Amortization of plant purchased for war production			63,580	
Amortization of bond discount			22,120	325,441
				<u>\$732,622</u>
DISPOSITION OF FUNDS:				
Cost of additions to fixed assets (net)			\$316,058	
Dividends on capital stock paid or provided for			270,000	
Cost of \$79,000 par value of Companies' bonds purchased for sinking fund			82,216	
Additional taxes on income in respect to prior years			34,281	
Net increase in deferred charges and prepaid expenses			3,652	706,207
Net increase in working capital				<u>\$26,415</u>

UNITED FUEL INVESTMENTS LIMITED

The net increase in fixed assets after deducting plant replaced and written off amounted to \$284,199.72, the major portion of which is represented by the cost of the new carburetted water gas plant already referred to. The increase in reserve for depreciation and renewals amounted to \$271,462.84.

Funded debt has been reduced \$79,000 by retirements through sinking funds and bonds purchased in anticipation of sinking fund requirements, as follows:

COKE COMPANY:	
First mortgage bonds	\$39,000
General mortgage bonds	9,500
UNITED GAS COMPANY:	
First mortgage bonds	30,500
	\$79,000

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.

The directors of the operating subsidiaries of your Company have authorized a subscription for \$350,000 par value of Dominion of Canada Victory Loan 1941 Bonds, which were offered to the public on June 2nd, 1941.

GENERAL

The cost of coal purchased throughout the year increased materially due to higher costs at the mine, the imposition by the Dominion Government of a 10% War Exchange Tax on imports and to the premium of 11% on United States funds required to meet coal payments. The costs of coke production also increased during the year due in part to the higher costs of coal and to increased labour and material costs. There will be a further increase in the cost of coal to be purchased during the current fiscal year as compared with last year as the price of coal at the mine has again been raised and the 10% War Exchange Tax was in force for only a portion of the fiscal year ended 31st March, 1941. These factors will of course further increase costs of coke production during the current fiscal year, but it is anticipated that at least part of the increase will be offset by higher coke selling prices.

Despite an extension during the year to the facilities for producing manufactured gas, the increasing demand for gas on the part of war industries, together with the decreasing volumes of natural gas available to your Company, made it necessary for your Directors to authorize a further extension to the gas manufacturing facilities at a cost of approximately \$450,000 and the necessary Governmental approvals have been applied for.

A total of 14 employees have already joined various branches of the permanent army, navy and air force, and have been granted leave of absence.

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

On behalf of the Board of Directors,

S. A. MORSE,
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 1941

	<u>31st March 1941</u>	<u>31st March 1940</u>
Profit from operations before charging bond interest, depreciation, etc.	\$1,456,567.89	\$1,196,741.33
<i>Deduct:</i>		
Interest on bonds including premium on United States funds	\$ 316,431.42	\$324,134.85
Bond discount absorbed and premium on bonds redeemed for sinking fund	26,634.03	343,065.45
	<u>22,926.14</u>	<u>347,060.99</u>
	\$1,113,502.44	\$ 849,680.34
Provision for depreciation on the bases approved by companies' consulting engineer	\$ 239,741.19	\$241,131.12
Amortization of plant purchased for war production	63,580.35	303,321.54
		<u>241,131.12</u>
Net profit before providing for inventory reserve and taxes on income	\$ 810,180.90	\$ 608,549.22
Provision for future price decline in inventory values	\$ 50,000.00	
Provision for income and excess profits taxes	353,000.00	403,000.00
		<u>\$135,249.23</u>
Net profit for year	<u>\$ 407,180.90</u>	<u>\$ 473,299.99</u>

Note.—The expenses of the companies for the year ended 31st March, 1941, include:

Remuneration of directors (not including executive officers).	\$ 2,000	
Payments to counsel, solicitors, and legal advisers	4,135	
Remuneration of executive officers	22,200	

Consolidated Earned Surplus Account

Balance at beginning of year	\$ 914,400.39	\$ 711,100.40
Add net profit for year as above	407,180.90	473,299.99
	<u>\$1,321,581.29</u>	<u>\$1,184,400.39</u>
<i>Deduct:</i>		
Dividends on 6% preferred shares	\$ 270,000.00	\$ 270,000.00
Additional taxes on income in respect to prior years	34,280.85	304,280.85
		<u>270,000.00</u>
Balance at end of year	<u>\$1,017,300.44</u>	<u>\$ 914,400.39</u>

UNITED FUEL INV

AND ITS

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

Consolidated

31st

PROPERTY:	ASSETS	<u>31st March 1941</u>	<u>31st March 1940</u>
Comprising gas and coke manufacturing plant, transmission lines, distribution systems, real estate, buildings, automobiles, fixtures, franchises, rights, organization expenses, interest during construction, etc.			
		\$11,277,906.23	\$10,993,706.51
<i>Deduct</i> reserve for depreciation and renewals			
		3,773,702.28	3,502,239.44
		<u>\$ 7,504,203.95</u>	<u>\$ 7,491,467.07</u>
<i>The above assets are shown at their book value.</i>			
PREMIUMS:			
Paid on acquisition of subsidiary companies.			
		4,079,954.68	4,079,954.68
		<u>\$11,584,158.63</u>	<u>\$11,571,421.75</u>
CURRENT ASSETS:			
Cash on hand and in banks			
		\$ 690,757.39	\$ 629,010.67
Investment in securities of Dominion of Canada at cost and accrued interest:			
Treasury bills			
		200,000.00	
3¼% bonds due 1952			
			100,535.72
Accounts receivable less reserve			
		729,333.02	622,115.36
Inventories as determined and certified by the management from book records and valued at the lower of cost or market, less reserve of \$50,000 for future price decline in the inventory			
		737,603.29	767,413.37
		<u>\$ 2,357,693.70</u>	<u>\$ 2,119,075.12</u>
DEFERRED AND OTHER ASSETS:			
Bond discount			
		\$ 233,267.74	\$ 255,387.27
Deferred charges and prepaid expenses			
		121,644.94	118,134.84
Stores and spare equipment			
		76,720.54	72,362.93
Mortgage receivable			
		9,000.00	10,000.00
		<u>\$ 440,633.22</u>	<u>\$ 455,885.04</u>
		<u>\$14,382,485.55</u>	<u>\$14,146,381.91</u>

AUDITORS' REPORT TO

We have made an examination of the consolidated balance sheet of United Fuel Investments Limited and its subsidiaries, Hamilton Limited) and The United Suburban Gas Company Limited, as at 31st March, 1941, and of the statements of consolidated profit and loss and a general review of the accounting methods and of the operating and income accounts for the year. The companies' internal audit staff

Depreciation of physical assets was provided on the bases approved by the consulting engineer of the companies with the exception based upon our examination the above consolidated balance sheet and the attached statements of consolidated profit and loss and surplus have affairs at 31st March, 1941, and of the consolidated results of their operations for the year according to the best of our information and the

TORONTO, CANADA, 4th June, 1941.

ESTMENTS LIMITED

SUBSIDIARIES

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

Balance Sheet

March 1941

CAPITAL AND SURPLUS:	LIABILITIES	
	31st March 1941	31st March 1940
Capital—authorized and issued:		
90,000 6% cumulative preferred Class "A" 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	\$ 4,500,000.00	\$ 4,500,000.00
90,000 Non-cumulative preferred Class "B" shares of \$25 each purchasable in the open market by the company for cancellation at a price not exceeding \$30	2,250,000.00	2,250,000.00
90,000 Common shares of no par value	50,000.00	50,000.00
Consolidated earned surplus	1,017,300.44	914,400.39
	<u>\$ 7,817,300.44</u>	<u>\$ 7,714,400.39</u>
 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)	2,277,000.00	2,316,000.00
General Mortgage 6% bonds due 1st April, 1956	642,000.00	651,500.00
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)	1,376,000.00	1,406,500.00
Second Mortgage 5% bonds due 1st April, 1959 (guaranteed by Hamilton By-Product Coke Ovens Limited)	1,000,000.00	1,000,000.00
	<u>\$ 5,745,000.00</u>	<u>\$ 5,824,000.00</u>
 CURRENT LIABILITIES:		
Accounts payable and accrued charges including meter deposits	\$ 264,368.76	\$ 165,034.83
Accrued interest on bonds	120,300.22	121,378.63
Reserve for income, excess profits and other taxes	368,016.13	254,068.06
Dividend payable	67,500.00	67,500.00
	<u>\$ 820,185.11</u>	<u>\$ 607,981.52</u>
	<u>\$14,382,485.55</u>	<u>\$14,146,381.91</u>

Approved on behalf of the Board.

S. A. MORSE, *Director.*

S. B. SEVERSON, *Director.*

THE SHAREHOLDERS

By-Product Coke Ovens Limited, United Gas and Fuel Company of Hamilton Limited (and its subsidiary, The Wentworth Gas Company surplus for the year ended on that date. In connection therewith we made a substantial test audit of the detailed transactions and made have reported to us that they examined the transactions which were not audited in detail by us. of plant purchased for war production which is being amortized over a period of three years, subject to which we report that in our opinion, been drawn up in accordance with accepted principles of accounting so as to exhibit a true and correct view of the state of the companies' explanations given us and as shown by the books of the companies. We have obtained all the information and explanations we required.

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*
*MAJOR T. WEIR, M.C. *Comptroller, Secretary and Treasurer*
F. PALIN, C.A. *Acting Comptroller, Secretary and Treasurer*

*On Active Service.

Directors

H. D. HANCOCK	J. A. RICHIE
S. A. MORSE	D. P. ROGERS
R. L. O'BRIAN	S. B. SEVERSON

SUBSIDIARY COMPANIES

HAMILTON BY-PRODUCT COKE OVENS LIMITED—

Manufacturing gas, coke and by-products in Hamilton, Ontario.

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, Ontario, and its wholly-owned subsidiary:

THE WENTWORTH GAS COMPANY LIMITED—

Distributing natural gas in Dundas, Waterdown, Burlington and other territory adjacent to Hamilton, Ontario.