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UNITED FUEL INVESTMENTS, LIMITED
ANNUAL REPORT

For the Fiscal Year ended March 31, 1962

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UNITED FUEL INVESTMENTS, LIMITED

HEAD OFFICE, HAMILTON, ONTARIO

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*

F. PALIN, F.C.A., *Comptroller, Secretary and Treasurer*

W. L. DUTTON, *Assistant General Manager*

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 these municipalities in the Counties of Halton and Wentworth in the Province of Ontario.

REPORT OF THE BOARD OF DIRECTORS OF
UNITED FUEL INVESTMENTS, LIMITED
ON OPERATIONS FOR THE FISCAL YEAR ENDED MARCH 31, 1962

Hamilton, Ontario,
May 10, 1962.

TO THE SHAREHOLDERS:

In this Annual Report to Shareholders your Directors summarize matters of interest concerning the operations of United Fuel Investments, Limited and its wholly-owned subsidiary, United Gas Limited, for the fiscal year ended March 31, 1962. Incorporated herein are the consolidated balance sheet and statement of consolidated profit and loss and accumulated earnings retained for use in the business for the fiscal year ended March 31, 1962 of United Fuel Investments, Limited and United Gas Limited, with comparative figures for the previous fiscal year, together with the report of your auditors.

In this Report the expression "the Company" refers to United Fuel Investments, Limited consolidated with United Gas Limited, while "United Fuel" refers to United Fuel Investments, Limited as a separate entity.

UNITED FUEL INVESTMENTS, LIMITED

OPERATING RESULTS

A condensed comparison of consolidated operating results of the Company for the fiscal year ended March 31, 1962, with those of the fiscal year ended March 31, 1961, is as follows:

	Fiscal year ended March 31		Increase or <i>decrease</i> (—) for 1962
	1962	1961	
Operating revenue and other income:			
Gross revenue from gas sales	\$9,684,291	\$7,730,501	\$1,953,790
Other Income	198,329	205,080	(—) 6,751
Profit on sale of land	36,501		36,501
	<u>\$9,919,121</u>	<u>\$7,935,581</u>	<u>\$1,983,540</u>
Operating expenses and interest:			
Operating and maintenance costs, exclusive of items shown separately below	\$8,003,607	\$6,296,225	\$1,707,382
Taxes other than income taxes	141,148	132,332	8,816
Depreciation	447,226	374,043	73,183
Amortization of natural gas conversion costs	103,200	103,200	
Interest on bonds, bank and other loans and other funded debt charges	422,499	348,200	74,299
	<u>\$9,117,680</u>	<u>\$7,254,000</u>	<u>\$1,863,680</u>
Profit before income taxes	\$ 801,441	\$ 681,581	\$ 119,860
Income taxes	396,500	352,000	44,500
Net profit for the year	<u>\$ 404,941</u>	<u>\$ 329,581</u>	<u>\$ 75,360</u>

UNITED FUEL INVESTMENTS, LIMITED

Gas Sales

Gas sales for the fiscal year ended March 31, 1962 totalled 10.0 billion cubic feet, an increase of 3.0 billion cubic feet, or 42.9%, over the prior year. Revenues from gas sales at \$9,684,291 were \$1,953,790, or 25.3%, over the prior year. The following summary indicates that substantial increases were attained in the volume and value of all classifications of gas sales:

Class of customers	Volume of gas sales in MCF*			Gross revenue in dollars		
	Year to March 31 1962	% of total	% over previous year	Year to March 31 1962	% of total	% over previous year
Residential	3,518,351	35.2	18.6	\$4,949,810	51.1	14.6
Commercial	1,182,360	11.8	19.1	1,385,701	14.3	17.7
Industrial	5,308,954	53.0	74.4	3,348,780	34.6	49.8
Total	10,009,665	100.0	42.9	\$9,684,291	100.0	25.3

*MCF means thousand cubic feet

The average prices received per MCF of gas sold during recent years were as follows:

	Fiscal year ended March 31		
	1962	1961	1959†
Residential —average price per MCF	\$1.41	\$1.46	\$1.51
Commercial—average price per MCF	1.17	1.19	1.22
Industrial —average price per MCF63	.73	.88
Total —average price per MCF	\$.97	\$1.10	\$1.26

†—First year of complete natural gas operations.

At March 31, 1962 there were 48,347 customers being served, or 1,796 more than at the close of the previous year.

During the heating season of the fiscal year ended March 31, 1962 the average temperatures prevailing throughout the service area were approximately normal, compared with average temperatures in the heating season of the prior year of approximately 2% above normal. As approximately 67% of the total volume of residential and commercial gas sales is for space heating purposes, it is evident that any significant change from normal in average temperatures has a substantial effect on gross revenues.

The average consumption per residential and commercial meter during recent years was as follows:

	Fiscal year ended March 31		
	1962	1961	1959
MCF per residential meter	81.2	70.4	55.8
MCF per commercial meter	310.5	268.6	222.5

These increases in average consumption per meter for the fiscal year ended March 31, 1962 as compared with the 1961 fiscal year result from the cooler weather which prevailed during the heating seasons of the 1962 fiscal year and from an increase in the number of customers using gas for space heating purposes.

UNITED FUEL INVESTMENTS, LIMITED

EXPENSES

Total expenses of the Company, exclusive of income taxes, for the fiscal year ended March 31, 1962 amounted to \$9,117,680, a net increase of \$1,863,680 over the previous year. This increase in costs occurred as follows:

Cost of Gas Purchased increased \$1,392,802.

This greater cost is attributed to the purchase of the larger volume of gas required to meet the increased sales demand. Gross revenue from gas sales, however, was higher by \$1,953,790.

Distribution, Selling, General and Administrative Expenses increased \$314,580.

Costs of operating and maintaining the expanded gas plant facilities; extensive rehabilitation costs on existing plant facilities arising from the introduction of natural gas; higher personnel costs; increased selling and promotional expenses made necessary to sell larger volumes of gas in the face of progressively keener competition from distributors of competitive fuels, and constantly increasing general costs of doing business all contributed to the over-all increases in these expenses.

Taxes Other Than Income Taxes increased \$8,816.

Municipal property tax costs continue to rise because of increased assessments, higher mill rates and taxes levied on additions to pipelines and other properties. As a result total taxes, other than income taxes, increased to \$141,148, or \$8,816 (6.7%) over the previous year.

Depreciation increased \$73,183.

Provisions for depreciation were made on the same bases as for the prior fiscal year and in accordance with the recommendations of the Company's consulting engineers. This increased charge is due to depreciation on Property Account additions made during the year.

Interest on Bonds, Bank and Other Loans and Other Funded Debt Charges increased \$74,299.

The increase in such costs was incurred through necessary borrowings from Union Gas Company of Canada, Limited, offset in part by a reduction in interest on funded debt due to retirement of bonds through sinking fund.

Amortization of Natural Gas Conversion Costs

During the years 1955 to 1959 a total of \$1,018,533 was expended to complete the conversion to natural gas of appliances on customers' premises previously using manufactured gas. These costs are being carried forward as a deferred expense to be amortized over approximately 10 years, the pro rata charge of \$103,200 to Profit and Loss Account for this purpose during the fiscal year ended March 31, 1962 being the same as that for the prior year. The unamortized balance carried forward at March 31, 1962 to be written off in future years was \$580,733.

Income Taxes

While income taxes charged against profits for the year amounted to \$396,500, taxes payable in respect of the year amount to \$183,000 only. The difference of \$213,500 results from claiming for tax purposes 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 \$972,700 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. The accumulated difference of \$1,186,200 is carried forward on the balance sheet under the caption "Accumulated income tax reductions applicable to future years".

UNITED FUEL INVESTMENTS, LIMITED

CONSOLIDATED FINANCIAL POSITION

At March 31, 1962 current liabilities of the Company were \$1,955,847 in excess of current assets. The following summary indicates the receipts and disbursements of working capital during the fiscal year ended March 31, 1962:

RECEIPTS OF WORKING CAPITAL:

Net earnings for the year as shown on consolidated statement of profit and loss	\$ 404,941	
Amounts charged to earnings for depreciation and amortization which do not represent cash outlay	724,943	
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	213,500	\$1,343,384

DISBURSEMENTS OF WORKING CAPITAL:

Gross expenditures on Property Account, less salvage	\$3,430,885	
Dividends on Class "A" Preference Shares paid or provided for	270,000	
Retirement of funded debt	157,000	
Net increase in mortgages receivable	146,846	
Increase in deposit with trustee for bondholders	3,118	
Increase in prepaid expenses and deferred charges	101	4,007,950
Resulting in disbursements of working capital exceeding receipts of working capital by		\$2,664,566
Excess of current assets over current liabilities at beginning of year		708,719
Excess of current liabilities over current assets at end of year		<u>\$1,955,847</u>

Expenditures on Property Account during the year, net of salvage, consisted of:

Additions to and extensions of property	\$1,731,763	
Replacements and renewals of property	1,699,122	
Total expenditures		<u>\$3,430,885</u>

As a result of the above Property Account charges and after allowing for retirements and disposals the gross book value of Property Account increased during the year by \$2,876,904 to a total of \$20,366,012.

For the prior fiscal year ended March 31, 1961 the total expenditure on Property Account, net of salvage, was \$3,145,682.

During the year, four quarterly dividends of 75 cents per share on the Class "A" 6% Cumulative Preference Shares were declared payable on July 1, 1961, October 2, 1961, January 2, 1962, and April 2, 1962, being a total of \$3.00 per share and representing an aggregate declaration of \$270,000 on the 90,000 outstanding shares.

UNITED FUEL INVESTMENTS, LIMITED

PERSONNEL

As at March 31, 1962 there were 499 regular employees on the payrolls of the Company, an increase of 25 during the year. Wage and salary payments made to employees, including those engaged on a temporary basis during the construction season, totalled \$2,302,678 for the year ended March 31, 1962, or \$190,172 in excess of the total for the prior year. In addition, the Company contributed \$104,677 to the pension and group insurance plans maintained for regular employees and to which the employees also contribute.

As the organization continues to expand, many of its operations and gas-fired equipment installations, while becoming more efficient, also become more complex and technical. In addition, it is imperative that all operations of the Company be carried on with safety to fellow employees and the public constantly in mind. To assist in developing maximum efficiency and safety in all operations the Company has continuing plans for carefully training employees in proper operating, appliance installation and service methods.

FUTURE OF UNITED FUEL INVESTMENTS, LIMITED

In the Annual Report of the Company for the fiscal year ended March 31, 1961 the Shareholders were advised that there had been filed by United Fuel in the Supreme Court of Ontario a petition for a declaration that United Fuel ought to be wound up under the provisions of the Winding-Up Act of Canada and for an order directing that United Fuel be required to be wound up under the provisions of that Act.

At the time of the 1961 Annual Meeting the judgment on that petition was reserved and pending.

Subsequently in July, 1961 Mr. Justice McLennan dismissed the petition of United Fuel on the ground that notice of the meeting of the Shareholders called to consider the matter had not been given to the Class "A" and Class "B" Shareholders and neither group had been given an opportunity to vote at the meeting.

United Fuel appealed this Judgment to the Court of Appeal of Ontario. The appeal was heard in the Fall and on December 14, 1961 the Appeal Court unanimously allowed the appeal and directed that a provisional liquidator be appointed. The Clarkson Company Limited was appointed as provisional liquidator.

Subsequently a small group of holders of Class "B" Preference Shares opposing the application applied to the Supreme Court of Canada for leave to appeal to that Court. Such leave was granted.

United Fuel has since instructed its solicitors to move to quash this proposed appeal on the ground of lack of jurisdiction of the Supreme Court of Canada.

The application to quash the proposed appeal of the group of holders of Class "B" Preference Shares was heard on May 7, 1962. In the event that it is successful the matter will be finally determined and the liquidation will proceed. In the event that it is unsuccessful, then the appeal will be heard on the merits by the Supreme Court of Canada, most likely at its next Fall Sittings.

UNITED FUEL INVESTMENTS, LIMITED

GENERAL

The presently contemplated construction programme of United Gas Limited, involving plant extensions, improvements and replacements for the fiscal year commenced April 1, 1962 will require the expenditure of approximately \$3,000,000. Pending completion of permanent financing it is planned that these expenditures will be financed from funds to be made available from operations, from bank borrowings and advances from Union Gas Company of Canada, Limited.

During the months of April to October, inclusive, 1961 United Gas Limited made available to one of its customers large volumes of gas for experimental purposes in blast furnace operations. That customer was granted an option whereby, if such experiments were successful, it could elect to purchase substantial volumes of gas for use in its operations for a period of five years from November, 1961. Such experiments having proven successful, the customer exercised its option and has elected to purchase 10,000 MCF of gas daily on a year-round basis plus an additional volume of 6,000 MCF of gas daily on a seasonal basis in the months of April through October, during the life of the contract. Provision is made in the contract whereby, after proper notice, the year-round volume may be increased to as much as 16,000 MCF per day and the seasonal volume to as much as 12,000 MCF per day. The customer is obligated to take annually, or in any event pay for, a minimum volume of gas equal to 90% of the volume elected to be purchased on a year-round basis and 75% of the elected volume of seasonal gas. Due to the competitive situation, and because of the large volumes of gas involved, less than the normal unit profit margin will be derived from such sales.

Your Directors record their appreciation of the loyalty and co-operation of all the employees in maintaining the Company's high standards of service.

On behalf of the Board of Directors,

DAVID P. ROGERS,
President

UNITED FUEL INVESTMENTS, LIMITED
(Incorporated under the laws of Canada)
 AND ITS WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED BALANCE

ASSETS	March 31 1962	March 31 1961
PROPERTIES:		
Distribution systems, transmission lines, land, buildings, equip- ment, franchises, rights, etc.—at cost	\$20,366,012	\$17,489,108
Less accumulated depreciation	2,763,711	2,712,569
	<u>\$17,602,301</u>	<u>\$14,776,539</u>
Premium paid on acquisition of subsidiary company	1,255,831	1,255,831
	<u>\$18,858,132</u>	<u>\$16,032,370</u>
CURRENT:		
Cash	\$ 68,313	\$ 500,772
Accounts receivable	1,834,742	1,307,064
Inventories of merchandise and stores valued at the lower of cost or market	522,305	375,565
	<u>\$ 2,425,360</u>	<u>\$ 2,183,401</u>
DEFERRED AND OTHER ASSETS:		
Funds on deposit with trustee for bondholders	\$ 91,527	\$ 88,409
Mortgages receivable	267,010	120,164
Prepaid expenses and deferred charges	53,418	53,317
Balances to be amortized in future years:		
Natural gas conversion costs	580,733	683,933
Discount and expenses on issue of funded debt	134,700	151,320
	<u>\$ 1,127,388</u>	<u>\$ 1,097,143</u>
On behalf of the Board:		
DAVID P. ROGERS, <i>Director</i>		
ROLAND L. O'BRIAN, <i>Director</i>		
	<u>\$22,410,880</u>	<u>\$19,312,914</u>

SHEET MARCH 31, 1962

(with comparative figures at March 31, 1961)

LIABILITIES		March 31	March 31
		<u>1962</u>	<u>1961</u>
SHAREHOLDERS' EQUITY:			
Capital stock (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	3,941,028	3,806,087	
	<u>\$10,650,473</u>	<u>\$10,515,532</u>	
FUNDED DEBT:			
5¼% first mortgage sinking fund bonds of United Gas Limited			
due October 1, 1977—			
Originally authorized and issued—\$6,500,000			
Outstanding	\$ 6,193,000	\$ 6,350,000	
DEFERRED:			
Accumulated income tax reductions applicable to future years			
(note 3)			
	\$ 1,186,200	\$ 972,700	
CURRENT LIABILITIES:			
Accounts payable and accrued charges	\$ 1,247,800	\$ 1,072,353	
Dividend payable	67,500	67,500	
Income and other taxes payable	174,570	163,422	
Accrued interest on bonds	162,566	166,688	
	<u>\$ 1,652,436</u>	<u>\$ 1,469,963</u>	
Owing to Union Gas Company of Canada, Limited	2,728,771	4,719	
	<u>\$ 4,381,207</u>	<u>\$ 1,474,682</u>	
	<u>\$22,410,880</u>	<u>\$19,312,914</u>	

UNITED FUEL INVESTMENTS, LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY

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

*For Year Ended March 31, 1962
(with comparative figures for 1961)*

	Year ended March 31	
	1962	1961
PROFIT AND LOSS		
OPERATING REVENUE AND OTHER INCOME:		
Gross revenue from gas sales	\$9,684,291	\$7,730,501
Other operating income	191,931	155,732
Investment income	6,398	49,348
Profit on sale of land	36,501	
	<u>\$9,919,121</u>	<u>\$7,935,581</u>
OPERATING EXPENSES AND INTEREST:		
Operating and maintenance costs exclusive of items shown separately below	\$8,144,755	\$6,428,557
Depreciation (note 6)	447,226	374,043
Amortization of natural gas conversion costs	103,200	103,200
Bond and other interest including bond discount and expense amor- tized	422,499	348,200
	<u>\$9,117,680</u>	<u>\$7,254,000</u>
PROFIT BEFORE INCOME TAXES	\$ 801,441	\$ 681,581
INCOME TAXES (Note 3)	396,500	352,000
NET PROFIT FOR YEAR	<u>\$ 404,941</u>	<u>\$ 329,581</u>

ACCUMULATED EARNINGS RETAINED FOR USE IN THE BUSINESS

Balance at beginning of year	\$3,806,087	\$3,746,506
Add net profit for year	404,941	329,581
	<u>\$4,211,028</u>	<u>\$4,076,087</u>
Deduct dividends declared on Class "A" 6% preference shares	270,000	270,000
Balance at end of year	<u>\$3,941,028</u>	<u>\$3,806,087</u>

UNITED FUEL INVESTMENTS, LIMITED

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, 1962 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, 1962 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,
May 10, 1962.

UNITED FUEL INVESTMENTS, LIMITED

Notes to Consolidated Financial Statements *March 31, 1962*

(1) Winding-up of company—

At a special general meeting held on November 8, 1960, the shareholders of the company entitled to vote passed a resolution requiring United Fuel Investments, Limited to be wound up under the provisions of the Winding-Up Act of Canada. The application to the Supreme Court of Ontario in the first instance was dismissed but a subsequent appeal by the company to the Court of Appeal of Ontario was allowed and on December 14, 1961 a provisional liquidator was appointed. A group of Class "B" shareholders of the company have now obtained leave to appeal this decision to the Supreme Court of Canada. An application by the company to quash this appeal for lack of jurisdiction was heard on May 7, 1962 and judgment is now pending. If the application is successful the matter will be finalized. If it fails, the appeal will be heard on the merits, most likely at the next fall sittings of the Supreme Court of Canada.

(2) Capital stock—

(a) Class "A" preference shares:

- (i) The Class "A" shares are entitled to a fixed cumulative preferential cash dividend at the rate of 6% per annum. No dividends are in arrears.
- (ii) The company may at any time purchase in the market any Class "A" shares outstanding at a price not exceeding \$60 per share and unpaid dividends and cost of purchase.
- (iii) The company pursuant to resolution of its Board of Directors may on any dividend payment date redeem the whole or any part of the then outstanding Class "A" shares for the sum of \$60 per share together with unpaid dividends.
- (iv) On a voluntary liquidation, dissolution, winding up or distribution of the assets of the company the holders of the Class "A" shares shall receive the amount paid up on the shares (\$50 per share) together with unpaid dividends and an additional amount of \$10 per share before the holders of any Class "B" shares or common shares shall be entitled to any repayment, but shall not have the right to any further participation in the assets of the company.

(b) Class "B" preference shares:

- (i) Subject to the rights of the holders of Class "A" shares, the moneys of the company which the directors may properly determine to distribute in any year by way of dividend shall be distributed among the holders of Class "B" shares and common shares pro rata according to the number of shares held.
- (ii) The company may at any time purchase in the market any Class "B" shares outstanding at a price not exceeding \$30 per share and cost of purchase.
- (iii) On a voluntary liquidation, dissolution, winding up or distribution of the assets of the company the holders of the Class "B" shares shall receive the amount paid up on

UNITED FUEL INVESTMENTS, LIMITED

Notes to Consolidated Financial Statements March 31, 1962

the shares (\$25 per share) and an additional amount of \$5 per share before the holders of any common shares shall be entitled to any repayment, but shall not have the right to any further participation in the assets of the company.

(c) Common shares:

The common shares are the only voting shares of the company except that in the event of the dividends on the Class "A" shares being in arrears to the extent of eight quarterly dividends, then the holders of such Class "A" shares shall be entitled to vote as a class to elect two directors of the company. This event has never occurred.

(3) Accumulated income tax reductions—

As a result of claiming allowances for income 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 \$213,500 (\$227,000 in 1961), and accordingly this amount is included in the balance sheet in the item "Accumulated income tax reductions applicable to future years".

(4) Principal 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 8.5 billion cubic feet in the calendar year 1962 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 to pay for a minimum of 75% of the stipulated volume for each contract year.

(5) Capital expenditures—

Capital expenditures of approximately \$3,000,000 for United Gas Limited have been authorized by the directors for the fiscal year ending March 31, 1963.

(6) Depreciation—

Total depreciation provided for the year ended March 31, 1962 amounted to \$612,938 (\$478,752 in 1961). Of this amount, \$447,226 was charged directly as an operating expense and the remainder of \$165,712 was allocated partly to sundry expense accounts and partly to property accounts.

(7) Statutory information—

The expenditures of the year ended March 31, 1962 include remuneration of directors (other than executive officers) \$6,725, payments to legal advisers, \$30,906, and remuneration of executive officers, \$37,712.

