

United Fuel Investments
Limited
and
Subsidiary Companies



Seventeenth Annual Report

31st March, 1945

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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
R. L. O'BRIAN
D. P. ROGERS
S. B. SEVERSON
B. S. WATSON
T. WEIR

SUBSIDIARY COMPANIES

HAMILTON BY PRODUCT COKE OVENS LIMITED—

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

UNITED GAS & 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.

THE UNITED SUBURBAN GAS COMPANY LIMITED—

Distributing manufactured gas in Oakville, Bronte, Port Nelson and Burlington
Beach, Ontario.

SEVENTEENTH ANNUAL REPORT
OF THE DIRECTORS OF
UNITED FUEL INVESTMENTS LIMITED
FOR THE YEAR ENDED 31ST MARCH, 1945

Hamilton, Ontario, 8th June, 1945.

TO THE SHAREHOLDERS:

Your Directors present herewith the Seventeenth Annual Report of your Company covering the operations for the fiscal year ended 31st March, 1945. Incorporated in the report is the Consolidated Balance Sheet of the Company and its subsidiaries as at 31st March, 1945, 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 | | | |
|--|-----------------------|-----------|-----------|-------------|
| | 1945 | | 1944 | |
| Net profit for the year before provision for depreciation, reserve for inventory and taxes on income | | \$912,101 | | \$1,266,448 |
| <i>Less:</i> Provision for regular depreciation on plant and equipment | \$251,340 | | \$252,252 | |
| Amortization of plants erected for war requirements | 84,418 | 335,758 | 84,418 | 336,670 |
| Net profit before providing for inventory reserve and taxes on income | | \$576,343 | | \$929,778 |
| <i>Less:</i> Provision for income and excess profits taxes | 247,000 | | 470,000 | |
| Provision for future price decline in inventory values | 15,000 | 262,000 | 91,000 | 561,000 |
| Net profit for the year | | \$314,343 | | \$368,778 |

The decrease in net profit before providing for depreciation, reserve for inventory and taxes on income, was due mainly to an increase in cost per ton of coal charged to the ovens, decreased average price received for industrial coke sold, and increased costs of gas produced in the auxiliary gas manufacturing plants.

The cost of coal purchased throughout the year increased substantially as compared with the previous year due to higher costs at the mines, resulting in an increase in the cost per ton of coke produced. Most of the coke produced during the year was shipped to industrial customers, but due to withdrawal on 1st October,

UNITED FUEL INVESTMENTS LIMITED

1944, of authority granted in May, 1943, to increase the selling price of coke produced and sold for industrial purposes in order to partially reimburse your Company for increased coal costs, the average price received per ton of industrial coke sold was reduced. There was no change in the price of domestic coke. These higher coal costs and reduced average prices received for industrial coke sold were the major factors causing the decrease in profit.

The total volume of gas sold during the year and the gross revenue received therefrom were approximately the same as for the previous fiscal year, a decrease of 6% in the volume of gas sold for industrial purposes being offset by increased volume of sales to domestic and commercial customers. The cost of gas sold during the year, however, was considerably higher than for the previous fiscal year, which resulted in decreased gross profits for the gas division of your Company. The volume of natural gas which the natural gas production companies are able to make available to your Company has decreased materially during recent years and it has become necessary to replace this gas by production from the auxiliary manufacturing plants at production costs substantially greater than the cost of the natural gas formerly obtainable. The higher coal costs also increased the cost of gas produced in the coke ovens.

Total general, administrative and gas and coke selling expenses were reduced substantially, while gas distribution expenses were somewhat higher than for the previous fiscal year.

Interest and bond discount and expense charges on the funded debt were reduced \$78,286 due to the retirement of \$764,000 par value of bonds during the previous fiscal year, and the refunding of the remaining bonds during the fiscal year ended 31st March, 1945.

Inventories have been priced at the lower of cost or market and the total as thus determined has been reduced by the appropriation from earnings of \$15,000 as a reserve against future decline in values, thus increasing to \$256,000 the reserve now being carried against this contingency.

Provision for regular depreciation on plant and equipment for the year amounted to \$251,340, a decrease of \$912 compared with last year. In addition, an amount of \$84,418 has been provided from this year's earnings for depreciation and amortization of plant purchased for war production, the same amount as provided for this purpose last year. With the exception of a nominal post-war value placed on these facilities, the cost of plants erected by your Company for war production has now been completely amortized.

CONSOLIDATED FINANCIAL POSITION

At 31st March, 1945, the working capital of your Company, after deducting \$130,000 par value of First Collateral Mortgage Serial Bonds, Series "A", due 1st December, 1945, amounted to \$1,071,846 as compared with \$1,055,400 at 31st March, 1944, an increase of \$16,446. The following statement shows in summarized form the income from profits and other sources during the year and the disposition made of these funds.

UNITED FUEL INVESTMENTS LIMITED

| | | | |
|---|-------------|-----------|--------------------|
| Net earnings for the year before providing for inventory reserve and taxes on income | \$576,343 | | |
| <i>Less:</i> Provision for income and excess profits taxes including refundable portion | \$250,000 | | |
| Provision for future price decline in inventory values | 15,000 | 265,000 | \$311,343 |
| <i>Add:</i> Charges against earnings which do not represent cash disbursements: | | | |
| Depreciation | | 251,340 | |
| Amortization of plants purchased for war production | | 84,418 | |
| Amortization of bond discount and bond issue expenses | | 16,663 | 352,421 |
| Total funds provided from operations | | | \$ 663,764 |
| Par value of First Collateral Mortgage Bonds issued | \$4,500,000 | | |
| Par value of Bonds of Subsidiary Companies redeemed | 4,442,500 | | 57,500 |
| | | | \$ 721,264 |
| Accounted for as follows: | | | |
| Dividends on capital stock paid or provided for | | \$270,000 | |
| Expenditures on refinancing: | | | |
| Commission and expenses of new issue | \$147,803 | | |
| Premium on redemption of bonds retired | 84,494 | 232,297 | |
| Cost of additions to fixed assets (net). | | 46,276 | |
| Cost of 2,460 Class "B" preferred shares purchased for cancellation. | | 14,494 | |
| Sundry items (net) | | 11,751 | |
| | | \$574,818 | |
| First Collateral Mortgage Serial Bonds, Series "A", maturing 1st December, 1945. | 130,000 | | 704,818 |
| Resulting in an increase in net current assets of | | | \$ 16,446 |
| Working capital at beginning of year | | | 1,055,400 |
| Working capital at end of year | | | <u>\$1,071,846</u> |

The net increase in fixed assets after deducting plant replaced and written off amounted to \$38,058. No additional gas or coke production facilities were constructed during the year, and there was no substantial expansion in the gas distribution system. The increase in reserve for depreciation and renewals amounted to \$327,712.

During the year United Fuel Investments Limited retired the balance of \$243,000 par value of its 6½% General Mortgage Bonds which had been called for redemption in the previous fiscal year. The Subsidiary Companies also redeemed the entire amount of their previously outstanding bonds as follows:

UNITED FUEL INVESTMENTS LIMITED

HAMILTON BY PRODUCT COKE OVENS LIMITED:

| | |
|--|-------------|
| First Mortgage 5% Bonds due 1st November, 1955, Series "A" | \$2,097,500 |
| General Mortgage 6% Bonds due 1st April, 1956 | 587,000 |

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 | 1,208,000 |
| Second Mortgage 5% Bonds due 1st April, 1959, guaranteed by Hamilton By Product Coke Ovens, Limited | 550,000 |
| Total par value of Bonds retired | \$4,442,500 |

The funds required for the redemption of these bonds were obtained mainly from sale on 1st December, 1944, by United Fuel Investments Limited of \$4,500,000 par value of that Company's First Collateral Mortgage Serial and Sinking Fund Bonds, Series "A" and Series "B", being part of an authorized issue of \$5,500,000. This new issue consisted of

| | |
|---|-------------|
| 3% Serial Bonds, Series "A", due 1st December, 1945 to 1950 | \$1,000,000 |
| 4% Sinking Fund Bonds, Series "A", due 1st December, 1959 | 2,300,000 |
| 3¾% Serial Bonds, Series "B", due 1st December, 1951 to 1956, payable as to principal and interest in Canadian or United States funds at the option of the holder | 1,200,000 |
| Total par value of Bonds issued | \$4,500,000 |

The new issue of United Fuel Investments Limited is now the only bond issue of your Company and its Subsidiaries outstanding in the hands of the public, as the entire amount of the underlying bonds of the Coke Company and United Gas Company are held by United Fuel Investments Limited. These underlying bonds and the share capital of the Subsidiaries form the security for the new issue of bonds of your Company.

The exchange premium on United States funds paid on redemption of the first mortgage bonds of United Gas and Fuel Company of Hamilton Limited amounted to \$120,829, and as no provision had been previously made in the accounts for such premium, the entire amount was charged to Earned Surplus. The premium paid on redemption of the various issues of the Subsidiary Companies in advance of maturity as provided for in the deeds of trust and mortgage amounted to \$84,494, and this amount, together with the unamortized portion of the discount on the bonds at the dates of redemption totalling \$122,692, was also written off to Earned Surplus.

The Series "B" bonds of the new issue aggregating \$1,200,000 are payable as to principal and interest at the option of the holder in Canadian or United States funds, and the exchange premium of \$120,000 received on sale of this issue in United States funds is carried on the balance sheet as a reserve against possible exchange requirements at maturity.

UNITED FUEL INVESTMENTS LIMITED

As a result of this refunding operation there will be substantial reductions in charges to Profit and Loss Account in future years for interest on funded debt, bond discount absorbed and premium on bonds redeemed for sinking fund.

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

GENERAL

The largest annual expenditure which your Company is required to make is for the purchase of coal imported from the United States. Since the outbreak of war the laid-down cost per ton of coal delivered on the Company's dock has steadily increased as the result of higher costs at the mine, increased transportation charges, the payment of premium on United States funds and the imposition of the 10% War Exchange Tax by the Dominion Government.

As already stated, there were further increases in the cost of coal purchased and charged to production during the fiscal year ended 31st March, 1945, and as a result of additional increases in coal prices at the mines effective after April, 1945, the cost of coal to be imported during the fiscal year which commenced 1st April, 1945, will again be greater, with a further adverse effect on the earnings of the Company.

These steadily increasing costs, over which your Company has no control, are a matter of great concern to your Directors and representations have been made to Governmental authorities in an endeavour to obtain some measure of relief to offset at least in part this increasing burden upon the financial operations of your Company.

Throughout the year the demands for gas and coke by war industries continued to be heavy and the major portion of these products produced were diverted to meet such demands. The distribution and sale of gas for certain domestic and commercial purposes and the expansion of the Company's gas distribution system were still restricted in order that essential industries would be assured as far as possible of an adequate supply of gas.

The plant erected and owned by the Dominion Government to produce gas and coke on property adjacent to the coke oven plant of your Company was in continuous operation during the year. This plant is being operated and its products marketed by your Company on behalf of the Government under the terms of a non-profit agreement between the Government and the Company.

A total of 85 employees were granted leave of absence from the Company to go on active service with the Navy, Army and Air Force. It is with deep regret that we inform you that four of these employees have made the supreme sacrifice, and to their bereaved families the Directors extend their deepest sympathy.

Your Directors are grateful to all officers and employees of the Company for their loyalty and devotion to duty throughout the past year.

On behalf of the Board of Directors.

DAVID P. ROGERS,
President.

UNITED FUEL INVESTMENTS LIMITED

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 (and its subsidiary, The Wentworth Gas Company Limited) and The United Suburban Gas Company Limited, as at 31st March, 1945, and the statements of consolidated profit and loss and earned surplus for the year ended on that date. In connection therewith we reviewed the system of internal control and the accounting procedures of the companies and examined or tested accounting records but we did not make a detailed audit of the transactions. We have obtained all the information and explanations we required.

Depreciation of capital assets has been provided for on the bases approved by the consulting engineer of the companies in 1942 (with the exception of plant erected for war requirements during the fiscal year 1942, which has been amortized over a period of four years). Subject thereto 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 31st March, 1945, and of the consolidated 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 of the companies.

CLARKSON, GORDON, DILWORTH & NASH,
Chartered Accountants.

Hamilton, Canada,
4th June, 1945.

UNITED FUEL INVESTMENTS LIMITED
AND ITS SUBSIDIARIES

Consolidated Statement of Profit and Loss for the Year ended 31st March 1945
(With comparative figures for the year 1944)

| | <u>1945</u> | | <u>1944</u> | |
|--|-------------------|-------------------|-------------------|--------------------|
| Profit from operations before charging bond interest, depreciation, etc. | | \$1,150,059 | | \$1,582,692 |
| <i>Deduct:</i> | | | | |
| Interest on bonds including premium on United States funds. | \$ 219,485 | | \$ 288,938 | |
| Bond discount absorbed and premium on bonds redeemed for sinking funds | 18,473 | 237,958 | 27,306 | 316,244 |
| | | <u>\$ 912,101</u> | | <u>\$1,266,448</u> |
| Provision for depreciation on the bases approved by companies' consulting engineer | \$ 251,340 | | \$ 252,252 | |
| Amortization of plants erected for war requirements | 84,418 | 335,758 | 84,418 | 336,670 |
| Net profit before providing for inventory reserve and taxes on income | | \$ 576,343 | | \$ 929,778 |
| Provision for income and excess profits taxes | \$250,000 | | \$507,500 | |
| <i>Less:</i> Refundable portion thereof | 3,000 | | 37,500 | |
| | <u>\$ 247,000</u> | | <u>\$ 470,000</u> | |
| Provision for future price decline in inventory values | 15,000 | 262,000 | 91,000 | 561,000 |
| Net profit for the year | | <u>\$ 314,343</u> | | <u>\$ 368,778</u> |
| <i>Note:</i> The expenses of the companies for the year ended 31st March, 1945, include: | | | | |
| Remuneration of directors (not including executive officers) | | | \$ 3,000 | |
| Payments to counsel, solicitors, and legal advisers | | | 9,500 | |
| Remuneration of executive officers | | | 24,000 | |

Consolidated Statement of Earned Surplus for the Year ended 31st March 1945
(With comparative figures for the year 1944)

| | <u>1945</u> | | <u>1944</u> | |
|--|-------------|--------------------|-------------|--------------------|
| Balance at beginning of year. | | \$1,334,994 | | \$1,267,207 |
| <i>Add:</i> | | | | |
| Net profit for the year as above | | 314,343 | | 368,778 |
| | | <u>\$1,649,337</u> | | <u>\$1,635,985</u> |
| <i>Deduct:</i> | | | | |
| Dividends on 6% preferred shares | \$270,000 | | \$270,000 | |
| Refinancing charges on bonds of subsidiary companies redeemed: | | | | |
| Redemption premium | 84,494 | | | |
| Exchange on United States funds | 120,829 | | | |
| Balance of bond discount on bonds redeemed | 122,692 | | 33,749 | |
| Sundry adjustments affecting prior years | 31,666 | 629,681 | 2,758 | 300,991 |
| Balance at end of year | | <u>\$1,019,656</u> | | <u>\$1,334,994</u> |

UNITED FUEL INV

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Consolidated

31st

| PROPERTY: | ASSETS | <u>31st March 1945</u> | <u>31st March 1944</u> |
|---|--------|------------------------|------------------------|
| Comprising gas and coke manufacturing plant, transmission lines, distribution systems, real estate, buildings, automobiles, fixtures, franchises, rights, organization expenses, interest during construction, etc. | | \$11,803,902 | \$11,765,844 |
| <i>Deduct</i> reserve for depreciation and renewals | | 5,197,955 | 4,870,243 |
| | | <u>\$ 6,605,947</u> | <u>\$ 6,895,601</u> |
| <p>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 31st March, 1929, aggregating \$4,260,258, which are shown at the values at which they were carried in the books of that company at that date.</p> | | | |
| PREMIUMS paid on acquisition of subsidiary companies | | 4,079,955 | 4,079,955 |
| | | <u>\$10,685,902</u> | <u>\$10,975,556</u> |
| CURRENT ASSETS: | | | |
| Cash on hand and in banks | | \$ 463,815 | \$ 556,962 |
| Investment in marketable securities at cost and accrued interest (approximate market value 31st March, 1945, \$450,000): | | | |
| Dominion of Canada 3% Victory Loan Bonds | | 251,814 | 354,385 |
| City of Hamilton ninety-day treasury bills. | | 199,284 | 199,426 |
| Accounts receivable less reserve | | 670,239 | 750,336 |
| Inventories as determined and certified by the management from book records and valued at the lower of cost or market, less reserve of \$256,000 in 1945 and \$241,000 in 1944 for future price decline in inventories | | 633,027 | 693,432 |
| | | <u>\$ 2,218,179</u> | <u>\$ 2,554,541</u> |
| DEFERRED AND OTHER ASSETS: | | | |
| Bond discount commissions and expenses less amounts written off | | \$ 144,828 | \$ 136,380 |
| Deferred charges and prepaid expenses | | 117,142 | 153,151 |
| Stores and spare equipment | | 156,883 | 141,446 |
| Post-war refunds under the Excess Profits Tax Act | | 42,500 | 39,500 |
| | | <u>\$ 461,353</u> | <u>\$ 470,477</u> |
| | | <u>\$13,365,434</u> | <u>\$14,000,574</u> |

ESTMENTS LIMITED

Dominion Companies Act)

SUBSIDIARIES

Balance Sheet

March 1945

| CAPITAL AND SURPLUS: | LIABILITIES | |
|---|------------------------|------------------------|
| | <u>31st March 1945</u> | <u>31st March 1944</u> |
| 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 at 31st March, 1944 | 72,149 shares | 1,803,725 |
| Less redeemed during the year ended 31st March, 1945 | 2,460 shares | |
| Authorized and outstanding at 31st March, 1945 | 69,689 shares | 1,742,225 |
| Common shares of no par value: | | |
| Authorized and issued | 90,000 shares | 50,000 |
| Capital surplus arising from discount on redemption of Class "B" preferred shares | 417,220 | 370,214 |
| Consolidated earned surplus | 1,019,656 | 1,334,994 |
| | <u>\$ 7,729,101</u> | <u>\$ 8,058,933</u> |
| FUNDED DEBT: | | |
| First collateral mortgage serial and sinking fund bonds—authorized \$5,500,000: | | |
| 3% Serial bonds (Series "A") due 1st December, 1946 to 1950 | \$ 870,000 | |
| 4% Sinking fund bonds (Series "A") due 1st December, 1959 | 2,300,000 | |
| 3¾% Serial bonds (Series "B") due 1st December, 1951 to 1956 (payable in Canadian or United States funds at the option of the holder) | 1,200,000 | |
| Bonds of subsidiary companies (now redeemed) | | \$ 4,442,500 |
| | <u>\$ 4,370,000</u> | <u>\$ 4,442,500</u> |
| Reserve arising from exchange on sale of Series "B" bonds in United States funds | \$ 120,000 | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued charges including meter deposits | \$ 678,292 | \$ 591,997 |
| Accrued interest on bonds | 56,687 | 97,380 |
| Reserve for income, excess profits and other taxes | 213,854 | 499,264 |
| Dividend payable | 67,500 | 67,500 |
| First collateral mortgage serial bonds (Series "A") due 1st December, 1945 | 130,000 | |
| General mortgage 6½% bonds redeemed 1st July, 1944 | | 243,000 |
| | <u>\$ 1,146,333</u> | <u>\$ 1,499,141</u> |
| | <u>\$13,365,434</u> | <u>\$14,000,574</u> |

Approved on behalf of the Board.

DAVID P. ROGERS, *Director.*

S. B. SEVERSON, *Director.*

