THE FINANCIAL VIEWPOINT.

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account of $810,713, which was put aside, as being the difference between the contract price of coal and the price which the Steel Company was compelled to pay in the open market, from the time the contract was repudiated in November 1906, until the end of that fiscal year, in May 1907, will now be free to be placed to the credit of profit and loss, and, as can readily be imagined, the surplus after all interest charges, and payments to the sinking fund, thereby assumes quite a respectable total when contrasted with the surplus as shown in the directors' last annual report.

The statement of profit and loss for 1906-7 now shows a surplus of $1,129,425, against $318,711, when the contingent account was deducted from profits. The former amount will be available as a balance to be carried forward to the credit of profit and loss for the current fiscal year. This sum is equal to over 22 per cent. earned on the preferred stock of $5,000,000 outstanding, and stands conspicuously as a contrast to the debit balance of $369,113, at the end of the previous fiscal year.

With the huge balance of $1,129,425 on the right side of the ledger, the imagination is not greatly exercised in conceiving of a brilliant record during the current financial year. There was in 1906, an actual surplus on the year's operations of $1,498,539, after fixed charges, interest on loans and sinking fund payments on the first mortgage bonds had been met.

Nearly $4,000,000 Available.

This was attained despite the fact that the company's average monthly output was very materially reduced for fully four months of the fiscal year, and that the new bounty payments did not come into force until the end of the calendar year of 1906. Now, it should be comparatively easy to, at least, form a minimum estimate of the company's financial position for the year which ends on May 31, 1908.

There is little or no possibility of a reduced consumptive demand for the company's products. The railways will continue indefinitely to develop, extend and renew. Their requirements are likely to increase rather than decline. There will also be a complete year of high bounty payments, or, more correctly, bounty receipts, which, even on the same production as last year, will total infinitely more than at that time in the net profits. It is not, therefore, an unreasonable estimate to place the net profits at a little over those of 1906, say, at $1,900,000; this, of course, after fixed charges and interest on loans.

With the balance brought forward there would, on this hypothesis, be a sum equal to $3,398,539 available for the disbursements. The sinking fund will amount to about $300,000 on the first and second mortgage bonds, thus leaving a balance of $3,098,539 on behalf of the shareholders. Two years' deferred dividends on the preferred stock could be paid out of this sum, leaving a balance of $2,398,539 to be used for development purposes and to reducing the bank loans which are shown to be a considerable factor in the general liabilities.

Orders Placed for 5,000,000 Tons.

Over and above the legitimate profits on industrial operations at the company's plant, there is the contemplated sale of iron ore from the mines at Wabana to United States and probably to Canadian manufacturers. It is understood, though not officially confirmed by the directors, that an order for about 5,000,000 tons of ore has already been placed, at a price about $1.10 a ton at the pit mouth. This, assuming that it would cost at the rate of sixty cents a ton to mine and hoist, will give the company a net profit of $2,500,000 on the transaction. There is a question as to whether the company is justified in thus robbing itself of raw material, when it was primarily promoted as a manufacturing concern, but the old adage: "Needs must when the devil drives," will probably apply and justify what might in other circumstances be exploitation.

In this connection much depends on the amount of ore controlled by the company. If, as frequently stated, without contradiction by the directors, there are ore bodies carrying in the neighbourhood of 200,000,000 tons of ore, the duty of the directors is clear, considering the present desperate state of the finances and the valiant struggle to make the industry a success upon its own merits. On the other hand, there is only a matter of, at the outside, 30,000,000 tons of ore "proven," and should the estimate of "hidden" ore not be justified by facts, the company will, indeed, have sold its birthright for a mess of pottage. On this point, the unvarying optimism of the president downward seems to have inspired everybody with the hope that the ore bodies will carry the entire tonnage as estimated.

What Steel Company Will Probably Claim.

It is not at all probable that the Dominion Iron and Steel Company will claim damages over actual loss and expenditure against the Dominion Coal Company. Judge Longley said that to award damages for a period so long as the term of the contract is to be in force,—99 years,—the damage assumption being for broken contract, would be an undesirable remedy from every point of view. They will receive full compensation for all losses, and altogether the position of the Dominion Iron and Steel Company to-day is highly satisfactory and encouraging to the operators and the shareholders alike.

If the Dominion Iron and Steel Company is to benefit to such a large extent by the decision of Judge Longley, it might naturally be inferred that the Coal Company will lose by just the amount of the other's gain. But this is not strictly the case, as the conditions under which the Coal Company is now operating and selling its product to the Steel Company, are identical with the conditions ruling prior to November 1906. The contract price of coal, the crux of the whole unfortunate affair was of the Coal people's making as much as those controlling the Steel plant, and the former company has not only operated successfully at the relatively low coal prices in former years, but actually re-started dividend payments on the $15,000,000 of common stock after a period of dividend suspensions.

Coal Company Can Bear "Loss."

The Company is intrinsically strong enough to bear the so-called loss of the difference in the contract price of coal and the price which could now be secured in the open market. The difficulty is in successfully operating the mines to keep pace with the rapidly growing demands of the Steel Company, although this will no doubt be overcome in the future as it was during the strenuous year of 1906.

The output of the Dominion Iron and Steel Company at that time was about at its maximum capacity, and it may be years before any additional furnaces are installed. The Coal Company certainly knows the worst in regard to the requirements of the sister industry, and has conducted operations so successfully, despite the low-priced contract, that in 1906 there was earned 4.2 per cent. on the $15,000,000 of common stock, and as much as 6.80 per cent. in the previous year of 1905. The company has a profit and loss surplus equal to over 12 per cent. in the common stock outstanding.

In the past it has been very successful in the industrial operations, but was handicapped by high-priced money in the shape of exceptionally heavy interest charges annually. In financial reorganization the directors were successful, and the bond and preferred stock interest has been materially reduced. During the past few years, before the Steel Company became an aggressive purchaser of coal, the Dominion Coal Company was happy in a market peculiarly suited to their own ideas. They were supplying the Dominion Iron and Steel Company with all the coal required by them and were making a handsome profit thereby. But that was before the period when supply was smaller than demand, and prices carried away up by the fundamental rule governing the buying and selling of all commodities.

Not a Hopeless Position.

The position of the Coal Company is not hopeless. According to the agreement made in 1903 between the companies, a price adjustment may be made in 1909, the clause reads:

"On or after the thirtieth day of June, 1909, either party may require an adjustment, and if no agreement can be arrived at between them the price shall be settled by arbitration by arbitrators appointed as herein provided: The said arbitrators or umpire, as the case may be, shall ascertain the average cost of mining and delivering coal to the purchasers according to the terms hereof during the five years expiring next before the time of such arbitration, and they shall compare the cost so ascertained with the live average cost during the five years immediately preceding such last mentioned period, and in proportion as the cost for the said period of five years preceding such expiring period of five years, so the price to be paid by the Steel Company to the Coal Company for coal during the period of five years succeeding such arbitration shall be greater or less than the price for the five years last expiring."

An Example Given.

"For example, the arbitrator in 1900 shall determine the said average cost for the five years from the 30th June, 1899, to the 30th of June, 1904, and also the said average cost for the five years from the 30th June, 1904, to the 30th June, 1909, and as the average cost for the first period is to the average cost of the second period, so will the price of coal supplied ($1.24 per ton from the 30th June, 1904, to the 30th June 1909) be to the price to be fixed for the coal to be supplied from the 30th June, 1909, to the 30th June, 1914. In like manner, at intervals of five years, the price may be readjusted."

On the strength of the foregoing, it is essentially lack of judgment that has brought the Dominion Coal Company into the unfortunate litigation, the first stage of which has been completed.