

# EDITORIAL

## Capitalization of British Empire Steel Corporation Coal and Ore Reserves

A series of three well-informed articles on the financial condition of the nine companies which it is proposed to consolidate as British Empire Steel Corporation appears in the Toronto "Globe," and is concluded with the following discriminating comment, viz.:

"On the question of total assets Col. Morden insists that there has been a conservative valuation of the iron-ore and coal in the ground belonging to the various companies, the value of which is now placed at \$203,000,000 of the total assets valuation of \$407,000,000. The fact remains that the total assets of the leading companies of the nine in the merger are placed at slightly less than \$200,000,000 in their last annual reports. It is manifest that Col. Morden has adopted a different basis of valuation from that of the unit companies in preparing their annual reports. It is to be presumed that the coal and iron ore has hitherto been regarded as a nominal asset, which may explain the difference. This does not, however, relieve the new company from the necessity of most efficient management in seeing to it that the valuation put upon the coal and iron as in the ground is not above what is warranted in consideration of the coal and iron as a marketable commodity—in other words, the plan of organization to this extent capitalizes the future and contemplates many years of successful operation in bringing the raw materials to the Corporation's plants, and making them into millions of tons of marketable articles."

The capitalization of minerals in the ground is a difficult matter, and probably the safest method is to regard them as a nominal asset. This is particularly so where the mineral deposits are so largely submarine, as in the case of the coal and iron-ore areas of the constituent companies of the new Corporation. The greatest asset of the new Corporation will be its complete control of the points of access to the submarine mineral deposits, and the advantages that will accompany unified direction of the technical operations of winning the minerals. Another substantial asset is the land area of unworked coal.

With the exception of the winning of the three upper seams in the Sydney Field the land area is virgin coal. The seams crop concentrically each outside of the next superimposed seam, and thus, as the lower seams are reached, each one contains a larger superficial area of ungoten coal. These lower seams have hitherto been disregarded because of the better quality and great accessibility of the upper seams. Nevertheless, it may be stated that the ungoten land coal will provide the most dependable and lasting asset of the future. Comparative thinness of seams, less desirable quality, and, to an inexcusable extent, lack of accurate knowledge of the lower seams, are hindrances to profitable extraction that will gradually disappear under the compulsion of necessity, improved methods of extraction, and modes of preparation that have long since been matters of ordinary practice in other countries.

In connection with the submarine area, both coal and iron-ore, only a nominal value should be placed on the estimated content of mineral, because, while the supposition of their extension at least to the limits of profitable extraction is founded on excellent grounds, in the absence of actual knowledge there can be no absolute certainty such as is required in actuarial calculations.

There are also some fixed and unavoidable first charges on coal and iron-ore won from the most accessible and certain situations, which are emphasised in making future calculations on ungoten submarine areas, namely charges for depletion of areas, for redemption of capital, and for the provision of new openings to take the place of abandoned winnings. It will be an essential to the permanency and success of the new Corporation (which we desire again to emphasize, believing that exaggeration of emphasis on this point is impossible, is founded on the extraction of coal at a profit) that these charges shall be a primary addition to the other costs of coal production.

We note that the nominal capital of the new Corporation is fixed at \$500,000,000, and that while the appraised value of the aggregate assets of the constituent companies is placed at \$407,000,000, it is only proposed to issue securities of a par value of \$207,000,000, or approximately the sum of the assets of the combining companies as shown by their respective