United Fuel Investments
Limited

and

Controlled Companies

Eighth Annual Report

March 31, 1936

EIGHTH ANNUAL REPORT

OF THE DIRECTORS OF

UNITED FUEL INVESTMENTS LIMITED

FOR THE YEAR ENDED 31st MARCH, 1936

Hamilton, Ontario,
July 9, 1936.

To the Shareholders:

Your Directors present herewith the Eighth Annual Report of United Fuel Investments, Limited, covering the operations for the fiscal year ended March 31, 1936. The report includes the Consolidated Balance Sheet and the Profit and Loss and Surplus Accounts together with comparative figures for the corresponding period last year and the Report of your Auditors.

Consolidated Net Profit for the year after deducting interest and depreciation charges but before Dominion Income Taxes was $274,196, as compared with $261,778 in the preceding fiscal year.

OPERATIONS

The volume of coke sold showed an increase of 25% over that of the preceding year. The average selling price per ton was approximately 8% lower than in the preceding year, consequently revenues from coke sales did not increase in proportion to the volume sold. The increase in demand was undoubtedly caused to a large extent by the lower prices together with the cold weather experienced during a considerable part of the heating season. All Canadian coke producers and importers of American produced coke entered the past year with large tonnages carried over from the previous year, and this situation and other competitive conditions resulted in substantially lower selling prices.

The volume of coke produced during the year was reduced by approximately 10% because of the large carry-over from the previous year. The Company commenced the current year's operations with a comparatively small tonnage of coke on hand.

Gas sales increased 11% in volume over the previous year and while the greater part of this increase was in sales to large volume industrial consumers, there was a considerable gain in the quantity sold for domestic purposes and for commercial use. The average rate received for all gas sold was practically the same as that for the preceding year despite the increased proportion of lower priced industrial gas sold.

Approximately 10% of the gross revenues of your Company is realized from the sale of products of the coke plant, other than coke and gas, such as tar, ammonium sulphate, and light oils and distillates therefrom. The revenues from the sale of these other products increased only slightly during the year, and the average selling prices thereof, which to a large extent are dependent on world markets, do not show any material increase over the preceding year. In the case of motor benzol particularly, the average selling price continued to decline.

The largest expenditure which your Company makes is in the purchase of coal, and the comments made in last year's Annual Report relative to the large burden imposed upon your Company as a result of substantial increases in the cost of bituminous coal apply with even greater force to the past fiscal year. The cost of coal entering into production during the past year has been even higher than in the previous year. The Management is at all times studying the coal situation with a view to purchasing the Company's requirements from the most advantageous source.

Further reductions have been made in operating, selling and administrative expenses. Interest charges show some reduction due to decreased borrowings and to refunding operations carried out during the year. The benefit of lower interest charges due to these refunding operations, was effective only during the closing months of the fiscal year.

FINANCIAL POSITION

In November, 1935, Hamilton By-Product Coke Ovens, Limited, sold $2,500,000 of a new issue of First Mortgage 20 Year Sinking Fund Bonds bearing an interest rate of 5% per annum, payable in Canadian funds only, dated November 1st, 1935, and maturing November 1st, 1955. With the proceeds from this sale the Coke Company retired the previous issue of First Mortgage Bonds of which $1,187,400 was outstanding. This issue bore an interest rate of 7% per annum and was payable in both Canadian and U.S. funds. The remainder of the funds realized from the sale of the new issue together with a small amount of cash taken from the Company's working capital was used to repurchase from Union Gas Company of Canada, Limited, and retire $1,269,500 principal amount of the Coke Company's 6½% General Mortgage Bonds. This refunding operation will result in a reduction in annual interest charges and in other benefits to your Company.

Other reductions in funded debt were made during the year, in accordance with the requirements of the Sinking Fund provisions of the respective issues, as follows:

United Gas and Fuel Company, Limited—First Mortgage 5% Bonds	$51,500.00
Hamilton By-Product Coke Ovens, Limited—6½% General Mortgage Bonds	$28,700.00

Since April 1, 1936, the Coke Company has repurchased from Union Gas Company of Canada, Limited, and retired a further $250,000 principal amount of its 6½% General Mortgage Bonds and has retired the remaining $750,000 of these 6½% General Mortgage Bonds by giving in exchange therefor $750,000 of new General Mortgage 6% Sinking Fund Bonds dated April 1st, 1936, and maturing April 1st, 1956. The earnings of your Company will be benefitted further during the ensuing year through the reduction of interest charges resulting from this transaction.

Net additions to fixed assets during the year amounted to $19,426, and consisted only of necessary additions to gas service extensions and minor improvements in the Coke Company's plant.

Working Capital of the Company as shown by the Consolidated Balance Sheet amounted to $1,267,194, an increase of $232,557 over the corresponding period a year ago. This improvement has been due largely to cash profits from operations after providing $60,625 for Dominion of Canada Income Taxes on profits for the year and for additional tax on profits of the previous year.

Arrears of dividends on the Preferred Stock at April 1st, 1936, amounted to 28½%. The profits of the Company for the past year equalled $2.37 per share on the Preferred Stock after deducting the provision for income taxes or, in other words, amounted to less than 40% of the annual cumulative dividend of $6.00 per share on the Preferred Stock. The average annual earnings of the Company (after deducting provision for income taxes) for the eight years, since its inception have been equivalent to $3.07 per share on the 90,000 Preference Shares outstanding. While during the two years when the full force of the business depression was being felt the Company showed no profits, earnings have been fairly stable for the past three years, averaging in that period $2.49 per share on the Preferred Stock after income taxes.

Your Directors believe that the operations and financial position of your Company are now stabilized sufficiently so that the time is now appropriate to work out a plan of re-organization of the capital structure. Your Directors have given this subject a great deal of consideration and before January 1st next will submit to the shareholders a plan of re-organization which will place the capital structure of your Company on a sound basis and enable the resumption of a regular dividend payment to the preferred Shareholders commensurate with the Company's earning power.

Because a plan of reorganization will be presented within a few months' time your Directors have decided that it is advisable to defer any dividend payment on the Preferred Shares until such reorganization is effected, although it is apparent that the earnings and cash position of the Company would permit the payment of some small dividend at this time. In arriving at any plan of reorganization it must be borne in mind that it is necessary to take into consideration not only the relative positions of the two classes of shareholders, but also certain problems affecting the successful operation of the Company and its subsidiaries.

Your Directors wish to express their appreciation of the loyal and efficient services of the officers and employees throughout the year.

On behalf of the Board of Directors,

S. A. MORSE,
President.

UNITED FUEL INVESTMENTS LIMITED

(*Incorporated under the Dominion Companies Act*)

AND ITS SUBSIDIARIES

HAMILTON BY-PRODUCT COKE OVENS LIMITED, UNITED GAS AND FUEL COMPANY OF HAMILTON LIMITED, THE UNITED SUBURBAN GAS COMPANY LIMITED

Consolidated Statement of Profit and Loss for Year ended 31st March, 1936

	31st March, 1936		31st March, 1935	
Profit from Operations before charging Depreciation or Bond Interest...		$875,110.10		$862,060.60
Deduct:				
Interest on Bonds	$351,313.35		$358,811.48	
Bond and Loan Expenses and Discount absorbed	22,156.09		20,042.13	
Organization Expenses written off .	7,180.96	380,650.40	1,795.24	380,648.85
		$494,459.70		$481,411.75
Provision for Depreciation on basis recommended by Companies' Consulting Engineer		220,263.14		219,632.84
Combined profits, less *losses* for all Companies for year before provision for Dominion of Canada Income Taxes		$274,196.56		$261,778.91

Note.—The expenses of the Companies for the year ending 31st March, 1936, include:

Remuneration of Directors (not including Executive Officers)	$ 2,489.00
Payments to Counsel, Solicitors and Legal Advisers . .	5,533.89
Remuneration of Executive Officers	32,000.08

Consolidated Earned Surplus Account

	31st March, 1936		31st March, 1935	
Balance at beginning of period . .		$588,006.81		$362,626.81
Add: Adjustments applying to prior years (net).		14,970.00		10,827.93
		$602,976.81		$373,454.74
Deduct: Unamortized discount on $1,269,500.00 Hamilton By-Product Coke Ovens Limited General Mortgage Bonds redeemed . . .	$95,486.57			
Bond Redemption and Issue Expenses (including legal expenses, $9,490.84)	79,541.70	175,028.27		
		$427,948.54		$373,454.74
Combined profits less losses for all Companies for year as above . . .	$274,196.56		$261,778.91	
Less: Provision for Dominion of Canada Income Taxes	60,625.26	213,571.30	47,226.84	214,552.07
Balance at end of period. . . .		$641,519.84		$588,006.81

UNITED FUEL INV

(Incorporated under the

AND ITS

HAMILTON BY-PRODUCT COKE OVENS
OF HAMILTON LIMITED, THE UNITED

Consolidated

31st

ASSETS	1936 31st March	1935 31st March
PROPERTY:		
Comprising Gas and Coke Manufacturing Plant, Transmission Lines, Distribution Systems, Real Estate, Buildings, Automobiles, Fixtures, Franchises, Rights, Organization Expenses, Interest during Construction, etc	$ 9,784,014.23	$ 9,764,588.25
Premiums paid on acquisition of Subsidiary Companies, etc.	6,378,954.68	6,378,954.68
	$16,162,968.91	$16,143,542.93
Note.—The above assets are shown at their book values.		
CURRENT AND WORKING ASSETS:		
Cash on hand and in Banks	$757,729.69	$191,264.53
Accounts Receivable, less Reserve	330,157.59	400,292.79
Instalment Accounts Receivable, less reserve for Unearned Interest	49,085.98	43,065.49
Inventories—Coke and by-products valued at estimated cost and other inventories at the lower of cost or market as determined and certified by the management	468,851.94	678,911.09
	$ 1,605,825.20	$ 1,313,533.90
Cash on deposit with Trustees for Sinking Funds	$ 65.43	$ 1,303.58
Bond Discount	$ 407,615.37	$395,022.30
Organization Expenses	—	7,180.96
Deferred Charges and Prepaid Expenses	85,021.00	107,190.81
Stores and Spare Equipment	47,942.43	51,664.04
	$ 540,578.80	$ 561,058.11
	$18,309,438.34	$18,019,438.52

AUDITORS' REPORT

We have audited the accounts of United Fuel Investments Limited and its
of Hamilton Limited and The United Suburban Gas Company Limited for the year ended
required. Depreciation provided is on a basis which has been approved by the
Consolidated Balance Sheet and Statements of Consolidated Profit and Loss and
Companies' affairs at 31st March, 1936, and of the Consolidated results from operations
us and as shown by the books of the Companies.

TORONTO, 2nd June, 1936.

ESTMENTS LIMITED

Dominion Companies Act)

SUBSIDIARIES

LIMITED, UNITED GAS AND FUEL COMPANY
SUBURBAN GAS COMPANY LIMITED

Balance Sheet

March, 1936

LIABILITIES	1936 31st March	1935 31st March
CAPITAL:		
Authorized:		
250,000 6% Cumulative Preferred Shares of $100 each Redeemable at the option of the Company by call at $110 per share $25,000,000		
250,000 Common Shares of No Par Value		
Issued:		
90,000 6% Cumulative Redeemable Preferred Shares of $100 each	$ 9,000,000.00	$ 9,000,000.00
100,000 Common Shares of No Par Value	100,000.00	100,000.00
	$ 9,100,000.00	$ 9,100,000.00
Consolidated Earned Surplus	641,519.84	588,006.81
	$ 9,741,519.84	$ 9,688,006.81
Reserve for Sinking Fund	$ 12,395.49	$ 15,130.00
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")	2,500,000.00	—
First Mortgage 7% Bonds due 1st February, 1943	—	1,187,400.00
General Mortgage 6½% Bonds due 1st July, 1956	1,000,000.00	2,298,200.00
United Gas and Fuel Company of Hamilton Limited		
First Mortgage 5½% Bonds due 1st July, 1948	1,610,500.00	1,662,000.00
	$ 5,560,500.00	$ 5,597,600.00
CURRENT LIABILITIES:		
Accounts Payable and Sundry Accrued Charges	$ 177,337.24	$ 159,404.34
Union Gas Company of Canada Limited.	3,778.32	8,751.23
Meter Deposits	13,483.95	10,461.75
Accrued Interest on Bonds	74,206.62	37,001.25
Reserve for Dominion of Canada Income Tax and other Taxes	69,824.49	63,277.74
	$ 338,630.62	$ 278,896.31
RESERVE FOR DEPRECIATION AND RENEWALS	$ 2,656,392.39	$ 2,439,805.40
	$18,309,438.34	$18,019,438.52

Note.—Preferred Dividends are in arrears to the extent of 28½%.

$250,000 of Hamilton By-Product Coke Ovens Limited General Mortgage Bonds were repurchased in April, 1936 for $230,000.

Approved on behalf of the Board.

S. A. MORSE, *Director.*
T. P. PINCKARD, *Director.*

TO THE SHAREHOLDERS

Subsidiaries, Hamilton By-Product Coke Ovens Limited, United Gas and Fuel Company
31st March, 1936, and have received all the information and explanations we have
Consulting Engineer of the Companies. We report that in our opinion the attached
Surplus Accounts correctly set forth a true and correct view of the state of the
for the year, according to the best of our information and the explanations given

CLARKSON, GORDON, DILWORTH AND NASH,
Chartered Accountants.

United Fuel Investments Limited

BOARD OF DIRECTORS

S. A. Morse, *President*

Arthur F. White, *Vice-President*

J. A. Fraser
J. M. Pigott
T. P. Pinckard
R. L. O'Brian

Hamilton By-Product Coke Ovens Limited

BOARD OF DIRECTORS

S. A. Morse, *President*

T. P. Pinckard
Vice-President and General Manager

W. L. Duffield
Vice-President

A. V. Young
N. S. Braden
J. P. Bell
W. H. Lovering

United Gas and Fuel Company of Hamilton Limited

BOARD OF DIRECTORS

S. A. Morse, *President*

Judge J. G. Gauld
Vice-President and Advisory Counsel

T. P. Pinckard
Vice-President and General Manager

W. L. Duffield, *Vice-President*
W. I. S. Hendrie
A. L. Page
Dr. W. G. Thompson

The United Suburban Gas Company Limited

BOARD OF DIRECTORS

S. A. Morse, *President*

T. P. Pinckard
Judge J. G. Gauld

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