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United Fuel Investments,
Limited

and

Subsidiary Companies

Twenty-Eighth Annual Report
For the Fiscal Year Ended
March 31, 1956

TWENTY-EIGHTH ANNUAL REPORT

OF THE DIRECTORS OF

UNITED FUEL INVESTMENTS, LIMITED

FOR THE FISCAL YEAR ENDED MARCH 31, 1956

Hamilton, Ontario,
June 7, 1956

To THE SHAREHOLDERS:

Increased industrial activity during the past fiscal year in many sections of Canada, particularly in those areas to which coke is shipped by the Company, resulted in greater demands for coke required for industrial uses and in increased prices being realized per ton of coke sold. The results of operation of the Company for the fiscal year ended March 31, 1956 as outlined in this Annual Report of the Board of Directors reflect the effect of this improvement in the market for industrial coke.

As referred to in more detail later in this Report:

* Consolidated net earnings of the Company for the fiscal year ended March 31, 1956 amounted to $697,295, an increase of $213,174 over the prior year.

* During the fiscal year ended March 31, 1956 a contract was completed for the purchase of sufficient volumes of natural gas to enable the immediate conversion to natural gas of some of the markets of the Company in which manufactured gas has been distributed and to permit some extension of natural gas service to additional municipalities. Natural gas service must be limited for the present to those franchise areas of greatest distance from the source of manufactured gas supply.

* Two of the gas distribution subsidiaries, namely, The United Suburban Gas Company, Limited and The Wentworth Gas Company Limited were amalgamated on April 3, 1956 and from and after that date will carry on operations in the name of United Suburban Gas Company, Limited.

Incorporated in this Report of your Directors are the annual financial statements of your Company consolidated with its wholly-owned subsidiaries and comprising the Consolidated Balance Sheet and the Statements of Consolidated Profit and Loss and Earned Surplus all relative to the fiscal year ended March 31, 1956 with comparisons for the prior fiscal year and also the Auditors' Report thereon.

OPERATING RESULTS

The following condensed summary shows the results of operations of the Company for the fiscal year ended March 31, 1956 as compared with those for the previous fiscal year.

	Fiscal Year ended March 31 1956	Fiscal Year ended March 31 1955	Increase for 1956
Gross revenue from sales	$ 7,879,255	$ 6,948,389	$ 930,866
Other income	139,813	125,227	14,586
Total income	$ 8,019,068	$ 7,073,616	$ 945,452
Cost of products sold	$ 4,880,139	$ 4,463,848	$ 416,291
Distribution, selling, general and administrative expenses	1,196,034	1,111,570	84,464
Contribution to employees' pension fund	123,561	115,430	8,131
Depreciation	331,163	312,771	18,392
Amortization of natural gas conversion costs	1,500	—	1,500
Interest and other funded debt charges	101,876	101,876	—
Total costs and expenses exclusive of income taxes	$ 6,634,273	$ 6,105,495	$ 528,778
Profit before income taxes	$ 1,384,795	$ 968,121	$ 416,674
Income taxes	687,500	484,000	203,500
Net profit for the year	$ 697,295	$ 484,121	$ 213,174

REVENUES

Gross revenue from sales for the fiscal year ended March 31, 1956 was $930,866, or 13.4%, greater than for the prior fiscal year. The following is an analysis of sales by principal products:

	Gross revenue from sales for fiscal year ended March 31, 1956	Increase or *decrease* compared with prior fiscal year. Amount	%
Coke Sales:			
Company production	$3,607,307	$ 337,700	10.3
Purchased for re-sale	633,843	559,910	—
Total	$4,241,150	$ 897,610	26.8
Gas Sales	3,232,137	79,356	2.5
Tar and other residual sales	405,968	*46,100*	*10.2*
Total	$7,879,255	$ 930,866	13.4

Although the quantity of coke produced in the Company's ovens was 30,757 tons greater during the fiscal year ended March 31, 1956 than for the prior fiscal year, the volume of company produced coke available for sale during the past year was less than for the prior year because of a substantial reduction in inventory carry-over at the beginning of the fiscal year ended March 31, 1956 as compared with the inventory carry-over at the beginning of the prior fiscal year. As a result, during the fiscal year ended March 31, 1956 the volume of sales of coke produced in the Company's ovens was 8,655 tons, or 4.4%, less than for the fiscal year ended March 31, 1955. However, because of the increased average price per ton realized from sales of coke during the year, the total value of such sales increased $337,700, or 10.3%, as compared with the prior year.

Substantial quantities of coke were purchased from other producers for re-sale during the year. While only a nominal profit per ton is realized on such sales, as a service to its customers it is the practice of the Company to obtain coke from any available source to meet the requirements of these customers when their demands for coke are greater than can be met from the Company's coke oven production.

Practically all coke produced by the Company is now sold for industrial uses. Thus the volumes of coke which can be sold by the Company are dependent almost entirely on the requirements of industry. The price which can be realized per ton of coke sold is also dependent to a great degree on the level of industrial activity, not only in Canada, but in other countries, because foreign coke when in greater supply than required to meet the demands in the country of origin, enters Canada on an unrestricted and duty-free basis and is sold in competition with coke produced locally. A general slackening in industrial activity accordingly could have an adverse effect on the volume and price per ton of coke sold by your Company.

The total volume of gas sales, including a relatively small volume of natural gas sold in the markets converted from manufactured gas late in the fiscal year, was 2.5% greater than for the prior year, a decrease in the volume of residential gas sales being more than offset by increased sales for commercial and industrial uses. Gross revenues from gas sales increased $79,356, or 2.5%, over the previous year, although this increase in revenue was not sufficient to offset the higher cost of gas sold and increased distribution, selling, general and administrative expenses incurred during the year. Such costs and expenses have increased constantly over the past several years, but there has been no adjustment since March, 1953 in the rates charged for manufactured gas sales to offset such higher costs.

Gross revenue from sales of tar and other residuals produced in the coke manufacturing plant decreased $46,100 as compared with the prior fiscal year, due mainly to a reduction in volume of certain of such products available for sale and lower unit prices realized on sales of light oil.

Other income of $139,813 was $14,586 greater than for the previous fiscal year, due mainly to increased interest earnings.

EXPENSES

There was an increase of $528,778, or 8.7%, in total expenses of the Company, exclusive of income taxes, for the fiscal year ended March 31, 1956, as compared with the previous year. This increase in costs occurred as follows:

Cost of Products Sold increased $416,291.

Because of the large increase in tonnage of coke purchased from other producers and re-sold the cost of such sales was $539,178 greater. The reduction of 8,655 tons in volume of sales of coke produced in the Company's ovens and, because of the increased tonnage production, a lower cost per ton of coke produced, resulted in a decrease of $156,299 in the cost of such sales. The cost of gas produced and purchased for re-sale increased $46,441 while, mainly because of the reduction in volume of sales, the cost of all other residuals sold decreased $13,029.

Distribution, Selling, General and Administrative Expenses increased $84,464.

General increases in wage and salary rates, higher gas distribution plant maintenance costs, increased costs arising from an improvement late in the prior year in the coverages provided under the employees' comprehensive group insurance plans and more intensive gas sales promotion activities were the main reasons for this increase in costs.

Contribution to Employees' Pension Fund increased $8,131.

The increased costs of these plans during the past year are due to the retirement of additional employees under the non-contributory plan, to additional employees enrolled in the insured plan and increases in salary and wage rates on which contributions are based.

Depreciation increased $18,392.

Provision for depreciation for the fiscal year ended March 31, 1956 was made on the same basis as for the previous fiscal year. However, due to providing for depreciation on property additions made during the year the total charge to Profit and Loss Account for this purpose was $18,392 greater than for the previous year.

Amortization of Natural Gas Conversion Costs $1,500.

Total expenditures of $54,896 were incurred in the conversion to the use of natural gas of gas burning appliances in the premises of customers in the service areas where natural gas is now being distributed. It is intended that these conversion costs will be written off over a period of approximately 10 years. The pro rata charge to Profit and Loss Account for this purpose during the last three months of the fiscal year ended March 31, 1956 was $1,500.

CONSOLIDATED FINANCIAL POSITION

Consolidated working capital of the Company and its wholly-owned subsidiaries as at March 31, 1956 was $3,965,287, an increase of $44,499, during the year. The following table of source and application of funds indicates the monies which became available to the Company during the fiscal year ended March 31, 1956 and how these funds were utilized:

SOURCE OF FUNDS:		
Net earnings for the year	$ 697,295	
Add back: Amounts charged to earnings which did not represent cash outlay during the current fiscal year:		
Provision for depreciation	331,163	
Amortization of bond discount and bond issue expenses	9,876	
Amortization of natural gas conversion costs	1,500	
Total funds realized from earnings		$1,039,834
Reduction in inventory of stores and spare equipment	$ 39,554	
Reduction in deferred charges and prepaid expenses	22,531	62,085
Total funds made available		$1,101,919
APPLICATION OF FUNDS:		
Gross expenditure on Property Account, less salvage	$ 446,813	
Dividends on capital stock paid or provided for	429,689	
Increase in funds on deposit with trustee for bondholders	126,022	
Natural gas conversion costs	54,896	1,057,420
Resulting in an increase in net current assets during the year of		$ 44,499
Excess of current assets over current liabilities at beginning of year		3,920,788
Excess of current assets over current liabilities at end of year		$3,965,287

Property Account expenditures during the year consisted of the following:

Gas Companies:		
Property additions	$ 366,129	
Property replacements	82,967	$ 449,096
Coke Company:		
Property replacements		12,349
Gross expenditure on Property Account additions and replacements		$ 461,445
Less: Amounts realized on Property items sold or replaced		14,632
Net expenditure on Property Account		$ 446,813

The property additions of the Gas Companies consisted mainly of the cost of property constructed or acquired to make natural gas available to certain franchise areas of the Companies.

Dividends totalling $429,689 were paid on the capital stock of the Company during the year as follows:

Class "A" 6% Cumulative Preference Shares—	
Four quarterly dividends of $ .75 each per share, or a total of $3.00 per share, on 90,000 shares outstanding	$ 270,000
Class "B" Non-Cumulative Preference Shares—	
Dividend of $1.00 per share paid on July 2, 1955 on 69,689 shares outstanding .	69,689
Common Shares—	
Dividend of $1.00 per share paid on July 2, 1955 on 90,000 shares outstanding .	90,000
Total Dividends paid	$ 429,689

PERSONNEL

As at March 31, 1956 there were 416 regular employees on the payroll of the Company compared with 405 at the end of the prior fiscal year. A total of $1,467,265 was paid in salaries and wages during the year to all employees.

Employee benefits other than direct payroll costs are also contributed to by the Company. The most important of these are employees' pension plans to which the Company contributed or paid $123,561 and the group insurance plans, to which the Company contributed $45,145 in the past year.

The employee pension plan, which is administered by a life insurance company and is available to all regular employees who qualify under the service and age requirements, was continued without change throughout the past year. The Company and the employees contribute to this plan. The plan under which the Company pays pensions on retirement to employees beyond the age limit for enrolment in the insured plan was also continued without change. The Company reserves the right to amend these pension plans at any time after reasonable notice to the employees.

The comprehensive plans providing group life insurance on the lives of regular employees, sickness and accident insurance for their own benefit, with hospitalization, surgical and medical benefit insurance for themselves and dependents, which plans were amended and extended during the prior year, were continued without further alteration during the past year. The premium costs of these benefits are borne jointly by the Company and the employees.

NATURAL GAS

During the year The United Suburban Gas Company, Limited completed a contract to purchase on a long-term basis from Niagara Gas Transmission Limited sufficient volumes of natural gas to permit the conversion of the gas service area in The Township of Trafalgar, The Town of Oakville, The Town of Dundas and the

Village of Bronte, formerly served with manufactured gas, for the distribution of natural gas and to extend natural gas service to the towns of Georgetown, Milton and Acton. The distribution of natural gas replacing manufactured gas was commenced in the Township of Trafalgar, The Town of Oakville and the Village of Bronte during December, 1955 and January, 1956 and it is anticipated that the Town of Dundas will be changed over from manufactured gas to natural gas during July, 1956. Gas distribution franchises have been acquired in the towns of Georgetown, Milton and Acton, and since the close of the fiscal year ended March 31, 1956 construction has been started on the transmission line required to transport natural gas to those three municipalities and on the installation of a gas distribution system in each of them. It is expected that natural gas service will become available in all three municipalities in the summer of 1956.

Sufficient natural gas is not as yet available to the Company on a long-term basis to permit the conversion of all market areas for the distribution of natural gas. However, the conversion of the above-mentioned municipalities, which are most distant from the source of manufactured gas supply, will be of material assistance in enabling the Company to maintain adequate service at all times throughout the entire service area.

The cost of plant facilities required during the fiscal year commenced April 1, 1956 to transmit gas to and distribute gas in the area for which natural gas is available is estimated to be $1,300,000.

Union Gas Company of Canada, Limited, the parent Company of United Fuel Investments, Limited, has not as yet received assurance that natural gas will be available to it under either its contract of April 21, 1954 with Panhandle Eastern Pipe Line Company or its contract of January 18, 1955 with Trans-Canada Pipe Lines Limited. However, current developments indicate that Union Gas Company should have assurance of additional large volumes of gas eventually becoming available to it through at least one of these sources. When deliveries of gas to Union Gas Company under either of its above-mentioned contracts are a certainty, Union Gas Company will commence construction of a gas transmission line to transport to a point near Hamilton, Ontario, sufficient supplies of natural gas to make possible the conversion of the entire gas system of your Company for the distribution of natural gas.

Union Gas Company is presently awaiting the final decision of the Federal Power Commission of the United States as to whether or not that Commission will permit the export to Canada of the volumes of gas provided for in the contract between Union Gas Company and the Panhandle Company.

Deliveries of gas to Union Gas Company of Canada, Limited under the terms of its contract with Trans-Canada Pipe Lines Limited were conditioned upon Trans-Canada being able to complete satisfactory gas contracts with Western Canada producers by October 31, 1955 for volumes of gas adequate to make feasible the proposed project to construct a gas pipeline from Western Canada to Southwestern Ontario, upon Trans-Canada being able to finance the project and upon Trans-Canada being able to complete construction of and to place in operation all facilities required to deliver the gas into the pipeline system of Union Gas Company.

Trans-Canada Pipe Lines Limited has advised Union Gas Company that the requisite gas purchase contracts have been completed by it, thus removing this condition precedent to the contract between Trans-Canada and Union Gas Company. However, Union Gas Company has not as yet received notice that Trans-Canada has arranged adequate financing to enable it to commence construction on the project, although Union Gas Company expects that gas will eventually be made available to it under this contract.

On the expectation that the contracted for volumes of gas will be made available to Union Gas Company of Canada, Limited from either Panhandle Eastern Pipe Line Company or Trans-Canada Pipe Lines Limited, negotiations are being continued toward completion of an agreement between your Company and Union Gas Company of Canada, Limited under the terms of which your Company would purchase on satisfactory terms sufficient annual volumes of natural gas to meet the requirements of its entire service area.

GENERAL

In the interests of simplifying the corporate structure of the Company and to make possible economies in operation and management, the two gas companies carrying on operations outside the City of Hamilton, namely, The United Suburban Gas Company, Limited and The Wentworth Gas Company Limited have been amalgamated. By Letters Patent of Amalgamation, from and after April 3, 1956 the former operations of these two companies will be carried on in the name of United Suburban Gas Company, Limited.

In concluding this Report, your Directors record their appreciation of the loyal manner in which the employees in all departments have continued to serve the Company and maintain its operations at a high level of efficiency.

On behalf of the Board of Directors,

DAVID P. ROGERS,

President.

AUDITOR'S 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 subsidiaries, Hamilton By Product Coke Ovens, Limited, United Gas and Fuel Company of Hamilton, Limited, The Wentworth Gas Company Limited and The United Suburban Gas Company, Limited, as at March 31, 1956 and the statement of consolidated profit and loss and earned surplus 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 the accompanying consolidated balance sheet and statement of consolidated profit and loss and earned surplus 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, 1956 and the results of their operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the companies.

CLARKSON, GORDON & CO.,
Chartered Accountants.

Hamilton, Canada,
May 18, 1956.

UNITED FUEL INV

(*Incorporated under the*

AND ITS WHOLLY-

Consolidated

MARCH

(*with comparative*

ASSETS

	March 31, 1956	March 31, 1955
PROPERTY:		
Gas and coke manufacturing plants, transmission lines, distribution systems, land, buildings, franchises, rights, organization expenses, interest during construction, etc.	$12,649,549	$12,261,719
Less: accumulated depreciation	7,330,693	7,058,514
	$ 5,318,856	$ 5,203,205
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 March 31, 1929 aggregating $3,766,917 which are included at the values at which they were carried in the books of that company at that date.		
PREMIUMS paid on acquisition of subsidiary companies	4,079,955	4,079,955
	$ 9,398,811	$ 9,283,160
CURRENT ASSETS:		
Cash	$ 2,864,709	$ 3,101,572
Government of Canada treasury bills at cost and accrued interest	499,545	
Accounts receivable less allowance for doubtful accounts	810,778	730,164
Inventories as determined and certified by the management and valued at the lower of cost or market	930,712	846,986
	$ 5,105,744	$ 4,678,722
DEFERRED AND OTHER ASSETS:		
Stores and spare equipment	$ 209,425	$ 248,979
Funds on deposit with trustee for bondholders	129,443	3,421
Deferred charges and prepaid expenses	96,563	119,094
Natural gas conversion costs less amounts written off	53,396	
Bond discount, commissions and expenses less amounts written off	36,192	46,069
	$ 525,019	$ 417,563
	$15,029,574	$14,379,445

ESTMENTS, LIMITED
laws of Canada)
OWNED SUBSIDIARIES
Balance Sheet
31, 1956
figures for 1955)

LIABILITIES

	March 31, 1956	March 31, 1955
Shareholders' Equity:		
Capital—		
Class "A" 6% cumulative preference 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 preference shares of $25 each purchasable in the open market by the company for cancellation at a price not exceeding $30:		
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
Consolidated earned surplus	4,879,672	4,612,066
	$11,589,117	$11,321,511
Funded Debt:		
First collateral mortgage serial and sinking fund bonds—Authorized $5,500,000, whereof originally issued $4,500,000:		
Outstanding—		
4% Sinking Fund bonds Series "A" due December 1, 1959	$ 2,300,000	$ 2,300,000
Current Liabilities:		
Accounts payable and accrued charges including meter deposits	$ 499,320	$ 330,381
Accrued interest on bonds	30,330	30,330
Estimated income taxes payable	543,307	329,723
Dividend payable	67,500	67,500
	$ 1,140,457	$ 757,934
	$15,029,574	$14,379,445

Note: Capital expenditures of $1,300,000 have been authorized for extension of distribution facilities in the area for which natural gas is available.

Approved on behalf of the Board:

DAVID P. ROGERS, *Director*
ROLAND L. O'BRIAN, *Director*

UNITED FUEL INVESTMENTS, LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARIES

Statement of Consolidated Profit and Loss and Earned Surplus for Year Ended March 31, 1956
(with comparative figures for 1955)

PROFIT AND LOSS

	1956	1955
OPERATING REVENUE AND OTHER INCOME:		
Gross revenue from sales	$7,879,255	$6,948,389
Other income	139,813	125,227
	$8,019,068	$7,073,616
OPERATING EXPENSES AND INTEREST:		
Cost of products sold	$4,880,139	$4,463,848
Distribution, selling, general and administrative expenses	1,196,034	1,111,570
Contribution to employees' pension fund	123,561	115,430
Depreciation	331,163	312,771
Amortization of natural gas conversion costs	1,500	
Interest on bonds	92,000	92,000
Bond discount absorbed	9,876	9,876
	$6,634,273	$6,105,495
PROFIT BEFORE INCOME TAXES	$1,384,795	$ 968,121
INCOME TAXES	687,500	484,000
NET PROFIT FOR YEAR	$ 697,295	$ 484,121

Note: The expenditures of the companies for the year ended March 31, 1956 include:

Remuneration of directors (not including executive officers)	$ 7,900
Payments to counsel, solicitors and legal advisers	17,062
Remuneration of executive officers	38,170

EARNED SURPLUS

	1956		1955	
Balance at beginning of year		$4,612,066		$4,557,634
Add net profit for year as above		697,295		484,121
		$5,309,361		$5,041,755
Deduct dividends declared:				
Class "A" 6% preference shares	$270,000		$270,000	
Class "B" preference shares	69,689		69,689	
Common shares	90,000	429,689	90,000	429,689
Balance at end of year		$4,879,672		$4,612,066

UNITED FUEL INVESTMENTS, LIMITED

AND

SUBSIDIARY COMPANIES

Board of Directors

R. L. O'Brian	David P. Rogers
F. Palin	R. L. Warren
J. M. Pigott	T. Weir

Officers

David P. Rogers	*President*
R. L. O'Brian	*Vice-President*
T. P. Pinckard	*General Manager of Subsidiaries*
F. Palin, C.A.	*Comptroller, Secretary and Treasurer*
K. J. Burnett	*Assistant General Manager of Subsidiaries*
W. M. Common	*Assistant Secretary and Assistant Treasurer*

SUBSIDIARY COMPANIES

Hamilton By Product Coke Ovens, Limited—
Manufacturing coke, gas and by-products in Hamilton, Ontario.

United Gas and Fuel Company of Hamilton, Limited—
Distributing gas in Hamilton, Ontario.

* The Wentworth Gas Company Limited—
Distributing gas in Dundas, Waterdown, Burlington and other territory adjacent to Hamilton, Ontario.

* The United Suburban Gas Company, Limited—
Distributing gas in Oakville, Bronte, Port Nelson and Burlington Beach, Ontario.

* As of April 3, 1956 these two companies amalgamated under name of United Suburban Gas Company, Limited.