United Fuel Investments

Limited

and

Subsidiary Companies

Nineteenth Annual Report

31st March, 1947

NINETEENTH ANNUAL REPORT
OF THE DIRECTORS OF
UNITED FUEL INVESTMENTS, LIMITED
FOR THE FISCAL YEAR ENDED 31st MARCH, 1947

Hamilton, Ontario,
13th June, 1947.

TO THE SHAREHOLDERS:

In the following Report your Directors deal with the operations of United Fuel Investments, Limited and its wholly-owned Subsidiaries for the fiscal year ended 31st March, 1947. Information is also given with respect to a contemplated change in the operations of the Subsidiary Companies, providing for the changing over of the present natural gas markets of the gas distributing companies for the distribution of manufactured gas, and the enlargement of the present gas manufacturing facilities.

Incorporated herein are the Consolidated Balance Sheet of the Company and its Subsidiaries as at 31st March, 1947, and related Consolidated Statements of Profit and Loss and Surplus for the fiscal year ended 31st March, 1947, with comparative figures for the previous fiscal year together with the Report of your Auditors.

OPERATIONS

Consolidated Net Profits of your Company and its wholly-owned Subsidiaries for the year, as compared with the previous year, are as follows:

	Fiscal year ended 31st March 1947	Fiscal year ended 31st March 1946	Increase for 1947 over 1946
Net profit for the year after all charges except provision for taxes on income	$698,138	$437,354	$260,784
Less: Provision for Dominion and Provincial income and excess profits taxes	303,000	190,000	113,000
Net profit for the year	$395,138	$247,354	$147,784

The increase of $260,784 in net profit before provision for taxes on income is attributable to the following:

Decrease in gross production cost or purchase price of all products sold	$375,207	
Decrease in gross value of sales of all products produced or purchased for re-sale	108,075	
		$267,132
Increase in sundry income and interest earned		24,996
Increase in profit of appliance sales department		13,016
Decrease in provision for depreciation		11,276
Decrease in interest on funded debt		7,672
		$324,092
Less: Increase in total general and administrative, gas distribution and selling expenses		63,308
Net increase in profits before taxes on income		$260,784

The net reduction of \$375,207, or 8%, in gross production cost or purchase price of all products sold was due to decreases in the volume of sales of the various products, although because of increased material and labor costs the unit cost of the various products produced or purchased for resale was higher. The decrease of \$108,075, or 1.8%, in the gross value of sales was due to the reduction in volume of sales of the various products. However, increased unit selling prices in effect for at least a part of the year for most of the products sold substantially offset the loss in gross revenue resulting from the decrease in volume of sales.

The cost per ton of coal charged to the ovens during the year was moderately higher than for the previous fiscal year. While the cost per ton of coal at the mines, and coal transportation costs, increased substantially, these adverse factors were offset to a large extent by the return of the Canadian dollar to almost parity with the United States dollar in July, 1946. Coal is the most important raw material used in the production of coke and gas in the plants of your Company, and practically all coal purchased is imported directly from the United States. Thus a change in any of the items entering into the laid-down cost of coal on the Company's dock, such as cost per ton at the mine, rail and boating costs, rate of United States exchange, etc., has an important effect on the operating results of your Company, and this has been especially noticeable during the past several years when laid-down costs of coal increased substantially, while due to price control regulations of the Government, only nominal increases were permitted in the selling prices of some of the products produced.

The cost per ton of coal to be purchased during the fiscal year commencing 1st April, 1947 will show a further substantial increase due to increases in costs at the mines, transportation costs and handling costs on the Company's dock. Manufacturing costs will also be greater due to higher labor and material costs. However, with the rescinding by the Government of price control on gas during 1946, the Company was free to adjust its rates of charges, within franchise limitations, in the major markets served with manufactured gas, and a new schedule of rates was put into effect during September and October, 1946, thus enabling the recovery of a portion of the increasing costs to which your Company has been subjected over the past several years. The new schedule of rates, however, still provides for rates of charges substantially less than permitted under the franchises. In April, 1947, the Government also freed coke from price control, and increases in coke selling prices put into effect at that time are expected to substantially offset the increased material and labor costs which must be borne during the fiscal year commencing 1st April, 1947.

The total volume of gas sold during the year decreased approximately 4.3% as compared with the previous fiscal year, a reduction of 12% in the volume of sales for industrial purposes being only partially offset by an increase of 3.5% in the volume of sales to domestic and commercial customers. Due to the adjustment in the rates of charges for certain classes of gas sales already referred to, the average rate received for all gas sold was higher than for the previous fiscal year, and gross revenue from gas sales increased approximately 8%.

The increase of \$24,996 in sundry income and interest earned was due mainly to greater revenue being obtained from the larger volumes of coal handled for other coal importers over the Company's dock, and to increased sundry interest income.

Net profit of the Appliance Sales Department increased $13,016 due to a substantial increase in the volume and dollar value of appliances available for sale, without a proportionate increase in the expenses of the Department.

Provision for depreciation on plant and equipment for the year amounted to $236,779, or $11,276 less than the amount required in the previous fiscal year.

The net increase in total general and administrative, gas distribution and selling expenses was due mainly to increased gas distribution costs arising from higher labor and material costs, higher office and collection salaries and expenses, and increased contingent expense.

CONSOLIDATED FINANCIAL POSITION

As at 31st March, 1947, the working capital of your Company, after deducting $140,000 par value of First Collateral Mortgage Serial Bonds, Series "A", due 1st December, 1947, amounted to $1,463,595 as compared with $1,272,865 at 31st March, 1946, an increase of $190,730. The following statement shows in summarized form the income from profits and other sources during the year and the disposition made of these funds.

Net earnings for the year after all charges except provision for taxes on income	$698,138	
Less: Provision for Dominion and Provincial income and excess profits taxes	303,000	$395,138
Add: Charges against earnings which do not represent cash disbursements:		
Depreciation	$236,779	
Amortization of bond discount and bond issue expenses	9,876	246,655
Total funds provided from operations		$641,793
Add: Adjustment through Surplus Account for coal overage relating to prior years, less taxes on income applicable thereto		86,801
Total		$728,594
Accounted for as follows:		
Dividends on capital stock paid or provided for	$270,000	
Cost of additions to fixed assets (net)	92,402	
Increase in inventory of stores and spare equipment and sundry deferred charges (net)	35,462	
	$397,864	
First Collateral Mortgage Serial Bonds Series "A" maturing 1st December, 1947	140,000	$537,864
Resulting in an increase in net current assets of		$ 190,730
Working capital at beginning of year		1,272,865
Working capital at end of year		$1,463,595

The net increase in fixed assets after deducting plant replaced and written off amounted to $69,922. The expenditures on Property Account during the year were confined mainly to the installation of distribution mains in a few new subdivisions now being served by your Company and to service lines and meters required to serve new customers; and in the replacement of machinery and equipment in the manufacturing plants. The increase in reserve for depreciation and renewals amounted to $214,299.

On 1st December, 1946, $130,000 par value of First Collateral Mortgage 3% Serial Bonds, Series "A", matured and were retired at par.

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 Class "A" 6% Cumulative Preferred Shares.

FUTURE OPERATIONS

In recent annual reports reference has been made to the inability of your Company to obtain sufficient supplies of natural gas to meet the demands of the gas customers in the areas where natural gas is served, and to the manner in which such deficiencies were made up by the production and distribution of propane gas.

As the natural gas reserves in Ontario become depleted, volumes available to your Company continue to decrease each year so that the areas in which natural gas is distributed by your Company become more and more dependent on the production of propane gas, although when the propane gas equipment was installed, it was considered that this type of gas would be required only in periods of peak demand during the Winter heating season.

Recently, because the demands being made on the oil refineries for liquefied petroleum products have increased greatly, the Company was placed in the position of being unable to contract for the volumes of liquid propane which it requires to make up the natural gas deficiencies. With a view to determining the best method of overcoming the difficulties arising from the shortage of natural gas and propane gas, and ensuring a more satisfactory and dependable service to all our gas customers, studies have been made by independent engineers during recent months which have confirmed the recommendations of the Management that manufactured gas be distributed in all markets served by your Company. This will entail the conversion of the present natural gas distribution system and the appliances of the customers in the natural gas area for the utilization of manufactured gas, and the necessary adjustments of, and additions to, present gas manufacturing facilities to provide for increased gas production.

Before this changeover can be made, however, it will be necessary to terminate the Natural Gas Supply Agreement of 31st March, 1939, under the terms of which your Company agreed to purchase all of its requirements of natural gas from the Dominion Natural Gas Company Limited and Union Gas Company of Canada Limited. The consent of the holders of the Class "A" 6% Cumulative Redeemable able Preference Shares is required before the Natural Gas Supply Agreement can be cancelled and a special meeting of these shareholders to consider and vote on such action has been called for 24th July, 1947, at Hamilton.

Appended hereto is a copy of a letter dated 13th June, 1947, which was mailed to all Class "A" Preference shareholders along with the notice calling the special meeting, and which sets out in detail the reasons why your Directors consider that the Natural Gas Supply Agreement should now be cancelled.

GENERAL

The plant erected and owned by the Dominion Government to produce gas and coke for war purposes on property adjacent to the coke oven plant of your Company, was in continuous operation throughout the year as the coke production from that plant was required to help relieve the solid fuel shortage in central Canada. However, on 31st March, 1947, operations at this plant were discontinued and it is now being dismantled. As this plant was operated and its products marketed by your Company for the Government on a cost basis without benefit to the earnings of your Company, its closing will have no effect on future operating results.

During the year all of the shares of The Wentworth Gas Company, Limited were purchased by United Fuel Investments, Limited from United Gas and Fuel Company of Hamilton, Limited in order to simplify the inter-company relationship of the subsidiary companies. United Fuel Investments, Limited, now owns directly all of the capital stock of the four operating subsidiary companies.

PERSONNEL

During the past year substantial increases were made in wages, and in April 1947, the employees' group life insurance plan was enlarged to make available increased insurance benefits, including life insurance, sickness and accident, hospitalization and surgical benefits for all employees and their eligible dependents, with a large portion of the increased cost to be borne by your Company.

Your Directors wish to record at this time their appreciation of the manner in which all employees 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.

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, The Wentworth Gas Company Limited and The United Suburban Gas Company Limited, as at 31st March 1947 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; 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 1947, and of the 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 & CO.,
Chartered Accountants.

Hamilton, Canada,
6th June 1947.

UNITED FUEL INVESTMENTS, LIMITED

AND ITS SUBSIDIARIES

Statement of Consolidated Profit and Loss for the Year ended 31st March 1947

(with comparative figures for the year 1946)

	1947		1946	
Profit from operations before charging bond interest, depreciation, etc.		$1,107,598		$865,763
Deduct:				
Interest on bonds including premium on United States Funds	$162,805		$170,478	
Bond discount absorbed	9,876	172,681	9,876	180,354
		$934,917		$685,409
Provision for depreciation on the bases approved by companies' consulting engineer		236,779		248,055
Net profit before providing for taxes on income		$698,138		$437,354
Provision for Dominion and provincial income and excess profits taxes	$303,000		$191,500	
Less: Refundable portion thereof		303,000	1,500	190,000
Net profit for the year		$395,138		$247,354

Note: The expenses of the companies for the year ended 31st March 1947, include:

Remuneration of directors (not including executive officers)	$ 3,000
Payments to counsel, solicitors and legal advisers	4,000
Remuneration of executive officers	24,666

Statement of Consolidated Earned Surplus for the Year ended 31st March 1947

(with comparative figures for the year 1946)

	1947		1946	
Balance at beginning of year		$1,045,970		$1,019,656
Add:				
Net profit for the year as above		395,138		247,354
Adjustments relating to prior years after deducting net taxes of $57,000 in 1947 and $50,500 in 1946	$ 86,801		$148,960	
Less: Provided for contingencies		86,801	100,000	48,960
		$1,527,909		$1,315,970
Deduct: Dividends on 6% preferred shares		270,000		270,000
Balance at end of year		$1,257,909		$1,045,970

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ASSETS

	31st March 1947	31st March 1946
Property:		
Comprising gas and coke manufacturing plants, transmission lines, distribution systems, real estate, buildings, automobiles, fixtures, franchises, rights, organization expenses, interest during construction, etc.	$11,899,485	$11,829,563
Deduct reserve for depreciation and renewals.	5,634,478	5,420,179
	$ 6,265,007	$ 6,409,384
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 $4,225,666, which are shown 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
	$10,344,962	$10,489,339
Current Assets:		
Cash on hand and in banks	$ 876,679	$ 682,446
Investment in Dominion of Canada 3% Victory Loan bonds at cost and accrued interest (approximate market value 31st March 1947, $218,600)	209,015	202,480
Accounts receivable less reserve	811,903	776,806
Inventories as determined from book records and certified by the management and valued at the lower of cost or market, less reserve of $140,500 for future price decline in inventories	627,497	417,874
	$ 2,525,094	$ 2,079,606
Deferred and Other Assets:		
Bond discount, commissions and expenses less amounts written off	$ 125,076	$ 134,952
Deferred charges and prepaid expenses	106,494	101,359
Stores and spare equipment	200,727	170,400
Refundable portion of taxes on income	46,500	46,500
	$ 478,797	$ 453,211
	$13,348,853	$13,022,156

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Dominion Companies Act)

SUBSIDIARIES

Balance Sheet

March 1947

LIABILITIES

	31st March 1947	31st March 1946
CAPITAL AND SURPLUS:		
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 . 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
Capital surplus arising from discount on redemption of Class "B" preferred shares	417,220	417,220
Consolidated earned surplus	1,257,909	1,045,970
	$ 7,967,354	$ 7,755,415
FUNDED DEBT:		
First collateral mortgage serial and sinking fund bonds—authorized $5,500,000 whereof issued $4,500,000:		
3% Serial bonds Series "A" due 1st December 1948 to 1950	$ 600,000	$ 740,000
4% Sinking fund bonds Series "A" due 1st December 1959	2,300,000	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	1,200,000
	$ 4,100,000	$ 4,240,000
Reserve arising from exchange on sale of Series "B" bonds in United States funds	$ 120,000	$ 120,000
CURRENT LIABILITIES:		
Accounts payable and accrued charges including meter deposits	$ 522,957	$ 315,419
Accrued interest on bonds	52,558	55,327
Reserve for income, excess profits and other taxes . . .	278,484	238,495
Dividends payable	67,500	67,500
First collateral mortgage serial bonds Series "A"		
—due 1st December 1947.	140,000	
—matured 1st December 1946		130,000
	$1,061,499	$ 806,741
RESERVE FOR CONTINGENCIES	$ 100,000	$ 100,000
	$13,348,853	$13,022,156

Approved on behalf of the Board.

DAVID P. ROGERS, *Director.*

S. B. SEVERSON, *Director.*

"UNITED FUEL INVESTMENTS, LIMITED

Hamilton, Ontario,
13th June, 1947.

To the Holders of the 6% Cumulative Redeemable
Class "A" Preference Shares of
United Fuel Investments, Limited:

This letter accompanies a notice calling a meeting of the holders of the 6% Cumulative Redeemable Class "A" Preference Shares of United Fuel Investments, Limited to consider the advisability of terminating the Agreement (hereinafter called "the Natural Gas Supply Agreement") dated the 31st day of March, 1939, between The Dominion Natural Gas Company, Limited, Union Gas Company of Canada, Limited, United Gas and Fuel Company of Hamilton, Limited, and United Fuel Investments, Limited, providing for the sale by The Dominion Natural Gas Company, Limited and Union Gas Company of Canada, Limited to United Gas and Fuel Company of Hamilton, Limited, of natural gas for distribution in the City of Hamilton and adjacent municipalities (which entire territory is referred to as the "Hamilton Area" in the Natural Gas Supply Agreement), and if thought fit, passing a resolution authorizing the termination of the Natural Gas Supply Agreement.

On the 31st day of March, 1939, United Gas and Fuel Company of Hamilton, Limited (hereinafter called "United Gas") one of the wholly-owned Subsidiaries of United Fuel Investments, Limited (hereinafter called "United Fuel") acquired from The Dominion Natural Gas Company, Limited (hereinafter called "Dominion") the natural gas transmission and distribution system of Dominion and its subsidiary, Manufacturers Natural Gas Company, Limited in the City of Hamilton and surrounding area. The execution of the Natural Gas Supply Agreement was one of the terms on which such acquisition was carried out.

Generally speaking, the Natural Gas Supply Agreement provided for United Gas purchasing from Dominion all the natural gas required to supply industrial customers previously supplied by Dominion and Manufacturers Natural Gas Company, Limited in the City of Hamilton, plus two-thirds of the first 600,000 M.C.F. required annually by all other classes of natural gas customers, and one-half of the requirement in excess of this stated amount. Union Gas Company of Canada, Limited (hereinafter called "Union") was to supply from its Haldimand Field the balance of the natural gas required by United Gas to serve its customers and the customers of The Wentworth Gas Company, Limited (hereinafter called "Wentworth"), a wholly-owned Subsidiary of United Gas. The obligations of both Dominion and Union to supply natural gas to United Gas and Wentworth were limited to supplying the volumes which they were able to deliver from time to time. However, in the event either or both Dominion and Union were unable to meet their obligation to supply all of the natural gas requirements of United Gas and Wentworth, the Natural Gas Supply Agreement permitted United Gas to make up such deficiencies from whatever source available.

At the time the Natural Gas Supply Agreement was entered into, it appeared that the volumes of natural gas available to Dominion and Union were of sufficient extent to make it possible to ultimately serve the entire City of Hamilton and its surrounding areas with a mixture of natural and manufactured gas. For approximately the first two years subsequent to the Natural Gas Supply Agreement becoming effective, deliveries of natural gas to United Gas were sufficient to meet all requirements, but after that period, due to the constant drain on the natural gas reserves and because the actual natural gas reserves in certain areas in Ontario proved to be not so extensive as originally estimated, the volumes of natural gas available to Dominion and Union for delivery in the Hamilton Area became wholly inadequate to meet the demands of your Company's Subsidiaries, and substantially less than the volumes of natural gas originally contemplated to be delivered by Dominion and Union under the Natural Gas Supply Agreement.

When it became apparent that Dominion and Union could not deliver to United Gas the volumes of natural gas contemplated, and because wartime conditions resulted in increased demands for gas in the Hamilton Area, Hamilton By Product Coke Ovens, Limited (hereinafter called the "Coke Company") another subsidiary of United Fuel, which manufactures coke, gas and other by-products and sells its gas production to United Gas, extended its gas manufacturing facilities by installing equipment to produce propane gas, a high heating value gas obtained by the vaporization of liquid propane. The cost of production of propane gas is very high, and when the propane plant was installed it was contemplated that it would not be necessary to operate it extensively, but only during periods of peak demand in the winter months. However, the natural gas reserves available in Ontario had diminished to such an extent that the Provincial Government deemed it necessary to regulate the allocation of the available supplies, and on 18th December, 1942, the Minister of Mines of the Province of Ontario, by virtue of powers vested in him by The Natural Gas Conservation Act ordered that Dominion should not supply natural gas, propane gas or a mixture of natural gas and propane gas to United Gas or Wentworth when temperatures and wind velocities were such that it would be necessary for Dominion to operate its propane plant near Brantford in order to supply gas to either of the said Companies. Thus the Coke Company was required to operate its propane plant almost continuously during the greater part of each year for the production of very high cost propane gas, the heating value of which was reduced to approximately that of natural gas by mixing it with coke oven gas, for distribution in the natural gas markets of the Hamilton Area.

Finally, in recent months, because the demands being made on the oil refineries for liquefied petroleum gases have increased greatly, the Coke Company was placed in the position of being unable to place firm orders for the purchase of the volume of liquid propane required to make up the deficiencies in the areas served with natural gas by United Gas and Wentworth. When consideration is given to the following table, which shows the volume of mixed propane and coke oven gas required over the past several years to make up the shortages of natural gas in those portions of the Hamilton Area served with natural gas, it is quite apparent that a substantial reduction in the volumes of liquid propane available to the Coke Company would cause a serious shortage of gas in the natural gas area with resultant hardships on the customers in that area.

	Natural gas supplied by Union M.C.F.	Natural gas supplied by Dominion M.C.F.	Mixture of propane and coke oven gas required to make up natural gas deficiency M.C.F.	Total volume of gas required to serve the natural gas area M.C.F.
April 1/39 to Dec. 20/39...	111,385	810,560	—	921,945
Dec. 21/39 to Dec. 20/40...	220,317	1,065,695	—	1,286,012
Dec. 21/40 to Dec. 20/41...	211,521	635,801	18,749	866,071
Dec. 21/41 to Dec. 20/42...	151,049	502,658	111,975	765,682
Dec. 21/42 to Dec. 20/43...	192,728	382,812	177,848	753,388
Dec. 21/43 to Dec. 20/44...	171,630	264,049	335,618	771,297
Dec. 21/44 to Dec. 20/45...	145,526	214,436	414,406	774,368
Dec. 21/45 to Dec. 20/46...	162,840	205,155	447,087	815,082
Dec. 21/46 to May 20/47...	46,994	36	405,730	452,760
	1,413,990	4,081,202	1,911,413	7,406,605

NOTE: M.C.F. means thousand cubic feet.

The total volume of gas required to serve the natural gas area as shown above is the amount required after a substantial decrease in the industrial load, and a reduction in load resulting from removal of many convertible gas-fired central heating units from the premises of domestic and commercial customers, as required by Orders of the Power Controller issued from time to time during the period of the war.

In view of the impending additional shortages of gas, both natural and propane, to serve the natural gas areas, your Directors, and the Directors of the Subsidiaries of your Company, are of the unanimous opinion that the following steps should be taken promptly to ensure an adequate supply of gas to the customers in the natural gas areas.

(a) As there is presently a shortage of natural gas, and of liquid propane previously available for the production of propane gas to make up the natural gas deficiencies, and because there is presently no prospect of sufficient volumes of these gases becoming available in the near future to relieve the shortage, it is proposed that the entire Hamilton Area be served with manufactured gas.

(b) As the present facilities of the Coke Company for the production of manufactured gas are inadequate to produce the volumes of gas required to serve the entire Hamilton Area, it is proposed that the present water gas manufacturing plant of the Coke Company be converted to the production of oil gas (which type of gas could be produced in much larger volumes than the water gas presently being produced), and that the Coke Company, if necessary, purchase and erect additional equipment for the manufacture of water gas, and of producer gas.

(c) That the necessary changes in the distribution plant in the natural gas area, and adjustment of customers' appliances on the lines in that area, be made to enable United and Wentworth to distribute manufactured gas throughout the entire area served by those Companies.

While it is difficult at present to predict construction costs with any degree of accuracy, it is estimated that the total expenditure required to complete the proposed program would be approximately $500,000, of which amount $375,000 would be expended on additional plant capacity and be added to Plant Account, while the balance of $125,000 would represent changeover expenses to be amortized over a reasonable number of years.

This proposed program would ensure a more satisfactory and dependable gas service to the customers and would ensure a more satisfactory basis of operation.

In view of the fact that the Natural Gas Supply Agreement requires United Gas to purchase such natural gas as may be available from Dominion and Union, the Directors of your Company do not consider that the proposed extension of manufactured gas plants and conversion of appliances can be properly carried out unless the Natural Gas Supply Agreement is terminated. Dominion and Union have indicated their consent to its termination but as the Natural Gas Supply Agreement provides that no changes in its provisions relating to price should be made unless and only to the extent that the same should be agreed to by United Fuel after it had been authorized to agree to such changes by a majority of the votes cast at a meeting of the holders of its Class "A" Preference Shares, your Directors have been advised by counsel that the Natural Gas Supply Agreement should not be terminated without the approval of the holders of the Class "A" Preference Shares of United Fuel, and this meeting has accordingly been called for that purpose.

For the reasons set out herein, your Directors recommend that the holders of the Class "A" Preference Shares of United Fuel consent to the termination of the Natural Gas Supply Agreement.

On behalf of the Board of Directors.

DAVID P. ROGERS,
President."

UNITED FUEL INVESTMENTS, LIMITED

AND

SUBSIDIARY COMPANIES

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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	S. B. Severson
R. L. O'Brian	C. E. Weger
D. P. Rogers	T. Weir

SUBSIDIARY COMPANIES

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

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

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.