



THE MOUNT ROYAL HOTEL COMPANY, LIMITED
MONTREAL, CANADA

SEVENTEENTH
ANNUAL REPORT

December 31st, 1939

MONTREAL, Que.

April 19th, 1940

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THE MOUNT ROYAL HOTEL COMPANY, LIMITED

MONTREAL

To the Shareholders of

MONTREAL, April 19th, 1940.

THE MOUNT ROYAL HOTEL COMPANY LIMITED, MONTREAL

Your directors submit herewith Profit and Loss Account for the year ended December 31st, 1939, together with Balance Sheet as at that date, duly certified by the Company's Auditors and with comparative figures for the previous year.

After provision for the year's interest on First Mortgage Loan at the full rate of 5½% and after the usual depreciation charge of \$200,000.00 and other reserves included in Operating Costs, a total loss of \$288,726.57 is shown for the year as compared with the previous year's loss of \$360,466.56. This total loss of \$288,726.57 has been transferred to Deficit Account, bringing it to a total of \$2,903,376.49.

While total gross revenue showed a decline of 8.34% as compared with the period ending December 31st, 1938, net operating profit increased by 91.52%, being \$146,422.19 against \$76,452.30 for the preceding year. This result was made possible in part by the benefit derived from certain non-recurring expenditures of previous years and because of other economies effected in operation during the period under review. Your property nevertheless has been fully maintained in a state of high efficiency and excellent appearance and, notwithstanding the economies effected in operation, a high standard of service has at all times been provided the public. This will no doubt have been evident to those of you who may have visited the Mount Royal Hotel.

The reduction in gross revenue was due to a lessening of tourist travel caused by the unsettled international situation, followed by the outbreak of war and the apparent consequent fear of travelling to Canada on the part of many people from the United States. This reduction occurred mostly in the last half of 1939.

Your cash position has been improved, as will be noted. At the 31st of December, 1938, you had Cash in Banks and on Hand of \$19,872.16 and an overdraft of \$103,842.17. At the end of the period under review you had no overdraft and you had Cash in Banks and on Hand of \$102,747.56 or an improvement in this regard of \$186,717.57. Accounts Payable to Tradesmen appear as \$63,380.74 against \$176,250.41 the previous year, or a reduction of \$112,869.67. Under "Current Liabilities" the item "Accounts Payable," which is taxes, shows at December 31st, 1939, \$260,987.95 or an increase of \$128,042.95, which increase was caused by the non-payment of accruing municipal and other taxes. I am pleased to report that since the close of our fiscal year, taxes have been paid whereby this amount of \$260,987.95 is now reduced to \$115,520.00.

As the possibility of legal action by the mortgagee had to be envisaged, it was thought well to build up the cash position so that if such action were taken and the Company's general credit affected, it could pay for its purchases without delay and thus avoid the probability of bankruptcy proceedings.

The item of \$412,612.01 under "Current Liabilities," designated as "Interest due and Accrued and Other Accrued Charges," shows an increase of \$242,935.81 over the preceding year, caused by the inclusion of one year's interest charge of \$195,800.00, interest on interest due, interest on taxes past due and certain reserves that your Directors thought well to provide against future contingencies.

In view of the non-payment of interest and sinking fund on the first mortgage and non-payment of taxes as they became due, your Company has been in default towards the Metropolitan Life Insurance Company, the first mortgage creditor, and while the latter was very co-operative and patient, nevertheless it was made clear to your Company that this default should be cured without delay. To accomplish this it was evident that new money would have to be provided. After exploring several avenues, your Directors succeeded in obtaining a definite and firm commitment for \$250,000.00 on terms that seemed reasonable to them, considering conditions maintaining. The securing of this money was contingent on a plan contemplating the ultimate reorganization of your capital structure. This plan was submitted at a Special General Meeting of Shareholders of your Company, held November 30th, 1939, and was rejected by a majority of the shareholders present and represented for the greater part by a Shareholders' General Protective Committee which had secured sufficient proxies to control the meeting. It was consequently impossible to effect the necessary cure of the default by meeting the exigencies of the first mortgagee.

An action to recover \$4,423,931.64 was taken by the mortgagee in the Superior Court for the District of Montreal, on December 17th, 1939, which came up for trial on the 11th of March last. Your Directors succeeded in obtaining a postponement until the first week in May, that is, until after the annual meeting. The incoming Board of Directors will immediately be burdened with the task of making a satisfactory adjustment of the first mortgage and other financial arrangements.

In view of the rejection of the above mentioned plan of November 30th last, and in view of the implied rejection contained in the letter of the Shareholders' General Protective Committee to you dated March 27th last, of the proposed amended plan outlined to you in your President's letter of March 14th, your Directors came to the conclusion that having done all in their power to protect your interests and apparently no longer having the support of a majority of the shareholders, they would not oppose the election of such Board of Directors that might be nominated. Your Directors are of opinion that your interests will best be served by avoiding further controversy in the election of your new Board. No proxy is enclosed.

For the Directors,

A. L. CARON, *President.*

THE MOUNT ROYAL HOTEL COMPANY, LIMITED

BALANCE SHEET AS AT 31st DECEMBER, 1939

With Comparative Balances as at 31st December, 1938

	ASSETS			LIABILITIES	
CURRENT ASSETS:	1939	1938		1939	1938
Cash in Banks and on Hand.....	\$ 102,747.56	\$ 19,872.16	CURRENT LIABILITIES:	\$	\$
Bonds and Stocks (approximate Market Value as at 31st December, 1939, \$111,080.00 31st December, 1938, \$108,270.00).....	216,056.90	216,541.90	Bank Overdraft—Secured.....	63,380.74	103,842.17
Accounts Receivable, less Reserve for Doubtful Accounts.....	90,472.26	68,314.56	Accounts Payable—Trade.....	260,987.95	132,945.00
Accrued Interest Receivable.....	1,141.66	1,181.65	—Taxes.....	412,612.01	169,676.20
Inventories of Stores, Supplies and Equipment at Cost (determined by responsible Officials on the basis of physical inventories).....	70,288.52	71,667.74	Interest Due and Accrued and Other Accrued Charges.....	1,301.80	1,298.04
	<u>480,706.90</u>	<u>377,578.01</u>	Unclaimed Wages.....	2,000.00	5,000.00
PREPAID OPERATING EXPENSES.....	53,848.55	55,084.57	Deferred Income—Rent Paid in Advance.....	<u>740,282.50</u>	<u>589,011.82</u>
OTHER INVESTMENTS AT COST, less amount written off.....	13,450.00	13,450.00	TOTAL CURRENT LIABILITIES.....	740,282.50	589,011.82
FIXED ASSETS:			FUNDED DEBT:		
Land.....	1,397,413.50	1,397,413.50	5½% First Mortgage Loan—repayable in annual instalments of \$120,000.00 and balance on 1st Dec., 1947 (Instalments due 1st Dec., 1932 to 1935 inclusive deferred by arrangement with Mortgagee —Instalments due 1st Dec., 1936 to 1939 inclusive, unpaid).....	3,560,000.00	3,560,000.00
Building and Permanent Installations.....	7,509,758.39	7,509,758.39	CAPITAL STOCK AND DEBENTURES:		
Furnishings and Equipment.....	1,276,675.74	1,276,675.74	AUTHORIZED:		
	<u>10,183,847.63</u>	<u>10,183,847.63</u>	70,000—6% Cumulative Preferred Shares of \$100.00 each. \$7,000,000.00		
Less Reserve for Depreciation.....	3,545,006.40	3,345,006.40	60,000— Common Shares of No Par Value.....	<u> —</u>	
Total Fixed Assets.....	<u>6,638,841.23</u>	<u>6,838,841.23</u>	ISSUED:		
	<u>7,186,846.68</u>	<u>7,284,953.81</u>	68,179 6%—Cumulative Preferred Shares of \$100.00 each. 6,817,900.00	6,817,900.00	6,817,900.00
DEFERRED CHARGES:			72 8%—Cumulative Preferred Shares of \$100.00 each, convertible into 72, 6% Cumulative Preferred Shares.....	7,200.00	7,200.00
Unamortized Discount on First Mortgage Bonds redeemed in 1927.....	43,231.44	66,635.01	\$600.00 8%—Convertible Debentures convertible into six 6% Cumulative Preferred Shares.....	<u>600.00</u>	<u>600.00</u>
First Mortgage Bonds—Refunding Expense.....	88,527.89	102,473.08		<u>6,825,700.00</u>	<u>6,825,700.00</u>
Unamortized Organization Expense.....	131,759.33	169,108.09	60,000 Common Shares of No Par Value.....	<u> —</u>	<u> —</u>
	4,000.00	6,000.00		<u>6,825,700.00</u>	<u>6,825,700.00</u>
GOODWILL.....	135,759.33	175,108.09	NOTE: As at 31st December, 1939.		
DEFICIT.....	2,903,376.49	2,614,649.92	Dividends on Preferred Stock in Arrear. \$3,754,135.00		
	<u>\$11,125,982.50</u>	<u>\$10,974,711.82</u>	Outstanding Scrip Dividend Certificates payable out of Surplus Earnings only 1,706,425.00	<u>1,706,425.00</u>	
TOTAL.....	<u>\$11,125,982.50</u>	<u>\$10,974,711.82</u>	TOTAL.....	<u>\$11,125,982.50</u>	<u>\$10,974,711.82</u>

Signed on behalf of the Board:
A. L. CARON, DIRECTOR.
V. G. CARDY, DIRECTOR.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the accounts of The Mount Royal Hotel Company Limited for the year ended 31st December, 1939. The reserve for depreciation of Fixed Assets as at 31st December, 1939 is, in our opinion, inadequate in respect of the provision made in the years prior to 1929. During the year under review the Metropolitan Life Insurance Company, holder of the First Mortgage on the Company's property, in respect of which the Company is in default, initiated a Superior Court Action against the Company under which, in addition to the principal amount of the mortgage and interest, payment of indemnities provided for under the Deed of Loan governing the mortgage and premium on exchange on United States funds is claimed. The amount of the indemnities and exchange based on the amount of principal and interest outstanding at 31st December, 1939 is approximately \$650,000.00, and no provision has been made in the above Balance Sheet in respect of this amount. In accordance with the provisions of the Companies Act (Quebec), we have to report that we have obtained all the information and explanations we have required and, subject to the foregoing, in our opinion, the above Balance Sheet as at 31st December, 1939 is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 31st December, 1939 according to the best of our information and the explanations given to us, and as shown by the books of the Company.

PEAT, MARWICK, MITCHELL & CO.,
 AUDITORS.

THE MOUNT ROYAL HOTEL COMPANY, LIMITED
MONTREAL

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31st DECEMBER, 1939

	Year Ended 31st December 1939	Year Ended 31st December 1938
PROFIT for Year after Operating Expenses, Taxes and Provision for Bad and Doubtful Accounts, but before Mortgage Interest, Amortization Charges and Depreciation.....	\$ 146,422.19	\$ 76,452.30
DEDUCT:		
Interest on First Mortgage Loan.....	195,800.00	195,800.00
Amortization of Bond Discount.....	23,403.57	24,555.38
Amortization of Refunding Expense.....	13,945.19	14,563.48
Amortization of Organization Expense.....	2,000.00	2,000.00
	235,148.76	236,918.86
Net Loss before providing for Depreciation.....	88,726.57	160,466.56
ADD:		
Provision for Depreciation.....	200,000.00	200,000.00
Net Loss for Year transferred to Deficit Account.....	288,726.57	360,466.56

DEFICIT ACCOUNT

DEFICIT at beginning of year.....	\$2,614,649.92	\$2,254,183.36
ADD:		
NET LOSS for Year.....	288,726.57	360,466.56
DEFICIT at end of year.....	\$2,903,376.49	\$2,614,649.92