



1000 ROOMS - 1000 BATHS



MOUNT ROYAL HOTEL

MONTREAL
CANADA

March 10th, 1941.

To the Shareholders of
THE MOUNT ROYAL HOTEL COMPANY LIMITED.

Your Directors submit herewith Profit and Loss Account for the eleven months ended November 30th, 1940, together with audited Balance Sheet and Statement of Capital Surplus as at that date.

As an incident of the recent reorganization of your Company, its financial year was changed to end on November 30th of each year instead of on December 31st. So, the period covered by the present report comprises only the eleven months which ended November 30th, 1940.

The first thing which you will remark in respect of this Balance Sheet is its comparative simplicity. As a result of the reorganization, all references to Preferred and Common Shares and Scrip Dividend Certificates of your Company and to its old Convertible Debentures have been omitted because these various securities have all been changed into the one class of stock which your Company has or into rights to receive such stock. Also, the "deferred charges", "goodwill" and "deficit" items which previously were included among your Company's "assets" have been eliminated as these were all written off against the capital surplus which was created upon reorganization.

Your Company's obligations in respect of its 5½% First Mortgage loan (upon which action had been instituted) were discharged on November 30th, 1940, by the delivery of an equivalent principal amount of First Mortgage Bonds, due 1947, and the making of the interest payments mentioned below.

These First Mortgage Bonds were dated December 1st, 1938, and carried interest for the first year at the rate of 3% and for the second year, being that which commenced December 1st, 1939, at what worked out to be 4%. Interest runs on these Bonds from December 1st, 1940, at the fixed rate of 4% per annum.

As is indicated by the Balance Sheet submitted, your Company had, on November 30th, 1940, discharged all its obligations to December 1st, 1940, in respect of interest on these Bonds, except to the extent of \$35,600 which was payable on December 24th, 1940. This balance of interest was paid on its due date, bringing the total interest payments made by your Company in the eight months following May 1st, 1940, in respect of these First Mortgage Bonds, up to the aggregate sum of \$249,000.

There was also paid in the same eight months' period the accumulated arrears of municipal taxes, aggregating, with interest, as at May 1st, 1940, \$118,731.47, and the current taxes up to and including the portion attributable to December 1940.

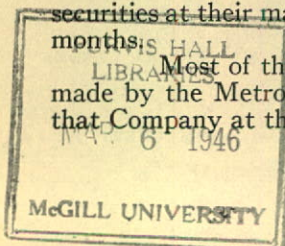
The sum paid for taxes of various kinds and for interest during this eight months' period aggregated over \$475,000.

None of the Shareholders exercised the right given them, as an element of the reorganization, to buy units of General Mortgage Bonds and Shares of this Company. However, up to November 30th, 1940, sales of these units had been made to an amount sufficient to provide the Company with \$67,500 of new money.

In order to procure necessary cash for improvements in the hotel, further sales of these Bonds and Shares are being made from time to time as occasion offers.

When regard is had to the large amounts paid for interest and taxes and to the expenses incurred in respect of your Company's reorganization and the settlement arranged with the Metropolitan Life Insurance Company, it is significant to note that, as at November 30th, 1940, there was an excess of current assets over current liabilities amounting to over \$30,000. This compares with a deficit on December 31st, 1939, (taking securities at their market value as at that date) of over \$364,000, an improvement of nearly \$400,000 in the eleven months.

Most of this improvement was, of course, due to the concessions, in respect of unpaid accrued interest, made by the Metropolitan Life Insurance Company in connection with the general settlement concluded with that Company at the time of the reorganization of your Company.



Reference to the Profit and Loss account will reveal a change in the system of reporting upon the operations of your Company. For the first time in many years, the Company's gross revenue is disclosed. Your Directors feel that this change will result in the Shareholders obtaining a clearer picture of the extent of the operations of your Company and of the relationship of operating expenses to gross revenues.

For the eleven months' period, the profits, after operating expenses, taxes and provision for bad and doubtful accounts, amounted to \$279,146.38 as compared with \$146,422.19 and \$76,452.30 for the twelve months' periods which ended on December 31st, 1939 and 1938 respectively.

For the first time in years, and despite heavy expenses for reorganization which are non-recurring, your Company made a profit before depreciation. It amounted to \$57,327.30 for these eleven months.

After depreciation, the eleven months' period showed a loss of \$126,006.03, which was charged against capital surplus.

Your Directors have also charged against capital surplus the sum of \$255,000, which, in the opinion of the auditors, should have been set up as depreciation in prior years.

Since May 1st, 1940, your Board has devoted a great deal of time and thought to the improvement of the facilities offered to the public by the hotel.

The work of renovating rooms has proceeded actively, and should be continued to the full extent that the financial condition of your Company may warrant from time to time.

In addition, a new recreational room, designated "The Music Box", was installed early in the summer of 1940 and air-conditioned. This proved an immediate success. We have also had the exterior of the building painted, have developed two new air-conditioned private salons on the first floor, and have air-conditioned three existing salons. The corridors on four floors have been re-decorated.

All these changes and improvements, and the further ones now under way, are necessary or highly desirable for the preservation and increase of the earning power of the property.

By judicious purchasing and the effective employment of the staff of the hotel, this work has been and is being done at what your Directors consider the minimum expense.

Various changes have been made in matters of internal management and control, which have resulted in the reduction of operating costs.

After an unsatisfactory summer season, a decided improvement in business developed in September last, which has continued through the intervening months. Under existing conditions, it is impossible to make a forecast of future operations; but your Directors are hopeful that the increased demand now apparent for the accommodation and facilities which your hotel is in a position to provide will continue.

In view of the falling off in American tourist trade (which may, of course, at any time revive, but is necessarily an uncertain factor) the policy of your Board is to stimulate local demand by providing better facilities than have heretofore been available for the citizens of Montreal.

Your Company sustained a great loss in December last through the death of the Honourable Gordon W. Scott, M.L.C., C.A., who lost his life through enemy action when the "Western Prince" was torpedoed off the coast of Ireland. Mr. Scott took office as a Director of your Company on April 30th, 1940, and served as a member of the Executive Committee of the Board and as Treasurer. In these various capacities he rendered invaluable services.

Mr. Scott's place on the Board has been taken by Mr. S. B. Peckham, C.A. Mr. W. A. Eden, one of your Directors, was elected a member of the Executive Committee, and Mr. C. A. Ripley, one of the Vice-Presidents, was appointed Treasurer, to fill the other vacancies caused by Mr. Scott's death.

Your Directors desire to record their appreciation of the services rendered during the financial year under review by Mr. Cardy, Vice-President and General Manager, and by Mr. Ripley, Vice-President and Treasurer of your Company. These officers report that they have received efficient and whole-hearted co-operation and support from the heads of departments and the staff generally. Your Directors extend their sincere thanks to these employees.

On behalf of the Directors,

W. H. HOWARD,
President.

DIRECTORS

OFFICERS

WILLIAM BIRKS
*W. A. EDEN
ARTHUR FONTAINE
F. W. GRANT, K.C.
*E. G. SMITH
*WILBERT H. HOWARD, K.C.
*A. STEWART McNICHOLS
HON. E. L. PATENAUDE, K.C.
S. B. PECKHAM, C.A.

President.....WILBERT H. HOWARD, K.C.
Vice-President and General Manager.....VERNON G. CARDY
Vice-President and Treasurer.....C. A. RIPLEY
Secretary.....G. H. MONTGOMERY, JR.

*Members of the Executive Committee of the Board.

THE MOUNT ROYAL HOTEL COMPANY LIMITED

BALANCE SHEET AS AT 30th NOVEMBER, 1940

ASSETS

CURRENT ASSETS:

Cash in Bank and on Hand.....	\$ 70,027.16
Marketable Securities at Quoted Value at 30th November, 1940.....	5,150.00
Accounts Receivable, less Reserve for Doubtful Accounts.....	106,076.77
Inventories of Stores, Supplies and Equipment at Cost (determined by responsible Officials on the basis of physical inventories).....	88,990.62
TOTAL CURRENT ASSETS.....	270,244.55

PREPAID AND DEFERRED OPERATING EXPENSES..... 65,844.63

OTHER INVESTMENTS, less amount written off..... 5,000.00

FIXED ASSETS:

Land.....	\$ 1,397,413.50
Building and Permanent Installations.....	7,509,758.39
Furnishings and Equipment.....	1,276,675.74
	<u>10,183,847.63</u>
Less Reserve for Depreciation.....	3,983,339.73
	<u>6,200,507.90</u>
TOTAL.....	\$ 6,541,597.08

LIABILITIES

CURRENT LIABILITIES:

Accounts Payable.....	\$ 167,970.48
Interest Accrued on First Mortgage Bonds.....	35,600.00
Other Accrued Charges.....	26,901.75
Unclaimed Wages.....	1,308.99
Deferred Income—Rend Paid in Advance.....	5,500.00
TOTAL CURRENT LIABILITIES.....	237,281.22

FUNDED DEBT:

First Mortgage Bonds due 1947.....	\$ 3,560,000.00
(Annual Sinking Fund Payments—cumulative—of \$120,000.00 due 24th December, 1940 and subsequent years but payable only to the extent that net earnings as defined by Trust Deed are available).	
4% General Mortgage Convertible Bonds, amount subscribed.....	<u>67,500.00</u>
	3,627,500.00

CAPITAL STOCK:

Authorized—175,000 Shares of no par value.	
Allotted pursuant to Compromise or Arrangement dated 20th September, 1940, 123,668 Shares.....	1,811,476.00

CAPITAL SURPLUS..... 865,339.86

TOTAL..... \$ 6,541,597.08

Signed on behalf of the Board:

A. STEWART McNICHOLS, DIRECTOR.
W. H. HOWARD, DIRECTOR.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the accounts of The Mount Royal Hotel Company Limited for the eleven months ended 30th November, 1940, and 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, in our opinion, the above Balance Sheet as at 30th November, 1940 is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 30th November, 1940 according to the best of our information and the explanations given to us, and as shown by the books of the Company.

MONTREAL, 28th February, 1941.

PEAT, MARWICK, MITCHELL & CO.,
AUDITORS.

THE MOUNT ROYAL HOTEL COMPANY LIMITED
MONTREAL

PROFIT AND LOSS ACCOUNT
FOR ELEVEN MONTHS ENDED 30th NOVEMBER, 1940

GROSS REVENUE.....		\$1,857,527.24
OPERATING EXPENSES, including Taxes and Provision for Bad and Doubtful Accounts, but before reorganization expenses, mortgage interest, amortization charges and depreciation		1,578,380.86
		279,146.38
DEDUCT:		
Reorganization Expenses.....	\$ 56,841.99	
Amortization of Bond Discount.....	20,393.62	
Amortization of Refunding Expenses.....	12,216.81	
Amortization of Organization Expenses.....	1,833.33	
	91,285.75	
Interest on First Mortgage.....	130,533.33	
		221,819.08
Net Profit before provision for Depreciation.....		57,327.30
LESS Provision for Depreciation.....		183,333.33
Net Loss for Period transferred to Deficit Account.....		\$ 126,006.03

DEFICIT ACCOUNT

BALANCE as at 31st December, 1939.....		\$2,903,376.49
ADD:		
Loss on Realization of and amounts written off Investments.....	\$116,569.91	
Additional Depreciation to meet inadequate provision of prior years....	255,000.00	
		371,569.91
		3,274,946.40
LESS Provision for Interest and Other Charges of prior years no longer required.....		253,382.86
		3,021,563.54
ADD Net Loss for Eleven Months ended 30th November, 1940.....		126,006.03
DEFICIT as at 30th November, 1940 transferred to Capital Surplus.....		\$3,147,569.57

CAPITAL SURPLUS
AS AT 30th NOVEMBER, 1940

SURPLUS arising from reorganization of Capital Structure.....		\$5,014,225.00
DEDUCT:		
Balance of Unamortized Deferred Charges as at 30th November, 1940... \$	101,315.57	
Goodwill written off.....	900,000.00	
Balance of Deficit Account written off.....	3,147,569.57	
		4,148,885.14
CAPITAL SURPLUS as at 30th November, 1940.....		\$ 865,339.86