

Silverwood  
Industries  
Annual Report  
1977

HOWARD ROSS LIBRARY  
OF MANAGEMENT  
APR 18 1978  
MCGILL UNIVERSITY

# Financial highlights

Year ended January 1, 1978 and December 26, 1976	1977	1976
Sales .....	<b>\$265,866,529</b>	\$238,234,978
Income before extraordinary item .....	<b>\$ 561,926</b>	\$ 559,057
Net income for year .....	<b>\$ 2,086,126</b>	\$ 2,153,708
Earnings per Class "A" and "B" shares		
Income before extraordinary item .....	<b>\$ .42</b>	\$ .42
Net income for year .....	<b>\$ 1.55</b>	\$ 1.60
Dividends paid .....	<b>\$ 806,620</b>	\$ 1,008,277
Rate per Class "A" and Class "B" shares .....	<b>\$ .60</b>	\$ .75
Retained earnings re-invested in business to date .....	<b>\$ 21,484,576</b>	\$ 20,205,070
Shareholders' equity .....	<b>\$ 28,825,893</b>	\$ 27,546,387
Shares outstanding		
Class "A" .....	<b>903,158</b>	903,158
Class "B" .....	<b>441,212</b>	441,212
Equity per Class "A" and "B" share .....	<b>\$ 21.44</b>	\$ 20.49
Debentures outstanding .....	<b>\$ 5,597,000</b>	\$ 6,025,500
Funds from operations .....	<b>\$ 4,024,528</b>	\$ 3,618,320
Working capital .....	<b>\$ 6,710,906</b>	\$ 8,179,863

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## Annual Meeting

May 8, 1978 — 2:00 p.m.  
London, Canada

# Silverwood Industries Limited

A Canadian owned Company engaged in the provision of a range of consumer goods and services within Canada.



E. F. FINDLAY

## Directors (as at January 1, 1978)

Eric F. Findlay\*  
Woodbridge, Ontario

G. M. Carlyle  
Calgary, Alberta

D. H. Thain\*  
Professor, School of  
Business Administration  
University of Western Ontario  
London, Ontario

W. I. Barton\*  
London, Ontario

R. G. Pardy\*  
London, Ontario

D. G. Silverwood\*  
Chairman,  
Silvertree Realty Inc.  
a California Corporation  
Victoria, B.C.

C. L. Tulloch  
London, Ontario

W. Sagain  
Toronto, Ontario

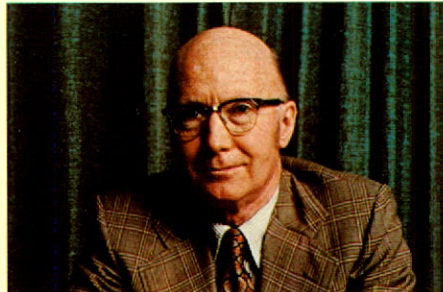
J. Allyn Taylor\*  
Chairman of the Board  
The Canada Trust Company  
and the Canada Trustco  
Mortgage Company,  
London, Ontario

D. B. Weldon\*  
Chairman of the Board  
Midland Doherty Limited  
Toronto, Ontario

A. E. Lawrence, Jr.  
London, Ontario

## Honorary Directors

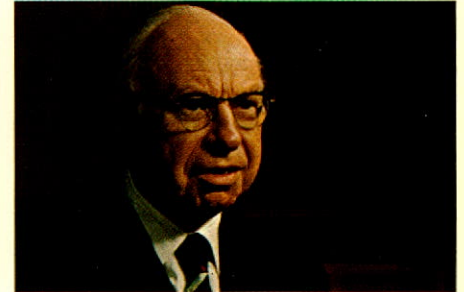
N. E. Kaye  
Waterloo, Ontario  
A. E. Lawrence, Sr.  
London, Ontario  
H. T. Spettigue  
London, Ontario



G. M. CARLYLE



D. G. SILVERWOOD



J. A. TAYLOR



D. H. THAIN



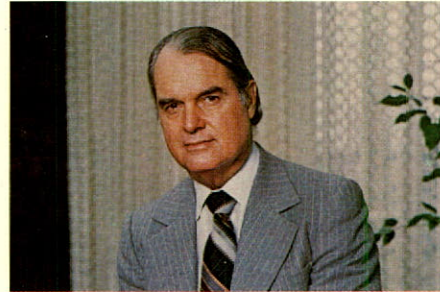
C. L. TULLOCH



D. B. WELDON



W. I. BARTON



G. R. CARTON



A. E. LAWRENCE, JR.



R. G. PARDY



W. SAGAIN

## Officers

Eric F. Findlay  
Chairman of the Board  
President and  
Chief Executive Officer

R. G. Pardy  
Vice President, Finance

G. R. Carton  
Vice President,  
Legal & Corporate Affairs

W. Sagain  
Vice President,  
Corporate Development

R. S. Maich  
Vice President  
W. I. Barton  
Secretary-Treasurer  
A. E. Lawrence, Jr.  
Assistant Treasurer  
N. W. Sanderson  
Assistant Secretary

\*Member of the Audit Committee

\*Member of the Executive Committee

# To Our Shareholders

On behalf of the Board of Directors of Silverwood Industries Limited, it is my privilege to report to you on the activities and financial affairs of your Company and its wholly-owned subsidiaries for the fiscal year 1977. The fiscal year comprised 53 weeks which commenced on December 27, 1976 and ended on January 1, 1978. As well, this report includes the results of the operations of Royal Oak Dairy, Limited, Hamilton, Ontario to the extent of our ownership (approximately 63%) for the calendar year 1977.

The consolidated operations of the Company reflect increased sales of \$27,631,551 with 1977 consolidated net sales being \$265,866,529, the largest ever recorded in the history of the Company. However, consolidated net income from operations of \$561,926 or 42c per Class "A" and "B" share is approximately equal to the figure of \$559,057 or 41.6c per share earned in 1976.

Consolidated net income, including extraordinary item, was \$2,086,126 or \$1.55 per share and approximates the consolidated net income for 1976 of \$2,153,708 or \$1.60 per share. The extraordinary earnings of \$1,524,200 in 1977 result from the sale of Dairy properties in Edmonton, Alberta; Brandon, Manitoba; and Hamilton, Brantford, Orillia, Woodstock, Lucknow and St. Catharines in Ontario.

The year reviewed in this Annual Report has been characterized by greater uncertainty among Canadians generally than in any year in recent memory. The concern for National Unity has brought political, social and economic forces into play, which have compounded for Canadians the economic disparities arising from pressures throughout the world markets. Thus, we are experiencing a constantly changing marketplace as the economy struggles to readjust itself to the pressures that are brought to bear in each individual area. Segments of these forces have influenced the business climate of Silverwood in an unexpected manner and have resulted in a much less profitable year than was anticipated in our earlier planning.

Over the last five years, we have related to you the growing strength of Silverwood in the convenience store market in Canada. Within that time, Mac's Convenience Stores Limited has grown from a struggling infant to a well planned and mature organization. It is now established as not only the largest convenience store organization in Canada, but more importantly as the leader in the field. Yet the economic forces previously described have adversely affected Mac's progress in two different markets in 1977.

It had been expected that our Quebec stores would reach profitability late in 1977. This has not been the case. There can be no question that the political uncertainty within Quebec has had an extremely dampening effect on the Montreal market area,

where the majority of our stores are located. Sales potentials have not been reached, thus impacting the profit objectives particularly in the latter half of the year. Current actions are underway to resolve this problem. In Ontario, the competitive factors depressing margins in the food retailing sector described to you in last year's report, continued virtually unabated particularly in the areas of dairy products, bread and soft drinks, which tend to be the mainstay of the convenience store business. Thus, the return to normal profitability in Mac's that had been expected in the latter part of 1977 did not occur.

Bantam Stores Limited, the wholly-owned subsidiary of Royal Oak Dairy, Limited, has experienced similar conditions to Mac's within its own marketplace.

However, the western part of our country is a story of convenience store expansion in all departments — store numbers, sales and profitability. This coincides with the economic factors in that area as the need for energy expansion brings prosperity and growth in the West, especially in Alberta.

Two major economic forces have also been in play within the dairy products field. One had been planned — that of conversion to metrication in ice cream packaging across all of Canada, and the conversion of milk packaging in the Province of British Columbia. The other was unplanned and experienced unexpectedly in Ontario in the fall of 1977, with the totally unwarranted intervention of the Anti-Inflation Board into the competitive milk pricing structure in the province.

The conversion to metric in the areas described has been an extremely costly experience for your Company, and one which in hindsight has caused us to question the propriety of the decision of Government to inflict this cost upon an already struggling economy, particularly in advance of the actions of our neighbours to the south, in the United States of America. The metric problem within our own company has been two-fold. The first is that of reducing sales volume as consumers cut back their consumption in two litre packages of both milk and ice cream from the previously larger half-gallon, and the second is the accompanying costs of increased per unit packaging and distribution. We feel that these effects have been transitory ones, which are hopefully behind us in those areas where we have already converted. Nevertheless, there was a significant unexpected impact on our 1977 earnings.

The second major influence was the intervention of the Anti-Inflation Board in September, 1977 in effectively preventing the milk processing and distributing industry in Ontario from passing through to the consumer an increase of 42 cents per cwt. imposed upon it by the Ontario Milk Marketing Board. This action has been described in detail to you in our earlier quarterly reports. As mentioned, with all five major dairies in the Province of Ontario being under and complying with A.I.B. profit controls since October, 1975, the imposition of a second set

of controls demanding pre-price notification was unwarranted. In so doing, no recognition was given to the highly competitive nature of the industry. The effective freeze in fluid milk prices in Ontario for a period of approximately ten weeks in the fall had a devastating effect on our dairies profitability in the fourth quarter.

Our report to you would not be complete without a reference to our controlled operation in Hamilton, Ontario — Royal Oak Dairy, Limited, together with a mention of the achievements of the Baskin-Robbins Store division.

In view of the general economic conditions previously described, one cannot help but be pleased with the performance of Royal Oak with its strong management team. Although experiencing the same difficulty within its convenience and variety store groups of Bantam and Astro, the Company's earnings before extraordinary items of \$403,561 in 1977 compared very favourably with the \$411,668 earned throughout 1976. This downturn in earnings, although minor, was the first experienced in some years. The management group are anticipating a return to increased sales in 1978, which should be accompanied by an improved financial performance.

Our Baskin-Robbins division continues to defy the economic conditions which are affecting the rest of the industry in Ontario. Its expansion in stores continues unabated, and its public acceptance is increasing rapidly.

Over these last few years we have tried to keep our shareholders fully informed as to the financial strength of the Company and the efforts of management to improve the working capital position of the Company. Despite disappointing operating earnings in 1977, the ongoing restructuring and reduction of our fixed capital base in Silverwood Dairies has allowed continuity of total earnings, including extraordinary, over these last few years.

Notwithstanding these changes and resultant economic realizations, a dividend policy of any company must be based upon its operating profits and its ability to maintain a working capital position to protect the long term commitments. It is obvious that the Company cannot tolerate further erosion of its working capital position due to lack of earnings. Thus, your Board of Directors is reviewing this matter carefully each quarter. We feel it should be noted that the past record of this Company is rather remarkable in its dividend treatment of its shareholders. In the last decade, 53% of all consolidated net income and 67% of operating income has been returned to the shareholders. There are few Canadian corporations which can make a similar claim.

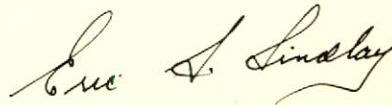
At this point we would like to acknowledge the great strength and support of the people that make Silverwood Industries Limited the great Canadian company that it is today. Despite the many unexpected setbacks and the fact they are operating each day in a tough economic climate and in a highly

competitive food industry with extremely low margins, one can have nothing but praise for, and pride in, the loyal and dedicated group that comprise our total operation.

It is appropriate that mention should be made of the change that took place in the position of President, Silverwood Dairies Limited on January 1, 1978. The resignation of Mr. D. F. Guy from that position after some thirty-one years of service with the Company was received with regret. We say "thank you" to Don for his great contribution over the years, and wish him every success in his future endeavours. We welcome to the position Mr. M. E. (Earl) Duffy. Mr. Duffy in his position as Vice-President, Finance and latterly Vice-President and General Manager, Silverwood Dairies Limited, has amply demonstrated his understanding, ingenuity and aggressiveness towards the problems that are in the dairy field today.

Mention must be made, as well, of the work of the A. E. Silverwood Foundation administered by the Silverwood and Lawrence families, which is so generous in its assistance to the families of our employees through the granting of university bursaries in Canada to those qualified.

With the current economic prognostication for Canada in 1978, it is evident that the task that lies ahead for the people at Silverwood will not be an easy one. Yet, determination and confidence abounds within the Company for a return to more profitable growth.



Chairman of the Board  
President and  
Chief Executive Officer

## Financial year in review

The 1977 fiscal year of Silverwood Industries Limited and its subsidiaries comprises 53 weeks ended January 1, 1978. Royal Oak Dairy, Limited is included in the consolidated statements, reflecting operations for the whole year in 1977 and for five months in the comparative statements for 1976, from the date of acquisition on July 31, 1976. As at January 1, 1978, Silverwood Industries held 63 per cent of the share equity of Royal Oak.

During 1977, the Company disposed of properties in Alberta, Manitoba and Ontario. The financial statements reflect total proceeds from these transactions of \$3,604,182, providing an improvement in working capital of \$1,102,342. Extraordinary gain on the sale of these properties was \$1,524,200.

### Sales and Income

Operating earnings of \$561,926 in 1977 represent 41.8c per share, compared with \$559,057 or 41.6c per share in 1976. Silverwood Dairies was unprofitable for the second consecutive year, but the loss was reduced from that experienced in 1976. The convenience store division while continuing to provide satisfactory results, was below 1976 earnings. Royal Oak Dairy, Limited earnings are included in 1977 operating earnings in the amount of \$260,427, representing the equity held by Silverwood Industries Limited for 1977.

Annual consolidated sales for 1977 were \$265,866,529, compared with \$238,234,978 in 1976, an increase of 11.6 per cent. A comparative breakout of sales for the two year period is as shown in the table below.

### SALES SUMMARY

	1977	1976	Per Cent Change
Dairies Division			
Silverwood Dairies	<b>\$120,752,566</b>	\$123,828,857	
Royal Oak Dairy (5 months in 1976)	<b>8,321,956</b>	3,527,239	
	<b>\$129,074,522</b>	\$127,356,096	1.35
Convenience Store Division			
Mac's Convenience Stores	<b>\$146,701,151</b>	\$128,368,432	
Bantam & Astro Stores (5 months in 1976)	<b>13,004,244</b>	5,303,037	
	<b>\$159,705,395</b>	\$133,671,469	19.5
All Other	<b>\$ 4,321,428</b>	\$ 4,298,709	0.5
Total	<b>\$293,101,345</b>	\$265,326,274	10.5
Inter-company sales	<b>\$ 27,234,816</b>	\$ 27,091,296	0.5
Total consolidated sales	<b>\$265,866,529</b>	\$238,234,978	11.6

The Silverwood Dairies sales of \$120,752,566, represents an increase of \$2,269,295 or 1.9 per cent over 1976, when sales of the Alberta dairy business, which was sold in 1976, are excluded.

Cost of sales as a percentage of sales increased from 77.96 to 78.77, an increase of 0.81 per cent, while selling, administrative and general expenses decreased by 0.51 per cent from 19.23 per cent in 1976 to 18.72 per cent in 1977. Depreciation and amortization expense increased from \$3,862,075 in 1976 to \$4,067,602 in 1977 but, because of higher 1977 sales, this represents a percentage of sales decrease from 1.62 per cent in 1976 to 1.54 per cent in 1977.

### Capital Expenditures

Of the fixed asset additions of \$4,986,615, the largest category of expenditure of \$2,355,000 represented new store openings and renovations in the Convenience Store division. There were no significant capital projects in the Dairies division. The balance of capital items largely represented plant replacement, delivery and merchandising equipment.

### Balance Sheet Position

Operating earnings in 1977 were not satisfactory, but the continued rationalization of the Company's operations through sale of unprofitable business segments and redundant properties has resulted in total earnings including extraordinary, of \$1.55 per share. These transactions have contributed to the maintenance of a sound balance sheet. The equity per share now stands at \$21.44, working capital is \$6,710,906 and the debt to equity ratio (excluding deferred taxes and minority interest) is 1 to 2.03.

# Consolidated statement of income

YEAR ENDED JANUARY 1, 1978 (with comparative amounts for the year ended December 26, 1976)	January 1, 1978	December 26, 1976
Sales .....	<b>\$265,866,529</b>	\$238,234,978
Less:		
Cost of sales .....	<b>209,433,155</b>	185,733,318
Selling, administrative and general expenses .....	<b>49,800,893</b>	45,802,398
Depreciation and amortization .....	<b>4,067,602</b>	3,862,075
Interest — short-term debt .....	<b>290,126</b>	352,932
long-term debt .....	<b>1,306,527</b>	1,321,748
	<b>264,898,303</b>	237,072,471
Income before taxes, minority interest and extraordinary item .....	<b>968,226</b>	1,162,507
Taxes on income (note 8):		
Current .....	<b>1,011,300</b>	1,427,600
Deferred .....	<b>(754,300)</b>	(897,300)
	<b>257,000</b>	530,300
Income before minority interest and extraordinary item .....	<b>711,226</b>	632,207
Minority interest .....	<b>(149,300)</b>	(73,150)
Income before extraordinary item .....	<b>561,926</b>	559,057
Extraordinary item (note 6) .....	<b>1,524,200</b>	1,594,651
Net income for year (note 1(a)) .....	<b>\$ 2,086,126</b>	\$ 2,153,708
Earnings per Class "A" and "B" shares:		
Income before extraordinary item .....	<b>\$ .42</b>	\$ .42
Net income for year .....	<b>\$ 1.55</b>	\$ 1.60

# Consolidated statement of retained earnings

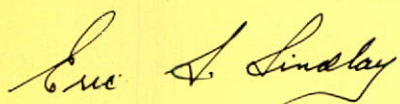
Year ended January 1, 1978 (with comparative amounts for the year ended December 26, 1976)	January 1, 1978	December 26, 1976
Balance, beginning of year .....	<b>\$ 20,205,070</b>	\$ 19,059,639
Add net income for year .....	<b>2,086,126</b>	2,153,708
	<b>22,291,196</b>	21,213,347
Deduct:		
Dividends declared (60c per share in 1977 and 75c per share in 1976)—		
Class "A" .....	<b>541,894</b>	677,368
Class "B" .....	<b>264,726</b>	330,909
	<b>806,620</b>	1,008,277
Balance, end of year .....	<b>\$ 21,484,576</b>	\$ 20,205,070

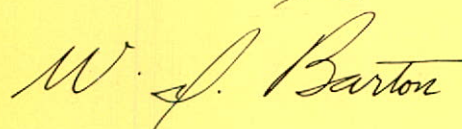
# Consolidated balance sheet

January 1, 1978 (with comparative amounts at December 26, 1976)

Assets	January 1, 1978	December 26, 1976
<b>Current:</b>		
Cash .....	\$ 264,372	\$ 468,452
Marketable securities — at cost (which approximates market value) .....	1,082,671	1,096,616
Accounts receivable .....	16,022,370	13,879,831
Inventories (note 1(c) ) .....	18,497,725	16,694,112
Prepaid expenses .....	1,460,931	1,460,790
Land, buildings and equipment held for sale (note 1(d) ) .....		951,840
Total current assets .....	37,328,069	34,551,641
Land, buildings and equipment held for sale (note 1(d) ) .....	1,099,252	1,075,298
<b>Fixed — (notes 1(e) and 2) .....</b>	<b>29,683,410</b>	<b>30,005,828</b>
<b>Sundry:</b>		
Deferred receivables and other assets .....	2,816,623	1,541,855
Goodwill (note 1(f) ) .....	5,856,553	5,810,930
Expenses in connection with debentures issued, less amortization .....	189,800	212,253
	<b>8,862,976</b>	<b>7,565,038</b>

On behalf of the Board

 Director

 Director

\$ 76,973,707    \$ 73,197,805



Liabilities and shareholders' equity	January 1, 1978	December 26, 1976
<b>Current:</b>		
Due to bankers .....	\$ 4,364,684	\$ 5,920,426
Accounts payable and accrued charges .....	22,788,489	17,210,278
Income taxes payable .....	582,690	468,834
Dividends declared .....	201,575	201,575
Principal instalments due within one year .....	2,679,725	2,570,665
	<hr/>	<hr/>
Total current liabilities .....	30,617,163	26,371,778
	<hr/>	<hr/>
Long-term debt (notes 3 and 4) .....	14,212,419	14,903,941
	<hr/>	<hr/>
<b>Deferred:</b>		
Income taxes (note 1(g)) .....	2,228,600	3,153,950
Income (note 1(h)) .....	192,874	360,781
	<hr/>	<hr/>
	2,421,474	3,514,731
	<hr/>	<hr/>
Minority interest (note 1(a)) .....	896,758	860,968
	<hr/>	<hr/>
<b>Shareholders' equity:</b>		
Capital—		
Class "A" shares without par value entitled to cumulative, preferential dividends of 60c per share per annum, payable quarterly, and after the Class "B" shares have received 60c per share in any one year to further participation rateably with Class "B" shares; entitled in liquidation to a priority of \$15 per share—		
Class "B" shares without par value		
	Class "A"	Class "B"
Authorized	1,000,000 shares	500,000 shares
Issued	903,158 shares	441,212 shares
	7,341,317	7,341,317
	<hr/>	<hr/>
Retained earnings (note 4) .....	21,484,576	20,205,070
	<hr/>	<hr/>
Total shareholders' equity .....	28,825,893	27,546,387
	<hr/>	<hr/>
	\$ 76,973,707	\$ 73,197,805
	<hr/> <hr/>	<hr/> <hr/>

(See accompanying notes)

# Consolidated statement of changes in financial position

YEAR ENDED JANUARY 1, 1978 (with comparative amounts for the year ended December 26, 1976)	January 1, 1978	December 26, 1976
Source of working capital:		
Operations—		
Consisting of:		
Income before extraordinary item .....	\$ 561,926	\$ 559,057
Add:		
Depreciation and amortization .....	4,067,602	3,862,075
Deferred income taxes .....	(754,300)	(897,300)
Minority interest .....	149,300	94,488
Funds from operations .....	<u>4,024,528</u>	<u>3,618,320</u>
Increase in long-term debt .....	2,109,091	2,581,223
Net disposal of fixed assets (\$2,652,342 in 1977 less deferred receivables of \$1,550,000 assumed) .....	1,102,342	4,261,030
Disposal of goodwill net of income taxes .....		467,997
Decrease in sundry assets (net) .....	275,232	138,911
Reclassification of land, buildings and equipment held for sale, to current assets .....		951,840
Net working capital acquired on purchase of Royal Oak Dairy, Limited .....		296,571
	<u>7,511,193</u>	<u>12,315,892</u>
Application of working capital:		
Additions to fixed assets .....	4,986,615	5,351,680
Dividends to shareholders .....	806,620	1,008,277
Repayment of long-term debt .....	2,800,613	2,441,110
Purchase of goodwill .....	104,885	99,400
Costs related to consolidation of operations .....		347,565
Deferred income .....	167,907	(1,948)
Reductions in minority interest including dividends paid by a subsidiary company .....	113,510	
	<u>8,980,150</u>	<u>9,246,084</u>
Increase (decrease) in working capital .....	(1,468,957)	3,069,808
Working capital, beginning of year .....	8,179,863	5,110,055
Working capital, end of year .....	<u>\$ 6,710,906</u>	<u>\$ 8,179,863</u>
Represented by:		
Current assets .....	\$ 37,328,069	\$ 34,551,641
Current liabilities .....	30,617,163	26,371,778
Working capital .....	<u>\$ 6,710,906</u>	<u>\$ 8,179,863</u>

(See accompanying notes)

# Notes to the consolidated financial statements

January 1, 1978

## 1. Summary of significant accounting policies

The consolidated financial statements present the financial position, results of operations and changes in financial position of the company in accordance with generally accepted accounting principles applied on a consistent basis. The more important accounting policies are summarized as follows:

### (a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of all subsidiary companies in which Silverwood Industries Limited or its subsidiaries owned an equity interest in excess of 50% at the respective fiscal year ends with appropriate provision for minority interests. Intercompany accounts and transactions have been eliminated. During the year the company purchased additional shares of Royal Oak Dairy, Limited at a cost of \$57,800 to bring the total holdings to 63.0% of the shares and 90.7% of voting control.

### (b) Definition of fiscal year

The fiscal year of Silverwood Industries Limited for 1977 ended on January 1, 1978 and for 1976 on December 26, 1976, with 1977 comprising 53 weeks and 1976 comprising 52 weeks. The accounts of Royal Oak Dairy, Limited are on a calendar year basis. The fiscal year for the year ended January 1, 1978 will be referred to as 1977.

### (c) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined by the retail method (retail price less normal margin) for convenience stores inventories and the first-in, first-out method for dairy division and supplies inventories.

Inventory values are as follows:

	January 1, 1978	December 26, 1976
Convenience stores .....	\$ 10,901,057	\$ 9,754,511
Dairy division .....	2,989,731	2,864,016
Supplies .....	4,606,937	4,075,585
	<u>\$ 18,497,725</u>	<u>\$ 16,694,112</u>

### (d) Land, buildings and equipment held for sale

Discontinued facilities held for sale are carried at the lower of cost less accumulated depreciation or estimated realizable value and are shown as a separate item in the balance sheet.

### (e) Fixed assets

Fixed assets are carried at cost and depreciation and amortization is provided primarily on a straight line basis using rates that will charge operations with the cost of these assets over their estimated useful lives. When fixed assets are sold, the related cost and accumulated depreciation or amortization are removed from the respective accounts and any profit or loss is reflected in the consolidated statement of income. Expenditures for repairs and maintenance are charged to income as incurred. Rates in use are as follows:

Buildings .....	20 - 50 years
Machinery and equipment .....	10 years
Merchandising equipment .....	12 years
Delivery equipment .....	7 years
Leasehold improvements .....	term of lease

### (f) Goodwill

Goodwill, arising from the excess of purchase price of subsidiaries over the net book value of the underlying assets and purchased goodwill, acquired prior to January 1, 1974, is carried at cost, less net proceeds from any disposals. Pre-1974 goodwill has been allocated by management to certain geographic areas. The net proceeds on disposal of goodwill reduce first the cost of goodwill in the related geographic area, then any proceeds in excess of cost are accounted for as an extraordinary item in the income statement.

Goodwill acquired after December 31, 1973 is being amortized on a straight line basis over periods of five to ten years. Amortization for 1977 and 1976 amounted to \$59,300 and \$48,000 respectively.

### (g) Deferred income taxes

The company follows the tax allocation method of accounting. The deferrals arise substantially from the company claiming capital cost allowance for income tax purposes in excess of depreciation and amortization charged to consolidated income.

### (h) Franchise fees

Franchise fees are taken into income over the term of the franchise agreement on a straight line basis.

## 2. Fixed assets

The major categories of fixed assets at January 1, 1978 are as follows:

	Cost	Accumulated depreciation	Net book value 1977	Net book value 1976
Land .....	\$ 1,647,628		\$ 1,647,628	\$ 1,800,139
Buildings .....	9,538,403	\$ 2,500,378	7,038,025	7,333,670
Machinery and equipment .....	15,437,096	10,461,733	4,975,363	5,639,660
Merchandising equipment .....	22,493,368	11,977,858	10,515,510	10,090,263
Delivery equipment .....	8,305,873	6,042,996	2,262,877	2,146,586
Leasehold improvements .....	4,719,076	1,475,069	3,244,007	2,995,510
	<u>\$ 62,141,444</u>	<u>\$ 32,458,034</u>	<u>\$ 29,683,410</u>	<u>\$ 30,005,828</u>

## 3. Long-term debt

	January 1, 1978	December 26, 1976
7-1/4% sinking fund debentures Series A, due July 5, 1986 (sinking fund payment of \$400,000 per annum)	\$ 5,597,000	\$ 6,025,500
Term notes payable to bankers at prime plus 1% interest; due 1978 to 1982*	10,037,544	10,051,081
8% - 11% mortgages payable	966,604	1,065,426
Other (lease deposits)	290,996	332,599
	<u>16,892,144</u>	<u>17,474,606</u>
Less portion due within one year included in current liabilities (net of debentures redeemed in advance)	2,679,725	2,570,665
	<u>\$ 14,212,419</u>	<u>\$ 14,903,941</u>

Aggregate non-current maturities and sinking fund requirements are as follows:

Year ended	Amount
December 30, 1979	\$ 2,304,563
December 28, 1980	2,892,725
December 27, 1981	2,836,894
December 26, 1982	1,199,743
Subsequent years	4,978,494
	<u>\$ 14,212,419</u>

\*The assets of two subsidiary companies are pledged under floating charge debentures as security for term notes of these subsidiaries totalling \$9,037,544 which amount is included in the \$10,037,544.

## 4. Restrictions on payment of dividends

Under the provisions of the Trust Indenture securing the 7-1/4% sinking fund debentures, the company cannot declare or pay dividends (other than stock dividends and dividends at the rate of 60c per share per annum on the outstanding Class "A" shares of the company) when:

- consolidated net current assets (as therein defined) of the company and its designated subsidiaries are less than, or would thereby be reduced to less than \$2,500,000, and
- the consolidated retained earnings of the company and its designated subsidiaries will be less than the lesser of 75% of the principal amount of all funded obligations of the company and its designated subsidiaries or \$7,500,000.

The company is in compliance with the covenants of the Trust Indenture.

## 5. Lease agreements and commitments

### (a) Lease agreements

Silverwood Industries Limited and its subsidiary companies have entered into agreements to lease equipment and properties for various periods up to 1995 at total maximum aggregate net rentals of approximately \$55,000,000. Minimum annual net rentals which will be charged to consolidated operations in the ordinary course of business in subsequent years for leases in effect at January 1, 1978 are as follows:

December 31, 1978 .....	\$7,958,000
December 30, 1979 .....	7,460,000
December 28, 1980 .....	7,048,000
December 27, 1981 .....	6,559,000
December 26, 1982 .....	6,043,000

Certain of these leases provide for additional rent based on sales.

(b) *Pensions*

Actuarial estimates of the company's liability in respect of past service pension benefits not provided for in the attached consolidated financial statements amounted to approximately \$627,500 as at January 1, 1978 and \$669,000 as at December 26, 1976. It is the intention of the company to provide for and pay this liability over a period not exceeding the next twelve fiscal years.

The company accounts for current pension costs on an accrual basis and past service costs on a cash basis in accordance with funding recommended by the company's consulting actuaries and as approved under the Pension Benefit Act of Ontario.

**6. Extraordinary item**

	<u>January 1, 1978</u>	<u>December 26, 1976</u>
Gain on sale of discontinued facilities and goodwill less related expenses (less deferred income taxes recoverable of \$171,050 in 1977; less income taxes recoverable of \$67,500 and deferred income taxes recoverable of \$262,200 in 1976) .....	<u>\$ 1,524,200</u>	<u>\$ 1,594,651</u>

**7. Other statutory information**

(a) *Remuneration of directors and senior officers*

Aggregate direct remuneration paid or payable by the company and its subsidiaries to directors, who act only in that capacity, and senior officers, some of whom act as directors of the company but do not receive additional remuneration as such as defined by Section 178(11) of The Business Corporations Act of Ontario, amounted to:

	<u>January 1, 1978</u>	<u>December 26, 1976</u>
Directors .....	<u>\$ 23,200</u>	<u>\$ 23,400</u>
Senior officers .....	<u>511,366</u>	<u>452,025</u>
	<u>\$ 534,566</u>	<u>\$ 475,425</u>

The senior officers' remuneration in 1977 is inclusive of Royal Oak Dairy, Limited.

(b) *Classes of business*

The company has determined that the classes of business contributing in excess of 10% of sales in 1977 and 1976 were as follows:

	<u>January 1, 1978</u>		<u>December 26, 1976</u>	
	<u>Dollars</u>	<u>Percentages</u>	<u>Dollars</u>	<u>Percentages</u>
Convenience stores .....	<u>\$159,705,395</u>	<u>60.1%</u>	\$133,671,469	56.1%
Dairies .....	<u>131,599,164</u>	<u>49.5</u>	130,156,907	54.6
	<u>291,304,559</u>	<u>109.6</u>	263,828,376	110.7
Less inter-company sales .....	<u>25,438,030</u>	<u>9.6</u>	25,593,398	10.7
Consolidated sales .....	<u>\$265,866,529</u>	<u>100.0%</u>	<u>\$238,234,978</u>	<u>100.0%</u>

**8. Taxes on income**

Taxes on income for 1977 have been reduced by \$177,000 by claiming the 3% inventory allowance as permitted under the amendments to the Income Tax Act, Canada.

**9. Anti-inflation program**

Under the federal government's anti-inflation legislation (presently scheduled to be in force until December 31, 1978) the company is subject to mandatory compliance with legislation which controls prices, profit margins, employee compensation and shareholder dividends.

Management is of the opinion that the company is in compliance with the requirements of the anti-inflation legislation.

## Ten year comparative summary

Fiscal period	1977	1976	1975
<b>Sales</b>	<b>\$265,866,529</b>	238,234,978	261,326,735
Income before extraordinary item	\$ 561,926	559,057	1,881,886
Net income for period	\$ 2,086,126	2,153,708	2,306,639
Income for each Class "A" and "B" share before extraordinary item	\$ .42	.42	1.40
Net income for each Class "A" and "B" share for period	\$ 1.55	1.60	1.72
Dividends	\$ 806,620	1,008,277	1,075,496
Per Class "A" share	\$ .60	.75	.80
Per Class "B" share	\$ .60	.75	.80
Percentage of consolidated earnings paid in dividends	38.7%	46.8%	46.6%
Earnings re-invested in the business	\$ 1,279,506	1,145,431	1,231,143
Percentage of earnings re-invested in the business	61.3%	53.2%	53.4%
Capital invested			
Long term debt	\$ 14,212,419	14,903,941	13,440,267
Shareholders' equity	\$ 28,825,893	27,546,387	26,400,956
<b>Total</b>	<b>\$ 43,038,312</b>	42,450,328	39,841,223
Percentage of shareholders' equity to total investment	67.0%	64.9%	66.3%
Shareholders' equity per share	\$ 21.44	20.49	19.64
Working capital	\$ 6,710,906	8,179,863	5,110,055

1977 — Fifty three weeks ended January 1, 1978

1972-76 — Fifty-two weeks ended approximately the end of December in each year

\*1972 — Fifty-two weeks ended January 2, 1972

1971 — Forty weeks ended January 3, 1971

1969-70 — Twelve months ended March 31

1974	1973	1972	*1972	1971	1970	1969
229,080,262	189,207,993	172,001,680	162,629,505	118,042,541	144,678,893	125,956,843
1,354,921	2,204,189	1,247,582	1,504,587	1,409,910	1,885,299	1,823,393
1,645,750	2,452,100	1,762,700	1,538,348	1,466,225	2,261,507	2,094,577
1.01	1.64	.93	1.12	1.05	1.40	1.36
1.22	1.82	1.31	1.14	1.09	1.68	1.56
1,075,496	1,075,496	1,075,496	1,075,496	806,622	1,075,498	1,075,498
.80	.80	.80	.80	.60	.80	.80
.80	.80	.80	.80	.60	.80	.80
65.3%	43.9%	61.0%	69.9%	55.0%	47.6%	51.3%
570,254	1,376,604	687,204	462,852	659,603	1,186,009	1,019,079
34.7%	56.1%	39.0%	30.1%	45.0%	52.4%	48.7%
13,149,557	12,104,719	12,684,757	11,007,652	10,670,617	10,696,847	9,677,792
25,169,813	24,599,559	23,222,955	22,535,751	22,072,899	21,413,296	20,227,287
38,319,370	36,704,278	35,907,712	33,543,403	32,743,516	32,110,143	29,905,079
65.7%	67.0%	64.6%	67.1%	67.4%	66.7%	67.6%
18.72	18.30	17.27	16.76	16.42	15.93	15.05
2,671,837	3,339,964	3,929,331	3,274,310	3,355,441	4,249,573	3,103,157

# Silverwood Dairies

As pointed out in the Chairman's remarks, the intervention of the Anti-Inflation Board into milk pricing in Ontario in the fall of 1977, together with the unexpected impact of costs of conversion to metric, both in our ice cream packaging and in our milk and ice cream consumption patterns, have had a significant and unexpected effect on our financial results in 1977. Thus, Silverwood Dairies Limited has incurred a substantial loss in 1977, although improved from comparable 1976 figures.

Silverwood Dairies sales for 1977 were \$120,752,566, a decrease from 1976 recorded sales of \$123,828,857 which included \$5,345,586 of Alberta sales for the months of January and February 1976. This latter business was sold at the end of February.

Silverwood Dairies Limited management has been aggressively tightening its belt through 1977. The closure was announced in the spring of 1977 of the last of our industrial milk branches in Woodstock and Lucknow. With the closing of these two branches, milk powder and butter are no longer manufactured by Silverwood. During the year,

the distribution branches at Brandon, Manitoba and Orillia, Ontario were also closed, with service to those areas being provided by licensed local distributors, or distribution vehicles emanating from Winnipeg or Toronto.

In the fall of the year, the decision was made to transfer to Clark's Dairy Limited, Ottawa, the fluid milk distribution operations that had been developed in 1975 in the Ottawa market. Also during 1977, arrangements were made to take over the ice cream distribution operations of Neilson's Ice Cream in Eastern Ontario. This was done to strengthen our ice cream production facilities, as well as enlarge the ice cream distribution operations in Kingston and Ottawa.

Contrary to appearance, Silverwood is by no means withdrawing from the dairy marketplace. Our faith in the future of our ability to process and market ice cream for all segments of the marketplace was never higher. The Silverwood name has an established "consumer franchise" and every effort is being made to exploit it. We will continue to monitor the segments of the fluid milk business that do not appear to be able to produce an acceptable return to our shareholders over the long haul, and we must be prepared to continually restructure our asset base to provide improved returns on shareholders' equity.

Much of the emphasis in 1978 is being placed on sales improvement and a return to profitability.



M. E. Duffy  
President



P. B. Knoepfli  
Vice President,  
Planning and Marketing

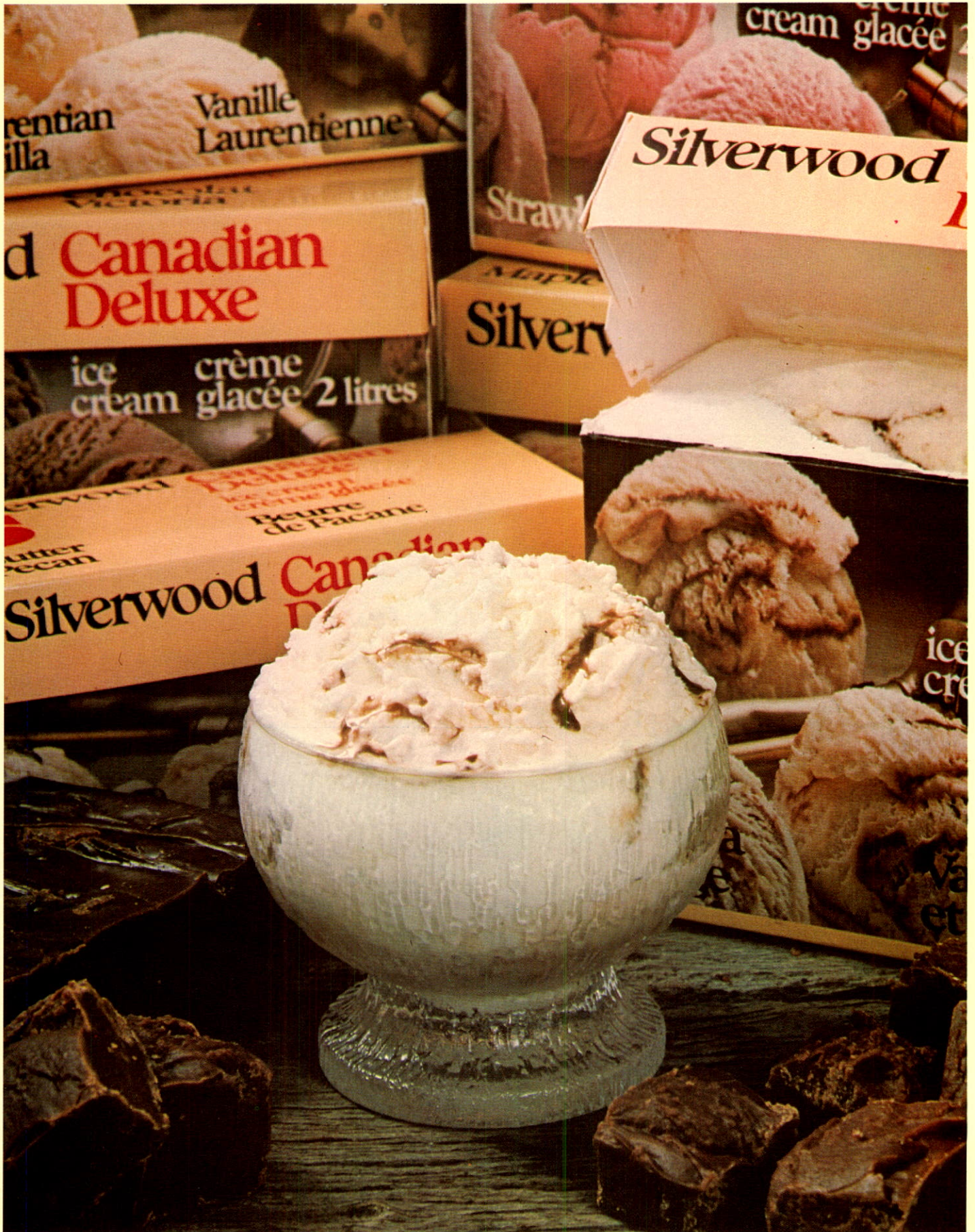


R. C. Ferguson  
Treasurer and  
Chief Financial Officer



W. M. Hadwell  
Vice President and General  
Manager, Western Division





# Baskin-Robbins

The Baskin-Robbins 31 Flavour Stores division continued to expand aggressively its coverage of the Ontario ice cream market, with the opening of an additional 12 stores throughout 1977.

At year-end, this division had 52 franchise operated stores open, a 30% increase over the previous year. Despite the economic conditions existing within the country, this division continued to build not only store numbers but increased gallonage sales from their existing store structure.

Currently, there are 10 stores in Toronto, 4 in Etobicoke, 5 in North York, 2 in Scarborough, 5 in Ottawa, 3 in Kitchener-Waterloo-Guelph, 6 in Hamilton-Burlington, 5 in Oakville-Mississauga, 4 in Oshawa-Whitby, 3 in Niagara-St. Catharines, 2 in London-St. Thomas, 2 in Peterborough-Belleville and 1 in Richmond Hill.

It is planned to extend the coverage in Southwestern Ontario in 1978 through to Sarnia, Chatham and Windsor.



T. G. Bryant  
Regional Director



# BASKIN-ROBBINS 31 ICE CREAM

RUMBOLERO

Caramel Fudge ICE CREAM

Blueberry Cheesecake ICE CREAM

HAND PACKED ICE CREAM

RECIPE CONTEST

SPECIAL TREATS

GIFT OF JOY COUPONS in the denominations of

# Mac's

With operations in five provinces, Mac's management has been challenged in 1977 with five distinct economic, political and competitive climates — Quebec, Ontario, Manitoba, Alberta and British Columbia.

Thus, the overall sales growth of Mac's in Canada of \$18,332,719 or 14.3% to an overall record sales level of \$146,701,151 has been rather remarkable. Increases in sales of 20% in British Columbia and 30% in Alberta have helped materially in offsetting the mature 7% growth in Ontario.

This record growth has been accomplished despite a change in management attitude and planning towards the increase in store numbers. We closed the 1977 year with some 594 stores in operation, a net increase of only 10 for the year. Some 61 new stores were opened, while 51 were no longer considered viable in today's market because of changing market conditions or lease renewal costs and were closed. As we have stated many times, the flexibility of investment is one of the major strengths of this method of retailing. At year-end, there were 395 stores in Ontario, 31 in

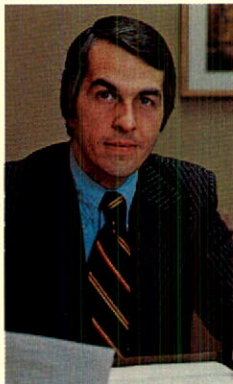
Manitoba, 67 in Alberta, 60 in British Columbia and 41 in Quebec.

Profitability has been under attack both in the Quebec and Ontario markets, resulting in a decrease in overall profitability for the organization. Further expansion has been suspended in the Quebec market until stores already open have a chance to prove their viability. Close study is being given to product mix and margins within this market environment.

Although management planning had expected an easing of competitive pricing practices in Ontario in the latter half of 1977, this did not come about. The particular emphasis on milk pricing in 1976 and 1977 has tended to erode the Mac's share of the dairy products market during this period, with resultant impact on Silverwood Dairy production costs. Nevertheless, the increase in total sales in Ontario despite fewer stores is evidence of the success of management's strategy in maintaining its overall market position. Sales and profitability showed substantial increases for the year in each of the three Western provinces in which we have representation — Manitoba, Alberta and British Columbia.



R. S. Maich  
President  
(Vice President  
Silverwood Industries Limited)



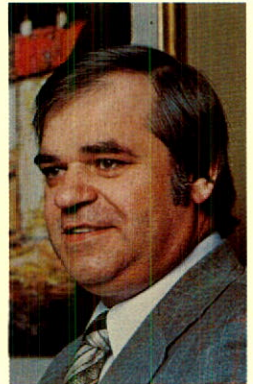
E. C. Higgins  
Executive Vice President  
and General Manager



R. F. Egerdie  
Treasurer



J. DeWit  
General Manager  
Ontario Region



R. J. Pylypiw  
General Manager  
Western Region



# R&D Londonderry

## Research and Development

The Research and Development laboratory in London, Ontario provides technical resources of personnel and facilities to investigate and initiate a wide range of projects covering all aspects of food and dairy technology. The fundamental aspects of our business, such as health and nutritional concerns, environmental and energy conservation, product composition, processing and shelf life, demand an increasing reliance on technology and research.

A major focus of several current projects is directed at modifying product performance characteristics that will significantly improve the shelf life and assist in controlling escalating distribution costs. New product innovations have concentrated in the area of ice cream novelties and have resulted in several popular line extension items.

This research laboratory is a corporate resource established and maintained under the guidance and

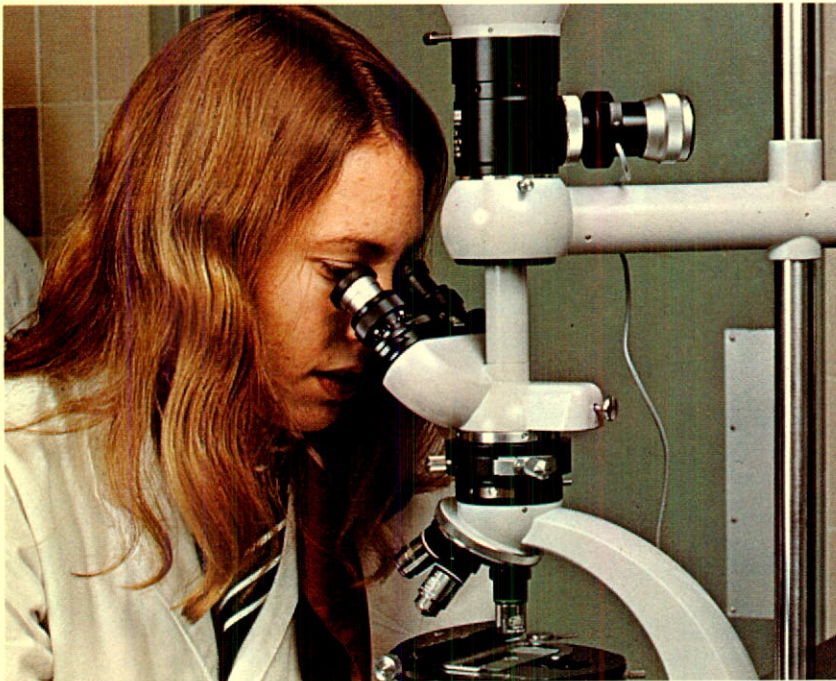
control of Silverwood Industries, as a technical support function to all Company divisions.

Over the years the National Research Council of Canada has provided assistance and technological advice to this very important phase of our business. This we deeply appreciate.

## Londonderry Distributors Limited

Londonderry Distributors Limited, the aseptic juice processing and distribution operation, reported a slight decline in sales for the year to \$2,996,725, from \$3,151,723 in 1976. However, there was a return to modest profitability and it is expected that 1978 will bring about a return to increased sales and profitability.

The world market in concentrates continues to be difficult to predict. However, continued research and development is being done to further broaden the base of this very capable bottling and distributing company.

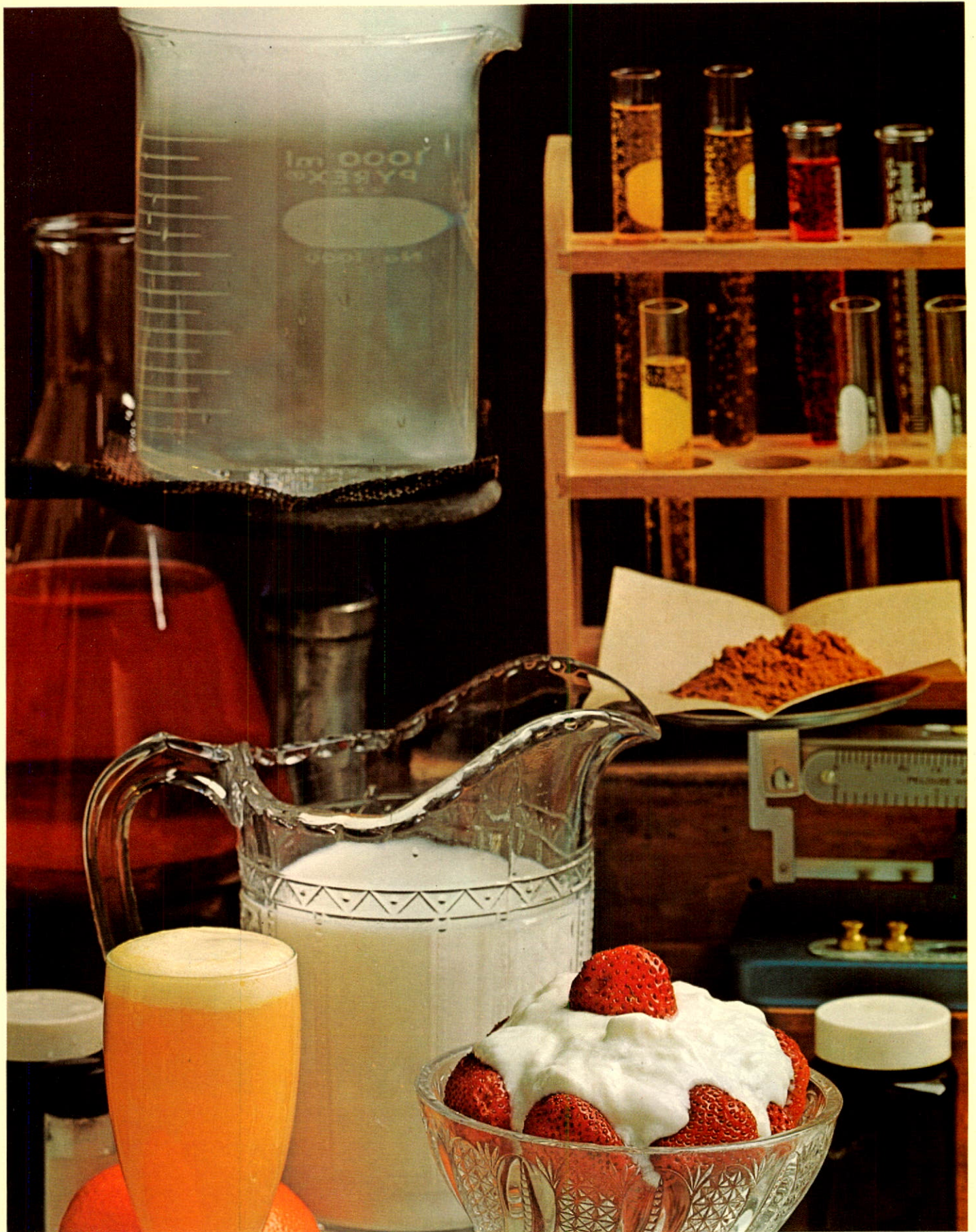


A. G. Sargant  
Director  
Research & Development



W. L. Wilson  
General Manager  
Londonderry Distributors Limited





# Royal Oak Dairy Bantam & Astro

The year 1977 was one of distinct contrast between the first half and latter half for Royal Oak Dairy and its two wholly-owned store groups — Bantam Convenience Stores and Astro Variety Stores.

The Dairy division at mid-year was at its lowest volume in almost a decade. However, by September, sales had picked up substantially and continued on the increase till year-end. The Stores Divisions exhibited a similar pattern of sales, but had not recovered to the same extent by year-end.

Consolidated sales for 1977 were \$19,263,096, an increase of 3.0% over the previous year. Dairy sales of \$8,321,956 show an increase of 1.3%, while Store sales at \$13,004,244 have increased by 4%. Bantam Stores closed the year with 45 stores in operation, the same as 1976, while opening 3 new ones and closing 3 throughout the year. Astro Variety went unchanged with 7 stores in operation, having opened 1 and closed 1 during the period.

The low volume in dairy sales is a direct result of intense competition amongst the major supermarkets for market share. Highly competitive milk pricing in the supermarkets has eroded the position of the small corner store, whether it

be an independent or a member of a jug milk chain.

Royal Oak Dairy's pricing posture has been aggressively defensive. We have, we believe, minimized the effect of low supermarket prices on our many independent accounts, with lowered wholesale prices. We have at least halted the decline in milk volume sold per store and with it, the decline in volume at the dairy.

Aggressive selling and a heavy local advertising program has also improved the dairy volume. Our field sales force have brought in a sizeable number of large new accounts, which have swelled volume well over its summer low and even exceeded our expectations for the last quarter.

Bantam and Astro met the slow marketplace with reduced margins on a number of staples including milk and bread. Within the stores, we have placed increasing emphasis upon magazines, dip ice cream and popular variety items like the fast moving feature merchandise items.

Despite high unemployment, a depreciated dollar and all the other signs of the current recession, the particular corner of the market occupied by Royal Oak Dairy and Bantam and Astro Stores, looks good for 1978. The company should be able to realize sales well in excess of \$20,000,000.

We look back with pride at our past accomplishments, thanks to the dedication and hard work of a loyal and aggressive staff.



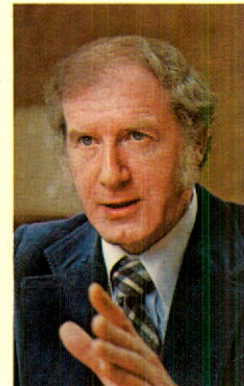
D. R. Hamilton  
President  
Royal Oak Dairy, Limited



C. White  
Vice President Sales  
Royal Oak Dairy, Limited



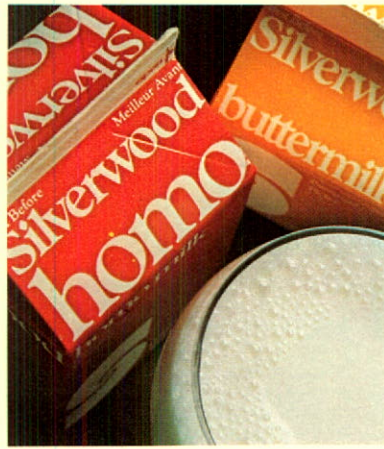
N. B. Stimers, Assist. Treas.  
and Corporate Controller  
Royal Oak Dairy, Limited



J. Crofton  
President  
Bantam Stores Limited







# SILVERWOOD INDUSTRIES LIMITED

NOTICE IS HEREBY GIVEN that the Annual and General Meeting of the Shareholders of SILVERWOOD INDUSTRIES LIMITED will be held at the Victoria/Albert Room — Holiday Inn, London-City Centre Tower, 300 King Street, London, Canada, on Monday, May 8, 1978 at 2:00 p.m. (Eastern Daylight Saving Time), for the following purposes:

- (1) To receive the Consolidated Financial Statements of the Corporation and its subsidiaries for the fiscal year (fifty-three weeks ended January 1, 1978) and the reports of the directors and auditors thereon.
- (2) To elect directors.
- (3) To appoint auditors and authorize the directors to fix their remuneration.
- (4) To transact such other business as may properly come before the meeting.

By Order of the Board

London, Canada  
February 27, 1978

W. I. BARTON  
Secretary-Treasurer

NOTE: If you are not able to be present kindly sign and return the enclosed proxy. As only holders of Class B shares are entitled to vote at this meeting, no proxy is enclosed unless you are a holder of Class B shares.



# Auditors' report

*To the Shareholders of Silverwood Industries Limited.*

We have examined the consolidated balance sheet of Silverwood Industries Limited as at January 1, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Silverwood Industries Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of Royal Oak Dairy, Limited and its wholly owned subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at January 1, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada.  
February 17, 1978.

Clarkson, Gordon & Co.  
Chartered Accountants.

## Operating Divisions

### Silverwood Dairies Limited

Head Office, Toronto, Ontario  
President — M. E. Duffy  
Vice President, Planning and Marketing — P. B. Knoepfli  
Treasurer and Chief Financial Officer — R. C. Ferguson  
Vice President and General Manager, Western Division — W. M. Hadwell

### Royal Oak Dairy, Limited

Head Office, Hamilton, Ontario  
President — D. R. Hamilton  
Vice President Sales — C. White  
Assistant Treasurer and  
Corporate Controller — N. B. Stimers

### Baskin-Robbins 31 Flavour Ice Cream Stores

Toronto, Ontario  
Regional Director — T. G. Bryant

### Bantam Stores Limited

Head Office, Burlington, Ontario  
President — J. Crofton

### Mac's Convenience Stores Limited

Head Office, Toronto, Ontario  
President — R. S. Maich  
Executive Vice President and General Manager — E. C. Higgins  
Treasurer — R. F. Egerdie  
General Manager Ontario Region — J. DeWit  
General Manager Western Region — R. J. Pylypiw  
Director, Marketing and New Business Development — E. K. Dobrucki  
Manager Real Estate — B. J. Livingston  
Manager Merchandising — R. C. Broadhead

### Research & Development

London, Ontario  
Director — A. G. Sargant

### Londonderry Distributors Limited

Toronto, Ontario  
General Manager — W. L. Wilson

### Kayesil Limited

Head Office, London, Ontario

## Corporate Data

Head Office  
75 Bathurst Street  
London, Ontario N6B 1N8

Mailing Address  
P.O. Box 2185  
London, Ontario N6A 4E5

Transfer Agents  
The Canada Trust Company  
Toronto, Calgary and Vancouver

Auditors  
Clarkson, Gordon & Co.  
Chartered Accountants

**Silverwood Industries Limited**  
75 Bathurst Street, London, Ontario N6B 1N8