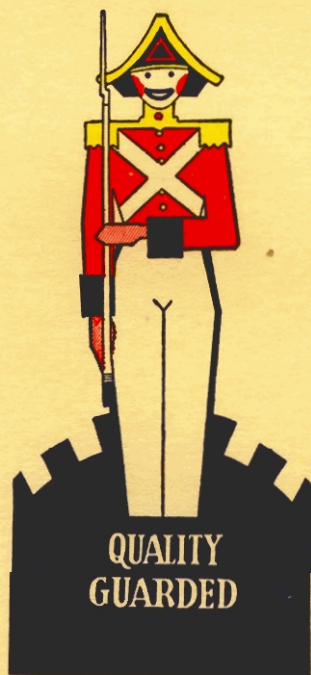


EASTERN DAIRIES LIMITED



**Annual Report
for the year ending
31st March, 1936**

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MCGILL UNIVERSITY

OFFICERS***President and Managing Director***

W. R. AIRD, Montreal

Vice-President

P. A. THOMSON, Montreal

DIRECTORS

W. R. AIRD Montreal

A. J. NESBITT Montreal

C. B. PRICE Montreal

P. A. THOMSON Montreal

H. R. TRENHOLME Montreal

E. W. KING, Secretary-Treasurer

Fiscal Agents

NESBITT, THOMSON & COMPANY, LIMITED

Transfer Agents

MONTREAL TRUST COMPANY

Auditors

P. S. ROSS & SONS

To the Shareholders:

YOUR Directors submit herewith their Annual Report covering the operations of your Company and its Subsidiaries for the year ended March 31st, 1936, accompanied by a Consolidated Statement of Assets and Liabilities and Surplus Account, duly certified by the Company's auditors.

The net results from operations for the year, and for the previous fiscal year ended March 31st, 1935, are as follows:

	1936	1935
Operating Profit.....	\$349,576.49	\$431,625.03
LESS:		
Bond Interest.....	\$174,085.00	\$175,925.00
Premium paid on foreign funds for Bond Interest.....	1,726.64	798.25
Depreciation.....	215,000.00	225,000.00
Amortization of Bond Discount and Expense.....	10,453.84	10,453.84
	<u>401,265.48</u>	<u>412,177.09</u>
Net Loss.....	<u>\$ 51,688.99</u>	Net Profit <u>\$ 19,447.94</u>

It will be noticed that the Operating Profit decreased by \$82,048.54, and that the cost of paying interest and premium on your Company's Bonds decreased by \$911.61, and that the amount set aside for depreciation decreased \$10,000.00, resulting in a net decrease in earnings of \$71,136.93.

In comparing the amount credited to the Reserve for Depreciation with previous years it should be noted that the loss incurred from the sale or disposal of horses was previously taken care of through this Reserve. For the current fiscal year this loss, which amounted to \$16,391.75, was a direct charge against the Operating Profit.

During the year collections have been particularly good, and your Directors were enabled to credit the Surplus Account with special reserves previously set up totalling \$25,472.28 which are not now required. Your Directors are of the opinion that the financial statements have been prepared on a conservative basis and that the Company has ample reserves to provide for losses which may be incurred.

To comply with the amendments to the Dominion Companies Act which came into effect during the fiscal year, remuneration of Executives, Directors' Fees and Legal Fees are recorded separately. These expenses include the Executives, Directors and Legal expenses of Eastern Dairies Limited and its Subsidiary Companies.

The excess of Current Assets over Current Liabilities is considerably higher than at the end of the previous year. Cash-on-hand and in Banks, less Bank Loans totalled \$187,360.09 compared to \$147,830.43 at the end of the previous year. Inventories of products and supplies, and Accounts Receivable, are approximately the same as at the end of the previous year.

During the year your Company purchased on the open market \$50,000.00 of your Company's 6% Twenty Year Collateral Trust Bonds due May 1st, 1949, and delivered to the Montreal Trust Company, Trustee,

\$56,500.00 of these bonds for cancellation, in accordance with the terms of the Trust Deed. On March 31st, 1936, your Company and its Subsidiaries held \$56,000.00 of these bonds.

The value of your Company's Fixed Assets is approximately the same as at the end of the previous year, and these Assets are at the present time in excellent condition.

During the year your Company obtained a satisfactory increase in the value and volume of sales, obtained principally in the sales of butter, cream, ice cream and other higher priced products. This increase however has been to a great extent offset by increases in the cost of the products sold, and by decreases in selling prices which your Company was obliged to make in order to meet competition.

The decreases in selling prices apply particularly to the selling price of ice cream in the City and vicinity of Toronto, and while a substantial increase in sales was obtained, the profits on these sales were less than for the previous year. The sales of ice cream in that territory did not increase in much greater proportion than in other territories where a similar decrease in selling prices was not put into effect, and your Directors are of the opinion that the increase in sales would have been obtained at the selling prices previously in effect. Your Subsidiary in Toronto was, however, obliged through competition to reduce prices by approximately twenty cents per gallon of ice cream.

During the year your Directors decided, in association with other distributors, to reduce the selling prices of cream in order to promote the consumption of this product. While the profit from the increased sales did not cover the decrease in selling prices, nevertheless it had the effect of increasing sales, which it is hoped will accrue to the benefit of your Company.

Your Company has continued the policy of exporting Powdered Milk and other By-Products produced over the requirements for Canadian consumption. Owing to the conditions prevailing in the export market these sales were made at considerably lower prices than the previous year, and the earnings of your Company were affected accordingly. It is apparent that for some considerable time it will be necessary for your Company to continue to direct its attention principally to the Canadian markets in order to obtain a satisfactory return from the sale of these products.

During the year milk purchased for the manufacture of Milk Powder and other By-Products was included in the regulations imposed by the Milk Control Board of the Province of Ontario. The price paid was computed on the basis of the average market value of butter and cheese. Effective July 1st, 1935, and continuing until the end of the manufacturing season, the Government of the Dominion of Canada paid a bonus of 1½¢ per pound of cheese to producers supplying milk for the manufacture of this product, and in the month of October 1935 the same authorities arranged for the export out of the country of several million pounds of butter which had the effect of increasing the market value of the butter remaining. These actions had the effect of increasing the price paid for milk for manufacturing purposes, causing an increase in expense to your Company of approximately \$10,000.00 over the previous year.

Sales through relief organizations decreased during the year, partly attributable to an improvement in employment conditions. During the year a number of municipalities discontinued the practice of distributing vouchers for milk and in place distributed cash. In almost every instance where this

change was made the amount of milk purchased by these families was very considerably reduced. It is apparent that where the cash system is in force the amount spent for food products is much lower than where the voucher system is used. It is also a fact that in many instances where relief is discontinued as employment is obtained, the consumption of milk is low until such time as the families concerned are again firmly established on a wage earning basis.

During the year your Directors decided to remodel some of the properties of your Company, the cost of which was charged to Operating Expenses. At the time of these changes all minor repairs and the painting of machinery and buildings were completed. This is work which will not have to be repeated for a number of years, and it is therefore anticipated that this expense will be lower during the current year and the earnings of your Company thereby considerably improved.

The long periods of extremely cold weather in some sections of the country was a factor in increased Operating Expenses. Such weather has the effect of materially increasing the cost of bottles, maintenance of automobiles, fuel and many other items. It also constitutes a real hardship on the salesmen and the horses, increasing the cost of labour through illness, and also the cost of the replacement of horses. It is the policy of your Company to be as generous as possible with employees who are absent through illness, particularly those employees who are obliged to do their work under such severe weather conditions.

During the year your Company's expense for taxation increased by approximately 15%, and the total amount paid in taxation amounts to a considerable sum, included in the Operating Expenses of your Company. Since the end of the fiscal year there has been a further increase in sales tax of 2%. It is estimated that this change in sales tax alone, will increase the expenses of your Company over the previous year by approximately \$20,000.00.

Your Directors considered it advisable to increase the advertising appropriation over the previous year. Under present conditions whereby both the purchase and selling prices of the bulk of your Company's products are fixed by government regulations, it is important that every effort be made to maintain and increase the volume of business done.

The decrease in the earnings of your Company occurred principally in the City of Toronto. In this location it was impossible through negotiations with the Producers' Association or the Milk Control Board to obtain the customary reduction during the summer months in the purchase and selling prices of milk. Your Directors are convinced that this action has seriously affected the consumption of fluid milk in that territory, and that the policy of reducing prices during the high production and low cost period is sound. It is undoubtedly a fact that the price of milk in comparison with the cost of other foods has a bearing on the consumption, and this applies particularly in connection with the comparative prices of evaporated and condensed milk. This opinion is substantiated by the statistics published by the Dominion Bureau of Statistics, which show very clearly that the per capita consumption of butter in the Dominion of Canada follows very closely the trend of the selling prices of that product.

In addition, the high price paid to the producers for fluid milk in comparison to the price paid for milk for the production of butter, cheese and other similar products has encouraged the purchase and sale of milk at lower prices, in defiance of the regulations imposed by the Milk Control Board. The Milk Control Board of the Province of Ontario has been un-

willing or unable to enforce their regulations to prevent this competition. It has been the policy of your Company to adhere strictly to all regulations imposed by any properly constituted authority, but in so doing it has been almost impossible to maintain the output in this locality of some of the products handled.

Your Directors desire to repeat the statement made in the previous Report that the future of your Company depends to a very great extent on the actions and attitude of the various Milk Control Boards. In the opinion of your Directors, considerable adjustment is necessary if the regulations imposed are to accrue to the benefit of the industry. When considering these regulations consideration should be given to the market value of other foods, and particularly the market value of all dairy products. It is also important that the ultimate price to the consumer should be the same, regardless of the manner in which the product is distributed. The problem of enforcement of the regulations imposed has proved to be one of the most disturbing factors in connection with the legislation of the dairy industry. Where proper enforcement is not maintained, those in the industry who adhere to the regulations imposed suffer at the hands of those who are able to evade the regulations.

Your Directors are of the opinion that more consideration should be given to the welfare of the distributors of dairy products. For each producer supplying milk to a large city there is at least one family whose livelihood depends on employment in the pasteurization or distribution of milk, and it is important for the welfare of the community that these families receive a reasonable wage and be able to live on a sound economical basis. It is also important that those who have invested their money in this industry receive a fair return on their investment, in order that the Companies may be able to finance, maintain and market the production of dairy products in the Dominion of Canada.

Your Directors appreciate the magnitude of the work entrusted to the Milk Control Boards and the problems which they have to solve and also the necessity of paying the producers a fair price for their products. Consequently the management of your Company is doing everything possible to cooperate with these Boards with a view to improving the operations of the Industry.

Your Directors again wish to express their appreciation of the services rendered by the officers and staff of your Company.

Submitted on behalf of the Board.

W. R. AIRD, *President.*

EASTERN DAIRIES, LIMITED, AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

AT 31st MARCH, 1936

ASSETS

Current:

Cash on Hand and in Banks.....	\$239,360.09	
Accounts and Bills Receivable, less Reserve for Bad Debts.....	307,283.80	
Accrued Interest and Dividends Receivable.....	7,246.68	
Due from a Director of a Subsidiary Company.....	3,291.88	
Inventories of Products, Raw Materials, Ingredients, Manufacturing, Advertising and other Supplies, certified by responsible officials of the Companies as being on hand and valued at cost price.....	164,739.97	
Investment Securities at Cost*		
Stocks and Bonds of other Companies.....	\$291,690.76	
Preferred Shares of Subsidiary Companies ..	163,387.25	
Company's own Bonds and Common Shares held by Subsidiary Companies.....	51,815.00	
Company's own Common Shares set aside for employees.....	7,500.00	
	514,393.01	
*The aggregate value of these securities at 31st March, 1936, based upon available market quotations, or, in the absence thereof, upon estimated fair values, was approximately \$220,477.26 less than the above book value.		
Cash Surrender Value of Life Insurance Policies.....	20,399.20	
		\$ 1,256,714.63

Other Assets:

Bonds held for Sinking Fund Payments—Par Value \$9,500.00	8,020.15	
Deferred Accounts Receivable, re Ice Cream Equipment, less Reserve for Bad Debts.....	40,416.64	
Balances of Agreements of Sale.....	35,500.00	
Guarantee Deposit with Public Utility Board of Manitoba	1,090.00	
		85,026.79

Fixed:

Land, Buildings, Plant and Machinery, Equipment and Furniture and Fixtures at replacement values new, as established by the Canadian Appraisal Company Limited in respect of each subsidiary at various dates between 1st December, 1925 and 9th June, 1928, with subsequent additions at cost.....	7,431,494.71	
Prepaid and Deferred Expenses.....	57,625.52	
Bond Discount and Expenses, and Commission on Preferred Shares, less amounts written off.....	294,023.76	
Organization Expense.....	20,020.81	
Goodwill (being excess of purchase price of Subsidiary Companies over total book value of Capital Stocks and Surpluses thereof at dates of acquisition).....	2,047,789.87	
		<u>\$11,192,696.09</u>

LIABILITIES

Current:

Bank Loan—Secured.....	\$ 52,000.00	
Accounts Payable and Accrued Liabilities.....	328,833.49	
Taxes, due and accrued.....	21,984.76	
Unredeemed Tickets.....	16,861.11	
Salesmen's Deposits.....	55,264.45	
Accrued Bond Interest.....	71,012.50	
		\$ 545,956.31
Deferred Revenue.....		8,172.18
Reserves for Depreciation.....		2,090,309.41

Capital of Subsidiary Companies outstanding:

Crescent Creamery Company Limited—		
7% Cumulative Preferred Stock (callable at 105% upon 30 days' notice)		
Authorized 14,500 shares of \$100.00 each		
Issued and Outstanding 10,000 shares.....	1,000,000.00	
(Dividend in arrears since 1st April, 1933, except for \$1.00 per share paid 16th April, 1934)		
Acme Farmers Dairy Limited—		
7% Cumulative Preferred Stock		
Authorized 7,500 shares of \$100.00 each		
Issued and Outstanding 7,000 shares.....	700,000.00	
(Dividend in arrears since 1st January, 1933)		
Six Per Cent Twenty Year First Collateral Trust Convertible Bonds, Series "A", due 1st May, 1949.....		2,840,500.00

Capital:

7% Cumulative Preferred Stock (callable at 105% upon 30 days' notice)		
Authorized 50,000 shares of \$100.00 each		
Issued and Outstanding 25,000 shares.....	2,500,000.00	
(Dividend in arrears since 1st January, 1933)		
Common Stock:		
Authorized 200,000 shares of no par value*		
Issued and Outstanding 95,000 shares.....	1,498,535.00	
Subscribed and allotted at 31st March, 1935—		
6,577 shares.....	131,540.00	
LESS: Issued and paid during year 1,577 shares.....	31,540.00	
5,000 shares.....	100,000.00	
Earned Surplus.....		9,223.19
*39,767 shares of no par value Common Stock reserved for conversion of bonds.		

\$11,192,696.09

Auditors' Certificate

Eastern Dairies, Limited, Montreal.

Montreal, 4th June, 1936.

We have compared the attached Consolidated Balance Sheet at 31st March, 1936, with the books and records of Eastern Dairies, Limited, and its Subsidiaries, with the exception of The Producers Dairy, Limited, for which we have received certified statements, and have obtained all the information and explanations that we have required.

We certify that, in our opinion, the attached Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of affairs of Eastern Dairies, Limited, and its Subsidiaries at 31st March, 1936, according to the best of our information and the explanations given to us, and as shown by the books of the Companies.

P. S. ROSS & SONS,
Chartered Accountants.

Approved on behalf of the Board:

W. R. AIRD (Director)

H. R. TRENHOLME (Director)

EASTERN DAIRIES, LIMITED, AND SUBSIDIARIES

CONSOLIDATED EARNED SURPLUS ACCOUNT

AT 31st MARCH, 1936

Balance at Credit 31st March, 1935.....	\$ 35,772.61	
ADD:		
Adjustment of Reserves for Bad Debts.....	\$ 25,472.28	
LESS:		
Adjustment of Income Tax.....	332.71	
	<u>25,139.57</u>	\$60,912.18
Profits from Operations for the year ended 31st March, 1936, before providing for the undernoted charges..	397,007.52	
Profit on Sale of Securities.....	52.50	
Discount on Bonds redeemed.....	6,541.29	
Income from Investments.....	11,669.80	
	<u>415,271.11</u>	
LESS:		
Bond Interest.....	\$174,085.00	
Premium paid on Foreign Funds for Bond Interest	1,726.64	
Remuneration of Executives (Including all subsidiary companies).....	61,096.96	
Directors' Fees.....	1,880.00	
Legal Fees.....	1,116.39	
Depreciation.....	215,000.00	
Amortization of Bond Discount and Expense.....	10,453.84	
	<u>465,358.83</u>	
Net Loss for the year ended 31st March, 1936, before providing for Provincial Income Taxes.....	50,087.72	
ADD:		
Provision for Provincial Income Taxes.....	1,601.27	
Net Loss for the year ended 31st March, 1936.....		51,688.99
Balance at Credit 31st March, 1936.....		<u>\$ 9,223.19</u>

SUBSIDIARY COMPANIES

ACME FARMERS DAIRY, LIMITED TORONTO, ONT.

Main Plant	Walmer Road and Bridgman Street
Ice Cream Plant	254 Berkeley Street
Distributing Depot	2359 Danforth Avenue
“ “	Centre Island
Powder and Condensing Plant	Napanee, Ont.
Powder, Condensing and Cheese Plant	Sydenham, Ont.
Storage Plant	21 Essex Avenue

HAMILTON, ONT. 797 Barton Street, East

ELMHURST DAIRY, LIMITED MONTREAL, QUE.

Main Plant	7460 Upper Lachine Road
Distributing Depot	101 River Street, Verdun
“ “	6240 Hutchison Street, Outremont
Creamery	Richmond, Que.

SUBSIDIARY COMPANIES

CRESCENT CREAMERY COMPANY, LIMITED WINNIPEG, MAN.

Main Plant	542 Sherburn Street
Ice Cream Plant	86 Burnell Street
Storage Plant	85 Lombard Street
Distributing Depot	Kenora, Ont.
“ “	Fort William, Ont.
“ “	Selkirk, Man.
Branch	Killarney, Man.
“	Portage la Prairie, Man.
“	Swan River, Man.
“	Vita, Man.
“	Yorkton, Sask.
Receiving Station	Ste. Anne, Man.
“ “	Letellier, Man.
“ “	Steinbach, Man.

THE PRODUCERS DAIRY, LIMITED OTTAWA, ONT.

Main Plant	275 Kent Street
Garage and Stables	28 Arthur Street
Distributing Depot	200 Boulevard St. Joseph, Hull, P.Q.
Creamery	Almonte, Ont.
“	Shawville, Que.
Cheese Factory	Township of Ramsay, Ont.

