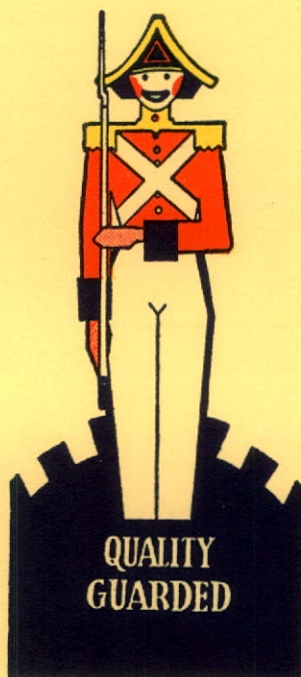


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EASTERN DAIRIES LIMITED



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**Annual Report
for the year ending
31st March, 1938**

EASTERN DAIRIES, LIMITED

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, 1938, 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, 1937, are as follows:

	1938	1937
Operating Profit.....	\$298,371.24	\$229,691.68
LESS:		
Bond Interest.....	\$167,157.50	\$170,712.50
Premium paid on foreign funds for Bond Interest	1,819.90	1,748.78
Amortization of Bond Discount and Expense	12,514.49	10,453.84
	181,491.89	182,915.12
Profit before Depreciation	116,879.35	46,776.56
Depreciation.....	218,444.30	225,918.05
Net Loss.....	\$101,564.95	\$179,141.49

It will be noticed that there was a net increase in earnings of \$70,102.79 before providing for Depreciation. The amount credited to the Reserve for Depreciation is considered sufficient in view of the excellent condition in which the plants are maintained.

During the year your Company purchased \$78,000.00 of your Company's 6% Twenty Year Collateral Trust Bonds due May 1st, 1949, and delivered to the Montreal Trust Company, Trustee, \$63,000.00 of these bonds for cancellation, in accordance with the terms of the Trust Deed. On March 31st, 1938, your Company and its Subsidiaries held \$68,000.00 of these bonds.

During the year your Company obtained an increase in the value of sales. This increase was obtained principally in the sales of fluid cream, ice cream, popsicles and similar products, and milk powder.

On November 1st, 1937, by order of the Milk Control Board of the Province of Ontario, the prices of milk were increased in the city and vicinity of Toronto. The increase in the retail selling price was from 12c to 13c per quart. This increase had the effect of materially decreasing the consumption of milk in the City of Toronto during the winter months. Notwithstanding this condition your Company's sales of milk in the City of Toronto were maintained with those of the previous year.

In June, 1937, the Government of the Province of Manitoba appointed the Milk Control Board of Manitoba to assume the control of the marketing of dairy products which was previously exercised by the Municipal and Public Utility Board of the Province of Manitoba.

EASTERN DAIRIES, LIMITED

During the months of December, 1937, January and February, 1938, the Milk Control Board of Manitoba conducted a public inquiry of the milk industry. Representatives of Crescent Creamery Company, Limited, your Subsidiary in the City of Winnipeg, Manitoba, appeared before the Board during the inquiry for the purpose of furnishing information and statistics, and protecting the interests of your Company in the City of Winnipeg. In order to insure an efficient presentation of the business of your Company considerable costs in legal fees were incurred which had to be absorbed as an operating charge during the year.

Your Company obtained a considerable increase in the sales of ice cream, popsicles, sherbicles and similar products. Furthermore, the selling prices of ice cream in some localities were on a more satisfactory basis than during the previous fiscal year. Sales of milk powder were also considerably higher than for the previous fiscal year and these sales were made at higher prices than during the previous year. The earnings of your Company from these sources were therefore improved over the previous year.

The marked increase in the market value of butter, which occurred during the Fall and Winter months, was of benefit to your Company. Butter which was purchased and manufactured during the summer months was disposed of at the increased values. The higher cost of butter resulted in some decrease in consumption which affected the sales of your Company, but the net result was an improvement over the previous year. Your Company has no control over the market value of butter which varies with the prices which can be obtained for butter to be exported out of the country.

The increase in the market value of butter, however, had the effect of increasing the cost of milk purchased for the supply of milk powder, ice cream, fluid cream and miscellaneous dairy products. This milk is purchased in competition with milk purchased for the manufacture of butter and cheese, and the cost therefore follows the trend of the market value of these products.

The management is making every effort to reduce expenses consistent with efficient operation. The ratio of expenses to sales was lower than for the previous fiscal year. During the year your Company found it necessary to make some adjustments to meet the general rise in the scale of wages, the principal change being the completion of arrangements placing all of the employees of your Company on a six-day working week basis. The cost of supplies was also greater than during the previous year.

Your Company's expense for direct taxation amounts to approximately \$140,000.00 per year. This does not take into consideration taxation which is included in the prices of supplies purchased.

Your Directors wish to express their appreciation of the services of the officers and employees of the Company who, under the very difficult conditions prevailing in the dairy industry for some time, are making every effort towards putting the business of your Company on a more profitable basis.

Submitted on behalf of the Board.

W. R. AIRD, President.

ASSETS

Current:

Cash on Hand and in Banks.....	\$144,678.06	
Accounts and Bills Receivable, less Reserve for Bad Debts..	361,648.95	
Accrued Interest and Dividends Receivable.....	4,579.04	
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.....	171,971.14	
Investment Securities at cost*		
Stocks and Bonds of other Companies.....	\$249,383.26	
Company's own bonds held by Subsidiary Company.....	39,990.00	
		289,373.26
*The aggregate value of these securities at 31st March 1938, based upon available market quotations, or, in the absence thereof, upon estimated fair values, was approximately \$174,098.26 less than the above book value.		
Cash Surrender Value of Life Insurance Policies.....	26,434.94	
		\$ 998,685.39

Other Assets:

Preferred Shares of Subsidiary Companies at cost.....	248,380.62	
Company's own Common Stock—		
Held by Subsidiary Companies (at cost).....	\$11,825.00	
Set aside for Employees.....	7,500.00	
		19,325.00
Company's own bonds held for Sinking Fund purposes—		
Par Value \$21,500.00.....		13,015.02
Deferred Accounts Receivable, re Ice Cream Equipment, less Reserve for Bad Debts.....	54,727.21	
Balances of Agreements of Sale.....	35,500.00	
		370,947.85

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.....	7,546,439.04
Prepaid and Deferred Expenses.....	68,808.47
Bond Discount and Expenses, and Commission on Preferred Shares, less amounts written off.....	268,895.31
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
Deficit.....	279,795.28
	<u>\$11,601,382.02</u>

Approved on behalf of the Board:

W. R. AIRD, (Director)

C. B. PRICE, (Director)

ED AND SUBSIDIARIES

ALANCE SHEET

ARCH 1938

LIABILITIES

Current:

Bank Loans—Secured.....	\$ 84,000.00	
Unsecured.....	15,000.00	\$ 99,000.00
Accounts Payable and Accrued Liabilities.....	357,947.59	
Taxes, Due and Accrued.....	23,199.31	
Unredeemed Tickets.....	15,614.51	
Salesmen's Deposits.....	57,087.28	
Accrued Bond Interest.....	67,950.00	\$ 620,798.69
Deferred Revenue.....		12,186.13
Reserves for Depreciation.....		2,451,862.20

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.....		2,718,000.00

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—100,000 shares.....	1,598,535.00	
*32,616 shares of no par value Common Stock reserved for conversion of bonds.		

\$11,601,382.02

Auditors' Certificate

Eastern Dairies, Limited, Montreal.

Montreal, 6th June 1938.

We have compared the above Consolidated Balance Sheet at 31st March 1938, 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 above 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 1938, 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

EASTERN DAIRIES, LIMITED AND SUBSIDIARIES

CONSOLIDATED EARNED SURPLUS ACCOUNT

AT 31st MARCH 1938

Balance at Debit 31st March 1937		\$178,360.06
DEDUCT:		
Adjustment of taxes pertaining to prior periods..	\$ 518.34	
LESS:		
Other adjustments.....	388.61	
	129.73	
		\$178,230.33
DEDUCT:		
Profits from operations for the year ended 31st March 1938, before providing for the under- noted charges.....	317,605.50	
Discount on Bonds redeemed.....	24,863.37	
Income from Investments.....	12,196.54	
	354,665.41	
LESS:		
Loss on sale of securities.....	3,634.17	
Bond Interest.....	167,157.50	
Premium paid on Foreign Funds for Bond In- terest.....	1,819.90	
Remuneration of Executive Officers.....	38,734.56	
Directors' Fees.....	1,820.00	
Legal Fees.....	10,613.25	
Amortization of Bond Discount and Expense.....	12,514.49	
	236,293.87	
Net Profit for the year ended 31st March 1938, be- fore providing for Depreciation and Provincial Income Taxes.....	118,371.54	
LESS:		
Provision for Depreciation.....	218,444.30	
Provision for Provincial Income Taxes.....	1,492.19	
	219,936.49	
Loss for the year ended 31st March 1938		101,564.95
Balance at Debit 31st March 1938		\$279,795.28

SUBSIDIARY COMPANIES

ACME FARMERS DAIRY, LIMITED TORONTO, ONT.

Main Plant	Walmer Road and MacPherson Ave.
Ice Cream Plant	254 Berkeley Street
Distributing Depot	2359 Danforth Avenue
“ “	Centre Island
Store	420 Spadina Road
Powder and Condensing Plant	Napanee, Ont.
Powder, Condensing and Cheese Plant	Sydenham, Ont.

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
Store	200 Boulevard St. Joseph, Hull, P.Q.
Creamery	Almonte, Ont.
“	Shawville, Que.
Cheese Factory	Township of Ramsay, Ont.

