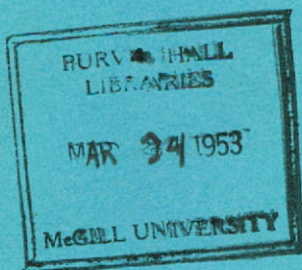


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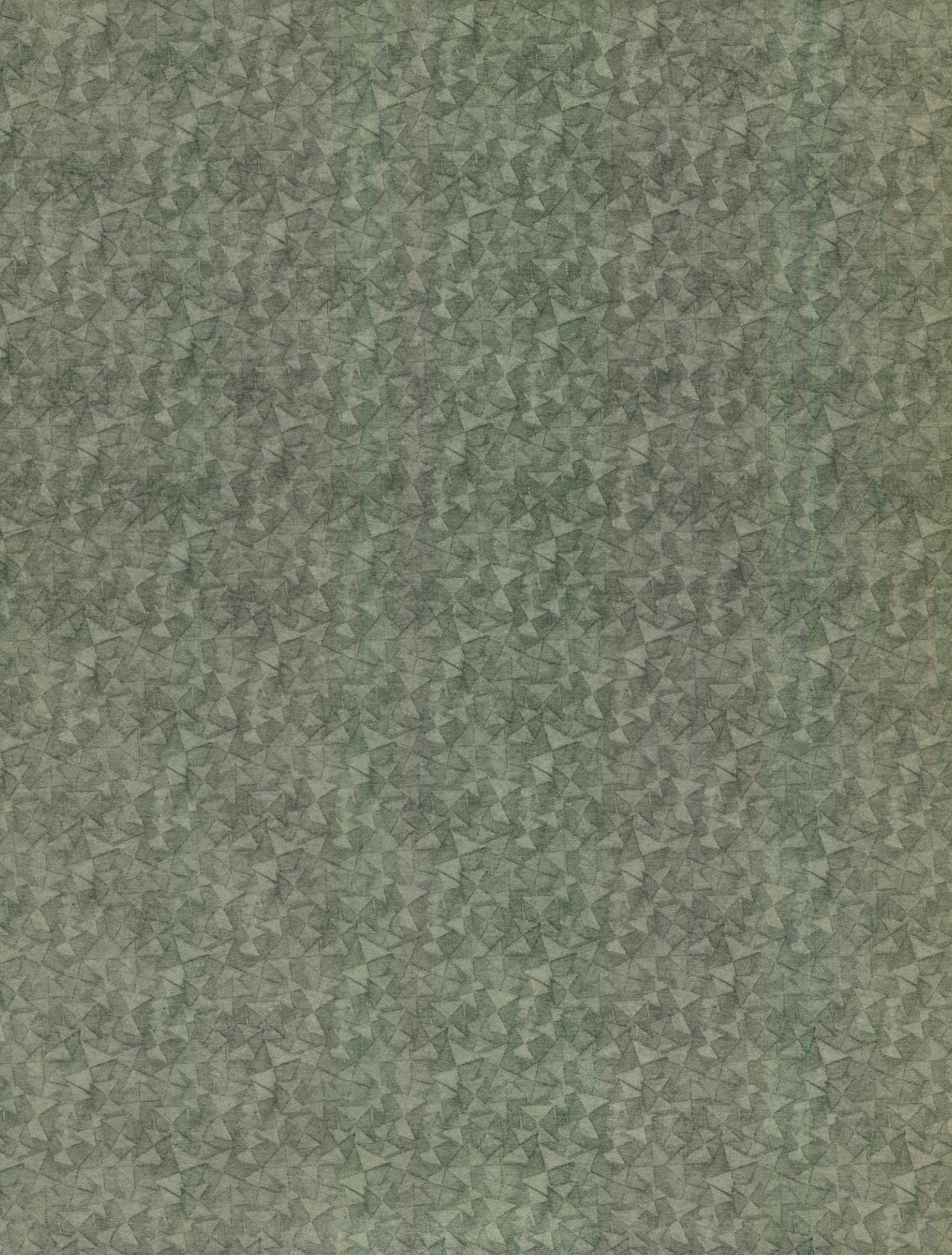
**HOWARD SMITH
PAPER MILLS LIMITED
AND
SUBSIDIARY COMPANIES**



**CONSOLIDATED
ANNUAL REPORT
DECEMBER THIRTY-FIRST
1940**







HOWARD SMITH PAPER MILLS, LIMITED

Head Office
407 McGill Street, Montreal



OFFICERS

President

HAROLD CRABTREE

Vice-Presidents

E. HOWARD SMITH

GEO. W. PAULINE

E. K. ROBINSON

Secretary and Treasurer

KENNETH G. PENDOCK

Assistant Secretary and Assistant Treasurer

M. G. PETERKIN



DIRECTORS

HAROLD CRABTREE
E. HOWARD SMITH
SIR HERBERT S. HOLT
W. H. HOWARD, K.C.
HOWARD MURRAY, O.B.E.
GEO. CHAHOON, JR.
GEO. M. MCKEE

J. H. GUNDY
W. D. ROBB
C. L. BURTON
J. D. JOHNSON
W. A. ARBUCKLE
GEO. W. PAULINE
DE GASPE BEAUBIEN

Auditors

MESSRS. P. S. ROSS & SONS

The Thirteenth Annual Report

of the Directors of

HOWARD SMITH PAPER MILLS, LIMITED

Presented to the Shareholders at their Annual Meeting, Twenty-first April, 1941.

—

To the Shareholders:

Your Directors present herewith the Thirteenth Annual Consolidated Report of your Company and its Subsidiaries for the year ended December 31, 1940, comprising the Balance Sheet, Profit and Loss Statement, Surplus Account and Auditors' Report. Your Company experienced a year of record activity. All Mills operated to full capacity throughout the year and these reports reflect the progress that was made. Your attention is directed to the following features:

PROFIT AND LOSS STATEMENT

Earnings from this year's operations and other revenues amounted to \$4,513,882.99, being an increase of \$1,392,412.09 over the earnings for the previous year.

To meet the additional Income Tax, and Excess Profits Tax imposed by the Dominion Government and the heavy increase in the rate of Profits Taxes of the Provinces of Ontario and Quebec, it has been necessary to provide an amount of \$1,794,692.99 compared with \$330,368.69 in 1939.

Thus, notwithstanding the substantial increase in earnings, the Net Profits of \$1,134,921.49 (after all deductions, including provision of \$138,755.89 for reduction in value of Inventories) are \$312,195.86 less than those for the previous year.

BALANCE SHEET

The Bank Loans, shown at \$250,000 in last year's Balance Sheet, were entirely paid off during the year. Bonds outstanding were reduced by \$375,000.

With greatly increased activities it became necessary to provide larger inventories at all mills, especially in the main items of Raw Materials. This has resulted in an increase in our Inventories of \$1,183,167.91 over the previous year.

Working Capital now stands at \$3,227,659.05.

With the exception of a few shares the balance of the share capital of Alliance Paper Mills Limited was acquired during the year.

The outstanding shares of the Howard Smith Chemicals Limited were also acquired during the year and its Balance Sheet and Profit and Loss Statement for the year have been consolidated in the attached report for the first time.

With the likelihood of War continuing throughout 1941 we can look forward to another year of Industrial activity. What conditions in that year may be it is not possible to forecast. Your mills are, however, in a position to give a good account of themselves and the employees at all Divisions have demonstrated their willingness to co-operate with the Management in every way to the end that we may render the greatest service and contribution to the great task before us.

Your Directors wish to express their thanks to the Officers, Staff and Employees for the very efficient service which they rendered to your Company during the year.

Submitted on behalf of the Board,

HAROLD CRABTREE,
President.

Montreal, March 15, 1941.

CONSOLIDATED

HOWARD SMITH PA

AND SUBSIDIARY COMPANIES

Current Assets:

Cash in Hand and at Banks	\$ 340,885.99	
Investment in Bonds—at cost (quoted market value \$69,753.68)	72,417.05	
Accounts and Bills Receivable, less Reserve for Doubtful Accounts	2,151,382.25	
Amount due from a Subsidiary Company (not consolidated herein)	3,058.62	
Inventories of Finished Products, Work in Process, Raw Materials and Operating Supplies, certified by responsible Officials as being on hand and valued at laid-down purchased or manufacturing cost determined in accordance with the Companies' usual practice, or at current market price, whichever was lower, and advances on Pulpwood Contracts and Operations	3,806,802.27	
	\$ 6,374,546.18	

Other Assets:

Cash Surrender Value of Life Insurance Policies	\$ 44,155.95	
Mortgage Receivable	996.69	
Investment in a Subsidiary Company (not consolidated herein)	27,000.00	
Investment in Other Companies at book value	165,155.00	
Guarantee Deposits	98,994.11	
	336,301.75	

Deferred Charges		34,379.52
Unamortized Bond Refunding Expense		80,000.00

Fixed Assets at or below cost:

Land, Buildings, Plant, Equipment, etc.	\$ 22,969,729.69	
Leasehold and Freehold Timber Limits and Water Power	2,418,807.61	
	25,388,537.30	

\$ 32,213,764.75

Approved on behalf of the Board:
 HAROLD CRABTREE, Director.
 E. HOWARD SMITH, Director.

BALANCE SHEET

HOWARD SMITH PAPER MILLS, LIMITED

AS AT 31ST DECEMBER 1940

Current Liabilities:

Accounts Payable.....	\$	707,705.87	
Notes Payable in connection with purchase of shares of a Subsidiary Company.....		404,350.00	
Dividend on Preferred Shares payable 15th January 1941.....		107,554.50	
Provision for Taxes—estimated.....		1,810,902.84	
Accrued Liabilities and Provision for Claims and Allowances.....		116,373.92	
			\$ 3,146,887.13

First Mortgage Bonds Outstanding:

Canada Paper Company—			
Authorized, less Bonds redeemed.....	\$	<u>3,625,000.00</u>	
Outstanding—Series "A":			
3% Serial Bonds due 4th June 1941.....	\$	125,000.00	
3½% Serial Bonds due 1942 to 1945.....		500,000.00	
4¼% 15 year Bonds due 1952.....		700,000.00	
			1,325,000.00

Howard Smith Paper Mills, Limited—			
Authorized, less Bonds redeemed.....	\$	<u>11,000,000.00</u>	
Outstanding—Series "A":			
3½% Serial Bonds due 1941 to 1944.....	\$	1,300,000.00	
(\$250,000. matures 1st December 1941)			
4% Serial Bonds due 1945 and 1946.....		700,000.00	
4¼% 15 year Bonds due 1951.....	\$	4,050,000.00	
Less: Held in Treasury.....		750,000.00	
			3,300,000.00
			5,300,000.00

Minority Shareholders' Interest in Subsidiary Company (consolidated herein)..... 1,641.62

Reserves for:

Depreciation and Depletion.....	\$	9,299,627.10	
Inventories.....		310,849.91	
Contingencies.....		93,122.42	
			9,703,599.43

Capital:

Six per cent Cumulative Preferred Stock (redeemable on sixty days' notice at \$110.00 plus accrued dividends):			
Authorized—75,000 shares of \$100.00 each.....	\$	<u>7,500,000.00</u>	
Issued at 31st December 1939.....	62,516 shares	\$ 6,251,600.00	
Issued during 1940 for acquisition of Preferred Shares of Subsidiary Companies	9,187 shares	918,700.00	
Outstanding 31st December 1940.....	71,703 shares	\$ 7,170,300.00	
Common Stock:			
Authorized—400,000 shares of no par value			
Issued at 31st December 1939.....	329,663 shares	\$ 1,010,285.76	
Issued during 1940 for acquisition of Common Shares of a Subsidiary Company.....	3,173 shares	3,173.00	
Outstanding at 31st December 1940	332,836 shares	1,013,458.76	
Capital Surplus.....			8,183,758.76
Earned Surplus.....			582,160.29
			3,970,717.52
			<u>\$ 32,213,764.75</u>

CONTINGENT LIABILITIES:

Trade Paper under Discount and Accommodation Notes.....	\$	15,855.63
Guarantee of Bank Loan against future wood deliveries.....		138,000.00

This is the Balance Sheet referred to in our Report of even date.
P. S. ROSS & SONS, Chartered Accountants.

Montreal, 15th February 1941.

HOWARD SMITH PAPER MILLS, LIMITED AND SUBSIDIARY COMPANIES

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CONSOLIDATED PROFIT AND LOSS AND EARNED SURPLUS ACCOUNT

as at 31st December 1940

Balance as at 31st December 1939.....	\$	3,287,777.52
ADD:		
Adjustments affecting prior periods in respect of—		
Inventory.....	\$	53,500.00
Purchase of additional shares of Subsidiary Companies—consolidated herein.....		22,497.16
Other adjustments affecting prior periods.....		3,247.46
	\$	79,244.62
DEDUCT:		
Additional Income and Profits Taxes—estimated.....	58,972.11	
		20,272.51
		\$ 3,308,050.03
DEDUCT:		
Amount written off Bond Refunding Expense.....		80,000.00
		\$ 3,228,050.03
Profit from Operations for the year ended 31st December 1940 before deducting the undernoted charges.....	\$	*4,446,590.54
Income from Investments:		
Subsidiary Company (not consolidated herein).....	\$	5,400.00
Other.....		13,673.77
		19,073.77
Royalties.....		48,218.68
	\$	4,513,882.99
DEDUCT:		
Directors' Fees.....	1,585.00	
Interest on Bonds.....	273,212.32	
Provision for Depreciation and Depletion.....	1,170,715.30	
Provision for Inventory Reserves.....	138,755.89	
Provision for Income and Excess Profits Taxes—estimated.....	1,794,692.99	
		3,378,961.50
Net Profit.....	\$	1,134,921.49
DEDUCT:		
Minority Shareholders' Equity therein.....	\$	60.00
Preferred Dividends of a Subsidiary Company.....		17.50
		77.50
	\$	1,134,843.99
DEDUCT:		
Preferred Dividends of Howard Smith Paper Mills, Limited.....		392,176.50
		742,667.49
Balance as at 31st December 1940.....	\$	<u>3,970,717.52</u>

*After charging Executive Officers' Salaries and Legal Fees amounting to \$80,539.92 and \$1,209.89 respectively.

HOWARD SMITH PAPER MILLS, LIMITED AND SUBSIDIARY COMPANIES

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CONSOLIDATED STATEMENT OF CAPITAL SURPLUS ACCOUNT

as at 31st December 1940

Balance as at 31st December 1939.....	\$	587,305.04
ADD:		
Adjustments arising from the acquisition of additional shares of Subsidiary Companies—consolidated herein.....		14,855.25
	\$	602,160.29
DEDUCT:		
Book value of Patents of a Subsidiary Company—consolidated herein.....		20,000.00
Balance as at 31st December 1940.....	\$	<u>582,160.29</u>

AUDITORS' REPORT

Montreal, Que., 15th February 1941

HOWARD SMITH PAPER MILLS, LIMITED,
M O N T R E A L .

We have made an examination of the Consolidated Balance Sheet of Howard Smith Paper Mills, Limited and certain of its subsidiary companies as at 31st December 1940. In connection therewith we examined the accounting records and other supporting evidence of the Howard Smith Paper Mills, Limited and of two of its subsidiary companies and have received all the information and explanations required by us; we have been furnished with certified statements as at the same date of the other subsidiary companies (consolidated therein) not examined by us.

Pursuant to Section 114 of the Dominion Companies Act (1934) we report that profits of a subsidiary company (not consolidated) are included in the attached statements only to the extent of dividends received.

In our opinion, based upon the examination and certified statements referred to above, the attached Consolidated Balance Sheet as at 31st December 1940 of Howard Smith Paper Mills, Limited and certain of its subsidiary companies, is properly drawn up so as to exhibit a true and correct view of the state of their combined affairs as at that date, according to the best of our information, the explanations given to us and as shown by the books of the companies examined by us and the statements furnished to us.

P. S. ROSS & SONS,
Chartered Accountants.



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Write Advertising Department at 407 McGill St., Montreal

The papers used in this report are:

*COVER—Mayfair Cover, Blue Antique, made by
Howard Smith Paper Mills, Limited.*

*TEXT PAGES—Carlisle Japan, Snowwhite Antique,
made by Howard Smith Paper Mills, Limited.*

*FLYLEAF—Embossed Glassine, Crystal, made by
Alliance Paper Mills, Limited.*





