

*Annual
Report*

1954

Howard Smith

**PAPER MILLS LIMITED
AND SUBSIDIARY
COMPANIES**



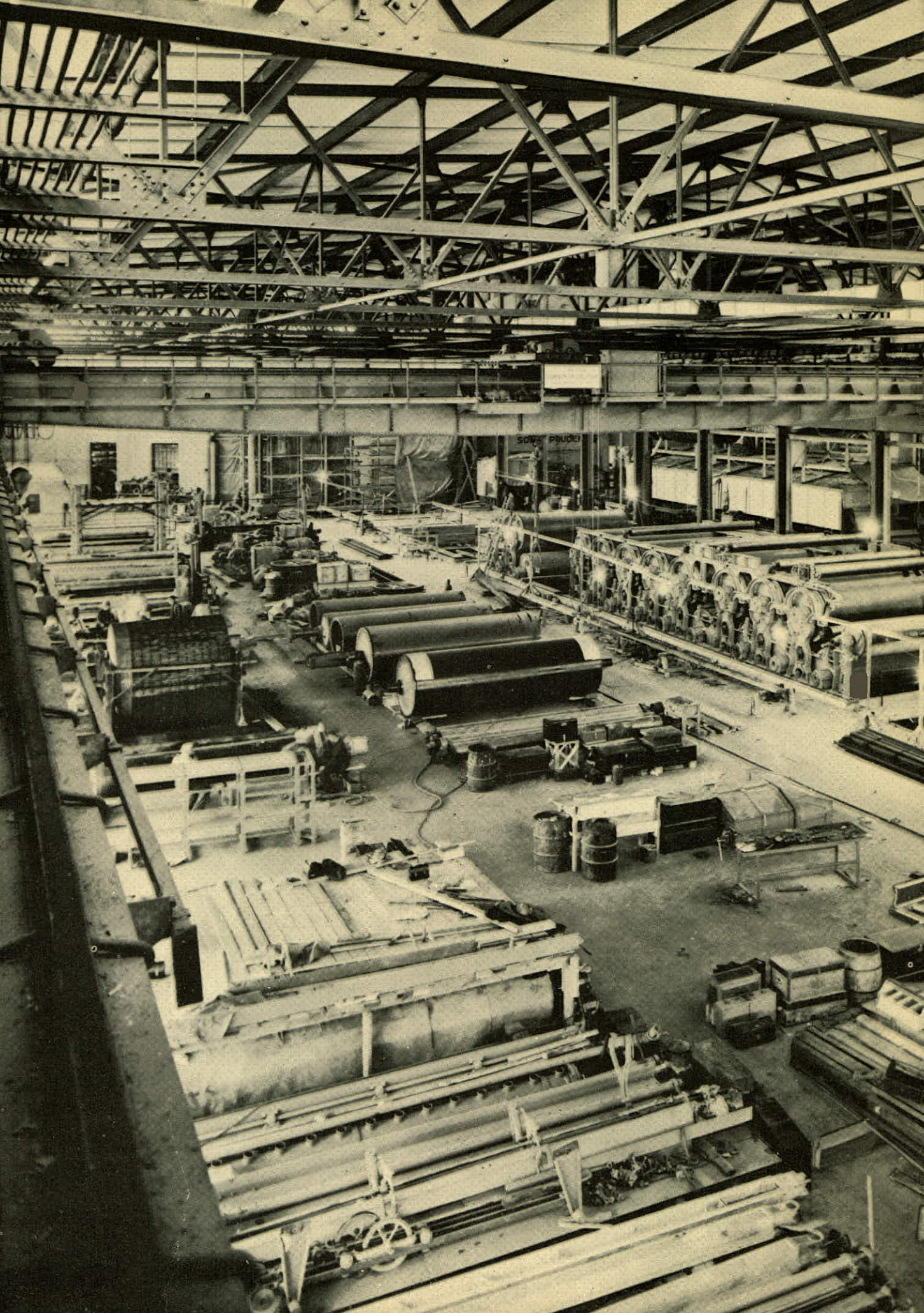
No. 6 PAPER MACHINE ROOM

Canada Paper Company

WINDSOR MILLS, QUE.

The new Number 6 Paper Machine Room under construction.
This paper machine is scheduled for early Spring start-up.
Note provision of space for an additional machine when required.

*Our front cover is a recent aerial view of the Cornwall Division
of Howard Smith Paper Mills Limited.*





Howard Smith Paper Mills Limited

AND SUBSIDIARY COMPANIES

Officers

HAROLD CRABTREE, C.B.E., *Chairman of the Board*

E. HOWARD SMITH, *President*

E. K. ROBINSON, *Executive Vice-President*

GEO. H. TOMLINSON, *Vice-President* W. H. AIRD, *Vice-President*

KENNETH G. PENDOCK, *Secretary and Treasurer*

J. R. LESLIE, M.B.E., *Controller*

Directors

D. S. ABBOTT W. A. ARBUCKLE

deGASPE BEAUBIEN, C.B.E. GEORGE W. BOURKE HAROLD CRABTREE, C.B.E.

H. ROY CRABTREE COL. R. D. HARKNESS, D.S.O., M.C.

W. H. HOWARD, Q.C., C.B.E. J. D. JOHNSON HOWARD MURRAY, O.B.E.

W. E. PHILLIPS, C.B.E., D.S.O., M.C. E. K. ROBINSON

E. HOWARD SMITH GEO. H. TOMLINSON

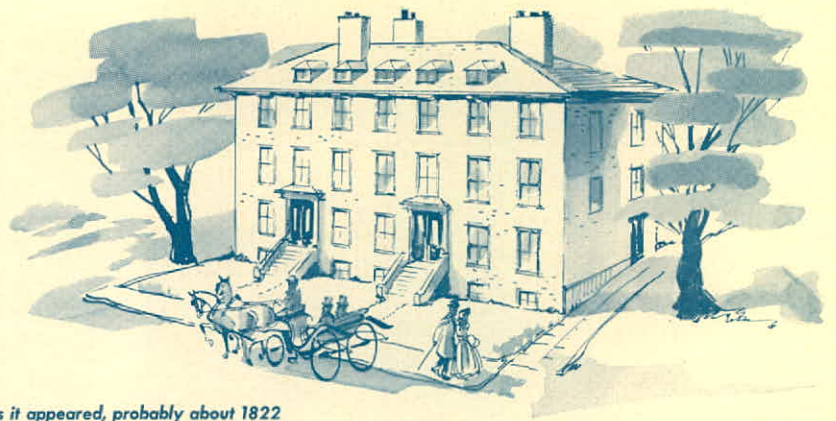
Auditors

MESSRS. P. S. ROSS & SONS

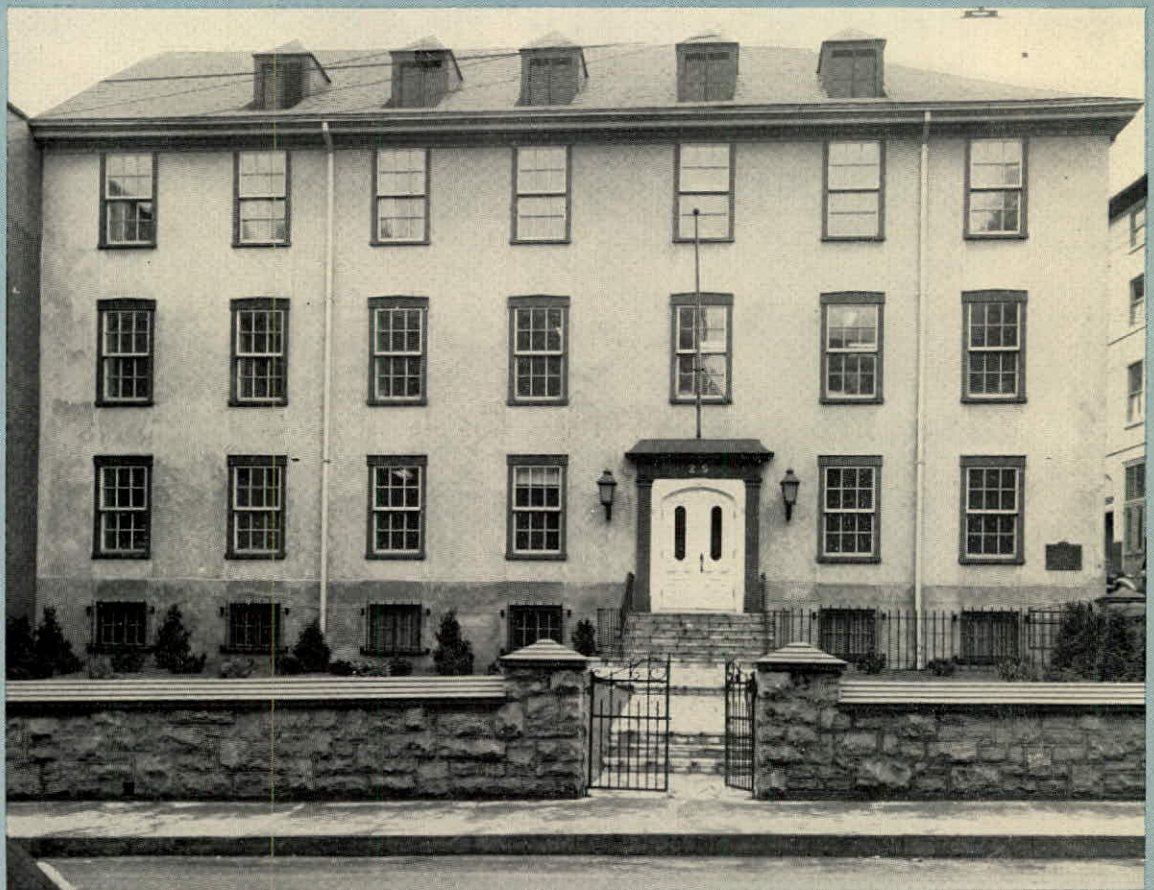
The Shares of the Company are dealt in on the following exchanges:

MONTREAL STOCK EXCHANGE TORONTO STOCK EXCHANGE

AMERICAN STOCK EXCHANGE



The Kent House as it appeared, probably about 1822



The Kent House as it appeared in 1954

The Kent House

25 ST. LOUIS STREET, QUEBEC CITY

Head Office: DONNACONA PAPER COMPANY

KENT HOUSE, at the corner of St. Louis and Haldimand streets, is old enough to be referred to — though without too definite authority — as the oldest house in Quebec City. In its three centuries of history, it has had 30 owners — and an unrecorded number of tenants. Among them have been many who have played important parts in Canadian history. Some, indeed, have had more distinguished careers than the royal prince whose name the house bears today and who actually only lived in it for a mere three years. However, by his reluctant fatherhood, Edward, Duke of Kent, achieved an importance greater than any of the other occupants, and because of his daughter, Queen Victoria, he has made his place in history secure.

The old house began well. Its builder was the great and good Louis d'Ailleboust, third Governor of New France in succession to Champlain and Montmagny. A military engineer, he had first come to the New World for missionary work among the Indians, had strengthened the defences of Montreal and served as Governor of that post during Maisonneuve's absence. In 1648 he was appointed Governor of New France and two years later built his house on St. Louis Street. After his death, his wife, one of the most devout and highly respected ladies of the colony, continued to occupy the residence until she, in turn, died in 1665 and left the property to the Sisters of the Hotel Dieu.

Six years later the house began its first association with the law and the administration of justice when ownership passed to Louis Theandre Chartier de Lotbiniere. Successively, he and his son occupied both this residence and the office of Civil and Criminal Lieutenant at Quebec City. As such they had jurisdiction over all cases in the Quebec district and in appeal from the judgments of the local or seigneurial judges.

Another profession enters the story with the purchase of the house in 1713 by Jean Mailloux, architect and contractor to the King, who lived here for forty years. Then, after being leased for a time to the Lotbiniere Family, the house returned to the ownership of a soldier — Jean Baptiste Nicolas Roch de Ramezay, King's Lieutenant and Commandant of the Quebec garrison. Son of the de Ramezay who built the Chateau at Montreal, he had served at Fort Nipigon on Hudson Bay and in Acadia. At Quebec, it became his melancholy duty to sign the capitulation of the City — late on the night of September 17/18th, 1759, four days after the Battle of the Plains. If, as is most likely, he signed it at his residence, the old house then knew one of its saddest and most historic hours.



Though de Ramezay returned almost immediately to France, he still retained title to his Quebec home for another five years, when his wife, acting under his authority, sold it.

It may perhaps be considered significant that the first two owners under the British regime were not high officers of state, but merchants: John Bondfield of Quebec and James Strachan of London. Then, in 1777 title passed to the Scot, Adam Mabane, who had come out as a surgeon's mate in Wolfe's expedition and was appointed a member of the Council and a judge of the Court of Common Pleas.

It was Mabane, who, in 1791, leased the house to Prince Edward, fourth son of George III. The future Duke of Kent was then 25, commanding the 7th Fusiliers.

The house on St. Louis Street became the Prince's official residence, and here he was joined by the graceful and charming Julie de Montgenet, known as Madame de St. Laurent, his loyal and affectionate companion for 27 years. They were a devoted couple, and during their occupancy the old house must have known some of its happiest days, with much princely entertaining, music and dancing, games of chess, backgammon and cards. At this period the great name of de Salaberry enters the story. Members of this famous Canadian family were probably the dearest friends Prince Edward and Madame de St. Laurent ever had. The de Salaberry sons became the Prince's proteges. For one of them, he and Madame de St. Laurent stood as godparents. He obtained for them commissions in the British Army, in which three of them were to die, the godson Edouard on the bloody night in 1812 when Wellington stormed Badajoz on the frontiers of Spain.

The Prince and Madame de St. Laurent left Quebec in 1794. They were to be together for almost a quarter-century more. Then, upon the death of the heiress to the throne, Princess

Charlotte, Edward put his Julie aside to do his duty, marry a suitable German princess, become the father of the great queen, and die — all within two years!

Following his departure from Quebec, his former residence had a steady succession of tenants within a short span of years — one of them of particular distinction: the Rev. Jacob Mountain, first Anglican Bishop of Quebec and father of the first principal of McGill.

A few years later it suffered the indignity of being seized by a creditor, and being sold at auction! Soon, however, it was to receive better treatment. Judge Olivier Perreault bought the house in 1819 and renovated it, adding one or more floors — the first recorded alterations since d'Ailleboust built it 169 years before.

Owners since the middle of the 19th Century have included Judge Perreault's son-in-law, Elzear Juchereau Duchesnay, the Hon. Thomas McGreavy, Judge Jean Thomas Taschereau of the Supreme Court and his son Sir Henri Thomas Taschereau of the Court of King's Bench, and Joseph Gale, Quebec auctioneer and merchant.

In 1919 the old building began the latest phase of its long and varied career, serving as an office building for modern Canadian industry. Here Price Brothers housed for a time their Engineering and Research Departments. In 1944 it was purchased by Donnacona Paper and today serves as the Head Office of the company.

Major alterations have been made to improve and modernize the building, but these have affected the interior only. Apart from the removal of one of the two entrances, the exterior appearance of the historic house has not been altered. Thus, since Judge Perreault's improvements in 1819 are recorded as *additions* only, it seems certain that much of the building as it exists today remains the same as when New France's Governor first built it for his residence 305 years ago.

The Mills / *and their Main Products*

The manufacturing facilities of Howard Smith Paper Mills Limited are organized under five operating companies with seven pulp and paper mills, in which are housed twenty-two paper machines. In addition there is a laminated plastics plant, an insulating board mill, a coating mill and a plant for the conversion of paper products.

Together, these plants produce several types of conventional papermaking pulps and a wide range of paper and paper products, as well as some chemicals.

These are sold through the regular channels of distribution for the respective products and leave their imprint on almost every facet of Canadian living. The following is a brief description of the various works and the products manufactured:

BEAUHARNOIS DIVISION

This mill consists of two paper machines and a flax pulp mill and makes a wide range of high grade papers, such as currency, bond, ledger, text, bristol, stationery papers, cigarette tissue and other high grade tissues. It also has a plant for the manufacture of cigarette paper booklets.

CORNWALL DIVISION

This is our largest division equipped with five paper machines, a bleached sulphite pulp mill, a bleached soda pulp mill, a vanillin plant, and a lignin plant. It manufactures a wide range of medium priced papers, such as sulphite bond, ledger, stationery paper, bristol, board, covers, book, litho and envelope papers.

CRABTREE MILLS DIVISION

This mill has two paper machines and a ground-wood mill. Grades manufactured include litho, book, envelope papers, toilet tissues, serviettes, dinner napkins and other tissue products.

CANADA PAPER COMPANY

This Company has two main divisions, Watapeka and St. Francis, consisting of five paper machines, a bleached and unbleached kraft pulp mill, and a groundwood pulp mill. Papers manufactured include kraft, wrapping, bagging, rotogravure, envelope papers, towels and other specialties.

In addition the Company has a large converting plant manufacturing a wide range of paper products, such as paper bags of all kinds, building papers, waterproof wrapping papers, waxed and gummed papers, and, in the near future, will produce polyethylene coated and laminated papers.

ALLIANCE PAPER MILLS LIMITED

This Company also has two mills, Lincoln and Lybster Divisions. Lincoln consists of a bleached sulphite pulp mill and a cylinder board machine making grades such as tag stock, bristol, board and specialties. Lybster Division has three paper machines making glassine, greaseproof, onionskin, waxing, carbonizing and other specialties.

A coating mill at Georgetown, Ontario, produces high grade coated book, litho, bristol, board and other specialty papers.

DON VALLEY PAPER CO. LIMITED

This is a small mill consisting of one paper machine making specialties such as tag, bristol, cover, blotting and a range of embossed papers.

DONNACONA PAPER COMPANY LIMITED

This mill consists of three paper machines, a sulphite pulp mill and a groundwood pulp mill. Also an insulating board mill.

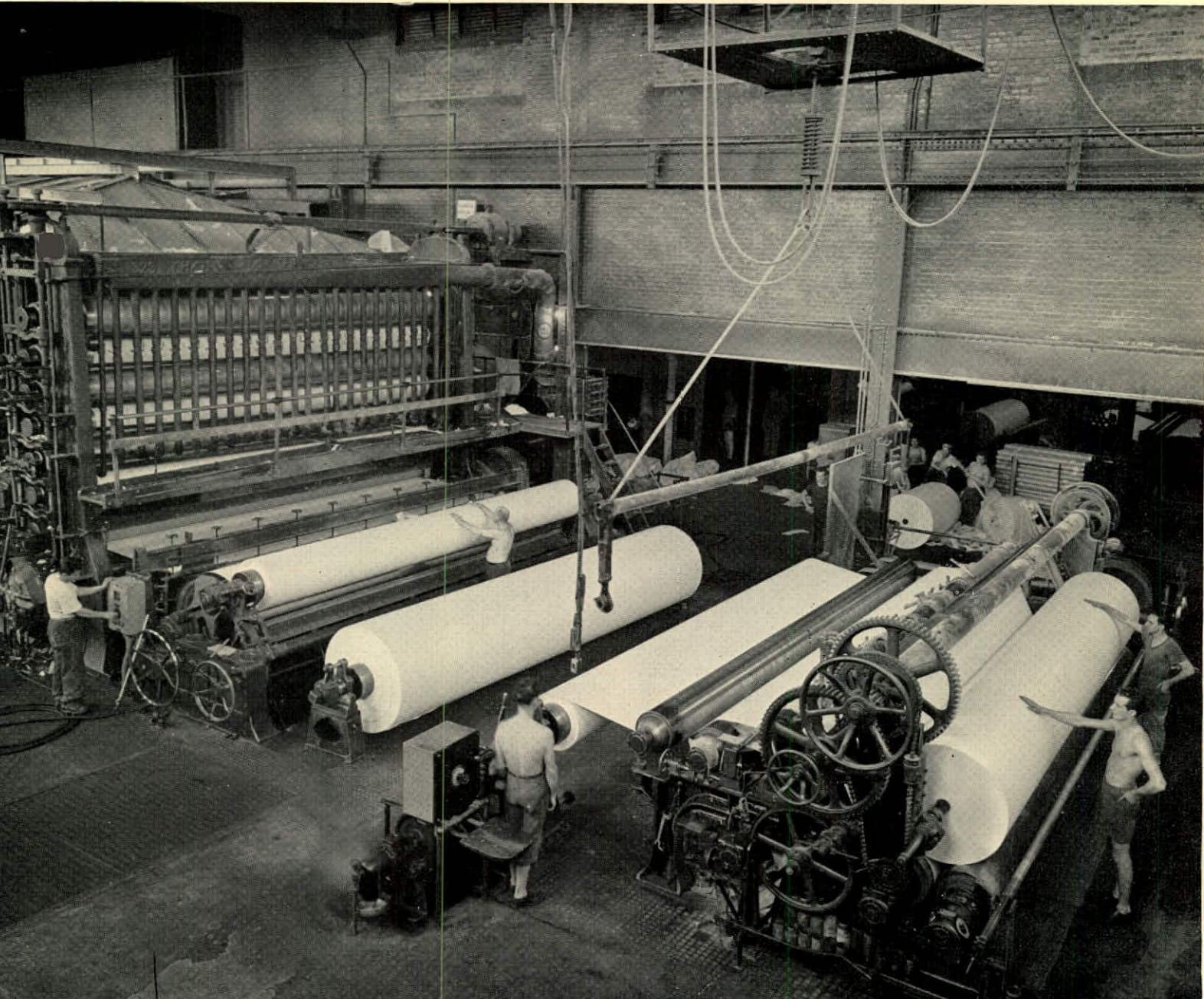
The main products of the mill are unbleached sulphite pulp, newsprint, rotogravure paper, and

in the board mill, a complete line of insulating, sheathing and plaster base pulp boards and acoustical tile, laminated moulding and other specialties.

THE ARBORITE COMPANY LIMITED

This plant manufactures a decorative paper base laminate for wallboard and table and counter top applications, pre-formed laminates, such as the new Curvatop domestic counter top, and a range of paper and cloth laminates for electrical and other industrial uses.

Dry end and rewinder of No. 3 Paper Machine at the Donnacona Mill



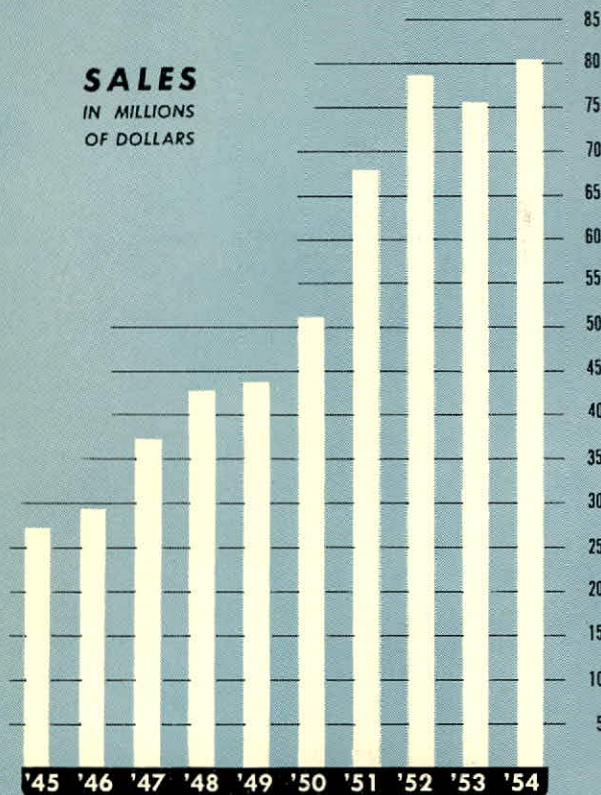
Production and Sales

Howard Smith Paper Mills Limited

AND SUBSIDIARY COMPANIES

The combined sales of all companies increased almost 7% over the previous year, reaching a total of \$80,369,139. This was the result of a more favourable business climate, an absence of labour disturbance, and also to increased production facilities which came into operation at various times.

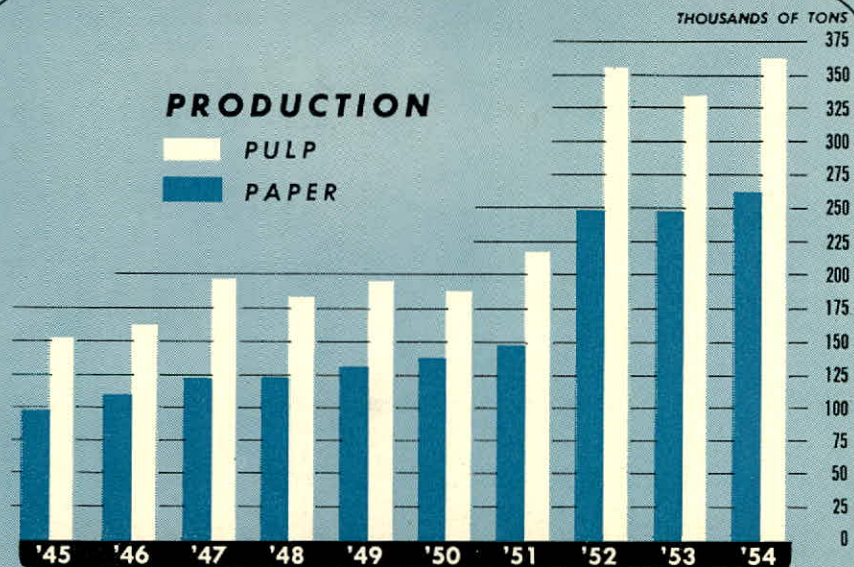
SALES IN MILLIONS OF DOLLARS

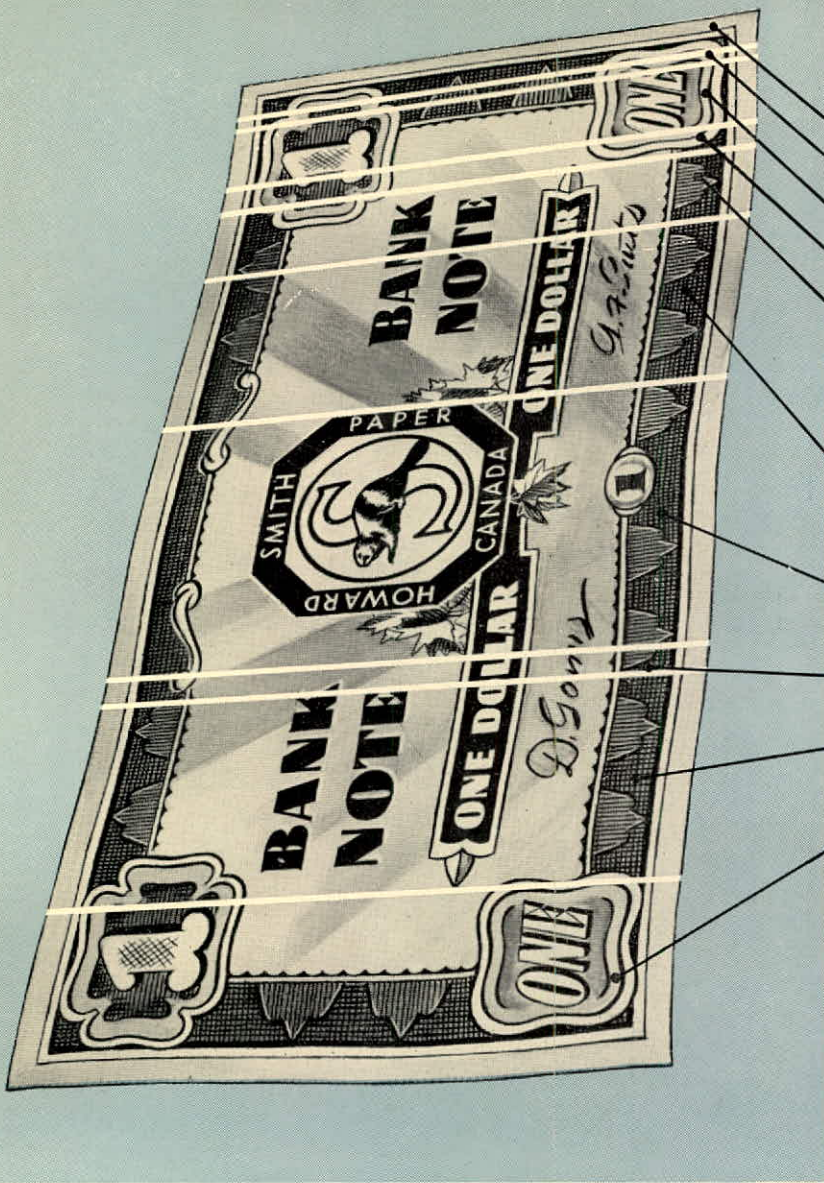


The pulp market strengthened somewhat and production increased slightly over 9% to reach a total of 364,711 tons. Production of paper was up almost 6% with the total standing at 260,080 tons. Demand is relatively steady and will likely remain so in the immediate future.

PRODUCTION

PULP
 PAPER





- 3.6 surplus
- .9 interest on funded debt
- 5.8 depreciation and depletion
- 2.5 dividends
- 7.0 taxes
- 19.8%**
- 14.7 power, fuel, misc. supplies
- 25.0 salaries and wages
- 2.8 employee benefits
- 19.9 pulpwood
- 17.8 other raw materials

80.2%

Distributing the Income Dollar

DIRECT operating expenses accounted for 80.2% of the income dollar leaving 19.8% for the financial functions of the business. The detailed figures above indicate that Salaries, Wages and Employee Benefits take 27.8% of each dollar of income. Pulpwood, our major raw material purchase, accounts for 19.9%, other Raw Materials took 17.8 or a total of 37.7% for these two items. Power, Fuel and Miscellaneous Supplies and Expenses amounted to 14.7%.

To provide for Depreciation and Depletion of buildings, machinery and forest reserves, it was necessary to use 5.8% of each income dollar. Taxes of all kinds took another 7.0% and Interest on Funded Debt a further .9%. This left some 6.1% profit of which 2.5% was paid out in Dividends and 3.6% transferred to Surplus and was re-invested in the business.

Howard Smith
PAPER MILLS, LIMITED
AND SUBSIDIARY COMPANIES



FINANCIAL STATEMENTS

DECEMBER THIRTY-FIRST

1954

The twenty-seventh Annual Report

of the Directors of

HOWARD SMITH PAPER MILLS, LIMITED

TO THE SHAREHOLDERS:

The Twenty-seventh Consolidated Annual Report of your Company and Subsidiary Companies, comprising Balance Sheet as at 31st December 1954, Statement of Profit and Loss for the year ended on that date, Statements of Surplus and Auditors' Report thereon are submitted herewith.

Earnings from all sources, after making provision for depreciation and depletion of \$4,680,025, and for other items as set forth in the Profit and Loss statement, were \$10,891,009.

Net Profit, after all charges which include amounts of \$5,110,000 for Income Taxes and \$37,528 for dividends paid by Donnacona Paper Company Limited to its minority shareholders and for the equity of those shareholders in the undistributed profits of Donnacona for the year 1954, amounted to \$5,020,256 as compared to a net of \$4,703,018 for the previous year.

Regular quarterly dividends of 50¢ per share on the Preferred Stock and 25¢ per share on the Common Stock were paid during the year, a total for both classes of \$2,062,750.

An extra dividend of 20¢ per share on the Common Stock out of earnings of the year 1954 was declared on January 27th, 1955, payable with the regular quarterly dividend of 25¢ per share on April 30th, 1955.

In our last Annual Report we outlined a programme of capital expenditures that would extend over several years, designed to modernize the Mills of your Company and its Subsidiaries and to add to their capacities. Satisfactory progress was made in 1954 towards carrying out the first stages of that programme, some of the main items of which are:—

CORNWALL DIVISION

- (a) The construction of a new pulp storage and shipping building necessitated by the increased output of the soda pulp mill;
- (b) The extension of the paper mill beater room to permit of the stock for all machines being controlled from one centre;
- (c) Reconstruction of the sulphite pulp screen room.

CRABTREE DIVISION

- (a) Reconstruction of No. 2 paper machine;
- (b) Construction of a new finishing room to provide for the increased output of this machine.

DONNACONA

- (a) Extension of the finishing room building;
- (b) Construction of a pyrites plant for the generation of SO₂ gas to replace imported sulphur.

CANADA PAPER

- (a) Construction of a new machine room and installation of an additional paper machine at the St. Francis Division, including a new central steam plant;
- (b) Addition to the converting plant.

ARBORITE

The installation of a new, large hydraulic press.

Total expenditures incurred on account of these and other items of that programme in 1954 were \$7,873,170.

As will be seen in the Balance Sheet, funds set aside for future Capital Expenditures and other Corporate Purposes on December 31st, 1954, were \$5,152,531 against \$6,467,188 at the end of 1953.

The acquisition of an additional 1,500 common shares of Donnacona Paper Company Limited during the year brought the total owned by your Company to 368,221 shares, equal to 97% of the outstanding shares.

The Funded Debt of your Company and of Donnacona Paper Company Limited was reduced during the year by \$796,000.

To expand the sale of "Arborite" in the U.S. market, your Company, following numerous meetings and surveys, made an arrangement with the Consolidated Water Power & Paper Company of Wisconsin Rapids, Wis., for the manufacture in the United States of a product similar to "Arborite". For this purpose a new Company bearing the name of Consoweld Corporation was formed, of which your Company owns 26% of the issued Capital Stock and Consolidated Water Power & Paper Company, 74%.

A modern plant was built and equipped at Wisconsin Rapids during the year and is now in operation. Considering the record of the Arborite Company, we have reason to believe that the investment in Consoweld Corporation of \$723,650, included in the Balance Sheet under Trade Investments, will prove to be profitable, both for your Company and for its partner, with whom we are happy to be associated.

Flood damage to your Don Valley Mills, resulting from hurricane "Hazel" amounted to about \$70,000 in addition to a loss of 10 days' production.

Working Capital as at 31st December 1954 amounted to \$22,223,568.

Operations of all the Company's pulp and paper mills were maintained at somewhat higher levels than in the previous year. Total production of all kinds of pulp was 364,711 tons as compared to 334,226 tons in 1953, and total production of all kinds of paper was 260,080 tons as compared to 245,699 tons in the previous year.

The demand for book, writing, and specialty papers showed some improvement over 1953, but was still somewhat less than capacity.

Wrapping and bag papers were also in greater demand with operations being maintained throughout most of the year at a high level.

Newsprint continued strong with all machines operating full time.

The demand for both "Arborite" and insulating board held up well, and present indications point to a continued good demand for both products in 1955.

As the greater portion of pulp and newsprint sales goes to the United States, the discount on U. S. Funds affected us adversely to the extent of \$661,273 as compared to \$389,214 in 1953.

As a result of the unfavourable decision at the trial in the Combines proceedings referred to in last year's Report against twenty-nine mills and merchants engaged in the fine paper industry, fines were imposed on all defendants. The amount of those fines, in the case of your Company and its Subsidiaries, totalled \$74,000. On the advice of counsel, appeals have been launched and are still pending. It is expected that they will be heard by the Ontario Court of Appeals in April or May. The above-mentioned fines have not been paid nor has provision for their payment been made in the accounts submitted. Further comment on this matter at this time is, in the circumstances, inappropriate.

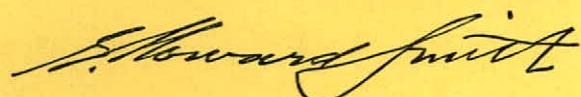
During the year Mr. Edgar G. Burton and Mr. A. E. H. Fair resigned as Directors.

Mr. D. S. Abbott and Mr. W. E. Phillips have been elected Directors by the Board to fill the vacancies thus created.

In September Mr. W. H. Aird, for many years Sales Manager of your Company, was elected a Vice-President.

Your Directors wish to express their appreciation of the efficient services rendered throughout the year by the employees of your Company and its Subsidiaries.

Submitted on behalf of the Board:



President.

Montreal, March 18, 1955.

HOWARD SMITH PA

AND SUBSIDIARIES

Consolidated Balance Sheet

ASSETS

Current Assets:

| | | |
|---|--------------|--------------|
| Cash in Banks and on Hand..... | \$ 4,445,953 | |
| Accounts Receivable, less Allowance for Doubtful Accounts..... | 9,215,260 | |
| Inventories of Finished Products, Work in Process, Raw Materials and Operating Supplies valued at lower of cost or market, and Advances on Woods Operations — less reserve..... | 16,611,429 | |
| Prepaid Insurance, Taxes, etc..... | 371,946 | |
| | <hr/> | \$30,644,588 |

Other Assets:

| | | |
|--|-------------|-----------|
| Amounts set aside for Capital Expenditures and other Corporate Purposes — | | |
| Government of Canada Bonds (par value \$2,655,000)..... | \$2,652,531 | |
| Cash on Deposit..... | 2,500,000 | |
| | <hr/> | 5,152,531 |
| Cash Surrender Value of Life Insurance Policies..... | | 121,202 |
| Trade Investments — | | |
| Shares..... | \$ 938,430 | |
| Advances..... | 316,775 | |
| | <hr/> | 1,255,205 |
| Other Investments..... | | 115,000 |
| Guarantee Deposits..... | | 40,875 |
| | | <hr/> |
| | | 6,684,813 |
| Patent and Research Expenditures — less amounts written off..... | | 54,179 |

Fixed Assets at or below cost:

| | | |
|---|------------|------------|
| Land, Buildings, Plant, Equipment, Timber Limits and Water Powers.... | 92,378,396 | |
| Deduct: Accumulated Depreciation and Depletion..... | 51,180,264 | |
| | <hr/> | 41,198,132 |

\$78,581,712

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

PAPER MILLS, LIMITED

AND SUBSIDIARY COMPANIES

as at 31st December 1954

LIABILITIES

Current Liabilities:

| | | |
|--|--------------|--------------|
| Accounts Payable and Accrued Liabilities..... | \$ 4,080,061 | |
| Dividends Payable..... | 518,520 | |
| First Mortgage Bonds maturing within one year..... | 795,000 | |
| Provision for Income and Other Taxes..... | 3,027,439 | |
| | <hr/> | \$ 8,421,020 |

Funded Debt not maturing within one year:

| | | |
|--|-------------|------------|
| Howard Smith Paper Mills, Limited — | | |
| First Mortgage Bonds, 1950 Series | | |
| 2 $\frac{3}{4}$ % Bonds due 1st December 1956-1960..... | \$3,000,000 | |
| 3% Bonds due 1st December 1961-1970..... | 6,000,000 | |
| | <hr/> | 9,000,000 |
| 4 $\frac{1}{2}$ % Debentures — Series "A" due 1st June 1961..... | | 5,081,000 |
| Donnacona Paper Company, Limited — | | |
| First Mortgage 3 $\frac{1}{2}$ % Bonds Series "B" and "C" maturing 1st July 1962 (\$4,180,000 payable in U.S. Funds)..... | | 4,940,000 |
| | <hr/> | 19,021,000 |

Reserves:

| | | |
|--|-----------|-----------|
| Inventories..... | 1,500,000 | |
| Contingencies..... | 468,400 | |
| | <hr/> | 1,968,400 |
| Minority Interest in Donnacona Paper Company, Limited..... | | 344,133 |

Capital:

| | | |
|---|-----------|------------|
| \$2 Cumulative Preferred Stock (redeemable on thirty days' notice at \$52.50 plus accrued dividends) — | | |
| Authorized — 200,000 shares of \$50 each | | |
| Issued — 160,000 shares..... | 8,000,000 | |
| Common Stock — | | |
| Authorized — 2,500,000 shares of no par value | | |
| Issued — 1,742,750 shares..... | 9,755,074 | |
| | <hr/> | 17,755,074 |
| Capital Surplus..... | | 972,963 |
| Earned Surplus..... | | 30,099,122 |

\$78,581,712

This is the Balance Sheet referred to in our report of even date.

P. S. ROSS & SONS, Chartered Accountants.

Montreal, 23rd February 1955.

HOWARD SMITH PAPER MILLS, LIMITED

AND SUBSIDIARY COMPANIES

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CONSOLIDATED STATEMENT OF PROFIT AND LOSS ACCOUNT

For the Year ended 31st December 1954

| | | |
|---|------------|--------------|
| Profit from operations for the year ended 31st December 1954 after deducting Depreciation and Depletion \$4,680,025, Salaries of Executive Officers \$183,800, Payments under Contributory Pension Plan \$727,892, Legal Fees \$64,647 and Directors' Fees \$10,450 | | \$10,549,483 |
| Income from Investments | | 191,179 |
| Royalties | | 150,347 |
| | | 10,891,009 |
| DEDUCT: | | |
| Interest on Funded Debt | \$ 705,883 | |
| Amount written off Patent and Research Expenditures | 17,342 | |
| Provision for Income Taxes | 5,110,000 | |
| | | 5,833,225 |
| Net Profit | | 5,057,784 |
| DEDUCT in respect of Minority Shareholders of Donnacona Paper Company, Limited: | | |
| Dividends | 11,767 | |
| Equity in 1954 undistributed profits | 25,761 | |
| | | 37,528 |
| Balance for the year ended 31st December 1954 transferred to Earned Surplus | | \$ 5,020,256 |

CONSOLIDATED STATEMENT OF EARNED SURPLUS ACCOUNT

For the Year ended 31st December 1954

| | | |
|--|-----------|--------------|
| Earned Surplus, being income retained in the business as at 31st December 1953 | | \$26,904,677 |
| Adjustments pertaining to prior years affecting: | | |
| Fixed assets less accumulated depreciation | \$ 36,939 | |
| Provision for income taxes | 200,000 | |
| | | 236,939 |
| Balance from Profit and Loss Account for the year ended 31st December 1954 | | 5,020,256 |
| | | 32,161,872 |
| DEDUCT: | | |
| Dividends on — | | |
| Preferred shares | 320,000 | |
| Common shares | 1,742,750 | |
| | | 2,062,750 |
| Earned Surplus, being income retained in the business as at 31st December 1954 | | \$30,099,122 |

HOWARD SMITH PAPER MILLS, LIMITED

AND SUBSIDIARY COMPANIES

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CONSOLIDATED STATEMENT OF CAPITAL SURPLUS ACCOUNT

For the Year ended 31st December 1954

| | |
|--|-------------|
| Balance at 31st December 1953 | \$ 787,077 |
| Profit from sale of Assets and Miscellaneous Credits | 185,886 |
| | <hr/> |
| Balance at 31st December 1954 | \$ 972,963 |
| | <hr/> <hr/> |

AUDITORS' REPORT TO THE SHAREHOLDERS

Montreal 1, Que., 23rd February, 1955.

*HOWARD SMITH PAPER MILLS, LIMITED,
Montreal.*

We have examined the consolidated balance sheet of Howard Smith Paper Mills, Limited and Subsidiary Companies as at 31st December 1954 and the related statements of profit and loss and surpluses for the year ended on that date and have obtained all the information and explanations we have required. In connection therewith we have examined or tested accounting records and other supporting evidence of Howard Smith Paper Mills, Limited and four of its subsidiary companies but we did not make a detailed audit. We have been furnished with audited financial statements as of the same date, certified by other accountants, for all other subsidiaries whose records were not examined by us.

The surplus of Donnacona Paper Company, Limited, a subsidiary included in the consolidation, is subject as to distribution to the restriction imposed by the trust deed as amended securing the first mortgage bonds issued by that subsidiary.

On the above basis we report that the accompanying consolidated balance sheet and related statements of profit and loss and surpluses are, in our opinion, properly drawn up so as to exhibit a true and correct view of the combined state of affairs of Howard Smith Paper Mills, Limited and Subsidiary Companies as at 31st December 1954 and the results of their operations for the year ended on that date according to the best of our information and the explanations given to us and as shown by the books of the companies examined by us and the financial statements furnished to us.

P. S. ROSS & SONS,
Chartered Accountants.

HOWARD SMITH PAPER MILLS, LIMITED

AND SUBSIDIARY COMPANIES



FINANCIAL AND OPERATING HIGHLIGHTS

| Income and Earnings: | 1952 | 1953 | 1954 |
|--|--------------|--------------|--------------|
| Net Sales, Income from Investments and Royalties | \$77,467,394 | \$75,616,886 | \$80,710,665 |
| Net Earnings before Income Taxes | 8,776,882 | 9,134,018 | 10,130,256 |
| Provision for Income Taxes | 4,950,000 | 4,431,000 | 5,110,000 |
| Net Profit | 3,826,882 | 4,703,018 | 5,020,256 |
| Dividends paid on Preferred and Common Shares | 1,953,789 | 2,054,334 | *2,062,750 |
| Amount of net profits retained in the business | 1,873,093 | 2,648,684 | 2,957,506 |
| Provision for Depreciation and Depletion | 4,241,107 | 4,223,890 | 4,680,025 |
| Financial Condition at December 31st: | | | |
| Working Capital | 21,841,945 | 22,094,295 | 22,223,568 |
| Inventories | 18,852,176 | 17,286,288 | 16,611,429 |
| Fixed Assets (before deducting Depreciation) | 81,684,993 | 85,170,215 | 92,378,396 |
| Accumulated Depreciation and Depletion | 43,257,054 | 47,063,199 | 51,180,264 |
| Funded Debt not maturing within one year | 21,380,000 | 19,817,000 | 19,021,000 |
| Common Stock Equity | 33,668,564 | 37,046,828 | 40,427,159 |
| Number of Common Shares outstanding | 1,714,775 | 1,742,750 | 1,742,750 |
| Per Common Share: | | | |
| Earned | \$ 2.05 | \$ 2.51½ | \$ 2.70 |
| Dividends paid | 1.00 | 1.00 | *1.00 |
| Income Taxes | 2.89 | 2.54 | 2.93 |
| Payrolls and Employees' benefits | 12.16 | 11.76 | 13.06 |
| Equity | 19.63 | 21.26 | 23.20 |
| Number of Shareholders December 31st: | | | |
| Preferred Stock | 980 | 972 | 975 |
| Common Stock | 3,380 | 3,892 | 3,999 |
| Number of Employees December 31st | | | |
| | 5,499 | 5,961 | 6,311 |

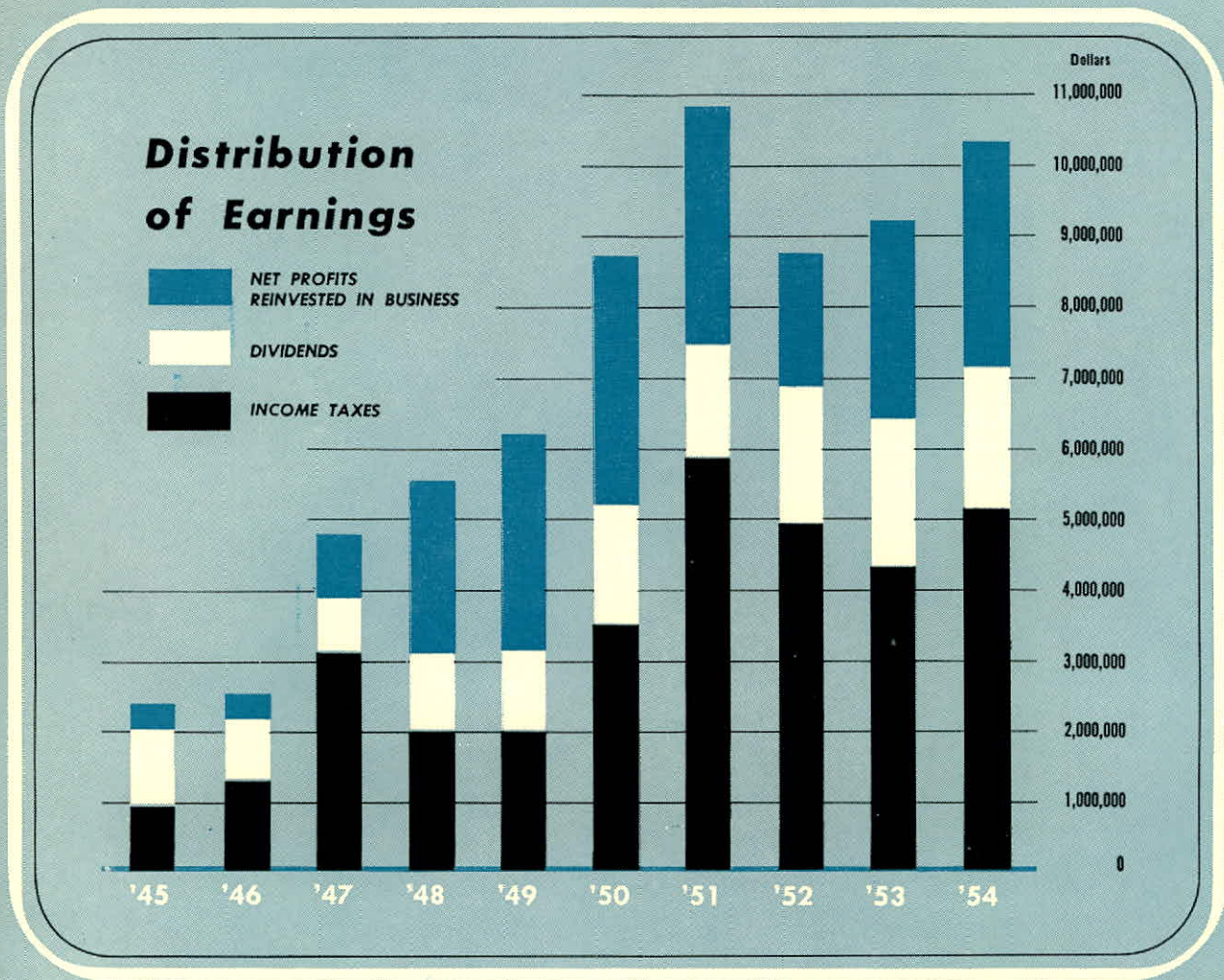
*In addition to the amounts shown above an extra dividend of 20¢ per share for the year 1954 amounting to \$348,550 was declared on January 27th, 1955.

10 YEAR

Distribution of Earnings

IN a year not without its difficulties it is pleasing to note that the overall income in 1954 shows some improvement over 1953. Corporate income taxes, however, claimed a large part of this improvement in earnings. Dividends paid out were at approximately the same level as in 1953. The

continued growth and financial stability of any business, to a large extent, depends on the retention of a portion of its earnings for reinvestment in productive facilities. A substantial part of the current expansion programme to increase production and efficiency is being so financed.



Modernization / and Expansion

HOWARD SMITH PAPER MILLS LIMITED

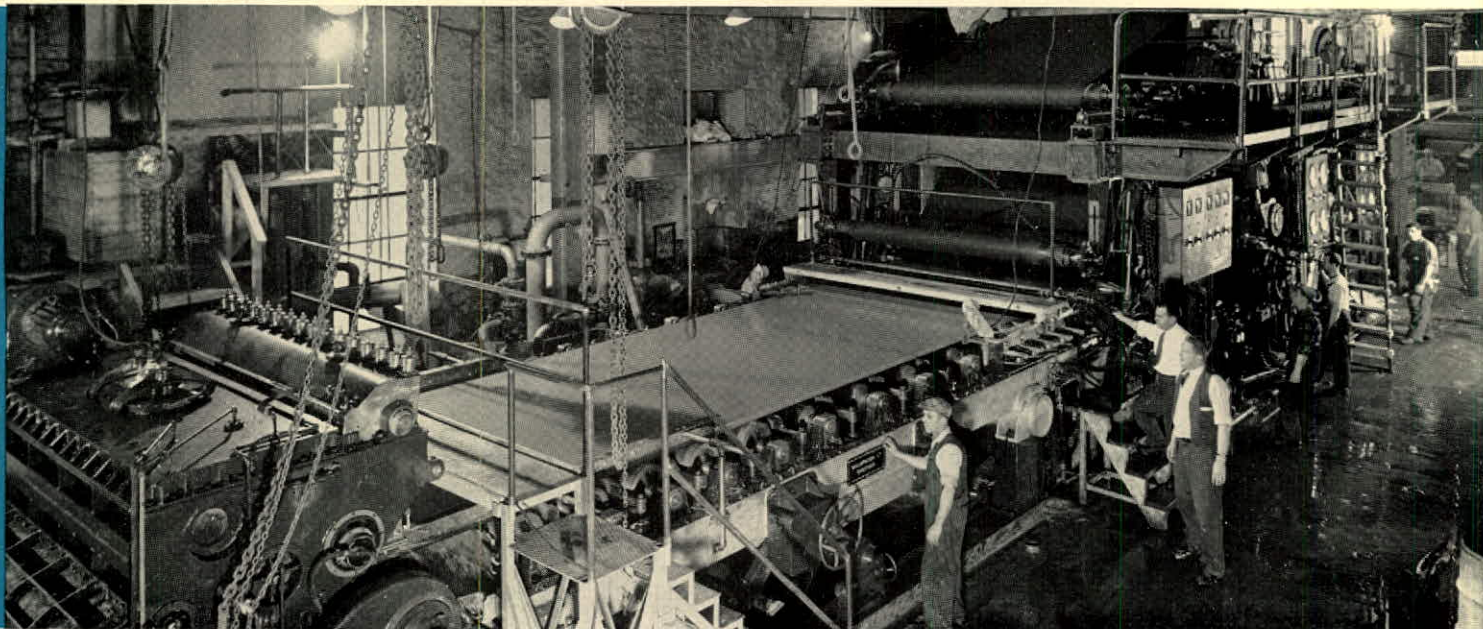
At the Crabtree Mills Division, two major projects were undertaken during the year. Mention was made in last year's Report of the change-over of Number Two Machine to a Yankee type machine. This year, the second phase was completed when a new high-speed wet end and drive was installed which will more than double its capacity on such grades as Cashmere and Snowcap Toilet Tissue, Serviette stock and other companion lines.

The other project expected to be completed in the Spring of 1955 consists of a large addition to the present Finishing Room building to house the new offices and the new equipment for converting and packing toilet tissues, towels, serviettes, dinner napkins, etc.

At the Cornwall Division, the three major projects included:

- (a) the completion of a large Soda Pulp Storage and Shipping Building, which also houses shipping offices and control laboratories;
- (b) the renovation of the Bleached Sulphite screening room;
- (c) the completion of the Stock Preparation Building, in which stock treating for all paper machines is now consolidated. This building is equipped with the most modern stock treating facilities.

Equipment installed in the research laboratory during the year includes a General Electric X-Ray and Fluorescent machine to facilitate studies which are designed to improve pulp brightness.



Howard Smith Paper Mills Limited, Crabtree Mills Division, Crabtree Mills, Que. Start-up of the new wet end on No. 2 Yankee Paper Machine which makes Toilet Tissue, Serviette and Napkin stocks

DONNACONA PAPER COMPANY LIMITED

New construction here was the completion of the Paper Mill Finishing Room, and the installation of the new Super Calender for high finish Rototone gravure paper, erection of which will soon be completed. An addition to the Board Mill Finishing Room was made to facilitate handling of specialties.

The first stage of the Number One Paper Machine speed-up programme was completed, increasing its capacity about 20%. In the pulp mill, the new SO₂ gas plant for the burning of Iron Pyrites is expected to come into operation after the turn of the year, and will replace imported raw sulphur. In the field of employee welfare, an extension to the Company-owned School was built. In addition to providing urgently needed educational facilities, it will be used as a social and recreational centre and church.

THE ARBORITE COMPANY LIMITED

The expansion programme initiated in 1951 was completed this year, with the final installation at the close of the year of the 10 ft. Hydraulic Press. This unit is the largest of its kind in Canada, and is completely automatic, equipped with loading and unloading elevators. It is expected that products from this new laminating unit will fill a much needed place in the diversified list of materials produced, and will assist Arborite greatly in its service to its many customers throughout Canada.



Outside view of the new Soda Pulp Shipping and Storage building. Has storage space of 14,000 square feet, and will accommodate nine boxcars and two highway transports. A series of offices are located on the mezzanine floor, including the Soda Mill Laboratory

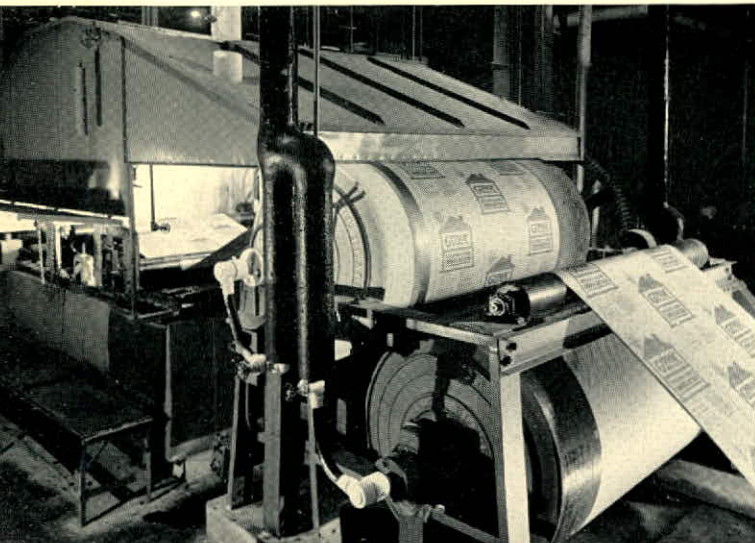


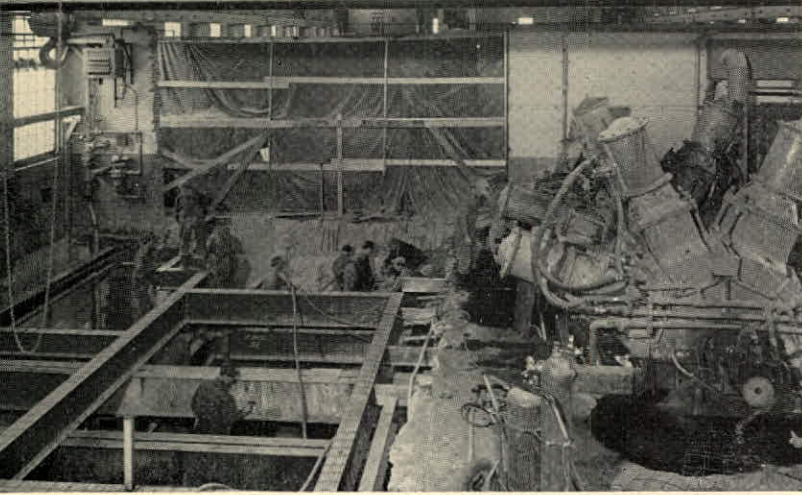
This extension to the Stock Preparation building in the Cornwall Division contains 24,000 square feet of floor space on three floors and a basement housing the necessary pulpers



The General Electric X-Ray diffraction and fluorescent equipment recently installed in the Research Department for the chemical identification of trace elements

Canada Paper Company, Converted Paper Products Division, Windsor Mills. A Scutan machine for the application of asphalt compound coating. The pre-printed paper is coated with asphalt on one side and wax on the other forming a moisture barrier





CANADA PAPER COMPANY

The addition of some 44,000 square feet of space to the Converted Paper Products Division was completed during the Summer, which now permits the consolidation of all converting operations in one building. The new addition is equipped with artificial refrigeration, an especially designed polyethylene extruder and laminator, and other modern equipment to ensure maximum efficiency.

Work of installing the additional Paper Machine is well advanced, and it is expected that it will come into operation about May 1955 and will have a capacity of about 125 tons a day of newsprint. To keep this machine supplied with pulp, two additional 4-pocket grinders are in course of installation.

Present and additional demands for steam will be met by the new Steam Plant located midway between the Watapeka and St. Francis Divisions. It will be operated on powdered coal, and will service both the Watapeka and St. Francis Divisions. Provision has been allowed for the generation of electrical power when such a step is deemed advisable.

Other projects at Windsor Mills were the rehabilitation and re-design of electrical control panels, re-location of transformers and improvement to the stock inlet on No. 5 Paper Machine.

ALLIANCE AND DON VALLEY

The Lincoln Sulphite Mill was converted to the Hot Acid System during the Summer which increased its capacity. Work also progressed on the change-over from 25 to 60 cycles. At Georgetown this conversion has been completed. No major project was undertaken at Don Valley, but "Hurricane Hazel" caused the Don River to overflow its banks, completely flooding the mill, records were destroyed, stocks of finished paper ruined, and most of the electric motors were waterlogged. Through the untiring efforts of the mill personnel, with some outside help to whom much credit is due, the mill was back into production in the record time of ten days.



The new 4 x 10 hydraulic press recently installed in the Arborite plant. It is equipped with automatic loading and unloading elevators and is the largest of its kind in Canada

Canada Paper Company, St. Francis Division, Windsor Mills. One of the many new switch and breaker panels which forms part of the extensive electrical rehabilitation programme

MANY kinds of raw materials are used in the making of paper, depending on the grade, but for the economical manufacture of most of the vast tonnage of pulp and paper consumed in our day and age, wood has no substitute, and its use has been expanding for several decades at about 5% per year compounded.

It is essential, therefore, that our forests should be guarded with every possible care and that woodlands operations should be so planned that they may continue to yield a perpetual supply to our plants for many years ahead.

Also, since pulpwood is by far the most costly factor in the manufacture of paper, our task is to develop methods of procuring it from our woodlands properties and the open market as economically as we can. Our operation methods must assist the forests to yield more wood per year in perpetuity, and through research, we must learn how to use more species of wood, and get higher yields out of what wood the forests do yield.

CLASSES OF WOODLANDS

Woodland areas in Canada fall into two classes — Freehold and Leasehold.

Freehold limits are owned outright. They consist of a few moderately sized company-owned areas, and a myriad of small farm woodlots. Because of ready accessibility and proximity to the mills, these freehold areas supply about 40% of the pulpwood used in Eastern Canada, although amounting to much less than that percentage of the total accessible forest area. For pulpwood supply, their importance is great and will become greater as use of other species as well as the softwoods expands.

LEASEHOLD LIMITS

Leasehold limits are owned by the Provinces which lease cutting rights to individuals or companies on a basis of rental rates plus stumpage on the wood cut. Certain cutting regulations are provided to protect the forest volume in the interests of the public.

The Provincial Governments require a lessee to survey a licensed area, and prepare a long-range management plan for cutting wood, for approval by the Government. This is designed to maintain the volume of timber as a whole, in perpetuity, in spite of cutting. The cutting cycle is so planned that when the last of the original trees have been harvested, the areas first cut will have reproduced mature wood. Thus, barring damage by fire or insects, an area handled with good judgment should eventually sustain the same annual cut perpetually.

INCREASING THE YIELD

As natural regeneration is so prolific, planting of seedlings on cut-over areas is seldom necessary or warranted. Good methods of operating and easy accessibility can, however, contribute much to increasing the yield out of a forest. To that end, over the past 20 years, we have experimented on our 67 square mile Freehold limits at Windsor Mills by periodical thinnings and selecting for cutting only the mature or faulty trees. Each part of a tree cut is put to the most profitable use, that is, sold as veneer logs or sawlogs, or used as pulpwood as is found best.

This selective cutting operation has had great success, and was accorded recognition in 1953 by the award of the first Tree Farm Certificate given a member of our Industry in Canada. On

this limit, we have increased the yield per acre per year to almost the equal of European practice which is two to three times that of private woodlots in the region of the mill, and about four times that presently considered as an average on Crown Lands. This limit now provides technical data for application to other areas, and produces a practical demonstration of good management to small woodlot owners within the vicinity. It is an outstanding example for the Tree Farm movement to which we give our warmest support.

WIDENING THE RANGE OF SPECIES USED

In the past, spruce, balsam, jackpine and poplar were the only species of wood we used or bought. Other species such as white and red pine, and large hardwood logs we, and those who sold us pulpwood, marketed to other processing industries on a stumpage basis or did not cut at all. Small trees and tops had to be left in the forest since there was no market for them. Of late, however, our Research Department has developed some new methods that we have applied at Cornwall and Windsor Mills for the pulping of such species of wood. Our increasing use of these types of wood will not only create greater future pulpwood supplies from our own limits, but also from the private lands near our mills.

DEPARTMENTS IN THE WOODLANDS DIVISION

Administration of timber lands and pulpwood purchasing requires certain staffs of specialists whose duties fall under the following broad outlines.

The Operating or Logging Department looks after the actual operations of forest protection and fire fighting, organizing woods operations throughout, building and maintaining roads, and other woods development work, whether by company camps or contractors.

The Forestry Department prepares management plans and maps based on growth studies and surveys, often through the use of aerial photographs, and makes pre-cut and post-cut reports for the Governments.

The Pulpwood Purchasing Department, through strategically located field agents and buyers at our largest mills, purchases, in large volume, pulpwood offered for sale from private lands, particularly those close to our mills, although that wood is generally not of as good quality as limit wood.

DEVELOPING ADDITIONAL SOURCES

Recently, in these areas adjacent to our mills, buying activity has been increasing because of our adapting ourselves to using hardwoods as well as softwoods. To increase our knowledge of the potential of such neighbourhood regions, we made surveys of all wooded areas within economic truck range and rail haul, and we hope to enlarge our supplies from them still further through developing ability to use even forest and sawmill waste. The cash returns that our purchase of such pulpwood make to local woodlot owners are very large, and particularly helpful to them as they come largely from their off-season work.

THE PROBLEM OF DISTRIBUTION

The distribution between our various mills of all pulpwood supplies obtained is quite a complicated procedure, as it depends on the location of the wood, whether it is peeled or rough, the freight rates or truck rates, the inventory situation, whether wood can be exported from one province to another and many other factors.

Reduction in transportation costs on wood in this country is very necessary. Rail costs here are much higher than they are in the United States for equal distances of haul.

OPENING UP NEW TERRITORY

In this connection it is perhaps interesting to note that before locating the additional limits granted us by the Quebec Government in the Abitibi region, we arranged by traffic guarantees to the Canadian National for the building of the spur line from Barraute to Beattyville to give ready access to these limits.

Recently, at the request of the railway, we increased our guarantees to stimulate the line's extension to Chibougamou through the heart of this and other limits just acquired by transfer from another area. This line is now under construction.

The present spur opened up a heavily wooded, rich soil, clay-belt area for settlers, and became the springboard for mining activity that led to the further extension to Chibougamou. No doubt, a whole new frontier has thus become opened up, and we are happy to have made some contribution to it.

AIMS FOR THE FUTURE

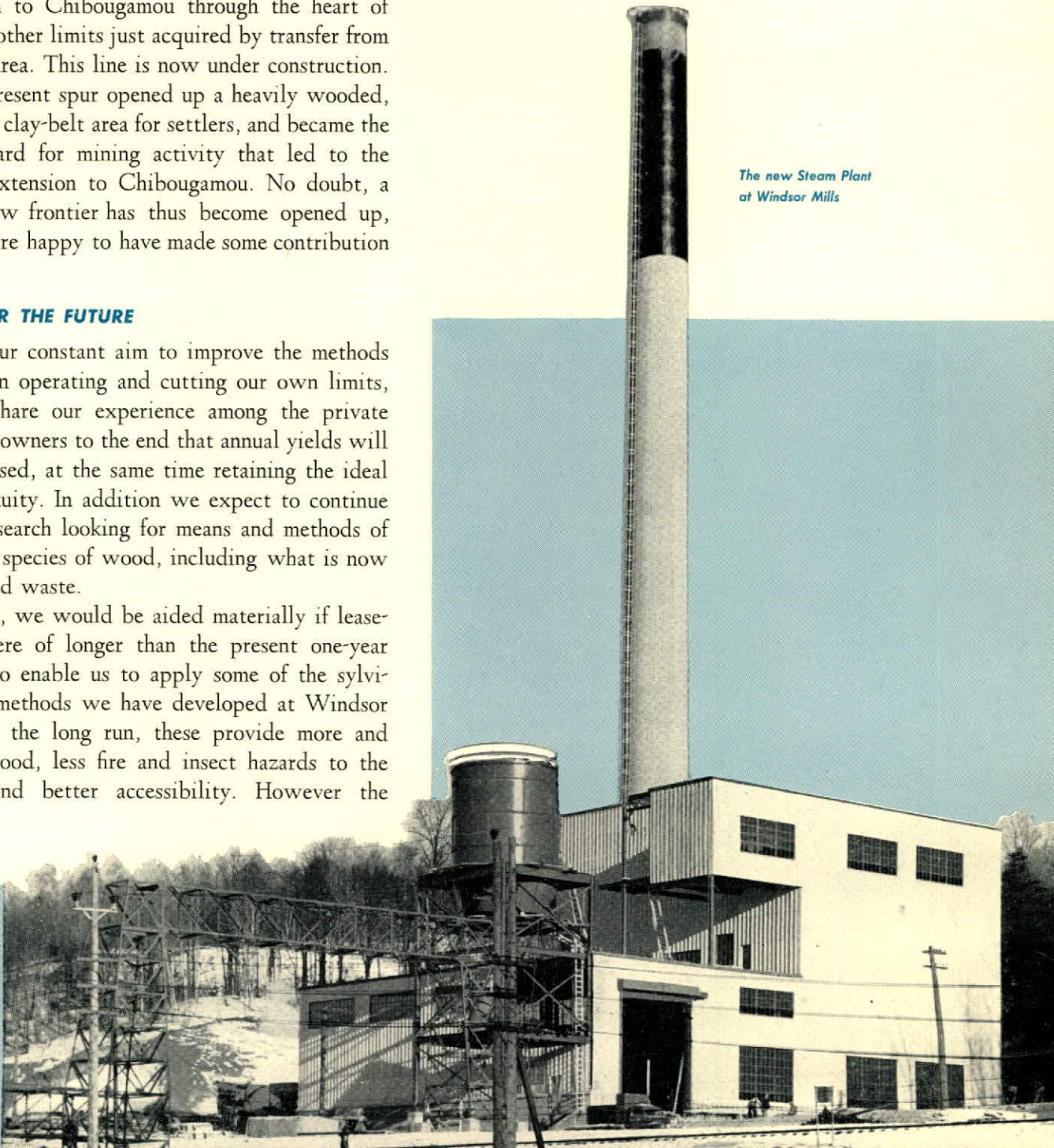
It is our constant aim to improve the methods we use in operating and cutting our own limits, and to share our experience among the private woodlot owners to the end that annual yields will be increased, at the same time retaining the ideal of perpetuity. In addition we expect to continue active research looking for means and methods of using all species of wood, including what is now considered waste.

In this, we would be aided materially if leaseholds were of longer than the present one-year period, to enable us to apply some of the silvicultural methods we have developed at Windsor Mills. In the long run, these provide more and better wood, less fire and insect hazards to the limits, and better accessibility. However the

capital cost of permanent roads and camps is far too high unless the tenure of the lease is such that the increased productivity can pay off the capital originally invested.

We recognize the responsibility we bear in managing our forest properties and exploiting their content to the best advantage of the people of Canada. It is our aim to do everything possible to discharge this trust.

*The new Steam Plant
at Windsor Mills*



Main Offices and Properties

Howard Smith Paper Mills Limited

AND SUBSIDIARY COMPANIES

ADMINISTRATION AND SALES OFFICES

MONTREAL, Quebec (15)

Alliance Paper Mills Limited
Sales Office
The Arborite Company Limited
Head Office
Canada Paper Company
Head Office
Don Valley Paper Co. Limited
Sales Office
Donnacona Paper Company Limited
Export Board Sales Office
Howard Smith Paper Mills Limited
Head Office

QUEBEC CITY, Quebec (9)

Donnacona Paper Company Limited
Head Office

TORONTO, Ontario (23)

Alliance Paper Mills Limited
Sales Office
The Arborite Company Limited
Sales Office
Canada Paper Company
Sales Office
Don Valley Paper Co. Ltd
Head Office
Howard Smith Paper Mills Limited
Sales Office

MERRITTON, Ontario (25)

Alliance Paper Mills Limited
Head Office

WINNIPEG, Manitoba (31)

Alliance Paper Mills Limited
Sales Office
Canada Paper Company
Sales Office
Don Valley Paper Co. Limited
Sales Office
Howard Smith Paper Mills Limited
Sales Office

PULP AND PAPER MILLS; CONVERTING PLANTS

HOWARD SMITH

Beauharnois, Quebec (14)
Cornwall, Ontario (21)
Crabtree Mills, Quebec (16)
Winnipeg Flax Division (31)

CANADA PAPER COMPANY

Windsor Mills, Quebec (13)

ALLIANCE PAPER MILLS

Georgetown, Ontario (27)
Merritton, Ontario (25)

DON VALLEY PAPER COMPANY

Toronto, Ontario (23)

DONNACONA PAPER COMPANY

Donnacona, Quebec (12)

ARBORITE COMPANY

Ville LaSalle, Montreal (15)

WHOLESALE TRADING BRANCHES

BUNTIN, GILLIES & CO. LIMITED

Hamilton (24) and Ottawa (22)

CANADA PAPER "WHOLESALE" LIMITED

Toronto (23) and Montreal (15)

FEDERAL PAPER COMPANY LIMITED

Montreal (15) and Ottawa (22)

THE FRED W. HALLS PAPER CO., LIMITED

Toronto (23) and London (26)

KILGOUR'S LIMITED

Toronto (23), Montreal (15),
Ottawa (22), Hamilton (24),
London (26), Winnipeg (31)

SCHOFIELD PAPER CO., LIMITED

Halifax (1) and Saint John (2)

PULPWOOD BUYING OFFICES WOODLANDS OFFICES AND TIMBER LIMITS

PROVINCE OF QUEBEC

Amos (19), Cedar Rapids (18), Gaspé (4),
Jacques Cartier River (10), Bersimis (6),
Victoriaville (8), New Carlisle (3),
Oskelaneo (17), Sault au Mouton (7),
Windsor Mills (13), Madeleine River (5)

PROVINCE OF ONTARIO

Cochrane (20), Mattawa (28),
North Bay (29), Sudbury (30)

POWER DEVELOPMENT

Jacques Cartier River (11)

COVER

Lithographed from 4-colour process plates, and 3 extra colours, on Glosskote Cover, White, 20 x 26 — 160 (M).
Types used for outside back, and inside front and back covers are 20th Century Ultra Bold, Extra Bold, Bold and Medium.

INSIDE PAGES

Printed letterpress in 2 colours on Alliance Luxafold Enamel, White, 25 x 38 — 140 (M).
Types used are Deepdene No. 315, 12 pt. leaded 2 pts., with Cello-Tak lettering for headings.
Sub-headings are set in 20th Century Extra Bold Italics.

The New
cashmere
 Family
 OF HOUSEHOLD PRODUCTS

CASHMERE TOILET TISSUE
 A delicately soft, super strong
 one-ply bathroom tissue



CASHMERE 4-ROLL PACK
 A handy, family size pack containing
 4 rolls of Cashmere Toilet Tissue

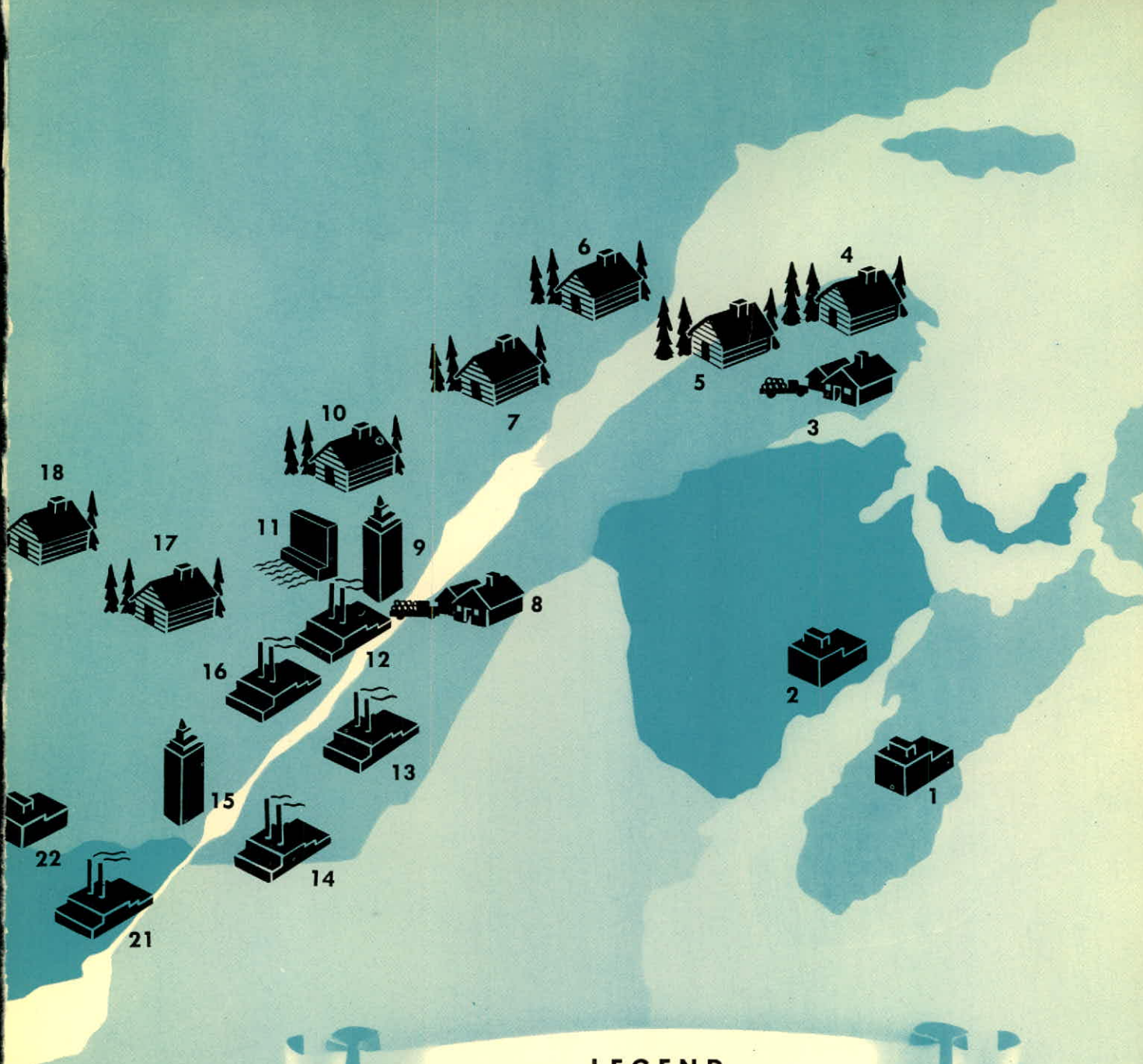


CASHMERE ROLL TOWELS
 150 absorbent, lint-free towels
 for household use



CASHMERE SERVIETTES
 70 white embossed
 serviettes packed in a
 convenient cellophane
 container

Your local stores have or will soon have these new products



LEGEND



Timber limits
and woods
operations
offices



Pulpwood
buying
offices



Powerhouse
and dam



Mills



Wholesale
trading
branches



Offices

NOTE—In cases where more than one type of operation is carried on we have only shown the major one. Refer to list on page 24 for full details

P E R T I E S

W O O D L A N D S



Howard Smith PRO

Location of MILLS, OFFICES and



Howard Smith

**IS YOUR
GUARANTEE OF QUALITY**

