

Annual Report

1955

Howard Smith Paper Mills Limited

AND SUBSIDIARY COMPANIES



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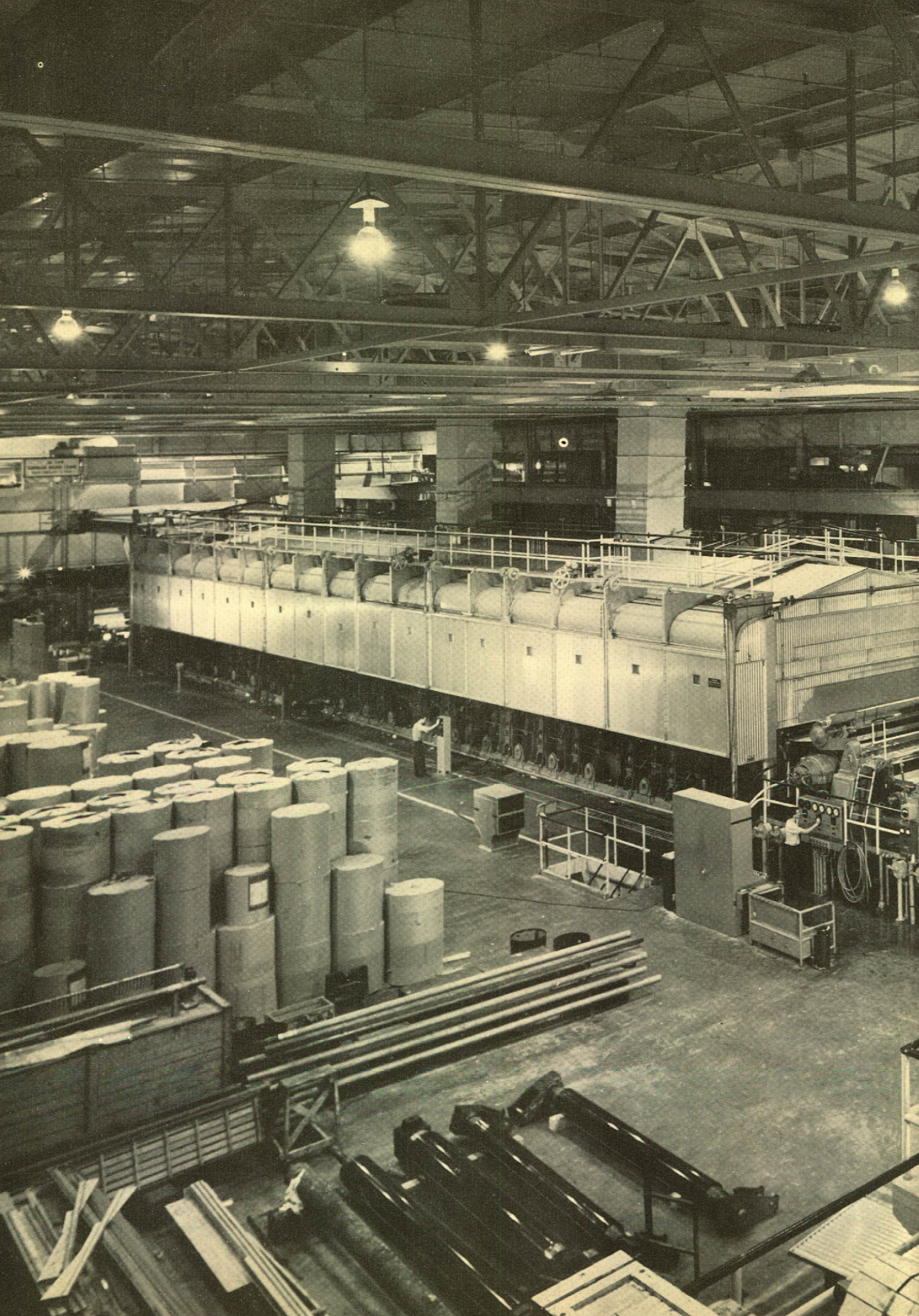


NO. 6 PAPER MACHINE ROOM

Canada Paper Company

ST. FRANCIS DIVISION
WINDSOR MILLS, QUEBEC

No. 6 Paper Machine came into operation in the Spring of 1955 and currently is manufacturing news grades.



Canada Paper Company

WINDSOR MILLS, QUE.

*Watapeka Division
(Upper Left)*

*St. Francis Division
(Lower Right)*



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

*Deceased February 18, 1956.



HAROLD CRABTREE, C.B.E.

1884-1956

Chairman of the Board of Directors

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

A N A P P R E C I A T I O N

Harold Crabtree died a week ago last Saturday morning.

He left a great void in the community for he had been prominent in it so long that we all find it peculiarly difficult to realize that he is not with us any more. Throughout a long and trying illness his courage and his composure never faltered and, to the last, the facets of his finely developed mind never lost in brilliance.

Primarily, Mr. Crabtree was an industrialist, and he was freely conceded by many to be our most able industrial executive. No detail escaped him; his knowledge was thorough and complete; his tenacity of purpose was inspiring; there was nothing of the visionary in him but he had vision and imagination in great abundance; his judgments were cool and clear and arrived at only after the relevant facts were all in.

With it all, he was generous in giving of his time and talents to enterprise and endeavour outside of his own particular business interests. Whether it was on the Board of a bank, as a member of an Executive Committee of a trust company, as a Governor of a great hospital or as Chairman of a campaign to raise millions for hospital purposes, to mention but a few of his outside interests, he was always the same clear-headed, diligent and helpful worker. In wartime his country commandeered him to be President of the Allied War Supplies Corporation, a post in which his great talents were invaluablely engaged. For these services he was awarded the C.B.E.

Harold Crabtree was a man of simple tastes; he made an outstanding success of his life in a material way; he was the opposite of ostentatious; he was a great man who walked at ease in the company of other great men, but he was greater than most because he had learnt the ways of true humility. His good works were many, oftener than not unrevealed, and I imagine none knew all of them.

Seldom at the end do we see such a large congregation drawn from so many walks of life meet to mourn and to pay their last respects to a fellow man. They came into and formed part of an atmosphere of simple dignity that was so much in keeping with the way he had lived.

As the great congregation dispersed and as one listened to the many whispered asides, the comments (restrained, often half expressed), the fragmentary remarks, one could not but feel somehow that everybody was trying to say, each in his own way:

“WELL DONE, THOU GOOD AND FAITHFUL SERVANT”

February 27, 1956



Chairman and President,
The Royal Bank of Canada

ELECTRONS, ATOMS **and the** **PAPER INDUSTRY**

Electrons, those tiny, mysterious bundles of electrical energy, are rapidly becoming one of the more important tools of the paper maker, and the research chemist and physicist. They are basic to many of the inspection and control devices, doing the work faster, better, and more continuously than could be expected of any human. In the research laboratories, electrons or radio-active substances are disclosing facts which have been impossible to observe in years gone by.

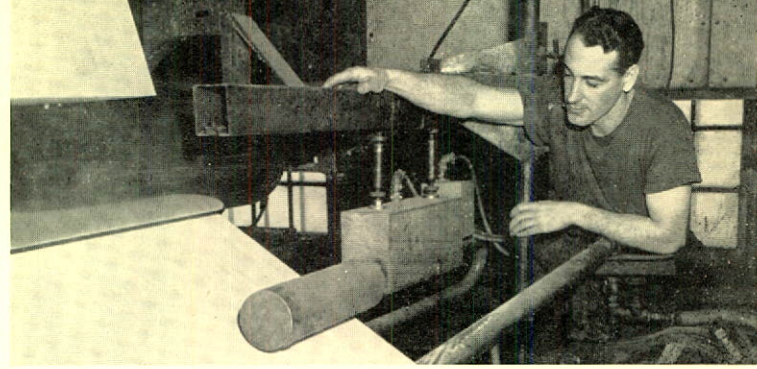
Whether we recognize it or not, we are in constant touch with electronics in our daily lives. The telephone, radio, and television could not exist without the services of the electron. The vacuum tube is common to all, and is the foundation of most electronic devices because of its ability to amplify weak impulses, alter their frequency and perform many other duties through its selective use of streams of electrons. And the strange fact is that electronic action can take place with the speed of light, 186,000 miles per second, or be so slowed, as in computers, that the impressions are actually memorized for future use.

Electronic Controls

Since we are dealing with the paper industry, the first place to look for electronic controls could well be the paper machine where such controls have been employed for some time. As the speeds of modern paper machines increased, more delicate and precise control over the speeds of the various sections was required and we now have ingenious electronic drive controls which keep each section at its proper speed and tension to eliminate one of the causes of breaks and lost production.

Electric eyes, which are basically electronic, can be applied to various sections of the machine and so arranged that they sound an alarm or shut off the flow of wet paper if a break occurs. For the varied production of the average fine paper mill with its various weights and colours, a relatively new device called a Betameter has been developed. This consists of radio-active material

The Beta Ray sheet weight profiler installed at Cornwall Division. This instrument measures the weight of the paper across the web.



The Betameter control installed on No. 3 Paper Machine which controls the weight of the paper.

housed in a suitable container placed under the web of wet paper at some point after it leaves the wire. Immediately above the web is an electronic device which is sensitive to the rays given off by the radio-active substance. Unlike light, the rays can pass through heavy paper or paper which is heavily dyed in direct proportion to the mass of the web. If the weight or mass of the paper becomes more or less, then an automatic signal is sent to the stock gate allowing more or less stock to reach the wire. Provided the elements of the materials remain reasonably constant, the Betameter control adjusts the weight of the paper within surprisingly narrow limits. It is perhaps interesting to note that much of the development work on this ingenious control device was carried out at the Don Valley Paper Company at Toronto, Ontario, one of our subsidiary companies.

This same measurement of mass is used in another very useful way. One of the more tricky problems of the paper maker is to keep the weight constant over the entire web of paper. Heretofore, this could only be checked by making a series of laborious and time-consuming weighings along a strip torn across the web. A new instrument called a Beta Profiler has recently been made available which will automatically draw a graph or profile of variations in mass or weight of a strip torn from the web across its width. The strip is drawn automatically through the machine, and any variations cause a pen to trace a line above or below the desired weight. Indicator marks on the Profile chart correspond with local adjustments on the paper machine, thus if any section of the

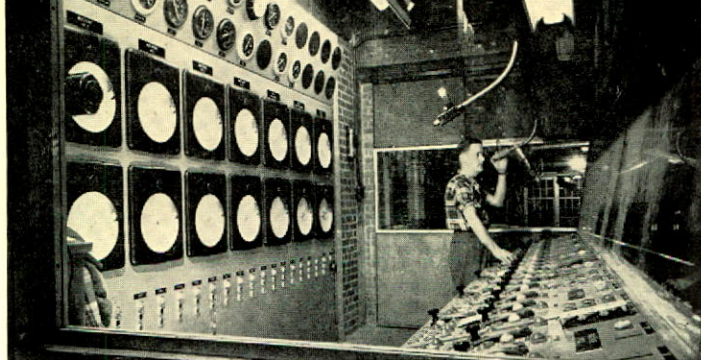


web is unduly light or heavy, the paper machine operator can see at a glance which controls need adjusting and the direction and approximate degree of their adjustment.

Electronic Controls in Stock Preparation

Since the uniformity of the paper depends to a large extent on the uniformity of the raw materials servicing the paper machine, considerable effort has gone into the development of control devices associated with stock preparation. Such a system is now in operation at the Cornwall Division of Howard Smith Paper Mills, and is considered to be one of the most advanced of any on this continent. Basically, the system consists of "Pulpers" which in the presence of water reduce sheeted pulp, old paper, slush pulp, or a combination of all three to a uniform consistency by means of mechanical action. The pulper also serves as a mixing chamber in which the fillers, sizing agents, and dyes are introduced. From the pulper the stock goes to large storage vats, and, as required, is pumped to the Refiners, which perform the cutting and fraying functions of the old-fashioned beaters.

The main advance of the Cornwall installation is an ingenious arrangement of electronic measuring and control devices. The operator selects the desired "mix" from the standard formula and sets the controls accordingly. These, in turn, cause the various pulps, sizing agents, fillers, etc., together with the required water, to enter the pulper in the correct proportions, and in the proper sequence. Subsequent mixes are made up in exactly the same manner ensuring uniformity of proportions. While the new system successfully takes over the more routine duties of stock mixing, the problem of colour must still be solved by the skill of the colour man. Slight variations in the colour of the raw pulps sometimes require different proportions of dye to achieve uniformity. The dyes therefore



The control panel in the Cornwall Division which automatically controls pulps and chemicals fed to the paper machine.

are added manually by the colour man in the proportions his experience dictates.

Testing Brightness and Colour

In order to obtain uniform brightness and whiteness of pulps, some standard must be set up, and the various batches compared to it. This is the function of the Brightness Tester which, by means of an electric eye, compares the colour of the raw pulp with a standard material universally adopted by the Industry. Another somewhat similar device measures the opacity of the finished paper to determine the degree printing on one side of the sheet will be visible on the other. Although the human eye can detect extremely small variations in brightness and shade, no two human eyes are the same, hence the need for electronic devices which to some extent eliminate the human factor.

X-Ray Diffraction

The ability of the electron to observe and record, makes it one of the most useful tools of the research laboratories. Colorimeters measure and evaluate the effects of dyes or other influences on pulps or finished paper. Occasionally, small amounts or trace elements of certain minerals or chemicals may have disturbing effect on some process. These may be natural to the raw materials or they may come from other sources such as corrosion of some part of the equipment or piping. Usually, the amounts are so small that they defy ordinary means of detection, but by use of the newly developed X-Ray diffraction apparatus,



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

diffusions of less than 1 part in several million can be identified.

The Research Department of Howard Smith Paper Mills is believed to be the first in the industry to employ an X-Ray diffraction instrument for specialized research. Strange as it may seem, a cellulose fibre is actually made up of millions of tiny crystals arranged in chains. The way in which these chains are linked together has an important influence on the strength and other properties of the fibres and the paper made from them. For instance, flax fibres have strongly oriented linkages and are, in fact, one of the strongest fibres used in paper making. Cotton fibres are disclosed by X-Rays to be less well oriented and hence are not as strong. As new sources of fibre become available, separated by various methods, it is possible to evaluate them quickly by checking them in the X-Ray diffraction machine without going to the expense of making up large quantities.

Research in Forest Propagation

Since the Canadian pulp and paper industry is founded on our forests, anything which can give us new knowledge of how trees grow is indeed welcome, for the more we know about forest growth, the better able we will be to devise forest management methods likely to increase the annual yield from each forest area. Utilizing radio-active chemicals, so spread that they are absorbed by the roots, or injected under the bark, the botanist is learning far more than he did about the circulation of sap in a growing tree. Other studies, made possible by tracers, are aimed at discovering the effect and necessity of earth minerals to maximum tree growth, which may be of great value to the tree farms of the future.

The wood of trees is far more complex than most people imagine. Besides the cellulose fibres, the main constituent, there is also lignin, nature's plastic cement, which binds the fibres together, plus various amounts of sugar, tar, resin, and many other intermediate substances. Apart from the cellulose, these are mainly wasted in the conventional pulping processes. Certain amounts of lignin are used for the manufacture of plastics such as Arborite, itself widely used in the electronic industry, and synthetic rubber. Vanillin, the essential aromatic of vanilla, is also being extracted from the lignin on a commercial scale,

and the tree sugars can be fermented to produce yeast or even potable alcohol. So far, the utilization of the constituents of wood, apart from the cellulose, has been lamentably low, but constant research is under way to develop new extraction processes and methods of changing the materials so extracted into more valuable or marketable forms. It is quite possible that some day the paper industry will be but one part of a vast wood-chemical industry. Many of the new discoveries will no doubt be attributable to the use of electronics or the atom in Research.

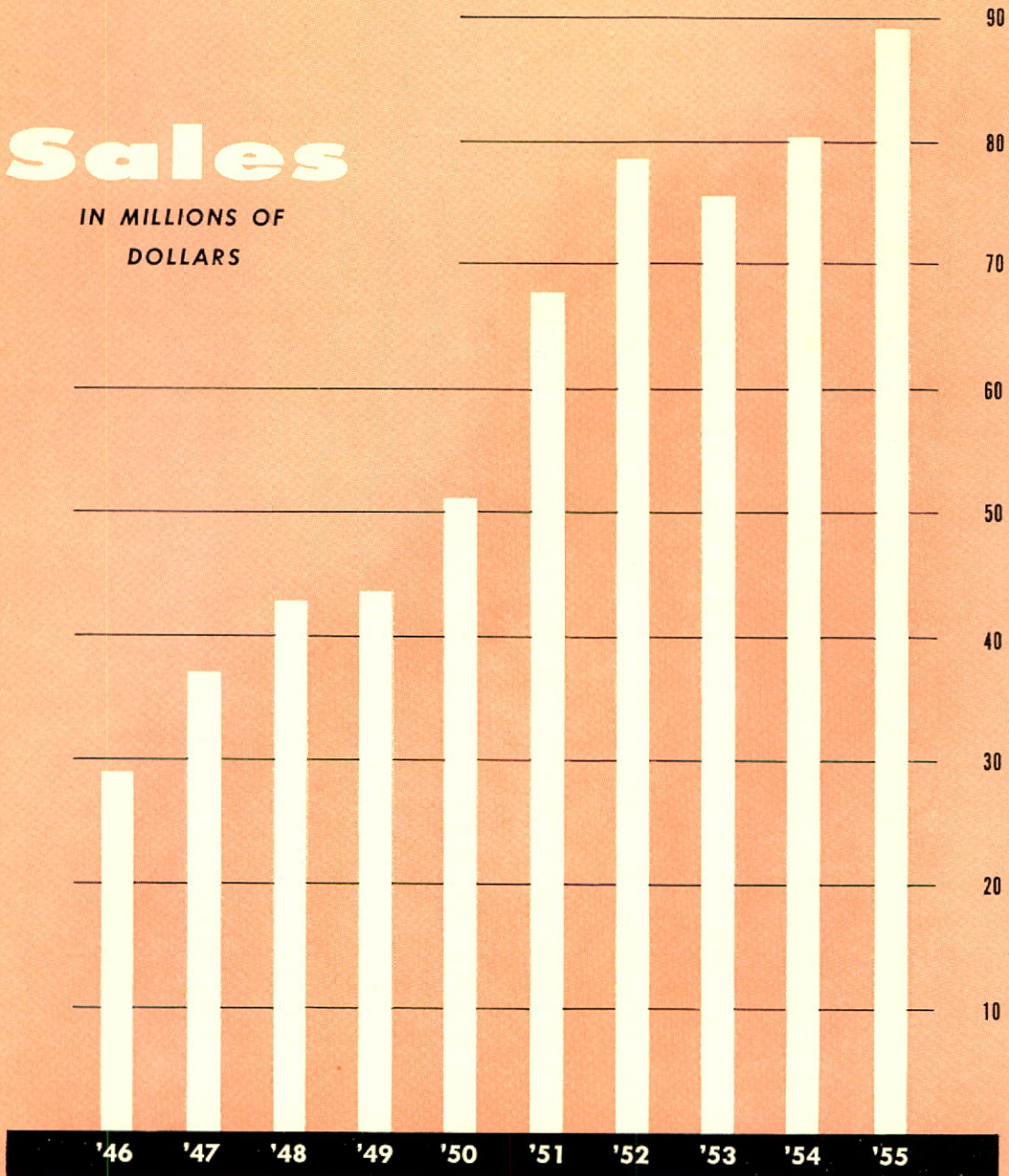
While we have learned how to use most of the trees growing today, there is some doubt that they are the most suitable, or, from the standpoint of fibre yield, the most economic in terms of area occupied and annual growth. What seems to be most desirable now to replace the uneconomic weed trees growing wild in our more southern areas is a new type or types which will be easy to introduce, which will grow at a rapid rate, and yield a greater amount of fibre per acre per annum.

Taking a leaf from Nature's notebook, botanists interested in silviculture are experimenting with cross-pollination, and hybridization in attempts to produce new varieties of trees. They are also bombarding the seeds of trees with the rays from radio-active materials to produce mutations which can quite possibly lead to trees having special characteristics. This is perhaps a slow process because it takes twenty to twenty-five years to prove whether or not the new tree specie will thrive under the climatic conditions, and whether or not it is subject to attack by insect or disease. The process of mutation is speeded up many millionfold through the use of reactor-treated materials.

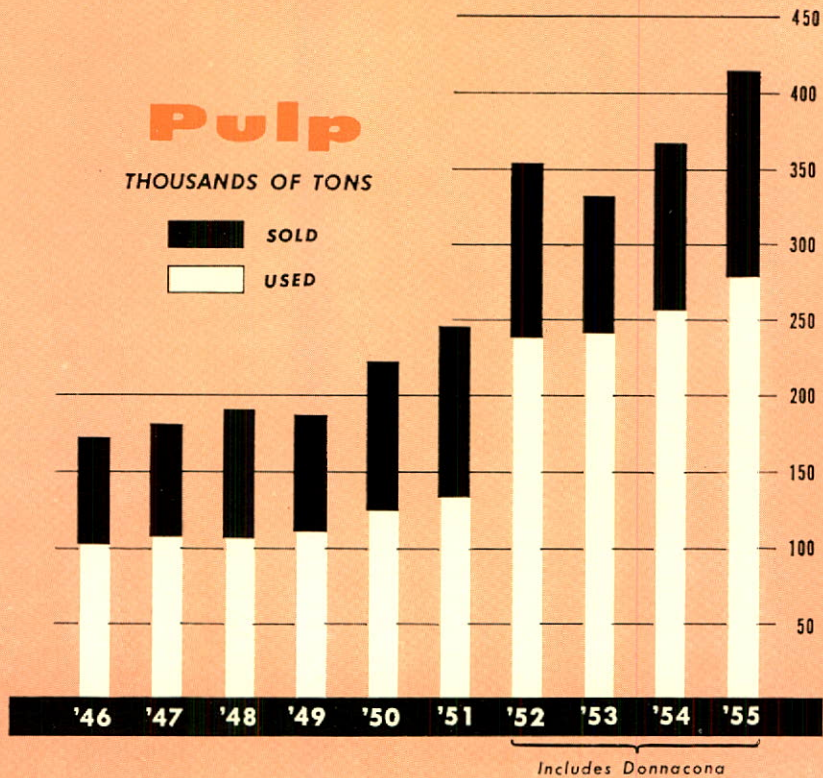
These are but some of the many ways that the pulp and paper industry, and the scientists who are doing the research are using electronics and atom furnace materials. As knowledge grows, we can expect even more uses to be found. At Howard Smith, our staff technicians, and our researchers are keenly aware of their present and future potentials. Each new advance is studied and evaluated as to its possible adoption to our own problems to the end that we may produce more and better products at economic prices, and make more and more use of the forests with which Canada is so richly endowed.

Sales

IN MILLIONS OF
DOLLARS

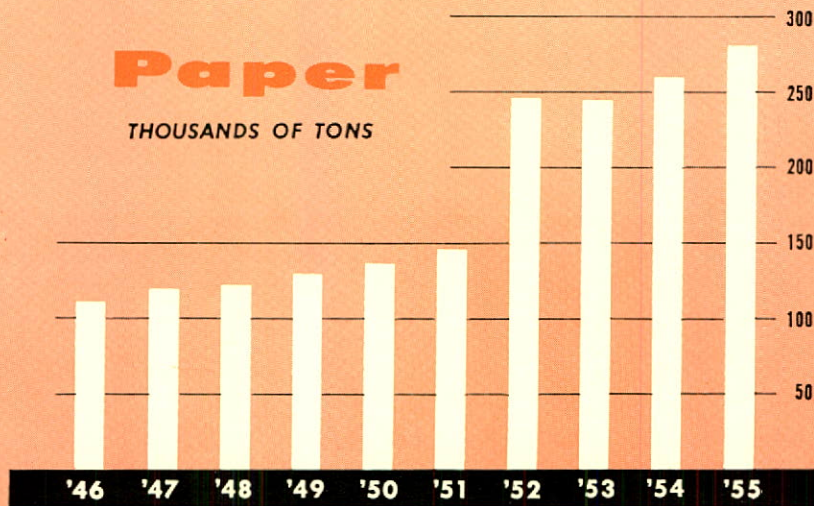


The combined total sales of all companies for 1955 reached the impressive sum of \$89,163,056, an advance of almost 11% over 1954. Seasonal recessions, so evident in some years, were very mild and idle time for lack of orders was at a minimum. This favourable business climate, coupled with the additional production facilities which came into operation have made possible the highest dollar sales in the company's history.



Pulp production totalled 412,982 tons, which is an increase of 13.2% over 1954. About two thirds of this total was consumed in our own paper mills and one third sold in the domestic and export markets. At the moment, there are prospects of a continuing heavy demand for our pulps.

P R O D U C T I O N



Except in a few cases and for very short periods, the production of all grades of paper was at a rate not far from the theoretical maximum. The demand for fine paper was good and resulted in a healthy increase in production. Kraft papers and news grades were actually in short supply most of the year with all machines working to capacity. Total production of all grades by all companies amounted to 282,138 tons.

FINANCIAL STATEMENTS

DECEMBER THIRTY-FIRST

1955



Howard Smith

PAPER MILLS, LIMITED
AND SUBSIDIARY COMPANIES

The twenty-eighth Annual Report

OF THE DIRECTORS OF

HOWARD SMITH PAPER MILLS, LIMITED

TO THE SHAREHOLDERS:

Your Directors submit herewith the Twenty-eighth Consolidated Annual Report of your Company and its Subsidiaries for the year ended December 31, 1955, comprising Balance Sheet, Profit and Loss and Surplus Accounts and the Report of the Auditors.

Earnings from all sources after providing for regular depreciation and depletion of \$4,849,774 and for the other items detailed on the Profit and Loss Statement amounted to \$13,251,652.

Net Profit for the year was \$6,146,659 after providing \$500,000 for additional depreciation, \$52,181 for dividends paid by Donnacona Paper Co., Limited to its minority shareholders and for the equity of those shareholders in the undistributed profits of Donnacona for the year 1955, and after provision of \$5,850,000 for Income Taxes.

Regular quarterly dividends of 50¢ per share on the Preferred Stock and 25¢ per share on the Common Stock were paid during the year. The extra dividend of 20¢ per share on the Common Stock declared from 1954 earnings which was referred to in the last Annual Report was also paid. On November 24th last an extra dividend for the year 1955 of 25¢ per share of Common Stock was declared, payable with the regular quarterly dividend on January 31st, 1956.

The items of capital expenditure mentioned in the last Annual Report were all completed during the year and further projects are presently under way. Some of the main items are:—

CORNWALL DIVISION

- (a) Extension to the finishing room
- (b) New Bleach plant for alkali pulp
- (c) Additional Dryers for No. 1 Paper Machine

CANADA PAPER

- (a) Extension of the St. Francis finishing room
- (b) New barking drum
- (c) Bark burning equipment

DONNACONA

Speeding up No. 3 Paper Machine

ALLIANCE

Additional Dryers for No. 2 Paper Machine

ARBORITE

- (a) New Treater
- (b) New Hydraulic Press
- (c) Building extensions

Total capital expenditures in 1955 were \$7,381,352. You will note in the Balance Sheet, that funds set aside for future capital expenditures and other corporate purposes at the year-end were \$4,155,531 as compared to \$5,152,531 at the end of the previous year.

During the year the funded debt of your Company and of Donnacona Paper Co., Limited was reduced by \$995,000.

Working Capital as at 31st December 1955 amounted to \$22,476,088.

The demand for most of the products of your Company was strong throughout the year, almost all units operating at full capacity or very close to it.

Production of all kinds of pulp was 412,982 tons of which 133,912 tons were sold to customers outside our own organization.

Production of all grades of paper was 282,138 tons.

Present indications point to a continued strong demand for at least the next few months.

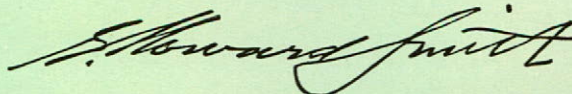
The appeal of members of the industry in the Combines proceedings referred to in our last Report having been rejected by the Ontario Court of Appeals, leave to carry this matter to the Supreme Court of Canada was sought and obtained. The judgment of Mr. Justice Cartwright granting such leave propounds a number of questions for decision by the Supreme Court which, in the opinion of Counsel, are sufficiently broad in scope to give rise to hope that this important and protracted litigation may yet result in much needed clarification of those provisions of the law upon which the Crown has been relying exclusively in these cases. The appeal before the full court is now set down for its Spring Sittings but may not be heard until next Fall. Meanwhile, the fines levied against your Company and its subsidiaries remain unpaid and no provision for their payment has been made in the accounts submitted.

It is with deep regret that your Directors record the death on February 18th, 1956, of Mr. Harold Crabtree, President of your Company from 1931 to 1946, when he was elected Chairman of the Board, which position he held until his death.

The great progress made by your Company during the past twenty-five years must be ascribed in large part to Mr. Crabtree's courage, vision and unremitting efforts to advance its interests. His loss will be deeply felt by your Company and by the community.

Your Directors wish to express their appreciation of the work done during the year by your Officers and Employees.

Submitted on behalf of the Board,



President

Montreal, March 16th, 1956

HOWARD SMITH PA

AND SUBSIDI

Consolidated Balance Sheet

ASSETS

Current Assets:

Cash in Banks and on Hand.....	\$ 5,155,673	
Accounts Receivable, less Allowance for Doubtful Accounts.....	11,330,430	
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.....	17,058,385	
Prepaid Insurance, Taxes, etc.....	246,650	\$33,791,138

Other Assets:

Amounts set aside for Capital Expenditures and other Corporate purposes —		
Government of Canada Bonds (market value \$646,262)....	\$ 655,531	
Other short term investments.....	3,500,000	4,155,531
Cash Surrender Value of Life Insurance Policies.....		105,833
Trade Investments —		
Shares.....	899,231	
Advances.....	597,165	1,496,396
Other Investments.....		103,000
Guarantee Deposits.....	41,125	5,901,885
Patent and Research Expenditures — less amounts written off.....		56,963

Fixed Assets at or below cost:

Land, Buildings, Plant, Equipment, Timber Limits and Water Powers....	99,027,158	
Deduct: Accumulated Depreciation and Depletion.....	55,786,781	43,240,377

\$82,990,363

Signed on behalf of the Board:

E. HOWARD SMITH, Director.

H. ROY CRABTREE, Director.

PAPER MILLS, LIMITED

PAPER MILLS COMPANIES

Balance Sheet as at 31st December 1955

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities.....	\$ 5,602,377	
Dividends Payable.....	954,089	
Funded Debt maturing within one year.....	1,326,000	
Provision for Income and other Taxes.....	3,432,584	\$11,315,050

Funded Debt not maturing within one year:

Howard Smith Paper Mills, Limited —		
First Mortgage Bonds, 1950 Series		
2¾% Bonds due 1st December 1957-1960.....	\$2,400,000	
3% Bonds due 1st December 1961-1970.....	6,000,000	8,400,000
4½% Debentures — Series "A" due 1st June 1961.....	4,550,000	
Less: Held by Subsidiary Company.....	200,000	4,350,000
Donnacona Paper Company, Limited —		
First Mortgage 3½% Bonds Series "B" and "C" maturing 1st July 1962 (\$4,015,000 payable in U.S. Funds).....	4,745,000	17,495,000

Reserves:

Inventories.....	1,500,000	
Contingencies.....	450,400	1,950,400
Minority Interest in Donnacona Paper Company, Limited.....		370,030

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	17,755,074
Capital Surplus.....		982,513
Earned Surplus.....		33,122,296

\$82,990,363

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

P. S. ROSS & SONS, Chartered Accountants.

Montreal, 29th February 1956.

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 1955

Profit from operations for the year ended 31st December 1955 after deducting Depreciation and Depletion \$4,849,774, Salaries of Executive Officers \$201,600, Payments under Contributory Pension Plan \$712,344, Legal Fees \$40,027 and Directors' Fees \$11,180.....		\$12,939,517
Income from Investments.....		108,070
Royalties.....		204,065
		13,251,652
DEDUCT:		
Interest on Funded Debt.....	\$ 682,127	
Appropriation for Additional Depreciation.....	500,000	
Amount written off Patent and Research Expenditures.....	20,685	
Provision for Income Taxes.....	5,850,000	7,052,812
Net Profit.....		6,198,840
DEDUCT in respect of Minority Shareholders		
of Donnacona Paper Company, Limited:		
Dividends.....	10,908	
Equity in 1955 undistributed profits.....	41,273	52,181
Balance for the year ended 31st December 1955 transferred to Earned Surplus.....		\$ 6,146,659

CONSOLIDATED STATEMENT OF EARNED SURPLUS ACCOUNT

For the Year ended 31st December 1955

Earned Surplus, being income retained in the business as at 31st December, 1954.....		\$30,099,122
Adjustments affecting chiefly:		
Fixed Assets and accumulated depreciation.....		48,233
Balance from Profit and Loss Account for the year ended 31st December, 1955.....		6,146,659
		36,294,014
DEDUCT:		
Provision for Vacation Pay.....	\$ 612,699	
Less Income Tax thereon.....	287,968	\$ 324,731
Dividends on —		
Preferred Shares.....	320,000	
Common Shares.....	2,526,987	2,846,987
		3,171,718
Earned Surplus, being income retained in the business as at 31st December, 1955.....		\$33,122,296

HOWARD SMITH PAPER MILLS, LIMITED
AND SUBSIDIARY COMPANIES



CONSOLIDATED STATEMENT OF CAPITAL SURPLUS ACCOUNT

For the Year ended 31st December 1955

Balance at 31st December, 1954.....	\$ 972,963
Profit from sale of Assets less amount written off investment	9,550
Balance at 31st December, 1955.....	<u>\$ 982,513</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

Montreal 1, Que., 29th February 1956

*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 1955 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 1955 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

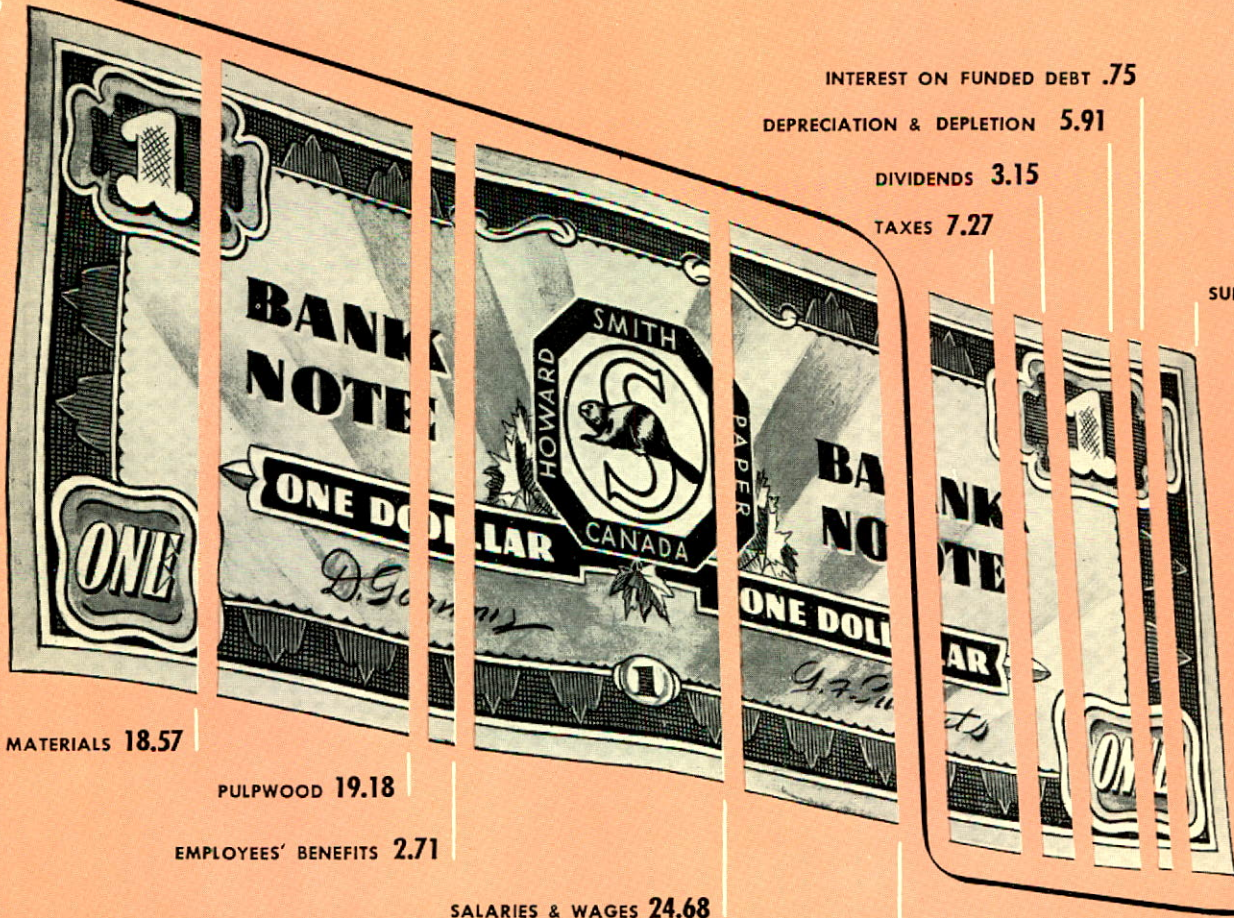
<i>Income and Earnings:</i>	<i>1952</i>	<i>1953</i>	<i>1954</i>	<i>1955</i>
Net Sales, Income from Investments and Royalties.....	\$77,467,394	\$75,616,886	\$80,710,665	\$90,226,614
Net Earnings before Income Taxes.....	8,776,882	9,134,018	10,130,256	11,996,659
Provision for Income Taxes.....	4,950,000	4,431,000	5,110,000	5,850,000
Net Profit.....	3,826,882	4,703,018	5,020,256	6,146,659
Dividends declared on Preferred and Common Shares.....	1,953,789	2,054,334	2,062,750	* 2,846,987
Amount of net profits retained in the business.....	1,873,093	2,648,684	2,957,506	3,299,672
Provision for Depreciation and Depletion..	4,241,107	4,223,890	4,680,025	5,349,774
 <i>Financial Condition at December 31st:</i>				
Working Capital.....	21,841,945	22,094,295	22,223,568	22,476,088
Inventories.....	18,852,176	17,286,288	16,611,429	17,058,385
Fixed Assets (before deducting Depreciation)	81,684,993	85,170,215	92,378,396	99,027,158
Accumulated Depreciation and Depletion..	43,257,054	47,063,199	51,180,264	55,786,781
Funded Debt not maturing within one year..	21,380,000	19,817,000	19,021,000	17,495,000
Common Stock Equity.....	33,668,564	37,046,828	40,427,159	43,459,883
Number of Common Shares outstanding...	1,714,775	1,742,750	1,742,750	1,742,750
 <i>Per Common Share:</i>				
Earned.....	\$ 2.05	\$ 2.51½	\$ 2.70	\$ 3.34
Dividends declared.....	1.00	1.00	1.00	* 1.45
Income Taxes.....	2.89	2.54	2.93	3.36
Payrolls and Employees' benefits.....	12.16	11.76	13.06	14.27
Equity.....	19.63	21.26	23.20	24.94
 <i>Number of Shareholders December 31st:</i>				
Preferred Stock.....	980	972	975	977
Common Stock.....	3,380	3,892	3,999	3,828
<i>Number of Employees December 31st</i>	5,499	5,961	6,311	6,871

*An extra dividend of 20¢ per share for the year 1954 amounting to \$348,550 was declared and paid in 1955.

Distributing the

INCOME DOLLAR

79.28%



OTHER RAW MATERIALS 18.57

PULPWOOD 19.18

EMPLOYEES' BENEFITS 2.71

SALARIES & WAGES 24.68

POWER & FUEL 6.02
MISC. SUPPLIES 8.12 14.14

SURPLUS 3.64

20.72%

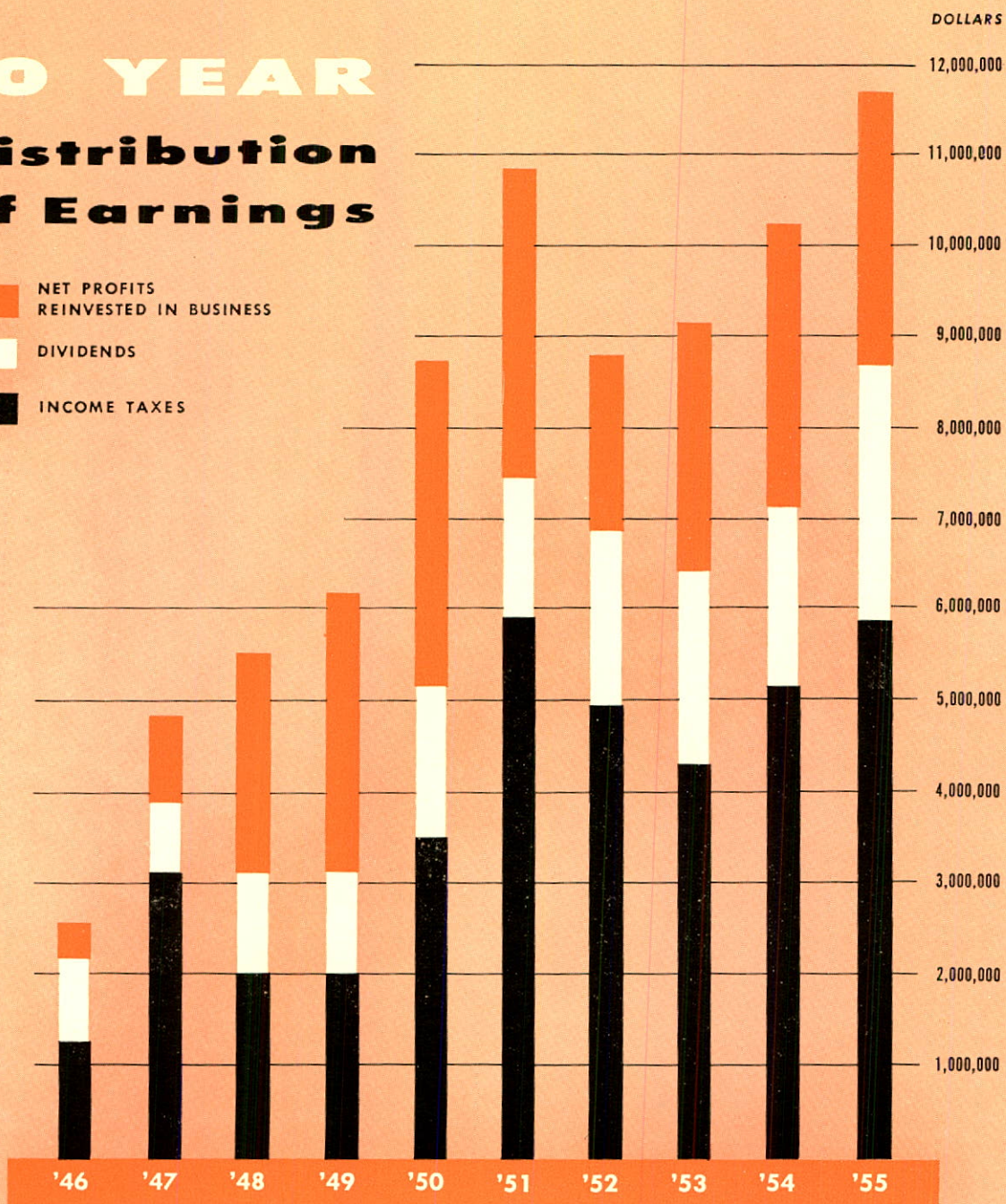
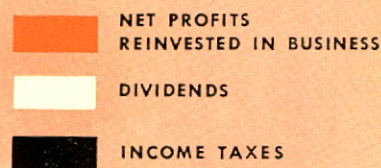
During the year 1955 it required 79.28% of the Income Dollar for direct operating expenses of the Company leaving 20.72% for the financial functions of the business.

From the statistics shown above it can be seen that Salaries, Wages and Employee Benefits absorbed 27.39% of each dollar of income. Our major raw material purchase — Pulpwood — accounted for 19.18%; other Raw Materials 18.57%, making a total of 37.75% under this

heading. Power, Fuel, and Miscellaneous Supplies amounted to 14.14%.

Some 5.91% was used to provide for Depreciation and Depletion of buildings, machinery and forest reserves. Combined taxes took 7.27%, and Interest on Funded Debt a further .75%. This left the small proportion of 6.79% as profit, with 3.15% paid out in Dividends and 3.64% transferred to Surplus and re-invested in the business.

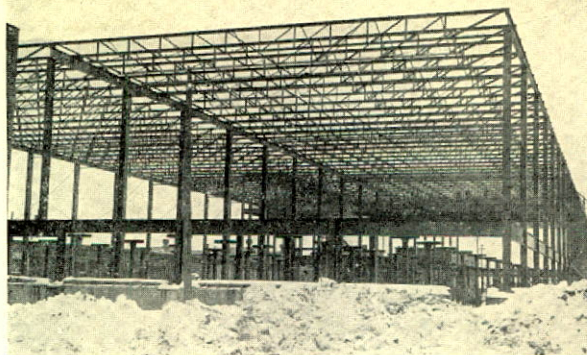
10 YEAR Distribution of Earnings



The expansion programme in manufacturing facilities that was initiated after the close of World War II, and which continues to be an integral part of our policy, finds reflection in the steady growth of earnings.

Taxation of corporate profits constitutes a heavy drain on the earnings of present day business. In this manner, over the past ten years various Governments have shared in our earnings to the extent of approximately one-half. Of the balance remaining after taxes, a substantial portion has been reinvested in plant and equipment.

View of the skeleton steelwork for the new Finishing Building at Cornwall Division.



MODERNIZATION and EXPANSION

The goals of the current modernization and expansion programme are based on two broad premises: (a) that the domestic and export demand for Canadian fine papers will continue to grow, and; (b) that continual improvement in quality is the major factor in assuring us of future markets. Increased production is being achieved by modification of existing machinery and the provision of additional productive equipment. The problem of improved quality is being solved by research into basic processes and the development of improved technology at all levels. In some cases, relatively simple modifications can result in improved products or procedures. In others, a rather large outlay of money, time, and skill is required to reach the desired goals.

Each year since the end of World War II has seen the completion or beginning of one or more major projects. Some of these are of short duration, while others, forming part of the management's long term plans, are spread over several years. The year 1955 therefore saw the completion of a number of major projects and the beginning of others. What was done several years ago is bearing fruit now, and what we are doing or planning to do now is a harvest the future will reap. Of the many projects completed or begun during 1955, the following are worthy of note, not discounting the fact that many additional minor projects added up to an impressive outlay of capital funds and played an important part in the programme as a whole.

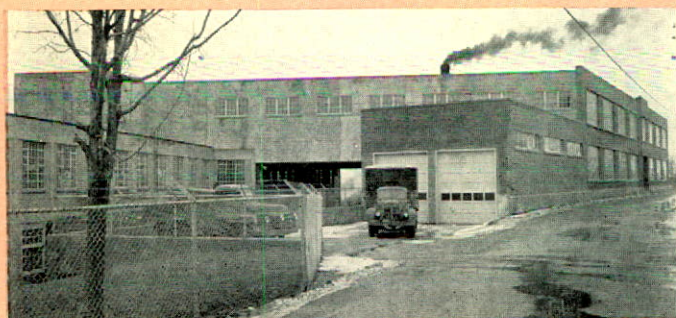
HOWARD SMITH PAPER MILLS LIMITED

Crabtree Mills Division

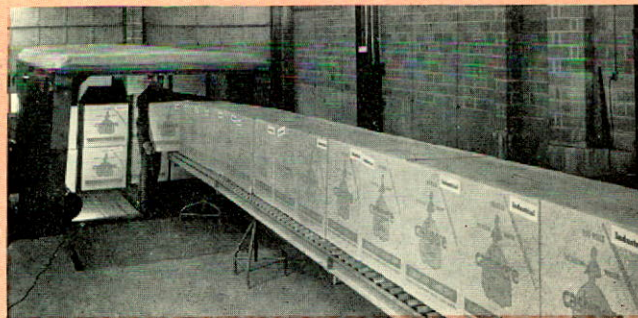
One part of this Division manufactures or processes consumer products such as toilet tissue, napkins and serviettes, household paper towels, etc. Over the past three years, the consumer products section has been completely renovated, to achieve better products and with a much greater potential capacity. Step one was the change-over from the multiple dryer system to the single cylinder dry-creping process which results in a much softer, delicately creped tissue. Step two, completed early this year, provided a new high-speed wet-end designed to triple the potential production of higher quality products, including the deluxe two-ply toilet tissues which are currently much in demand. Step three, completed in September, provided modern converting equip-

ment for tissue products as well as storage and shipping facilities.

The new converting building is of two storeys, the lower of which houses the Mill offices and the truck and rail shipping docks. The second storey extends over the rail spur and forms an additional floor area over the older mill building. A modern layout, combined with automatic packaging machines and conveyors assures fast and efficient operation. Here, the popular Cashmere family of paper products is packed for shipment to all areas in Eastern Canada. The family includes Cashmere Toilet Tissue in white and colours, Cashmere 2-ply Tissue, Cashmere Roll Towels, and Cashmere Serviettes. Other brands include Snowcap Tissue and Snowcap Dispenser Napkins, Springvale, Organdie and Opal Tissues.



Howard Smith Paper Mills Limited, Crabtree Mills Division, Crabtree Mills, Que. Northern view of the new offices and converting area with two-truck covered docks in the foreground.



From the stock room or production line at Crabtree Mills, the filled cartons are conveyed by gravity to the covered trucking dock.

Cornwall Division

This Division has seen a large expansion during the past ten years and once again it is on the threshold of major modifications. Of the projects completed in 1955 the Automatic Stock Preparation System in the Paper Mill has come into full operation and has proven to be a major advance. It has provided better control, more uniformity and significant cost reduction in preparing the raw pulps and other components for their journey along the paper machines.

In the Pulp Mills, which have been hard-pressed to meet a strong demand for their products, new equipment was installed to take the dried sheets of pulp from the driers, convey them to the automatic balers and finally to freight car or stock pile. Provision was made for increased production when such becomes available. To further improve the cleanliness of the Sulphite Pulp production a battery of Centricleaners and thickeners were added to the Sulphite Pulp Screen Room.

Projects for which preliminary engineering has been completed and construction started will have far-reaching effects on the future of the Division. The recent expansion in paper production, plus that planned for the future, requires far more finishing area than presently available. A new 85,000 square foot Finishing Room is under construction and is scheduled for completion in the Spring. It will be provided with the most modern methods of materials handling and have many unique features which will assist in bettering the finishing operations.

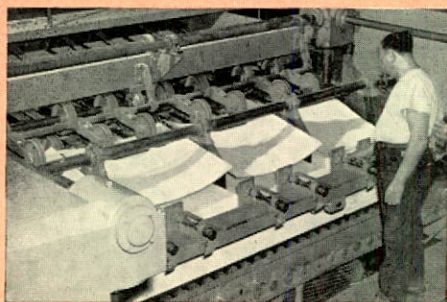
Paper machines are now so large, so fast, and so occupied, that experimental work performed on them can be overly costly in terms of materials and productive time. To make it possible for the Research Department and mill operating staff to test new materials and methods, a new annex to the Research Building is under construction which will house an experimental paper machine which can make paper 6 to 10 inches wide. Auxiliary equip-

ment will include miniature pulping digesters and stock preparation machines making up a complete but miniature paper mill where small quantities of experimental materials can be pre-tested before commercial trials on the larger machines.

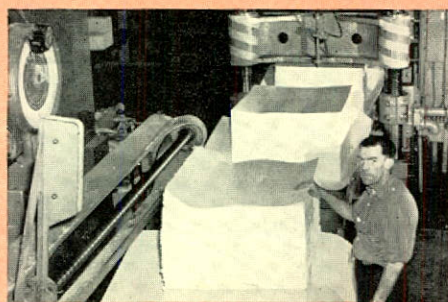
Of late years, the demand has been for increased brightness and whiteness of pulp and paper products. Conventional bleaches such as chlorine and hypochlorite solutions are efficient up to a certain point on the brightness scale, but begin to affect the pulp fibres' characteristics if carried too far. A relatively new bleaching agent, Chlorine Dioxide, has been developed which is capable of producing much whiter pulps with fewer harmful side effects. Construction has now been started on a Chlorine Dioxide Generation Plant which will supply the bleaching agent for the new Soda Mill Bleachery which is also in course of construction. The new plant will be able to handle up to 300 tons a day. Later on, the existing soda bleaching equipment will be utilized to produce Chlorine Dioxide Bleached Sulphite Pulp. Since only the most modern mills have this equipment, it is expected that the products of this Division will continue to occupy a preferred position on the market.

CANADA PAPER COMPANY

The mill at Windsor Mills has also been expanded greatly since the war. The current programme itself has been under way for several years and most of the major projects will have been completed in 1955 and 1956. The new No. 6 Paper Machine came into operation in May, 1955 and is currently producing news grades for which there is an exceptionally strong market. The new Steam Plant also started up in May and supplies the requirements of No. 6 Paper Machine and other parts of the mills with low operating costs.



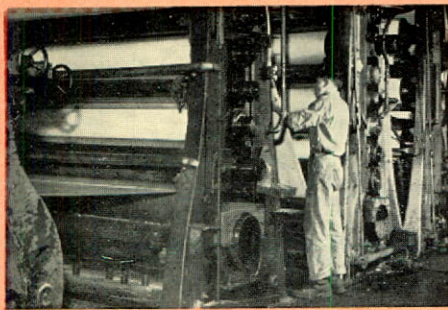
The Layboy at the end of the pulp drying machine automatically cuts the wide web into standard size sheets and piles them neatly.



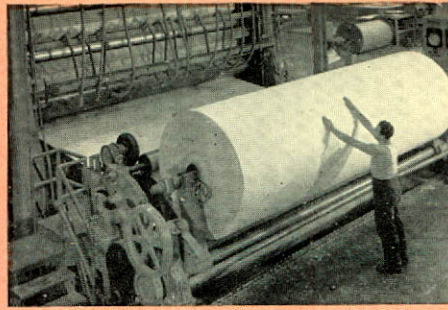
Piles of sheeted pulp are conveyed to the scales for check weighing to the exact 500 lbs. and thence to the hydraulic press.



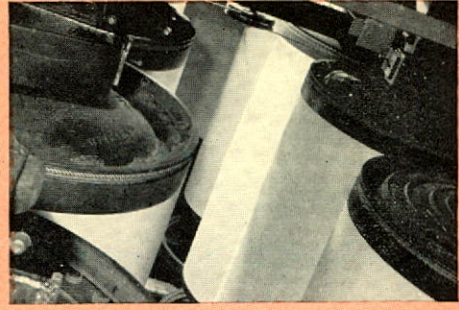
New specialty sack machine installed at the Converted Products Division at Windsor Mills for the manufacture of high grade multiprinted bags.



ALLIANCE PAPER MILLS, Lincoln Division, Merritton, Ont. The new Super Calender Stack installed on the Lincoln Board Machine applies a high finish.



The "Dry End" of No. 6 Paper Machine at Windsor Mills. This machine makes paper 192 inches wide at a speed of 1300 feet per minute.



ALLIANCE PAPER MILLS, Lincoln Division, Merritton, Ont. New Dryers stacked vertically 5 high on the Lincoln Board Machine for extra capacity.

Projects under way or planned for early 1956 completion include a new Precipitator for the Recovery Furnace which will improve the efficiency of chemical recovery and tend to reduce the objectionable atmospheric conditions associated with the manufacture of Kraft Pulp. An extension of the Kraft Pulp Digester Building is being erected which will eventually house two new digesters. This will necessitate the provision of additional facilities such as barking, screening and washing equipment. These are on order and will be installed in 1956.

The installation of a modern Polyethylene Extruder Coater in the Converted Paper Products Division has completed the present expansion programme. This equipment applies a film of molten Polyethylene to the surface of Kraft paper or other material, making it water and moisture proof. These papers are used in the multiwall paper bag and packaging industries. During the year, equipment was also installed for the manufacture of plain and printed gummed Kraft tape, as well as new printing and bag machines for the production of plain and printed bags of various kinds.

ALLIANCE PAPER MILLS LIMITED

The major project for 1955 was the modification of the Cylinder Board Machine at the Lincoln Division to increase its productive capacity. New vertically stacked dryers required the construction of a penthouse which in turn involved major alterations to the machine room. Other equipment such as pulping, screening, calendering, and cutting was installed to accommodate the increased production and make possible the manufacture of grades not heretofore made on that machine.

DONNACONA PAPER COMPANY LIMITED

The increased demand for Donnacona products has resulted in efforts to improve production. Alterations to No. 2 Paper Machine were completed, raising its capacity by 20%. At the same time, much additional equipment was installed to enable it to manufacture rotogravure papers along with its regular newsprint grades. Work is progressing on No. 3 Paper Machine where productive capacity will be raised in several steps over the next eighteen months.

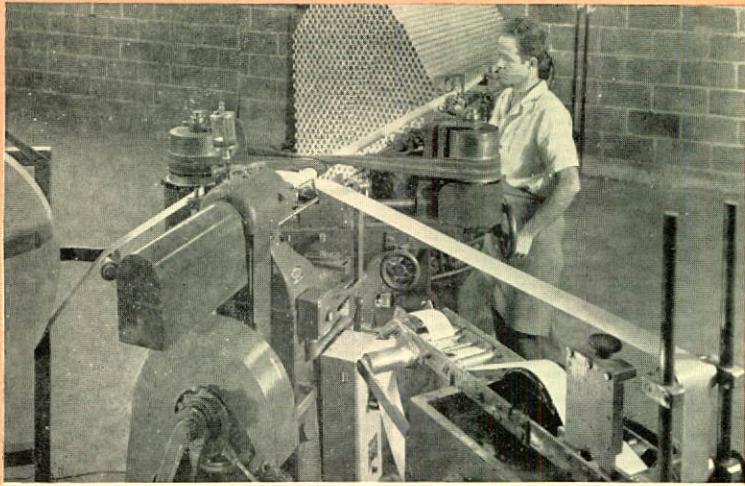
To provide raw material for the increased production, a new Drum Barker was constructed at the Jacques Cartier River Barking Plant and new Grinders installed in the Groundwood Mill with a capacity of 65 tons a day. Screenings from the new grinders flow to the Insulating Board Mill where new equipment and modifications have improved both capacity and efficiency.

THE ARBORITE COMPANY LIMITED

No major projects were completed in 1955, but there were many minor modifications and refinements made which increased production and provided improved products. The steady expansion in the sale of Arborite products has caught up to present equipment and space. Plans are under preparation for additional facilities and floor area to handle the expected future demand.

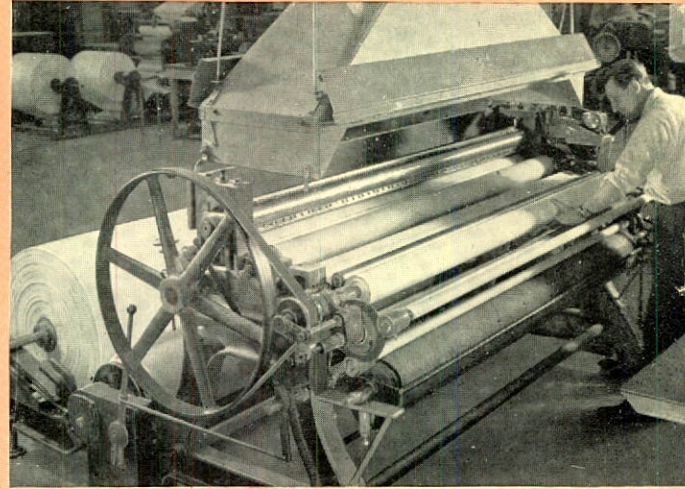
GENERAL

For each major project, especially when productive capacity is increased, there is an immediate demand for additional services such as steam, electric power, water and sewerage. Although minor in themselves, they are important elements in any programme. Without them the major projects could not get under way.



The automatic core-making machine makes the central core for toilet tissue or towels in the lengths and diameters required.

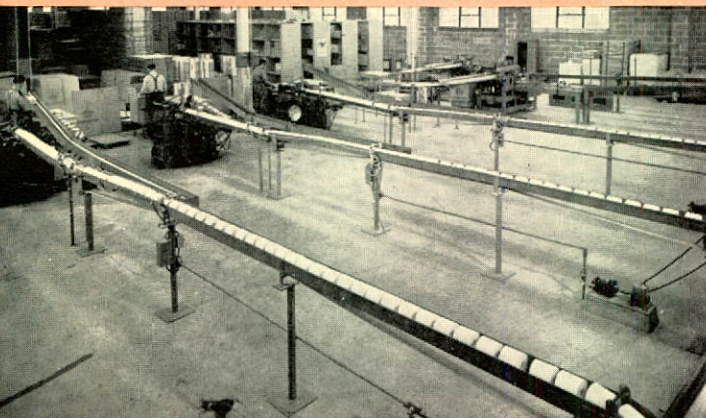
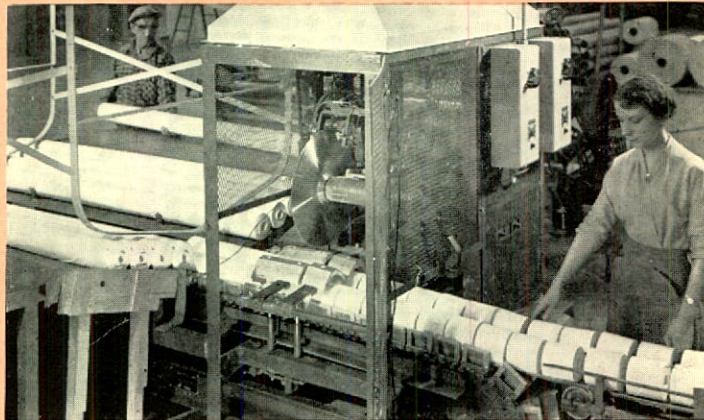
The perforator and rewinder takes the large machine roll, makes the necessary perforations and automatically winds the finished roll to the desired number of sheets.



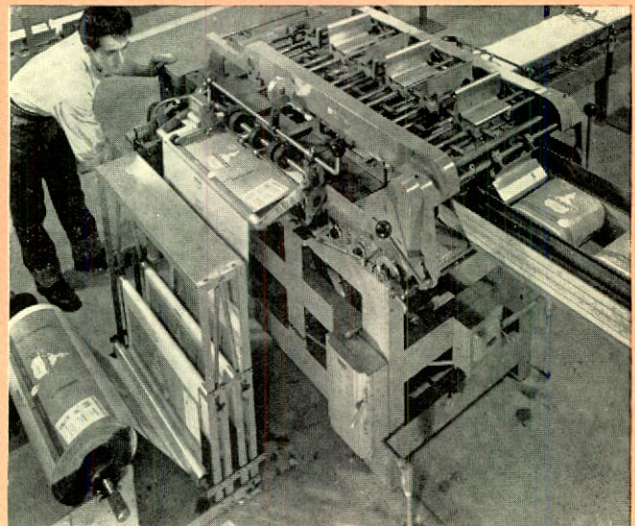
The Photostory of CRABTREE MILLS

CONSUMER PRODUCTS DIVISION

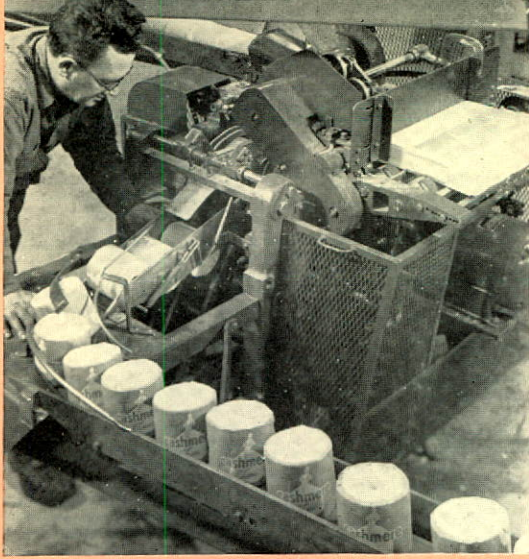
The toilet tissue cut-off saw reduces the roll coming from the rewinders to individual rolls. High speed and clean-cut edges to the rolls are special features of this operation.



Conveyors carry the cut rolls of toilet tissue from the cut-off machine to the automatic wrappers.

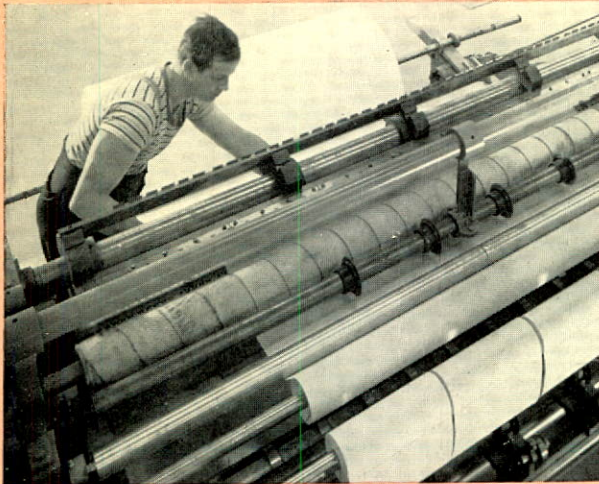
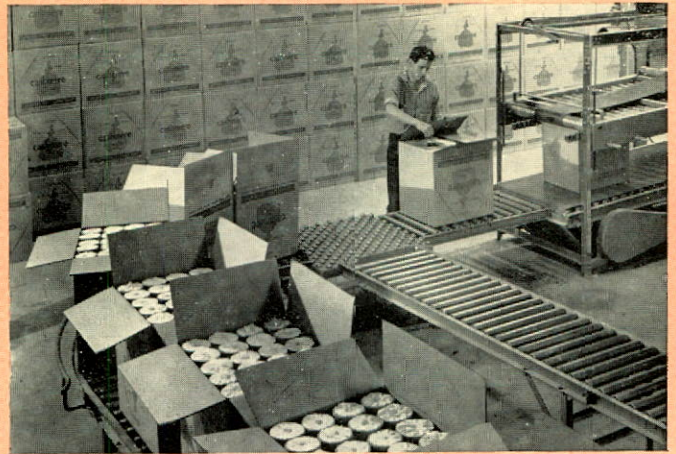


The Hayssen 4-roll automatic packer wraps four rolls of toilet tissue in a neat family pack.

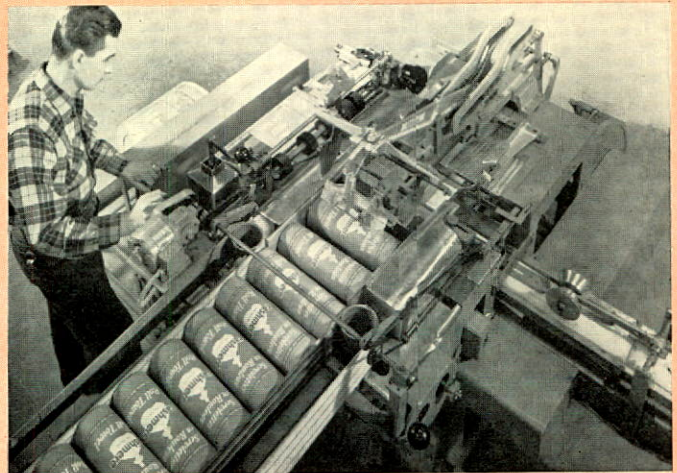


A Lawton Automatic toilet tissue wrapping machine. The rolls are automatically fed to the machine by a conveyor where they are fully wrapped and the ends neatly tucked into the core.

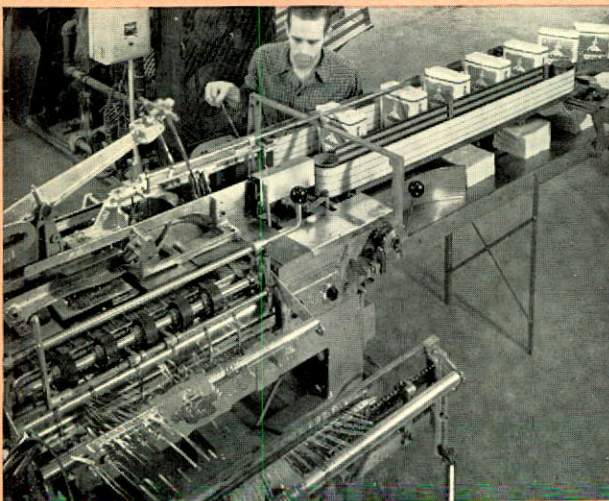
The filled cartons are automatically conveyed to a point where the flaps are glued into position.



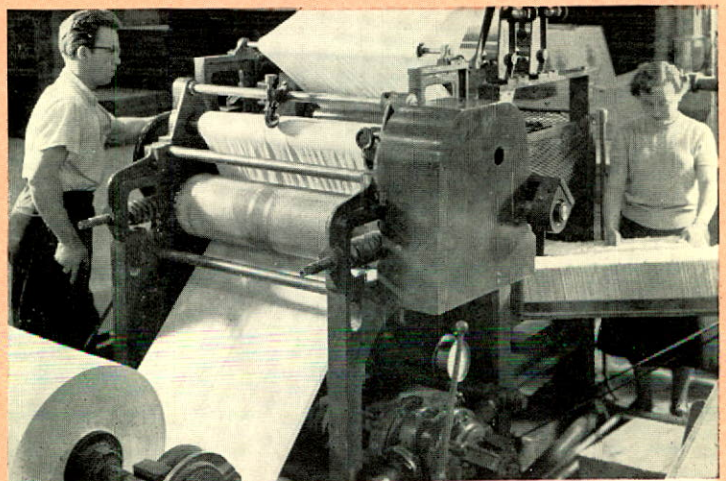
Rewinder and slitter for household towels.



The Hayssen 1, 2, 3, Roll Wrapping Machine. This automatic machine wraps household roll towels, and in addition, can be set to wrap in units of a single roll, two rolls or three rolls of toilet tissue.



The Hayssen Cello-wrap machine for serviettes and napkins. This machine wraps 70 serviettes in a cellophane package or can be adjusted to accommodate the larger size deluxe 2-ply dinner napkins.



The super-four napkin machine embosses the base tissue with the required design, slits the webs to the proper widths and folds the napkins as required.

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 (32)

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 (32)

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), Fort William (31),
Winnipeg (32), Regina (33),
Saskatoon (34), Edmonton (35)

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

inside pages

Lithographed from 4-colour process plates, and 4 extra colours, on Glosskote Cover, White, 20 x 26 — 160(M). Inside cover illustration lithographed in black and grey from the same plate, with a third colour for display and map. Types used for outside back, and inside front and back covers are 20th Century Ultra Bold Extended, Extra Bold, Bold and Medium.

Printed letterpress in 2 colours on Alliance Luxafold Enamel, White, 25 x 38 — 140 (M). Types used are Deepdene No. 315, 12 pt., with 20th Century Ultra Bold Extended for headings. Subheadings are set in 20th Century Extra Bold.

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




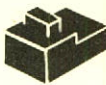
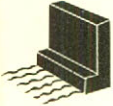



CASHMERE SERVIETTES
 70 white embossed
 serviettes packed in a
 convenient cellophane
 container

Your local stores have or will soon have these new products



LEGEND




- | | | | |
|---|--|--|----------------------------|
|  | Timber limits and woods operations offices |  | Mills |
|  | Pulpwood buying offices |  | Wholesale trading branches |
|  | Powerhouse and dam |  | 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 facing page for full details.

P E R T I E S

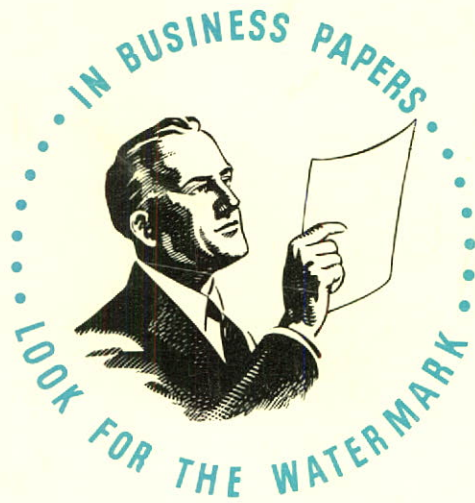
W O O D L A N D S



-  REGINA 33
-  SASKATOON 34
-  EDMONTON 35

Howard Smith PRO

Location of MILLS, OFFICES and



Howard Smith

**is your
GUARANTEE
of quality**

