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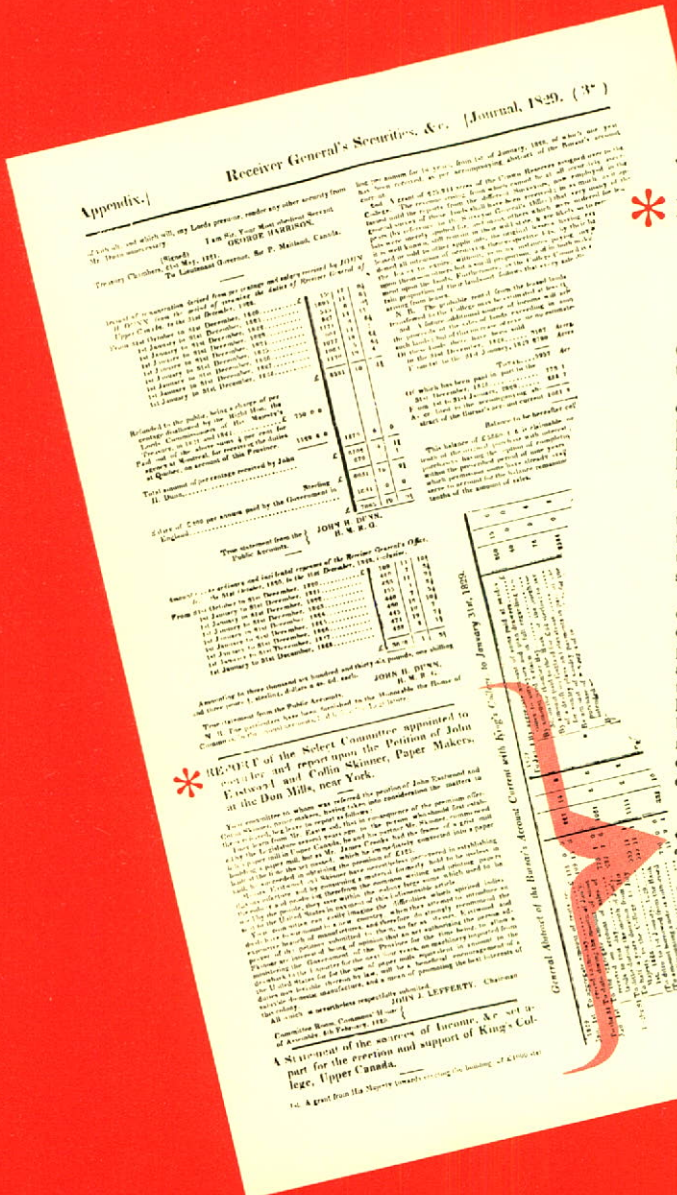
Howard Smith PAPER MILLS LIMITED
and subsidiary companies

**ANNUAL
REPORT
1956**



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Extract from the "JOURNAL OF THE HOUSE OF ASSEMBLY
OF UPPER CANADA 1828-29" which records
the beginnings of the Don Valley Paper Company



... six hundred and ...
dollars a 4s. 6d. each.

JOHN H. DUNN,
H. M. R. G.

Statement from the Public Accounts.
... B. The particulars have been furnished to the Honorable the House of
Commons, in the annual accounts, laid before the Legislature.

*** REPORT of the Select Committee appointed to
consider and report upon the Petition of John
Eastwood and Collin Skinner, Paper Makers,
at the Don Mills, near York.**

Your committee to whom was referred the petition of John Eastwood and
Collin Skinner, paper makers, having taken into consideration the matters to
them referred, beg leave to report as follows:

They learn from Mr. Eastwood, that in consequence of the premium offer-
ed by the Legislature several years ago, to the person who should first estab-
lish a paper mill in Upper Canada, he and his partner Mr. Skinner, commenced
building a paper mill, but as Mr. James Crooks had the frame of a grist mill
built at the time the act passed, which he immediately converted into a paper
mill, he succeeded in obtaining the premium of £125.

Messrs. Eastwood and Skinner have nevertheless persevered in establishing
this manufacture and by consuming a material formerly held to be useless in
the colony and producing therefrom the common writing and printing papers
used by the people, they save within the colony large sums which used to be
sent to the United States in payment of this indispensable article.

Your committee can easily imagine the difficulties which spirited individ-
uals have to surmount in a new country, when they attempt to introduce an
expensive branch of manufactures, and therefore do strongly recommend the
prayer of the petition submitted to them, so far as Messrs. Eastwood and Skinner
are interested being of opinion that an act authorizing the persons adminis-
tering the Government of the Province for the time being, to allow a draw-
back to the importer for the next four years, on machinery imported from the
United States for the use of paper mills equivalent in amount to the duties
now leviable thereon by law, will be a beneficial encouragement of a valuable
domestic manufacture, and a means of promoting the best interests of this
colony.

All which is nevertheless respectfully submitted.

JOHN J. LEFFERTY, Chairman.

Committee Room, Commons' House
of Assembly, 6th February, 1829.

**Statement of the sources of Income, &c.
for the erection and support of King's Col-
lege, Upper Canada.**

FRONT COVER

Dryer Section of the Paper Machine
at Don Valley Paper Company

Colour Photo by Rapid Grip and Batten

Howard Smith
paper mills
limited
and subsidiary
companies

Statement of the Bursar's Account Current with King's College, Upper Canada.

officers

E. HOWARD SMITH, *Chairman of the Board and 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

H. ROY CRABTREE

R. D. HARKNESS, D.S.O., M.C.

W. H. HOWARD, C.B.E., Q.C.

J. D. JOHNSON, LL.D.

M. WALLACE McCUTCHEON, C.B.E., Q.C.

JOHN A. McDOUGALD

HOWARD MURRAY, O.B.E.

A. J. PHILIP

W. E. PHILLIPS

E. K. ROBINSON

E. HOWARD SMITH

E. P. TAYLOR, C.M.C.

GEO. H. TOMLINSON

COLIN W. WEBSTER

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

ANNUAL REPORT

1956



*Coloured stock in a Beater
at Don Valley Mill.
Here pulp fibres, sizing,
dyestuffs and other materials
are thoroughly mixed and treated
to obtain uniform consistency
and paper making properties*

history of

DON VALLEY

KING GEORGE IV had reigned in England for ten years — the war of 1812 was a living memory — the rebellion of 1837 was not far away — the McNab outrage was the gossip of the day — Toronto, Ontario, was York, Upper Canada, when the Don Valley Paper Company, now a subsidiary of Howard Smith Paper Mills Limited, commenced operations one hundred and thirty years ago — in 1827.

The story of this Mill, operated continuously since then, is in no small part the history of fine papermaking in Canada even though the product was far from perfect at the start; it is also very much the history of the north-east corner of old Toronto, called then Todmorden, as it is today. Grandfathers, sons and grandsons worked in the mills and lived in Todmorden; they still live there and it is a particularly Anglo-Saxon community. In 1826, the valley of the Don River, extending for miles north into York County was, and in places still is, a beauty spot despite the inevitable interference with nature that accompanies any rapidly developing area. For twenty miles north, this valley reaches into the very heart of industrial Toronto. It is hard to believe that within a life-time game abounded in the hills; trout were taken from the river and good timber was plentifully available.

In the valley near the paper mill there was a brickyard, an axe-grinding factory, a pottery and a brewery; on the higher ground some shops, substantial homes, the post office and a good hotel. Todmorden was a busy, self-supporting small town.

The origin of the Don Valley Paper Mill is not just a matter of memory or story. It is a well documented fact. The Journal of the House of Assembly of Upper Canada 1828-29 records the petition of the founders of the mill, Colin Skinner and John Eastwood, for a rebate of the duties paid by them on paper-making equipment imported by them into Canada (*See inside front cover*). This petition speaks for itself, and a copy of the original Journal is retained in the records of Howard Smith Paper Mills Limited in Montreal. It is more than likely that this Journal was printed by the King's Printer on hand-made paper from the first or lower Don mill. The Journal was the Hansard of its day and it reports on the financing of the old Welland Canal. It records a full account of the famous, or infamous, McNab affair,

REPORTING PROGRESS

and the plea of the Mississauga Indians at Port Credit for protection and recognition. It gives in detail all the legislation, public accounts, etc. of the period and records fines for allowing pigs to run at large, for obscenity spoken in public, and for drunkenness.

The petition of Messrs. Skinner and Eastwood having been favourably received, plus it is understood, a subsidy of fifty pounds sterling, the manufacture of paper by hand, of course, commenced forthwith and the company was launched into the uncertain and precarious business years of 1828-29. A war had just ended, a serious political situation to be followed by open rebellion was in the near future and British statesmen in London were quite prepared to give Canada away, piece by piece, to satisfy and pacify avaricious politicians in the United States.

In addition to these somewhat forbidding circumstances, early operations at the mill were

carried out with difficulty. Messrs. Skinner and Eastwood encountered all the troubles that attend pioneering in any industry. But paper was an essential product and they persevered.

Power was provided by a dam, head and tailrace, and a water-wheel; the dam and wheel have disappeared but the head and tailrace remain. Raw materials were cotton rags, straw and dyestuff. Rags were not always in good supply so people were asked to save their rags for the Mill, and some of its customers were known to have paid their bills with rags instead of money.

The sheet produced was not always of the very best quality and complaints were made, then, as now. It was said to be inferior to, though cheaper than, similar imported grades. Some of these formal complaints are in existence today and the wording would be oddly familiar to any paper dealer.

At its inception it was hoped that the Don

The wet end of the Fourdrinier Paper Machine in the Don Valley Mill. It is designed and equipped to make Cover Papers, Bristols, Tag Stocks, Blotting and other "thick" papers

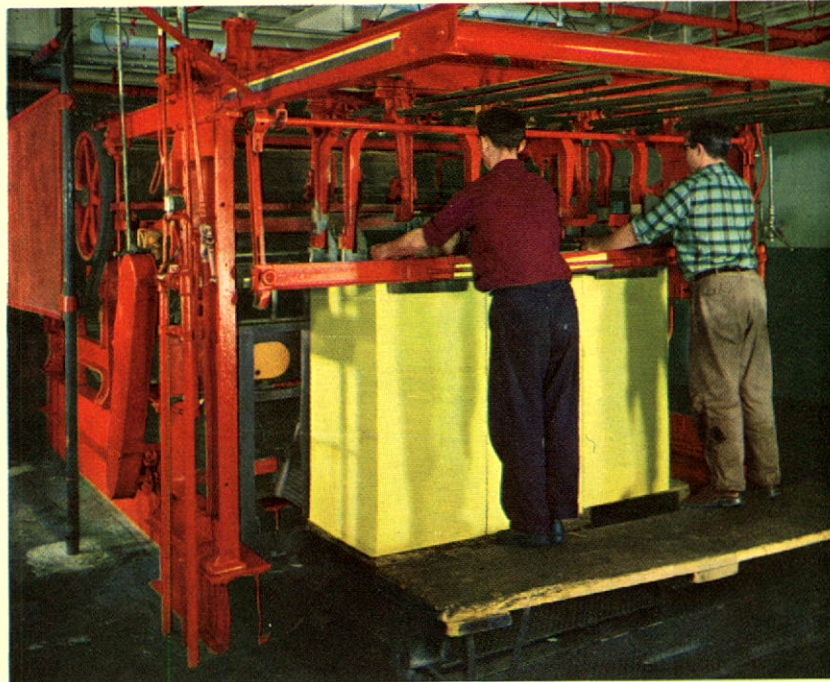
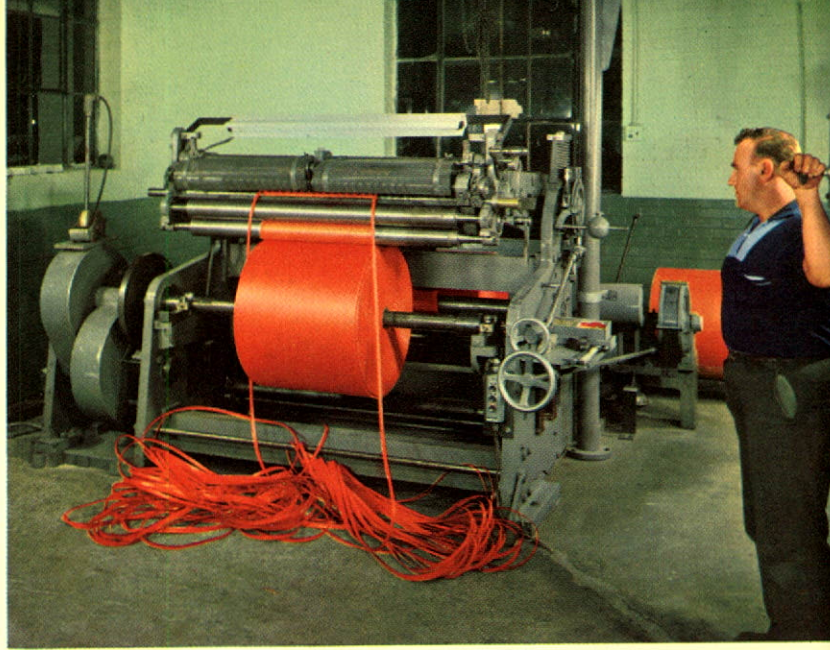


Valley Mill would be the first to make paper in Upper Canada, but an unfortunate series of delays caused the partners to miss this honour by several months. Later, in 1834, they achieved a most notable first in having the first Paper Machine installed in Canada. By today's standards this 20 inch machine would be only a pygmy, yet it heralded the beginnings of a giant industry which has done so much for Canada's industrial growth.

In 1836, a family by the name of Taylor purchased a parcel of land up near the forks of the Don River, and engaged in farming and lumbering. On the founding of the Toronto "Globe" by the Honourable George Brown in 1844, John Taylor Jr. was persuaded to build a paper mill about two miles above the Eastwood and Skinner Mill. Ten years later the Taylors bought the Eastwood Mill, and in 1858 built a third mill between the original two. By 1861 all three were in operation and were known as the Lower Mill, Upper Mill and Middle Mill. There were ten employees in each mill making about 2 tons daily of newsprint, book paper, manilla wrapping, and paper bags.

Before John Taylor Jr. died, in 1871, he had successfully experimented with the idea of making paper from straw and had gone a long way towards the manufacture of wood pulp from basswood. On his death his brothers Thomas and George took over. However, it was his son John Hawthorne Taylor, who was instrumental in installing the first Fourdrinier Paper Machine, in 1876.

By 1880 the mill advertised itself as making Printing Paper, Manilla, Hanging, Roofing, Carpet Felt and Paper Bags. The bag section, which made grocery bags by hand, employed 100 girls. When machinery for making bags became available John Hawthorne Taylor refused to install it as it would cause unemployment. However Joseph Kilgour of Toronto obtained the manufacturing rights and took most of the business from Taylor. In fact, Kilgour's bag business finally



AT TOP—Paper shipped in Rolls is often slit to the exact width desired by the printer or converter

BELOW — Heavyweight papers are often cut into sheets directly as they come from the Don Valley Paper Machine

led him to invest heavily in Canada Paper Company so as to ensure his supply of bag making paper. Later, Kilgour's firm was taken over by Canada Paper Company and both are subsidiaries of Howard Smith Paper Mills today.

REPORTING PROGRESS

The Upper Mill, which became Selby and Co. in 1887 ran until 1890 when it was shut down. On November 12, 1900 the Lower Mill was destroyed by fire but the Harper Fourdrinier Machine was saved. Robert Davies secured an interest in the Middle Mill in 1902, and bought it outright in 1906. The old Harper Machine was completely overhauled in 1909, and some of the then new sections are still in the present machine. Davis died in 1916, his estate carrying on the business until 1928, when it was purchased by N. E. Wainwright and R. H. Joyce. Numerous improvements were made but an attempt to revive the art of hand-made paper proved uneconomic during the depression years.

Howard Smith Paper Mills purchased the Mill in 1939 operating it as a subsidiary of Alliance Paper Mills Limited. Successive improvements have been made to all sections to keep it abreast of the times. The Harper principle gave way to the straight Fourdrinier, and today the Mill turns out 20 tons daily of Cover Papers,

Bristols, Tag Stocks, Blotting and Specialties. The Don River, now a muddy turgid stream, still flows past the Mill. On one occasion, during Hurricane Hazel it flowed right through the Mill, destroying records and stocks of paper and depositing tons of silt and debris throughout the Mill.

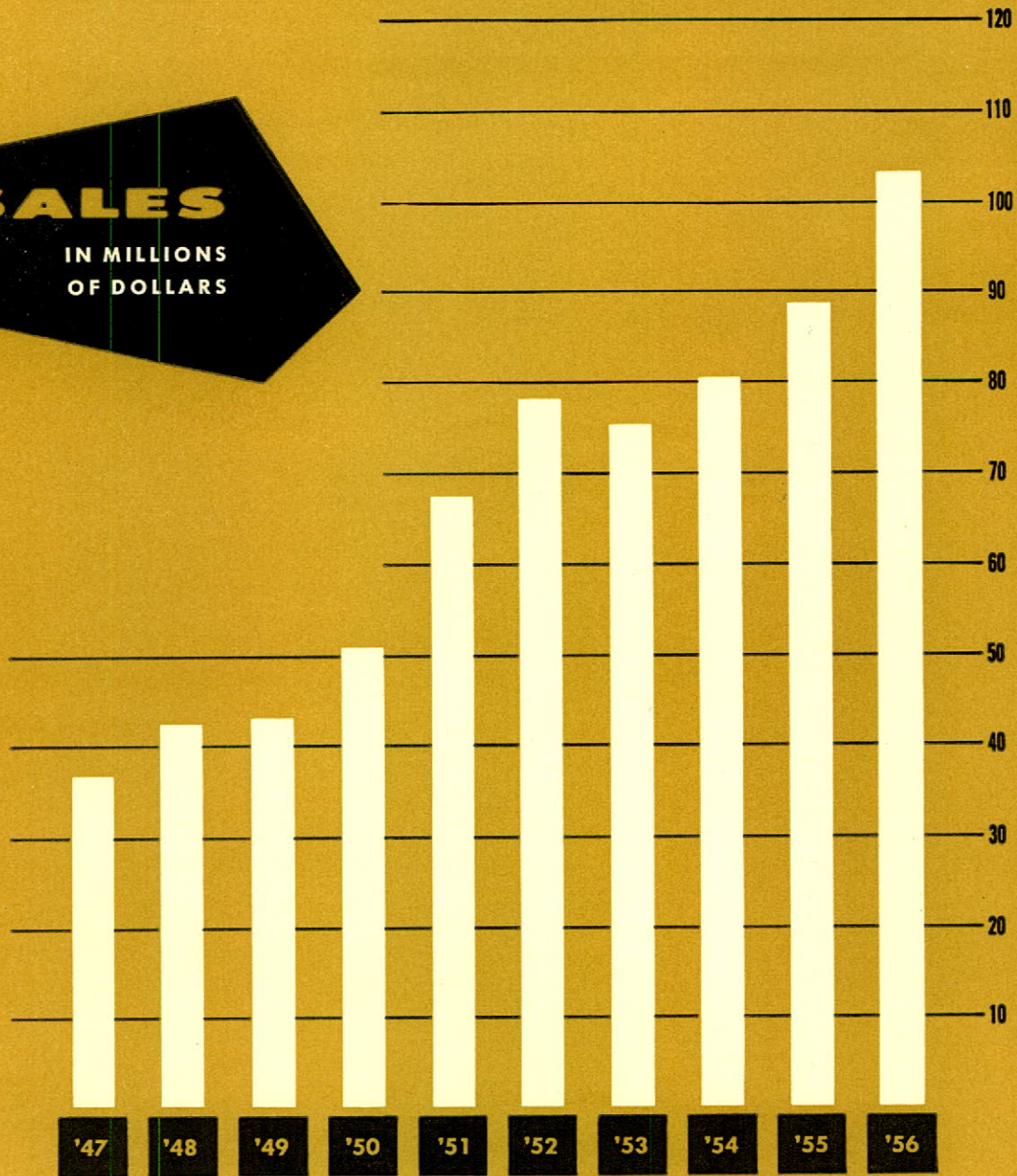
In its long history, the Mill has seen the change from hand-made to machine-made paper. Water power gave way to steam and steam to electricity. Changes have been made in operating and finishing so that now, completely up-to-date in all respects, the old Mill is well on in its second century of production. Always of modest size and scope, it has long served the Toronto area as a ready source of fine and specialty papers, as well as other parts of Canada through the fine paper merchants. Undoubtedly the Don Mill occupies a unique position in Canada's huge paper industry and no record would be complete if it failed to note the contributions made by this old but vigorous enterprise.

Sheets of Cover Paper are examined on both sides in the Finishing Room at the Don Valley Mill



SALES

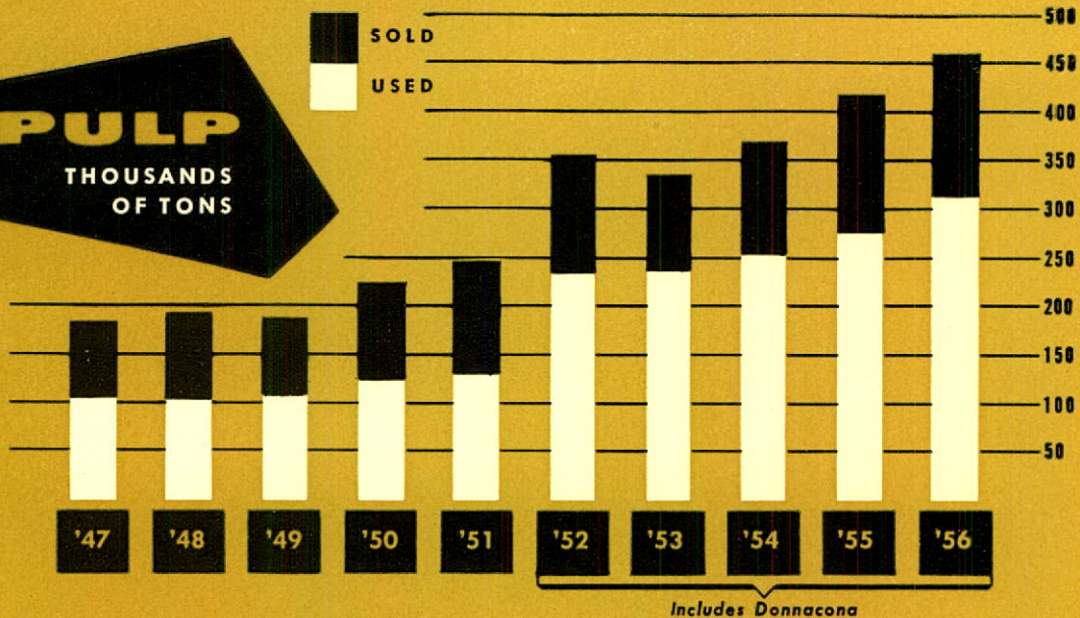
IN MILLIONS
OF DOLLARS



THE TOTAL SALES of all companies in 1956 reached an all-time high of \$104,437,815, an advance of more than \$15 million, or 17%, over 1955. The first half of the year was marked by an excess of demand over productive capacity. This demand slackened somewhat in the latter half, but in most cases idle time due to lack of orders was negligible.

PULP

THOUSANDS OF TONS

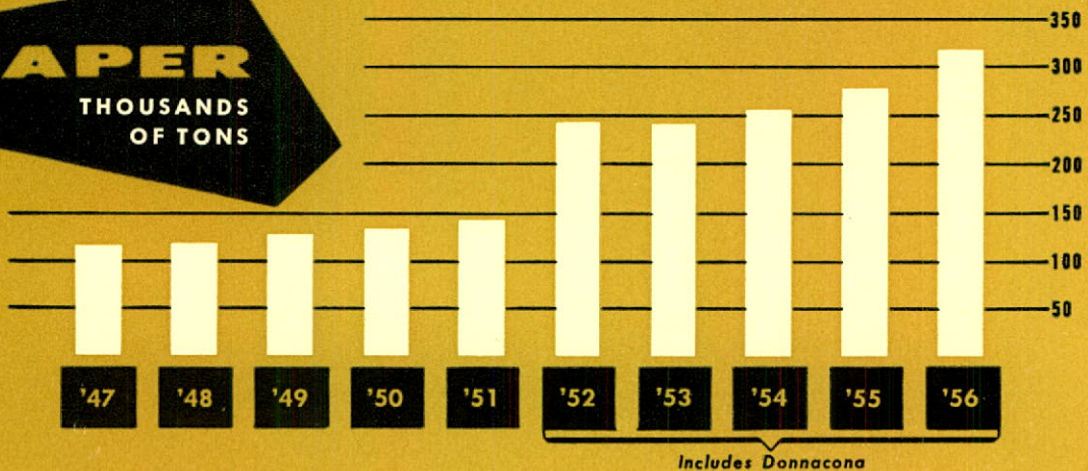


TOTAL PULP PRODUCTION in 1956 reached 458,250 tons, an increase of some 10% over 1955. One third, or 145,229 tons were sold in the domestic and export markets and two thirds were consumed in our own paper mills. At the end of the year the demand for pulp remained good, but there were definite signs that new production might outstrip demand in the near future.

PRODUCTION

PAPER

THOUSANDS OF TONS



PAPER PRODUCTION at 318,473 tons was a record, and all divisions of the company showed satisfactory increases. There were some soft spots which it was hoped would prove to be temporary. As our population and Gross National Product rises so should the demand for paper products.

FINANCIAL STATEMENTS

DECEMBER THIRTY-FIRST

1956



Howard Smith
PAPER MILLS, LIMITED
AND SUBSIDIARY COMPANIES

THE TWENTY-NINTH ANNUAL REPORT

of the Directors of

HOWARD SMITH PAPER MILLS, LIMITED

TO THE SHAREHOLDERS:

Your Directors present herewith the Consolidated Annual Report of your Company and its Subsidiaries for the year ended December 31, 1956, comprising Balance Sheet, Profit and Loss and Surplus Accounts and the Report of the Auditors.

Earnings from all sources after making provision for depreciation and depletion of \$5,220,285 and for the other items noted in the Statement of Profit and Loss were \$15,175,077.

Net Profit amounted to \$7,089,130 after all charges including \$6,850,000 for Income Taxes, \$500,000 transferred to Inventory Reserve, and \$58,129 for dividends paid by Donnacona Paper Company, Limited to its minority shareholders and for the equity of those shareholders in Donnacona's undistributed profits for the year.

Regular quarterly dividends of 50c per share on the Preferred Stock and of 25c per share on the Common Stock were declared. An extra dividend of 50c per share on the Common Stock was declared on November 22nd payable with the regular quarterly dividend on January 31, 1957.

Of the items of Capital Expenditure mentioned in the last Annual Report, several have been completed. It is expected that, apart from two or three, the rest will be finished before the end of 1957.

Other projects are under way, some of the main items being:—

CORNWALL

- New Recovery Furnace
- New Finishing Equipment

CANADA PAPER

- Extension to the Bag Factory

DONNACONA

- New Steam Boiler

ALLIANCE

- Extension to the Finishing Room
- New Kamyry Cylinder

In addition, the electrical distribution systems at most of the mills are being renovated; old equipment being replaced and additional equipment installed to take care of increasing electrical loads.

Total Capital Expenditures during 1956 were \$7,582,246.

At the year-end the aggregate amount set aside for Capital Expenditures and other corporate purposes was \$4,138,600 as compared with \$4,155,531 a year earlier.

The funded debt of your Company and of Donnacona Paper Company, Limited was reduced during the year by \$2,128,500.

Your attention is drawn to the increase in inventories from \$17,058,385 at the end of 1955 to \$22,197,456 at the end of the year under review. This results, in the main, from increases in the quantities and unit costs of raw materials and supplies and, to a lesser extent, from increases in the quantities and unit values used in determining the total values of finished products and work in process. Part of the increase in unit values of finished products applies to prior periods and effect has been given to this in the accompanying statements. You will observe that your Directors have deemed it expedient, in the circumstances, to increase the reserve in respect of inventories as noted above.

Working Capital at December 31, 1956 was \$24,304,252.

The demand for the products of your Company and its Subsidiaries, which was at a very high level during the first half of the year, weakened somewhat towards the year-end but it was possible to keep almost all units operating close to full time and little production time was lost.

Production of all kinds of pulp was 458,250 tons, of which 145,229 tons, not needed for our own operations, were sold, mainly to customers in the United States.

Production of all grades of paper was 318,473 tons.

Since most sales of our pulp and newsprint are made in U.S. funds, the discount on that currency adversely affected your Company to the extent of \$607,094 in 1956 as compared with \$277,601 in the previous year.

At present, it appears as though your Company and its Subsidiaries will have a reasonable volume of business during the current year but that, in common with other pulp and paper companies, we will be faced with increased costs, mainly for wood, labour and transportation.

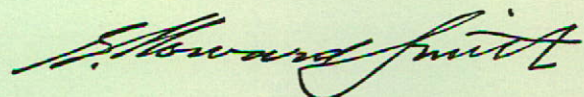
The appeal to the Supreme Court of Canada in the Combines proceedings by members of the Fine Paper Industry was heard by that Court last fall but at this date no judgment has been handed down. As might have been done at any time subsequent to the imposition of fines by the Trial Judge, the Crown insisted on payment of these before the Appeal was proceeded with. This was accordingly done and the amount of \$74,000 thus paid by your Company and its Subsidiaries, which would be recoverable in the event of a successful outcome, is reflected in the accounts submitted herewith.

At the Annual General Meeting of Shareholders held on April 16, 1956, Mr. A. J. Philip was elected a Director of your Company.

At a Special General Meeting of Shareholders held on November 22, 1956, By-law XXXV, increasing the number of Directors of your Company from fourteen to eighteen and providing that the additional Directors might be elected by the then Directors, was sanctioned and confirmed. At a Directors' Meeting immediately following, your Directors elected Messrs. E. P. Taylor, C.M.G., M. W. McCutcheon, C.B.E. and J. A. McDougald, all of Toronto, and Mr. Colin W. Webster of Montreal to fill the vacancies in the Board thus created.

Your Directors record their appreciation of the services rendered by officers and employees of your Company during the year.

Submitted on behalf of the Board:



Chairman and President

Montreal, March 4th, 1957.

HOWARD SMITH PA

AND SUBSIDIA

CONSOLIDATED BALANCE SHE

ASSETS

Current Assets:

Cash in Banks and on Hand	\$ 2,107,496	
Accounts and Note Receivable, less Allowance for Doubtful Accounts	12,236,272	
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	22,197,456	
Prepaid Insurance, Taxes, etc.	562,029	\$37,103,253

Other Assets:

Amounts set aside for Capital Expenditures and other Corporate purposes —		
Cash on Deposit	\$ 500,000	
Short term Investments	3,500,000	
Government of Canada Bonds (market value \$126,000)	138,600	4,138,600
Cash Surrender Value of Life Insurance Policies		84,177
Other Investments and Advances		1,596,085
Deferred Account Receivable and Guarantee Deposits		91,960
		5,910,822
Patent and Research Expenditures — less amounts written off		103,014

Fixed Assets at or below cost:

Land, Buildings, Plant, Equipment, Timber Limits and Water Powers	105,922,202	
Deduct: Accumulated Depreciation and Depletion	60,433,374	45,488,828

\$88,605,917

Signed on behalf of the Board:

E. HOWARD SMITH, *Director*.

H. ROY CRABTREE, *Director*.

PAPER MILLS, LIMITED

Y COMPANIES

AS AT 31st DECEMBER 1956

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities.....	\$ 6,581,639	
Dividends Payable.....	1,394,893	
Funded Debt maturing within one year.....	795,000	
Provision for Income and other Taxes.....	4,027,469	\$12,799,001

Funded Debt not maturing within one year:

Howard Smith Paper Mills, Limited —		
First Mortgage Bonds, 1950 Series		
2¾% Bonds due 1st December 1958-1960.....	\$1,800,000	
3% Bonds due 1st December 1961-1970.....	6,000,000	7,800,000
4½% Debentures — Series "A" due 1st June 1961	3,747,500	
Less: Held by Subsidiary Company.....	200,000	3,547,500
Donnacona Paper Company, Limited —		
First Mortgage 3½% Bonds Series "B" and "C" maturing		
1st July 1962 (\$3,850,000 payable in U.S. Funds).....	4,550,000	15,897,500

Reserves:

Inventories.....	2,000,000	
Contingencies.....	515,400	2,515,400

Minority Interest in Donnacona Paper Company, Limited..... 398,057

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.....		991,900
Earned Surplus.....		38,248,985
		<u>\$88,605,917</u>

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

P. S. ROSS & SONS, Chartered Accountants.

Montreal, 4th March 1957.

HOWARD SMITH PAPER MILLS, LIMITED

AND SUBSIDIARY COMPANIES



CONSOLIDATED STATEMENT OF PROFIT AND LOSS ACCOUNT

For the Year ended 31st December 1956

Profit from operations for the year ended 31st December 1956 after deducting Depreciation and Depletion \$5,220,285, Salaries of Executive Officers \$211,957, Payments under Contributory Pension Plan \$642,786, Legal Fees \$35,588 and Directors' Fees \$10,440.....		\$14,739,959
Income from Investments.....		139,327
Royalties.....		295,791
		<hr/>
		15,175,077
DEDUCT:		
Interest on Funded Debt.....	\$ 625,081	
Amount transferred to Inventory Reserve.....	500,000	
Amount written off Patent and Research Expenditures.....	52,737	
Provision for Income Taxes.....	6,850,000	8,027,818
		<hr/>
Net Profit.....		7,147,259
DEDUCT in respect of Minority Shareholders of Donnacona Paper Company, Limited:		
Dividends.....	15,870	
Equity in 1956 undistributed profits.....	42,259	58,129
		<hr/>
Balance for the year ended 31st December 1956 transferred to Earned Surplus....		<u>\$ 7,089,130</u>

CONSOLIDATED STATEMENT OF EARNED SURPLUS ACCOUNT

For the Year ended 31st December 1956

Earned Surplus, being income retained in the business as at 31st December 1955...		\$33,122,296
Adjustments affecting prior periods in respect of:		
Revaluation of Finished Products.....	\$ 914,880	
Fixed Assets less accumulated depreciation.....	56,804	971,684
		<hr/>
Balance from Profit and Loss Account for the year ended 31st December 1956....		7,089,130
		<hr/>
		41,183,110
DEDUCT:		
Dividends on —		
Preferred Shares.....	320,000	
Common Shares.....	2,614,125	2,934,125
		<hr/>
Earned Surplus, being income retained in the business as at 31st December 1956 ...		<u>\$38,248,985</u>

HOWARD SMITH PAPER MILLS, LIMITED

AND SUBSIDIARY COMPANIES



CONSOLIDATED STATEMENT OF CAPITAL SURPLUS ACCOUNT

For the Year ended 31st December 1956

Balance at 31st December 1955	\$ 982,513
Profit on Sale of Fixed Assets	3,718
Proceeds from claim on life insurance policy in excess of premiums paid	10,574
	<hr/>
Premium on 4½% Series "A" Debentures purchased and cancelled	996,805
	4,905
	<hr/>
Balance at 31st December 1956	\$ 991,900
	<hr/> <hr/>

AUDITORS' REPORT TO THE SHAREHOLDERS

Montreal 1, Que., 4th March 1957

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 1956 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 1956 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



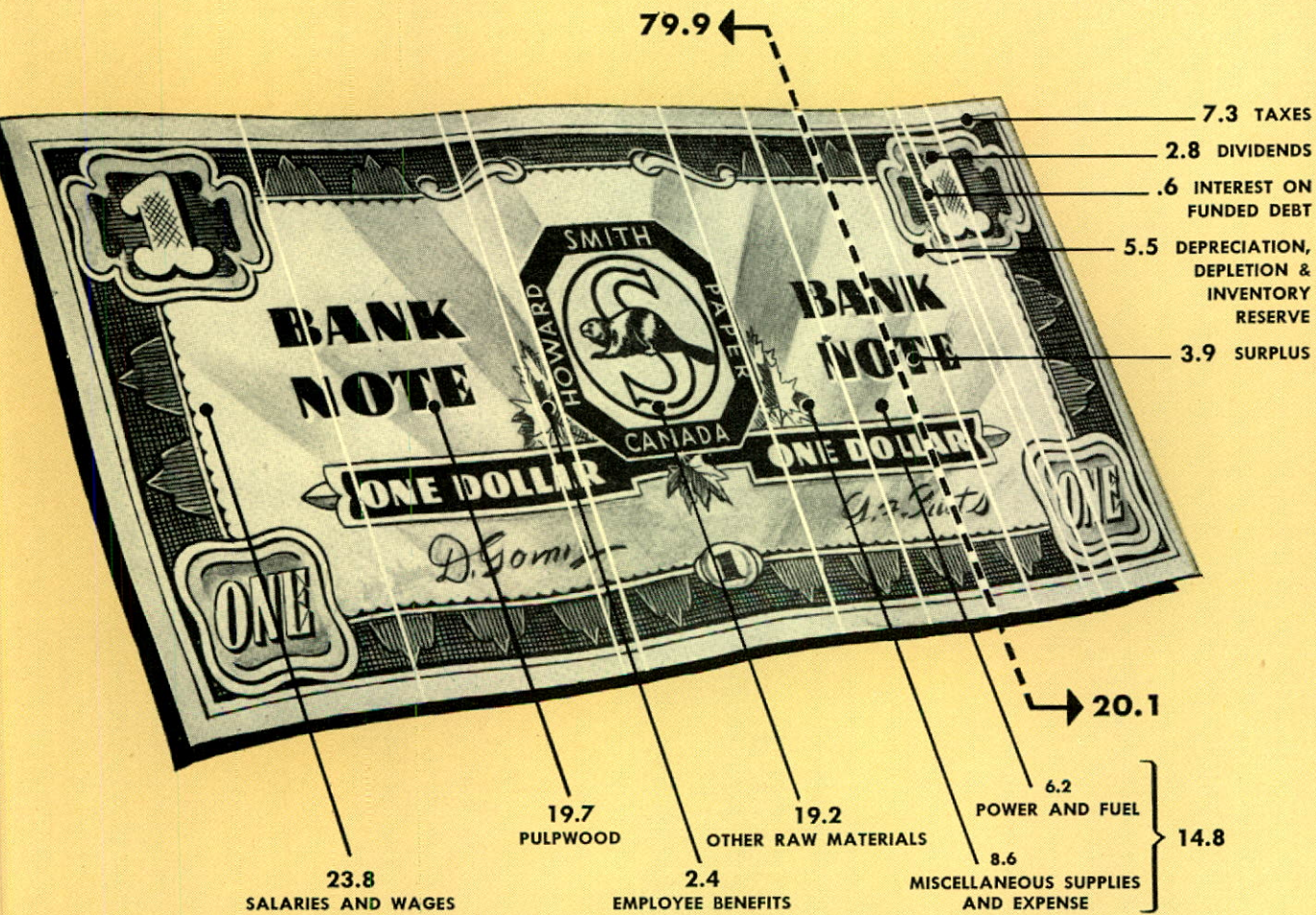
FINANCIAL AND OPERATING HIGHLIGHTS

Income and Earnings:	1952	1953	1954	1955	1956
Net Sales.....	\$77,241,203	\$75,145,827	\$80,369,139	\$89,163,056	\$104,437,815
Net Earnings before Income Taxes.....	8,776,882	9,134,018	10,130,256	11,996,659	13,939,130
Provision for Income Taxes.....	4,950,000	4,431,000	5,110,000	5,850,000	6,850,000
Net Profit.....	3,826,882	4,703,018	5,020,256	6,146,659	7,089,130
Income Taxes per \$100 of Sales.....	6.41	5.90	6.36	6.56	6.56
Net Profit per \$100 of Sales.....	4.95	6.26	6.25	6.89	6.79
Dividends declared on Preferred and Common Shares.....	1,953,789	2,054,334	2,062,750	* 2,846,987	2,934,125
Amount of net profits retained in the business.....	1,873,093	2,648,684	2,957,506	3,299,672	4,155,005
Provision for Depreciation and Depletion....	4,241,107	4,223,890	4,680,025	5,349,774	5,220,285
Financial Condition at December 31st:					
Working Capital.....	21,841,945	22,094,295	22,223,568	22,476,088	24,304,252
Inventories.....	18,852,176	17,286,288	16,611,429	17,058,385	22,197,456
Fixed Assets (before deducting Depreciation).....	81,684,993	85,170,215	92,378,396	99,027,158	105,922,202
Accumulated Depreciation and Depletion....	43,257,054	47,063,199	51,180,264	55,786,781	60,433,374
Funded Debt not maturing within one year..	21,380,000	19,817,000	19,021,000	17,495,000	15,897,500
Common Stock Equity.....	33,668,564	37,046,828	40,427,159	43,459,883	48,595,959
Number of Common Shares outstanding.....	1,714,775	1,742,750	1,742,750	1,742,750	1,742,750
Per Common Share:					
Earned.....	\$ 2.05	\$ 2.51	\$ 2.70	\$ 3.34	\$ 3.88
Dividends declared.....	1.00	1.00	1.00	* 1.45	1.50
Income Taxes.....	2.89	2.54	2.93	3.36	3.93
Payrolls and Employees' benefits.....	12.16	11.76	13.06	14.27	15.86
Equity.....	19.63	21.26	23.20	24.94	27.88
Number of Shareholders December 31st:					
Preferred Stock.....	980	972	975	977	964
Common Stock.....	3,380	3,892	3,999	3,828	3,535
Number of Employees December 31st:	5,499	5,961	6,311	6,871	6,989

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

distributing the

INCOME DOLLAR

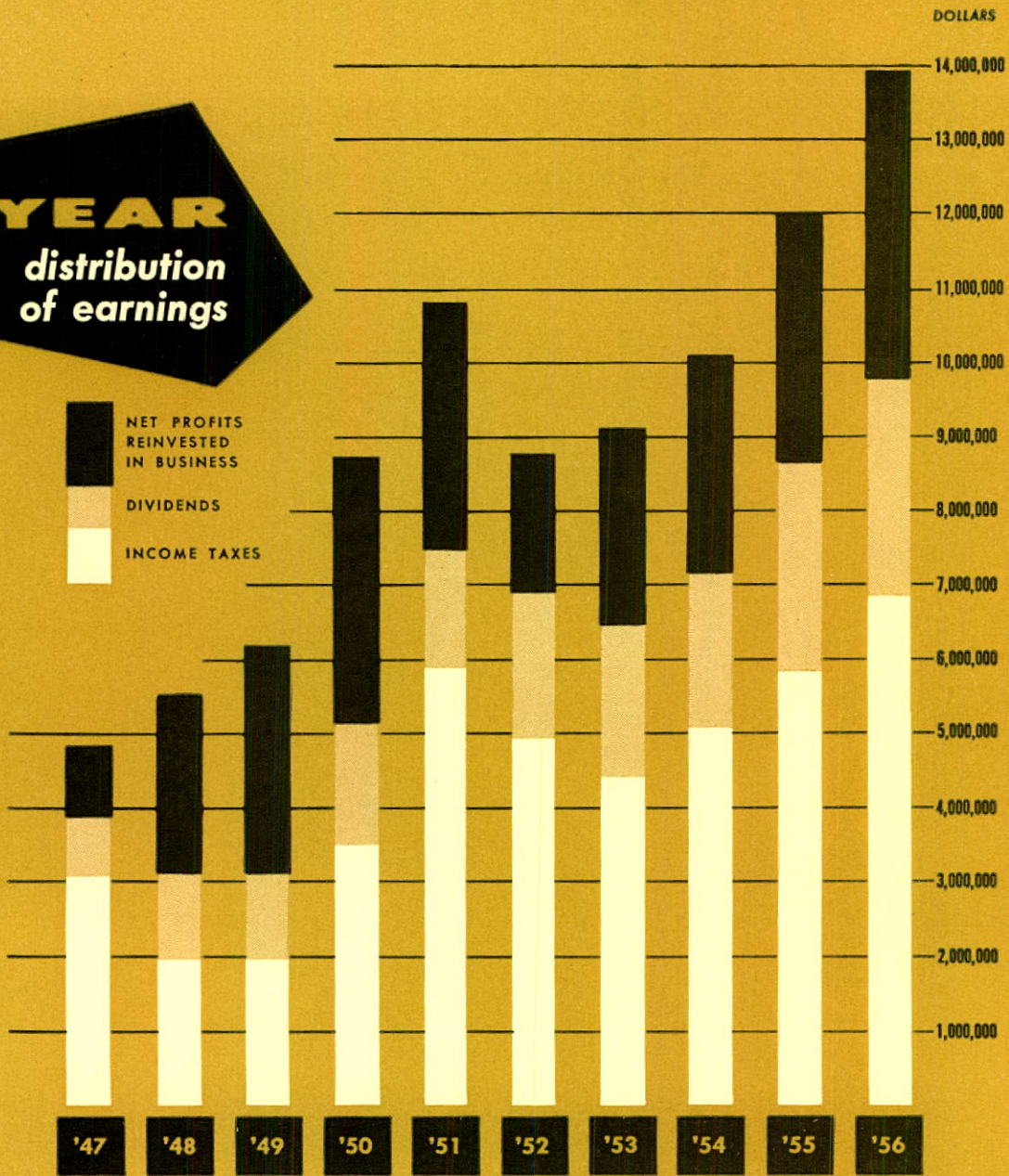


Operating expenses accounted for 79.9% of each dollar of income in 1956 leaving 20.1% for the financial functions of the business.

Our employees received 26.2% in Salaries, Wages and Employee Benefits. Pulpwood took 19.7%, Raw Materials 19.2% and Power, Fuel and Miscellaneous Supplies 14.8%.

Combined Taxes were 7.3%: Dividends 2.8%; Interest on Funded Debt 0.6%; Depreciation, Depletion and Inventory Reserve 5.5%. The remaining 3.9% was transferred to Surplus and re-invested in the business.

10 YEAR distribution of earnings



EARNINGS are often much more than a reflection of any one year's operations. Policies adopted, actions taken and decisions concerning capital investment which have been made in the past all have important bearings on the earnings of today. In the year under review excellent business conditions prevailed thus a combination of high production and efficiencies created by past investments in new and improved facilities have resulted in a better earnings position. To maintain it in the future will call for careful planning and a readiness to adopt new or improved techniques to maintain efficiencies at the highest levels.



View of the lower floor of the new Finishing Room, Cornwall Division

modernization and

EXPANSION

SATISFYING THE DEMAND for quality products, efficient operation and increasing quantities is a never ending task. Sometimes the accent is on greater production and other times on improving qualities or operating efficiencies. More usual though, all three ideals are considered when planning capital expenditures.

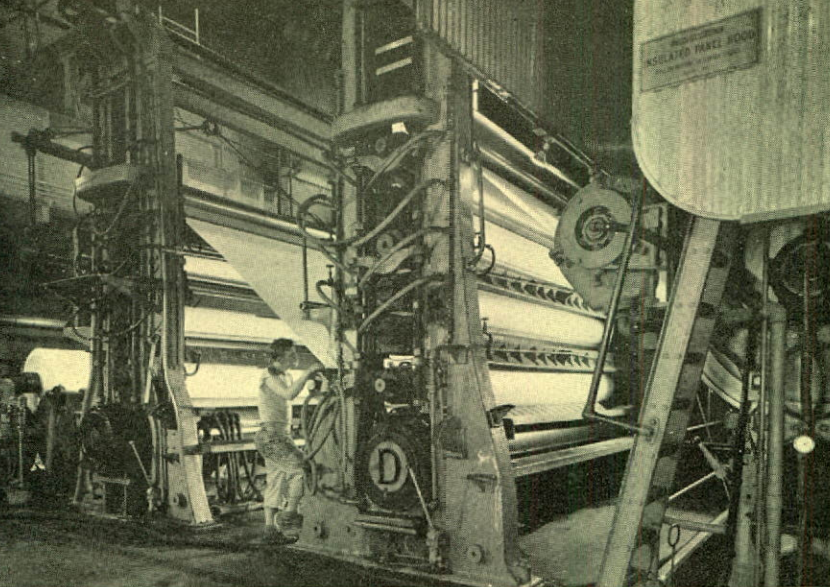
The year 1956 was devoted chiefly to the improvement of quality and operating efficiency. Although no new large scale equipment was installed, various improvements were made to increase productive capacities. Work was also completed, or started, on numerous projects which will lead to better products and better efficiency in the future. The relatively large sums spent over the past few years, plus plans for the years ahead are laying the foundations for a much bigger Howard Smith Paper Mills Limited.

There were many projects current in 1956. The following are worthy of note.

HOWARD SMITH PAPER MILLS LIMITED

Beauharnois Division

The high quality rag papers made at the Beauharnois Division depend to a large extent on the purity and cleanliness of the water supply. To provide for present and future needs a new 18-inch non-metallic Transite Water Pipe Inlet was constructed to take pure St. Lawrence water from the new municipal system which extends into the clear-water areas of the river.



The 10 new Dryers and additional Calender Stack will enable No. 1 Paper Machine at the Cornwall Division to make a wider variety of papers at an increased rate of production

This inlet is so positioned that the disturbances caused by power and future navigation will not affect it.

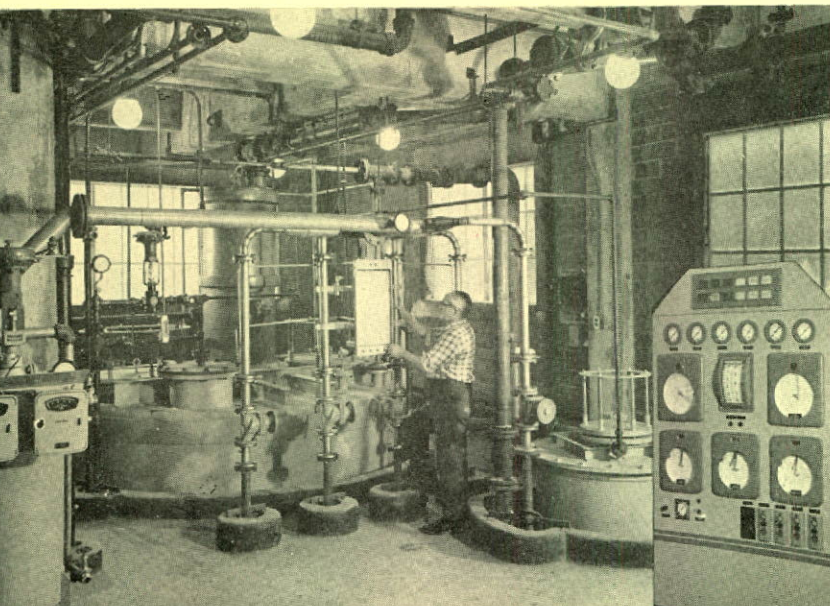
Crabtree Mills Division

Early in November a new Vickers-Keeler Oil Fired Boiler of 40,000 lbs. per hour capacity was brought into operation. It has sufficient capacity to accommodate the full plant load, but the old No. 2 Boiler is kept serviceable as a standby. The new unit is fully automatic and together with its oil storage tank and auxiliary equipment has been a project of considerable magnitude.

Cornwall Division

The new Finishing Room extension of 84,000 square feet was completed in 1956 and operations are gradually being transferred to it. Constructed with large open areas it permits of a flexible layout for the various finishing operations. It has a

Heart of the new Chlorine Dioxide Generation Plant at the Cornwall Division



modern heating and ventilating system as well as means to control the moisture content of the air. A complete installation of experimental equipment has been made in the Research Laboratory annex. This includes a 16 inch Laboratory Paper Machine which is more fully described on pages 14 and 15 of this Report. Auxiliary equipment provides means of making paper from the wood to finished product on a laboratory scale.

To improve the colour brightness of our pulps, work was almost completed on a Chlorine Dioxide Generation Plant. This relatively new bleaching agent will be used first in the new Soda Pulp Bleachery, now approaching completion, and later on, for the bleaching of sulphite pulp. These installations should give our pulps a whiteness and purity far beyond the capacity of conventional bleaching methods.

The capacity of No. 1 Paper Machine was increased by the addition of 10 new Dryers and a second Calender Stack, making it possible to manufacture greater quantities and more varieties of paper. Working areas adjacent to the machine were enlarged, and other changes made to facilitate its operation.

Other work included the installation of a new Transformer Station which is part of a general plan of electrical rehabilitation. To provide a better sewage disposal from various parts of the Mill a large 62-inch collector sewer was built.

CANADA PAPER COMPANY

St. Francis Division

A number of changes were made on No. 6 Paper Machine to improve output efficiency and quality of product. Others are planned which will bring this machine up to peak performance and enable it to make kraft grades in addition to newsprint. A new Finishing and Shipping Room 120 x 203 feet was built which provides space for materials in process, finished materials and better facilities for roll stock shipping by rail and truck. An extension to the Coal Shed at No. 4 Boiler was built to improve coal handling and provide means to thaw out cars of frozen coal.

The efficiency of chemical recovery was increased by the installation of an Electrostatic Precipitator on No. 3 Furnace, a new White



The new Finishing and Shipping Room extension at Windsor Mills

Liquor Clarifier and a new Brown Stock Washer. To provide better equipment for the debarking of wood in winter a new Drum Barker was installed. The Electrical System received considerable attention and new Power Lines and Substations were installed. New Drives were provided for No. 4 Paper Machine and Rewinder, and the lighting distribution system completely revised for the St. Francis Division.

Converted Paper Products Division

Work was started on a new extension which will provide an area of 80 ft. x 150 ft. to house a number of bag machines recently purchased.

ALLIANCE PAPER MILLS LIMITED

Major in importance was the addition during 1956 of a substantial pulp storage area at the Lybster Mill. This made possible the reduction of material handling costs, and better control of the paper manufacturing process. The results were new high levels of paper quality and production.

Also of importance were steps taken to increase the productive capacity of No. 2 Machine on certain specialized grades in the heavyweight range. This involved adding a substantial number of additional dryers. Included in this programme were a number of related changes and additions, some of which were novel in nature and specifically related to the grades concerned.

DONNACONA PAPER COMPANY LIMITED

A total of 33 Capital Expenditure Projects were under way or completed in 1956. These included a Ross Hopper Enclosed Hood applied to No. 3 Paper Machine as part of a programme designed to increase its productive capacity. To facilitate spotting and shifting of freight cars a 65 ton Diesel Electric Switcher was purchased.

In the Board Mill, to accommodate the heavy

REPORTING PROGRESS

demand for Donnacousti Tile, new drilling, processing and packing equipment was installed. A 550v Substation was erected to serve the electrical requirements of the pulp mill.

THE ARBORITE COMPANY LIMITED

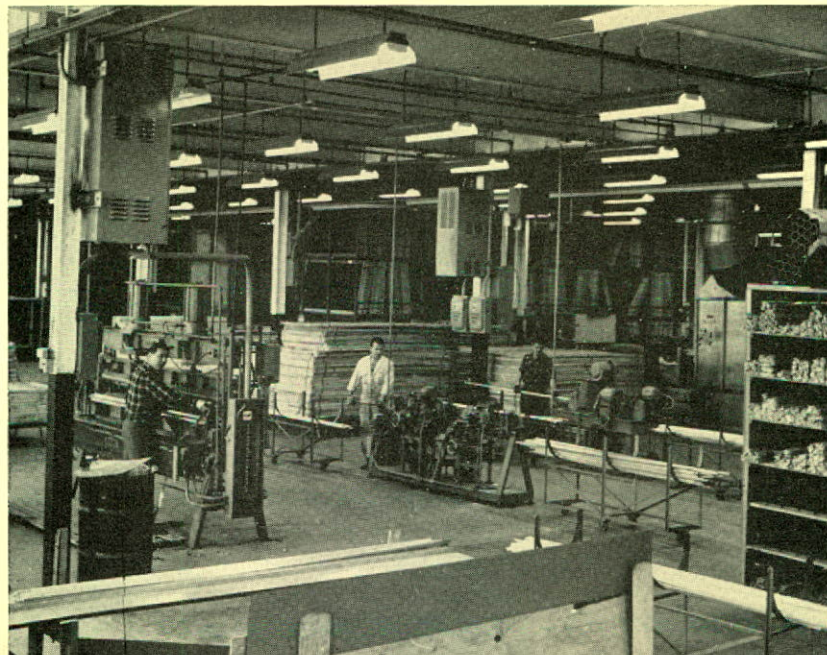
Manufacturing and storage areas were increased about 20% during 1956. The new Twin Trim Department was brought into successful production, and is now facing aluminum extrusions with patterns to match the popular Arborite designs.

The new Industrial Convolute Tube and Rod Section was also finished and the entire output, along with industrial laminates, is absorbed by industry through the marketing resources of Diamond State Fibre Company Limited, with whom the Arborite Company has a working agreement.

* * *

In some cases, the projects described above have had immediate results. Others are part of a master plan for continuing improvements in the future. In the past 11 years the company has invested some sixty millions of dollars in machinery, buildings and services to the end that its manufacturing facilities be as modern and efficient as possible, and capable of producing papers in the kinds, qualities and quantities demanded by Canada's growing market.

General view of the new Convolute Tube and Rod extension to the Arborite plant at Ville LaSalle



midget with a

MIGHTY JOB

BIG THINGS are expected from a small machine which has just started to operate in a new Howard Smith pilot plant adjoining the Research Building at Cornwall.

A miniature Fourdrinier paper machine, less than one tenth the size of its bigger brothers in the Mill, is starting an experimental career which might bring about many changes in our section of the pulp and paper industry. Possessing all the precision, control and performance functions of the giant machines, this mighty midget will bridge the gap between laboratory hand-sheet facilities and the full-sized commercial paper-making machines.

Only 30 feet long, a yard wide, and about a man's height, the model can produce any grade of paper from tissue to paperboard operating normally at speeds ranging from four to fifty feet per minute, but capable of higher speeds when required. Equipped with two interchangeable head-boxes, it can make a six or twelve inch sheet and produces about 35 pounds of paper per hour.

Two years in the making, this new research tool will be used primarily to test pulps from modified or new pulping processes. It also will be valuable for investigating, on a small scale, the use of special resins and other ingredients that can result in unique paper properties. In addition, it will permit systematic study of the effects of machine variables on paper properties and save time on experimental runs usually undertaken on larger production units.

The operation of this smooth-running machine is fascinating to watch and a comprehensive understanding of paper-making can be grasped easily and quickly. Far from being a toy, this miniature is complete in every detail, from Fourdrinier wire right through to the size-press and dryers.

All of the auxiliary equipment necessary to pulp and paper making is available in miniature operating size in the pilot plant building. The wood, which might even include that obtained from a nearby tree nursery operated by the Research Department for fast-growing hybrid trees, is converted to chips using the original precision chipper developed for such purposes. A pilot scale digester and its associated apparatus permit the researchers to investigate a wide range of cooking processes and conditions. This equipment includes a liquor make-up tank, accumulator, digester with circulating pump, heat exchanger and blow tank, as

well as an instrument panel from which temperature and pressure are recorded and controlled throughout the process.

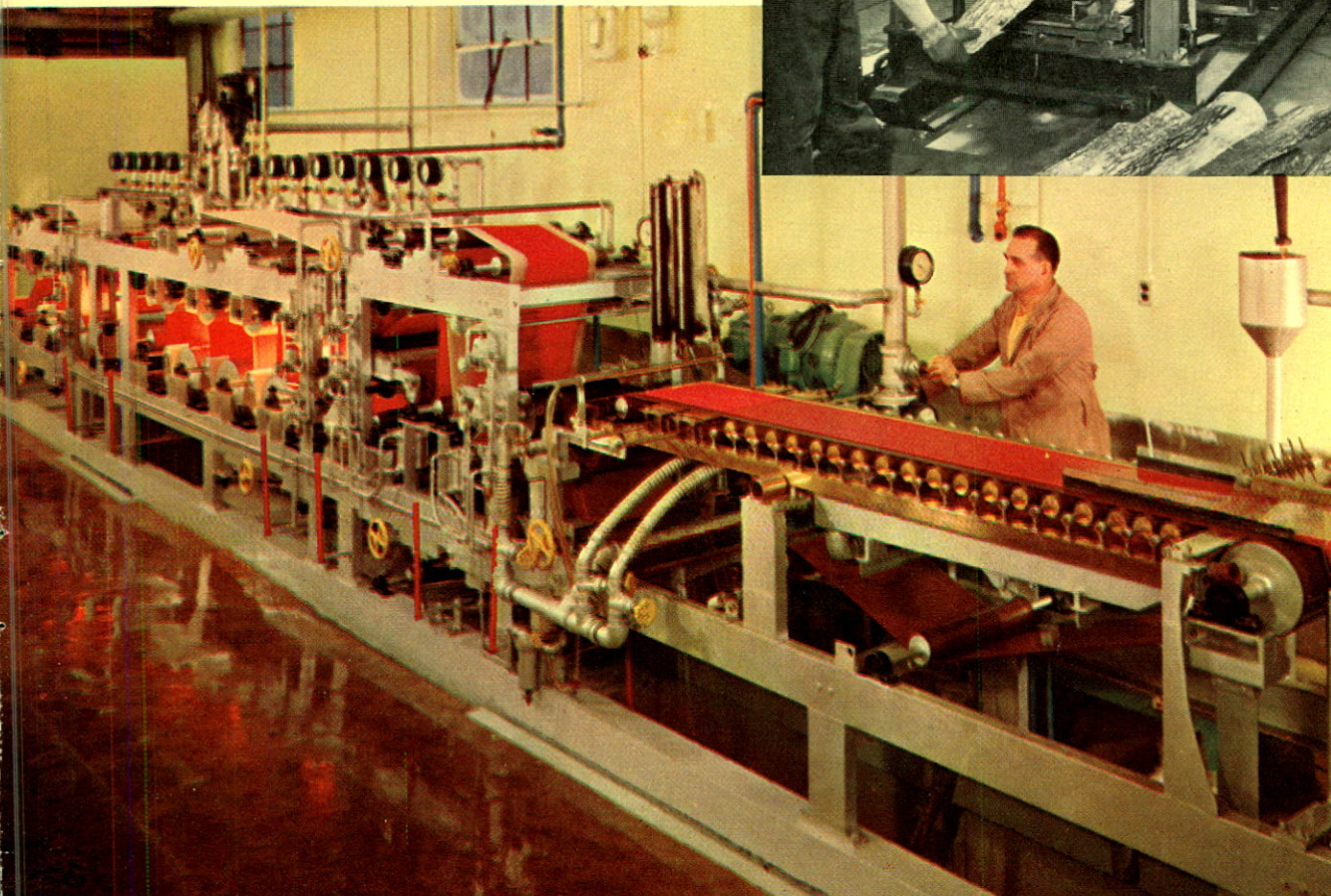
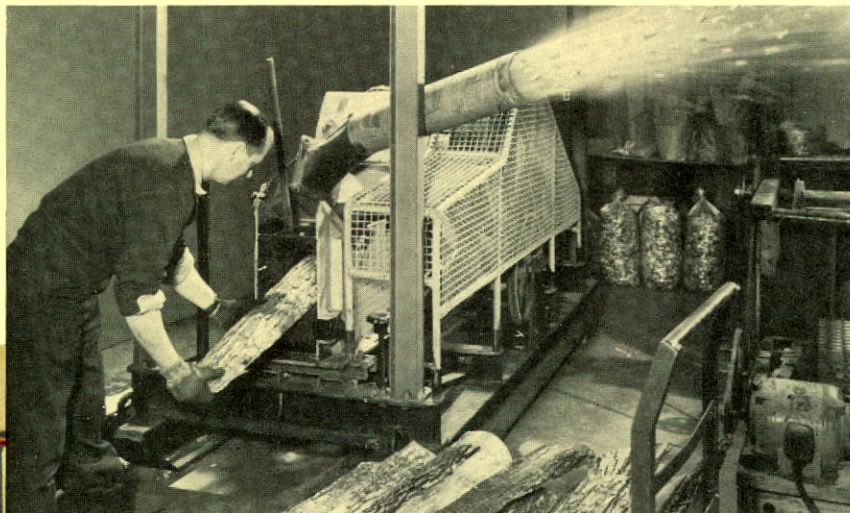
Following the cook, the soft wood chips are broken down into individual fibres in a special disintegrator. For semi-chemical pulp, the somewhat harder chips are treated in a refiner. The stock system includes two consistency tanks, a flat screen, a miniature centri-cleaner and a stock pump. The pulp is cleaned and bleached, if desired, and is then suitable for various tests including its use on the experimental paper machine. A beater of stainless steel, somewhat larger than a bath-tub and with a capacity of 20 pounds, gives the pulp a going over before it finds its way into the refiner or, in some cases, direct to the small stock tank, where it is pumped to the transparent plastic head-box and onto the Fourdrinier wire.

After the paper comes off the miniature paper machine it might be transferred to a five-

roll supercalender which is available for finishing the paper. The paper is then subjected to all the standard tests as well as others being developed continually by the Research Department. Among these is the small offset printer designed to test print both coated and uncoated papers at speeds ranging from 4500 to 9000 impressions per hour. A small-scale coating machine for turning out coated papers completes the lilliputian line-up.

A chip off the old block, so to speak, this midget is expected to perform a mighty job in adding materially to the already impressive list of achievements which have resulted from Howard Smith research.

Experiments in the Research Annex of the Cornwall Division trace each step from pulpwood to finished paper on the Miniature Paper Machine



MAIN OFFICES AND PROPERTIES

ADMINISTRATION AND SALES OFFICES

MONTREAL, Quebec (16)

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 (10)

Donnacona Paper Company Limited
Head Office

TORONTO, Ontario (25)

Alliance Paper Mills Limited
Sales Office

The Arborite Company Limited
Sales Office and Warehouse

Canada Paper Company
Sales Office

Don Valley Paper Co. Ltd.
Head Office

Howard Smith Paper Mills Limited
Sales Office

MERRITTON, Ontario (27)

Alliance Paper Mills Limited
Head Office

WINNIPEG, Manitoba (34)

Alliance Paper Mills Limited
Sales Office

The Arborite Company 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 (15)
Cornwall, Ontario (22)
Crabtree Mills, Quebec (17)
Winnipeg Flax Division (34)

CANADA PAPER COMPANY

Windsor Mills, Quebec (14)

ALLIANCE PAPER MILLS

Georgetown, Ontario (29)
Merritton, Ontario (27)

DON VALLEY PAPER COMPANY

Toronto, Ontario (25)

DONNACONA PAPER COMPANY

Donnacona, Quebec (13)

ARBORITE COMPANY

Ville LaSalle, Montreal (16)

WHOLESALE TRADING BRANCHES

BUNTIN, GILLIES & CO. LIMITED

Hamilton (26) and Ottawa (23)

CANADA PAPER "WHOLESALE" LIMITED

Toronto (25) and Montreal (16)

FEDERAL PAPER COMPANY LIMITED

Montreal (16) and Ottawa (23)

THE FRED W. HALLS PAPER CO., LIMITED

Toronto (25) and London (28)

KILGOUR'S LIMITED

Toronto (25), Montreal (16),
Ottawa (23), Hamilton (26),
London (28), Fort William (33),
Winnipeg (34), Regina (35),
Saskatoon (36)

MacGREGOR PAPER AND BAG CO. INC.

Montreal (16), Toronto (25),
Quebec City (13), Saint John (3),
Halifax (1), Sydney (2)

SCHOFIELD PAPER CO., LIMITED

Halifax (1) and Saint John (3)

PULPWOOD BUYING OFFICES, WOODLANDS OFFICES AND TIMBER LIMITS

PROVINCE OF QUEBEC

New Carlisle (4), Gaspé (5),
Madeleine River (6), Bersimis (7),
Sault-au-Mouton (8), Victoriaville (9),
Quebec City (10), Jacques Cartier River (11),
Windsor Mills (14), Oskelanco (18),
Cedar Rapids and Waswanipi (19),
Amos (20)

PROVINCE OF ONTARIO

Cochrane (21), Cornwall (22), Madoc (24),
Mattawa (30), North Bay (31), Sudbury (32)

POWER DEVELOPMENT

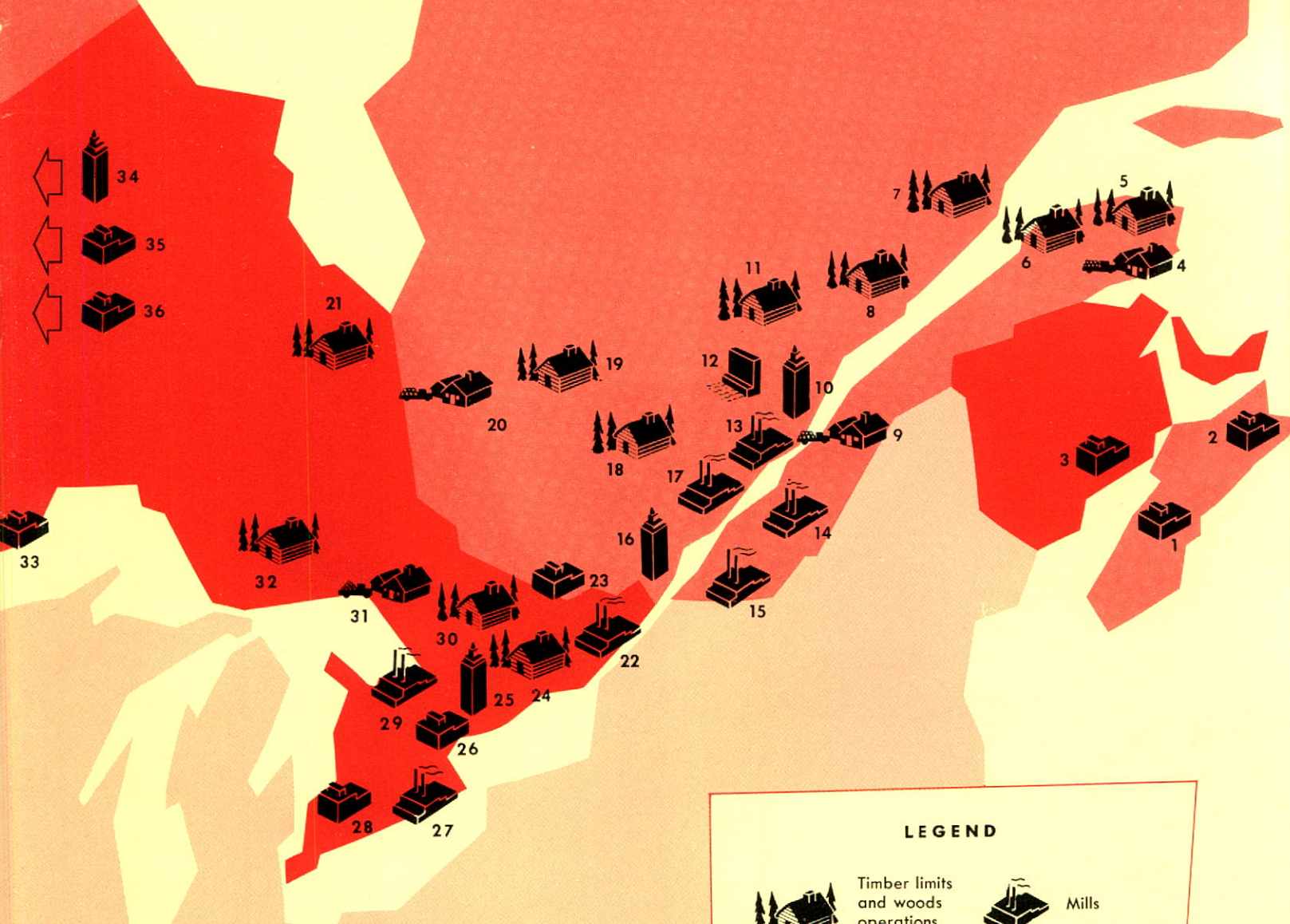
Jacques Cartier River (12)




COVER

Lithographed in four-colour process with one extra colour, on Glosskote Bristol, 22½ x 28½ — .012. Inside cover lithographed black and red. Types used for inside and outside covers are 20th Century Medium, Bold, Extra Bold and Bodoni No. 375 and No. 275.







INSIDE PAGES

Colour illustrations lithographed in four-colour process. Type, black and white halftones and charts printed letterpress in two colours, on Luxagloss, 38 x 50—320M. Types used are Bodoni No. 375, 10 pt. leaded two points with 20th Century Bold and 20th Century Ultra Bold photo-extended for headings. The subheadings are also set in 20th Century Bold.



-  34
-  35
-  36

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 operations is carried on we have only shown the major one. Refer to the list on the facing page for full details.

Howard Smith

PROPERTIES

LOCATION OF MILLS, OFFICES AND WOODLANDS

THESE TRADE MARKS



*are well known to those who
buy our various products*

HOWARD SMITH PAPERS

Rag and Sulphite Bond and Ledger; Papeterie; Writing; Duplicating; Envelope; Exercise; Book; Litho; Offset; Text; Cover; Blotting; Drawing; Tissue, and Cigarette Paper; Base stock for Blue Print and Black Line Papers; Index and Printing Bristols; Boxboard; Blanks and other Specialties; Bleached Sulphite and Soda Pulps; Groundwood Pulp; Vanillin and Lignin.

DONNACONA

Newsprint; Insulating Board; Sheathing Board; Acoustical Board; Plaster Base Board; Unbleached Sulphite Pulp and Specialties.

ALLIANCE AND DON VALLEY PAPERS

Glassine; Greaseproof; Onionskin; Carbonizing; Coated Book; Coated Litho; Coated Bristol; Tag; Cover; Blotting; Bristol; Flour Sack; Bleached Sulphite Pulp; and Specialties.

CANADA PAPER COMPANY PAPERS

Wrapping and Converting Krafts; Manilla Envelope; Rotogravure and Catalogue Papers; Tag; Wrapping and Toilet Tissues; Paper Towels; Krinkled and Infused Kraft; Grocery; Multiwall and Specialty Bags; Bleached and Unbleached Sulphite Pulp; Groundwood Pulp.

THE ARBORITE COMPANY LIMITED

Decorative Paperbase Laminates for Decorative Wallboard and Table or Countertop Application; Twin Trim Arborite-faced Aluminium Extrusions; complete range of Paper and Cloth Laminates including Convolute Tubes and Rods for electrical and other industrial uses.