ABITIBI

Annual Report 1971

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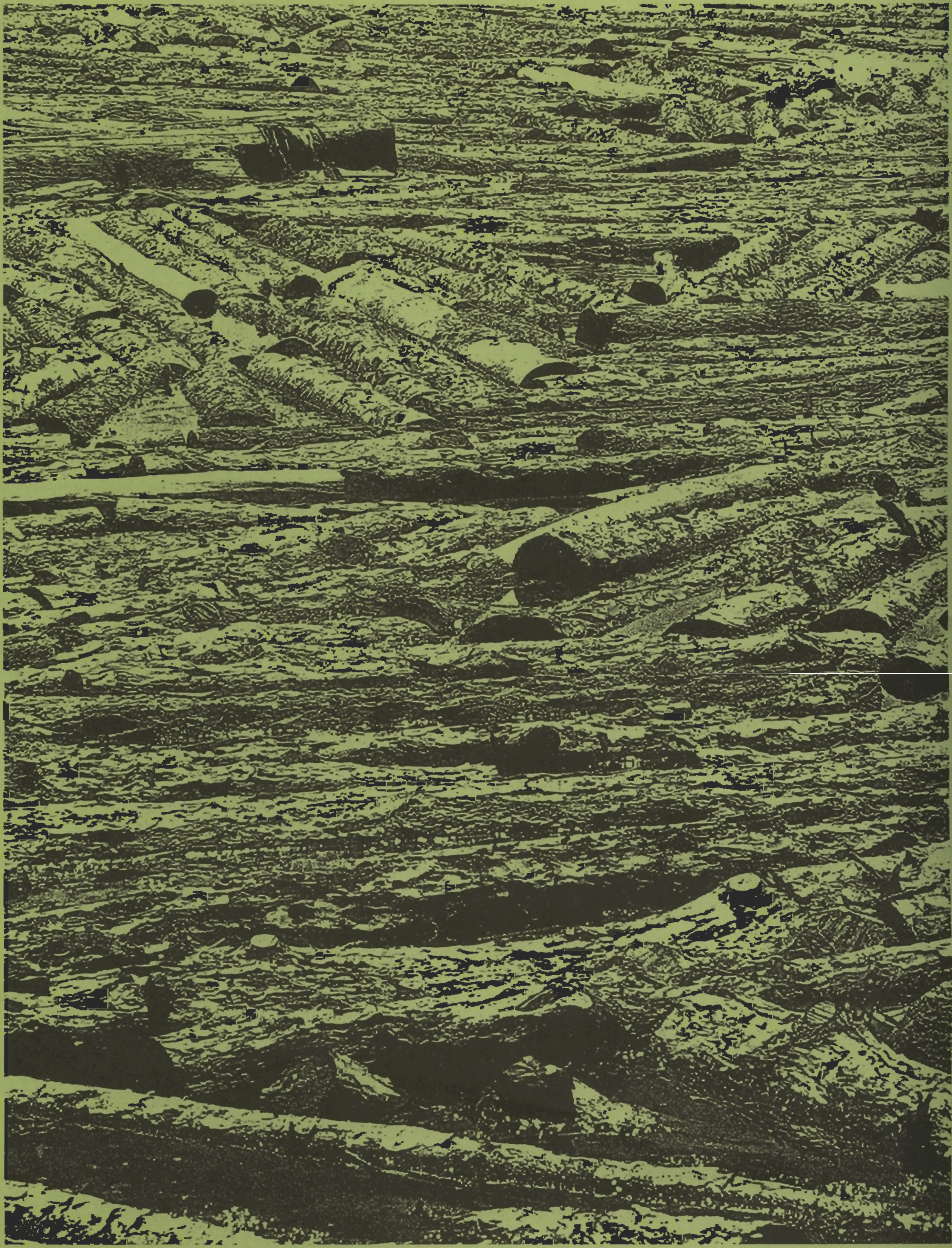


Comparative Summary

	1971	1970
Net sales	$279,434,000	$283,947,000
Depreciation and depletion	$ 16,682,000	$ 16,023,000
Taxes on income	$ 2,933,000	$ 4,630,000
Net earnings for the year	$ 4,851,000	$ 4,577,000
Net earnings per common share	*23.0¢*	*21.4¢*
Dividends declared on preferred shares	$ 742,000	$ 750,000
Per share	*$3.75*	*$3.75*
Dividends declared on common shares	$ —	$ 5,006,000
Per share	—	*28¢*
Invested in capital assets	$ 10,285,000	$ 17,343,000
Working capital	$ 84,660,000	$ 77,118,000
Long term debt, net of current portion	$112,769,000	$118,370,000
Shareholders' equity—common shares	$187,884,000	$183,774,000
Number of shareholders—common shares	32,364	34,196

Annual Report for the year ended December 31, 1971

Cover

Forest management by Abitibi is based on a sustained yield principle. It incorporates the multiple-use concept and subscribes to the idea that conservation is the wise use of the earth's resources. In the forest environment nothing is static. Like the over-matured forest pictured on our cover, the wonders of change through birth, growth, maturity and death are everywhere. It is our objective in the management of this renewable resource to improve on nature, where possible, through proven harvesting and regeneration techniques.

Abitibi Paper Company Ltd.

Head Office: Toronto-Dominion Centre, Toronto 111, Canada

Contents

The Annual Meeting of Shareholders will be held in the Cinema Theatre, Toronto-Dominion Centre, Toronto, Canada, on Thursday, April 27, 1972 at 10:30 a.m. Toronto time.

Directors

Thomas J. Bell,
President and Chief Executive Officer, Abitibi Paper Company Ltd., Toronto, Canada

Edmund C. Bovey,
President and Chief Executive Officer, Northern and Central Gas Corporation Limited, Toronto, Canada

Bertram D. Coleman,
Chairman, Drexel Firestone Incorporated, New York, U.S.A.

Marsh A. Cooper,
President and Managing Director, Falconbridge Nickel Mines Limited, Toronto, Canada

C. Antoine Geoffrion, Q.C.,
Geoffrion & Prud'homme, Montreal, Canada

Robert C. Gimlin,
Senior Vice-President, Abitibi Paper Company Ltd., Toronto, Canada

Allan Graydon, Q.C.,
Blake, Cassels & Graydon, Toronto, Canada

Charles L. Gundy,
Chairman, Wood Gundy Limited, Toronto, Canada

Leonard G. Lumbers,
Chairman of the Board, Noranda Manufacturing Ltd., Toronto, Canada

General Lauris Norstad,
Chairman of the Board, Owens-Corning Fiberglas Corporation, Toledo, Ohio, U.S.A.

Theodore O. Peterson,
Chairman of the Board, Investors Mutual of Canada Ltd., Winnipeg, Canada

Robert H. Reid,
Vice-Chairman of the Board, London Life Insurance Company, London, Canada

Paul E. Roberts,
Chairman of the Board, Abitibi Paper Company Ltd., Toronto, Canada

C. Harry Rosier,
Executive Vice-President, Abitibi Paper Company Ltd., Toronto, Canada

Kenneth R. Thomson,
Chairman of the Board and President, Thomson Newspapers Limited, Toronto, Canada

John A. Tory, Q.C.,
Tory, Tory, DesLauriers & Binnington, Toronto, Canada

Honorary Directors

Douglas W. Ambridge,
Honorary Chairman

Harry J. Carmichael
Joseph P. Ripley
The Rt. Hon. Lord Thomson of Fleet

Officers

Thomas J. Bell,
President and Chief Executive Officer

Paul E. Roberts,
Chairman of the Board

C. Harry Rosier,
Executive Vice-President

George M. Brain,
Senior Vice-President

Robert E. E. Costello,
Senior Vice-President

J. Elliot Cottrelle,
Senior Vice-President

Robert C. Gimlin,
Senior Vice-President

W. Stanley Rothwell, F.C.A.,
Senior Vice-President

E. Edward Grainger,
Vice-President—Woodlands

John E. Haire,
Vice-President—Corporate Development

T. Newman McLenaghen,
Vice-President—Manufacturing (Newsprint and Pulp, Canada)

James B. Papoe,
Vice-President—Research and Engineering

James Flintoft, Q.C.,
Secretary

Roy Curtis, C.A.,
Comptroller

William H. S. Pote,
Treasurer

Michael D. Thompson,
Assistant Secretary

R. Allan Thompson, C.A.,
Assistant Treasurer

Robert A. Cook,
Assistant Treasurer

Transfer Agents & Registrars

Montreal Trust Company,
Toronto, Montreal, Vancouver, Calgary, Regina, Winnipeg and Halifax, Canada

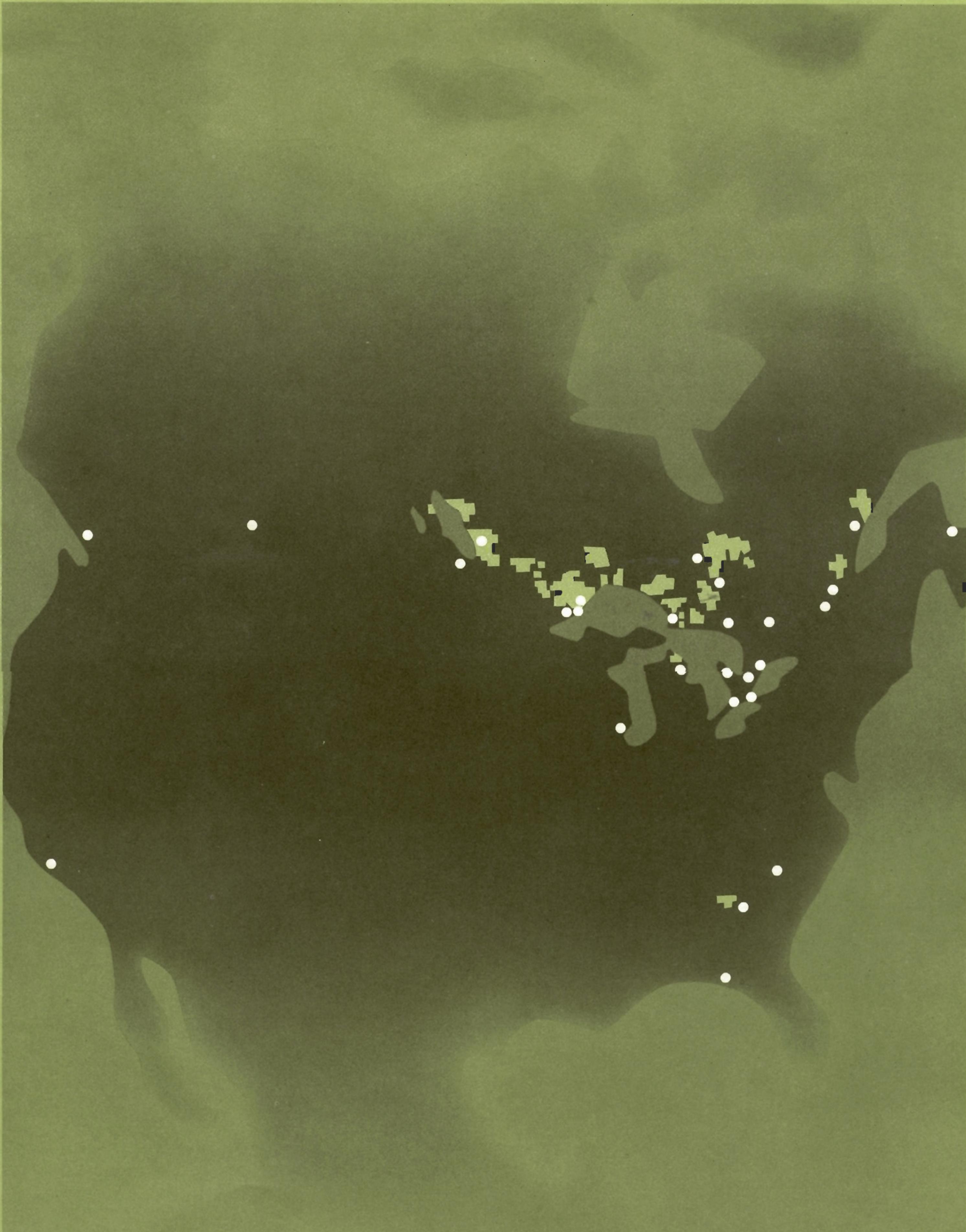
First National City Bank,
New York, U.S.A. (Transfer Agent)

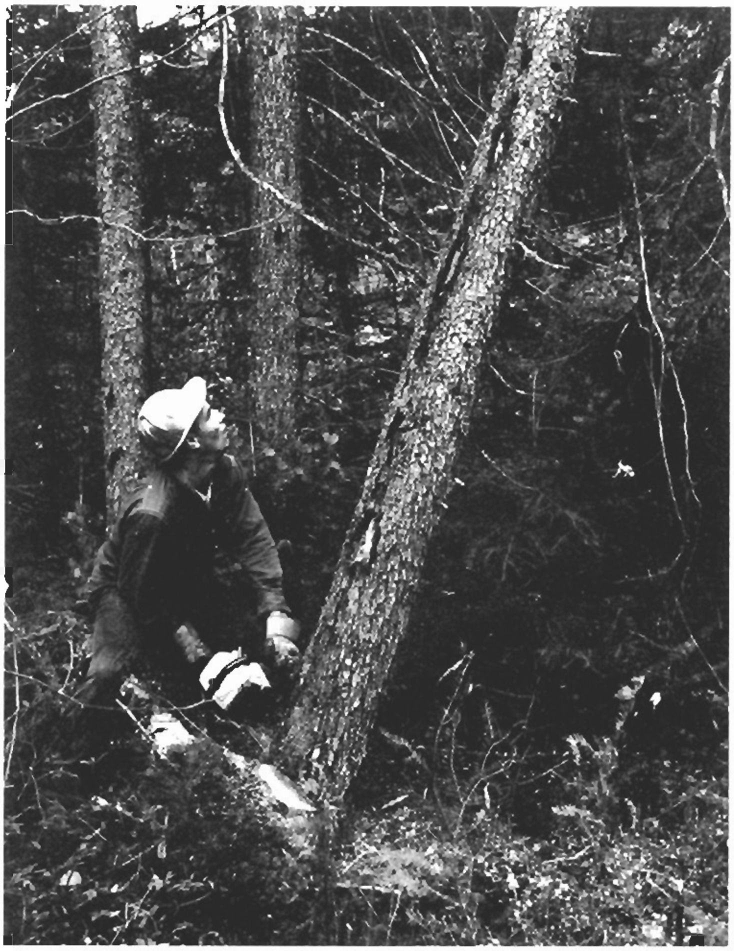
Bankers Trust Company,
New York, U.S.A. (Registrar)

Auditors

Price Waterhouse & Co.,
Toronto, Canada

The many industrial plants of Abitibi and its subsidiary companies, all related to the conversion of forest resources, are widespread throughout North America. This map shows the locations of Abitibi's forest limits (light green) and plants that manufacture primary pulp, paper and board products or use these products as raw materials in the manufacture of stationery, envelopes, corrugated cartons and a variety of wall panellings.






CUT OVER
1917

Report of the Directors

The cycle of man's management of the forest crop begins with the harvesting of the trees. Following this is the regeneration phase leading to the next crop that will mature up to 80 years hence. Either nature establishes the new crop, as it has done for thousands of years, or man can plant. We see here (1) *the felling of a tree, and* (2) *natural regeneration of a northern spruce forest on land that was clear-cut 55 years ago and* (3) *an 8-year old hardwood stand. Although the next crop will come mainly from natural growth, over five million seedlings were planted* (4) *on Abitibi's Canadian limits in 1971.*

In assessing the outlook at this time last year, we said it would be overly optimistic to expect a rapid return to a profit level that would provide a satisfactory yield on our investment in plant and equipment. The industry in 1970 had experienced a significant downturn in earnings, attributable in large measure to the upward revaluation of the Canadian dollar and a continuing inability to establish a sound cost/price relationship.

Most of our problems carried forward into 1971. The Canadian dollar was even stronger. There was little abatement in the inflation of costs. Increases in selling prices were either quite modest or non-existent. World consumption of newsprint had been expected to grow but instead there was a decline. Newsprint manufacturing capacity increased which resulted in lower average operating rates for most producers. In North America, the long-term upward trend in newsprint consumption was interrupted for a second consecutive year and 1972 is now the year in which growth is expected to resume.

For 1971 net sales by Abitibi are $279,434,000, down 1.6% from last year's $283,947,000. Our volume in newsprint, pulp and groundwood specialty papers declined in comparison with 1970. Sales of the fine paper group were close to last year. In board products we showed satisfactory growth based on improved markets, additional capacity and excellent plant performance. The geographical distribution of our sales in 1971 is 52% in the United States, 44% in Canada and 4% in offshore markets.

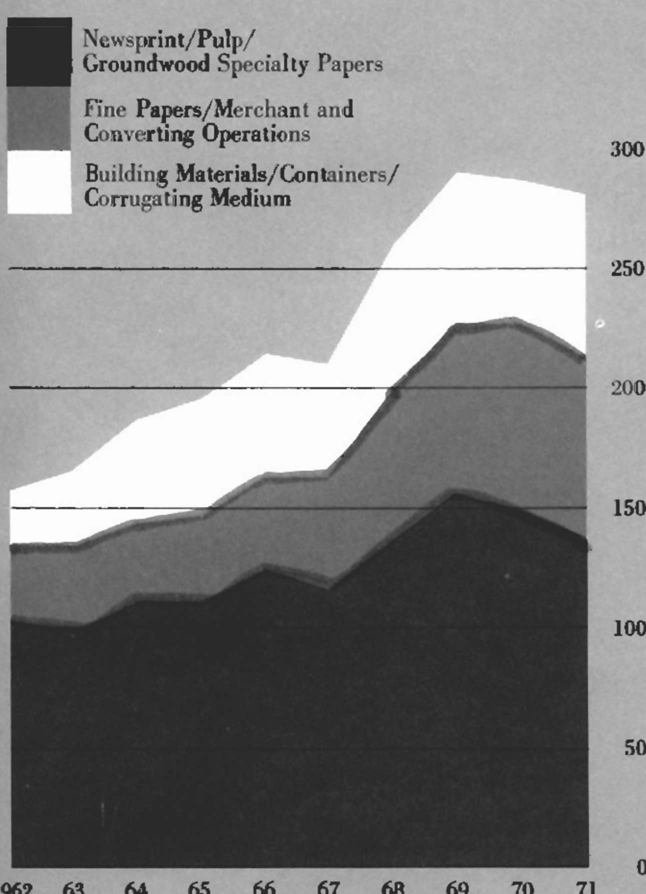
A comparison follows of net sales by principal product groups with those of the prior year:

	1971	1970
Newsprint, pulp and groundwood specialty papers	$137,173,000	$149,360,000
Fine papers, including merchant and converting operations	73,800,000	74,618,000
Board products and corrugated containers	68,461,000	59,969,000
	$279,434,000	$283,947,000


ABITIBI
NEWSPRINT
ABITIBI
UNION MADE

"The last inspector is the customer" reads a sign in the shipping department of an Abitibi newsprint mill. Automated roll handling, packaging, labelling and final inspection assure customers that the newsprint shipped by Abitibi meets their requirements for quality and trouble-free press runs.

Sales by Product Groups (millions of dollars)



REPORT OF THE DIRECTORS

Net earnings for 1971 are $4,851,000 compared with $4,577,000 in 1970 after giving effect in both years to extraordinary items. In 1971 income taxes for the year were reduced by $728,000 through application of losses of a subsidiary company in prior years. After providing for dividends on preferred shares, net earnings for the year are 23¢ per common share compared with 21.4¢ in 1970.

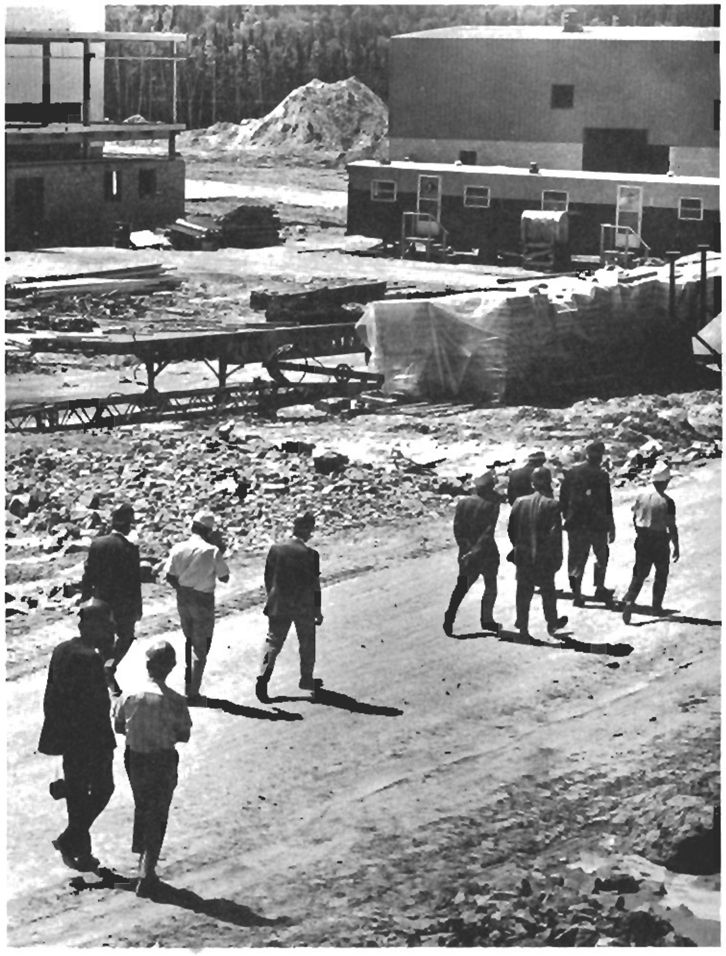
The strength of the Canadian dollar hurt our earnings more than in 1970. In every month of 1971, without exception, our yield on the conversion of U.S. funds was below that of 1970. We estimate that the Canadian dollar value adversely affected earnings before income taxes by at least $3,000,000 compared with 1970 and by at least $7,000,000 compared with 1969.

The aggressive economic program implemented by President Nixon on August 16, 1971 had an unfavourable impact on our operations in the latter months, although we should benefit in the long run if the program successfully stimulates the U.S. economy as intended. Our exports of newsprint and pulp to the United States are duty free and were not affected, but increased duties of up to 10% were immediately applied to shipments of groundwood specialties, fine papers, lumber, corrugating medium and veneers. For a period of four months we absorbed these additional duties or took the alternative of curtailing shipments.

FINANCIAL

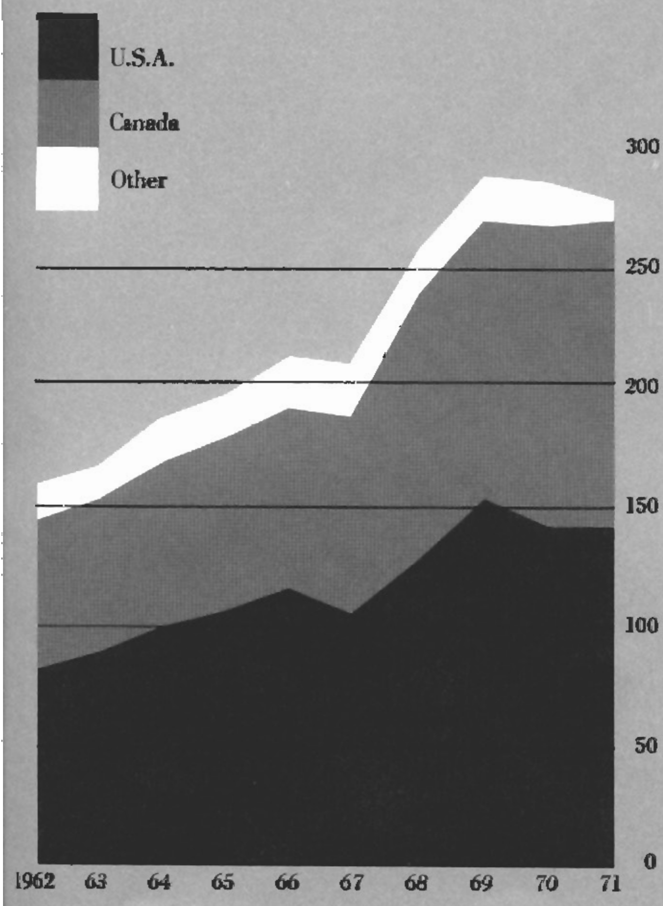
We maintained our 1970 program of reductions in overhead and manufacturing cost. Substantial savings have been made and are reflected in our results. Capital expenditures in 1971 were held to $10,285,000 in comparison with $17,343,000 in 1970. Funds utilized for the retirement of long term debt amounted to $5,647,000, approximately the same as 1970. There were no major borrowings during the year. With close control over the outflow of funds, working capital resources increased by $7,542,000 to a total of $84,660,000. Our maturing long term debt obligations in 1972, net of prior purchase and retirement of first mortgage


ABITIBI PAPER COMPANY D.



These pictures, taken in 1971, indicate the extent of Abitibi's business and community interests. (1) *Prime Minister Trudeau is shown on a visit to the Abitibi Research Centre in June.* (2) *During August our directors gained first-hand knowledge of progress at the Mattabi mine site in northwestern Ontario.* (3) *President T. J. Bell (centre) represented the Canadian pulp and paper industry on a trade mission to China, led by the Minister of Trade and Commerce, Jean-Luc Pepin.* (4) *In the summer months we co-operated with the Chamber of Commerce at Iroquois Falls in a successful tourist program called the Pulp and Paper Path that provided a guided tour of our woodlands and plant operations.*

Sales by Markets (millions of dollars)



bonds, are $4,921,000 and for 1973 are an estimated $13,950,000.

PREFERRED AND COMMON SHARES

Regular quarterly dividends were paid on the outstanding 7½% Cumulative Redeemable Preferred Shares. In accordance with the terms attached to this issue, we retired by market purchase preferred shares of a par value of $234,750 thereby reducing the outstanding balance to $9,755,250.

The only dividend paid on common shares during the year was the payment on January 1, 1971 at the rate of 5¢ per share. Your directors give regular consideration to the subject of dividends on common shares. However, with net earnings showing only marginal improvement over 1970 and a continuing uncertain outlook, your directors were of the opinion throughout the year that a resumption of dividend payments on common shares could not be justified.

MATTABI MINES LIMITED

The major development project by Mattabi Mines Limited at its mine site near Sturgeon Lake, Ontario, is progressing well. This company, owned 60% by Mattagami Lake Mines Limited and 40% by Abitibi, expects to commence operations early in the third quarter of 1972 provided there are no delays in the construction program. The mine is being developed for a planned production rate of 3,000 tons per day.

The 13,000,000 ton orebody proven to date has an average grading of 7.60% zinc, 0.91% copper, 0.84% lead, 3.13 oz. silver and 0.007 oz. gold per ton. Most of this orebody was found between the surface and a 500 foot depth. Exploration below the 500 foot level is incomplete and there are several geophysical targets on Mattabi property that have not been drilled.

Commencing in 1972, it is expected that Abitibi will benefit by the inclusion of its 40% share of earnings of Mattabi Mines Limited.

MINERAL EXPLORATION

There were no discoveries during 1971 of orebodies of commercial value on Abitibi's extensive holdings of 800 square miles of forest lands northwest of Thunder Bay and 216 square miles to the north of Timmins. Exploration agreements are in effect with experienced mining companies on parts of our lands and Abitibi will share in the ownership of any findings.

There is considerable activity and exploration interest at the present time in the Sturgeon Lake area northwest of Thunder Bay. It is reported that more than a dozen mining companies will be drilling in this area in the early months of 1972. The current general interest and findings to date suggest that Abitibi's holdings have an interesting potential for further discoveries.

NEWSPRINT AND PULP

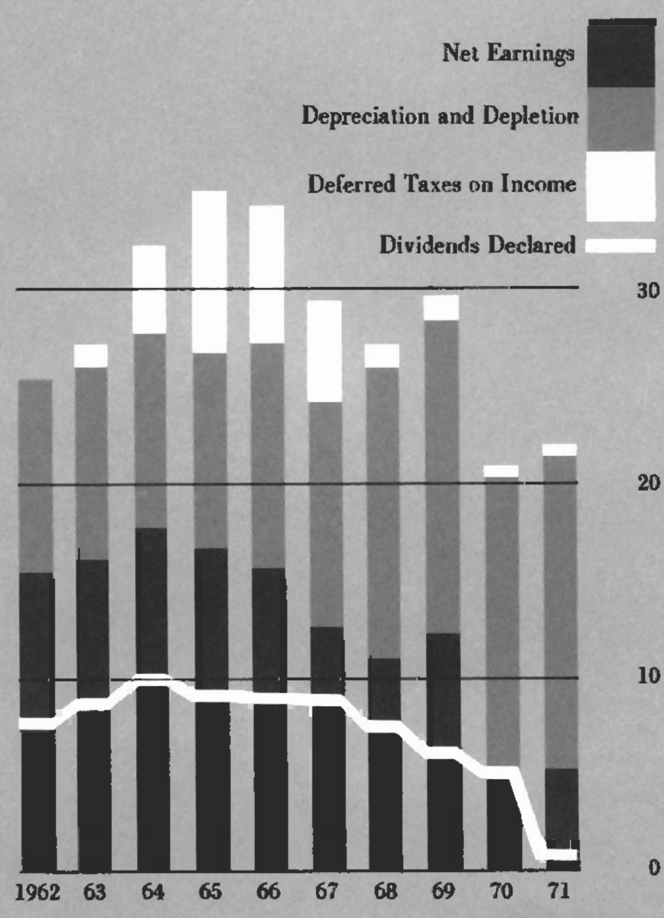
Consumption of newsprint in the United States was below forecast with somewhat lower usage in the first half year and indications of improving demand in the latter half. Canada provided about 64% of all newsprint consumed in this important market. Canadian shipments to offshore markets were considerably lower than in 1970. Canada's newsprint manufacturing capacity again increased with the introduction of an additional 520,000 tons in Quebec and the Maritimes.

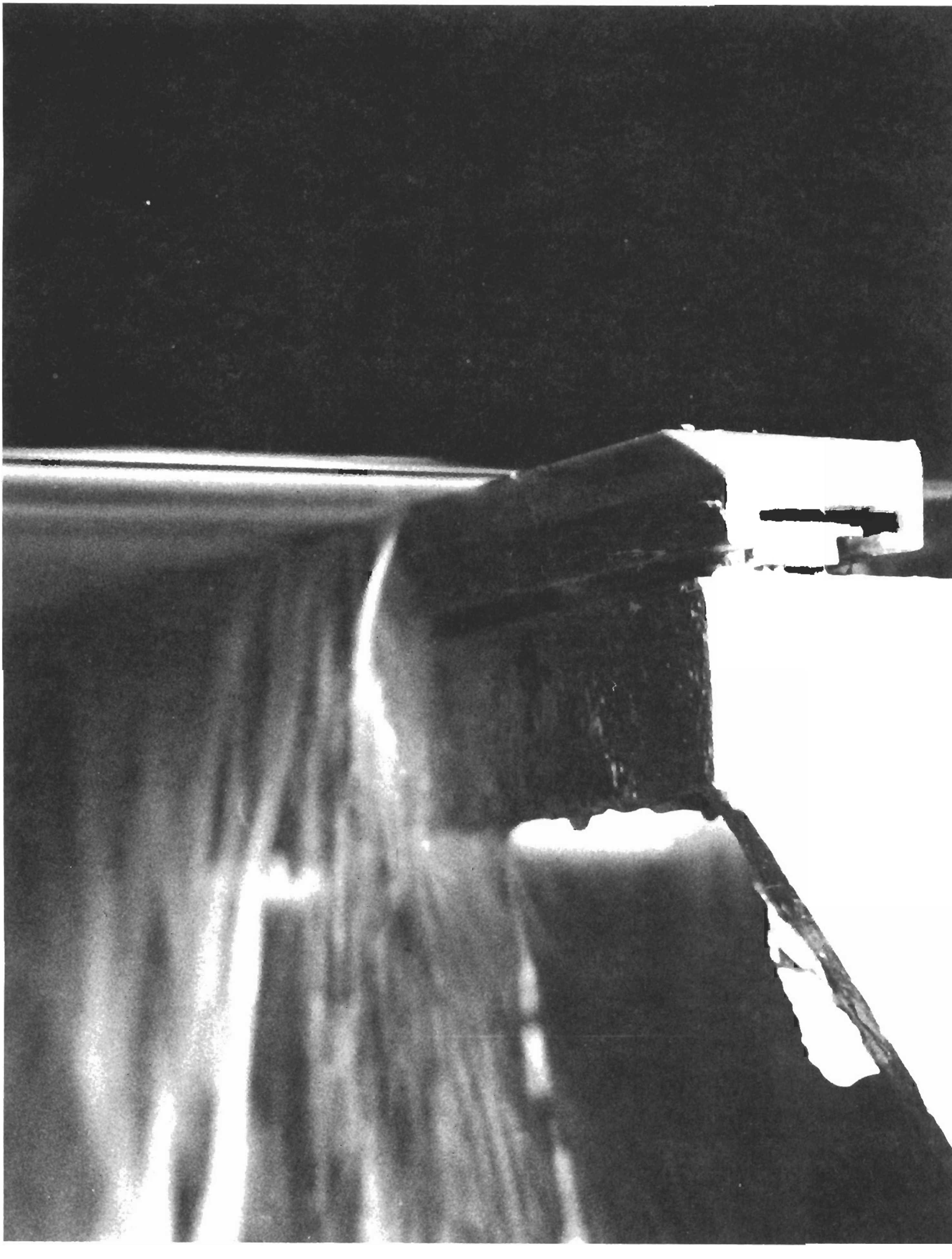
Abitibi's sales of newsprint to publishers and other consumers in North America declined in comparison with last year and there was a substantial decrease in overseas shipments. Shipments of groundwood specialty papers decreased also because of the high Canadian dollar and the temporary U.S. import surcharge. Proceeds from all export sales were affected by the value of the Canadian dollar and profit margins suffered. Present indications point to an increase in world newsprint demand in 1972 including growth of some 3% in North American consumption.

Abitibi Newsprint Corporation, a new U.S. sales company, is to be the exclusive outlet in the United States for all of our Canadian and U.S. produced newsprint. With headquarters in Detroit and district offices in Atlanta, Chicago, Dayton and New York, this new company will be in a position to react quickly and effectively to the needs of the marketplace and give improved direction to Abitibi's future newsprint growth.

Abitibi has often been a leader in the industry in the introduction of new techniques to the paper making process. One recent development is the installation of foils and fabric wires on the paper forming section of the paper machine. A plastic fabric wire replaces the conventional metal wire while foil units replace the table rolls. This new combination improves paper formation, reduces wire marks, and lowers production costs because of longer wire life and less down time for replacements.

Cash Flow (millions of dollars)





Abitibi Newsprint Corporation will add to our extensive business interests in the United States and, as a subsidiary of Abitibi Corporation, will be an important part of a broadly-based and diversified forest products enterprise. Abitibi Corporation will emerge with sales of over $135,000,000 and invested capital of more than $100,000,000. This consolidation of our U.S. activities will clarify to our customers and the public the scope of our large involvement and commitment as an established corporate citizen in the United States.

Pulp markets were unsettled for most of the year with excess capacity the cause of severe market competition. While inter-company usage of kraft pulp increased over last year, total volume was down due to lower sales of market pulp. Production rates at our kraft pulp mill at Smooth Rock Falls are better than designed capacity. The new lumber mill, integrated with the pulp mill, is operating well with production up to standard. Lumber markets are strong and we are receiving excellent market acceptance.

FINE PAPERS

In our fine paper manufacturing operations we encountered a year of no growth in volume due to market conditions. In addition to this less than expected volume, we experienced depressed selling prices and cost increases that were restrained but not overcome.

Following the lowering of tariffs in 1968 and the later revaluation of the dollar, there has been a significant increase in the volume of fine paper imports. Substantial incoming tonnages deprived domestic manufacturers of normal growth and, in addition, volume suffered because of general economic conditions in Canada. Many Canadian companies reduced fine paper usage in 1971 by cutbacks in direct mail, media advertising and corporate publications. Fortunately, fine paper consumption is directly related to the general level of business activity and, as of now, we are witnessing an upturn in sales for such end uses as envelopes, business forms, letterheads and packaging. There is increasing evidence that fine paper consumption in Canada is resuming a normal growth trend with improving market stability.

Hilroy Envelopes & Stationery Limited had a year of satisfactory sales and earnings. Its many fine products were again well received from coast to coast in Canada although markets for educational products were less buoyant because of the fewer number of children in primary school grades and university enrolments that fell below expectations. Hilroy's market leadership in school and home stationery supplies is continually being confirmed by the introduction of new and attractive products.

Canada Envelope Company, with plants in Montreal, Toronto and Stellarton, had a successful year. Continuing efforts to develop new specialties and increase markets for other envelope products resulted in higher volume. A new envelope folding machine, installed late in 1970, became fully operational and expanded the range of envelope products offered to consumers.

Sales by Inter City Papers, Limited, with branches in Montreal, Toronto, Ottawa and Quebec City, were in line with those of the prior year. Conditions in the merchant trade were extremely competitive and profit margins tended to decline. Warehouse stocks were well maintained at all locations to ensure prompt and efficient service to customers and the range of lines was increased. Inter City Papers is well positioned to participate in the upturn in the graphic arts trade that should occur this year.

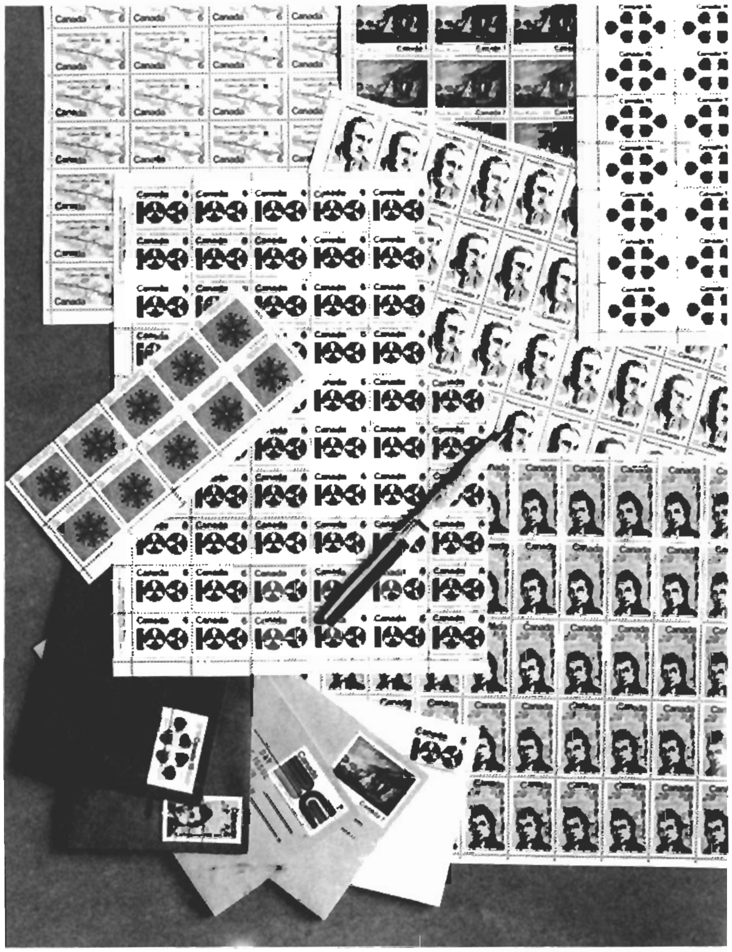
BOARD PRODUCTS

Net sales of board products increased by 14% to a total of $68,461,000 reflecting improved markets, the first full year's operations at Roaring River, North Carolina, and introduction of new products.

Sales in the United States accounted for most of the increase with shipments of prime-coated exterior siding from Roaring River a principal factor. The start-up of this new plant was one of the most successful in industry history. Operations commenced in the latter part of 1970 and, within one year, production was up to designed capacity with steadily improv-

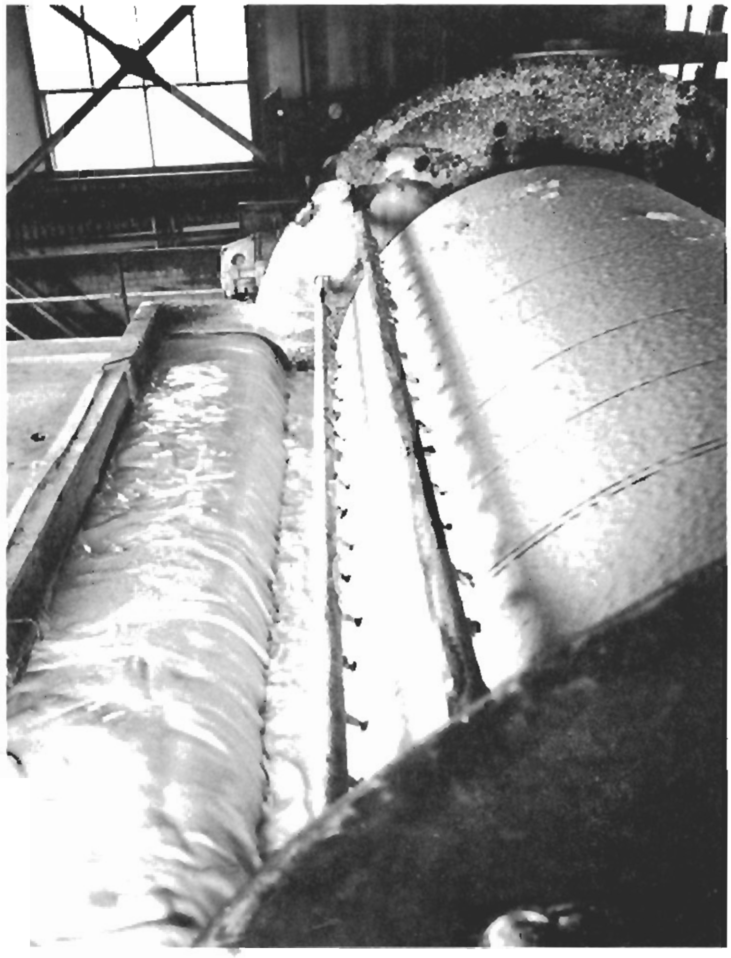
The fine and printing papers of Abitibi Provincial meet customer demands for specific characteristics and qualities. Four notable examples are pictured here. (1) Many new car catalogues are printed on Provincial paper grades. (2) The success of Abitibi Provincial's entrance into the postage stamp paper market is confirmed in the printing of commemorative stamps. (3) A number of Hilroy school and stationery products use Provincial's recycled, de-inked content papers. (4) Annual reports of prominent companies are printed on Provincial prestige grades.

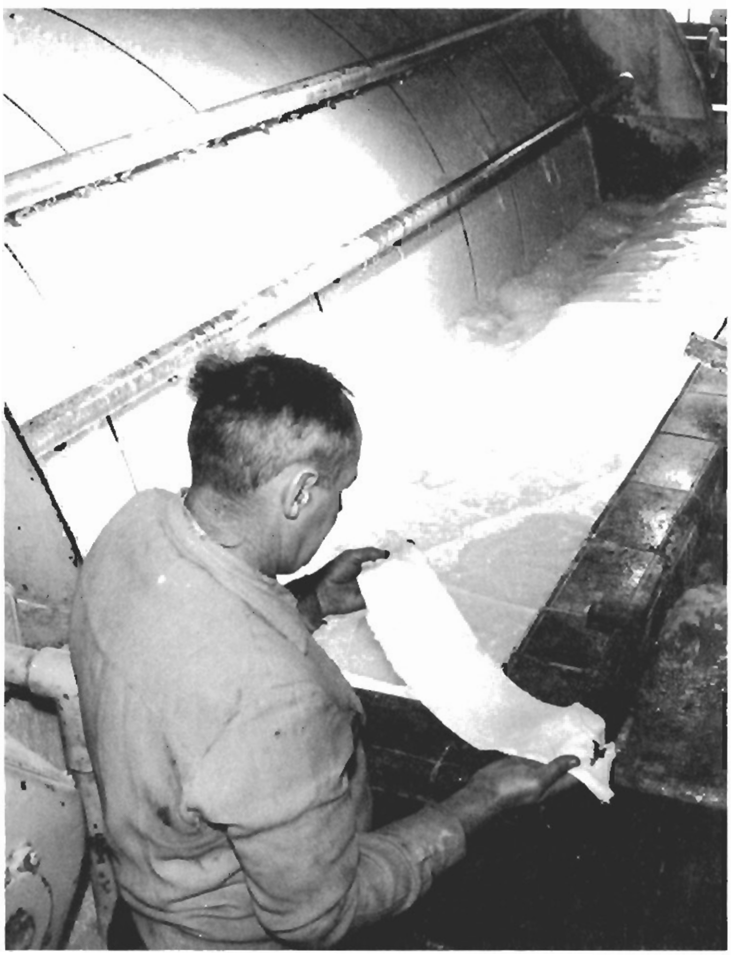

1972 MERCURY METEOR
PLYMOUTH
The Eldorado Coupe
1972
OLDSMOBILE
ALWAYS A STEP AHEAD


Canada


onion skin
Hilroy
DECORATIONS
CALENDARS
POSTERS
Fruit Flavor Letters
bloc de feuilles mobiles
49¢
The Hilroy
EXERCISE
BOOK


Hires
ROOT BEER
Canadian Pacific
Annual
Report
1970
CANADIAN IMPERIAL
BANK OF COMMERCE
ANNUAL REPORT 1970
ANNUAL REPORT
1970






WHITE

There is increasing interest in the Abitibi Provincial process that de-inks and recycles waste papers for return to the market in competitive fine paper grades. This major story is centred at our mill at Thorold, Ontario, which is the only fine paper mill in Canada that de-inks and recycles selected used papers to combine with virgin fibre in the production of new paper grades. Illustrations show stages of the recycling process (1) a waste paper bale on arrival, (2) the bleaching and washing process, (3) recycled pulp after final wash, and (4) the finished paper product identified as containing de-inked, recycled fibre ready for shipment from the warehouse of a paper merchant.

ing efficiencies. The predicted level of housing starts indicates a strong market for this top quality product. Our large hardboard plant at Alpena, Michigan, performed very well throughout the year. Operations at Cucamonga, California, were made difficult for a lengthy period by the west coast dock strike which interrupted the supply of plywood, our principal raw material at this plant. Both Middlebury Mouldings, Inc. and Tiffin Enterprise, Inc., in which we share ownership, had increased earnings over the prior year.

Hardboard operations in Canada improved in comparison with 1970. Manufacturing operations responded well to an intensive program to reduce costs and improve efficiencies. A new line of prefinished exterior siding was successfully introduced to the Canadian market in April. There is a substantial surplus of hardboard manufacturing capacity in Canada that contributes to instability in market conditions and an unsatisfactory profit level.

Sales of corrugated containers and corrugating medium were at levels similar to last year with manufacturing facilities operating well throughout the year.

ENVIRONMENTAL CONTROL

Abitibi is following an active program of reducing ingredients from its effluents and emissions that are detrimental to the environment. Outlays for this purpose since 1960 have been close to twenty million dollars and they are continuing.

At the present time the Federal Government does not participate directly in the cost of anti-pollution measures. For existing mills, the only long-term source of funds for financing these costs is cash flow from operations. With earnings at the present low level, the anti-pollution program must of necessity take into account the ability of the industry to provide funds and there must be a reasonable balance between costs, employment and the benefits to be enjoyed from an improved environment. The Canadian Pulp and Paper Association has strongly urged the Federal Government to make available an augmented capital cost allowance for capital expenditures on pollution abatement by existing mills.

The pulp and paper industry in Canada carries a much higher burden of corporation taxes than its competitors in the United States and Sweden. Income tax rates are lower in many U.S. states than they are in Canada and tax laws contain provisions that permit up to 50% or more of income of pulp and paper companies to be taxed at the lower capital gains rate. The weighted average of taxes paid by seven large representative companies in the United States for the years 1965 to 1969 inclusive shows an average effective rate of 34% while the weighted average for five large Canadian companies is 49% for the same period.

Corporations in Sweden are given liberal tax advantages compared with Canadian companies. While taxation systems differ in many respects and are difficult to compare, the corporation tax rate in Sweden is approximately 40% compared with 1971 rates of 51% or higher in Canada.

One of the interesting contributions we are making to an improved environment is the recovery of waste paper at our Thorold fine paper plant. This mill de-inks and recycles some 30,000 tons of post-consumer waste annually and returns it to the market in the form of fully competitive fine paper grades. This operation has been functioning on an expanding scale for a number of years and is now gaining increasing recognition from governments and the public at large for its contribution to the reduction of waste.

BOARD OF DIRECTORS

Mr. Edmund C. Bovey was elected to the Board in February to fill a vacancy created by a prior resignation. Mr. Bovey is President and Chief Executive Officer of Northern and Central Gas Corporation Limited, Toronto, Ontario.

Mr. T. Rodgie McLagan did not stand for re-election at the annual meeting in April. Mr. McLagan, formerly Chairman of the Board of Canada Steamship Lines Limited, served Abitibi as a director ably and well for a period of twenty-five years.

Mr. Marsh A. Cooper was elected to the Board at the annual meeting. Mr. Cooper is President and Managing Director of Falconbridge Nickel *Mines Limited, Toronto, Ontario.*

Late in the year Mr. James M. Cox, Jr., resigned from the Board because other business obligations interfered with his active participation in Abitibi's affairs.

Mr. Robert C. Gimlin, Senior Vice-President, was elected a Director to fill the vacancy created by the resignation of Mr. Cox. Mr. Gimlin has been associated with Abitibi in an executive capacity since early 1966. As President of Abitibi Corporation, he is in charge of all of Abitibi's business activities in the United States.

PERSONNEL

The past year has been unusually demanding on Abitibi personnel. The low level of earnings and the continuation of difficult business conditions have necessitated stringent economy measures and increased pressures to achieve higher standards of efficiency. There has been short time for many of our people and separations occurred as positions were eliminated under new standards of business requirements and productivity. Employees at all levels fully measured up to their responsibilities and assisted greatly in maintaining quality of work and output throughout the year.

The directors recognize and appreciate the competent and loyal performance of Abitibi employees during a troubled year. Ours is a widespread and diversified organization. To operate successfully, we require a wide variety of talents and skills in our ranks. Our employees have these attributes.

Negotiations with a majority of our union members in Canada will take place in 1972. We are greatly concerned about rising costs and it is essential to have union endorsement of the principle that wage increases be tied in with improved productivity. Only by acceptance of such a policy can we hope to break the cost inflation spiral and maintain employment and meaningful living standards in our industry.

OUTLOOK

Virtually all present indications suggest that 1972 should be a year of increasing business activity, perhaps more so in the United States than in Canada. Greater consumption of forest products is expected in both economies. The Canadian dollar weakened somewhat in the first few weeks of 1972 and a continuation of this trend would be most favourable to our affairs.

For 1972, we anticipate increased sales and some improvement in market prices. However, the cost/price squeeze now present in this industry has yet to be solved and could become even more severe in some product lines. Any worthwhile improvement in profit margins of pulp and paper operations appears unlikely during 1972 but, for the first time, we expect to report earnings from operations of Mattabi Mines Limited.

On behalf of the Board,

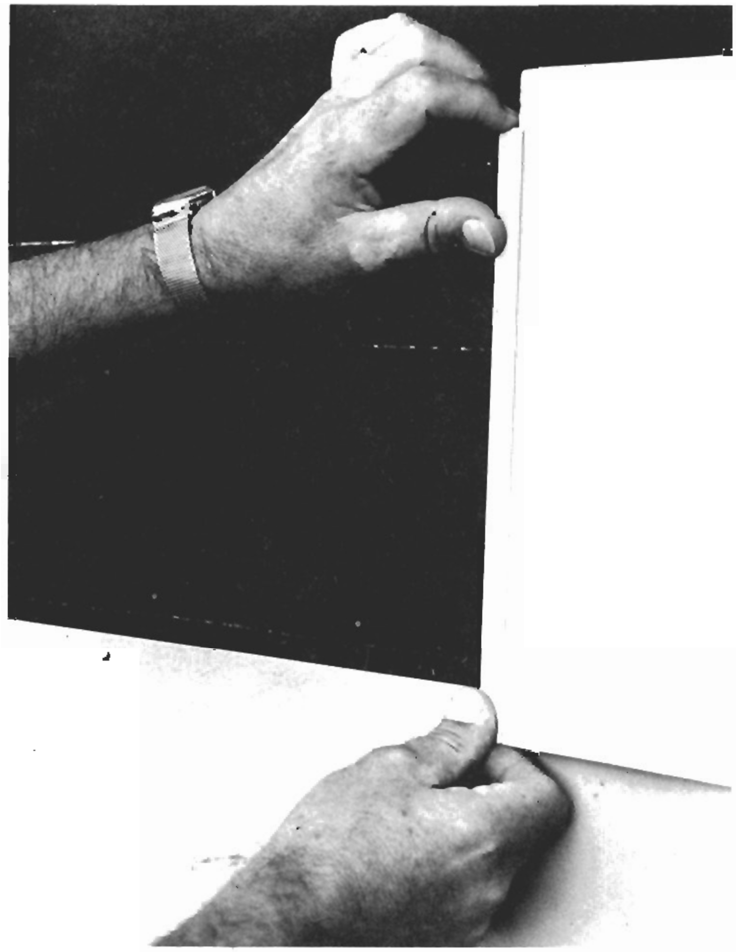
T. J. Bell.

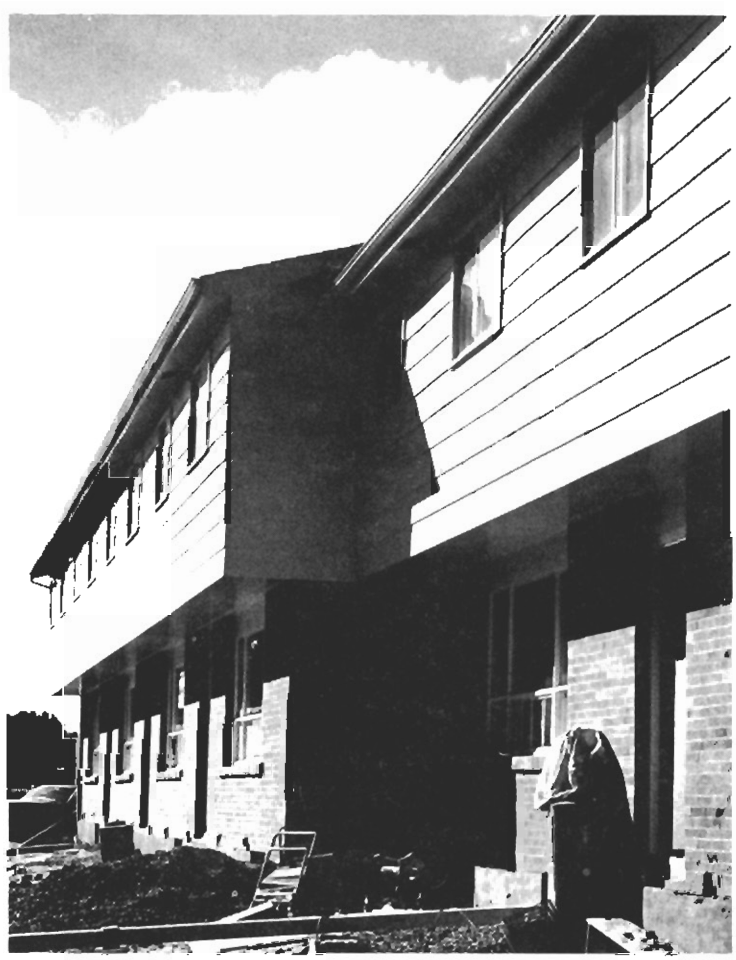
President and Chief Executive Officer.

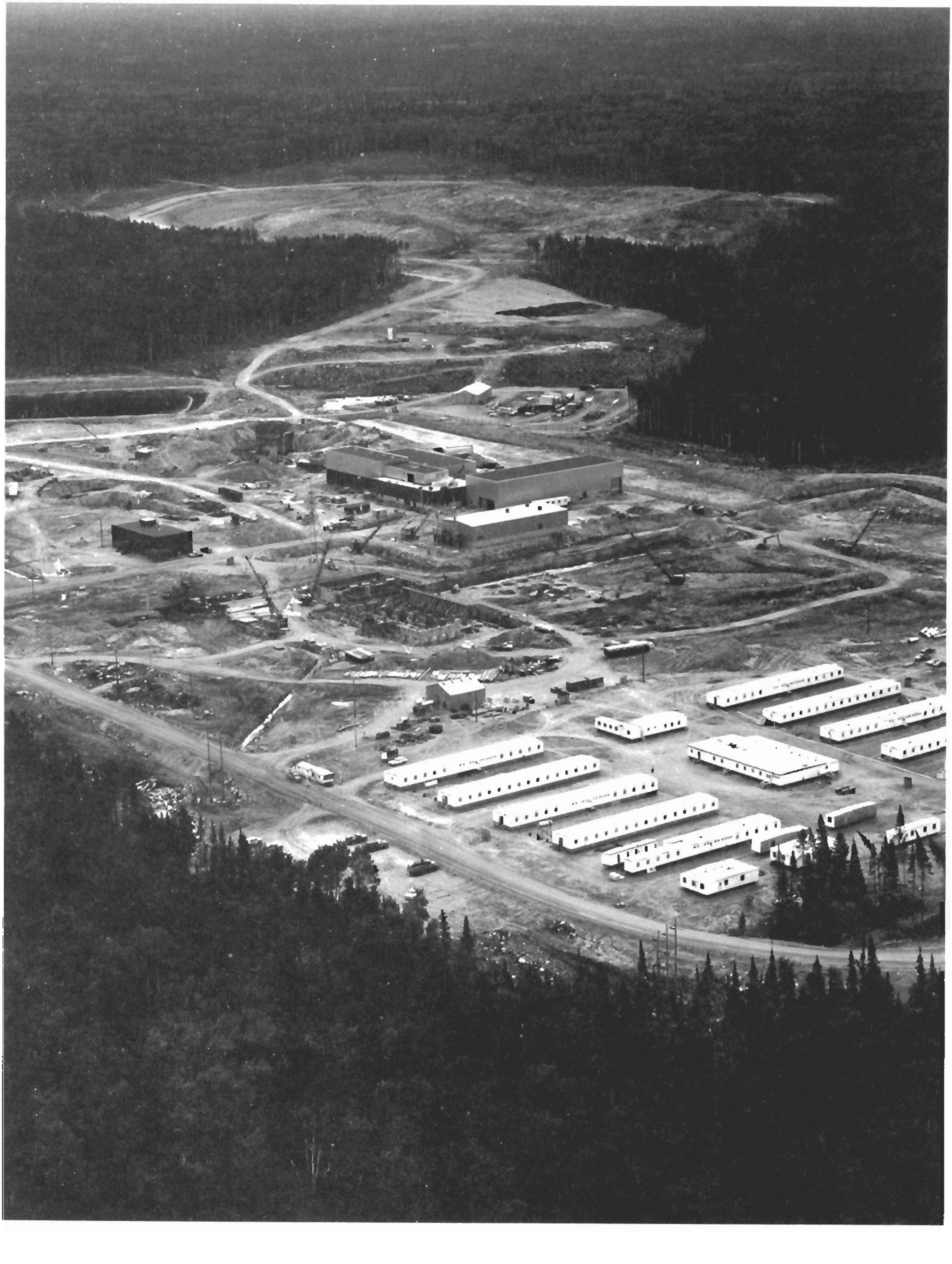
Toronto, February 9, 1972.

Ready acceptance was the reaction in United States and Canadian markets to the introduction of Abitibi's guaranteed lap siding. The smooth finish of this siding plus advantages such as ease of installation, durability and insulation qualities, all act to increase market acceptance. (1) *Packaged lap siding ready for shipment.* (2) *Application of a joint mold between lengths.* (3) *Ease of installation permits do-it-yourself application.* (4) *Abitibi siding in a residential development.*


ABITIBI
PRIMED SIDING
CLARK







Consolidated Net Earnings

Revenue:	Year ended December 31 1971	1970
Net sales	$279,434,336	$283,947,177
Other income *(note 2)*	3,275,929	2,166,574
	282,710,265	286,113,751
Costs and expenses:		
Cost of products sold	226,891,708	227,709,937
Provision for depreciation	16,427,928	15,652,793
Provision for depletion	254,027	369,733
Selling, general and research expenses	20,582,474	21,441,323
Employees' pension plans *(note 3)*	3,214,063	2,969,663
Interest on bank indebtedness	433,031	935,315
Interest and expense on long term debt	7,850,753	7,372,863
	275,653,984	276,451,627
Earnings before taxes on income	7,056,281	9,662,124
Taxes on income:		
Current *(note 4)*	2,824,000	4,492,500
Deferred	109,500	137,500
	2,933,500	4,630,000
Earnings before extraordinary item	4,122,781	5,032,124
Income tax reduction from carry forward of losses of subsidiary company in prior years	728,000	—
Net loss on receivables in other currencies on freeing of the Canadian dollar at May 31, 1970	—	(455,000)
Net earnings for the year	**$ 4,850,781**	**$ 4,577,124**
Per common share:		
Earnings before extraordinary item	*18.9¢*	*23.9¢*
Net earnings for the year	*23.0¢*	*21.4¢*

Consolidated Retained Earnings

	Year ended December 31 1971	1970
Retained earnings at beginning of year	$134,655,974	$135,834,584
Net earnings for the year	4,850,781	4,577,124
	139,506,755	140,411,708
Dividends declared on preferred shares	742,179	749,906
Dividends declared on common shares	—	5,005,828
	742,179	5,755,734
Retained earnings at end of year	**$138,764,576**	**$134,655,974**

This is the major development undertaking by Mattabi Mines Limited at Sturgeon Lake, about 130 miles northwest of Thunder Bay, Ontario. The mine is being developed for a planned production rate of 3,000 tons per day with start-up expected early in the third quarter of 1972.

Consolidated Balance Sheet

ASSETS

	December 31 1971	December 31 1970
Current Assets:		
Cash	$ 6,398,264	$ 2,185,137
Short term investments at cost which approximates market	7,350,761	454,414
Accounts receivable	53,378,188	61,999,099
Inventories:		
Finished products, goods in process, materials and supplies *(note 6)*	30,935,800	28,628,110
Pulpwood and expenditures on current logging operations at cost	18,628,291	22,323,822
Prepaid expenses	2,212,307	2,382,781
	118,903,611	117,973,363
Capital Assets:		
Properties, plant and equipment *(note 7)*	444,625,675	437,483,428
Less—Accumulated depreciation	243,025,194	230,493,767
	201,600,481	206,989,661
Logging equipment and development at depreciated cost	5,311,454	6,527,308
Woodlands, both freehold and leasehold, and water power rights, less accumulated depletion of $7,720,761 (1970—$7,441,821)	23,444,824	25,886,653
	230,356,759	239,403,622
Investments and Other Assets:		
Bonds, debentures and notes at cost	4,058,574	3,518,232
Townsite mortgages and advances at cost	2,339,253	1,770,486
Investment in Mattabi Mines Limited at cost	3	3
Other investments at cost	2,321,737	2,215,087
Cost of shares of acquired companies in excess of book values of underlying net assets *(note 1)*	21,076,582	21,987,652
Unamortized discount and expense on long term debt	1,115,401	1,203,596
	30,911,550	30,695,056
	$380,171,920	$388,072,041

Approved by the Board of Directors:

T. J. Bell, Director

C. H. Rosier, Director

LIABILITIES

Current Liabilities:	December 31 1971	1970
Bank indebtedness	$ 3,555,600	$ 12,426,394
Accounts payable	21,424,178	19,973,829
Dividend declared and payable	—	894,219
Interest accrued on long term debt	1,391,318	1,432,877
Income and other taxes	2,951,498	1,025,082
Payments due within one year on long term debt	4,921,187	5,102,728
	34,243,781	40,855,129
Long Term Debt—net of current portion *(notes 8 and 9)*	112,768,895	118,370,000
Deferred Taxes on Income	30,011,358	29,867,004
Unrealized Gain on Translation of Foreign Currencies *(note 9)*	5,447,691	5,153,565

SHAREHOLDERS' EQUITY

	1971	1970
Preferred Shares: *(note 10)*		
Authorized: 1,000,000 shares par value $50 issuable in series (200,000 shares issued; 4,895 shares purchased and cancelled)		
Outstanding: 195,105 7½% Cumulative Redeemable Preferred Shares, Series A (1970—199,800 shares)	9,755,250	9,990,000
Common Shares: *(note 11)*		
Authorized: 24,000,000 shares without nominal or par value		
Issued: 17,884,384 shares	49,180,369	49,180,369
Retained Earnings *(note 12)*	138,764,576	134,655,974
	197,700,195	193,826,343
	$380,171,920	$388,072,041

Consolidated Source and Application of Funds

	Year ended December 31 1971	1970
Source of Funds:		
Net earnings for the year	$ 4,850,781	$ 4,577,124
Non-cash charges deducted in arriving at net earnings:		
Depreciation and depletion	16,681,955	16,022,526
Deferred taxes on income	109,500	137,500
Discount and expense on long term debt	84,114	80,993
	21,726,350	20,818,143
Increase in long term debt	423,420	19,436,485
Disposal of capital assets	3,557,761	172,288
Common shares issued under option agreements	—	7,937
Other items—net	65,548	(119,464)
	25,773,079	40,315,389
Application of Funds:		
Invested in capital assets	10,285,096	17,343,208
Retirement of long term debt	5,647,020	5,732,599
Retirement of preferred shares	226,409	9,786
Dividends declared on preferred shares	742,179	749,906
Dividends declared on common shares	—	5,005,828
Increase in miscellaneous investments	1,237,359	(1,732,301)
Unrealized loss on translation of working capital of United States subsidiary companies	93,420	592,896
	18,231,483	27,701,922
Increase in working capital	7,541,596	12,613,467
Working capital at beginning of year	77,118,234	64,504,767
Working Capital at End of Year	$ 84,659,830	$ 77,118,234

Notes to Consolidated Financial Statements

1. Principles of consolidation

The consolidated financial statements include the accounts of Abitibi Paper Company Ltd. and all subsidiary companies. Balances and transactions in other currencies have been translated into Canadian dollars as follows:

> Capital assets and investments at exchange rates in effect at dates of acquisition; other assets and liabilities at rates in effect at December 31st; revenue and expenses at average rates for the period except for depreciation and depletion which are on the same basis as the related capital assets.

The cost of shares of acquired companies in excess of book values of underlying net assets is not being amortized. The reduction in this balance during 1971 results from the sale of certain surplus land and forest holdings by one of the acquired companies.

2. Other income

The two principal sources of other income are gains on disposals of capital assets no longer required for business purposes (principally real estate) and interest from accounts receivable, mortgages, investments, etc. The make-up of other income in 1971 and the prior year is as follows:

	1971	1970
Gain on capital asset disposals	$1,680,287	$ 458,388
Interest and miscellaneous income	1,595,642	1,708,186
	$3,275,929	$2,166,574

3. Employees' pension plans

The amount charged to earnings in respect of employees' pension plans includes past service costs resulting from retroactive improvements of benefits. Applicable costs are being funded in annual instalments to 1989. Based on the most recent actuarial report, the single-sum liability for unfunded pension benefits is estimated at $4,200,000 at December 31, 1971.

4. Taxes on income

The provision for current taxes on income has been reduced by a U.S. investment tax credit of $82,100 ($606,300 in 1970).

5. Remuneration of officers and directors

Remuneration in 1971 of the company's sixteen directors and twenty-one officers, including past officers, determined in accordance with the Canada Corporations Act, amounted to $58,200 and $782,990 respectively (in 1970 $68,331 and $780,449 respectively). Four officers of the company also serve as directors.

6. Inventories

Inventories of finished products and goods in process, materials and supplies at the lower of cost or net realizable value are as follows:

	December 31	
	1971	1970
Finished products and goods in process	$18,639,615	$16,333,114
Materials and supplies	12,296,185	12,294,996
	$30,935,800	$28,628,110

7. Properties, plant and equipment

Properties, plant and equipment are stated at cost except for assets of a net depreciated book value of $5,471,828 at December 31, 1971 included at appraised values as at April 30, 1946.

8. Long term debt

	December 31 1971	1970
Abitibi Paper Company Ltd.:		
First Mortgage Sinking Fund Bonds		
Series B, 4¼% due July 15, 1974	$ 2,024,500	$ 2,529,500
Series C, 6¼% due November 15, 1977	4,850,000	5,189,000
Sinking Fund Debentures		
Series A, 5¼% due September 15, 1985 ($15,875,000 U.S.)	15,900,400	16,877,020
Series B, 7¼% due September 15, 1987	15,000,000	15,000,000
Series D, 9¾% due April 1, 1990	15,000,000	15,000,000
Abitibi Corporation:		
5⅛% Instalment Notes, due May 1, 1984 ($10,800,000 U.S.)	10,817,280	11,520,840
Abitibi Carolina Corporation:		
7⅛% Promissory Notes, due June 30, 1978 ($8,666,668 U.S.)	8,680,535	10,106,000
Abitibi Holdings, Inc. and subsidiary companies:		
4% Promissory Note, due March 22, 1973 ($5,000,000 U.S.)	5,008,000	5,053,000
6½% Instalment Note, due March 31, 1973 ($3,500,000 U.S.)	3,505,600	4,042,400
5½% Instalment Note, due December 1, 1986 ($15,000,000 U.S.)	15,024,000	16,169,600
7⅜% Guaranteed Notes, due May 15, 1988 ($17,000,000 U.S.)	17,027,200	17,180,200
5¼% Promissory Note, due May 28, 1991 ($3,429,912 U.S.)	3,435,400	3,291,213
Miscellaneous notes due 1972 to 1976 ($367,138 U.S.)	367,725	509,584
Other obligations	1,049,442	1,004,371
	117,690,082	123,472,728
Less—Payments due within one year	4,921,187	5,102,728
	$112,768,895	$118,370,000

Sinking fund and instalment payment obligations for 1972 on long term debt, including payments based on 1971 earnings, amount to $5,237,187 of which $316,000 has been discharged by prior purchase and retirement of first mortgage bonds. Principal repayment obligations on long term debt for the years 1973 to 1976 inclusive are estimated to be $13,950,000, $7,375,000, $6,425,000 and $7,200,000 respectively.

Abitibi Paper Company Ltd. has effectively guaranteed payment of outstanding long term debt of subsidiary companies amounting to $44,966,700 U.S. at December 31, 1971. Its guarantee of the 7⅜% Guaranteed Notes of Abitibi Holdings, Inc. is secured by the pledge of $17,000,000 U.S. principal amount of 7⅜% Debentures, Series C.

9. Unrealized gain on translation of foreign currencies

The net unrealized gain of $5,447,691 on translation of foreign currencies carried forward on the consolidated balance sheet arises principally from the restatement to the current rate of exchange of long term debt payable in U.S. funds which was translated prior to 1970 at rates prevailing when the debt was incurred. Realization of all or any part of this gain is dependent on the exchange rate in effect when the debt is retired.

Notes to Consolidated Financial Statements

10. Preferred shares

The 7½% Cumulative Redeemable Preferred Shares, Series A are redeemable at the option of the company at $52 per share from June 1, 1978 to May 31, 1983 and thereafter at $51 per share. During 1971, a total of 4,695 shares with a par value of $234,750 were purchased and cancelled pursuant to the conditions attaching to this issue of shares.

11. Common shares

There were no common shares issued during 1971. Of the authorized and unissued common shares, 540,100 shares are reserved under the Key Employees' Stock Option Plan. Options granted under this plan are for terms of up to ten years at market value at date of grant and are normally exercisable in instalments upon fulfillment of service conditions. At December 31, 1971, options were outstanding on a total of 321,665 shares at $7.3125 per share of which options covering 273,245 shares were held by officers of the company.

12. Dividend covenants

Covenants entered into in connection with the issue of debentures and preferred shares include certain restrictions on the payment of dividends. Under the most restrictive of these provisions, dividends subsequent to December 31, 1969 may be not more than consolidated net income earned after that date (as defined) plus an amount of $20,000,000.

Auditors' Report

To the Shareholders of ABITIBI PAPER COMPANY LTD.

We have examined the consolidated balance sheet of Abitibi Paper Company Ltd. and subsidiary companies as at December 31, 1971 and the consolidated statements of net earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Toronto, February 8, 1972

	1971	1970	1969	1968	1967	1966
Sales and Earnings						
Net sales	$279,434	$283,947	$287,000	$255,588	$209,303	$211,167
Depreciation and depletion	16,682	16,023	16,076	15,078	12,284	11,599
Earnings before taxes on income	7,056	9,662	24,448	22,107	24,909	31,033
Taxes on income	2,933	4,630	12,307	11,490	12,457	15,105
Extraordinary gain (loss)	728	(455)	—	411	—	—
Net earnings	4,851	4,577	12,141	11,028	12,452	15,928
Net earnings per common share*	23¢	21¢	64¢	60¢	72¢	92¢
Dividends Declared						
On preferred shares	$ 742	$ 750	$ 750	$ 323	$ -	$ —
On common shares	—	5,006	6,430	8,157	9,747	9,741
Per common share*	—	28¢	36¢	46¢	56¢	56¢
Capital Expenditures						
On properties, plant and equipment	$ 9,481	$ 15,178	$ 21,836	$ 14,476	$ 13,332	$ 20,842
On logging equipment and development	702	2,076	2,818	1,722	2,271	3,730
On woodlands	102	89	58	6	1,615	—
Financial Position						
Current assets	$118,904	$117,973	$113,513	$ 97,978	$ 83,247	$ 71,156
Current liabilities	34,244	40,855	49,008	36,293	25,835	25,664
Working capital	84,660	77,118	64,505	61,685	57,412	45,492
Capital assets, at net book values	230,357	239,404	238,078	230,661	192,541	187,077
Investments and other assets	30,911	30,695	32,102	31,890	10,835	5,978
Deposit on sale of real estate	—	—	—	—	1,650	—
Long term debt, net of current portion**	112,769	118,370	109,552	105,704	59,675	46,123
Deferred taxes on income	30,011	29,867	29,687	28,809	26,189	21,855
Unrealized gain on translation of foreign currencies	5,448	5,154	689	—	—	—
Equity of shareholders	197,700	193,826	194,757	189,723	173,274	170,569
Equity of Shareholders						
Equity of preferred shareholders	$ 9,816	$ 10,052	$ 10,062	$ 10,062	$ —	$ —
Equity of common shareholders	187,884	183,774	184,695	179,661	173,274	170,569
Outstanding common shares* (thousands)	17,884	17,884	17,863	17,855	17,405	17,405
Equity per common share*	$ 10.51	$ 10.28	$ 10.34	$ 10.06	$ 9.95	$ 9.80

**Calculation of net earnings per common share is based on the average number of shares outstanding during the respective periods. Calculation of equity per common share is based on the number of shares outstanding at the end of the respective periods. The number of common shares and per share calculations have been adjusted where applicable to reflect the 4 for 1 stock split November 30, 1963.*

***Long term debt in U.S. funds is translated into Canadian dollars for 1969 and subsequent years at exchange rates in effect at December 31st and for prior years at rates prevailing when the debt was incurred.*

Ten Year Review

(all amounts stated in thousands of dollars other than per share calculations)

1965	1964	1963	1962
$194,411	$184,709	$164,576	$156,006
10,486	10,142	9,854	10,370
32,896	35,432	31,248	31,275
16,160	17,498	15,040	15,780
—	—	—	—
16,736	17,934	16,208	15,495
96¢	$1.02	94¢	90¢
$ —	$ 395	$ 412	$ 433
9,728	9,639	8,682	8,331
56¢	56¢	51½¢	50¢
$ 30,418	$ 19,116	$ 15,008	$ 13,222
1,204	771	950	891
—	—	—	—
$ 86,887	$ 71,377	$ 64,029	$ 65,886
38,130	25,372	26,067	25,787
48,757	46,005	37,962	40,099
174,296	153,440	143,912	132,607
4,793	4,838	4,574	5,529
—	—	—	—
48,948	40,739	31,678	33,678
14,847	6,605	1,485	—
—	—	—	—
164,051	156,939	153,285	144,557
$ —	$ —	$ 8,990	$ 9,339
164,051	156,939	144,295	135,218
17,374	17,365	16,971	16,667
$ 9.44	$ 9.04	$ 8.50	$ 8.11

Primary Production of Paper, Pulp and Board Products in tons

	Newsprint Paper	Fine and Printing Papers	Building Boards and Paperboards	Market Pulp	Total
1962	756,000	123,900	164,200	36,300	1,080,400
1963	740,600	132,100	177,300	39,900	1,089,900
1964	819,300	132,300	205,100	55,800	1,212,500
1965	829,300	136,700	227,300	46,800	1,240,100
1966	890,800	158,400	206,500	56,100	1,311,800
1967	825,900	164,100	208,400	43,800	1,242,200
1968	925,100	159,500	232,800	72,400	1,389,800
1969	1,078,300	171,200	244,300	69,800	1,563,600
1970	1,043,600	176,000	247,300	78,200	1,545,100
1971	967,000	152,200	275,300	65,000	1,459,500

Groundwood specialty papers are grouped in the above table with Fine and Printing Papers.

In addition to these products, Abitibi manufactures corrugated containers, lumber studs, veneered panellings, decorative hardboard panels and fine hardwood veneers.

Products, Sales Offices and Plants

NEWSPRINT AND GROUNDWOOD SPECIALTY PAPERS

SALES AND SERVICE:

Abitibi Newsprint Corporation
Detroit, Atlanta, Chicago, Dayton, New York, U.S.A.

Abitibi Paper Sales Ltd.
Toronto and Montreal, Canada

MANUFACTURED AT:

Newsprint:

Iroquois Falls, Ontario
Thunder Bay, Ontario (two mills)
Pine Falls, Manitoba
Beaupré, Quebec
Augusta, Georgia

Groundwood Specialties:

Sault Ste. Marie, Ontario

KRAFT PULP

SALES AND SERVICE:

Abitibi Paper Sales Ltd.
Toronto, Canada

MANUFACTURED AT:
Smooth Rock Falls, Ontario

CORRUGATING MEDIUM

SALES AND SERVICE:

Abitibi Forest Products Ltd.
Toronto, Canada

MANUFACTURED AT:
Sturgeon Falls, Ontario

FINE PAPERS INCLUDING MERCHANT AND CONVERTING OPERATIONS

Fine and Printing Papers

SALES AND SERVICE:

Abitibi Provincial Paper
Toronto and Montreal, Canada

MANUFACTURED AT:
Thorold, Ontario
Thunder Bay, Ontario
Georgetown, Ontario

Envelopes and Stationery; School, Home and Office Supplies

Hilroy Envelopes & Stationery Limited
Toronto, Vancouver and Calgary, Canada

The Canadian Stationery Company Limited
Joliette, Quebec

Canada Envelope Company
Montreal, Quebec; Stellarton, N.S.

Canada Envelope (Ontario) Limited
Toronto, Ontario

Paper Merchants

INTER CITY PAPERS, LIMITED:

Whyte-Hooke Papers
Toronto, Ontario

T. B. Little+Corbeil
Montreal and Quebec City, Quebec

Neville Papers
Ottawa, Ontario

Lithographed in Canada.
Printed on Abitibi Provincial Paper's Paragon Offset—240M (cover)
Paragon Offset—160M (inside)

Contains Recycled De-inked Fibre

BUILDING PRODUCTS

SALES AND SERVICE:

Abitibi Corporation
Building Products Division
Detroit, Atlanta, Chicago, Cleveland, Dallas, Kansas City, Los Angeles, New York, Philadelphia, U.S.A.

Abitibi Panel Products
Toronto and Montreal, Canada

MANUFACTURED AT:

Alpena, Michigan
Roaring River, North Carolina
Chicago, Illinois
Cucamonga, California
Sturgeon Falls, Ontario
Durham, Ontario

CORRUGATED CONTAINERS

SALES AND SERVICE:

Abitibi Containers
Toronto, Pembroke and Montreal, Canada

MANUFACTURED AT:

Toronto, Ontario
Pembroke, Ontario

PRINCIPAL COMPANIES

Abitibi Paper Company Ltd.
- Abitibi Containers

Abitibi Forest Products Ltd.
- Abitibi Provincial Paper
- Abitibi Panel Products

Abitibi Paper Sales Ltd.
Abitibi Corporation
Abitibi Carolina Corporation
Abitibi Newsprint Corporation
Abitibi Holdings, Inc.
Abitibi Southern Corporation
Abitibi Woodlands Corporation
Abitibi Florida Corporation
Hilroy Envelopes & Stationery Limited
The Canadian Stationery Company Limited
Canada Envelope Company
Canada Envelope (Ontario) Limited
Inter City Papers, Limited
- Whyte-Hooke Papers
- T. B. Little+Corbeil
- Neville Papers