IN THE MATTER OF

Abitibi Power & Paper Company, Limited

REPORT

OF RECEIVER AND MANAGER

containing information relative to the Company's affairs.

OCTOBER 7TH, 1937

Toronto, October 7th, 1937.

To

BONDHOLDERS, CREDITORS and SHAREHOLDERS of ABITIBI POWER & PAPER COMPANY, LIMITED

By Order of the Supreme Court of Ontario, dated September 13th, 1937, the undersigned was authorized to issue and mail to such persons and corporations as he may believe to be interested in the affairs of Abitibi Power & Paper Company, Limited (including the holders of bonds of such Company, holders of certificates of deposit issued under a certain Deposit Agreement dated 10th June, 1932, and the Creditors and Shareholders of such Company) any reports or information he may consider advisable, and to procure such reports, estimates and other information as he may deem advisable and employ such persons as he may see fit for such purpose.

In pursuance of the above authority the undersigned deems it advisable to issue the following information relative to the affairs and operations of Abitibi Power & Paper Company, Limited (hereinafter called Abitibi) but in so doing he does not intend to represent, neither does he represent, that it includes all information which has or may have a bearing upon the present or future affairs and operations of the Company and its subsidiaries.

Abitibi and its subsidiaries are the owners of eight newsprint mills, of which six are in operation, while the other two, at Espanola and Sturgeon Falls, Ontario, are in an impaired physical condition and have been closed down since 1930. The Company is also the owner of a commercial sulphite pulp mill, located at Smooth Rock Falls, Ontario.

Relative to Operating Newsprint Mills Owned by Abitibi and its Subsidiaries:

1.—Abitibi newsprint mills in operation are comprised of the following:

	Estimated rated capacity per annum
Located in the Province of Ontario	
(*a*) Iroquois Falls mill (constructed in 1913 to 1916 and extended in 1921)	186,000 tons
(*b*) Thunder Bay mill (constructed in 1927-1928)	78,000 "
(*c*) Sault Ste. Marie mill (constructed about 1910-1912 and improved in 1930)	86,000 "
(*d*) Fort William mill (constructed in 1922)	52,000 "
Located in the Province of Manitoba	
(*e*) Pine Falls mill (constructed in 1927)	78,000 "
Located in the Province of Quebec	
(*f*) Beaupre (Ste. Anne) mill (constructed in 1927)	78,000 "
Total estimated rated capacity per annum	558,000 tons

Estimate of T. E. Silver, Superintendent of Abitibi mills, is that such mills are now capable of producing, in the aggregate, about 580,000 tons of newsprint per annum if continuously operated to their full productive capacities for 309 days in the year. If having regard to seasonal requirements and contingencies they were to operate to 92% of such capacity they would produce about 535,000 tons per annum.

Relative to Timber Concessions and Power Rights in Ontario:

2.—Located in the Province of Ontario are four newsprint mills in operation—as above mentioned, also the newsprint mills at Espanola and Sturgeon Falls, which are closed down, and the commercial sulphite pulp mill. All such mills are dependent for their future operation upon receiving a large proportion, and in some instances the bulk, of their annual pulpwood requirements from timber areas held under concessions from the Province of Ontario. Some of such concessions have expired, while others terminate within a limited period of years without the right to Abitibi to renewals thereof; certain of the concessions are claimed to be in default. Hydraulic and electric power for the operation of certain of the mills is obtained from developments owned directly or indirectly by Abitibi and question arises as to whether water-power rights held in respect of them have been adequately renewed; developments, necessary for the operation of certain of the mills, are subject to expropriation by The Hydro-Electric Power Commission of Ontario, while contention is that Abitibi is now maintaining and using certain waters at higher levels than are permitted under rights held by it. Continuous operation of the Company's Ontario Mills, in the future and on an economic footing, cannot be assured unless such conditions are remedied and the mills are provided with adequate reserves of pulpwood and a continuous and certain supply of hydraulic and electric power.

Agreement With Province of Ontario:

3.—Subsequent to the placing of Abitibi in receivership and liquidation The Hydro-Electric Power Commission of Ontario asserted that it was a creditor of Abitibi and its subsidiary, Abitibi Electric Development Company, Limited for large amounts under the terms of certain agreements largely relating to and arising out of the affairs of Ontario Power Service Corporation, Limited; the Province of Ontario also contended that Abitibi was in default in the performance of obligations assumed in connection with certain pulpwood concessions and licensed timber areas held by it. After extended negotiations, in which the Chairman of the Bondholders' Representative Committee and its Counsel took an active part, and the Liquidator of Abitibi also participated, an agreement was entered into as of date June 24th, 1937, and with approval of Court, between the Province of Ontario—of the First Part; The Hydro-Electric Power Commission of Ontario—of the Second Part; and Montreal Trust Company (Trustee for Abitibi Bondholders), the undersigned, as Receiver and Manager of Abitibi, and Abitibi, acting by R. S. McPherson, its Liquidator—of the Third Part; in pursuance of which the so-called Crystal Falls power development (located north of Sturgeon Falls, Ontario) has been transferred to The Hydro-Electric Power Commission of Ontario, and such Commission and the Province of Ontario have delivered a release and settlement of all claims against Abitibi and its subsidiaries, with the exception of certain current accounts which are reserved. The Province has also agreed that if within one year from the date of the agreement (or within such further time as the Government of the Province may consent to) Abitibi shall have been reorganized or rearranged or should its undertaking and assets be sold to a new company upon a basis sanctioned by and with the sanction of the Supreme Court of Ontario—and in any case on a basis satisfactory to the Province—the Government and the Commission will enter into an agreement with the rearranged, reorganized or new Abitibi Company to carry into effect various provisions set out in a Schedule attached to the agreement, including, amongst other things, the granting of new concessions in respect of timber limits, the waiving of defaults and the reinstatement of power and water rights, and an undertaking by The Hydro-Electric Power Commission of Ontario not to exercise—for certain extended periods of time—its rights of expropriation of power properties; all upon the terms and conditions more specifically set out in such Schedule.

Relative to Physical and Operating Condition of Abitibi Mills:

4.—When the Abitibi newsprint mills were constructed general practice was to manufacture newsprint with the use of approximately 75% of groundwood pulp and 25% of sulphite pulp, which is more expensive than groundwood pulp. Such practice has changed, with more groundwood and less sulphite pulp being used, while speeds of operation of newsprint machines are also being increased and opinion is that they may be still further increased in the future. Groundwood pulp capacities of nearly all Abitibi mills have to be enlarged before they can take advantage of these conditions and operate approximately on the same footing as certain other Canadian mills.

The Fort William newsprint mill with a capacity of 52,000 tons of newsprint per annum is not economic; the Port Arthur (Thunder Bay) mill and its facilities are also not fully complete, while about 50% of its groundwood pulp supply is manufactured a mile distant from the paper mill to which it has to be pumped. Under the agreement with the Province of Ontario a minimum of $2,000,000 has to be expended upon the Fort William and Port Arthur projects (mills and facilities) within three years after signature of the agreements to follow reorganization or rearrangement of Abitibi's affairs.

The Espanola and Sturgeon Falls newsprint mills are in an impaired physical condition and have been closed down since 1930; hereinafter contained is a summary of an Engineering Report recently obtained—with the approval of Court—in respect of them.

Certain repairs and replacements require to be made to the Smooth Rock Falls sulphite pulp mill; the water supply to such mill is not satisfactory and additional equipment requires to be installed to improve it. Installation of a direct chlorination bleaching plant is considered advisable to permit the mill to produce an improved grade of bleached sulphite pulp.

Extensive marine plants and large quantities of towing and logging equipment are required to be purchased to deliver pulpwood from its concessions to Abitibi's newsprint mills at the head of the Great Lakes, while marine equipment at Sault Ste. Marie, after use over many years, is largely worn out and has to be replaced. A flume has had to be constructed to provide safe delivery of wood to the Ste. Anne mill and a 5½-mile extension to the Company's railroad at Iroquois Falls requires to be constructed in order to tap certain bodies of pulpwood on timber concessions there. Certain railroad and marine equipment at Iroquois Falls has to be renewed.

Abitibi and its subsidiaries own townsites adjacent to mills at Iroquois Falls, Smooth Rock Falls, Pine Falls and Beaupre. Dwellings and facilities in the Iroquois Falls townsite were largely constructed between 1915 and 1924—those at Smooth Rock Falls in 1916-1917 and those at Pine Falls and Beaupre in or about 1927. Commencing prior to Receivership buildings and facilities in the townsites were not fully maintained while during the period of Receivership, and up to the early part of 1937, only such expenditures as were necessary were made upon them. Dwellings in the Smooth Rock Falls and Pine Falls townsites were not sufficient in number in August, 1936 (when the estimate of cost of improvements and repairs hereinafter referred to was made) to properly house mill labor when the mills are operating to full capacity—as at present; certain necessary school extensions had also been delayed and required to be completed. With the approval of Court, and in the early part of 1937, a programme of construction of new dwellings and school extensions and for improvement of townsite facilities was entered upon and it is now in course of being carried out.

According to Engineers' reports a substantial amount of deferred maintenance exists in respect of all of the above mentioned properties and assets.

Estimated Cost of Improvements, Replacements and Repairs to Abitibi Properties:

5.—Improvements, replacements and repairs to and restoration of deferred maintenance upon Abitibi mills and properties will, according to estimates made by T. E. Silver (Superintendent of Abitibi mills) in August, 1936—and as of such date—cost as follows:

	Replacements, repairs, etc.	Improvements
(*a*) To six operating newsprint mills	$751,081.	$3,772,697.
(*b*) To commercial sulphite pulp mill	184,500.	608,500.
(*c*) To railway, marine and logging facilities	414,551.	1,484,592.
(*d*) To townsites	665,100.	433,250.
Total	$2,015,232.	$6,299,039.
Aggregate total	$8,314,271.	

Since such estimates were made costs of labor and materials have increased.

Estimate of Mr. Silver is that if such improvements, replacements and repairs be made to the properties of the Company, and the deferred maintenance thereupon be restored, the capacity of Abitibi's newsprint mills will be increased by about 93,310 tons per annum; and that if, thereafter, such mills shall operate to their full increased capacities—also the commercial sulphite pulp mill to its full capacity—savings in costs of manufacture of approximately $1,057,623. per annum will be made.

Nothing is contained in the estimates of $8,314,271. for rehabilitation of or improvements and repairs to the Espanola and Sturgeon Falls properties.

Engineering Report on Espanola and Sturgeon Falls Properties:

6.—The Espanola mill is located at Espanola, Ontario (which townsite is owned by Abitibi) and was constructed during the years 1901-1905 as a groundwood pulp mill. In 1912 two paper machines were started and they were followed by two more in 1913 and one more in each of 1917 and 1919; making a total of six machines with an original rated capacity of about 100,000 tons of newsprint per annum. The mill has no sulphite pulp plant and when operating obtained its supply of such pulp from the Sault Ste. Marie and Sturgeon Falls mills owned by the Company.

The Sturgeon Falls mill is located at Sturgeon Falls, Ontario, and was constructed in or about 1901-1902 as a two machine newsprint mill, with a capacity of about 23,000 tons of newsprint per annum. In 1905-1906 a sulphite pulp mill was added to produce unbleached sulphite pulp of newsgrade quality; subsequently other changes and extensions were made, principally to the groundwood pulp mill, and hydraulic power development, and in 1920 a third machine, with a capacity of about 23,000 tons of newsprint per annum, was added. The nominal rated capacity of the mill (without regard to the condition of newsprint machines) is about 46,000 tons of newsprint and 15,700 tons of newsgrade unbleached sulphite pulp (in excess of requirements for newsprint manufacture) per annum.

In or about June, 1937, and under authority of Court, Messrs. Hardy S. Ferguson & Company (of New York City) and W. J. Zimmerman (Dayton, Ohio) Pulp and Paper Mill Engineers, were engaged by the undersigned to make a survey of the Sturgeon Falls and Espanola properties, and to report upon

(*a*) Minimum costs to put each of the mills in a condition to operate;

(*b*) Costs of restoring each of the mills to a fully sound operating condition;

(*c*) Costs of converting the Sturgeon Falls mill to the manufacture of bleached sulphite pulp; and

(*d*) Costs of manufacturing newsprint paper and/or of bleached sulphite pulp under each of the conditions covered by (*a*), (*b*) and (*c*) above; also the advisability, in their opinion, of expending moneys for the purposes in (*a*), (*b*) and (*c*) mentioned.

Based upon a survey made by them—information provided to them by Abitibi Officials as to the quantity of pulpwood available to each of the mills from concessions controlled by the Company and costs of wood to each of the mills—the conditions which obtain relative to the supply of power to each mill and such other conditions as they have considered relevant, Messrs. Hardy S. Ferguson & Company and W. J. Zimmerman have, under date of September 25th, 1937, reported as follows:

Re Sturgeon Falls Mill:

(*a*) Minimum costs of putting the property into condition to operate and produce about 46,000 tons of newsprint and 15,700 tons of unbleached newsgrade sulphite pulp (in wet laps) per annum,

are estimated at	$1,130,000.
and of providing adequate Woods department equipment	175,000.
a total of	$1,305,000.

Minimum working capital required to start operation of the mill is estimated at $700,000; additional working capital, estimated to be required for continuous operation, is $665,000.

Costs of producing and delivering newsprint (including 4% depreciation on $2,500,000—assumed value of the property—and 5% interest on $1,130,000 of the above new moneys) are estimated at $50.87 per ton, and of unbleached newsgrade sulphite pulp at $45.50 per ton.

(*b*) Costs of putting the property into a fully sound operating condition to produce about 46,000 tons of newsprint and 15,700 tons of unbleached newsgrade sulphite pulp (in wet laps) per annum, are

estimated to be	$1,480,000.
and of providing adequate Woods department equipment	175,000.
a total of	$1,655,000.

Minimum working capital required to start operation of mill on above basis is estimated to be $700,000; additional working capital required for continuous operation is estimated at $665,000.

Costs of producing and delivering newsprint (including 4% depreciation on $2,500,000—assumed value of property—and 5% on $1,480,000 of above new moneys) are estimated at $51.25 per ton and of newsgrade unbleached sulphite pulp at $45.50 per ton.

(*c*) Costs of converting the mill to produce 100 tons per day (31,000 tons per annum) of bleached sulphite pulp are estimated at........ $1,535,000.
and of providing adequate Woods department equipment at........ 175,000.

a total of........ $1,710,000.

No estimate of working capital necessary to be provided for such operation is made.

Costs of producing and delivering bleached sulphite pulp (including 4% depreciation on $2,500,000—assumed value of property—and 5% interest on $1,535,000 of above new moneys) are estimated at $66.30 per ton.

Having regard to the above estimated high costs of rehabilitation or conversion, and of production, the Engineers advise that no further consideration be given to the rehabilitation of the Sturgeon Falls property as a newsprint mill, and state that if operated as an unbleached sulphite pulp mill (limited in capacity to production of the present two digesters) it would not, in their opinion, show sufficient profit to justify the investment required to permit such operation: they report that if the property were to be converted to produce 100 tons per day of bleached sulphite pulp it would, in their opinion, (based on a market price of $74 per ton, delivered, less selling and administration expenses) show a return of less than 10% per annum on capital expenditures; having regard to this they do not recommend the conversion of the property to such purpose.

Re Espanola Mill:

(*a*) Minimum costs of putting the property into a condition to operate and produce 77,500 tons of newsprint per annum are estimated to be........ $975,000.
and of providing adequate Woods department equipment........ 150,000.

a total of........ $1,125,000.

Minimum working capital required to start operations of the mill on the above basis is estimated at $600,000; while additional working capital required for continuous operation is estimated at $750,000.

Costs of producing and delivering newsprint (including 4% depreciation on $3,000,000—assumed value of property—and 5% interest on $975,000 of the new moneys) are estimated at $46.15 per ton.

(*b*) Costs of putting the property into a fully sound condition to operate and produce 100,000 tons of newsprint per annum (but without improving newsprint machines or modernizing the mill) are estimated to be........ $1,440,000.
and of providing adequate Woods department equipment........ 150,000.

a total of........ $1,590,000.

Minimum working capital necessary to start operation of the mill on the above basis is estimated at $600,000; and additional working capital required for continuous operation of the mill is estimated at $750,000.

Costs of producing and delivering newsprint (including 4% depreciation upon $3,000,000—assumed value of property—and 5% interest on $1,440,000 of new moneys) are estimated at $46.40 per ton.

(*c*) If in addition to the requirements covered by Section (*a*) above, four newsprint machines in the mill were to be modernized, permitting the mill to produce about 85,000 tons of newsprint per annum, estimate is that costs of all such improvements would be........ $1,365,000.
and of providing adequate Woods department equipment........ 150,000.

a total of........ $1,515,000.

Minimum working capital required to start operation of the mill, on the above basis, is estimated at $650,000; and additional working capital required for continuous operation of the mill is estimated at $700,000.

Estimate is that costs of newsprint, delivered, would be $45.15 per ton, or $1.25 per ton less than under the conditions in section (*b*) above mentioned.

(*d*) If, in addition to the improvements and repairs in (*c*) above mentioned, the groundwood pulp mill and steam power plant were to be modernized (still leaving the capacity of the mill at 85,000 tons of newsprint per annum) estimate is that aggregate costs of all such improvements and repairs would be........ $2,610,000.
and of providing adequate Woods department equipment........ 150,000.

a total of........ $2,760,000.

Minimum working capital required to start operation of the mill, on the above basis, is estimated to be $650,000; and additional working capital required for continuous operation of the mill is estimated at $700,000.

Costs of producing and delivering newsprint are estimated at $42.65 per ton, or $2.50 less per ton than under the conditions covered by section (*c*) above.

Having regard to the above high costs of rehabilitation, and of production, the Engineers recommend that no further consideration be given to rehabilitation of the Espanola property as a newsprint mill. With no facilities available at Espanola for manufacturing sulphite pulp, to embark upon such a project would, they report, require an investment of about $2,500,000 for a mill of 100 tons daily capacity of bleached sulphite pulp, and because of factors at Espanola which, they say, are entirely similar to those at Sturgeon Falls, they state they can find no justification for such procedure. They are of opinion that it is possible the mill might survive if operated on groundwood specialties, such as catalogue or hanging papers—as such papers command a price differential of about $10 per ton above newsprint—but are of the view that before such a plan of operation be considered a market exploration would be required, as well as consideration of other factors, such as the possibility of making an equivalent amount of such papers at others of the Company's mills where wood and other costs are lower: they believe it is likely that a decision would be in favor of manufacturing such specialty papers at locations other than Espanola or Sturgeon Falls.

Messrs. Hardy S. Ferguson & Company and W. J. Zimmerman further report that while they can find no justification for any further consideration being given to the operation of the Espanola and Sturgeon Falls mills by the Abitibi Company and believe that any sums of money which might be spent on either of the two plants could be put to better use at other mills of the Company, nevertheless they are of opinion that a salvage value exists at both properties, consisting not only of a limited amount of useable machinery and equipment, but also in the potential values of waterpower rights and developments.

NEWSPRINT PRODUCTION AND SHIPMENTS OF ABITIBI MILLS DURING PERIOD OF RECEIVERSHIP AND ESTIMATED SHIPMENTS FOR 1937:

7.—Newsprint shipments of Abitibi mills during the period of Receivership are set out in Schedule A attached hereto; of such shipments sales to other manufacturers for delivery to their customers amounted to 1,316 tons in the year 1934, 35,813 tons in the year 1935, and 62,612 tons in the year 1936. Present estimate is that Abitibi newsprint shipments for the year 1937 will amount to between 480,000 and 490,000 tons, of which approximately 52,800 tons will be sold to other manufacturers and in respect of casual overseas shipments. With new contracts already obtained, or in course of closing, and renewals of present contracts expected to be received, estimate of Abitibi Officials and those of The G. H. Mead Company (Abitibi's United States sales representative) is that Abitibi's newsprint shipments for 1938 will—unless an expected increase in consumption fails to materialize—exceed 500,000 tons, exclusive of any sales to other manufacturers; opinion is that shipments of Canadian newsprint mills for the first two months of 1938 are likely to be somewhat reduced owing to excess supplies of newsprint expected to be in the hands of customers at such time.

RELATIVE TO WORLD MILL CAPACITY AND CONSUMPTION OF NEWSPRINT:

8.—Approximate World newsprint capacity and demand (apparent consumption) as extracted from a survey made by Newsprint Association of Canada compiled in June, 1937,—and from information provided by such association—and shipments of Abitibi newsprint mills during the years 1933 to 1937 inclusive, are as follows:

	Estimated World Capacity	Estimated World Demand	Can. and Nfld. mills Shipments	Abitibi Shipments
		(in short tons—000's omitted)		
1933	8,662	6,421	2,288	195
1934	8,787	7,342	2,916	239
1935	8,912	7,628	3,089	289
1936	9,037	8,217	3,520	354
1937	9,160	8,875	4,075 (est)	485 (est)

(*Memo.*—Increase of 623,000 tons in estimated world capacity during the period of 1933 to 1937 inclusive has been spread equally over the five years of such period in the above figures.)

Increase in the monthly rate of consumption of newsprint in the United States—in 1937 as compared with 1936—was higher in the first six months of 1937 than it has been in succeeding months, and with shipments in certain months in excess of estimated consumption for the same periods an important increase is believed to have taken place in excess stocks of newsprint in the hands of United States publishers.

From information contained in such survey of Newsprint Association of Canada and on the assumption that maximum scheduled increases in capacity shall become effective, but subject to such variations as may occur from the speeding up of machines and bringing of idle machines into operation (which would serve to increase available capacity) or the conversion of newsprint machines to other purposes, and shortages—if they should occur—of raw materials, water and power (which would serve to reduce available capacity) present indications are that the world industry in 1938 will be in a position to supply, if necessary, a world demand of 700,000 to 800,000 tons greater than estimated 1937 demand—this takes into account the present world margin between maximum capacity and production plus additional capacity expected to become available in 1938—also excess stocks of newsprint believed likely to be on hand at the end of 1937.

Relative to General Contract Market Prices for Newsprint:

9.—Yearly averages per short ton, delivered at New York, received by large Canadian producers under annual contracts for newsprint sold in the years 1929 to 1937 inclusive, are reported in the survey of Newsprint Association of Canada, to have been as follows:

1929	$62.00
1930	62.00
1931	57.00
1932	48.33
1933	41.25
1934	40.00
1935	40.00
1936	41.00
1937	42.50

The price expected to be received for the first six months of 1938 is $50, or an increase of $7.50 per ton over that so received in 1937.

Relative to Abitibi Costs of Manufacture of Newsprint in 1938:

10.—The principal elements of mill cost in the manufacture of newsprint are those for (a) pulpwood and supplies, (b) labor, (c) power, and (d) maintenance and depreciation of property. Present indications are that there will be an important increase in costs of wood to Abitibi in the season 1937/1938 over those for wood cut and purchased in the season 1936/1937; what this increase will be cannot presently be definitely forecast; with a substantial amount of 1936/1937 wood on hand only part of any such increase will, under the accounting system adopted by Abitibi, be reflected in Abitibi's 1938 newsprint costs. As of date May 1st, 1937, a two-year agreement was made with Ontario newsprint and pulp mill labor, under which substantial increases in rates of pay were immediately given (these are included in present costs) and provision was made for certain further increases of lesser importance to take effect on January 1st, 1938. So far as can be seen any variation in costs of power to Abitibi in 1938 is likely to be negligible. What, if any, changes will take place in 1938 freight rates cannot presently be determined. Under the above circumstances it is not possible to accurately estimate at this time what the increase to Abitibi in costs of manufacture and delivery of newsprint over the year 1938—as compared with such costs over the year 1937—will be; present belief of Abitibi Officials is that such increase is not likely to be less than $2.00 per ton—on the average for all Abitibi mills—and will probably be more, if costs of pulpwood, supplies, labor and freight exceed present expectations.

Relative to Sulphite Pulp Capacities of Abitibi's Smooth Rock Falls Commercial Sulphite Pulp Mill and Abitibi's Newsprint Mills:

11.—The Smooth Rock Falls sulphite pulp mill has a rated capacity of 60,000 tons per annum of bleached and unbleached sulphite pulp.

The Sault Ste. Marie mill of Abitibi is equipped to produce about 23,000 tons per annum of newsgrade unbleached sulphite pulp in excess of its requirements for newsprint manufacture.

The Fort William newsprint mill is equipped to produce about 11,000 tons per annum of newsgrade unbleached sulphite pulp in excess of its requirements for newsprint manufacture—certain equipment of the mill has to be reconditioned before commercial sale of pulp can be undertaken by it.

The Beaupre (Ste. Anne) newsprint mill is partially equipped to produce about 9,000 tons per annum of newsgrade unbleached sulphite pulp in excess of its requirements for newsprint manufacture —certain additional equipment will require to be installed before commercial sale of pulp from the mill can be undertaken.

Shipments of Sulphite Pulp by Abitibi and Amounts Included in Earnings in Respect Thereof:

12.—Attached as Schedule B is a statement of monthly shipments of bleached and unbleached sulphite pulp from Abitibi mills during the period of Receivership—also market prices per short ton (delivered) reported as generally prevailing for the same in the periods therein mentioned. Aggregate shipments by Abitibi of such pulps in the years 1934 to 1936 and the first eight months of 1937, inclusive, were as follows:

	Abitibi shipments of sulphite pulp		
	bleached short tons	unbleached short tons	Total Tons
1933	35,501	12,082	47,583
1934	29,294	9,307	38,601
1935	37,665	7,210	44,875
1936	57,000	7,682	64,682
1937 (8 mos. to Aug. 31st)	43,651	9,953	53,604

Amounts (prior to interest, depreciation and Head Office Administration) included in Abitibi earnings in respect of shipments of bleached and unbleached sulphite pulp from the Smooth Rock Falls mill in the years 1933 to 1936 and (subject to audit and year-end adjustments) for the first eight months of 1937 inclusive, have been as follows:

Year 1933			$ 69,626.
Year 1934			$206,319.
Year 1935			$237,789.
Year 1936			$603,393.
Year 1937 for months of	January	$ 72,561.	
	February	71,305.	
	March	84,941.	
	April	94,780.	
	May	84,779.	
	June	93,210.	
	July	121,992.	
	August	120,090.	
			$743,658.

Expectation is that Abitibi mill costs of manufacture of bleached sulphite pulp in 1938 will increase not less than $2.00 per ton over those for 1937. Such estimated variation will be increased if the costs of pulpwood, supplies, labor or freight, etc. in 1938 exceed present expectations.

Relative to Mill Capacity and Consumption of Wood Pulps:

13.—According to the second edition of World Wood Pulp Statistics—issued under date of July, 1937, by United States Pulp Producers Association—approximate world capacity and consumption, and Canadian production, consumption and exports of all grades of wood pulp in the years 1932 to 1936 inclusive, were as follows:

(in short tons—000's omitted)

	World		Canada		
	Production	Consumption	Production	Estimated consumed in Canada	Exports
1932	15,645	15,821	2,663	2,224	452
1933	17,491	17,523	2,980	2,377	609
1934	19,544	19,483	3,636	3,038	606
1935	20,782	20,682	3,868	3,222	662
1936	23,189	23,077	4,550	3,815	754

Contained in the survey of Newsprint Association of Canada compiled in June, 1937, are statistics which indicate that wood pulp used in the manufacture of newsprint in 1936 was about 8,217,000 tons as compared with about 6,364,000 tons used in 1927—an increase of 1,853,000 tons; also that wood pulp used for other purposes amounted to 9,641,000 tons in 1927 and 14,453,000 tons in 1936—an increase of 4,812,000 tons over such ten year period.

The undersigned has not been able to obtain fully complete and accurate statistics relative to World capacity and production of bleached and unbleached sulphite pulp but in the edition of World Wood Pulp Statistics mentioned, the capacity and production of sulphite pulp mills in the United States, Canada, Sweden, Germany and Finland, (which with Norway—reported capacity 500,000 tons in January, 1936—are the principal producing countries) are given as follows:

(in short tons—000's omitted)

Year	Capacity	Production
1932	figures not available	4,585
1933	"	5,317
1934	"	5,888
1935	7,829	6,268
1936	7,937	7,027

In such edition it is stated that expansion of world sulphite pulp capacity scheduled for completion during 1937 amounts to 531,420 tons (including 165,780 in Canada) and that for 1938 to 180,425 tons (including 103,075 in Canada).

Estimated mill capacity, production and exports of United States sulphite pulp producing mills and imports and consumption of such mills and United States converting mills in the years 1932 to 1936, inclusive, are given in such second edition of World Wood Pulp Statistics as follows:

(Sulphite pulp—in short tons—000's omitted)

United States estimated capacity, production, imports, etc.

	Capacity	Production	Imports	Consumption	Exports
1932	2,054	1,145	917	2,017	46
1933	2,213	1,328	1,170	2,420	77
1934	2,196	1,446	1,074	2,380	139
1935	2,189	1,576	1,122	2,532	166
1936	2,144	1,830 (est.)	1,299	2,941	187

Based upon reports of Canadian Pulp and Paper Association the estimated rated capacity of Canadian sulphite pulp mills and their production and shipments (for sale) of sulphite pulps in the period January 1st, 1932 to June 30th, 1937, were approximately as follows:

(in short tons—000's omitted)

Newsgrade unbleached sulphite pulp:	Rated mill capacity	Production	Shipments against sales
1932	733	320	19
1933	666	298	15
1934	785	418	39
1935	849	459	57
1936	881	557	73
1937 (6 months)	440	337	65

(The variation between production and shipments for sale is attributable to use of pulp by producing mills in the manufacture of newsprint)

Bleached and easy bleaching sulphite pulp:	Rated mill capacity	Production	Shipments against sales
1932	452	316	294
1933	468	404	384
1934	451	390	346
1935	467	428	394
1936	488	481	444
1937 (6 months)	252	265	238

Information of Canadian Pulp and Paper Association Officials is that expansion of unbleached sulphite pulp capacity scheduled for completion by existing Canadian mills in 1937 is about 122,000 tons, and in 1938, 22,000 tons; also that expansion of bleached sulphite pulp capacity scheduled for completion by existing Canadian mills in 1938 is 16,000 tons.

A new mill being constructed on the Nipigon River, Ontario, with a reported capacity of about 60,000 tons per annum of either bleached sulphite pulp or rayon pulp, is expected to be in operation in April, 1938. According to Press reports the construction, over the next few years, of new sulphite pulp mills at seven or eight different points in Canada—principally in Ontario—is said to be under consideration or being negotiated. During 1937 two Canadian sulphite pulp mills have been converted to the manufacture of other grades of wood pulp and report is that a third is likely to be converted for such purposes in 1938. Opinion of Mr. George H. Mead, (Abitibi Agent for sales of sulphite pulp) is that markets for sulphite pulp are not likely to be unduly affected if the proposed new sulphite pulp mills are brought in gradually over the next three or four years, demands for sulphite pulp during such period continue to increase at the same rate as in the last few years, and no widespread disturbance in International affairs takes place.

During the last year or two there has been a very large expansion in sulphate pulp (Kraft) mill capacity in Southern United States, and some displacement of bleached sulphite pulp has already been effected by the use of bleached sulphate pulp. In Mr. Mead's opinion bleached sulphate pulp is not presently competing with the commercial sale of bleached sulphite pulp to any important degree; his view is that ultimately it may do so to some extent.

Demands upon the Sault Ste. Marie mill for newsgrade unbleached sulphite pulp, at existing price levels, lessened in August, 1937, and were still less in September, 1937. Certain contract customers (limited in number) who purchase bleached sulphite pulp from the Smooth Rock Falls pulp mill are asking that quantities to be delivered to them in October, 1937, be reduced or that delivery of the same be deferred. A survey recently made by Abitibi Officials indicates that a number of the Company's customers hold substantial stocks (relatively speaking) of sulphite pulp in excess of their immediate requirements.

Earnings of Abitibi (Prior to Bond Interest and Depreciation) During Period of Receivership:

14.—(*a*) Earnings of Abitibi during the period of receivership—but prior to bond interest and depreciation—have according to audited reports been as follows:

(1) For the period between September 10th, 1932, and December 31st, 1933 (including premium of $649,587.74 on United States exchange)	$1,036,562.00
(2) For year 1934 (after deduction of $96,972.91 discount on United States exchange)	953,927.66
(3) For year 1935 (including premium of $38,452.28 on United States exchange)	1,205,185.51
(4) For year 1936	2,185,188.76

(in and since the year 1936 the sum of $50,978.35 was added to accumulated profits in respect of adjustments affecting the above periods.)

Included in earnings as above mentioned are those of The G. H. Mead Company, a wholly owned subsidiary of Abitibi—which was purchased as of date October 1st, 1933—and $100,000 received in the year 1935 as dividend on the Common Capital stock of Provincial Paper, Limited, the whole of which is owned by Abitibi; such dividend was taken out of surplus reserves of the Company.

(*b*) Earnings of Abitibi and its subsidiaries (excluding those of Provincial Paper, Limited and The G. H. Mead Company and prior to bond interest and depreciation) for the first eight months of 1937, as compared with those for the same periods in 1936, were as follows:

Month	1936	1937
January	$ 33,943	$336,972
February	50,131	262,894
March	104,463	335,218
April	166,315	362,653
May	181,048	406,145
June	230,798	394,169
July	245,986	522,580
August	217,782	520,993
Total	$1,230,466	$3,141,624

Memo.

(*a*) The amount of $3,141,624. is before deducting $114,857. expenses incidental to re-opening the Fort William mill and the Beaupre mill, and $14,611. in connection with obtaining special reports. Of such $114,857., $94,533. was written off earnings of the year to June 30th, 1937, while $20,324. was directly deducted from August, 1937, earnings.

(*b*) Earnings for August, 1937, were reported at $500,669. being $520,993., as above set out, less $20,324. expenses incidental to re-opening the Beaupre mill on September 1st, 1937, as above mentioned.

(*c*) Earnings as above (for 1936 and 1937) are subject to year-end adjustments and audit.

Earnings of Abitibi—in July and August, 1937, on the basis above mentioned amounted to—

in July, 1937	$522,580.
in August, 1937	520,993.
a total of	$1,043,573.

and if such earnings shall continue at the same rate for the balance of the year, those for the last six months of 1937 would, subject to audit, amount to about $3,130,719. prior to charges for depreciation, bond interest, costs of re-opening mills, income taxes and year-end adjustments.

(*c*) Earnings of The G. H. Mead Company available as dividends to Abitibi are expected to amount to about $75,000 for the year 1937—credit for these could be taken by Abitibi at the end of such year.

(*d*) First Mortgage Sinking Fund Bonds of Provincial Paper, Limited to the amount of $3,849,500., are outstanding in the hands of the Public—also 7% Cumulative Preference Shares of a par value of $3,500,000. Abitibi owns 100,000 shares of no par value, being the entire Common Capital Stock of the Company. Earnings of Provincial Paper, Limited, as extracted from audited reports for the years 1933 to 1936, inclusive, and (subject to audit and year-end adjustments) for the eight months ending August 31st, 1937, after charges for bond interest, dividends on Preference Shares, income taxes and $100,000. per annum for depreciation, were as follows:

Year 1933	$ 5,163
Year 1934	112,779
Year 1935	131,890
Year 1936	153,381
Year 1937 (for eight months to August 31st, after deduction of $33,335. for income taxes)	221,592

In their reports covering audit of its accounts for the years 1933 to 1936, inclusive, the Company's Auditors questioned the adequacy of the $100,000. annually charged against earnings for depreciation upon mills and properties; in each of such years an additional amount of $225,000. was transferred from General Reserves to Depreciation Reserves of the Company in respect of further requirements for depreciation, but such amounts were not shown as charges against earnings for such years. Charge on such basis for the first eight months of 1937 would amount to $150,000.

Opinion of the Management of Provincial Paper, Limited is that earnings for the year 1937, available to pay dividends upon the Common shares owned by Abitibi (and after charge of bond interest, $325,000. for depreciation on properties, dividends on Preference Stock, income taxes and year-end adjustments) will not likely exceed $100,000. to $125,000. Statement of the Provincial Paper, Limited Management is that since August 15th, 1937, there has been some slackening off in orders for products manufactured by the Company.

(*e*) Expectation is that sales of newsprint for the last four months of 1937 will be greater than those of preceding months; sales of bleached and unbleached sulphite pulp are expected, under existing conditions, to be less. An increase of $5. per ton in the United States market price and $3. per ton in the Canadian market price of bleached sulphite pulp has been announced to take effect on October 1st, 1937. Costs of production of newsprint and pulp will likely be higher in September, October, November and December, as in all fall and winter months. Having regard to these conditions it is not possible at the present time to definitely and accurately estimate the earnings of Abitibi and its subsidiaries for the last four or six months of this year. If, however, it be assumed that those for September, October, November and December will continue at the same rate as those for July and August, earnings for the last six months of 1937 would be as follows:

(*a*) Abitibi earnings, prior to bond interest, depreciation, income taxes, costs of re-opening mills and subject to audit and year-end adjustments	$3,130,719.
to which would likely be added	
(*b*) 1937 earnings of The G. H. Mead Company, as presently estimated	75,000.
(*c*) Dividend on Provincial Paper, Limited shares, as presently estimated	100,000.
Total	$3,305,719.

Amount deductible from such earnings to cover depreciation on the Company's mills and properties for the six months' period, and as estimated by Engineers, would be about $750,000.

(*f*) Because of the uncertainties which prevail as to the amounts of future annual sales of newsprint and pulp—as to the prices which will be obtained for the same, and also as to future annual costs of manufacture and delivery of such products (including those of labor, wood, power and freight)—the undersigned makes no attempt to estimate future earnings of the Company and its subsidiaries. Advice of his Counsel is that it is no part of his duties, as Receiver and Manager, and an Officer of Court, to make estimates of such earnings, when they will be determined by conditions in the future which are not presently known.

Engineering Reports as to the Sustained or Future Average Earning Power of Abitibi Properties and the Fair Commercial Value of Such Properties:

15.—Preliminary to the possible offering of the assets of Abitibi for sale before the Court and with a view to the preparation of a plan of reorganization by Abitibi Bondholders' Representative Committee, the undersigned in April, 1936, with the approval of Court, engaged Coverdale & Colpitts, Consulting Engineers, New York, to make engineering reports upon the properties of Abitibi and its subsidiaries, including Provincial Paper, Limited (but excluding Abitibi Electric Development Company, Limited and Kaministiquia Power Co., Limited, and excepting the timber holdings of Abitibi and its subsidiaries) as a basis for determining, amongst other things, the value of the properties from the standpoint of their physical value and also from the standpoint of their earning capacity as those of a going concern. The J. G. White Engineering Corporation, New York, was engaged to value the physical properties of Abitibi Electric Development Company, Limited and of Kaministiquia Power Co., Limited, and J. D.G ilmour, Quebec, to value the timber holdings, other than concessions and licenses held from Provinces. The reports of The J. G. White Engineering Corporation and J. D. Gilmour were later made available to Coverdale & Colpitts, and Hardy S. Ferguson & Company, Consulting Pulp and Paper Mill Engineers, New York City, were associated with them in determination of physical values, deferred maintenance estimates and suggested capital expenditures upon properties.

Report of Coverdale & Colpitts, dated July 13th, 1936, was that the net sound physical value of Abitibi properties was:

Gross physical value	$71,437,000.
Less reserves for depreciation and deferred maintenance	21,732,000.
Net sound physical value	$49,705,000.

They also reported that to reproduce equivalent productive units having comparable contributary and supporting facilities on a new and fully modern basis at existing locations would—as of the date of their report and in their opinion—cost approximately $78,000,000. Both such valuations were exclusive of any amounts for current or working assets of the Company or for the Espanola and Sturgeon Falls properties, which they did not attempt to value, and did not include any amount for Provincial Paper, Limited shares, the commercial value of which they reported as somewhat in excess of $1,500,000.

In January, 1937, and in light of improved conditions in the newsprint industry, Coverdale & Colpitts were requested to review the situation and make any revisions of their report which they might consider necessary. Based upon the assumption that timber concessions and pulpwood cutting rights, water rights and power supplies would be continued on terms essentially as favorable as those which had obtained in recent years and on the further assumptions that the newsprint mills of Abitibi (excluding Espanola and Sturgeon Falls) have an aggregate rated capacity of about 560,000 tons of newsprint per annum and the Smooth Rock Falls mill a capacity of 60,000 tons of commercial bleached and unbleached sulphite pulp per annum—that the contract price for newsprint would be increased gradually to $50. a ton (the base price—New York) and operating profits would increase proportionately but not fully so due to probable increase in operating costs—and upon the other assumptions contained in their report—Coverdale & Colpitts estimated the potential earning power of Abitibi at various rates of tonnage output, and at various prices for newsprint to be as follows:

Annual Sales—Tons		Estimated Annual Earning Power after depreciation of $1,485,000. but before Interest and Income Taxes — Newsprint price per ton (N.Y.)			
Newsprint	Pulp	$42.50	$45.00	$47.50	$50.00
560,000	55,000	$3,547,000	$4,387,000	$5,367,000	$6,487,000
500,000	55,000	2,885,000	3,635,000	4,510,000	5,510,000
450,000	55,000	2,464,000	3,139,000	3,926,000	4,826,000
400,000	55,000	1,855,000	2,455,000	3,155,000	3,955,000

exclusive of any income from Provincial Paper, Limited shares and prior to deduction of idle plant costs or expenses at or in connection with the Sturgeon Falls and Espanola properties. It was also stated that such figures gave no effect to possible cost reductions or economies from any or all of the capital expenditure items suggested by them in their report as being feasible or desirable.

Based upon the above figures Coverdale & Colpitts calculated the average sustained earning power of Abitibi properties (after depreciation but before bond interest, income taxes and idle plant costs and expenses in connection with Sturgeon Falls and Espanola properties and exclusive of any income from Provincial Paper, Limited shares) to be $4,145,000. per annum, which they stated was equivalent to the estimated earning power of the properties covered by their valuation on an average sales volume of 476,000 tons of newsprint per annum, with profit estimated on newsprint selling at the base price of $47.00 per ton plus the average profit estimated for the Smooth Rock Falls pulp mill on an annual sales volume of 55,000 tons of commercial pulp. On the assumption that 12½ times such estimated earning power (an 8% basis) was the proper basis for valuation of the properties they gave it as their opinion that the fair commercial value of the properties as of February 1st, 1937, was $51,813,000., exclusive of the value of (a) inventories and other items of working capital, (b) common stock of Provincial Paper, Limited, and (c) the Espanola and Sturgeon Falls properties.

Estimate of T. E. Silver, as hereinbefore mentioned, is that if $8,314,271. (as of August, 1936, since which time costs of labor and materials have increased) be expended upon improvements, replacements and repairs to Abitibi mills and facilities—excluding those at Sturgeon Falls and Espanola—the capacity of Abitibi's newsprint mills would be increased by approximately 93,310 tons per annum; also that if with such improvements, replacements and repairs made Abitibi mills should operate to their full increased capacities savings in manufacturing costs of approximately $1,057,623. per annum would be effected aside from any profits which might be obtained from increased sales made possible by increase in the capacities of such mills. Having regard to such possible increase in capacity, estimated savings in costs of manufacture and possible additional profits from sales of newsprint produced by increase in the capacity of the mills, I requested Coverdale & Colpitts, in September, 1937, to report upon the potential earning power of Abitibi properties at various rates of tonnage production and at various prices for newsprint and sulphite pulp; also as to the average sustained earning power and fair commercial value of the properties with such improvements, replacements and repairs made.

Based on the assumptions that the improvements, replacements and repairs, above mentioned, are made; that when made the six operating newsprint mills of Abitibi will have a productive rated capacity of about 650,000 tons of newsprint per annum, the commercial sulphite pulp mill a rated annual capacity of 60,000 tons of bleached and unbleached sulphite pulp and the newsprint mill at Sault Ste. Marie a surplus capacity for the production of approximately 20,000 tons per annum of unbleached sulphite pulp—that estimated savings in costs of manufacture will be obtained; and after giving effect to increased costs of labor and materials, to announced increases and to further possible changes in the prices of newsprint and commercial pulp, and based on other assumptions contained in their report dated September 25th, 1937, Coverdale & Colpitts estimate the potential earning power of Abitibi at various rates of tonnage output and at various prices for newsprint and pulp to be as follows:

Estimated Annual Earning Power After Depreciation of $1,671,000 But Before Interest and Income Taxes

Newsprint Price per Ton (New York)	$42.50	$45.00	$47.50	$50.00	$52.50	$55.00	$57.50
Annual Sales — Tons Newsprint				(000 omitted)			
650,000	$4,412	$5,225	$6,200	$7,337	$8,637	$9,937	$11,237
600,000	3,699	4,449	5,349	6,399	7,599	8,799	9,999
550,000	3,162	3,850	4,675	5,637	6,737	7,837	8,937
500,000	2,717	3,342	4,092	4,967	5,967	6,967	7,967
450,000	2,270	2,833	3,508	4,295	5,195	6,095	6,995
400,000	1,806	2,306	2,906	3,606	4,406	5,206	6,006

Bleached Pulp Price per Ton (New York)		$50.00	$55.00	$60.00	$65.00	$70.00	$75.00
Annual Sales — Tons Pulp		(000 omitted)					
Bleached	Unbleached						
65,000	10,000	$487	$851	$1,215	$1,391	$1,605	$1,894
60,000	10,000	419	759	1,098	1,263	1,462	1,732
55,000	10,000	351	666	982	1,134	1,320	1,570
50,000	10,000	282	573	864	1,005	1,176	1,407
45,000	10,000	212	479	746	875	1,032	1,244
40,000	10,000	142	385	627	745	887	1,080

Upon the terms set forth in their report with respect to operating costs and expenses, sales volume and selling prices and increased capacities, and savings in costs of manufacture to be made from completion of the programme of improvements, replacements and repairs, Coverdale & Colpitts give it as their judgment that the average sustained earning power of Abitibi properties (excluding any income from Provincial Paper, Limited shares and with no deduction made for idle plant costs and expenses of Espanola and Sturgeon Falls mills) over a future period of years, is $5,901,000. per year, after depreciation of $1,671,000. but before interest or income taxes. Such amount of $5,901,000. is, they state, equivalent to the estimated earning power of such properties at an average sales volume of 520,000 tons of newsprint per annum, (80% of the estimated capacity of the mills mentioned after completion of the programme of improvements, replacements and repairs) at the profit estimated at a base selling price of $50. per ton, plus the profit estimated from the sale of 55,000 tons of bleached sulphite pulp and 10,000 tons of unbleached sulphite pulp per year at a bleached sulphite pulp base price of $55. per ton.

They give it as their opinion that 12½ times estimated earning power after depreciation but before interest and income taxes—i.e. an 8% basis—is a proper basis of valuation of such properties exclusive of working capital and other assets and

(*a*) giving pro forma effect to the completion of improvements, replacements and repairs; and

(*b*) assuming the increase in productive capacity and the savings in costs of manufacture to be made therefrom,

they state that based on an estimated average sustained earning power of $5,901,000. per year, evaluated on an 8% return basis, the fair commercial value of the properties would be $73,762,500, exclusive of

(*a*) actual inventories and other items of working capital,

(*b*) the Common stock of Provincial Paper, Limited, and

(*c*) properties comprising the Espanola and Sturgeon Falls divisions.

In a report made to R. S. McPherson, Esq., Liquidator of Abitibi, under date of March 11th, 1937, W. T. Brickenden, Esq., B.A.Sc., M.E., Registered Professional Engineer of the Province of Ontario, stated that after examining Company records and obtaining from the Receiver and Manager and Abitibi Officials all essential information pertaining to the operation of Abitibi on which to base an estimate of the value of the assets of such Company as a going concern he was of the opinion that having regard to the past performance of the Company, the present and future capacity of the mills, the conditions in the trade at such date and the projected long term trend of newsprint production, earnings of Abitibi for valuation purposes should be based on a yearly tonnage of 500,000 tons of newsprint and a delivered price of $50. per ton; that after using production costs in line with selling prices and making adequate allowances for increased selling and administration expenses, eliminating non-recurring charges, adding revenues from subsidiary companies and the Smooth Rock Falls sulphite mill and providing $1,500,000. for depreciation and depletion, he was of the opinion that on the basis of an 8% annual return on the investment (but prior to deduction of bond interest or income taxes) the value of the assets of Abitibi as a going concern, including net current assets as reported on January 31st, 1937, and timber limits other than Government concessions (as valued by J. D. Gilmour) was $86,000,000. Mr. Brickenden further reported that such valuation did not include any amount for Provincial Paper, Limited Common Shares, which he considered had a value considerably in excess of $1,500,000: he further stated that no amount was included in the $86,000,000. for the Espanola and Sturgeon Falls divisions and gave it as his opinion that in view of the definite trend of improvement in the demand for and market price of newsprint and sulphite pulp such properties had a substantial potential value.

> (*Note:* The valuation of $86,000,000., above mentioned, includes net current assets of about $2,500,000., and after deduction of such amount leaves a value for the other properties of the Company (excluding Provincial Paper, Limited Common Shares and the Espanola and Sturgeon Falls divisions) of about $83,500,000.; average sustained annual earnings of about $6,680,000. (on the basis above mentioned) would be required to provide an 8% annual interest return on such $83,500,000.)

The undersigned desires to make it clear that the above reports are largely based on hypothetical tonnages and delivered prices for newsprint and pulp, and are estimates only: he assumes no responsibility in respect of them.

In a communication addressed to the Liquidator of Abitibi, under date of September 30th, 1937, Mr. Brickenden reported as follows: "With reference to your request that I submit a new valuation of the assets of the Abitibi Power & Paper Company, Limited, based on the hypothesis that the contemplated improvement program is *fait accompli*, after careful consideration, I do not feel justified in submitting such a figure for publication. Any valuation so based, that is, on the assumption that the annual capacity has been increased by about 93,310 tons to a total of some 670,000 tons and that annual savings at maximum capacity are accruing at the rate of approximately $1,057,623., would be substantially higher than my former valuation and because of the difficulty of properly interpreting such a hypothetical figure there would be a danger of confusing and, possibly, misleading the security holders to whom this information is directed. Any revision of my valuation of the assets of this Company as a going concern would have to be on the same basis as used in my report of March 11th, 1937, taking into consideration the effect on the earning power of the Company of the rapid improvement in the pulp and paper industry and in company operations evidenced during the past six months. These developments, in my opinion, are such as would necessitate a greater valuation of the assets of the Company than that formerly submitted."

Relative to New Moneys Required for Working Capital:

16.—Belief of Abitibi Officials and the undersigned is that Abitibi mills will manufacture and sell between 480,000 and 490,000 tons of newsprint—about 63,000 tons of bleached sulphite pulp and 12,000 to 14,000 tons of unbleached sulphite, in 1937. General contract market prices of Canadian mills in September, 1937, for such products are, $42.50 per short ton, delivered at New York, for newsprint—$65. per short ton, New York base price, for bleached sulphite pulp—and $58.–$60. per short ton, New York base price, for unbleached sulphite pulp. Expectation is that if business conditions continue to improve and no undue recession in them takes place, Abitibi's sales of newsprint will be higher in 1938 than in 1937 and that sales of bleached sulphite pulp, of an improved grade, will be slightly less.

While pulpwood on hand will be fully sufficient to sustain 1937 production, as above mentioned, reserves held are not felt to be adequate to protect the Company against contingencies for the future. In addition increased supplies of wood are required for the Fort William and Ste. Anne mills, the first of which was brought into operation on May 1st, 1937, and the latter on September 1st, 1937. Average costs of wood which will be delivered to Abitibi mills in 1938 will likely exceed the costs of wood on hand in 1937 by not less than $1 per cord. Estimate is that costs of general supplies, other than wood, will increase by not less than 7% to 10% over those of 1937. Any increase in the volume of business done in 1938 over 1937 will increase the aggregate amount of credits required to be given to customers, while increase in the price expected to be received for newsprint in 1938 ($7.50 per ton) will further enlarge the same.

Inventories of paper, pulp, pulpwood and supplies and accounts receivable, cash and other operating assets on hand, being used by Abitibi and its subsidiaries (excluding Provincial Paper, Limited and The G. H. Mead Company) in the operation of their businesses on August 31st, 1937, amounted to	$ 8,765,823.
Calculation of Abitibi Officials is that by May 31st, 1938, pulpwood inventories of the Company will, with increasing costs and larger quantities of wood required, exceed those of August 31st, 1937, by approximately	2,500,000.

Estimate is that inventories of supplies necessary to be carried in 1938 will exceed costs of those carried in 1937 by not less than........ 125,000.

Estimate is that with the increased volume of newsprint business looked for and higher prices at which it is expected to be sold, credits required to be given to customers in 1938 will expand over those of 1937 by approximately........ 1,100,000.

The peak amount of working assets expected to be required in the operation of such businesses in 1938, on the above bases, is therefore approximately........ $12,490,823.

Current monthly accounts, accrued payrolls and other liabilities (excluding Receiver's certificates) owing by Abitibi and its subsidiaries on August 31st, 1937, amounted to........ 1,112,064.

and if it be assumed that a similar amount of current liabilities will continue to be owed monthly during 1938, the peak of net working assets estimated as likely to be required in such year would approximate........ $11,378,759.

(*Note:* The amount of $11,378,759. does not include amounts necessary for payment of old liabilities or amounts required for improvements and repairs to Abitibi properties).

Having regard to the above, Abitibi Officials and the undersigned are of the opinion that if the Company be given working capital of $9,000,000 and borrows from its Bankers on peaks it can operate satisfactorily.

Report of T. E. Silver—as hereinbefore mentioned—is that to make the improvements, replacements and repairs to the Company's mills and properties, specified in his report, would cost $8,314,271. as of August, 1936. Estimate of Mr. Silver was that such amount would be expended approximately as follows: $2,869,709. in the first year, $2,946,872. in the second year, $1,481,706. in the third year and $1,015,984. in the fourth and fifth years after reorganization; this subject to the possibility that such expenditures might be made somewhat faster if the moneys therefor were available. Since the estimates were prepared costs of labor and materials have increased. With the bringing of the Fort William and Ste. Anne mills into operation in 1937 and the increased volume of business being done by Abitibi it was deemed advisable to make certain of the improvements, replacements and repairs covered by Mr. Silver's estimates and this has been done. Up to June 30th, 1937, the undersigned had, with the approval of Court, expended $457,677. thereupon, including $110,793. start-up expenses of Fort William and Beaupre mills; such expenditures will only partially offset the increase in aggregate costs, since August, 1936, of the improvements, replacements and repairs covered by Mr. Silver's estimates and they are therefore disregarded herein.

Trade and other liabilities of Abitibi incurred prior to receivership, but excluding funded debts, are estimated to amount to $815,000; a claim by the Newsprint Institute of Canada for a further $600,019.49 is expected to be withdrawn. These liabilities will require to be paid under any form of reorganization or rearrangement which provides a return to Stockholders. Costs of receivership and liquidation and also those of reorganization or rearrangement and of obtaining any new moneys have also to be met.

Current and working assets of Abitibi and its subsidiaries (excluding Provincial Paper, Limited and The G. H. Mead Company) on June 30th, 1937, amounted to........ $ 8,212,371.
while current liabilities, accrued payrolls and Receiver's certificates outstanding amounted as of the same date to........ 4,308,836.

leaving a surplus of net current assets as of such date of........ $ 3,903,535.

17.—The plan of reorganization put forward by the Bondholders' Representative Committee contemplates the reorganization of the Company as of date July 1st, 1937, while the plan put forward by the Liquidator of the Company contemplates rearrangement of the Company's affairs as of date December 1st, 1937.

18.—Under the plan of reorganization of the Bondholders' Representative Committee

(*a*) New securities to be issued in the form of First (closed) 4½% Mortgage Bonds amount to........ $14,000,000.
(in these computations it is assumed that new moneys obtained from sale of the above securities will be received by Abitibi on December 31st, 1937, and not before.)

(*b*) Excess of Abitibi's current assets over current liabilities and Receiver's certificates on June 30th, 1937, was .... 3,903,535.

(*c*) If earnings of Abitibi for the months of September, October, November and December, 1937, should continue at the same rate as in July and August, 1937, those for the last six months of 1937 (subject to audit and prior to bond interest, depreciation, income taxes, costs of re-opening mills and year-end adjustments) would amount to .... $3,130,719.

Dividends expected to be received are

(1) from The G. H. Mead Company .... 75,000.

(2) from Provincial Paper, Limited .... 100,000.

a total of .... $3,305,719.

from which would require to be deducted—

(3) Charge for depreciation on Abitibi mills and properties for the last six months of 1937 .... $750,000.

and paid,

(4) Interest for period July 1st, 1937, to December 31st, 1937, on bonds and debentures contemplated to be issued to present Abitibi Bondholders .... 1,448,000. 2,198,000.

and a surplus would remain (from such assumed earnings) of .... 1,107,719.

Total .... $19,011,254.

from which

(*d*) Unsecured liabilities of Abitibi incurred prior to receivership would require to be paid to the estimated amount of .... $ 815,000.

(*e*) Amount contemplated to be set aside for working capital is .... 9,000,000. 9,815,000.

and a balance would remain as of date December 31st, 1937 (that is if earnings and income for the last six months of 1937 amount to $3,305,719. on the basis in (*c*) above mentioned), of about .... $9,196,254.

which would be available to cover costs of obtaining $14,000,000. of new moneys—costs of receivership, liquidation and of Bondholders' and Preferred Stockholders' Committees (as allowed by Court); of reorganization; and to provide for improvements, replacements and repairs to the Company's mills and properties, which were estimated to cost $8,314,271. in August, 1936, since which time costs of labor and materials have increased.

19.—Under the plan of rearrangement of the affairs of Abitibi put forward by the Liquidator of the Company, interest on present Abitibi bonds to November 30th, 1937, is to be capitalized, and

(*a*) New securities contemplated to be issued in the form of Serial First Mortgage 4% and 4½% Bonds amount to .... $9,000,000.
(in these computations it is assumed that new moneys obtained from sale of the above securities will be received by Abitibi on December 31st, 1937, and not before)

(*b*) Excess of Abitibi's current assets over current liabilities and Receiver's certificates on June 30th, 1937, was .... 3,903,535.

(*c*) If earnings of Abitibi for September, October, November and December, 1937, should continue at the same rate as earnings for July and August, 1937, those for the last six months of 1937 (subject to audit and prior to bond interest, depreciation, income taxes, costs of re-opening mills and year-end adjustments) would amount to .... $3,130,719.

Dividends expected to be received in such period are

(1) from The G. H. Mead Company .... 75,000.

(2) from Provincial Paper, Limited .... 100,000.

Total .... $3,305,719.

from which would require to be paid or set aside—

(3) Cash payments contemplated to be made to present Abitibi Bondholders as of date December 1st, 1937	$60,334.		
(4) Interest for month of December, 1937, on First and Second 5% Mortgage Bonds contemplated to be given to present Abitibi Bondholders	269,491.		
(5) Charge for depreciation on mills and properties of Abitibi for last six months of 1937	750,000.		
a total of		1,079,825.	
and a surplus would remain (from such assumed earnings) of about			2,225,894.
Total			$15,129,429.

out of which

(*d*) Unsecured liabilities of Abitibi incurred prior to receivership require to be paid, to the estimated amount of	$ 815,000.	
and (*e*) Should there be set aside for working capital	9,000,000.	9,815,000.
a balance would remain, as of date December 31st, 1937 (that is if earnings and income for the last six months of 1937 amount to $3,305,719. on the basis in (*c*) above mentioned) of about		$5,314,429.

which would be available to cover costs of obtaining $9,000,000. of new moneys and those of receivership, liquidation and effecting rearrangement of the Company's affairs (as allowed by Court); the surplus thereafter would be available towards costs of improvements, replacements and repairs to the Company's properties, which were estimated to cost $8,314,271. in August, 1936, (since which time costs of labor and materials have increased), leaving any additional amounts required for such improvements, replacements and repairs, to be taken from future earnings of the Company.

Expenditures of $457,677. made by the undersigned up to June 30th, 1937, upon improvements and repairs to the Company's properties—covered by Mr. Silver's estimates—have been ignored in the computations in paragraphs 18 and 19 above as they will only partially offset the increase in costs of such proposed improvements and repairs as estimated in August, 1936.

Balance Sheets of Company:

20.—Attached hereto as Schedule C are summarized audited Balance Sheets of Abitibi to December 31st, 1935 and 1936, and unaudited Balance Sheet of Abitibi as of date August 31st, 1937.

The above has been prepared solely for the purpose of providing persons concerned in the affairs of Abitibi with information believed to be of interest to them. No representation is made or intended, however, that it covers all conditions which have or may have a bearing upon the Company's affairs, present or future: the statements made are accurate, so far as the undersigned has been able to ascertain, but he does not represent or guarantee their accuracy.

G. T. CLARKSON,
Receiver and Manager of
Abitibi Power & Paper Company, Limited

ABITIBI POWER & PAPER COMPANY, LIMITED

SHIPMENTS OF NEWSPRINT DURING PERIOD OF RECEIVERSHIP
(IN SHORT TONS)

	1932	1933	1934	1935	1936	1937
January	—	13,147	17,087	14,692	19,522	35,545
February	—	12,980	18,625	18,148	20,428	29,338
March	—	13,850	23,927	21,955	25,878	34,628
April	—	15,376	23,411	22,624	27,722	36,321
May	—	15,607	21,112	25,749	28,998	40,223
June	—	16,833	18,244	22,709	29,895	39,671
July	—	18,751	16,801	24,673	31,359	42,532
August	—	21,046	17,297	24,301	29,440	42,736
September	*11,190	16,953	17,078	25,944	31,832	—
October	18,052	17,718	18,038	30,502	36,120	—
November	17,962	16,923	20,913	28,630	36,639	—
December	13,448	16,074	26,809	29,665	36,265	—
Total	60,652	195,258	239,342	289,592	354,098	300,994

(Above is for 8 months)

* Abitibi was placed in receivership on September 10th, 1932—Shipments shown are for balance of such month.

ABITIBI POWER & PAPER COMPANY, LIMITED

SHIPMENTS OF BLEACHED AND UNBLEACHED SULPHITE DURING PERIOD OF RECEIVERSHIP

IN SHORT TONS. *B.*—bleached. *U.*—unbleached.

	1932		1933		1934		1935		1936		1937	
	B.	U.	B.	U.	B.	U.	B.	U.	B.	U.	B.	U.
January	—	—	710	440	3596	604	2435	459	3685	873	5392	944
February	—	—	1351	749	3431	754	2660	445	4368	691	5125	1433
March	—	—	1461	1408	3446	727	2522	526	4168	712	5897	1185
April	—	—	1455	1441	2085	1059	2583	487	4448	702	5458	1166
May	—	—	1481	1471	2492	1036	3084	569	4785	839	5411	1533
June	—	—	2757	1628	2468	992	3309	564	4937	885	5382	1543
July	—	—	3600	1158	1772	1003	3007	693	4786	481	5558	1280
August	—	—	4233	990	2374	1080	2818	619	4951	785	5428	869
September	1134*	246*	4468	876	1759	676	3343	606	4995	455	—	—
October	1699	335	5058	625	1823	464	3874	681	5533	325	—	—
November	1521	530	4630	717	1922	386	3420	848	5099	495	—	—
December	988	492	4297	579	2126	526	4610	713	5245	439	—	—
	5342	1603	35501	12082	29294	9307	37665	7210	57000	7682	43651	9953
Total	6,945		47,583		38,601		44,875		64,682		53,604 (Above is for 8 months)	

* For balance of month after September 10th, 1932—date of Receivership.

Approximate prevailing contract market prices per short ton of sulphite pulp —as reported— are as follows:

Bleached sulphite (New York base price)

Year 1934		$50. per ton
Year 1935	1st quarter	$55. " "
	2-3-4 quarters	$50. " "
*Year 1936	1st Six Months	$50. " "
	2nd Six Months	$52. " "
Year 1937	1st quarter	$54. " "
	2nd quarter	$58. " "
	3rd quarter	$65. " "
	4th quarter	$70. " "

Unbleached sulphite (New York base price)

June 1, 1933 to September 30, 1933	$32–39
October 1, 1933 to March 21, 1935	$43–44
March 22, 1935 to December 31, 1936	$38–45
January 1, 1937 to March 31, 1937	$44–45
April 1, 1937 to June 30, 1937	$50–51
July 1, 1937 to December 31, 1937	$58–60

* In the latter part of 1936 and early part of 1937, a shortage in the North American supply of bleached sulphite pulp occurred and report is that spot sales at prices of from $75. to $80. per ton—and even more—were paid for limited quantities of such pulp at such times.

ABITIBI POWER & PAPER COMPANY, LIMITED

Condensed Balance Sheets—excluding contingent liabilities referred to in audited Balance Sheets of December 31st, 1935 and 1936, which liabilities have since been either reduced to definite amounts or settled—Balance Sheets of December 31st, 1935 and 1936 have been audited—that of August 31st, 1937, has not been audited.

ASSETS	As of date December 31st, 1935	As of date December 31st, 1936	As of date August 31st, 1937
Receiver's Current Assets			
Cash on hand and on deposit	$ 223,301.	$ 393,489.	$ 403,765.
Accounts receivable—customers, less reserve	689,211.	800,367.	986,430.
Receivable from The G. H. Mead Company for newsprint shipments	794,518.	775,065.	1,524,499.
Receivable from other subsidiaries represented by Current Assets	947,522.	1,504,856.	2,213,721.
Inventories of paper, pulp, wood and supplies and expenditures on logging operations	3,647,115.	3,072,701.	3,242,171.
Investments in bonds	72,150.	71,350.	70,450.
	$ 6,373,817.	$ 6,617,828.	$ 8,441,036.
Deposits with Trustee for Bondholders	67,852.	83,819.	84,176.
Investments in and advances to wholly owned subsidiaries	45,568,290.	44,928,664.	45,130,406.
Investments in shares of Companies not wholly owned	1,500,613.	1,500,637.	1,500,636.
Investments in mills and equipment, railways, water-powers, townsites and buildings — less reserves	48,258,438.	48,348,565.	46,618,215.(a)
Timber concessions and freehold timber owned — less reserves	19,939,429.	19,923,510.	19,923,510.
Real Estate and office buildings	327,004.	327,052.	326,746.
Chattels and equipment	32,029.	26,795.	25,095.
Prepaid expenses	173,121.	198,980.	369,954.
	$122,240,593.	$121,955,850.	$122,419,774.

ABITIBI POWER & PAPER COMPANY, LIMITED

Condensed Balance Sheets—excluding contingent liabilities referred to in audited Balance Sheets of December 31st, 1935 and 1936, which liabilities have since been either reduced to definite amounts or settled—Balance Sheets of December 31st, 1935 and 1936 have been audited—that of August 31st, 1937, has not been audited.

LIABILITIES		As of date December 31st, 1935	As of date December 31st, 1936	As of date August 31st, 1937
Liabilities of Receiver				
Receiver's Certificates (secured)		$ 4,008,000.	$ 3,650,000.	$ 3,000,000.
Other		602,967.	726,527.	740,559.
		$ 4,610,967.	$ 4,376,527.	$ 3,740,559.
Owing on contract for purchase of shares of Thunder Bay Paper Co., Limited		2,727,917.	—	—
General Creditors' claims incurred prior to Receivership		352,584.	341,382.	750,147.
Reserve for contingencies		23,705.	23,705.	23,705.
5% First Mortgage Gold Bonds	$48,267,000.			
Interest accrued to Sept. 10/32	1,877,050.			
Reserve for Tax rebates	17,636.	50,161,686.	50,161,686.	50,162,986.(b)
Capital Stock:				
10,000 7% Cum. Pref. Shares	$ 1,000,000.			
348,818 6% Cum. Pref. Shares	34,881,800.			
1,088,117 Common Shs.—N.P.V.	18,964,935.	54,846,735.	54,846,735.	54,846,735.
Nominal surplus of period prior to Receivership		6,321,324.	6,762,277.	4,451,644.(a)
Available towards depreciation and bond interest from operations during period of Receivership		3,195,675.	5,443,538.	8,443,998.
		$122,240,593.	$121,955,850.	$122,419,774.

Interest or dividends accrued to July 1, 1937:

(*a*) Upon 1st Mortgage 5% Bonds (including interest on arrears) $15,189,022.

(*b*) Upon 7% Preference Shares $ 402,500.

(*c*) Upon 6% Preference Shares $13,080,675.

Contingent Liabilities

Newsprint Institute of Canada claim $600,019. is expected to be withdrawn.

(a) Reduction is largely attributable to transfer of the Crystal Falls Development to The Hydro-Electric Power Commission of Ontario and the writing off of its book value as carried on Abitibi's books.

(b) Includes $1300 interest coupons to December 1st, 1931, which are unpaid.