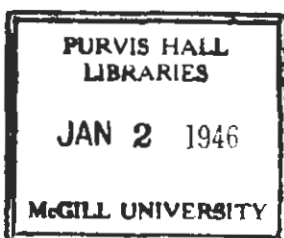


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ABITIBI POWER & PAPER COMPANY, LIMITED  
AND  
SUBSIDIARY COMPANIES

FINANCIAL STATEMENTS—SEPTEMBER 10, 1932,  
AND  
REPORT DATED MARCH 2, 1933,  
ADDRESSED TO  
BONDHOLDERS' PROTECTIVE COMMITTEE

PRICE, WATERHOUSE & CO.  
*CHARTERED ACCOUNTANTS*  
TORONTO



PRICE, WATERHOUSE & CO.  
ROYAL BANK BUILDING  
TORONTO

THE BONDHOLDERS' PROTECTIVE COMMITTEE,  
ABITIBI POWER & PAPER COMPANY, LIMITED,  
TORONTO, CANADA.

March 2, 1933.

Dear Sirs:

As instructed, we have made an examination of the books and accounts of Abitibi Power & Paper Company, Limited as at the close of business on September 10, 1932 (as of which date Mr. G. T. Clarkson was appointed Receiver and Manager) and of the books and accounts of its principal wholly owned subsidiary companies as at August 31, 1932, viz:

MANITOBA PAPER COMPANY, LIMITED	MURRAY BAY PAPER COMPANY, LIMITED
STE. ANNE PAPER COMPANY, LIMITED	ABITIBI ELECTRIC DEVELOPMENT COMPANY, LIMITED
ST. ANNE POWER COMPANY	KAMINISTQUIA POWER COMPANY, LIMITED
BAIE ST. PAUL LUMBER COMPANY, LIMITED	MATTAGAMI RAILROAD COMPANY

We have prepared and attach hereto a consolidated balance sheet as of the dates stated above (Exhibit I) with statement of surplus and profit and loss for the intervening period from January 1, 1932, (Exhibit II) which are submitted subject to the following comments:

It is our understanding that you require these statements for the purpose of ascertaining the results of the transactions since December 31, 1931, and the financial position of the companies at the time the Receiver and Manager was appointed, the statements to be on the same general basis as was followed in the last annual balance sheet. The companies' books indicate that subsequent to September 10, 1932, the Receiver and Manager has made substantial provisions for losses in realization of inventories and other assets; for the reason above stated we have not attempted to deal with such questions of revaluation of assets which are now important in the light of the present state of over-capacity and market conditions in this industry and which will involve substantial write-offs.

The Receiver and Manager has prepared an Estimated Statement of Assets and Liabilities as at September 10, 1932, of Abitibi Power & Paper Company, Limited, and we attach hereto (Exhibit III) a reconciliation of the attached Consolidated Balance Sheet with the statement of the Receiver and Manager. Briefly, we may say that:

- (1) Whereas the Receiver and Manager's statement is a statement of the assets and liabilities of the Abitibi Power & Paper Company, Limited only,
- (2) The attached balance sheet is a consolidation of the assets and liabilities of the group of companies.
- (3) Whereas the Receiver has made certain important adjustments in the values of the inventories and certain other assets,
- (4) In accordance with your instructions the attached consolidated statements are drawn up on the basis of the book values.

Under your instructions we did not visit the companies' mills for the purpose of examining the records at those points, and our examination was therefore limited to the records at the chief office in Toronto.

In 1931 the question of the inventory values was investigated by the management and as a result an appropriation of \$3,560,892.36 was made from Surplus under date of January 1, 1931, for the purpose chiefly of reducing the book values of the stocks to the estimated then current values. As a result of the depressed conditions in the newsprint industry there has been a serious falling off in the demand for and reduction in the selling price of pulpwood, newsprint and sulphite, particularly during the past year, and accordingly it would now appear that a further substantial reduction should be made in the

inventory values to bring the pulpwood, materials and supplies to the basis of present replacement values and to provide for losses on inventories at mills which have ceased to operate. We are unable at this time to ascertain the amount of the further write-down which will be required, but it will undoubtedly represent a substantial amount.

The investments in plant, machinery and equipment and in lands, timber limits, undeveloped water powers, etc., are stated in the attached balance sheet at book values. Under the existing condition of excess capacity arising from the falling off in the demand for the products of the newsprint industry in Canada it would appear that the company should take up the question of writing down the book values of inactive plants and properties.

Depreciation and depletion of fixed assets have been provided for during the period on the basis of production. Whilst this basis would appear to be sound under conditions of normal operations, the provisions set aside on this basis during periods of reduced operations would appear to be inadequate. This question is becoming increasingly important in view of the continued reduction in volume of production.

The Investments in and Advances to other companies shown on the balance sheet at a net book value of \$8,739,477.92 consist chiefly of the company's investments in the entire share capital of and advances to the Thunder Bay Paper Co. Limited, shares of the Newsprint Bond and Share Company and in the ownership of the entire outstanding common stock of Provincial Paper Limited, consisting of 100,000 shares which are pledged with The Royal Bank of Canada as part security for bank loans. Provision has been made for the carrying charges and current losses incurred by the company in connection with the investments in Thunder Bay Paper Co. Limited and Newsprint Bond and Share Company. The shares of the Thunder Bay Paper Co. Limited, are deposited with a Trustee under the Contract of Purchase and pledged as security for the payment of the deferred instalments of the purchase price and for the carrying out of the terms of purchase. We understand that the vendor may sell these shares in the event of default by Abitibi Power & Paper Company Limited in payment of any instalment of principal or interest thereon or in performance of any of its other covenants in the purchase contract after sixty (60) days' written notice of such default, unless such default is cured within the said period of sixty (60) days. At the present time the Abitibi Company is technically in default under the terms of this Agreement, although we understand that notice of default has not been given to date by the vendor.

The investment in the shares of the Newsprint Bond and Share Company are stated at cost, less a provision for current losses applicable to the Abitibi Company's holdings. The liabilities for all calls of capital have been established on the balance sheet, whilst the uncalled subscriptions amounting to \$550,600.00 are shown as a contingent liability. The Receiver will have to decide whether or not to make the additional payments necessary to protect this investment. All advances in connection with the Ontario Power Service Corporation, Limited have been written off in the attached accounts and we have referred in a footnote to the balance sheet to the question of the contingent and contractual obligations (whatever they may be) of Abitibi Power & Paper Company, Limited and Abitibi Electric Development Company, Limited in connection with the Ontario Power Service Corporation, Limited.

We have made certain changes in the classification of assets and liabilities as compared with the balance sheet as of December 31, 1931, and for your information in comparing the position of the companies as to net current assets as of December 31, 1931, with the showing disclosed by the attached balance sheet, we give below a reconciliation thereof:

Net current assets at December 31, 1931, as per consolidated balance sheet published . . . . .	\$10,909,324.74
Less—Net current assets of Provincial Paper Limited included therein . .	3,098,964.30
	<hr/>
Balance, being net current assets at December 31, 1931, carrying common stock of Provincial Paper Limited as an Investment . .	\$ 7,810,360.44
Net current assets at September 10, 1932, as per attached statement . . .	280,630.77
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DECREASE . . . . .	<u>\$ 7,529,729.67</u>

This decrease is accounted for as follows:

Deferred Liabilities at December 31, 1931, which have since become Current Liabilities:

The Royal Bank of Canada, loan.....	\$4,250,000.00	
Other liabilities.....	71,333.04	
		<u>\$ 4,321,333.04</u>

Other Assets and Deferred Charges:

Unexpired insurance premiums, deposits with Mutual Insurance Companies, cash deposits on timber limits, etc., etc.....		595,303.00
(Since December 31, 1931, certain reserves in the current asset position of the company have been absorbed in profit and loss; therefore under present conditions it is considered that these items should be removed from the current asset classification.)		

Investments in and Advances to Other Companies:

Cash disbursements made and increases in current liabilities in connection with:		
Thunder Bay Paper Co. Limited:		
Investment.....	\$605,000.00	
Advances.....	168,271.33	
		<u>\$ 773,271.33</u>
Newsprint Bond and Share Company:		
Investment in shares during the period.....	173,600.00	
Ontario Power Service Corporation, Limited:		
Advances.....	72,704.76	
		<u>1,019,576.09</u>

Loss for period from January 1, 1932, to September 10, 1932, after crediting dividend of \$100,000 from Provincial Paper Limited..... \$2,126,491.29

Less—

Reserved for depreciation and depletion.....	\$576,961.59	
Amounts transferred to Reserve against Investments.....	597,181.08	
		<u>1,174,142.67</u>

Written off Investment in Bonds.....		952,348.62
Account with Newsprint Institute of Canada written off.....		70,000.00
Cost of bonds purchased for sinking fund.....		150,104.74
Sundry other changes.....		333,655.75
		<u>87,408.43</u>

TOTAL DECREASE, AS ABOVE..... \$ 7,529,729.67

The largest item entering into the foregoing is the inclusion with the current liabilities of the Royal Bank loan of \$4,250,000.00 originally made in connection with the purchase of the shares of the Thunder Bay Paper Co. Limited, which under an agreement with the bank was not due until January 2, 1933 (subject to the fulfilment of the company's obligations to the bank current from time to time) and was therefore treated as a deferred liability in the balance sheet at December 31, 1931. For present purposes it is of course shown as a current liability in the attached balance sheet.

In the annual balance sheet accompanying the directors' report to the shareholders as at December 31, 1931, the assets and liabilities of Provincial Paper Limited were consolidated with those of Abitibi Power & Paper Company, Limited and its subsidiary companies. In the attached balance sheet the interest in Provincial Paper Limited, is shown as an investment at cost. This change in treatment results in important reductions in both the current assets and current liabilities as compared with the figures in the annual balance sheet of December 31, 1931.

Yours very truly,

PRICE, WATERHOUSE & CO.

## ABITIBI POWER &amp; PAPER COMPANY, LIMITED

CONSOLIDATED BALANCE SHEET, SEPTEMBER 10, 1932

ASSETS	LIABILITIES
<b>CURRENT ASSETS:</b>	<b>CURRENT LIABILITIES:</b>
Inventories of pulpwood, paper, pulp, materials and supplies and expenditures on logging operations.....\$ 6,811,184.66	Banque Canadienne Nationale, demand loan (secured).....\$ 300,000.00
Customers' accounts, less reserves.....1,108,100.20	The Royal Bank of Canada, loan (secured).....\$4,250,000.00
Investments in bonds, less reserve.....49,829.67	Less—Deposits applied by bank against loan.....500,000.00
Cash on hand and on deposit, including funds sequestrated.....190,821.23	.....3,750,000.00
.....\$ 8,159,935.76	Current accounts and bills payable.....1,344,275.42
<b>OTHER ASSETS AND DEFERRED CHARGES:</b>	Bond interest accrued (includes \$1,206,675.00 due June 1, 1932)....1,877,050.00
Cash deposits on timber limits, etc.....\$ 268,738.91	Dividends payable.....18,202.00
Unexpired insurance, prepaid taxes, etc.....326,564.09	Purchase money obligations payable in 1932 and 1933—
.....595,303.00	Re purchase of Thunder Bay Paper Co. Limited.....\$ 310,454.52
<b>INVESTMENTS:</b>	Miscellaneous.....179,323.05
In capital stocks of and advances to other companies, at cost—including Thunder Bay Paper Co. Limited, Provincial Paper Limited, Newsprint Bond and Share Company, etc.....\$ 10,776,159.00	.....489,777.57
Less—Reserves.....2,036,681.08	Reserve for exchange on U.S. liabilities, including bond interest (net).....100,000.00
.....8,739,477.92	.....\$ 7,879,304.99
<b>FIXED ASSETS:</b>	<b>DEFERRED LIABILITIES:</b>
Plant, machinery and equipment, at cost.....\$107,974,153.21	Purchase money obligations payable over ten years in connection with Thunder Bay Paper Co. Limited.....\$ 2,485,000.00
Lands, timber limits, undeveloped water power, etc.....52,708,219.15	Purchase money obligations payable over fifteen years.....171,146.65
.....160,682,372.36	.....2,656,146.65
	<b>FUNDED DEBT:</b>
	Five per cent. First Mortgage Gold Bonds, due 1953 (as result of non-payment of bond interest due June 1, 1932, the company is in default under terms of Indenture and Mortgage dated June 1, 1928)
	Authorized.....\$75,000,000.00
	Issued and outstanding.....48,267,000.00
	<b>RESERVES:</b>
	Depreciation and depletion.....\$27,650,566.87
	General and contingent.....382,769.18
	.....28,033,336.05
	<b>PREFERRED SHARES:</b>
	10,000 shares 7% Cumulative Preferred Stock of \$100.00 each. The total authorized issue is 10,000 shares.....\$ 1,000,000.00
	348,818 shares 6% Cumulative Preferred Stock of \$100.00 each, including 792 shares deposited for exchange of shares of The Spanish River Pulp and Paper Mills Limited. The total authorized issue is 500,000 shares.....34,881,800.00
	.....35,881,800.00
	<b>NOTE:</b> Dividends on 7% Cumulative Preferred Stock are in arrears to September 10, 1932, by \$66,111.11. Dividends on 6% Cumulative Preferred Stock are in arrears to September 10, 1932, by \$3,023,089.33.
	<b>COMMON SHARES AND SURPLUS:</b>
	Balance as per annexed statement, represented by 1,088,117 shares without nominal or par value, including 1,891 shares deposited for exchange of shares of subsidiary companies. The total authorized issue is 1,500,000 shares.....55,459,501.35
	.....\$178,177,089.04
	<b>COMMON SHARES AND SURPLUS</b> are represented on the books of the company and its subsidiaries by Earned Surplus \$12,442,260.91, Common Stock Account \$18,964,935.43, Capital Surplus \$24,052,305.01. TOTAL \$55,459,501.35.
	<b>CONTINGENT AND CONTRACTUAL LIABILITIES:</b>
	Obligations in connection with subscription for shares of Newsprint Bond and Share Company.....\$ 550,600.00
	Obligations in connection with Ontario Power Service Corporation Limited.

NOTE: This balance sheet is a consolidation of the assets and liabilities of Abitibi Power & Paper Company, Limited as at September 10, 1932 (the date on which Mr. G. T. Clarkson was appointed Receiver and Manager) and of the assets and liabilities of Manitoba Paper Company, Limited, Ste. Anne Paper Company, Limited, St. Anne Power Company, Baie St. Paul Lumber Company, Limited, Murray Bay Paper Company, Limited, Abitibi Electric Development Company, Limited, Kaministiquia Power Company, Limited, and Mattagami Railroad Company as at August 31, 1932.

This balance sheet is issued subject to the important questions as to values of inventories and other assets referred to in our report dated March 2, 1933.

PRICE, WATERHOUSE & Co.

## ABITIBI POWER & PAPER COMPANY, LIMITED

### CONSOLIDATED STATEMENT OF SURPLUS AND PROFIT AND LOSS

*For the period from January 1, 1932, to September 10, 1932.*

Balance at credit as at January 1, 1932, as per published accounts . . . . .		\$57,784,218.49
<i>Deduct—</i>		
Surplus of Provincial Paper Limited as at December 31, 1931, eliminated herefrom as this company's assets and liabilities are not consolidated in the annexed balance sheet. . . . .		752,570.10
		\$57,031,648.39
Profit from operations for the period after charging wood to manufacture on the basis of reduced prices resulting from adjustment of Surplus in 1931, and after providing reserve against prepaid stumpage dues, etc. (including U.S. exchange realized amounting to \$808,349.95 which includes exchange profit not taken up at December 31, 1931). \$1,005,823.33		
<i>Deduct—</i>		
Provision for depreciation and depletion on the usual basis of production . . . . .	\$ 576,961.59	
Interest on funded debt and tax premiums . . . . .	1,698,192.34	
Other interest (net) . . . . .	359,979.61	
	\$2,635,133.54	
Reserve for depreciation of investments . . . . .	597,181.08	
		3,232,314.62
<i>Loss for the period, before taking up the undernoted items . . . . .</i>		<i>\$2,226,491.29</i>
<i>Deduct—</i>		
Profit on bonds purchased for sinking fund . . . . .	\$ 554,344.25	
Dividend—Provincial Paper Limited . . . . .	100,000.00	
		654,344.25
<i>Balance of Loss . . . . .</i>		<i>1,572,147.04</i>
<i>Balance at credit carried forward . . . . .</i>		<i>\$55,459,501.35</i>

# ABITIBI POWER & PAPER COMPANY, LIMITED

## RECONCILIATION OF CONSOLIDATED BALANCE SHEET

*At September 10, 1932, with Estimated Statement of Assets and  
Liabilities prepared by the Receiver and Manager.*

### RELATIVE TO NET CURRENT ASSETS:

In the Consolidated Statement current assets are shown at the amount of	\$8,159,935.76	
and current liabilities at the amount of	7,879,304.99	
Leaving net current assets of		\$ 280,630.77
In the Receiver's Statement, current assets pledged to		
Bankers are shown at	\$5,569,880.00	
Current assets not pledged to Bankers—at	725,286.00	
And Investments in Bonds other than those of subsidiary Companies—at	40,000.00	
A Total of	\$6,335,166.00	
Current Liabilities are included as follows:		
Bankers' advances claimed to be secured on current assets	\$4,261,038.00	
Items estimated to be payable in priority to Bondholders	1,105,301.00	
Interest overdue and accrued to Sept. 10, 1932	1,877,050.00	
Reserved for tax refunds	17,642.00	
Claims of trade creditors	291,689.00	
	7,552,720.00	
Leaving current liabilities in excess of current assets to the extent of		1,217,554.00
And the difference between the statements at		\$1,498,184.77

*This difference is attributable to—*

(a) Current Assets of subsidiary Companies included as such in Consolidated Statement—which assets are covered in Receiver's Statement by investments in shares of subsidiary Companies	\$1,270,618.70	
(b) Adjustments made by Receiver in the book values of inventories and certain other assets, and in the liabilities of Company	2,232,584.07	
<i>Less—</i>		\$3,503,202.77
(c) Assets (net) grouped in consolidated balance sheet under investments and other headings—classified differently in Receiver's figures quoted above. These are therefore mere changes in classification arising as a result of the difference in form of the two statements	\$ 605,018.27	
(d) Investment in shares of Provincial Paper Limited, carried on books of company at nominal value of \$100,000.00 and included in Receiver's statement at arbitrary value of \$1,500,000.00—a difference of	1,400,000.00	
	\$2,005,018.27	
		\$1,498,184.50

### RELATIVE TO OTHER ASSETS AND DEFERRED CHARGES:

These are shown in Consolidated Statement as amounting to	\$ 595,303.00	
While in Receiver's Statement prepaid expenses and operating items are carried at the amount of	270,683.77	
Leaving a difference of		\$ 324,619.23
<i>This difference is attributable to—</i>		
(a) Other Assets of subsidiary companies which are represented in Receiver's statement in investments in subsidiary companies	\$ 135,144.63	
(b) Items grouped by Receiver under other classifications	153,436.80	
(c) Adjustments by Receiver	36,037.80	
		\$ 324,619.23

## (EXHIBIT III Continued)

## RELATIVE TO INVESTMENTS

## IN CAPITAL STOCKS AND ADVANCES TO OTHER COMPANIES:

These are shown in the Consolidated Statement at the amount of . . .	\$ 8,739,477.92	
As against which there is included in the liabilities shown on such Statement—as a deferred liability—the balance of the amount owing on the purchase of shares of Thunder Bay Paper Company Limited. . . . .		2,485,000.00
Leaving a net investment of . . . . .	\$ 6,254,477.92	
On the Receiver's Statement, investments in shares of and advances to Companies which are not wholly owned subsidiaries, are shown at . . . . .		875,374.38
A difference of . . . . .		\$ 5,379,103.54
<i>This difference is attributable to:</i>		
(a) Investment in Thunder Bay Paper Co. Limited grouped by Receiver in Investments in securities of subsidiary Companies, and other changes in classification . . . . .	\$ 5,537,271.54	
(b) Assets of subsidiary Companies represented in Receiver's statement in Investments in subsidiary Companies . . . . .		2,512.00
	\$ 5,539,783.54	
<i>Less—</i>		
(c) Reserves not taken up by Receiver . . . . .		160,680.00
		\$ 5,379,103.54

## RELATIVE TO FIXED ASSETS:

These are shown as assets on Consolidated Balance Sheet as follows:

Plant, machinery and equipment . . . . .	\$107,974,153.21	
Lands, timber limits and undeveloped water powers, etc. . . . .	52,708,219.15	
	\$160,682,372.36	
As against which, reserves for depreciation and depletion included in the liabilities are shown at . . . . .		27,650,566.87
Leaving a net amount of . . . . .		\$133,031,805.49
In the Receiver's Statement, the book values of such assets are carried as follows:		
(a) Fixed assets of subsidiary Companies represented in Receiver's statement in item of \$45,214,591.69 covering investments in subsidiary Companies . . . . .	\$45,181,933.89	
(b) Investments in mills, townsites and buildings, railways, water powers and equipment . . . . .	47,997,753.00	
(c) Timber concessions and freehold timber owned . . . . .	20,005,795.00	
(d) Real estate and buildings . . . . .	328,623.00	
(e) Chattels and equipment . . . . .	35,602.00	
		113,549,706.89
Leaving a difference of . . . . .		\$ 19,482,098.60
<i>This difference is attributable to:</i>		
(a) Capital surplus of Abitibi Power & Paper Co., Ltd., applied by Receiver in reduction of book values of timber limits . . .	\$19,557,135.70	
(b) Adjustments made by Receiver . . . . .		49,188.00
	\$19,606,323.70	
<i>Less—</i>		
(c) Items included in fixed assets by Receiver, but which are shown under other headings in the Consolidated Balance Sheet . . . . .		124,225.00
		\$ 19,482,098.70



