



Abitibi



ANNUAL REPORT • 1953

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ABITIBI

POWER & PAPER
COMPANY, LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31

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ABITIBI POWER & PAPER COMPANY, LIMITED

Executive Offices: 408 University Avenue, Toronto, Ontario

BOARD OF DIRECTORS

*DOUGLAS W. AMBRIDGE	CHARLES L. GUNDY
HON. EDOUARD ASSELIN, Q.C.	T. RODGIE McLAGAN
*EDWARD W. BICKLE	ROBERT H. REID
HARRY J. CARMICHAEL	JOSEPH P. RIPLEY
ALLAN GRAYDON, Q.C.	*WILLIAM H. SMITH
*J. S. D. TORY, Q.C.	

**Members of Executive Committee*

OFFICERS

DOUGLAS W. AMBRIDGE, President and General Manager	CLARK B. DAVIS, Vice-President (<i>Woodlands</i>)
WILLIAM H. SMITH, Vice-President	ARTHUR P. JEWETT, Vice-President (<i>Sales</i>)
ROBERT J. ASKIN, Vice-President (<i>Manufacturing</i>)	W. STANLEY ROTHWELL, Treasurer
LAURENCE B. POPHAM, Secretary	

MANAGEMENT COMMITTEE

DOUGLAS W. AMBRIDGE, Chairman	
ROBERT J. ASKIN	CLARK B. DAVIS
JAMES C. BINNIE	ARTHUR P. JEWETT
LESLIE CLEMINSON	W. STANLEY ROTHWELL

TRANSFER AGENTS

Montreal Trust Company, Toronto, Ont., Montreal, Que. and Vancouver, B.C.
City Bank Farmers Trust Company, New York, N.Y.

REGISTRARS

The Toronto General Trusts Corporation, Toronto, Ont. and Vancouver, B.C.
The Eastern Trust Company, Montreal, Que.
The National City Bank of New York, New York, N.Y.

AUDITORS

Price Waterhouse & Co., Toronto, Ont.



Highlights of the year

	1953	1952
Paper, pulp and board produced.....	914,227 tons	917,442 tons
Net sales.....	\$109,768,039	\$107,381,890
Taxes on income.....	\$ 11,385,000	\$ 12,272,000
Net earnings for the year.....	\$ 10,044,152	\$ 9,097,759
Per common share.....	\$ 2.27	\$ 2.02
Dividends declared on preferred shares.....	\$ 1,575,624	\$ 1,575,624
Dividends declared on common shares.....	\$ 3,911,336	\$ 3,725,082
Per common share.....	\$ 1.05	\$ 1.00
Invested in properties, plant and equipment.....	\$ 4,539,643	\$ 4,776,602
Reduction in funded debt.....	\$ 2,817,500	\$ 2,639,500
Working capital at end of year.....	\$ 31,197,679	\$ 28,876,445
Number of shareholders.....	20,428	18,904

Data on this page and all others up to and including page 23 relate to Abitibi Power & Paper Company, Limited and subsidiary companies only.

Data on pages 24 to 28 inclusive relate to Alaska Pine & Cellulose Limited and subsidiary companies.



P*resident's report to the shareholders*

The results of the operations of the Company for the year 1953 were for the most part satisfactory.

Demand for the Company's principal product, newsprint paper, was good during the year except for a few weeks in April and May when a shortage of orders made a reduction in output necessary.

The mills of Provincial Paper, Limited ran at a high percentage of their rated capacity and produced 75,506 tons of printing and fine papers.

In the wood pulp markets of the world, however, the situation is not good. For the past several years pulp mill capacity has been increased, particularly in North America, with the result that there now exists surplus capacity in most grades of wood pulp. Consequently prices are comparatively low, and earnings from pulp sales are unsatisfactory.

Production of hardboard at Sturgeon Falls was 25% higher than it was in 1952, and there is every hope that the use of hardboard in Canada will increase year by year as its many advantages become more familiar to the users of lumber and other building materials.

Total production in the mills of the Company was 914,227 tons during 1953 which compares with 917,442 tons produced in 1952.

Each year since the war the cost of producing pulp and paper has risen in spite of the tens of millions of dollars which have been invested in

better physical equipment in the mills and in the woods operations. Whether this yearly increase in the cost of production can go on year after year indefinitely into the future is an open question and one which must be given serious consideration by everyone concerned with the industry.

It is, of course, true that the cost of production in most industries on the North American continent continues to increase year by year, and the principal reason for this inexorable rise is the yearly increase in the wage rates of the industrial workers.

In the United States it may perhaps be possible for the economy to provide for a special class of citizen, the industrial worker, a constantly increasing share of the goods and services produced each year by the whole nation. But if Canada is to be forced to do likewise the results will not be good for the people of Canada who live in economic surroundings which are totally different from those which exist in the United States.

SALES, EARNINGS, TAXES AND DIVIDENDS

Net Sales for 1953 were \$109,768,039, the second highest in the history of the Company.

Consolidated earnings for the year ended December 31, 1953, after providing for all charges, including depreciation, depletion and taxes, amounted to \$10,044,152 as compared to \$9,097,759 for the previous year. After providing for preferred dividends earnings were equal to

\$2.27 per common share in 1953 as compared with \$2.02 in 1952.

One of the important factors in both sales and earnings is, of course, the rate of exchange between Canadian and United States funds. The year 1953 began with United States funds at a discount of nearly 3%. By mid-year the American dollar had strengthened and the discount was only ½%, but as the year ended the discount was back to nearly 3%, since then this discount has continued to increase.

It is to be hoped that the value of the American dollar will rise, and that the disparity which now exists between these two neighboring currencies will disappear.

Last year it was necessary to record a large increase in the timber dues levied by the Government of Ontario upon the pulp and paper industry. This year another burdensome increase in the price of power has been levied upon some of the pulp and paper companies by the Hydro-Electric Power Commission of Ontario.

In sharp contrast was the very welcome relief which the Federal Government accorded to both the newsprint industry and to the publishers of newspapers. The latter were relieved of the sales tax on newsprint during the year and both paper companies and publishers benefited from the reduced rate of income tax which was put into effect as of January 1, 1953.

This tax relief was an important factor in bringing about the satisfactory results of the past year. However, it will be noted that \$11,385,000 was provided for corporation taxes in 1953.

No dividends were received during the year on the Company's investment in the shares of Alaska Pine & Cellulose Limited.

In November 1953 the Directors increased the quarterly dividend on common shares payable January 1, 1954, from 25 cents per share to 30 cents per share in view of the steady progress which the Company has made physically and financially and in the belief that the year 1954

will be as satisfactory as was the year 1953. Thus, dividends declared out of 1953 earnings amounted to \$1.05 per share. Dividends paid during the year on the common shares amounted to \$3,725,082, being at the rate of \$1.00 per share, the same rate as for the previous year.

Dividends paid during the year on the preferred shares amounted to \$1,575,624, the same figure as for the previous year.

BALANCE SHEET

Working Capital again increased and stood at \$31,197,679 at December 31, 1953. This represents an increase of \$2,321,234 over the same date of the previous year.

It is to be noted that the liquidity of the Company's current assets is much better this year, and that it has been possible to reduce still further the inventories of pulpwood, materials and supplies at the mills and in the woods.

A new item under Deferred Charges and Other Assets appears this year for the first time. In view of the substantial interest saving, the Directors decided to pay off the balance required to complete the programme commenced in 1946 to provide past service pensions for employees. The item of \$1,095,004, called "Employees' Past Service Pension Expense Deferred" will become a charge to expense in 1954 and 1955.

The final payment on the Timber Limits Purchase Agreement was also paid off a few months ahead of time in order to save interest charges.

PROPERTIES

Capital expenditures for plant and equipment during the year amounted to \$4,539,643.

The improvements to three paper machines at Iroquois Falls were completed, and these machines are now producing 22% more paper than previously.

A new grinder room was begun during the year at the Sault Ste. Marie mill, and this will be in operation early in 1954 and will reduce the labour cost at this mill substantially.



Production in tons

	NEWSPRINT PAPER	PRINTING AND FINE PAPERS	*BLEACHED SULPHITE PULP	*UNBLEACHED SULPHITE PULP	*GROUNDWOOD PULP	BOARD	TOTAL
1944	441,721	54,264	58,782			1,482	556,249
1945	456,412	56,335	59,288	6,978	11,405	1,149	591,567
1946	611,645	61,725	53,144	28,266	802	800	756,382
1947	657,556	65,628	59,484	37,548	4,287	8,213	832,716
1948	680,539	68,914	61,020	38,968	4,655	35,644	889,740
1949	673,297	64,900	57,418	11,804	93	31,605	839,117
1950	686,225	73,882	58,960	5,286		35,915	860,268
1951	716,112	83,365	57,345	32,564		46,547	935,933
1952	726,840	72,039	54,603	14,731		49,229	917,442
1953	728,039	75,506	57,835			52,847	914,227

**Exclusive of production for use of Abitibi and Subsidiaries*

A third and final new boiler was installed at Iroquois Falls, and the steam plant at this mill is now entirely modern and efficient.

As a result of research work done in both our own research centre and at the Pulp & Paper Research Institute in Montreal a new high-yield sulphite operation was begun at the Fort William mill. So far the results have been excellent and when the new process has been thoroughly proven it will be introduced into the other mills.

Nearly 30 years ago a logging railway was built connecting Iroquois Falls with certain areas in the surrounding timber limits. With the vast improvements in automotive equipment which have taken place in the past few years it is now more economical to operate a road and truck system than a railway. During the year parts of this railway were torn up and replaced by a trucking road. The whole of this project will be completed in 1955.

In addition to the above mentioned major expenditures many replacements and improvements were made in all the mills and in the woods operations of the Company.

ALASKA PINE & CELLULOSE LIMITED

The Company's equity in its holdings of 50% of the common shares of Alaska Pine & Cellulose Limited has increased as a result of earnings less dividends since the date of acquisition by \$2,707,989 of which \$516,582 accrued in 1953.

The consolidated financial statements of Alaska Pine & Cellulose Limited for the year ended December 31, 1953, with comparable statements for 1952, have been included in this report on pages 24 to 28. These statements have not been consolidated with those of Abitibi.

In the report for the year 1952 reference was made to the world-wide slump in the textile business and to the sharp drop in overseas rayon pulp prices which followed. In 1953 prices were lower still while the tonnage of pulp sold was about the same.

Sales of lumber were about 30% higher than they were in 1952 partly due to the strike which took place in that year. Lumber prices, however, were 15% lower. These lower price levels for the Company's products were combined with increased labour and supply costs and as a result earnings were affected very adversely.

Capital expenditures, amounting to \$4,482,576, were made on the properties of this Company during the year; most of these expenditures were at Port Alice where the rehabilitation planned in 1951 was completed. Competition for construction labour in Western Canada increased the cost of this programme and seriously delayed its completion so much so that the main benefits of the modernization will not make themselves felt until 1954.

The outlook for Alaska Pine & Cellulose Limited is, however, improved. The lumber market is showing signs of firmness and the probability is that pulp sales will be somewhat higher in volume. In 1954, of course, production costs should be lower due to the great improvement in the physical condition of the Port Alice mill.

RESEARCH AND DEVELOPMENT

Abitibi has been active in many fields. A contract has been signed with Tasman Pulp and Paper Company Limited, a New Zealand concern now building a newsprint and pulp mill near Murapara in New Zealand. Under the provisions of this contract Abitibi is to act as chief advisor to Tasman on all matters appertaining to the future management and operation of the mill, and is to perform various services designed to bring the new plant up to full production as quickly as possible. Besides being profitable this arrangement with Tasman is bound to be of value in many other ways.

A party of engineers was sent to Brazil during the summer to explore the possibilities of paper or pulp making in that country. Some very valuable information was secured which will be the basis for any action which may in due course follow this survey.

Statement of source and application of funds

for the year ended December 31, 1953 and the period since reorganization on May 1, 1946

	Year ended December 31, 1953	Seven years and eight months since May 1, 1946
SOURCE OF FUNDS:		
Net earnings before provision for taxes on income.....	\$ 21,429,152	\$164,676,208
Non-cash charges for depreciation and depletion deducted in arriving at net earnings.....	6,532,298	40,810,885
Proceeds from sale of 4¼ % convertible debentures.....	—	9,700,000
Proceeds from disposal of capital assets.....	210,432	5,766,585
Other items - net.....	51,057	1,881,614
	<u>\$ 28,222,939</u>	<u>\$222,835,292</u>
APPLICATION OF FUNDS:		
Provision for taxes on income.....	\$ 11,385,000	\$ 84,580,104
Invested in common shares of Alaska Pine & Cellulose Limited	-	9,000,000
Invested in properties, plant and equipment.....	4,539,643	47,981,834
Invested in timber limits.....	400,000	1,600,000
Increase in deferred charges and other assets.....	1,272,602	1,149,192
Reduction in funded debt.....	2,817,500	30,502,200
Cost of preferred shares retired.....	-	14,019,004
Dividends declared on preferred shares.....	1,575,624	13,259,778
Dividends declared on common shares.....	3,911,336	16,016,248
	<u>\$ 25,901,705</u>	<u>\$218,108,360</u>
RESULTING IN AN INCREASE IN WORKING CAPITAL OF	<u>\$ 2,321,234</u>	<u>\$ 4,726,932</u>
CHANGES IN WORKING CAPITAL DURING THE PERIOD CONSIST OF INCREASES AND (DECREASES) AS FOLLOWS:		
Current Assets -		
Cash and Government bonds.....	\$ 810,622	\$ (11,953,640)
Investment in short term securities.....	2,486,914	2,486,914
Accounts receivable.....	759,289	5,764,251
Operating inventories.....	(2,412,371)	13,518,061
	<u>\$ 1,644,454</u>	<u>\$ 9,815,586</u>
Current Liabilities.....	<u>(676,780)</u>	<u>5,088,654</u>
Net increase as above.....	<u>\$ 2,321,234</u>	<u>\$ 4,726,932</u>



The Company's mining explorations were carried out on about the same scale as in the previous two years. During 1953, however, advantage was taken of the availability of a helicopter to make electrical surveys over areas which had shown promise. These very modern prospecting methods should, sooner or later, uncover interesting possibilities.

The Company acquired an interest in a new concern, Ambank Airlift Limited, which operates an S55 Sikorsky helicopter, a machine capable of lifting 2,000 lbs. The purpose of this move was to further the study of helicopter operations as an aid to fire fighting in the forests, surveying, etc., etc. So far the results are good and there can be little doubt that the helicopter will in the future be as much a factor in the development of the North Country as the conventional aircraft has been in the past.

Work at the Central Research Division at Sault Ste. Marie continues and the importance of this phase of the Company's activities grows every year. Mention has already been made in this report of the new process now being proven on a mill scale at Fort William. This process is one directly resulting from work done by the Research Division.

A search for methods of cutting and forest management generally which will ensure the greatest yield per acre consistent with sound economics is being conducted on Company

freehold land and this "woodlands laboratory" now has the roads, housing, rail spur and equipment needed for the operation of the first unit.

Efforts are being made to use aerial photography from a helicopter as a means of reducing the cost of field surveys and as an aid in planning woods operations.

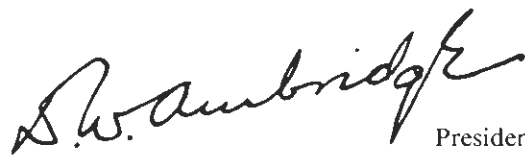
INDUSTRIAL RELATIONS

The wage negotiations with the Unions were this year protracted and difficult. The settlements arrived at with the major unions who have jurisdiction over the workers in the mills and the woods were unusual in that the new contract for the mills holds good until May 1, 1955 and that for the woods until August 31, 1955.

As each year passes it is satisfactory to be able to record that the work of the Company is being done with increasing skill, knowledge and understanding and especially is this so in the field of human relations. Various policies and practices have been established in recent years and these have for the most part proved wise and of benefit to all concerned.

The Directors again wish to express their appreciation of the excellent efforts of the employees of the Company during the year that has just passed.

On behalf of the Board,



President

Toronto, March 1, 1954.

A N N U A L M E E T I N G

The Annual General Meeting of Shareholders will be held at the Royal York Hotel in the City of Toronto on Thursday, the 8th day of April, 1954 at the hour of eleven o'clock in the forenoon.



ABITIBI POWER &

CONSOLIDATED BALANCE

(With comparable balances)

ASSETS

CURRENT ASSETS:

	1953	1952
Cash on hand and in banks.....	\$ 4,355,250	\$ 3,544,628
Investment in short term securities, at cost.....	2,486,914	—
Accounts receivable, less reserves.....	11,383,938	10,624,649
Inventories of paper, pulp, wood, materials and supplies on the basis of cost, and expenditures on logging operations.....	31,227,969	33,640,340
	<u>\$ 49,454,071</u>	<u>\$ 47,809,617</u>

INVESTMENT IN ALASKA PINE & CELLULOSE LIMITED

(50% of outstanding common shares), at cost.....	<u>\$ 9,000,000</u>	<u>\$ 9,000,000</u>
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CAPITAL ASSETS:

Properties, plant and equipment – at gross physical values as at April 30, 1946 (as reported by Messrs. Coverdale & Colpitts, Consulting Engineers, New York, except as to Provincial Paper, Limited included at book values) plus subsequent additions at cost, less retirements.....	\$153,438,680	\$149,926,378
Less – Accumulated depreciation.....	<u>78,361,570</u>	<u>72,795,122</u>
	<u>\$ 75,077,110</u>	<u>\$ 77,131,256</u>
Timber concessions, agreements and licenses, waterpower rights and freehold timber areas, less accumulated depletion of \$3,509,846 (\$3,309,846 in 1952).....	16,922,537	17,122,535
	<u>\$ 91,999,647</u>	<u>\$ 94,253,791</u>

DEFERRED CHARGES AND OTHER ASSETS:

Prepaid insurance, taxes, etc.....	\$ 1,004,501	\$ 881,743
Employees' past service pension expense deferred.....	1,095,004	—
Unamortized bond discount and expense.....	352,165	421,668
Miscellaneous investments and other assets.....	651,791	527,448
	<u>\$ 3,103,461</u>	<u>\$ 1,830,859</u>

APPROVED ON BEHALF OF THE BOARD:

D. W. AMBRIDGE, *Director*
W. H. SMITH, *Director*

\$153,557,179 \$152,894,267

PAPER COMPANY, LIMITED

SHEET DECEMBER 31, 1953

as at December 31, 1952)

LIABILITIES

CURRENT LIABILITIES:

	1953	1952
Accounts payable.....	\$ 8,390,810	\$ 7,622,549
Dividends payable.....	1,511,431	1,325,177
Interest accrued on bonds and debentures.....	265,839	296,600
Provision for income and other taxes.....	7,085,812	7,988,346
Serial bonds and sinking fund payments due April 1st next.....	1,002,500	1,700,500
	<u>\$ 18,256,392</u>	<u>\$ 18,933,172</u>

TIMBER LIMITS PURCHASE AGREEMENT.....	\$ —	\$ 400,000
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FUNDED DEBT:

First Mortgage Bonds:			
Authorized.....	<u>\$65,000,000</u>		
Issued and outstanding:			
3½% First Mortgage Serial Bonds, Series "A" (\$1,000,000 maturing annually)			
Issued.....	\$10,000,000		
Redeemed and cancelled.....	<u>6,000,000</u>	\$ 4,000,000	\$ 5,000,000
3½% First Mortgage Twenty-Year (Sinking Fund) Bonds, Series "A", maturing April 1, 1967			
Issued.....	\$35,000,000		
Redeemed and cancelled.....	<u>12,666,000</u>	22,334,000	24,849,500
		<u>\$ 26,334,000</u>	<u>\$ 29,849,500</u>
Less – Serial bonds and sinking fund payments included with current liabilities.....		1,002,500	1,700,500
		<u>\$ 25,331,500</u>	<u>\$ 28,149,000</u>
4¼% Convertible Debentures maturing June 1, 1961.....		10,000,000	10,000,000
		<u>\$ 35,331,500</u>	<u>\$ 38,149,000</u>

RESERVE AGAINST POSSIBLE DECLINE IN INVENTORY VALUES	\$ 4,500,000	\$ 4,500,000
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CAPITAL AND SURPLUS:

Preferred shares –		
Annual cumulative dividend of \$1.50 a share; redemption and distribution value \$25 a share; 1,050,416 shares of a par value of \$20 each.....	\$ 21,008,320	\$ 21,008,320
Common shares –		
Authorized 6,000,000 shares without nominal or par value (400,000 shares reserved in respect of debentures and 60,000 shares reserved under option agreements in favour of senior executives); issued 3,725,082 shares.....	25,941,295	25,941,295
Earned surplus, since May 1, 1946.....	48,519,672	43,962,480
	<u>\$ 95,469,287</u>	<u>\$ 90,912,095</u>
	<u>\$153,557,179</u>	<u>\$152,894,267</u>



ABITIBI POWER &

STATEMENT OF CONSOLIDATED EARNINGS

(With comparable statements)

Net sales after deducting outward freight, etc.....

Less –

Operating costs including administrative, selling and general expenses,
but before provision for depreciation, depletion, etc.....

Add –

Dividends from Alaska Pine & Cellulose Limited.....

Deduct –

Provision for depreciation.....

Provision for depletion.....

Employees' retirement income plan.....

Interest on First Mortgage Bonds.....

Interest on Convertible Debentures.....

Amortization of bond discount and expense.....

Discount on Convertible Debentures.....

Dividends on preference shares of Provincial Paper, Limited.....

Earnings before provision for taxes on income.....

Deduct – Provision for taxes on income.....

Net earnings for the year.....

Note: For the year 1953 fees of directors not holding salaried positions amounted to \$20,200 and counsel and solicitors' fees, salaries and fees of executive officers and directors holding salaried positions amounted to \$425,115.

DIVIDEND RECORD FOR FIVE

Declared on prior preferred shares.....

Declared on preferred shares.....

Declared on common shares.....

PAPER COMPANY, LIMITED

FOR THE YEAR ENDED DECEMBER 31, 1953

for the preceeding four years)

1953	1952	1951	1950	1949
\$109,768,039	\$107,381,890	\$111,528,208	\$93,776,756	\$84,677,709
<u>78,859,483</u>	<u>76,558,811</u>	<u>73,568,574</u>	<u>62,590,832</u>	<u>59,179,992</u>
\$ 30,908,556	\$ 30,823,079	\$ 37,959,634	\$31,185,924	\$25,497,717
<u>—</u>	<u>—</u>	<u>1,174,851</u>	<u>—</u>	<u>—</u>
\$ 30,908,556	\$ 30,823,079	\$ 39,134,485	\$31,185,924	\$25,497,717
\$ 6,332,298	\$ 6,194,055	\$ 5,993,932	\$ 5,472,168	\$ 4,993,241
200,000	225,000	200,000	150,000	125,000
1,478,425	1,461,481	1,348,449	1,274,497	1,264,256
974,178	1,077,159	1,177,769	1,282,322	1,393,876
425,000	425,000	242,095	—	—
69,503	70,625	89,363	103,104	100,397
—	—	300,000	—	—
—	—	40,000	40,000	40,000
\$ 9,479,404	\$ 9,453,320	\$ 9,391,608	\$ 8,322,091	\$ 7,916,770
\$ 21,429,152	\$ 21,369,759	\$ 29,742,877	\$22,863,833	\$17,580,947
<u>11,385,000</u>	<u>12,272,000</u>	<u>16,745,000</u>	<u>10,240,000</u>	<u>7,800,000</u>
\$ 10,044,152	\$ 9,097,759	\$ 12,997,877	\$12,623,833	\$ 9,780,947

YEARS ENDED DECEMBER 31, 1953

1953	1952	1951	1950	1949
\$ —	\$ —	\$ —	\$ —	\$ 62,500
1,575,624	1,575,624	1,575,624	1,730,406	2,054,105
3,911,336	3,725,082	3,724,853	2,793,050	1,861,927
<u>\$ 5,486,960</u>	<u>\$ 5,300,706</u>	<u>\$ 5,300,477</u>	<u>\$ 4,523,456</u>	<u>\$ 3,978,532</u>



ABITIBI POWER & PAPER COMPANY, LIMITED

STATEMENT OF CONSOLIDATED EARNED SURPLUS

(Since May 1, 1946)

FOR THE YEAR ENDED DECEMBER 31, 1953

(With comparable statement for the year ended December 31, 1952)

	1953	1952
Earned surplus at beginning of year.....	\$43,962,480	\$40,165,427
Net earnings for the year.....	<u>10,044,152</u>	<u>9,097,759</u>
	<u>\$54,006,632</u>	<u>\$49,263,186</u>
<i>Deduct –</i>		
Dividends declared on preferred shares:		
37½c per share payable April 1, 1953.....	\$ 393,906	
37½c per share payable July 1, 1953.....	393,906	
37½c per share payable October 1, 1953.....	393,906	
37½c per share payable January 1, 1954.....	<u>393,906</u>	
	\$ 1,575,624	\$ 1,575,624
Dividends declared on common shares:		
25c per share payable April 1, 1953.....	\$ 931,271	
25c per share payable July 1, 1953.....	931,270	
25c per share payable October 1, 1953.....	931,270	
30c per share payable January 1, 1954.....	<u>1,117,525</u>	
	<u>3,911,336</u>	<u>3,725,082</u>
	<u>\$ 5,486,960</u>	<u>\$ 5,300,706</u>
Earned surplus at end of year.....	<u>\$48,519,672</u>	<u>\$43,962,480</u>



A U D I T O R S ' R E P O R T

PRICE WATERHOUSE & CO.

ROYAL BANK BUILDING

TORONTO

February 9 1954.

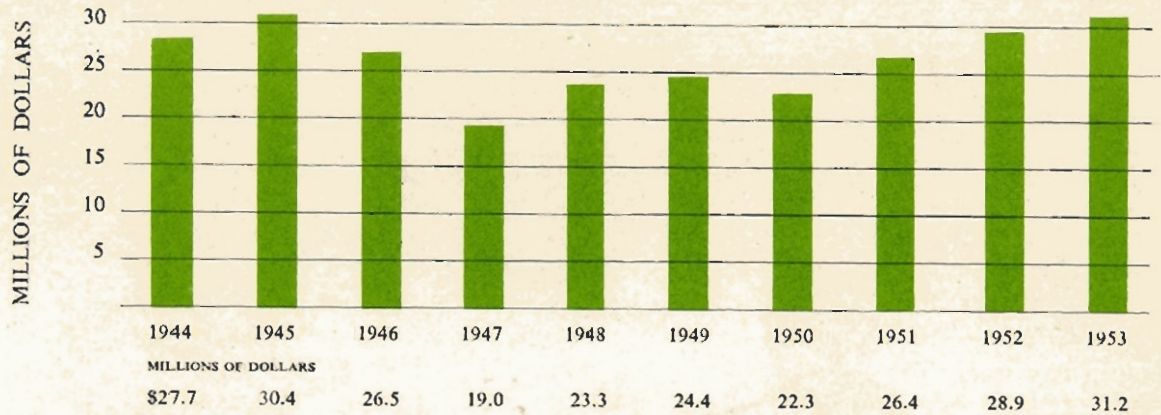
To the Shareholders of
ABITIBI POWER & PAPER COMPANY, LIMITED:

We have examined the consolidated balance sheet of Abitibi Power & Paper Company, Limited and subsidiary companies as at December 31 1953 and the related statements of consolidated earnings and consolidated earned surplus for the year then ended and have obtained all the information and explanations which we required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

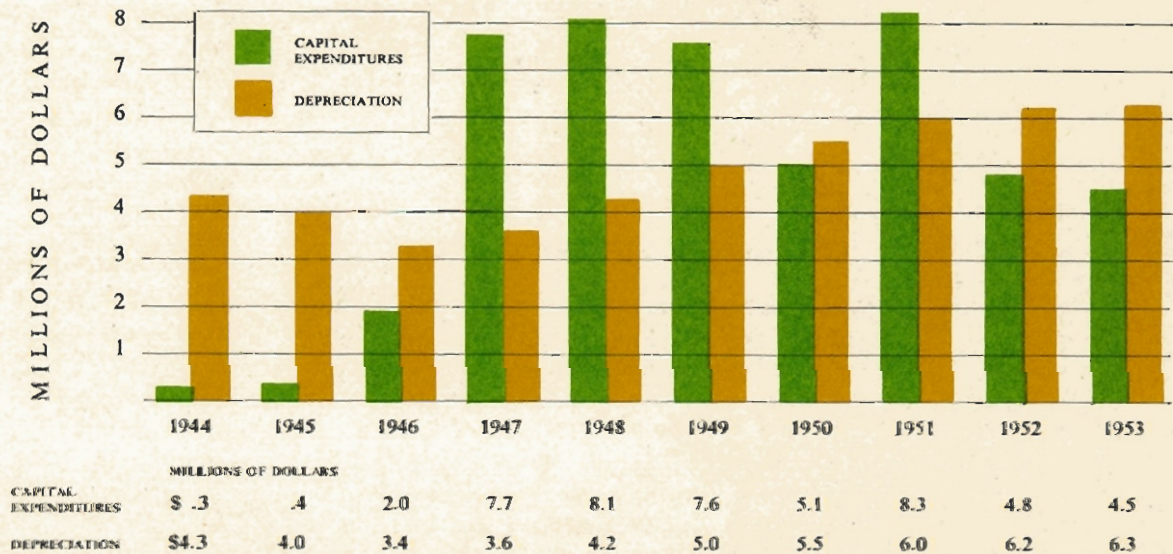
In our opinion, the accompanying consolidated balance sheet and related statements of consolidated earnings and consolidated earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31 1953 and the result of operations for the year then ended according to the best of our information and the explanations given to us and as shown by the books of the companies.

Auditors

Working capital

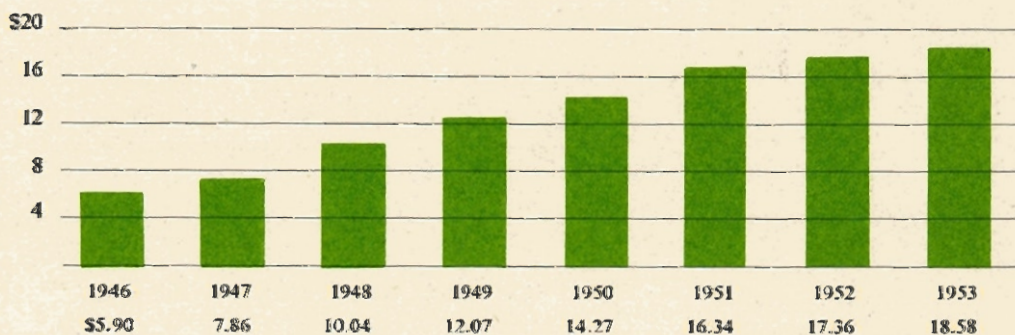


Capital expenditures and depreciation



Common stock equity per share

(On basis of 3,725,082 shares outstanding at December 31, 1953)



P*erpetuating our forests...*



Abitibi's raw material is the forest tree.

Upon its availability in plentiful supply depends the whole future of our operations.

Thus, for each tree harvested, it is essential that an adequate number of seedlings get a healthy start in life. The regeneration of our forest areas is one of our most vital interests.

Studies which have been made by Abitibi and by others amply confirm that nature is the best reforester. Given a reasonable opportunity, she will seed and produce successive crops.

Under normal conditions, trees such as the black spruce pictured above bear cones which ripen and, in due course, spread their seeds over the forest floor. A percentage of the seeds germinate and a new crop of trees is under way.

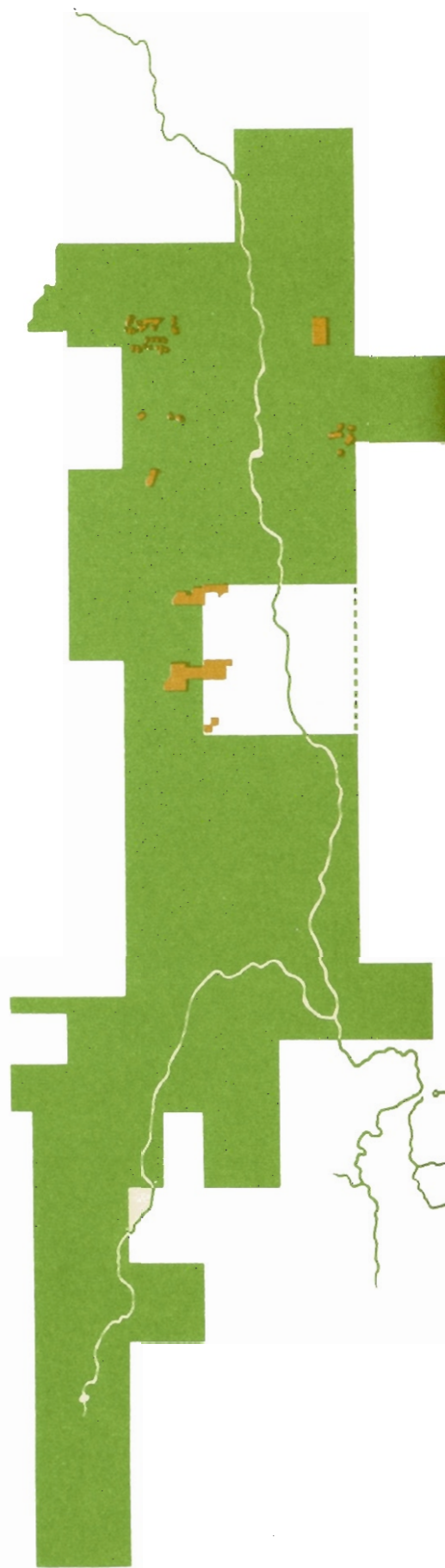
Sometimes, however, Mother Nature faces hazards from disease, fire, insects and other things which interfere with her task of regeneration. In our forest limits, it is routine procedure to have foresters, such as the man shown at the left, make periodic surveys of all areas where cutting has been done to check the new growth which is coming along. In this way, Abitibi's knowledge of the forest resources is kept continually up to date and cutting can be carefully planned to take, on the average, no more than the net annual crop.



The block plan to the right represents our Smooth Rock Falls limit with the Mattagami River flowing northward through it. The yellow sections represent the areas in which cutting is to be done in 1953-54. Since a black spruce takes about 100 years to develop from a seedling to a mature tree, our cutting must be so planned that it will not be necessary to draw upon these sections again before the year 2054.



The photograph below, taken from a road recently put through one of our limits, shows new growth in an area which was cut over in 1925. These healthy trees were very small seedlings when the mature trees were taken out. Now they, in turn, are well on their way toward maturity.





Throughout the world, demand for wood fibre in an ever increasing range of uses is constantly growing. To keep pace with this demand without depleting the forest resources, planning for increased supply must be done many years in advance. A major element in Abitibi's long range planning in this connection is our 40,000 acre Woodlands Laboratory located in our freehold limits north of Lake Superior. Here, under controlled conditions, skilled foresters are investigating procedures whereby Mother Nature can be helped to produce more wood from each forest acre, more consistently. Among other things, various cutting techniques are being studied. Some of them are shown below.



This plot has been cut in the usual way with all of the sound, mature trees being removed. The young trees which remain are at various stages of growth. The smaller seedlings cannot be seen under their blanket of snow. The plot will be left to develop in the natural way with no assistance from man whatsoever. Later on, its progress will be compared with that of other plots treated in different ways.

Seedlings will not grow in the shade of this dense, young stand of jackpine. A strip cut has been made to allow sunlight to penetrate. The exposed forest floor will be scarified or raked to provide a good seed bed. The tops and branches from the cutting will be spread over the soil as a source of seed and to help retain moisture in the ground.



In this area, the spruce was undersized and bore few cones because the faster growing jackpine and poplar kept out the light. An experimental "improvement cut" has removed some of the jackpine and poplar in an effort to bring along the spruce and provide conditions favourable to the development of seedlings of this species. Out of this experiment will come a broader knowledge of what can be done to increase the yield of the more desirable species in an area.



Equipped with paint spray gun, this forester is marking for removal those trees which are imperfect or are crowding others. The desirable, vigorous trees will thus be provided with greater living space and opportunity for faster growth. The results of this thinning will be studied against results in a comparable control plot where nature has been left to her own devices.

Roads are the vital and major arteries of the forests. They provide access for men and equipment to combat the ravages of fire, insects and disease. They make possible the year round transport of pulpwood. With the steady extension of road systems through our limits, we secure greater flexibility in our woods operations and we are able

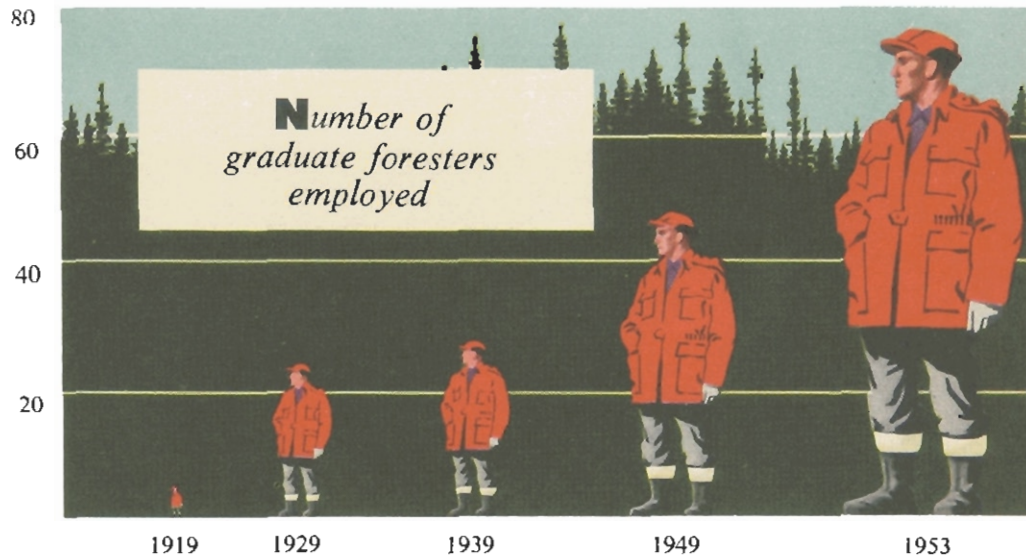
to harvest the forests more efficiently and economically and secure the maximum yield.

The road pictured below runs through a section of our Iroquois Falls limit which was logged 40 years ago. This is a splendid example of nature's ability to produce a bounteous, new crop of trees. ▴



Abitibi maintains a staff of skilled foresters to manage and operate the forest limits which form the very foundations of our Company.

In 1919 we employed 4 graduate foresters. To-day, the number is 76. These specialists and their staffs plan and administer all phases of woods operations. It is their function to assure efficient and economical day-to-day and long range programmes.



A basic forest inventory obtained from aerial surveys is constantly supplemented and kept up-to-date from detailed reports on the size, condition and rate of growth of the various species. Co-ordinated by skilled technicians, this mass of information provides the basis for the sound forest management which assures Abitibi's wood supply in perpetuity.



MILLS

DEVELOPED WATER POWERS

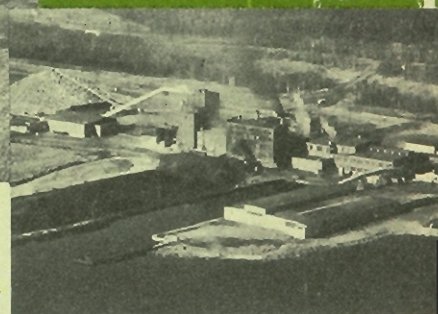


ASSOCIATED COMPANIES

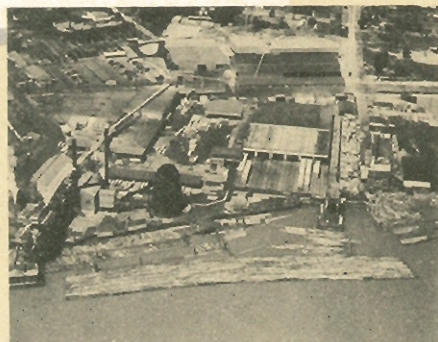
ALASKA PINE &
CELLULOSE LIMITED
and
SUBSIDIARY COMPANIES



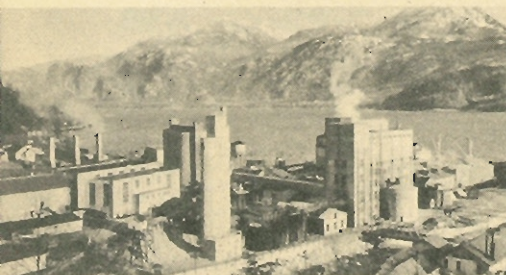
1. PORT ARTHUR
Printing and fine papers



2. PORT ARTHUR
Newsprint



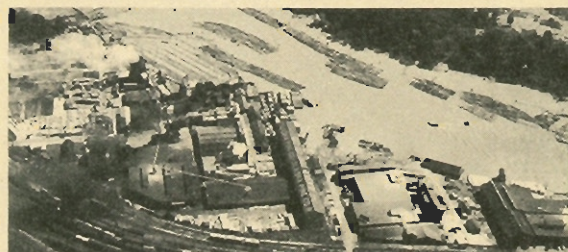
1. VANCOUVER
Lumber



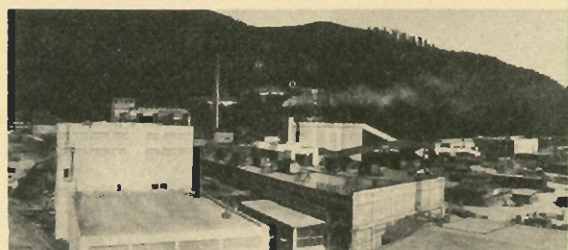
2. WOODFIBRE
*Dissolving and
paper grade pulp*



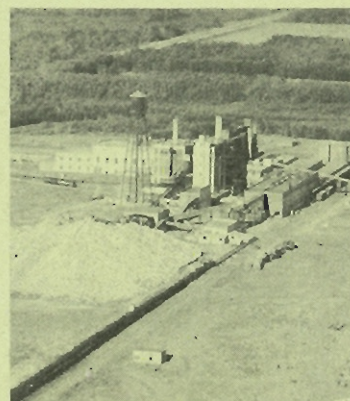
3. PINE FALLS *Newsprint*



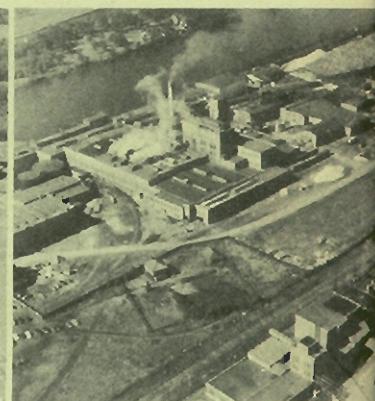
3. NEW
WESTMINSTER
Lumber



4. PORT ALICE
*Dissolving and
paper grade pulp*



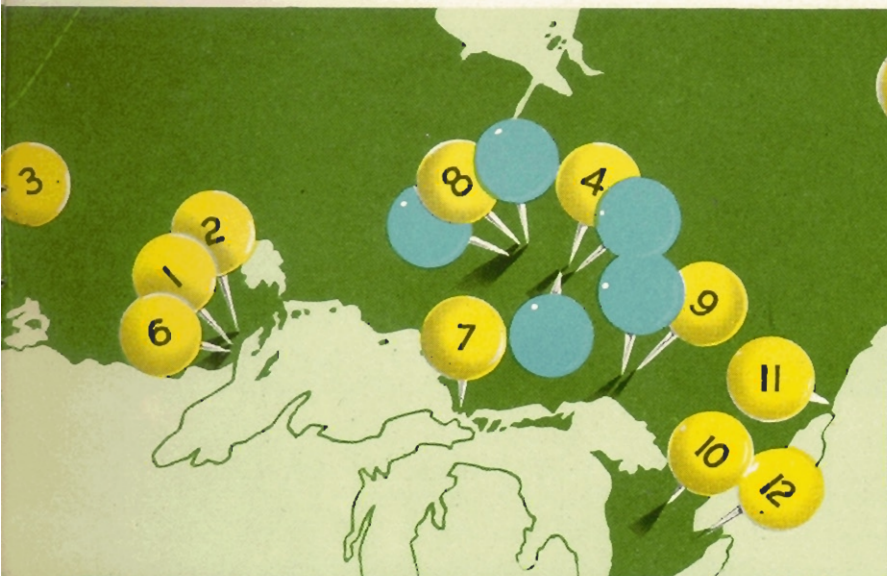
6. FORT WILLIAM *Newsprint*



7. SAULT STE. MARIE
Newsprint and unbleached sulphite

ABITIBI POWER & PAPER COMPANY, LIMITED

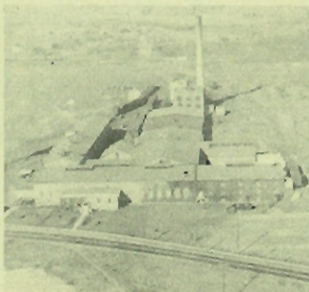
AND SUBSIDIARY AND ASSOCIATED COMPANIES



4. IROQUOIS FALLS *Newsprint*



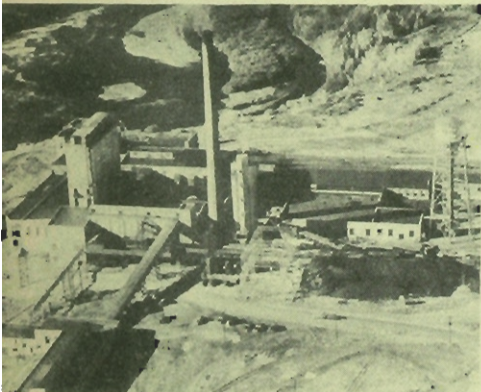
5. BEAUPRE *Newsprint*



11. MILLE ROCHES
Printing and fine papers



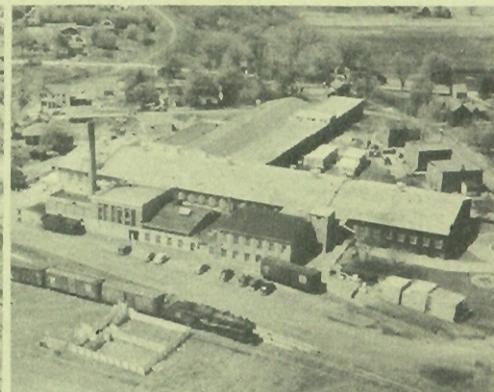
12. THOROLD
Printing and fine papers



8. SMOOTH ROCK FALLS
Bleached sulphite



9. STURGEON FALLS *Hardboard
and corrugating board*



10. GEORGETOWN *Printing and fine papers*

An aerial photograph of a mountainous landscape. The upper portion of the image shows a dense, dark forest covering a mountain slope. A white rectangular box is superimposed over the middle of the image, containing the text "ALASKA PINE & CELLULOSE LIMITED". Below the box, the landscape continues with a cleared, light-colored path or road winding through the forest. A stream or river flows through the cleared area, and several tall, thin poles or markers are visible along the path. The lower portion of the image shows more forested slopes and a small body of water in the bottom left corner.

ALASKA PINE & CELLULOSE LIMITED

ALASKA PINE & CELLULOSE LIMITED

STATEMENT OF CONSOLIDATED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1953

(with comparable statement for the year ended December 31, 1952)

	1953	1952
Net sales after deducting outward freight, etc.	\$36,676,275	\$36,901,475
<i>Less –</i>		
Operating costs including administrative, selling and general expenses, but before provision for depreciation, depletion, etc.	<u>29,244,087</u> <u>\$ 7,432,188</u>	<u>29,457,988</u> <u>\$ 7,443,487</u>
<i>Deduct –</i>		
Provision for depreciation	\$ 3,288,162	\$ 2,958,843
Provision for depletion	457,818	490,400
Contribution to employees' pension plan	302,230	244,495
Interest on First Mortgage Bonds	583,196	615,677
Amortization of bond discount and expense	<u>56,056</u>	<u>74,020</u>
	<u>\$ 4,687,462</u>	<u>\$ 4,383,435</u>
Earnings before provision for taxes on income	\$ 2,744,726	\$ 3,060,052
<i>Deduct –</i>		
Provision for taxes on income	<u>1,660,000</u>	<u>1,950,000</u>
Net earnings for the year	<u>\$ 1,084,726</u>	<u>\$ 1,110,052</u>

Note: For the year 1953 fees of directors not holding salaried positions amounted to \$3,800 and counsel and solicitors' fees, salaries and fees of executive officers and directors holding salaried positions amounted to \$162,320.

STATEMENT OF CONSOLIDATED EARNED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1953

(with comparable statement for the year ended December 31, 1952)

	1953	1952
Earned surplus at beginning of year	\$14,727,161	\$13,699,609
Net earnings for the year	<u>1,084,726</u> <u>\$15,811,887</u>	<u>1,110,052</u> <u>\$14,809,661</u>
<i>Deduct –</i>		
Dividends on preference shares	41,250	82,500
Earned surplus at end of year	<u>\$15,770,637</u>	<u>\$14,727,161</u>



ALASKA PINE &

CONSOLIDATED BALANCE

(with comparable balances)

ASSETS

	1953	1952
CURRENT ASSETS:		
Cash on hand and in banks	\$ 2,278,805	\$ 2,431,254
Accounts receivable	2,425,219	3,515,700
Inventories of logs, pulp, lumber, materials and supplies, on the basis of cost or market, whichever lower	<u>7,663,114</u>	<u>9,159,488</u>
	<u>\$12,367,138</u>	<u>\$15,106,442</u>
INVESTMENTS:		
Investments in subsidiary companies not wholly-owned and not consolidated	\$ 1,750,000	\$ 1,750,000
Note: The company's equity in subsidiary companies not wholly-owned and not consolidated, as shown by their respective balance sheets as at September 30, 1953 and December 31, 1953 exceeds the value shown herein by approximately \$1,115,000. The equity in the earnings of these subsidiary companies for their fiscal periods ended in 1953, as shown by their income accounts, amounted to approximately \$149,000; no dividends were received from these subsidiary companies during the year.		
Sundry investments	<u>524,000</u>	<u>600,000</u>
	<u>\$ 2,274,000</u>	<u>\$ 2,350,000</u>
CAPITAL ASSETS:		
Properties, plant and equipment at gross physical values as at December 31, 1950 (as reported by Messrs. Coverdale & Colpitts, Consulting Engineers, New York, except as to boats, scows, etc., included at cost) plus subsequent additions at cost, less retirements	\$56,586,491	\$52,683,349
Less –		
Accumulated depreciation	<u>19,971,038</u>	<u>17,131,700</u>
	<u>\$36,615,453</u>	<u>\$35,551,649</u>
Timber and pulp leases and licenses, waterpower rights and freehold lands at cost, less accumulated depletion of \$2,744,167 (\$2,286,349 in 1952)	<u>6,900,044</u>	<u>7,340,293</u>
	<u>\$43,515,497</u>	<u>\$42,891,942</u>
DEFERRED CHARGES AND OTHER ASSETS:		
Insurance and other expenses prepaid	\$ 364,385	\$ 625,510
Logging roads, less amounts written off	884,522	713,294
Advances to logging contractors	474,116	715,451
Unamortized bond discount and expense	462,217	518,273
Sundry advances and other assets	<u>421,641</u>	<u>744,912</u>
	<u>\$ 2,606,881</u>	<u>\$ 3,317,440</u>
	<u>\$60,763,516</u>	<u>\$63,665,824</u>

CELLULOSE LIMITED

SHEET DECEMBER 31, 1953

as at December 31, 1952)

LIABILITIES

	1953	1952
CURRENT LIABILITIES:		
Accounts payable.....	\$ 2,765,764	\$ 3,852,487
Amounts owing to subsidiary companies not consolidated.....	141,614	1,164,531
Dividend payable on preference shares.....	—	41,250
Interest accrued on First Mortgage Bonds, Series "A".....	96,164	100,341
Provision for income and other taxes.....	937,799	1,260,516
Serial bonds and sinking fund payments due within one year.....	663,000	667,000
	<u>\$ 4,604,341</u>	<u>\$ 7,086,125</u>
BANK LOANS (secured):		
Repayable in instalments 1955-1957.....	<u>\$ 2,650,000</u>	<u>\$ 3,450,000</u>
FIRST MORTGAGE BONDS:		
Authorized.....	<u>\$20,000,000</u>	
Issued and outstanding —		
3½% Serial Bonds, Series "A" (\$500,000 maturing annually):		
Issued.....	\$ 1,500,000	
Redeemed and cancelled.....	<u>1,000,000</u>	\$ 500,000
4½% Sinking Fund Bonds, Series "A", maturing May 1, 1966:		
Issued.....	\$13,500,000	
Redeemed and cancelled.....	<u>1,067,000</u>	12,433,000
4½% Bonds, Series "B", maturing May 1, 1966:		
Issued.....	\$ 3,000,000	
Less —		
Held by trustee to order of the company.....	750,000	
Pledged as collateral to bank loans.....	<u>\$ 2,250,000</u>	—
	<u>\$12,933,000</u>	<u>\$13,601,000</u>
Less —		
Serial bonds and sinking fund payments included with current liabilities....	663,000	667,000
	<u>\$12,270,000</u>	<u>\$12,934,000</u>
RESERVE AGAINST POSSIBLE DECLINE IN INVENTORY VALUES...	<u>\$ 900,000</u>	<u>\$ 900,000</u>
CAPITAL AND SURPLUS:		
Preference shares —		
Annual cumulative dividend of \$5 a share; redeemable at par;		
authorized and issued — 16,500 shares of a par value of \$100 each.....	\$ 1,650,000	\$ 1,650,000
Common shares —		
Authorized — 150,000 shares without nominal or par value;		
issued — 100,000 shares.....	3,000,000	3,000,000
Excess of appraised value over depreciated cost of capital assets.....	19,918,538	19,918,538
Earned surplus.....	15,770,637	14,727,161
	<u>\$40,339,175</u>	<u>\$39,295,699</u>
Note: The trust deed securing the First Mortgage Bonds places certain restrictions on the payment of dividends.	<u>\$60,763,516</u>	<u>\$63,665,824</u>



A U D I T O R S ' R E P O R T

PRICE WATERHOUSE & CO.

MARINE BUILDING

VANCOUVER

February 11 1954

To the Shareholders of
ALASKA PINE & CELLULOSE LIMITED:

We have examined the consolidated balance sheet of Alaska Pine & Cellulose Limited and subsidiary companies as at December 31 1953 and the related statements of consolidated earnings and consolidated earned surplus for the year then ended and have obtained all the information and explanations which we required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Pursuant to Section 118 of The Companies Act, we report that the company's share of the earnings for the year of subsidiary companies not consolidated has not been taken up in the attached statement of consolidated earnings.

In our opinion, the accompanying consolidated balance sheet and related statements of consolidated earnings and consolidated earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31 1953 and the result of operations for the year then ended, according to the best of our information and the explanations given to us and as shown by the books of the companies.

Auditors





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