ABITIBI POWER AND PAPER COMPANY, LTD.

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THE PULP AND PAPER INDUSTRY IN CANADA

CHAPTER 1.

The pulp and paper industry is one of the most important of Canada. Before the First World War it was of minor importance, but since then there has been a phenomenal development of the industry until now newsprint, its major product, is competing with wheat as the greatest export of Canada.

In volume of output valued in dollars, agriculture and mining are larger; but the economic importance of the pulp and paper industry cannot be questioned. Several hundred million dollars of capital have been invested in paper mills and timber limits, and every year millions are disbursed for wages, materials, transportation, taxes, and other items. The prosperity of agriculture depends to a certain extent on the welfare of this industryl for in 1937 the manufacturers of pulp and paper alone purchased approximately $8,000,000 worth of farm and livestock products. In the same year the approximate amount spent in wages and salaries for mill and wood operations was about $30,000,000.

This huge industry exerts a most important influence on the balance of Canadian trade. Every year Canada exports several hundred million dollars worth of newsprint to the markets of the world. In fact it might be said that whether Canada has a favourable or unfavourable balance of trade is dependent largely on the well-being of this industry.

Not only does the manufacture of pulp and paper in Canada produce more newsprint than any other country in the world, but also since the First World War it has started to manufacture other paper products such as pulp board, wrapping paper, kraft and allied products, book and writing paper, tissue, cigarette paper and numerous other kinds of products. The manufacture of these fine paper products is primarily for domestic demand, but tens of millions of square feet of pulp board are now exported for use as temporary shelters in bombed-out areas of the United Kingdom. Also this pulp board is being used for army huts in Canada, the United Kingdom, and North Africa. It is likely that in the future the pulp board industry will reach very high proportions, since to build air-conditioned houses will require the use of this material.

Other products besides newsprint and fine paper can be manufactured from wood pulp. The improvement of processes and technique in the production of alpha pulp has resulted in the establishment of the rayon industry. Already this is a large consumer of Canadian high-grade pulp and it is predicted that it will grow tremendously. Again, due to further improvements of processes and technique, staple fibres have begun to compete with material fibres. This staple fibre is being used to replace cotton and wool in a wide range of products and already it has had a remarkable success. Even at the present time staple fibre can compete commercially with wool for many uses. In the future when it can compete commercially with both wool and cotton, there will be a tremendous increase in the demand for this fibre made from pulpwood.

The manufacture of pulp and paper has been instrumental in opening up large parts of the country. The Companies engaged in this industry have cleared land, thus making it suitable for settlement and have promoted it by buying wood and agricultural products from the settlers and also have given them preference in employment in the industry. Railways have been built not only to supply the industry with a means of transportation of its own products, but also for the use of the public. An active part has been played by the industry in the development of power and in forest preservation by a maintenance of fire rangers and by reforestration.

Unfortunately the history of the industry in Canada has been one of ups and downs, and consequently stabilization is its greatest need. During its short history many Companies have been declared insolvent, and these were only reorganized with some difficulty. The Abitibi

Power and Paper Company, one of the largest pulp and paper producers in Canada, has been in receivership for the last ten years. In view of the economic importance of the industry to the Dominion of Canada, every possible effort on the part of the Federal and Provincial Governments and the Companies themselves, should be made to stabilize the industry and put the Companies in receivership on a paying basis.

GROWTH OF THE INDUSTRY, 1913-1930

CHAPTER 2.

Before the First World War the pulp and paper industry of Canada was in its infancy. At that time Canada exported very little newsprint and imported fine paper products mostly from the United States. But since then the industry has developed so rapidly that now Canada is the greatest producer of newsprint in the world. The year 1913 marked the beginning of this rapid growth. In that year 350,000 tons of newsprint were produced; on 1923 the production of newsprint was 1,250,000 tons; in 1933 it was 2,000,000 tons, and in 1937 it had reached 3,645,000 tons. That is, in the short period of 25 years the Canadian production of newsprint increased more than tenfold. At the present time, the United States is a very large buyer of Canadian newsprint, but it was not always so, for in 1919 United States received from Canada less than 4 percent of its imported supply. Also since 1913 the industry has manufactured other paper products for domestic demand, thus eliminating the need of their importaation from the United States.

There are many reasons for the rapid growth. Canada has an abundant supply of pulpwood and hydro-electric power. These two reasons are very important for wood scarcity has decreased the newsprint production of

United States considerably in the last few years and lack of power has been a dominant factor in decreased production in other countries. But, no doubt, the principal reason for this rapid growth of the industry is due to the increasing world demand for pulp and paper products. Canada because of her plentiful supply of wood and power, should retain in the future her present position as the world's leading newsprint producer.

In the early twenties large profits, due to the high price of newsprint, were made by the manufacturers of pulp and paper; and consequently capital flowed abundantly into the industry. In the resulting period of plant construction, more Companies were established, and existing Companies increased their outputs until soon the production of newsprint had exceeded the demand. The daily output increased from 5,830 tons in 1924 to 12,618 tons in 1930, that is an increase of 117%; while in the same period consumption by Canada's leading buyer United States increased by only 26%. Thus the Canadian manufacturers produced more newsprint than they could market, and since any price was better than none, a period of cutthroat competition followed. The price of newsprint fell from $73 per ton in 1923 tto $40 per ton in 1933. This extremely low price of $40 forced several Companies into bankruptcy.

In order that the disastrous situation that had arisen in 1933 may be appreciated, it must be understood that the sales in the industry are contracted in the fall, and the first price agreed upon at that time is the price for the following year for the whole industry. Thus the Company that contracts sales first sets the price for all the manufacturers of pulp and paper. The only way to control such a system of price setting is to determine before the fall an adequate price and to allow no Company to break it.

The three principal newsprint producers in 1933 were Abitibi Power and Paper, Consolidated Paper (formerly called Canada Power and Paper), and International Power and Paper. Abitibi and Consolidated, Canadian firms with mills in Ontario and Quebec, had daily outputs of about 2,000 tons. International, a United States firm with mills in Canada and Newfoundland, had a daily output of about 2,500 tons. The remainder, about 6,000 tons was controlled by about a dozen small producers. These three large producers could possibly have controlled production and prices in the troubled times of the late twenties if they had only pulled together in the interests of the industry. But International being a low cost producer with more modern efficient equipment naturally sold at a lower price in order to expand its sales, and for this action no one can blame it.

Two attempts were made to control production and prices by forming a special Company or agency. The first of these was the Canadian Newsprint Company established in 1927 to allocate production among the manufacturers of pulp and paper, to determine prices and also to act as a selling agency for the industry as a whole. But International and most of the smaller Companies refused to join. Thus with only about 50% of productive capacity under its controls, the Canadian Newsprint Company was unable to carry out its purposes, and consequently was dissolved in 1928. In that same year the provincial governments of Ontario and Quebec took a hand and encouraged the formation of the Newsprint Institute, in which all the Companies except International were included. A slight increase in price was secured in 1929. A similar increase was proposed for 1930, but International in order to secure a large Hearst contract accepted a lower price. Thus the Institute failed not only to secure an increase but also to maintain existing prices. Business declined so that Companies tried to expand their sales by cutting prices. Secret price cutting set in, and the Newsprint Institute completely collapsed.

THE ABITIBI POWER AND PAPER COMPANY

CHAPTER 3.

The Abitibi Power and Paper Company was incorporated in 1914 by letters patent to take over the undertaking and assets of the Abitibi Pulp and Paper Company. At that time Abitibi controlled a newsprint mill at Iroquois Falls, a pulpwood mill at Smooth Rock Falls, and certain power developments on the Abitibi River. Since then Abitibi has grown considerably. When production exceeded consumption in the twenties, Abitibi assisted by Canada Power and Paper made an attempt to regulate production by buying controlling interests in five independent companies and their subsidiaries. To do this the Company was reorganized in 1928. By supplementary letters patent the capital structure was increased to 10,000 seven per cent cumulative preferred share of the par value of $100 each; 500,000 six per cent cumulative preferred shares of the par value of $100 each, and 1,500,000 common shares without par value. The five Companies acquired were the Spanish River Pulp and Paper Mills, the Manitoba Paper Company, the Fort William Power Company, and the Murray Bay Paper Company. Later, due partly to the heavy payments for these purchases, Abitibi found itself in very serious financial difficulties.

The Canada Power and Paper had a controlling interest in a number of smaller newsprint producers. But even between them they did not have enough control over productive capacity to accomplish much in the regulation of newsprint production.

The purchases of five independent Companies by Abitibi in 1928 constituted a heavy strain on its financial resources. In the same year the General Power and Paper Company agreed to buy the capital stock of Thunder Bay Paper Company. But the purchaser defaulted in its payment, and Abitibi, since it owned half of the capital stock of General Power and Paper agreed in 1932 to purchase all of the capital stock of the Thunder Bay Company. It thus bound itself to pay $215,000 in cash and $2,875,000 in notes maturing monthly over a period of ten years. Abitibi was very hard hit by the depression following the economic crisis of 1929. During this period sales were extremely difficult to make and the price of newsprint was very low. Due to these various reasons, Abitibi found itself in such serious financial difficulties that it was unable, on June 1st, 1932, to pay its bond interest, and subsequently nothing was paid to the bondholders. Abitibi was placed in receivership on September 10th, 1932, with Mr. G. T. Clarkson as Receiver. Several attempts were made to take Abitibi out of receivership but all proved unsuccessful.

During the early thirties not only Abitibi but several other Companies failed. The newsprint industry as a whole was in a very unhealthy condition, owing to the fact that low price of newsprint was hardly sufficient to cover the cost of manufacture.

At that time an English peer, Lord Rothmere, whose newspapers were among the largest consumers of newsprint in the world and whose investments in newsprint ran into several millions of dollars, expressed the opinion that Canadian manufacturers should not sell their product at less than $50 per ton net at the mill. That would represent a price of about $57 delivered, and at that time the price was only $41 delivered. He believed that the producers in order to obtain this price should rid themselves of their pessimistic views and refuse to be intimidated by large users of paper in the United States. The Canadian newsprint manufacturers believed that if they enforced a higher price, the United States publishers would increase their imports from Finland or one of the Scandinavian countries or else develop other resources. But Lord Rothmere considered this as merely a form of intimidation and not to be taken seriously as a threat. He believed also that there would be no falling off in demand if the producers steadfastly refused to take any lower price. This opinion of Lord Rothmere on newsprint prices in Canada was of great importance for, as he was both publisher and manufacturer, he was able to appraise the situation both as a producer and as a consumer.

There were others who did not believe in such a large increase in price. They thought that such an increase would diminish consumption and consequently ill effects would follow. They held that such an increase would lead to another wave of expansion and extravagances as before, which must at all costs be avoided. But they did agree that the existing price was too low and consequently that an increase should be secured.

During the late thirties the condition of the industry improved considerably due to the increasing demand for newsprint. The price increased from $41 in 1936 to $42.50 in 1937 when the Great Northern, a low cost producer in Maine, accepted this price. Again due to the increased demand and greater co-operation among the producers, the price advanced to $50 per ton in 1938. Such a price enabled the manufacturers to earn a reasonable profit, and this increase did not diminish consumption.

Production was at a very high level. Refinements and improvements in equipment during the depression years enabled the operators to step up production beyond the rated capacity of their mills, so that a record output was reached, even though a few mills were inoperative. The world demand for newsprint had increased noticeably from 6.3 million tons in 1932 to 8.9 million tons in 1937, which was over a million tons greater than that of 1929. Such countries as Japan, China, India, and Latin America had entered a period of consumption growth similar to the 1919-1929 period in the United States. Newsprint consumption everywhere increased and even exceeded that of 1929. In the United States, the most important market of the Canadian industry, newsprint consumption also increased even though the radio and magazines had replaced to a certain extent newspaper advertising, a factor that controls the size of a paper. This increase was due to greater circulation.

During this period progress was made in cleaning up the coporate affairs of some of the more hard-hit companies, or in strengthening the financial position of those who managed to come through without going into bankruptcy. Price Brothers and Company was put on a sounder basis. Lake St. John Power and Paper, St. Lawrence Paper Mills, Mersey Paper, Consolidated Paper, Great Lakes and others were reorganized. Only Abitibi, and Minnesota and Ontario Company remained in the hands of the receivers.

Even though it still remained in receivership, Abitibi shared in the improvement of the industry. Its production expanded from about 250,000 tons in 1934 to approximately 600,000 tons in 1938. Its earnings also increased. In 1934 the Company's earnings before the deduction of depreciation and bond interest was less than a million dollars, in 1935 it was $1.2 million dollars, which were not more than half the amount necessary for the payment of interest on the bonds. But in 1937 due to greater production and the higher price of newsprint, the earnings before the deduction of depreciation and bond interest amounted to $5.7 ,illion dollars. Thus the financial condition of Abitibi in 1937 was considerably better than in 1932.

This giant Company, which had only one mill at Iroquois Falls in 1927, then had a number of mills and power plants under its control. Its concessions in Ontario alone amounted to 32,021 square miles. There concessions were:-

1. The Iroquois Falls Concession, which included a 26 mile standard gauge railway feeding the Iroquois Falls mill and power plants at Iroquois, Island and Twin Falls, comprising an area of 4,529 square miles.

2. The Smooth Rock-Mattagami Concession of 1060 square miles. Smoth Rock Falls had both a mill and a power development.

3. The Sturgeon Concession with both a mill and a power development at Sturgeon Falls and a power development at Crystal Falls amounting to 2,525 square miles.

4. The Spanish River Concession with a power plant and a mill at Espanola of 3,857 square miles in area.

5. The Spanish Extension Concession of 3,130 square miles.

6. The Soo Concession with a mill at Sault Ste Marie of 10,044 square miles.

7. The Thunder Bay Concession, bought in 1932 by Abitibi comprising 1,491 square miles.

8. The Fort William Concession is 2885 square miles, with a mill at Fort William, a power plant at Kahabeka Falls, and both a mill and a power plant at Port Arthur.

9. The Concession of the Provincial Paper Limited whose common stock was owned by Abitibi of 2500 square miles in area.

In addition to the Ontario Concessions, Abitibi owned 2,760 square miles in Manitoba with a mill at Pine Falls, and 460 square miles in Quebec with a mill at Beaupre. The Company also owned the Provincial Paper Mills at Georgetown, Thorold and Mille Roche. Thus the total of the concessions of this Company amounted to almost 35,000 square miles.

For its supply of pulpwood Abitibi depended upon its concessions from the Crown. These were granted by the Government of Ontario with the view to promote settlement and to develop these areas. Under the agreements with respect to timber concessions, Abitibi agreed to spend such sums, up to a certain amount with respect to each case, as were required by the Minister of Lands, Forests, and Mines; to erect buildings, and to clear and prepare these lands for settlement. Furthermore, the Company agreed to buy pulpwood and agricultural products from the settlers and to give preference to them with respect to employment. In return Abitibi received the right to cut pulpwood, but was not allowed to cut white or red pine, which the Government reserved to sell to other persons.

The concessions were granted mostly for a period of 21 years. But a number of these have expired. The Soo and Sturgeon concessions expired in 1932; the Spanish River in 1930, the Iroquois Falls in 1933, and the Mattagami concession in 1936. Ohter concessions, namely, the Spanish River Reserve, the Abitibi Extension, the Thunder Bay and the Fort William expire on various dates in the years 1944 and 1947. These expired leases have not been renewed, but the Company has been given the right to cut by annual orders-in-council.

The large quantities of power which Abitibi required for its operations were leased from the Province of Ontario. The Company was given the right to hold and control certain waterways for power purposes. Power was developed according to plans approved by the Hydro Electric Power Commission which had the right to lease some of the developments when Abitibi's lease expired. Power was developed by the Company not only for its own uses, but also for other concerns. At the Iroquois and Couchiching Falls power developments the Timiskaming and Northern Ontario Railway was given by the Hydro first claim to power developed over and above that amount Abitibi required on terms fixed by the Hydro Electric Commission of Ontario.

Some of these power leases have expired. The lease of Iroquois Falls and that of Twin Falls expired in 1932, and were not renewed. But water rentals were paid to the Government and accepted by it since that date. The lease of power at Smooth Rock Falls expired in 1936, and ni renewal of the lease was granted by the Crown. At Espanola the lease expires in 1944, but this included rights of renewal.

RECOMMENDATIONS OF THE RECEIVER

CHAPTER 4.

Abitibi's dependence upon the Government in respect to timber and power was shown by the Receiver. He listed the requirements of the Company as follows:-

1. The right to increase the head of water at Iroquois Falls to 44 feet, that mentioned in the lease being 35 feet;

2. A release by the Temiskaming and Northern Ontario Railway of the right to receive power from Iroquois Falls;

3. A release from the Hydro of its right to expropriate the Iroquois Falls power plant;

4. A settlement of the rentals to be paid in respect of the power;

5. At Island Falls, a release of the right of the Crown to take over the power plant prior to 1975;

6. A right to raise the water in the Forebay to 715 feet;

7. A fixing of the rental at Island Falls at $1.00 per horse power for the first renewal term with a minimum of $2,000 a year;

8. A fixing of the rental at the Long Sault for the first term at $1.00 per year per horse power with a minimum of $2,000.

9. An agreement with regard to regulation of water of the Abitibi River to the common advantage of Abitibi and the Hydro;

10. As to Smooth Rock Falls, a renewal of the water lease and license of occupation;

11. A release from any claim for increased water rentals between May 5th, 1934 and May 5th, 1936;

12. A release from any obligation to construct water developments at Island Falls and Yellow Falls and an agreement from the Government that these Falls will not be leased to anyone else, as that would interfere with water flowing down to the Smooth Rock Falls Development;

13. A release from the Hydro of its right to expropriate before 1968;

14. At Sturgeon Falls, a conveyance of the bed of the Sturgeon River;

15. A renewal of the Abitibi concession;

16. The elimination of Crown bonuses in connection with the wood in the Abitibi concession.

17. The waiver of the Crown's right to have guarantee company bonds and its acceptance of a bond from Abitibi in lieu thereof;

18. A license of occupation for the railway constructed by Abitibi;

19.

19. The renewal of the concessions at Smooth Rock Falls and the acquiring of additional wood for the future support of the mill;

20. Protection against any interference with the right of Abitibi to take timber from the lands to be transferred to the Government by the Algoma Central Railway Company;

21. A cancellation of the agreement requiring Abitibi to take wood from Hawkins Township and Simpson Township;

22. A renewal of the timber concession required for the operation of the Sault Ste. Marie mill;

23. Licenses of occupation for dams erected in this area;

24. The right by the Company to surrender cut over lands or lands of no value in the concession areas, the area of each of the parcels so surrendered not to be less than 36 square miles;

25. Control by the Government of the driving capacity of the Nipigon River which will enable the Company to drive its wood;

26. Reduction of the bonuses with respect to Fort William and Port Arthur timber areas;

27. The supply of additional wood to the Company to make up the loss of pulpwood reserves occasioned by designation of saw logs as wood 11 inches or more at the butt;

28. The cancellation of the rights granted to Great Lakes Lumber Company on September 18th, 1940;

29. The setting aside of further areas;

30. Common action on the part of the Hydro, the Temiskaming and Northern Railway Company and Abitibi to close up a diversion of water at Dasserat Lake which reduces the amount of water going into Abitibi Lake;

31. An extension of water rights and flooding rights leases at Espanola;

32. Action by the Government limiting the cutting of wood on Lake Nipigon;

33. Generally speaking, a renewal of all operating rights as to timber concessions and power, except those which would be no longer of value owing to the non-operation of the mills at Espanola and Sturgeon Falls;

34. Generally speaking also, the carrying through of the terms of the agreement of June 24th, 1937;

35. Waiver of the provisions in it under which the Abitibi is required to spend $1,000,000 on each of the Fort William and Thunder Bay mills;

36. The grant to Abitibi of concessions on Lake Superior to provide timber in case of low water conditions on Lake Nipigon;

37. The obtaining of a clearance for Abitibi from the Government's right to recapture limits under The Forest Resources Regulation Act.

By this last of the requirements of Abitibi it is clearly seen that the welfare of the Company is dependent to a great extent on the assistance received from the Government. Since the Government and the investing public have a huge interest in this Company, the Government should do everything in its power to take Abitibi out of receivership and place it on a paying basis.

PLANS FOR RECONSTRUCTION

CHAPTER 5.

On September 26th of the same year that Abitibi was placed in receivership, an order was passed by the Court declaring Abitibi insolvent and that the affairs of the Company were to be wound up under the Winding Up Act. Mr. ~~F. C.~~ G. T. Clarkson who had been appointed receiver a couple of weeks previous was appointed liquidator. The Montreal Trust Company, trustees of the bond mortgage dated June 1st, 1932 was permitted to begin mortgage action. On March 27th, 1935 the Montreal Trust Company was given the right to call at meeting of the bondholders in order to appoint a committee to represent them in the mortgage action. An order dated December 20th, 1936 granted permission to Mr. ~~F. C.~~ G. T. Clarkson to resign as liquidator and appointed Mr. Roy S. McPherson in his place. The receiver negotiated with the Government with respect to timber and power rights and disclosed a summary of reports gathered. On July 21st, 1937, the Montreal Trust summoned by the order of the Court the bondholders in order to consider a plan for the sale of the assets of Abitibi which had been put forth by the Bondholders' Protective Committee. This plan was brought before the Court for approval. But the Provincial Court could voice no opinion on this matter because it came under the jurisdiction of the Dominion Government.

During the years since 1932 many plans were proposed for reorganizing the Company, thus giving the bondholders and the shareholders an opportunity to get a return on their investments. But the interest of one group was always threatened by another, and no mutually acceptable plan was forthcoming. At times the conflict between them was even bitter. The bondholders accused the shareholders of obstructional tactics and of striving to establish an equity that, according to the bondholders, was not there for them. On the other hand, the shareholders claimed that the bondholders were trying to freeze them out. The great problem in reorganizing the Company was to find some plan that would satisfy all parties concerned.

It could not be argued by anyone that sufficient time had not elapsed in order to solve the financial difficulties. In the years that passed since Abitibi was placed in receivership, the newsprint industry had been through a complete cycle. The period 1932-1936 was one of extreme depression; 1936-1937 one of fair prosperity;

1938 and the early part of 1939 one of slight recession, and the latter half of 1939 and on was one of war-inspired prosperity. A Company subject to such rapid changes must have a flexible capital which is not burdened with fixed charges if it is to escape recurring difficulties. The attempts to reorganize in 1937 failed because the working capital was not large enough to warrant a change in the capital structure. But subsequently that difficulty disappeared, and there appeared to be no good purpose in prolonging the receivership.

The bondholders were quick to point out that the improvement of the working capital was due to them. They had received no interest payments since 1932, and it was funds that would ordinarily have been paid to bondholders that brought about the improvement of the working capital.

The history of earnings during the receivership period gave little encouragement to the shareholders seeking to establish a substantial equity. It was in the future that these hoped to find their returns. Before adopting any reorganization plan, the position of the shareholders had to be considered even though the bondholders have first claim on the assets.

Several committees were formed in order to protect the various parties.

1. The Bondholders' Protective Committee

This committee, formed in 1932 to enforce mortage action, proposed two plans, one in 1937 and the other in 1939. The first, the Plan of Sales of Assets and Reogranization dated July 21st, 1937, on advice of counsel, was abandoned since the Ontario Judicature Act was not applicable. The other proposal was the Plan of Procedure on behalf of the bondholders for the purchase of the assets of Abitibi by a new company. Its members were:- H. J. Symington, K.C., W. A. Arbuckle, Andrew Fleming, Stanton Griffis, Rt. Hon. A. Meighen, Edward E. Reid, Joseph P. Ripley, and W. H. Somerville.

2. The Bondholders' Defensive Committee

This committee was formed in September, 1937, to oppose the Plan of Sale of Assets and Reogranization dated July 21st, 1937. Latter this committee opposed the Plan of Procedure. Its members included:-Hon. Sir Henry L. Drayton, J. A. Kilpatrick, A. D. Cobban and Hugh Mackay.

3. The Preferred Shareholders' Protective Committee

This committee, formed in March, 1939, presented its own plan of reorganization. Its members included:- D. H. Gisbon, W. A. Moore, K. C., Col. F. H. Deacon, Arthur G. Slaght, K. C., H. Brooke Bell, K. C., R. Howard Webster, Stanley Stanger, and C. M. Keys.

4. <u>The Common Shareholders' Protective Committee</u>

This committee was formed in March, 1939. There was a former common shareholders' committee under Collin Brooks, representing Lord Rothmere. This committee and its predecessor were always in opposition to the bondholders. Its members included:- R. G. Meech, K. C., Col. K. P. Marshall, L. A. Renaud, William A. Sands, H. B. Housser, C. A. Cushing, L. M. Wood, and St. Clair C. Holland.

5. <u>The General Creditors' Committee</u>

This committee was formed in March, 1939, to organize trade creditors in order to oppose the Plan of Procedure. This committee usually worked in close agreement with preferred and common shareholders' committees and the bondholders' defensive committee. Its members included:- Clement Tremblay, A. L. Sanderson, and B. V. Atkinson.

6. <u>The Independent Committee</u>

This committee was formed in August, 1939, in an effort to find a basis for agreement among the different parties. Its first chairman was the late Thomas Bradshaw. This committee announced a plan of its own, and offered many suggestions in discussions. Its members included:- Hon. G. Howard Ferguson, James Y.

Murdoch, K. C., and Hon. Gordon W. Scott.

A large number of reorganization plans for Abitibi were proposed. The Bondholders' Protective Committee announced its proposals in March, 1939. These were embodied in the Plan of Procedure on behalf of the bondholders for the purchase of assets of Abitibi by a new company. At the sale the committee intended to buy the company and distribute the securities of a new company on the following basis. Each $1000 bond would receive a certificate of beneficial interest representing 40 shares of common stock. The holders of non-deposited bonds would receive a proportionate share of the sale price in cash. The holder of each 7% preferred share would get warrants to buy 12 share of common at prices ranging from $36 to $41 a share. The holder of each 6% preferred share would get warrants for 4 shares of common at the same price. The holder of each common share would get a warrant for 1/10 of a share of new common stock. Unsecured creditors would receive warrantz for shares of common stock representing 39.56 percent of their claims.

The other committees opposed this plan. But on October 16th, 1940, the assets of Abitibi were offered for sale by the Master of the Supreme Court of Ontario. Only one bid, that of $30,000,000, was made.

This bid was made by H. J. Symington, who was chairman of the Bondholders' Protective Committee, on behalf of this Committee. But, since this bid was less than the reserve bid fixed by the Master, the offer could not be accepted. The proposal, that the assets should be immediately sold without a reserve bid being fixed, was adjourned with leave to any party to bring it on in one week's notice at any time.

The Independent Committee which hoped to bring together the widely opposed views of the different parties offered proposals which would have eliminated all fixed charges. This committee would have given 40 shares of $25 par, cumulative, convertible preferred stock for each $1000 bond. For each share held, the 7% preferred shareholders would receive 12 new common shares, the 6% preferred shareholders would get 4 new common shares, and the common shareholders would get 1/10 of a share of common. Although the shareholders were quick to announce their support, this plan failed because it did not receive the approval of the bondholders, without which it was impossible to go ahead.

The Preferred Shareholders' Committee announced a plan in 1939, but this, like most others, received little attention. The liquidator, Mr. R. S. McPherson put forward a plan which had been before the court since 1937. The Independent Committee did a great deal of work on a revised plan. This one is interesting in that it outlined a different type of approach to the problem. It would give each $1000 bond, 50% of principal in first mortgage bonds, 50% in income bonds, 20 share of preferred and 10 shares of common. The 7% preferred shareholders would receive 5 new common shares for each share, the 6% preferred shareholders would receive 3 shares of common for each share, and the common shareholders for each share would receive 1/10 of a new common share.

None of these pland denied the bondholders the right to their claim on the assets of Abitibi before the shareholders got any. The problem was to determine what share, if any, if the assets should go to the shareholders. It was very difficult to devise a plan that would satisfy both parties. The bondholders' plan of Procedure stated that "it seems idle to expect the requisite consent of bondholders to any arrangements which makes substantial provision for unsecured creditors and shareholders, who appear to have no equity, and it seems just as unlikely that consent can be obtained from unsecured creditors and shareholders to an arrangement which makes no material provision for them." Thus a reorganization under the provisions of the Companies' Creditors Arrangement Act, 1933 and The Companies Act, 1934 of the Dominion of Canada appeared impractical. The former Act required the agreement of a majority in number representing three-fourths in value of each class of creditors present and voting in person or by proxy, and the latter Act required the agreement of the shareholders present in person or by proxy by three-fourths of the shares of each class represented and voted. Consequently the bondholders devised their Plan of Procedure as being the only course left open.

There was conflict between the shareholders and the bondholders with regard to equity and the methods employed by each. The bondholders, pointing to the size of their total claims for interest and principal which amounted to $73.4 millions at the end of 1939, asserted that the satisfaction of these claims would leave nothing over for the shareholders. It was their money which had been paid in interest, that built up working capital and improved plants, making them more efficient. While on the other hand the shareholders had contributed nothing since the shares were sold in 1928. Furthermore, they asserted that each concession on their part was countered by other demands from the shareholders.

The shareholders represented by several committees made similar assertions and accusations against the bondholders' committee. They pointed to clear evidences of growing earnings and added that this was nithing to what could be made under a new company free from the restrictions of receivership. Thus, they argued there was a real equity available for shareholders. They did not deny the prior claim of the bondholders, but objected to the "harsh" methods in the bondholders' plans. They accused the bondholders of trying to form a large combine in the Canadian newsprint industry with the purpose of dominating the industry for their personal gain. Of course the bondholders denied this, and retaliated with the accusation that the shareholders were out to gain control of the company at whatever the cost.

THE ROYAL COMMISSION

CHAPTER 6

A Royal Commission was appointed on October 25th, 1940 by Premier Hepburn to investigate the affairs and financial and corporate structure of Abitibi. This committee was head by Hon. Charles McTague, Justice of the Appeal Division of the Supreme Court of Ontario, with Sir James Dunn, President and Chairman of the Board of the Algoma Steel Corporation, Ltd., and A. E. Dyment, Chairman of the Board of the Canadian General Electric Company as members. This commission was formed with the purpose of recommending to the Government a plan of reorganization of Abitibi which would be in the best interests of all parties concerned. In order that the report which the Royal Commission would make might be considered, the plan of the Bondholders' Protective Committee, namely the Plan of Procedure for the purchase of assets of Abitibi, was adjourned with leave to bring it on after one week's notice.

The commission held public hearings in the Legislative Chamber in the Parliament Buildings at Toronto on November 4th, 5th, 6th, 7th, 12th, 13th, 14th, 15th, December 9th, 10th, 11th, 1940 and January 6th, 7th, 8th, 1941. At these hearings Mr. G. T. Clarkson, the receiver of Abitibi, contributed largely, submitting financial and production statements. In his opinion, Stugeon Falls and Espanola mills were commercially valueless for newsprint production. The working capital, which was about $16 million was more than adequate, and some of it could be used to pay interest charges. The newsprint price of $50 a ton, plus the exchange of $5 received from United States consumers gave the mills a fair profit. In his estimation there was no further purpose in keeping Abitibi in receivership. Besides Mr. G. T. Clarkson's contributions, many others suggested plans and proposals to the commission.

Mr. Edward B. Kernaghan submitted a plan on behalf of his company, the International Service Company of Canada. Under his plan, Abitibi would be divided into two separate companies, the Abitibi Power Company, which would take over the power projects and resources, and the Abitibi Power Company, which would take over the newsprint and paper mills. The holder of each $1000 bond would receive the following; a $100 in cash, a $500 3½% bond of Abitibi Power Company, 2 common shares of Provincial Paper Company, and 2 common shares of Abitibi Paper Company. The shareholders and creditors would receive common shares of Abitibi Paper Company on the following basis; for each 7% preferred share would get 1½ shares of new common, for each 6% preferred share would get 1 share of new common, for each 12½ old common shares would receive 1 new common share, and for each $25 claim general creditors would get 1 new common share.

Messrs. A. E. Osler & Company put forward a plan which, although it had no rigid definitions, was sufficiently elastic to provide for any emergencies. Under this plan the bondholders would receive the same amount of income bonds and also 65% of new common shares to cover arrears of interest. The holder of each 7% preferred share would receive 1½ new common shares, the holder of each 6% preferred share would receive ¾ of a share, and the common shareholders for every 30 shares held would receive 1 new common share. The general creditors would get a total of 107,932 treasury shares.

Under a plan proposed by William D. Ross, of Batten, Ross and Company of Toronto, the following were to be issued; 5% first mortgage sinking fund bonds amounting to $48,267,000, 5% cumulative sinking fund bonds amounting to $21,720,150, and 1,167,502 common shares. For each $1000 bond, the holder would receive $1000 in 5% first mortgage bonds, $450 in 5% cumulative bonds, and 14.5 shares of common. The preferred shareholders would receive for each share held 1 common share, and the common shareholders would receive 1 share for every ten held. Mr. Ross claimed that his plan would permit all profits to accrue to the benefit of bondholders, until their claims had been met in full. When these claims were met, the bondholders would still retain a large interest in the company through their holdings in common stock. He urged that any surplus the company had should be used to begin the accumulation of a sinking fund, and renew interest payments.

A plan submitted by Mr. W. C. Lamont, a Toronto investment dealer, called for the issuance of first mortgage bonds to cover 50% of the principal of the outstanding first mortgage bonds, and 5% income debentures to cover the balance of first mortgage bonds. Class A shares of $100 par value, which would carry voting power, would be issued to cover interest arrears, and Class B shares of $100 par value would be issued to preferred and common shareholders. Class B. shares would be distributed in the following way:- each holder of a 7% preferred share would receive 2 shares of Class B, each holder of a 6% preferred share would get 1 share of Class B, and common shareholders for every 45 shares of common held would receive 1 share of Class B. After the payment of interest, depreciation, and other charges, the balance of income up to 5% would be paid to income debenture holders. After this, 50% of the remaining surplus would be used to retire income debentures, and that surplus remaining would be paid in equal dividends to Class A and B shareholders.

A plan to take Abitibi out of receivership by issuance of $1550 worth of securities to the holder of each $1000 bond was submitted to the Royal Commission by Mr. R. S. McPherson, the liquidator. For each $1000 bond a new $1000 bond bearing a mandatory, cumulative interest of 4%, plus income of from 1 to 3½%, dependent on the amount of outstanding interest warrants, would be issued. To this would be added $500 in ten interest warrants, redeemable at $50 each, and the holder of each old bond would receive $50 cash on reorganization and surrender of existing bonds. All shareholders would be left in their same position, and unsecured creditors would be paid 25% in cash and the balance in equal annual payments before aby dividends were paid. The preferred and common shareholders would receive no dividends until the debt had been reduced to $48,000,000 and the unsecured creditors paid in full.

After reviewing the history of the company's difficulties, the commissioners reported that they were impressed with the inadequacy of existing legislation to meet such situations as might arise when companies find themselves in financial troubles. A reorganization under the provisions of the Companies' Creditors Arrangement Act, 1933 and The Companies Act, 1934 of the Dominion of Canada, seemed to be impractical with respect to Abitibi. The Royal Commission hoped that sufficient public interest might be aroused to bring about changes in the laws. They suggested that similar legislation in the United States might be taken as a basis, but as a basis only, as they believed it could be improved.

In 1937 the Bondholders' Protective Committee put forth a plan of reorganization in which it was admitted that the shareholders had some equity. But in 1940 the same committee stated that there was no equity for the shareholders. In other words, the committee chose to ignore the provisions of the Companies' Creditors Arrangement Act, because in its judgment there was no issue as to whether there was an equity or not. It should be the power of the Court, not the power of the bondholders, to judge as to whether the shareholders have an equity or not. Under the existing law at that time, the bondholders if they concluded there was no equity for shareholders, could foreclose through sale. In the absence of other bids, they could buy the assets for much less than their real value, to the disadvantage of the shareholders and those bondholders who had not placed their bonds in the hands of the Committee.

Previously an agreement had been made on June 10th, 1932 between the members of the Bondholders' Protective Committee and the holders of first mortgage bonds. This agreement gave the committee the power, either before or after the sale of the assets of the company, to adopt a plan of reorganization, or to adopt or reject any plan not prepared by the committee. It also asserted that any depositor could withdraw from the agreement within 30 days after the committee made public its approval of a plan or an agreement. But those depositors who did not withdraw were supposed to have agreed to the plan whether they received actual notice or not. This deposit agreement had been in effect since 1932, and whatever the attitude of depositing bondholders might be to any arrangement with unsecured creditors and shareholders, they were in the hands of the Committee due to this agreement. The Royal Commission expressed the view that the Court should have the right regardless of any terms in deposit agreements, to order a full and independent vote by all members of any class.

The commission pointed out that Abitibi could not hope to improve its financial position should the policy of proration not be continued. The Canadian newsprint mills had a capacity in excess of the demand for newsprint, and these mills in the competition for business were likely to cut their prices below the level at which operation could be profitable unless a policy of proration was followed. In the early thirties before a policy of proration was adopted, the depression and cutthroat competion forced the price of newsprint down to $40 per ton. But when a proration policy was adopted in 1936 by Ontario and Quebec, the price of newsprint rose to $42.50 in 1937, and to $50.00 in 1938. This rise in price was due to a certain extent to this policy. In the last few years production was less than 70% of capacity, and if proration was not continued the industry might go back to the conditions existing in 1932 and 1933. Such a condition would be very disasterous to Abitibi. It was the view of the commission that proration would be highly desirable and that the Government should do everything in its power to enforce it.

A plan of reorganization could not be based on a history of earnings. It had been one of such sudden ups and downs that there was no criterion on which to base earning power. The future earnings were so uncertain that the commission did not think it advisable to sell the assets at a war time when financial conditions were so disrupted. But any plan put forth should give the bondholders the right to have their claims satisfied in full before anything was paid to the shareholders. Any plan formed must also take into consideration the taxation structure and the danger of another receivership in the near future.

The Plan Proposed by the Royal Commission

1. Under the provisions of the Trust Deed the maturity date of the bond issue was June 1st, 1953. This deed should be amended so as to extend the maturity date of the bonds to December 1st, 1965. The provisions of the Trust Deed which state that money received from the sale of capital assets should be held by the Trustees as security for the bonds, and the provisions as to a sinking fund should be eliminated. Past due interest and compound interest should be calculated to December 1st, 1940 and from that date on there should be no further accumulation of interest on past due interest.

2. The distribution of shares should remain the same except that the dividend rate on the 7% preferred shares should be reduced to 3½% and the dividend rate on the 6% preferred shares should be reduced to 3%. Future dividends on both these stocks should be non-cumulative.

3. For a period of 5 years or until the bonded indebtedness had been reduced to $35,000,000 whichever period is the shorter, the Company should be managed by 7 directors, 4 of whom should be nominated by the Bondholders' Committee and three of whom should be holders of preferred stock holding no bonds. At the end of such a period the Company should be managed again by the shareholders.

4. (a) Before interest was paid on the bonds the working capital of the Company should be kept at $10,500,000, of which $500,000 will be put aside as a fund in order to make improvements and to add to the Company's properties in each year.

(b) If on April 30th or October 31st in each year there was an excess of working capital over $10,500,000, it should be used on the payment of the next interest due on the bonds.

(c) If a surplus still remained after payment of interest coupons it should be used to buy bonds on the open market or at par with accumulated and accrued interest.

5. The plan provided that the Company should deliver to the Montreal Trust Company, as trustee for the bondholders, a quit claim and release of all its properties and assets. This should become effective if the Company failed to pay the current interest on the outstanding bonds for a period of six months or if working capital was reduced below $10,500,000

and remained so for a period of six months. But if no such default was occurred by December 1st, 1945, the deed was to be returned to the Company which was to resume control of its affairs.

6. (a) The Receiver should resign and deliver the property in receivership back to the Company.

(b) The Liquidator should also resign.

(c) The present bondholders' action should be discontinued upon payment of proper costs and disbursesements.

(d) The costs of the Bondholders' Committee should be paid.

(e) The Company should pay one interest coupon with overdue interest thereon.

7. Fifty per cent of the claims of the unsecured creditors should be paid in equal installments over a four year period providing no default occurred to the bondholders. If no default occurred in the five years, the remaining 50% of the claims of the unsecured creditors should be paid over a similar period. Shareholders should receive no dividends until the creditors were paid in full.

8. The votes of the ordinary creditors and shareholders should be taken first and if they approved, then a vote of the bondholders should be taken.

The report of the Royal Commission was made public on April 1st, 1941. A few days later The Abitibi

Power and Paper Company Limited Moratorium Act was passed by the Ontario Legislature. The purpose of this Act was to give all parties concerned an opportunity to consider the plan of reorganization of Abitibi submitted by the Royal Commission. This Act was to stay proceedings under the Order for sale and prevent any new action by the bondholders without the consent of the Attorney-General. The Lieutenant-Governor could bring the Act into force when needed. The Act would remain in force until December 31st, 1942, unless sooner terminated by Order-in-Council.

The Bondholders' Committee had two courses of action open to it. It could accept the Moratorium Act and allow the receivership to continue, or else it could go ahead with its plans for a mortgage sale. This latter course of action which was favoured by the Committee was dependent on a legal aspect. It was stated by some that the Ontario Government had no power to stay the action of a mortgage sale which came under Dominion jurisdiction. On the other hand it was evident that, since Abitibi was an incorporated company and had most of its property in Ontario, the Government of that Province should have some say in the matter. Whether or not the Bondholders' Committee would go ahead and ask for another sale date dependes on the outcome of this legal problem.

The Bondholders' Committee did not like the plan put forth by the Royal Commission. A plan that would give the shareholders control merely by paying current interest for five years was regarded as unfair by it. On the other hand, the shareholders did not particularly like the plan because, if they failed to maintain working capital at $10.5 millions for a period of six months, the bondholders would receive by reason of the quit claim full title to the assets of the Company.

FUTURE OF ABITIBI

CHAPTER 7.

Varying views have been expressed as to the future of Abitibi. While some were optimistic, others were pessimistic. Several arguments were put forward to support the points of view taken in each case.

In support of the optimistic view the following arguments were presented.

1. The earnings of Abitibi during the years since 1930 could not be taken as a true indication of the earning power of the Company because those were years of depression.

2. A company in the hands of a receivership operates under certain disabilities. No doubt when Abitibi is removed from receivership, these disabilities would be removed and the earning power and the financial position of the Company would be improved.

3. The earnings of 1940 were greater than those of any year since 1930. After allowing for depreciation and payment on the first mortgage bonds, a sizeable balance was left.

4. The common stock of the Provincial Paper Company Limited, owned by Abitibi, and the mills at Expanola and Sturgeon Falls, which could no longer be operated

profitably in newsprint production, could be sold at a fair price.

5. Working capital had improved greatly during the receivership, after an allowance had been made for the unpaid bond interest accumulated during the same period.

6. The Kaministiquia power, owned by Abitibi, could be sold, which would further improve the working capital or else would make available money for payment to the bondholders.

7. Such heavy purchases as were made by Abitibi in 1928, when it acquired the Thunder Bay Power Company Limited and five other companies, did not need to be repeated.

8. The production of sulphite would in all likelihood be large during the Second World War, and since foreign producers were shut down the price would probably remain high.

9. The existing newsprint price of $50 a ton would likely continue, or perhaps increase a little.

10. The production of newsprint would likely increase during the war.

11. The over-production and cutthroat competition that existed for a number of years after 1928 would not likely be repeated.

Likewise, those who had a pessimistic opinion as to the future of Abitibi presented a number of arguments in support of their view.

1. The market values of all the securities of Abitibi had fallen to about $42 millions on January 1st, 1939 and to about $36 millions in March of the same year. The net earnings from 1933 to 1938 before depreciation and bond interest was only about $2 millions per year.

2. It was very difficult to maintain proration, and if proration was discontinued Abitibi would be affected disastrously.

3. The use of radio and picture and news magazines in the field of advertising had deprived the American newspapers of such an income that they were unable to pay high prices for newsprint and were using every possible means of restricting its use.

4. Disagreements with American publishers because of the existing price of newsprint might result in their buying the full product of American mills and only their excess requirements from Canada.

5. The year 1940 was an abnormal one and thus the earning power of Abitibi could not be based on that year.

From a consideration of the arguments of both sides, it is quite easy to see that there must exist a difference of opinion in regard to the future of Abitibi.

But from the evidence gathered by the Royal Commission there were some facts that could not be doubted. No price could be obtained for the undertaking and assets of Abitibi under the disrupted financial conditions of the Second World War which would even be near the amount owed to the bondholders. Any profits that might otherwise be made by the Company would disappear through the lack of friendly co-operation of the Government of the Province of Ontario. If the present rate of earnings were continued for some time to come, the shareholders should have a substantial equity.

The Ontario Government should display a more co-operative spirit in its dealings with Abitibi. Since the necessities of the company can only be supplied by the Government, Abitibi's welfare is dependent to a great extent on the help and co-operation it receives from the Government. The general feeling of insecurity should be corrected by removing any suspicion that political considerations and not justice prevails in the relationship between the Government and Abitibi. The public has an interest in the company and the Government should do its utmost to protect this interest. If the bondholders and shareholders are unable to decide on a plan to take Abitibi out of receivership, the Government should take over and find some way of putting the Company on a paying basis.

PART PLAYED BY THE PULP AND PAPER INDUSTRY IN THE SECOND WORLD WAR

CHAPTER 8

The pulp and paper industry has played an important part in the war effort of the Dominion of Canada. In the first two years of the war, the mills provided Canada with:-

Four million dollars of United States dollars to buy necessary goods in the States.

Originated and developed the idea of wartime machine shops.

Contributed millions of dollars in additional taxes to help pay war costs.

Supplied the pulp and paper needs of the United Kingdom.

Provided tens of millions of square feet of board to be used as temporary shelters and army huts in United Kingdom, Canada and North Africa.

Maintained an uninterrupted supply of newsprint for the democracies of the world.

Like every other industry, the industry has had many problems caused by the war to overcome. Heavy demands were made upon it. Great Britain needed newsprint for its presses, pulp for everything from paper to explosives, and insulating board for shelters and huts. Other countries such as British South Africa, British India, the Philippines, South America and Central American turned to Canada and made abnormal demands in order to build up reserves of pulp and paper products. The great rayon mills, expb sive plants and paper mills of the United Kingdom and the United States depended upon Canada to supply all or part of their needs.

It was difficult for the industry to find shipping space. When that became available, the producers had to be sure that they had supplies ready. Because of this shipping difficulty the United Kingdom newsprint market has fallen off. Railway transportation has also been difficult and in all probability it will be more so as the war goes on.

Operating costs have increased. Labour has been scarce; higher wages have been paid; and cost of living bonuses granted. Some of the machinery has been difficult to replace because of the use of these materials for war supplies.

Despite the many problems and the increased sales, the price of newsprint has not changed. It is still $50 a ton which price was set at the beginning of 1938. Producers deliberately refrained from taking advantage of wartime demands to profit at the expense of the consumers. With the Scandinavian and other pulp and paper exporting countries out of the world market, the Canadian producers could have set a higher price but instead they provided a quality product at a moderate figure. The prices for chemical pulps have remained the same as those that existed in July, 1940. But there has been a slight increase in the price of fine and specialty paper for reasons outside the control of the manufacturers.

Due to the rationing of newsprint, exchange conservation and scarcity of shipping space, deliveries made particularly to the United Kingdom and Australia were reduced. On the other hand sales to American publishers slightly increased, but not enough to compensate for the loss of sales. This fall in business left the Canadian producers with a large amount of idle equipment. Arrangements were made with American buyers to use this equipment in the production of certain specialty papers to take the place of kraft paper, of which there was a shortage in the United States. Since this additional business made use of almost all of the idle equipment, the Canadian producers were able to maintain the newsprint price of $50 per ton.

After the war, the European pulp and paper manufacturers will again enter the world market, and the competition for business will be extremely keen. In 1941 every Canadian pulp and paper company with bonds outstanding, was in a position where income was more than sufficient to pay interest charges. Working capitals were so greatly strengthened that the companies will be able to meet the intense competition of the post-war period.

The fair price policy adopted by the Canadian industry will create an important asset in goodwill. This policy should assure a retention of new business developed during the war and a continuation of old business. The fact that the pulp and paper producers of Canada sold at a fair price during troubled times is bound to pay dividends after the war.

In March, 1942, two Abitibi bills were introduced by the Ontario Government to prevent the sale of Abitibi which had been ordered at that time by the Bondholders' Committee. The Government believed that a quick sale would be disastrous at such a time, and consequently wanted to prevent it. One bill extended the Moratorium Act until June 30th, 1943, and the other gave the Company the power to appeal from the judgment of the Court of Appeal allowing the sale of all the assets of the Company to the Supreme Court at Ottawa or to the Judicial Committee of the Privy Council in London.

APPENDIX "A"

ABITIBI POWER AND PAPER CO. LTD.

BALANCE SHEET DECEMBER 31st, 1940

ASSETS

CURRENT ASSETS

Cash on hand and on deposit............	$ 6,490,712.98	
Dominion of Canada Second War Loan Bonds at cost and market value......	1,492,500.00	
Investments in sundry bonds............	127,503.00	
Accounts receivable, customers', less reserves............................	976,664.20	
Receivable from the G. H. Mead Co., for newsprint shipments, less reserves..	1,710,868.39	
Net current assets of other subsidiaries	3,485,833.21	
Inventories of paper, pulp, wood and supplies on the basis of cost less reserves, as determined and certified to by responsible representatives of the Receiver and Manager, and expenditures on logging operations..................	6,141,079.20	20,425,160.98
Deposits with Trustee for Bondholders		62,282.73
Investments in the Securities of and Advances to wholly owned subsidiaries. Investments in and advances to wholly owned subsidiaries (exclusive of the G. H. Mead Co.,)....	43,260,409.34	
Less - amount included with current assets above, represented by net current assets (including those created by Receiver's advances) as shown by books of subsidiary companies.........................	3,485,833.21	
	39,774,576.13	
Investments by Receiver in purchase of shares of The G. H. Mead Co.,..	600,000.00	40,374,576.13
Investments in shares of corporations other than Wholly Owned Subsidiaries Shares of Provincial Paper Ltd.,...	1,500,000.00	
Miscellaneous, less reserves	635.00	1,500,635.00

Investments in mills and equipment, Railways, Waterlpowers, Townsites, and Buildings: (after deducting reserves for depreciation)........	42,617,540.97
Timber concessions and Freehold Timber owned: (after deducting depletion and other reserves)....	19,877,091.98
Real Estate and Office Buildings...	327,397.46
Chattels and Equipment.............	23,089.59
Prepaid Expenses..................	252,119.78
	$125,459,894.62

LIABILITIES

SUNDRY LIABILITIES

Wages accrued and payable............	$ 122,181.69	
Sundry accounts payable..............	724,606.98	$ 846,788.67
Contingent reserve...................		750,000.00
		$1,596,788.67
General Creditors' claims incurred prior to Receivership		749,986.99
Five per cent First Mortgage Gold Bonds: Outstanding.................	48,267,000.00	
Unpaid interest coupons due Dec. 1st, 1932 and prior...........	1,300.00	
Interest accrued to Sept. 10, 1933	1,877,050.00	
Reserve for tax rebates...........	17,636.41	50,162,986.41

CAPITAL STOCK:

10,000 shares of 7% cumulative Preferred Stock of $100.00 each.....	1,000,000.00	
348,818 shares of 6% cumulative Preferred stock of $100.00 each (including 96 shares deposited for exchange of shares of The Spanish River Pulp and Paper Mills Ltd.)..	34,881,800.00	
1,088,117 shares of Common stock without nominal or par value (including 67 shares deposited for exchange of shares of subsidiary companies)........................	18,964,935.43	54,846,735.43
Nominal surplus of period prior to Receivership: (no change during year)............................		4,488,090.60
Balance of Amount available towards Depreciation and Bond interest from operations during Receivership: (after deducting provisions for depreciation in respect of the four years ending Dec. 31st, 1940 aggregating $10,505,000.00 - including provisions shown on books of subsidiary companies - and amount of $750,000.00 set aside as a Contingent Reserve under authority of the Court, but before providing for income and excess profits taxes, if any, in respect of the year ending Dec. 31st, 1940).............		13,615,306.52
		$125,459,894.62

APPENDIX "B"

ABITIBI POWER AND PAPER CO. LTD.

COMPARATIVE STATEMENT - 1933-1936-1940

ASSETS

	1933	1936	1940
Current Assets...$	2,644,648.40	$ 6,617,827.88	$ 20,425,160.88
Deposits with Trustee for Bondholders.....	41,484.52	83,819.04	62,282.73
Assets pledged to Royal Bank prior to Receivership.	2,556,732.13		
Investments in the Securities of and Advances to Wholly Owned Subsidiaries...........	45,960,477.98	44,928,663.65	40,374,576.13
Investments in Shares and Advances to Corporations other than Wholly Owned Subsidiaries...........	4,159.92	1,500,637.00	1,500,635.00
Investments in Mills, Equipment, Railways, Waterpowers, Townsites and Buildings	48,074,787.07	48,348,565.21	42,617,540.97
Timber concessions and Freehold Timber owned............	19,961,439.02	19,923,509.48	19,877,091.98
Real Estate and Office Buildings....	326,704.34	327,052.12	327.397.46
Chattels and Equipment.............	32,303.82	26,794.75	23,089.59
Prepaid Expenses..	186,343.74	198,980.45	252,119.78
	$119,689,080.94	$121,955,849.58	$125,459,894.62

LIABILITIES

	1933	1936	1940
Sundry Liabilities..........	$ 2,923,746.40	$ 4,376,526.50	$ 846,788.67
Payable to Royal Bank in Respect of Loans made prior to Receivership....	1,297,137.80		
Amounts owing on contract to Purchase shares of Thunder Bay Co............	2,727,916.67		
Reserve for Contingencies..		23,704.72	750,000.00
General Creditors' Claims incurred prior to Receivership.....	309,817.58	341,382.15	749,986.99
Five per cent First Mortgage Gold Bonds.....	50,161,686.41	50,161,686.41	50,162,986.41
Capital Stock...	54,846,735.43	54,846,735.43	54,846,735.43
Nominal Surplus of Period prior to Receivership	6,385,478.65	6,762,276.95	4,488,090.60
Amount Available towards Depreciation and Bond Interest from operations during Receivership period as at Dec. 31st, of given year..	1,036,562.00	5,443,537.42	13,615,306.52
	$ 119,689,080.94	$121,955,849.58	$125,459,894.62

APPENDIX "C"

PAPER PRODUCTION IN CANADA, 1930-1939

YEAR	NEWSPRINT PAPER TONS	BOOK & WRITING PAPER TONS	WRAPPING PAPER TONS
1930	2,497,952	69,468	78,320
1931	2,227,052	59,580	77,194
1932	1,919,205	56,781	69,018
1933	2,021,965	60,683	67,780
1934	2,604,973	64,991	79,779
1935	2,765,444	70,350	82,517
1936	3,225,386	74,940	95,916
1937	3,673,886	84,168	108,734
1938	2,668,913	73,975	90,879
1939	2,926,597	90,253	109,907

YEAR	PAPER BOARDS TONS	TISSUE AND MISCELLANEOUS PAPER TONS	TOTALS PAPER TONS
1930	233,217	47,830	2,926,787
1931	202,854	44,545	2,611,225
1932	209,938	35,825	2,290,767
1933	232,190	36,802	2,419,420
1934	280,724	39,049	3,069,516
1935	314,849	47,736	3,280,896
1936	363,778	47,309	3,807,329
1937	422,710	55,863	4,345,361
1938	356,891	58,700	3,249,358
1939	413,687	60,058	3,600,502

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