

Mortgages Payable	120,300
6% 1st Mtge. bonds Canada Paper Company	1,676,000
7½% 1st Mtge. bonds Lincoln Pulp & Paper Co.	663,900
6½% 1st Mtge. bonds Georgetown Coated Paper Co.	184,500
Other Bonds	<u>171,600</u>
Total Subsidiaries' bonds	2,716,300

(Note the Canadian Collulose Co. also have \$479,500 7% 1st Mtge. bonds which are hold by bank as additional security for loans)

Alliance Paper Mills 6% Pfd.	1,003,500
Canada Paper Co. 7% Pfd.	1,250,000
Other Preferred Stocks	<u>37,200</u>
Total Subsidiaries Preferred Stocks	2,290,700
Common Stocks of Alliance Paper Mills Ltd. and Schofield Paper Co. Ltd. owned by public	<u>548,799</u>
	5,655,799

It is apparent therefore that the subsidiaries of Howard Smith Paper Mills Ltd. have heavy obligations of their own and that the 5½% 1st Mtge. bonds of Howard Smith are secured by little else than the assets of the parent Company.

I next asked Mr. Crabtree which he would prefer to hold as a trustee investment Howard Smith 1st Mtge. bonds or Canada Paper 1st Mtge. bonds. Mr. Crabtree answered without hesitation Howard Smith bonds. Howard Smith is chiefly concerned with the manufacture of bond and ledger, book and lithographing papers the demand for which is reasonably constant and they had been fortunate in being able to maintain prices at profitable levels. Howard Smith had made reductions here and there but it was not until 1933 that they had deemed it advisable to make a broad cut in the price of all their products. Mr. Crabtree said that now this had been done it would cost Howard Smith about \$200,000 but that most of this loss in revenue would be absorbed in lower operating costs and would not seriously impair the income. He fully expected the lower prices would maintain a sufficient volume of available business for the mills. 1932 had been a tough year but they were fortunate in coming through it earning bond interest and he did not anticipate they would fare much worse in 1933. Howard Smith 5½% 1st Mtge. bonds are currently selling in the early 50's.

Canada Paper Company's chief business is the manufacture of kraft paper. Such paper sells in Canada for 4½ cents per pound but this is largely because of a very heavy Canadian tariff since kraft paper is now selling in the United States for 2½ cents per pound. Canada Paper is just earning its bond interest at the 4½ cents price but a drop in the price of even 1 cent a pound would not permit sufficient earnings to meet interest charges. Mr. Crabtree was hopeful that the present price structure could be maintained and that the Canada Paper Company situation could be worked out but he could see that there was a danger in the large difference between the American and Canadian prices. He wished to make perfectly clear that 4½ cents per pound was not an exorbitant price for Kraft. At 2½ cents a pound the American manufacturers could not hope to meet their fixed charges indeed it was doubtful whether the most of them could even cover operating costs.

I asked Mr. Crabtree if Canada Paper Company were to fail to cover its fixed charges whether Howard Smith would advance enough money to meet such charges in order to protect its common stock holding. Mr. Crabtree said that he thought it would be very unlikely that Howard Smith would make any large advances because first of all it would prove too costly and secondly Howard Smith could not afford to make heavy advances. Of course if the Canada Paper