

10th January, 1933.

HOWARD SMITH PAPER MILLS LIMITED

I interviewed Mr. Harold Crabtree, President of Howard Smith Paper Mills in order to ascertain the situation surrounding the investment of -

\$50,000. Howard Smith Paper Mills 5 $\frac{1}{2}$ % 1st Mtge. due 1953  
50,000. Canada Paper Corp. 5 $\frac{1}{2}$ % 1st Mtge. due 1961

I asked Mr. Crabtree for an explanation of the \$8,841,837 deferred liabilities and subsidiary obligations and how they affected the position of the Howard Smith \$7,000,000 1st Mtge bonds. Mr. Crabtree said that the \$8,841,837 could be split up as follows:-

Deferred Liabilities	\$ 3,186,038
Subsidiary Obligations	5,655,799

All of the deferred liabilities with the exception of about \$280,000. which was due to St. Maurice Valley Corporation in 1937 for certain limits would disappear from the 1932 balance sheet, \$1,200,000 bank loans would be shown in the Current Liabilities and \$1,670,000 Notes of Canada Paper Company would be cancelled.

The St. Maurice Valley Corporation leased the Canada Paper Company together with all their current assets guaranteeing the payment of interest on the bonds and dividends on the preferred stock of Canada Paper Company. St. Maurice Valley Corporation afterwards sub-leased the property to Howard Smith Paper Mills on virtually the same basis. Because of the terms of the lease St. Maurice Valley Corporation had to advance to Canada Paper Company from time to time an amount in excess of \$2,000,00 and Howard Smith over \$350,000. Such advances as were not repaid being converted into Canada Paper Company notes in favour of the guarantors. When the paper situation began to get sour and it became evident that St. Maurice Valley Corporation was in no position to shoulder its guarantee Howard Smith became frightened and found a loophole whereby they could get out of their lease and the Canada Paper shareholders found that their plant was back on their hands unless they wished to sue St. Maurice Valley Corporation for their guarantee which they did not have the resources to live up to. Furthermore, the Canada Paper shareholders found their property practically without working capital since this together with the plant was virtually leased, in the first place, to St. Maurice Valley Corporation. In this way the working capital of Canada Paper became mixed up with that of St. Maurice. When this latter Corporation merged with Canada Power and Paper Corporation the working capital of Canada Paper became so hopelessly mixed up with that of the two other Corporations it was found that it was neither possible to tell nor to recover from the tangle what might rightly be considered to belong to the Canada Paper Company.

Mr. Crabtree therefore evolved a plan which was finally accepted whereby Howard Smith Paper Mills issued 20,000 shares of its own stock in exchange for the 20,000 shares issued and outstanding of Canada Paper Company which were all owned by Canada Power and Paper Corporation, the lease and sub-lease of the properties were cancelled by Canada Paper Company thereby relieving both St. Maurice Valley Corporation and Howard Smith Paper Mills from the necessity of paying dividends on the preferred stock of Canada Paper Company. St. Maurice Valley Corporation in its turn agreed in consideration of being relieved of its liabilities of its guarantee of both the bonds and preferred stock of Canada Paper Company to cancel the notes due to it by Canada Paper Company due for previous advances which were held to the extent of \$1,665,855. The whole of this agreement was subject to the plan of reorganization of the Canada Power and Paper Corporation into what is now called the Consolidated Paper Corporation and to the new corporation's unqualified acceptance of the plan. This has now been obtained and explains why this \$1,665,855 note will disappear from the 1932 balance sheet of Howard Smith.

The most important Subsidiary Obligations are:-