

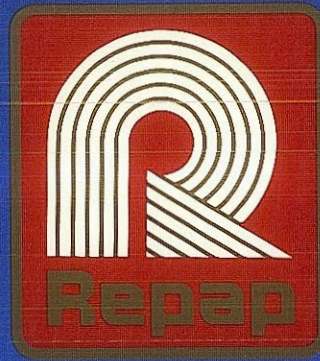
Repap  
Enterprises  
Corporation  
Inc.

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# GREAT EXPECTATIONS

ANNUAL  
REPORT 1988



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**FOR THE FUTURE**



# REPAP IS...

FOUNDED TEN YEARS AGO, REPAP ENTERPRISES CORPORATION INC. HAS BECOME A FULLY INTEGRATED NORTH AMERICAN FOREST PRODUCTS COMPANY. REPAP BECAME A PUBLICLY TRADED COMPANY IN 1986 AND IS LISTED ON THE TORONTO, MONTREAL AND VANCOUVER STOCK EXCHANGES AND IS TRADED ON THE U.S. NASDAQ SYSTEM.

REPAP SPECIALIZES IN THE PRODUCTION OF HIGH QUALITY COATED PAPER FOR MAGAZINES, CATALOGUES, INSERTS, COUPONS AND BROCHURES, AND PREMIUM SOFTWOOD KRAFT PULP, USED TO MAKE HIGH QUALITY FINE PAPERS. REPAP OPERATES THREE MAJOR PRODUCTION FACILITIES IN CANADA AND THE U.S.A.

MIDTEC PAPER CORPORATION,  
WISCONSIN, U.S.A.  
MIRAMICHI PULP & PAPER INC.,  
NEW BRUNSWICK, CANADA  
SKEENA CELLULOSE INC.,  
BRITISH COLUMBIA,  
CANADA

## OUR GOAL...

TO BECOME THE WORLD'S LEADING COST EFFECTIVE PRODUCER SPECIALIZING IN HIGH QUALITY COATED PAPER PRODUCTS AND PREMIUM SOFTWOOD KRAFT PULP AND TO COMMERCIALIZE THE ALCELL® PULPING PROCESS.



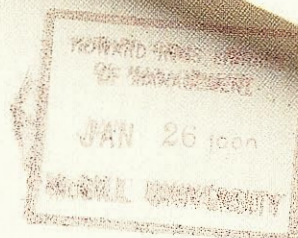
## OUR PHILOSOPHY...

**REPAP IS PEOPLE  
COMMITTED TO...**

- MEETING THE NEEDS OF  
THE WORLD PAPER PRINTING  
AND PUBLISHING INDUSTRIES**
- SPECIALIZATION AND  
OPTIMIZATION**
- ENTREPRENEURIAL  
MANAGEMENT**
- STATE-OF-THE-ART  
TECHNOLOGY**
- PROTECTION OF OUR  
ENVIRONMENT**
- TECHNICAL  
EXCELLENCE AND  
PRODUCT EMINENCE**
- SCIENTIFIC RESEARCH  
AND INNOVATION**

## OUR STRATEGY...

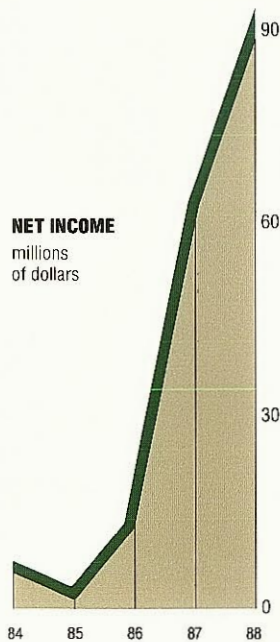
**TO CONSTRUCT STATE-  
OF-THE-ART MILLS AND  
MODERNIZE EXISTING  
FACILITIES IN ORDER TO  
ENSURE HIGH-QUALITY  
PRODUCTS, LONG-TERM  
COST EFFICIENCIES AND  
FLEXIBILITY IN MEETING  
OUR CUSTOMERS' NEEDS.**





## FINANCIAL HIGHLIGHTS

**1988  
A YEAR OF  
ACHIEVEMENT.  
REPAP  
SURPASSED  
PREVIOUS  
RECORDS OF  
REVENUES,  
NET INCOME  
AND CASH FLOW.**



**Net income**  
7 3 13 63 93

**Earnings per share (dollars)**  
0.20 0.09 0.38 1.28 1.79

## OPERATIONS AND CASH FLOW

MILLIONS OF CANADIAN DOLLARS

	1988	1987
Revenues	\$1,028.3	\$ 927.0
Net sales	\$ 934.9	\$ 844.0
Operating profit before depreciation	\$ 257.7	\$ 189.5
Net income	\$ 92.8	\$ 62.5
Cash flow from operations (1)	\$ 223.7	\$ 149.0
Capital expenditures	\$ 606.7	\$ 275.1
Cash from external funding (net)	\$ 440.8	\$ 230.1
Shipments		
— Pulp (000 metric tons)		
Kraft	591	600
Groundwood	105	102
— Paper (000 short tons)	478	442
— Lumber (Mmfbm)	109	147

## BALANCE SHEET

MILLIONS OF CANADIAN DOLLARS

Working capital	\$ 102.8	\$ 65.2
Net fixed assets in use	\$ 975.3	\$ 892.7
Construction in progress	\$ 683.2	\$ 225.7
Total debt (2)	\$ 876.6	\$ 651.2
Shareholders' equity and convertible debentures	\$ 526.7	\$ 386.2
Total capital sources	\$1,010.1	\$ 753.1
Capitalization	\$1,886.7	\$1,404.3
Total assets	\$2,264.9	\$1,535.6

1. Before net changes in non-cash working capital items.

2. Includes repayable grants, short-term borrowings, current maturities less cash.



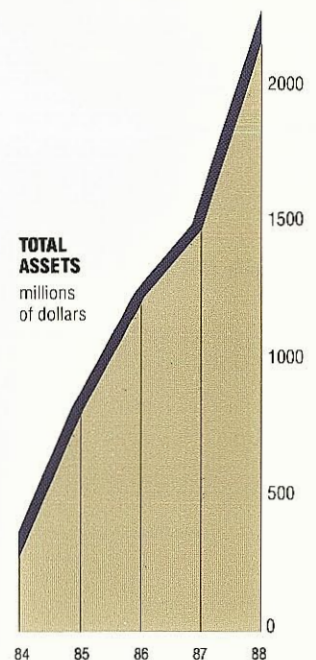
## RATIOS

	1988	1987
Earnings per share		
Basic	\$ 1.79	\$ 1.28
Fully diluted	\$ 1.73	\$ 1.28
Cash flow per share (1)	\$ 4.32	\$ 2.88
Revenues/employee	\$ 273,500	\$ 257,500
Cash flow/employee (1)	\$ 59,500	\$ 41,400
Assets/employee	\$ 602,400	\$ 426,600
Employee cost/\$ of revenue	\$ 0.17	\$ 0.17
Interest expense/\$ of revenue	\$ 0.04	\$ 0.05
Total debt/capitalization	46.4%	46.4%
Total debt/total assets (excluding cash)	41.8%	42.7%
Return on common shareholders' equity (beginning of year) (2)	17.0%	15.3%
Return on common shareholders' investment (beginning of year) (3)	25.1%	26.3%
Book value/common share (4)	\$ 13.16	\$ 10.52
Quoted market price/common share (on close of business per TSE on December 31)	\$ 11.50	\$ 12.625
Number of common shares outstanding (thousands)	51,730	51,730

1. Before net changes in non-cash working capital items.
2. Includes investment tax credits received in cash and non-repayable grants.
3. Includes common shareholders' equity.
4. Book value includes common shareholders' equity, investment tax credits received in cash and non-repayable grants.

## FINANCIAL HIGHLIGHTS

**SINCE 1984, THE CORPORATION'S TOTAL ASSETS INCREASED FROM \$332 MILLION TO \$2.3 BILLION**



Total Assets
332 866 1261 1536 2265



## CHAIRMAN'S REPORT

Nineteen eighty-eight was a year of extraordinary performance by Repap People. The vitality, drive and enthusiasm came from all parts of the company: New Brunswick, British Columbia, Wisconsin, New York, Pennsylvania and Quebec.

In addition to setting new highs in Revenues, Production, Cash Flow and Net Income, to mark Repap's 10th year of operations, **Repap People:**

- Completed the new \$48 million Terrace Sawmill
- Modernized the Skeena Mill at a cost of \$90 million
- Successfully started up the US\$ 300 million M-7 Coated Paper Complex
- Started construction and completed financing on the \$495 million A-2 Coated Paper Project including the new Recovery Boiler.
- Completed construction of the \$70 million ALCELL® Trial Plant

**OUR MOMENTUM IS BUILDING.** At year-end, we had assets of \$683 million under construction and in various stages of becoming productive contributors to our future earning power. Magnificent state-of-the-art facilities are planned to improve the environment.

GEORGE PETTY



We have always believed that mills do not have to be eyesores and our new facilities in Wisconsin, New Brunswick and British Columbia prove this point.

At the time of writing, we are in the final countdown days on the start-up of our ALCELL® Trial Plant for our revolutionary new pulping technology. This development has great potential significance to the world's pulp and paper industry and of course to Repap's position in the industry.

Both paper machine performance and product development on the M-7 "Sweet Lorraine" coated paper complex have advanced at a spectacular rate, with our new





## CHAIRMAN'S REPORT

Web and Sheet grades meeting an enthusiastic reception in the marketplace. That is where it really counts. George Olmstead would be impressed.

Repap People are building a business one day at a time. The intensity and commitment of our people is magnificent. They are reaching, trying, pushing to make things happen — and they do. We are by no means perfect, but we are constantly trying to improve. The upside potential in our coated paper operations is tremendous as we fine tune our equipment and train our people.

I am also relieved to report that after encountering 12 months of red tape, we are introducing an Employee Stock Purchase Plan, whereby the company will contribute 30% of each employee's investment in Repap stock when held for three years.

We are working to develop a Profit Sharing plan at each of our operations, building on the success and experience of our Midtec operation. We want and need each and every Repap person to be a part of the team and to benefit from and share in our financial success.

Environmental issues are taking on ever-increasing importance. Repap is committed to taking a positive posture to make sure we are in a position to comply with all governmental regulations.

**THE OUTLOOK FOR 89 LOOKS GOOD.  
REPAP WILL BE READY FOR THE 90'S.  
WE APPRECIATE YOUR CONTINUED SUPPORT.**

A handwritten signature in black ink that reads "George S. Petty".

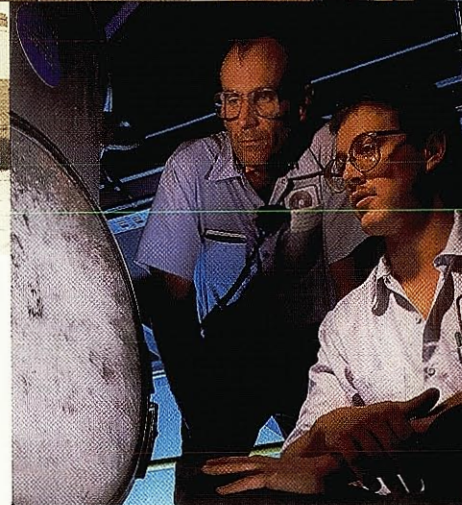
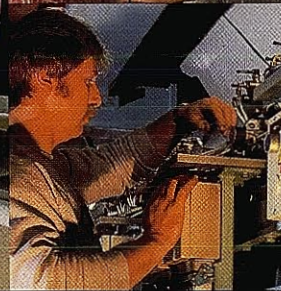
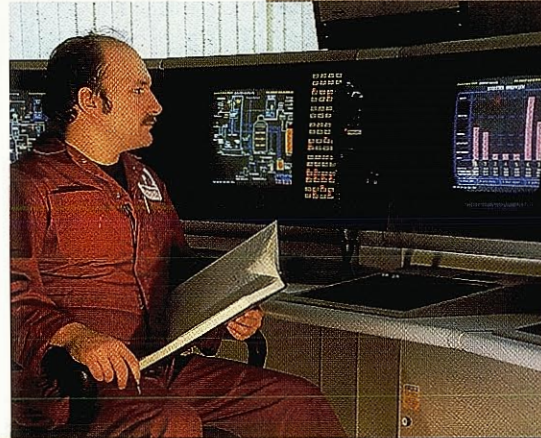
George S. Petty  
Chairman — CEO



**THE REPAP SPIRIT  
CONTINUES OUTSIDE  
OUR DAILY WORK  
ENVIRONMENT**

**REPAP HAS ACCOMPLISHED  
GOOD THINGS DURING THE  
PAST DECADE. THROUGH THE  
OUTSTANDING EFFORT OF  
OUR MOST IMPORTANT  
ASSET... REPAP PEOPLE...  
GOALS HAVE BEEN REACHED  
AND EVEN SURPASSED! SOLID  
WORK ETHICS, TECHNOLOGI-  
CAL ADVANCEMENT, WORLD-  
CLASS MACHINERY AND  
UNMATCHED EXPERTISE ARE  
IN PLACE AND CONTINUALLY  
POINT TOWARD PROGRESS.  
WE CAN'T HELP BUT PAUSE  
FOR A FLEETING MOMENT...**

**THE PEOPLE OF REPAP HAVE  
GOOD REASON TO BE PROUD  
AND TAKE A GREAT DEAL OF  
SATISFACTION IN WHAT HAS  
BEEN ACHIEVED IN A FEW  
SHORT YEARS. WITH RENEUED  
ANTICIPATION AND CONFID-  
ENCE WE LOOK FORWARD  
TO THE NEXT TEN YEARS AS  
REPAP'S DECADE OF GREAT  
EXPECTATIONS!**



# REPAP'S PEOPLE



# OUR GREATEST ASSET



## WORLD PULP MARKETS

**REPAP'S PRIMARY MARKET GRADE IS CANADIAN NORTHERN BLEACHED SOFTWOOD KRAFT PULP, THE QUALITY CHARACTERISTICS OF WHICH ARE REQUIRED TO PRODUCE HIGH QUALITY COATED PAPER.**

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### THE PRODUCT

The technical properties of pulp are dependent on two fundamental factors; the fibre raw material used and the process used to convert the fibre raw material into pulp for further processing into paper and other products.

Pulping processes can be categorized into mechanical and chemical processes. Mechanical processes physically tear fibres apart whereas chemical processes remove lignin, the inter-fibre binder, to separate fibres, thus creating pulp. Mechanical processes include groundwood and a range of new refiner mechanical pulping systems such as Thermo-Mechanical Pulp (TMP) and Chemi-Thermo Mechanical Pulp (CTMP). The dominant chemical process is kraft (sulphate). Chemical pulps are both stronger and more easily bleached to high brightness levels.

Over 90 percent of pulp production is based on wood with the balance from annual crop fibres such as straw and bagasse. As a fibre raw material to the pulp industry, wood can be categorized into hardwood and softwood and further, into regions of production and even species. In general, softwoods have longer fibres than hardwoods giving them greater tear and tensile strength but lower opacity and printability. Within the softwood category again, there are significant quality variations resulting from species, climate and differences in silviculture practices. Northern Bleached Softwood Kraft (NBSK) pulp from Canada and Scandinavia is produced from slow-growing softwood species with long, slender fibres giving good strength and superior fine paper formation properties. Still further within the NBSK category, Canadian pulp is known to be stronger than Scandinavian pulp. Southern Bleached Softwood Kraft (SBSK) pulp, produced primarily in the Southern United States and South America is based on coarser fibres more suited to lower value paper than to fine paper production. The market preference for NBSK pulp over SBSK is evidenced by the established and increasing price differential.

Repap's primary market grade is Canadian NBSK pulp. Its strength advantages over hardwood pulps and other softwood pulps are particularly attractive to coated paper producers, since high strength enables higher machine operating speeds and greater use of fillers, thereby increasing output at lower cost.

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### MARKETS

Strong economic growth rates in Europe, the U.S., Japan and newly industrialized countries in the East have created sustained demand for each of the major end use sectors for pulp; namely communication papers, packaging and industrial grades and personal care products. Demand for pulp has been buoyant since it represents the primary raw material for each of these sectors.



## WORLD PULP MARKETS

### WORLD WHITE CHEMICAL PAPER GRADE PULP 1988 CONSUMPTION

(millions of metric tons)

	Total	Integrated	Market
Softwood Kraft			
Northern	13.7	5.1	8.6
Other	17.8	12.5	5.3
<b>Total</b>	<b>31.5</b>	<b>17.6</b>	<b>13.9</b>
Hardwood Kraft	28.8	18.7	10.1
Sulphite	10.3	8.5	1.8
<b>Total</b>	<b>70.6</b>	<b>44.8</b>	<b>25.8</b>

REPAP'S SHARE  
OF MARKET NORTHERN BLEACHED  
SOFTWOOD: 5.6%

In 1988, apparent world consumption of bleached (white) chemical paper grade wood pulp reached an all time high of 71 million metric tons, up 3.8% over 1987 and formed part of a 4.4% average annual growth rate for the past five years. Market pulp accounts for 37% of world apparent consumption of white chemical paper grade pulp. NORSCAN nations, made up of North American and Scandinavian countries, produce 70% of all white chemical paper grade market pulp.

### WORLD WHITE CHEMICAL PULP CAPACITY

(millions of metric tons)

	1984	1985	1986	1987	1988
Softwood Kraft	28.6	29.8	30.7	31.3	32.3
Hardwood Kraft	23.9	25.6	26.9	28.4	29.9
Sulphite	11.1	10.9	10.8	10.6	10.6
<b>Total</b>	<b>63.6</b>	<b>66.3</b>	<b>68.4</b>	<b>70.3</b>	<b>72.8</b>

### WORLD WHITE CHEMICAL PULP CONSUMPTION

(millions of metric tons)

	1984	1985	1986	1987	1988
Softwood Kraft	26.6	27.6	28.8	30.6	31.5
Hardwood Kraft	22.9	23.7	25.7	27.3	28.8
Sulphite	10.5	10.3	10.1	10.3	10.3
<b>Total</b>	<b>60.0</b>	<b>61.6</b>	<b>64.6</b>	<b>68.2</b>	<b>70.6</b>



# WORLD PULP MARKETS

LIMITED RESOURCES OF NORTHERN BLEACHED SOFTWOOD KRAFT AND INCREASES IN THE FINE PAPER MARKETS INDICATE TIGHT MARKETS AND OPERATING RATES CLOSE TO 100%. REPAP IS WELL POSITIONED TO TAKE FULL ADVANTAGE OF THIS MARKET OPPORTUNITY.

## FUTURE SUPPLY/DEMAND BALANCE

With strong demand and limited new capacity added in the last 3 to 5 years, the white chemical pulp market has remained tight and operating rates have sustained levels approaching 100%.

White chemical market pulp inventories of NORSCAN producers were at very low levels at the end of 1988 — 672,000 metric tons or a 13-day supply. Shipments in these countries only rose by 1% in 1988 due to supply constraints, resulting primarily from long lead times on new productive capacity (it typically takes 3 to 4 years from conception to start-up of an economic scale greenfield pulp mill) and limited forest resources in many areas. These supply constraints have resulted in several price increases in all grades of pulp over the last two to three years.

## OPERATING RATES FOR CANADA AND THE WORLD - PAPER GRADE WHITE CHEMICAL PULP INDUSTRY IN 1988

	Percentages	
	Bleached Softwood Kraft	Bleached Hardwood Kraft
<b>World</b>	<b>97.7</b>	<b>96.4</b>
Norscan	97.0	98.6
<b>Canada</b>	<b>98.1</b>	<b>97.4</b>
Norscan [Market Pulp]	98.3	99.0
<b>Canada [Market Pulp]</b>	<b>98.6</b>	<b>97.8</b>

In terms of new capacity, there has been considerable activity in the hardwood market pulp area as remaining previously underutilized hardwood forest resources in North America are scrutinized, and southern hemisphere plantation forest based projects become a major force in the sector.

On the softwood side of the supply scene, there has been significantly less activity. Announcements of added market pulp capacity in this area have generally been limited to small expansion operations in the NBSK sector, with some interest in major SBSK greenfield projects in the Southern U.S. or, again, the southern hemisphere. NBSK market pulp in Scandinavia is declining due to further integration in the industry and limited wood resources. In northern North America, again, wood resources are the limiting factor and the attractive characteristics of the slow growing northern fibre do not lend themselves to intensive plantation similar to projects undertaken in the Southern hemisphere. This limitation, together with dramatic world demand increases in the fine paper markets, NBSK's main market segment, indicates tight markets and operating rates close to 100% into the foreseeable future. Repap is well positioned to take full advantage of this market opportunity with existing operations and with plans for further expansion in this sector.



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## COATED PAPER

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Repap specializes in coated paper, the "Rolls Royce" of the printing paper market, accounting for one-third of all printing and writing papers, excluding newsprint, produced worldwide. It is coated with clay and other materials to produce a bright, glossy surface ideal for high-clarity printing. Repap produces both coated freesheet and coated groundwood paper in a complete range of grades and basis weights, one of the two companies in the industry with this range of product capability.

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## DIFFERENTIATING COATED PAPER

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### Coated Freesheet Paper

Containing less than 10% mechanical pulp in its fibre mix, coated freesheet derives its name from the fact that it is almost "free" of mechanical pulp. Manufacture using primarily chemical pulps provides a more permanent sheet of paper. In the manufacture of coated freesheet paper, softwood pulp, with its longer fibres which impart strength to the paper, is combined with hardwood pulp, with its shorter fibres which impart smoothness and opacity. Brightening agents and the bleached nature of the pulp used provide the bright, blue-white printing surface desired for high-quality publications such as coffee-table magazines, annual reports and quality advertising.

### Coated Groundwood Paper

Containing at least 10% mechanical pulp in its fibre mix, coated groundwood paper derives its name from groundwood pulp which is a type of mechanical pulp. Chemical pulp, with its longer fibre, is added to the fibre mix for coated groundwood papers to provide the strength characteristics required for running papers through today's high-speed printing presses.

Unlike the chemical pulps, mechanical pulping processes do not remove most of the lignin from the pulp. Higher yield results in a more economical pulp and, hence, a lower manufacturing cost for papers using mechanical pulp. Coated groundwood papers are typically used for magazines, newspaper inserts and direct mail advertising materials.

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## WORLD MARKETS

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Consumers created a demand for approximately 22 million short tons of coated paper worldwide during 1988 resulting in operating rates averaging 96%.

North America and Western Europe account for approximately three-quarters of worldwide demand while Japan provides an additional 12%. These regions are also the major producers of coated paper and have an important influence on the worldwide economy. Extrapolation of trends in these regions suggests an attractive outlook for worldwide coated paper markets.

## WORLD COATED PAPER MARKETS

**REPAP -  
WELL POSITIONED  
TO TAKE ADVAN-  
TAGE OF POSITIVE  
OUTLOOK**

2



## WORLD COATED PAPER MARKETS

OVER THE LAST FIVE YEARS, NORTH AMERICAN DEMAND FOR COATED PAPER HAS GROWN AT A COMPOUND ANNUAL RATE OF 7%, CLOSE TO DOUBLE THE 4% RATE OF GROWTH IN THE U.S. GNP. NORTH AMERICAN DEMAND INCREASED 8.5% IN 1988 RELATIVE TO 1987.

### 1988 WORLD PICTURE

(millions of short tons)

	Demand	5 Year Annual Growth
North America	8.5	7.0%
Western Europe	8.3	10.0%
Japan	2.6	8.5%
Other	2.9	25.0%
<b>World</b>	<b>22.3</b>	<b>10.4%</b>

### NORTH AMERICAN DEMAND STRONG

Over the last five years, North American demand for coated paper has grown at a compound annual rate of 7%, close to double the 4% rate of growth in the U.S. GNP. North American demand increased 8.5% in 1988 relative to 1987.

Publishers of preprinted inserts, catalogs and magazines provided most of the impetus for the 10% growth in demand for coated groundwood papers, which accounted for approximately 58% of North American coated paper shipments in 1988.

Catalogs have evolved into an effective tool for the marketing of quality merchandise and serve as the exclusive marketing tool of many merchandisers. Families where both parents work outside the home with less time to shop provide tremendous potential for growth in the use of catalogs. Demand for coated freesheet paper grew 5% during 1988, due in part to the growth in up-scale catalogs. In addition, certain fashion magazine publishers are upgrading paper quality.

Historically, coated paper imports into North America have increased only during periods of peak demand. Offshore imports into North America fulfilled approximately 8% of total demand in 1988. Foreign producers are currently maintaining their share of the North American market despite a dramatically lower dollar which has reduced their ability to compete.

### NORTH AMERICAN COATED PAPER PRICES

Repap's primary market is currently the North American market. High operating rates resulted in the implementation during 1988 of significant price increases.

Coated freesheet paper prices depend on the quality of a particular grade of paper produced, which can vary significantly between suppliers. Coated groundwood paper quality is typically fairly consistent between manufacturers; and consequently, pricing is fairly consistent between suppliers. The price of the groundwood grade called No. 5, 40 lb. paper is therefore often used as a benchmark grade in looking at historical pricing of coated paper.





## WORLD COATED PAPER MARKETS

### COATED PAPER IN NORTH AMERICA

(millions of short tons)

Year	Shipments	Imports	Estimated Demand	Year-end Capacity	Operating Rate
1984	6.5	0.4	6.5	6.8	97%
1985	6.1	0.5	6.8	6.9	89%
1986	6.5	0.5	7.3	7.1	93%
1987	7.3	0.5	7.8	7.9	96%
1988	7.8	0.6	8.4	8.2	97%

### EUROPEAN DEMAND EXCEEDS NORTH AMERICAN DEMAND

Since 1983, European demand for coated paper has increased at a compound annual rate of about 10%, with Germany and Finland, the two largest European producers, operating at effectively 100% of capacity during 1988.

European demand for coated freesheet and coated groundwood paper grew approximately 7% and 13% respectively during 1988. Magazine publishers upgrading paper quality from the uncoated groundwood grade fuelled the demand for coated groundwood paper. Given the large number of European magazines still printed on uncoated paper, significant potential remains for additional upgrading.

Dismantling of tariff and trade barriers expected to be completed by 1992 will effectively transform the European Economic Community into a single gigantic market of over 320 million consumers and is expected to generate substantial growth throughout the region. Coated paper is expected to benefit from the anticipated growth in GDP.

An imbalance currently exists in the coated paper tariff structure for trade between North America and Europe. European imports into North America are currently subject to tariffs which range from 0% to 6% whereas North American imports into Europe are subject to a 9% duty. This imbalance will need to be addressed.

EUROPEAN DEMAND FOR COATED FREESHEET AND COATED GROUNDWOOD PAPER GREW 7% AND 13% RESPECTIVELY DURING 1988. MAGAZINE PUBLISHERS UPGRADING PAPER QUALITY FROM THE UNCOATED GROUNDWOOD GRADE FUELLED THE DEMAND FOR COATED GROUNDWOOD PAPER. GIVEN THE LARGE NUMBER OF EUROPEAN MAGAZINES STILL PRINTED ON UNCOATED PAPER, SIGNIFICANT POTENTIAL REMAINS FOR ADDITIONAL UPGRADING.



## WORLD COATED PAPER MARKETS

### WORLD CAPACITY AND OPERATING RATES

New capacity typically takes from 2 to 5 years to reach its full production capabilities. Based on a two year phase-in period, it is estimated that 1.4 million tons of coated freesheet and 1.6 million tons of coated groundwood paper capacity will be added to the worldwide marketplace during the next two years. This represents a compound annual growth rate of approximately 6%. Dual purpose capacity in the industry can be used to balance the difference in freesheet capacity growth relative to groundwood; however, growth in coated freesheet capacity is only marginally lower than growth in coated groundwood capacity over the next two years. Worldwide coated paper operating rates averaged a healthy 96% during 1988.

### WORLD COATED PAPER CAPACITY OUTLOOK

(millions of short tons & %)	1988	1989	1990
Coated Freesheet	12.0	12.8	13.4
Coated Groundwood	11.3	12.0	12.8
<b>Total Coated</b>	<b>23.3</b>	<b>24.8</b>	<b>26.2</b>
Percent increase		6.5%	5.7%

### REPAP MARKET POSITION AND FLEXIBILITY — POSITIONED TO CAPITALIZE ON THE FAVOURABLE OUTLOOK

By 1989, Repap will have 340,000 short tons of coated groundwood capacity, 260,000 short tons of premium coated freesheet capacity and up to 350,000 short tons of dual purpose capacity which can produce either coated groundwood or coated freesheet paper.

Repap's modern assets will make it one of the lowest cost producers in the worldwide industry. Market position and operating flexibility combined with the strategic tidewater location and deepwater port at the Miramichi mill have positioned Repap to take advantage of the positive outlook.

**REPAP'S MODERN ASSETS GIVE IT THE POTENTIAL TO BE ONE OF THE LOWEST COST PRODUCERS IN THE INDUSTRY. MARKET POSITION AND OPERATING FLEXIBILITY COMBINED WITH THE STRATEGIC DEEPWATER PORT AT THE MIRAMICHI MILL POSITION REPAP TO TAKE ADVANTAGE OF THE POSITIVE OUTLOOK.**



**ESTIMATED COATED PAPER CAPACITY  
BY MAJOR PRODUCER IN NORTH AMERICA**

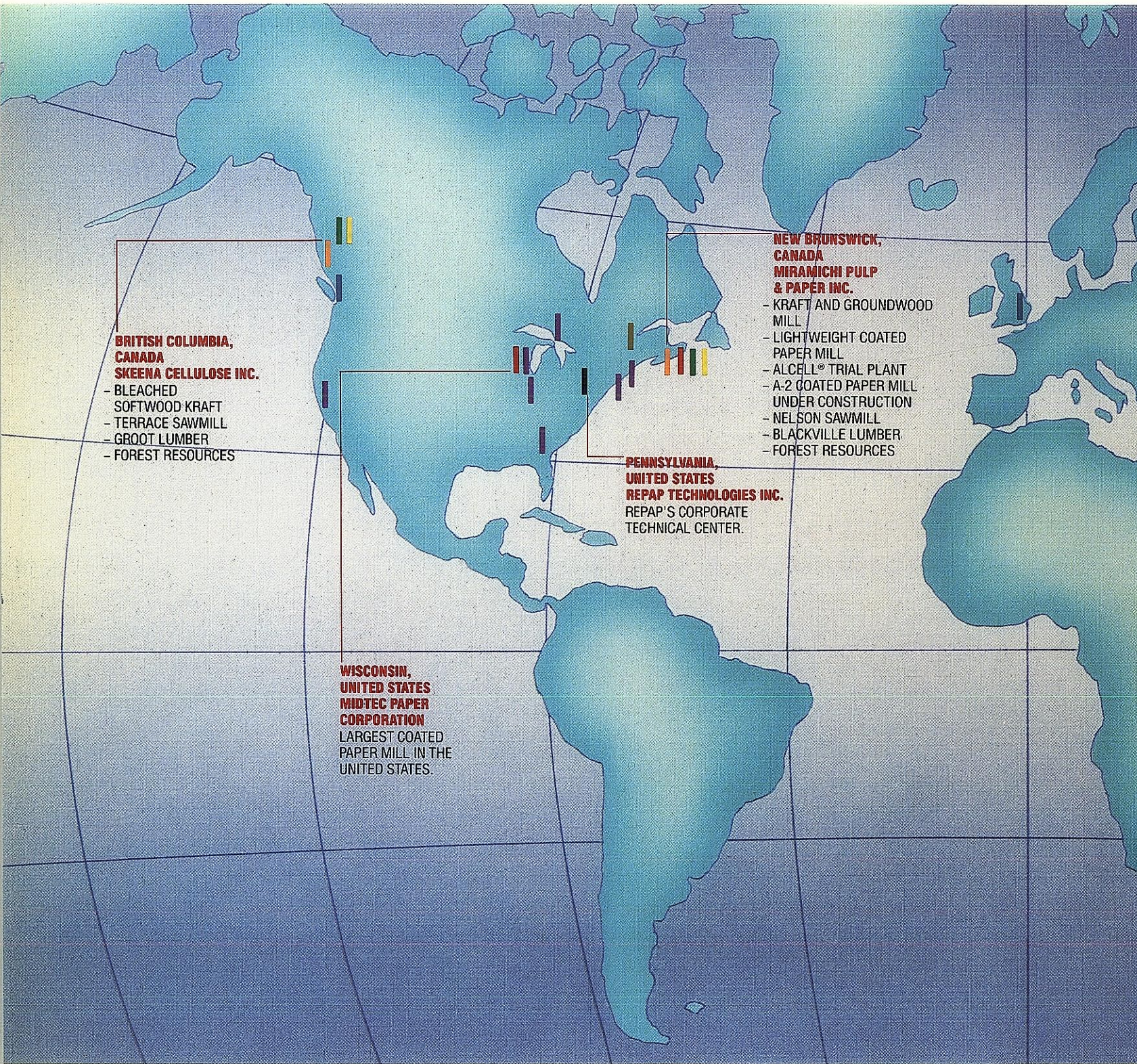
(thousands of short tons)

Rank	Producer	Approximate Year-End Capacity 1989
1	Champion International Corporation	980
2	<b>Repap Enterprises Corporation Inc.</b>	950
3	Consolidated Papers, Inc.	850
4	Scott Paper Company	800
5	Mead Corporation	700
6	International Paper Company	600
7	Westvaco Corporation	500
8	Blandin Paper Company	460
9	James River Corporation	410
10	Boise Cascade Corporation	400
11	Bowater Incorporated	350

**WORLD  
COATED  
PAPER  
MARKETS**

**REPAP'S COATED PAPER COMMITMENT  
TO MERCHANTS, PRINTERS AND PUBLISHERS**

Machine and year built	Capital Invested \$US million	Capacity Short tons/year
<b>MIDTEC, WISCONSIN</b>		
M-5 1985-86 (Rebuilt)	50	100,000
M-6 1980-81 Gingerbelle	100	140,000
M-7 1987-88 Sweet Lorraine	300	260,000
<b>MIDTEC TOTAL</b>	<b>450</b>	<b>500,000</b>
<b>MIRAMICHI, NEW BRUNSWICK</b>		
A-1 1986-87 MiramichiBelle	320	200,000
A-2 1989	335	250,000
<b>MIRAMICHI TOTAL</b>	<b>655</b>	<b>450,000</b>
	<b>1,105</b>	<b>950,000</b>



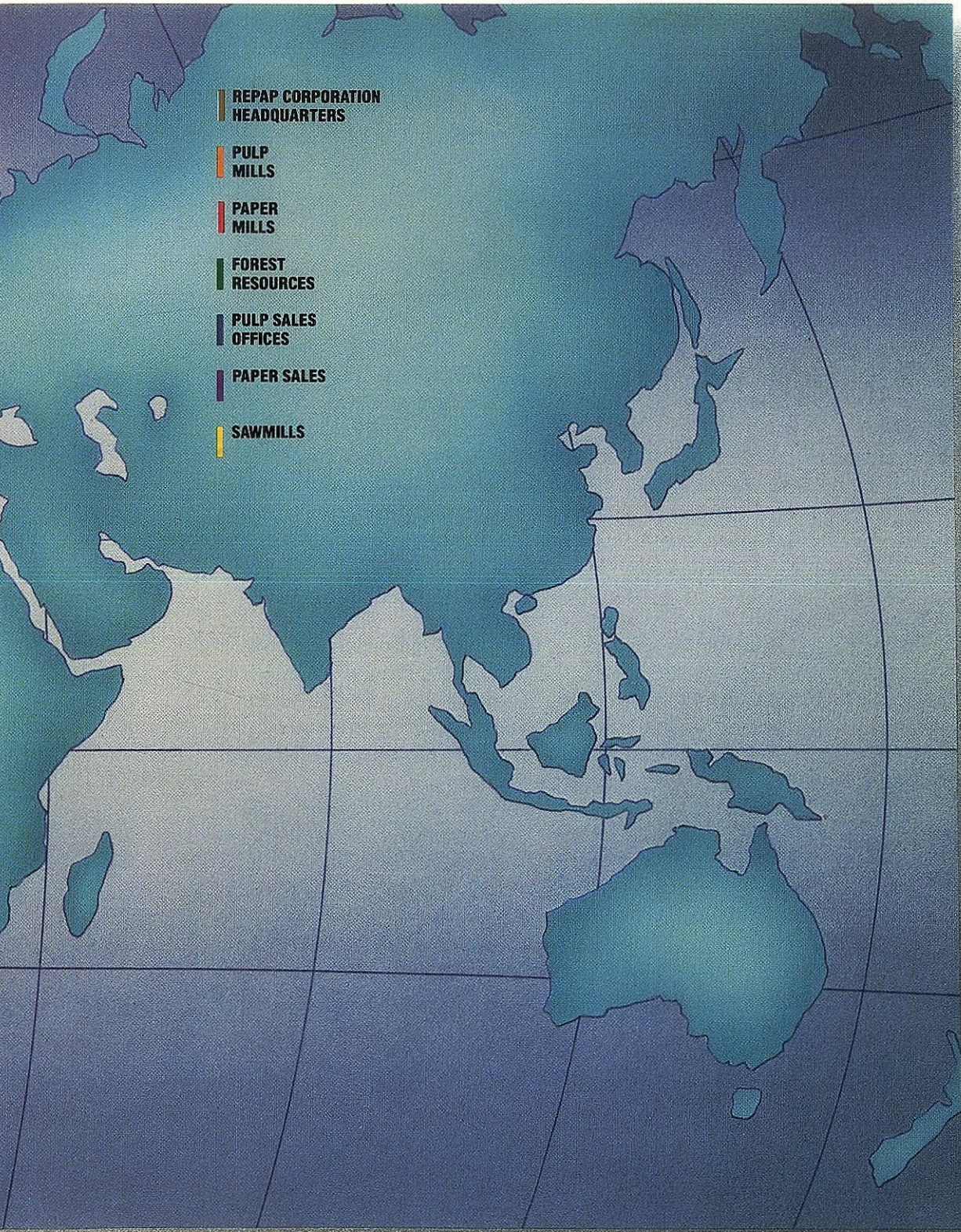
**BRITISH COLUMBIA,  
CANADA**  
**SKEENA CELLULOSE INC.**  
- BLEACHED  
SOFTWOOD KRAFT  
- TERRACE SAWMILL  
- GROUT LUMBER  
- FOREST RESOURCES

**WISCONSIN,  
UNITED STATES**  
**MIDTEC PAPER  
CORPORATION**  
LARGEST COATED  
PAPER MILL IN THE  
UNITED STATES.

**PENNSYLVANIA,  
UNITED STATES**  
**REPAP TECHNOLOGIES INC.**  
REPAP'S CORPORATE  
TECHNICAL CENTER.

**NEW BRUNSWICK,  
CANADA**  
**MIRAMICHI PULP  
& PAPER INC.**  
- KRAFT AND GROUNDWOOD  
MILL  
- LIGHTWEIGHT COATED  
PAPER MILL  
- ALCELL® TRIAL PLANT  
- A-2 COATED PAPER MILL  
UNDER CONSTRUCTION  
- NELSON SAWMILL  
- BLACKVILLE LUMBER  
- FOREST RESOURCES

# THE REACH OF REPAP



**REPAP SPECIALIZES IN THE PRODUCTION OF HIGH QUALITY COATED PAPER FOR MAGAZINES, CATALOGUES, INSERTS, COUPONS AND BROCHURES, AND PREMIUM SOFTWOOD KRAFT PULP, USED TO MAKE HIGH QUALITY FINE PAPERS. REPAP OPERATES THREE MAJOR PRODUCTION FACILITIES IN CANADA AND THE UNITED STATES, HAS SALES REPRESENTATIVES AND USES SALES AGENCIES IN SELECTED COUNTRIES AROUND THE WORLD.**

# STILL GROWING



## **REPAP - NEW BRUNSWICK**

### **MIRAMICHI OPERATIONS A YEAR OF PROGRESS**

**TAKING ADVANTAGE OF MIRAMICHI'S YEAR ROUND DEEPWATER PORT, REPAP USES ITS OWN VESSEL, THE "REPAP ENTERPRISE", TO CARRY COATED PAPER TO THE COMPANY'S SERVICE CENTER IN PORT ROYAL, SOUTH CAROLINA AND TO TRANSPORT COATING CLAYS TO THE MILL ON THE RETURN VOYAGE.**

Progress was made on all fronts during 1988 at Repap's fully-integrated Miramichi Operations located on the banks of the historic Miramichi River in northeastern New Brunswick. Miramichi's 1,400 dedicated employees worked hard to achieve significant pulp quality improvements as well as increased production at both the groundwood mill and at the coated paper mill. Capital expenditures at Repap's Miramichi Operations totalled \$215 million in 1988.

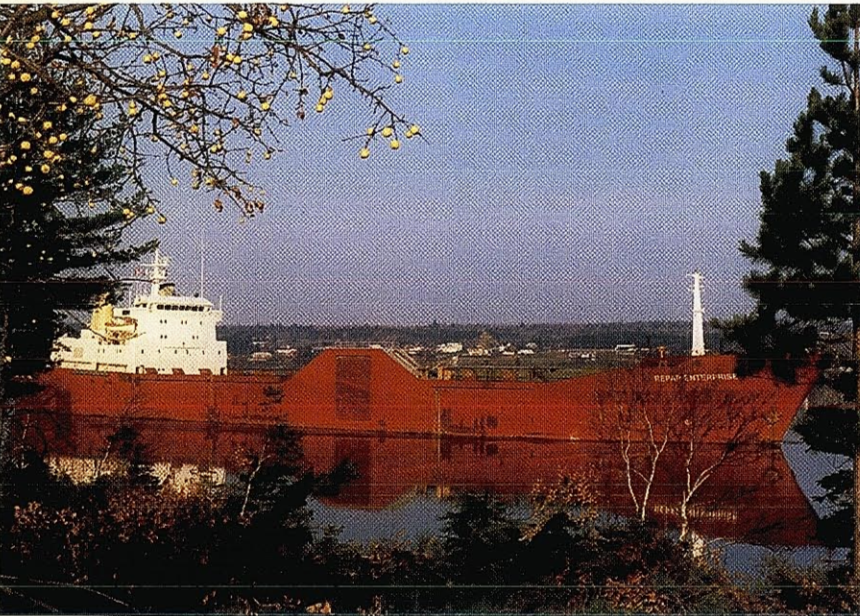
Miramichi's modern A-1 Coated Paper Mill has the capacity to produce 200,000 short tons per year of quality lightweight coated paper for North American printers and magazine publishers. The paper mill, which was commissioned in the fall of 1987, continued to move up its learning curve during 1988 with production increasing by 15% to 161,000 short tons.

Pulp quality at the kraft pulp mill was improved through the addition of new pulp cleaners and a new pressure knotter. These modifications will result in lower energy requirements and a small increase in production as well as improved pulp quality. Upgrading of one of the boilers at the kraft mill will increase steam production and reduce energy costs.

Like the balance of the industry, Miramichi's bleached softwood kraft pulp mill averaged a 97% operating rate during 1988, producing an all-time record of 185,000 metric tons of quality pulp for use by the paper mill and for sale in the international marketplace. Market kraft pulp shipments decreased by 9% to 123,000 metric tons as a result of increased integrated usage by the A-1 Coated Paper Mill.

Production at Miramichi's groundwood pulp mill increased by 16% to 110,000 metric tons during 1988 due to the addition of a second cutter-layboy to produce wet-lap pulp for the A-1 Coated Paper Mill and to the fine-tuning of screening, cleaning and refining equipment installed during 1987. This equipment has significantly enhanced groundwood pulp quality.

Miramichi expanded its lumber capacity in 1988 from 10 Mmfbm to 37 Mmfbm with the \$3 million acquisition of Blackville Lumber, located 32 kilometers from the kraft pulp mill in Blackville, New Brunswick. Acquisition of Blackville Lumber will enhance Repap's fibre supply.





**A-1 OFF-MACHINE  
COATER**





## **REPAP - NEW BRUNSWICK**

### **A-2 COATED PAPER MILL ENHANCES MARKET FLEXIBILITY**

**LOCATED ADJACENT TO THE A-1 COATED  
PAPER MILL AND THE TWO PULP MILLS  
AT REPAP'S MIRAMICHI OPERATIONS,  
A-2 WILL BENEFIT FROM EXISTING  
INFRASTRUCTURE WHICH INCLUDES CLAY  
STORAGE FACILITIES AND A DEEPWATER  
PORT.**

Construction is well underway on the Miramichi Paper Partnership's \$495 million A-2 Coated Paper Mill Project which includes the A-2 Coated Paper Mill and a new Chemical Recovery Boiler.

Scheduled to start production in the fall of 1989, the sophisticated, computer-controlled A-2 mill is being constructed by Repap Ferrostaal Inc. The flexible dual purpose paper machine is designed to respond to market demands by producing between 200,000 and 260,000 short tons of coated groundwood or coated freesheet paper annually depending on the basis weight and product mix of coated paper produced.

The paper machine's distinctive top-wire design utilizes its optimum forming capabilities to achieve the ultimate in paper printability. The additional fourth press section (conventional machines have only three) reduces side to side surface differences. Sheet moisture, basis weight, caliper and colour are precisely controlled by specialized computerized sensing devices.

The gigantic Voith off-machine coater has two blade coater heads with roll applicators for uniform, high weight coating control. Coating and drying of both sides of the sheet are independently controlled with constant coating application at speeds of up to 5,000 feet per minute. Three Kleenewefers supercalenders are specifically designed to enhance gloss on both sides of the web. An automated precision roll-finishing and wrapping line provides rolls to exact customer specifications.

Located adjacent to the A-1 Coated Paper Mill and the two pulp mills at Repap's Miramichi Operations, A-2 will benefit from existing infrastructure which includes clay storage facilities and a deepwater port.

Taking advantage of Miramichi's year round deepwater port, Repap uses its own vessel, the "Repap Enterprise", to carry coated paper to the Company's Service Center in Port Royal, South Carolina and to transport coating clays to the mill on the return voyage. In 1988, 59,000 short tons of paper and 6,000 metric tons of pulp were shipped to Port Royal for further distribution to customers in the U.S. and Mexico. Location of the Miramichi complex at tidewater also provides an opportunity to ship coated paper as well as market pulp directly to overseas customers.

Miramichi's kraft and groundwood pulp mills will supply the fibre requirements of the A-2 mill. Miramichi's existing operations will also benefit through the distribution of fixed costs, better utilization of existing A-1 infrastructure and from the construction of the Chemical Recovery Boiler.

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### **CHEMICAL RECOVERY BOILER IMPROVES THE ENVIRONMENT AND PERMITS PULP MILL EXPANSION**

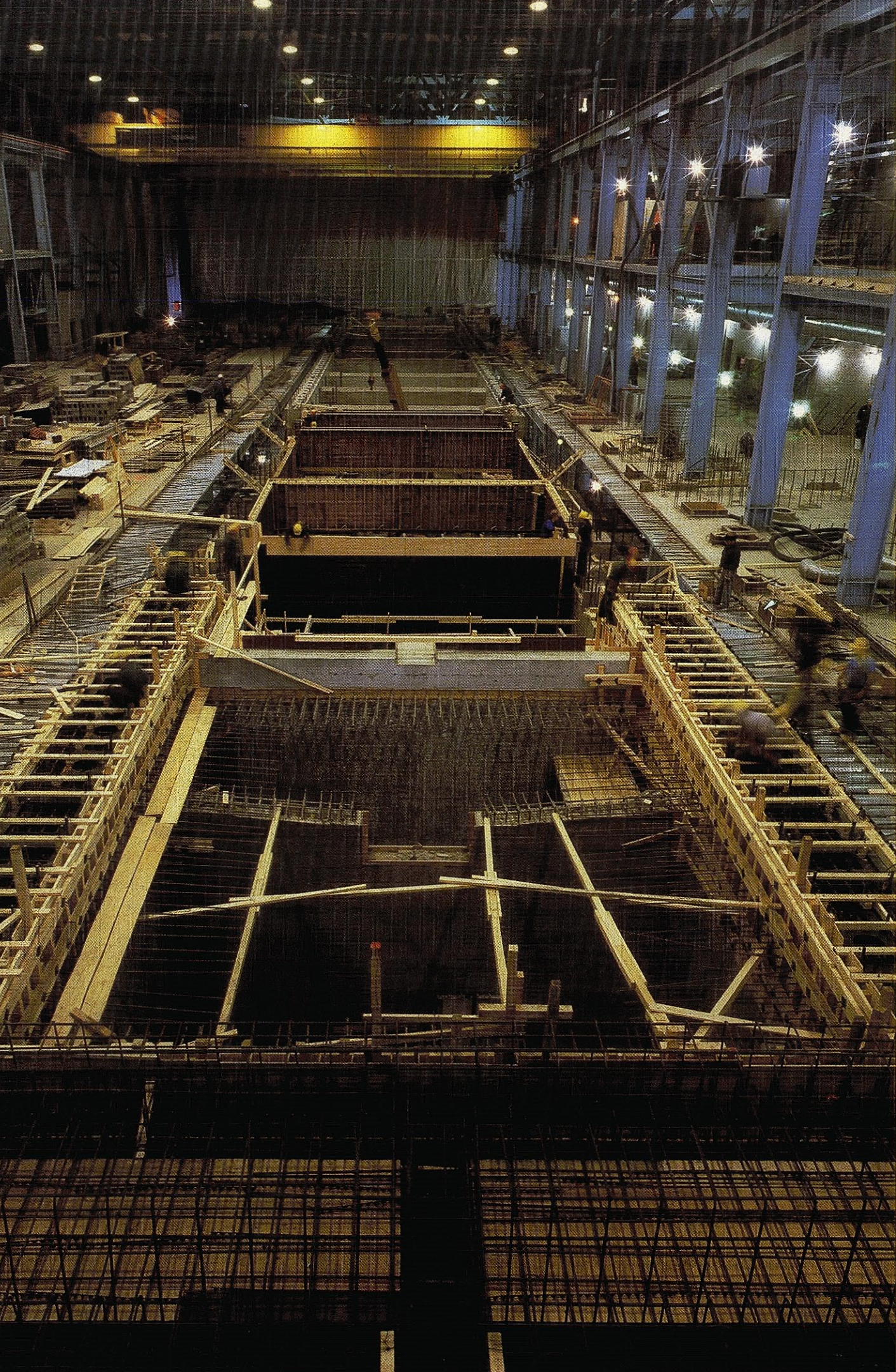
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Also included in the A-2 Project is a Chemical Recovery Boiler, which will provide significant environmental benefits to the Miramichi region. Scheduled to start up in late 1990, the Boiler will enable Miramichi to substantially reduce kraft mill air emissions and provide sufficient chemical recovery and energy capabilities to permit expansion of the kraft pulp mill.





**A-2 COATED PAPER MILL  
UNDER CONSTRUCTION.  
START-UP IS PLANNED  
FOR THE FOURTH  
QUARTER 1989**





ONE OF M-7's 14-ROLL  
SUPERCALENDERS





Repap's Midtec Operations have evolved in 12 short years from five older machines with a production capacity of 130,000 short tons to three machines with fully modern equipment and a production capacity of 500,000 short tons. Midtec's lightweight coated papers are well recognized in the marketplace and, with the start-up in September of the technologically advanced US\$300 million M-7 Coated Paper Mill, we expect to set the standard for quality in coated freesheet papers.

Located at Kimberly, in the heart of the papermaking state, Wisconsin, Midtec is now a versatile world-class mill capable of producing a complete range of coated paper grades and basis weights. Its fully modern equipment includes the dual purpose M-5 mill with the capacity to produce 100,000 short tons annually of either coated groundwood or coated freesheet paper as well as the dedicated M-6 and M-7 mills with the annual capacity to produce 140,000 tons of coated groundwood and 260,000 tons of coated freesheet paper respectively.

Shipments from Repap's Midtec Operations increased by 6% to 320,000 short tons in 1988, partially due to higher production from the new M-7 Coated Paper Mill. Repap expects to increase shipments during 1989, with M-7 operating for a full year.

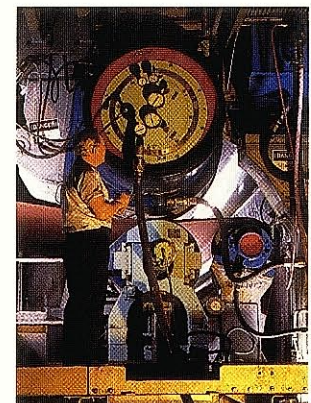
## REPAP - WISCONSIN

### MIDTEC'S ADVANTAGE INCREASES



MIDTEC, SPECIALIZING IN COATED PAPER, IS NOW FULLY MODERNIZED AND HAS THE CAPACITY TO PRODUCE 500,000 SHORT TONS OF QUALITY COATED PAPER, MAKING IT THE LARGEST COATED PAPER COMPLEX IN THE WORLD.

VIEW OF M-7 PRESS SECTION.





## **REPAP - WISCONSIN**

### **M-7**

### **ITS DEBUT — A SIGN OF EXCELLENCE**

**WITH A QUALITY TEAM OF EXPERIENCED PAPER MAKERS AND AN AUSPICIOUS START-UP, WE ARE CONFIDENT THAT M-7 PAPER WILL SET THE QUALITY STANDARDS FOR THE INDUSTRY AND BECOME AN IMPORTANT CONTRIBUTOR TO REPAP PROFITABILITY.**

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Repap's great expectations for the new US \$300 million state-of-the-art M-7 Coated Paper Mill are being realized.

Completed within 16 months of ground-breaking, M-7, named "Sweet Lorraine", is the latest stage in Repap's modernization of the Midtec mill. M-7, with an annual capacity of 260,000 short tons, has been designed to improve upon the best European papermaking technology and quality, and to equal or surpass all North American competition.

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#### **STATE-OF-THE-ART EQUIPMENT**

M-7 and its highly cost effective supporting equipment will produce premium quality coated freesheet papers in a complete range of basis weights, sizes and grades in both rolls and sheets.

M-7 has a high-speed Voith paper machine capable of operating at 4,000 feet per minute, guided by master papermakers in a sophisticated control room and at strategic stations around the machine. These skilled people monitor computerized panels that govern the flow of raw materials, the machine speed and the specifications for the particular grade being produced.

The two large Voith off-machine blade coaters can be operated in tandem or in parallel, to provide versatility and efficient double-coating at speeds up to 5,000 feet per minute. The M-7 Complex also includes three Kleinewefers supercalenders which furnish the high degree of gloss and continuously smooth surface that is so necessary for today's prestige color printing.

Two Jagenberg Vari-Top Winders are designed especially for winding large, "jumbo" rolls, and feature the most advanced computer controls to automatically and precisely set the slitter and winder stations.

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#### **M-7 ENHANCES REPAP'S MARKET POSITION**

With its double-coating capabilities, M-7 is designed to produce premium quality coated freesheet paper for such high quality uses as coffee-table magazines, annual reports and superior advertising copy.

Using an alkaline rather than an acid paper-making process enables M-7 to improve paper quality and reduce product cost. In addition to improving quality characteristics such as strength, brightness and "coatability", alkaline paper-making improves long-term stability. Product cost advantages arise from the ability to replace some higher cost fiber with lower cost fillers such as clay when alkaline conditions are employed.

The new M-7 coated paper mill is designed to produce double-coated freesheet paper of a quality equal to or surpassing that of its competitors in any grade. M-7's technical excellence will enable Repap to meet the high quality demands of the market and continue to expand its market share of the premium quality segment of the market.

It will also provide a reliable domestic source of premium coated freesheet thereby reducing the printing industry's current dependence on offshore imports of coated freesheet.

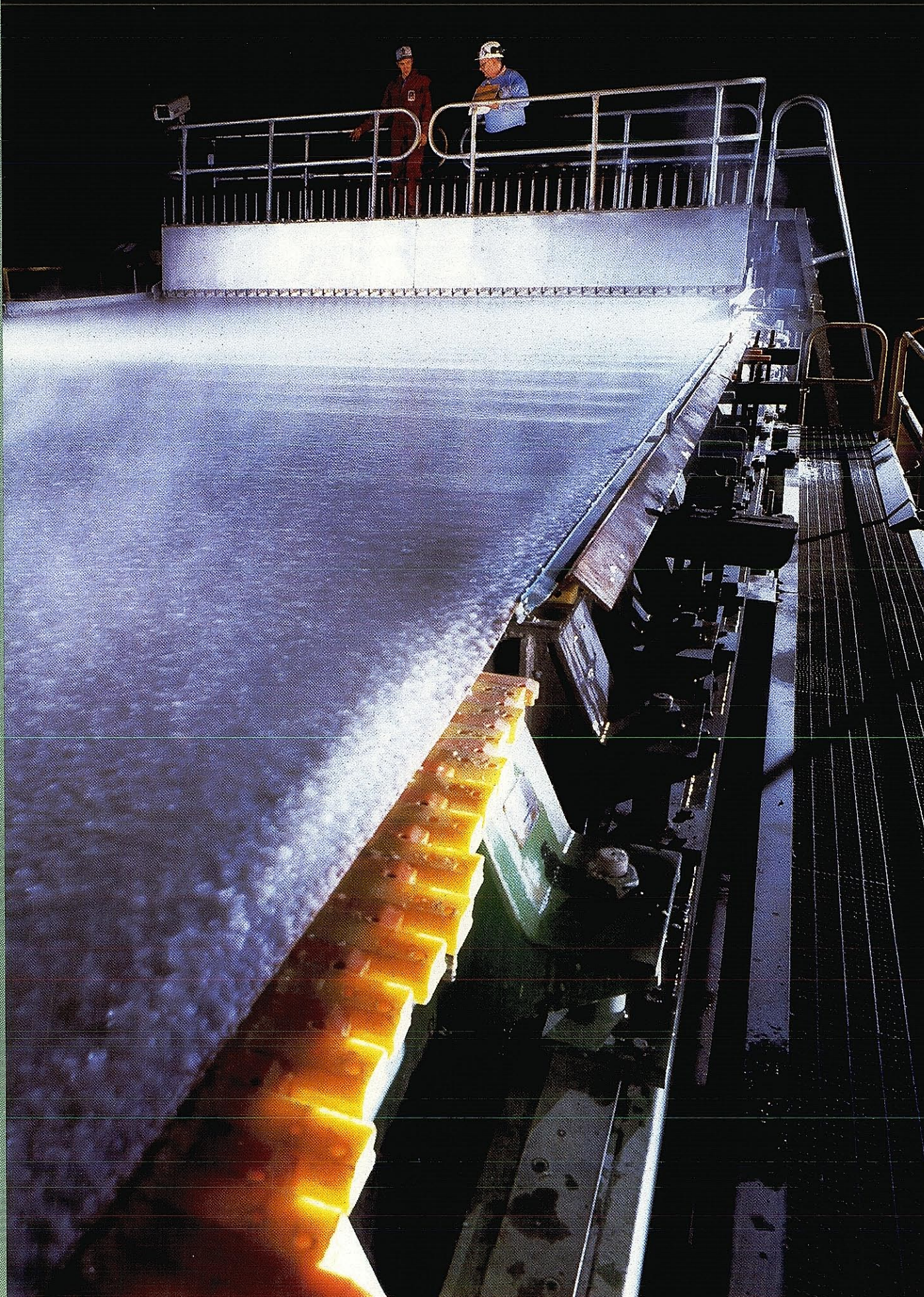


**CONTROL ROOM  
OVERLOOKING M-7**





WET END OF PULP  
MACHINE "A" AT SKEENA





Repap's commitment to maintain modern, cost-efficient assets is evident at the Skeena Operations. Modernization of the kraft pulp mill to be completed early in 1989 at a cost of approximately \$90 million will ultimately raise Skeena's annual pulp capacity from 425,000 metric tons at the end of 1987 to 480,000 metric tons. Skeena's outdated lumber mill has now been replaced at a cost of \$48 million with the state-of-the-art 150 Mmfbm per year capacity "Starship" which started up in May 1988. Capital expenditures at Repap's Skeena Operations totalled \$100 million in 1988.

### **PULP MILL MODERNIZATION INCREASES CAPACITY AND IMPROVES COST EFFICIENCIES**

Skeena's pulp mill is strategically located at tidewater on Watson Island, just outside the city of Prince Rupert on the northwestern coast of British Columbia, where the climate produces the trees that provide the thin, long-fiber for northern bleached softwood kraft pulp, the world's finest. "SKEENA PRIME" is widely recognized as one of the world's top quality bleached kraft pulps and is a market leader in Japan and in Europe.

Skeena's 1988 pulp mill capital expenditures focused on increasing chemical recovery capacity, an additional batch digester to increase daily pulp production, a technologically-sophisticated distributed control system for the digesting process and new stock cleaning equipment. Modifications on the recovery boiler have resulted in extra burning capacity, and a new chip thickness screening installation to provide uniform chips has resulted in less cooking and bleaching chemical requirements.

Throughout the capital program, environmental concerns were addressed with the reduction in chemical usage improving effluent quality. Pure oxygen injected at the second stage of the bleach process replaces an equivalent volume of bleaching chemicals. In addition, new bleaching control equipment has been installed to ensure minimum chemical usage while maintaining Repap's high standards for cleanliness and brightness.

As a consequence of downtime taken to tie in new equipment and to make modifications to existing equipment, Skeena shipped 406,000 metric tons of prime bleached softwood kraft pulp in 1988 relative to 413,000 metric tons in 1987.

Skeena's pulp mill modernization provides additional capacity during very favourable market conditions while improving pulp quality and enhancing the mill's cost-competitiveness.

### **LABOUR NEGOTIATIONS COMPLETED - CONTRACTS EXTEND TO MID-1991**

Skeena concluded labour negotiations during 1988 with all union contracts extended to the middle of 1991. Skeena employs approximately 925 people.

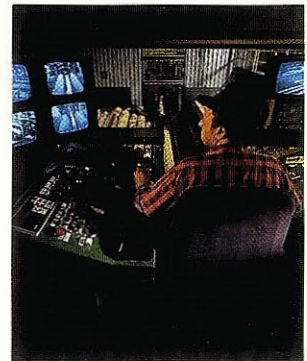
### **"STARSHIP" - REPAP'S SOPHISTICATED NEW SAWMILL**

Repap dedicated its new sawmill, named "Starship" to reflect its "spaceage" technology, during 1988. Located in Terrace, British Columbia, approximately 145 kilometers east of Skeena's pulp mill, the sawmill is well known for its quality output which is primarily custom-made to meet the specific needs of customers in Japan and Europe. The new mill replaces outmoded equipment and will significantly increase flexibility, productivity and profitability.

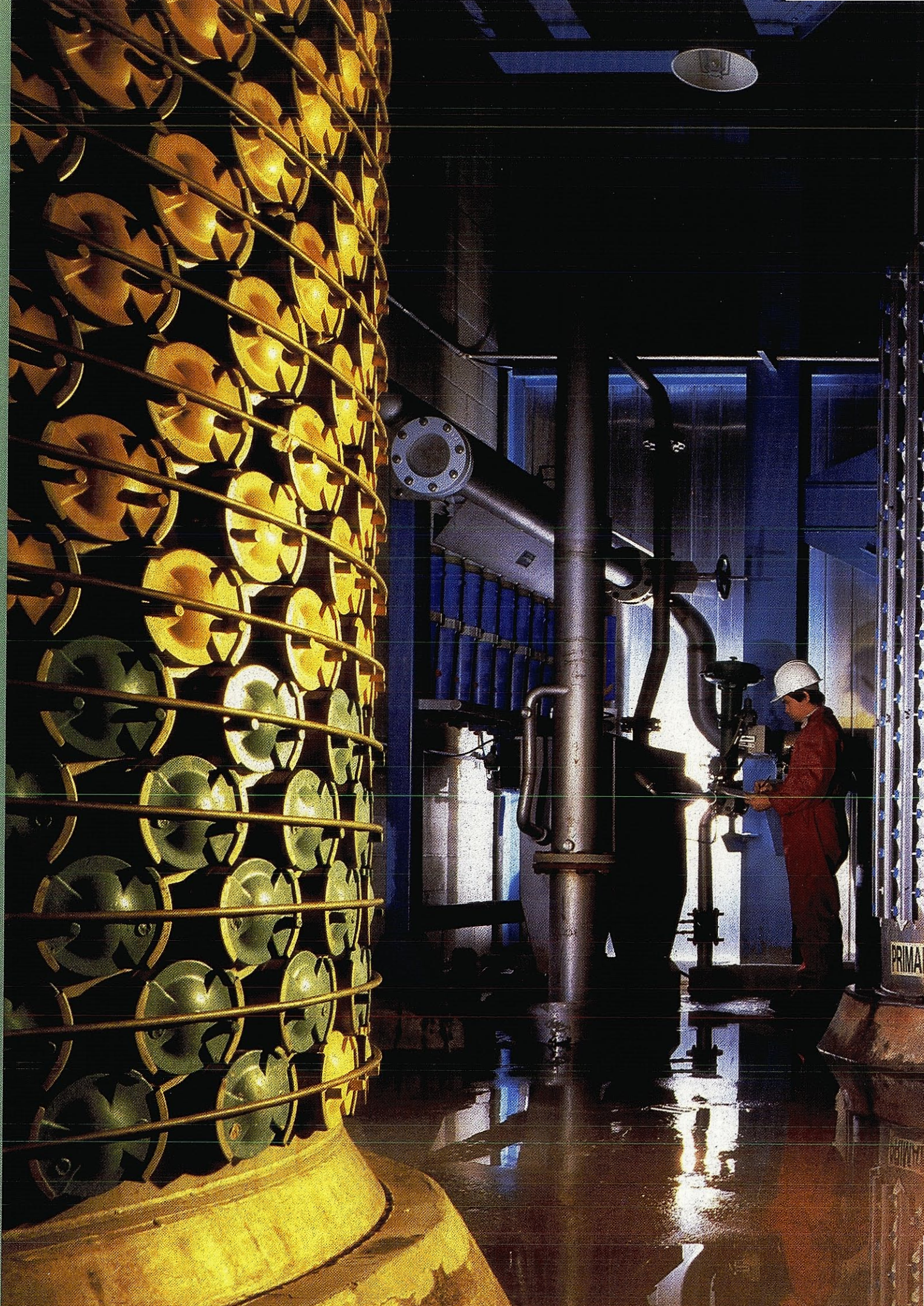
## **REPAP - BRITISH- COLUMBIA**

## **SKEENA MODERNIZATION NEARS COMPLETION**

**"SKEENA PRIME" IS WIDELY  
RECOGNIZED AS ONE OF THE WORLD'S  
TOP QUALITY BLEACHED SOFTWOOD  
KRAFT PULPS.**



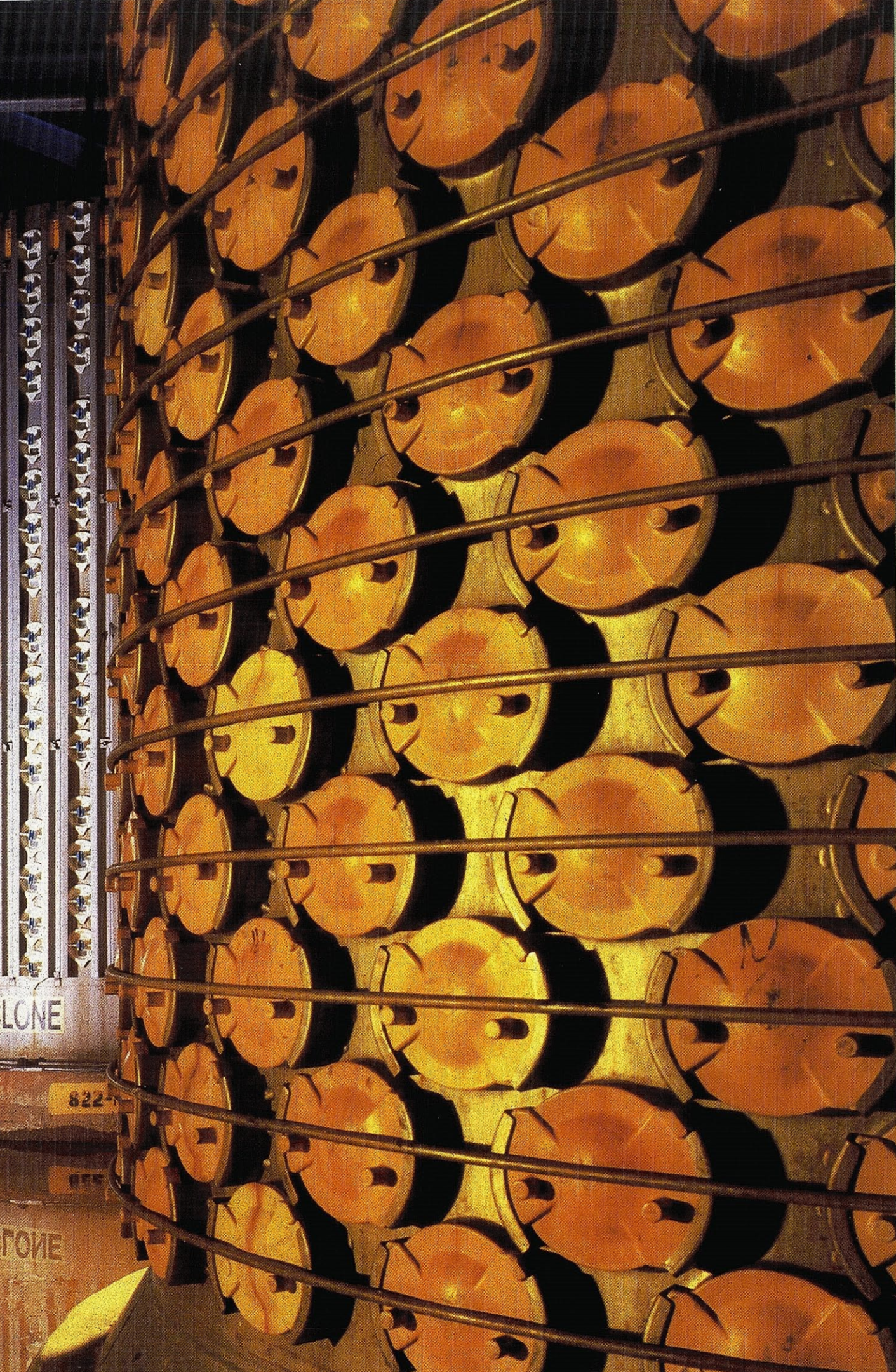
**STATE-OF-THE-ART  
SAWMILL AT TERRACE**







**NEW IMPROVED STOCK  
CLEANING SYSTEM AT  
SKEENA MILL**

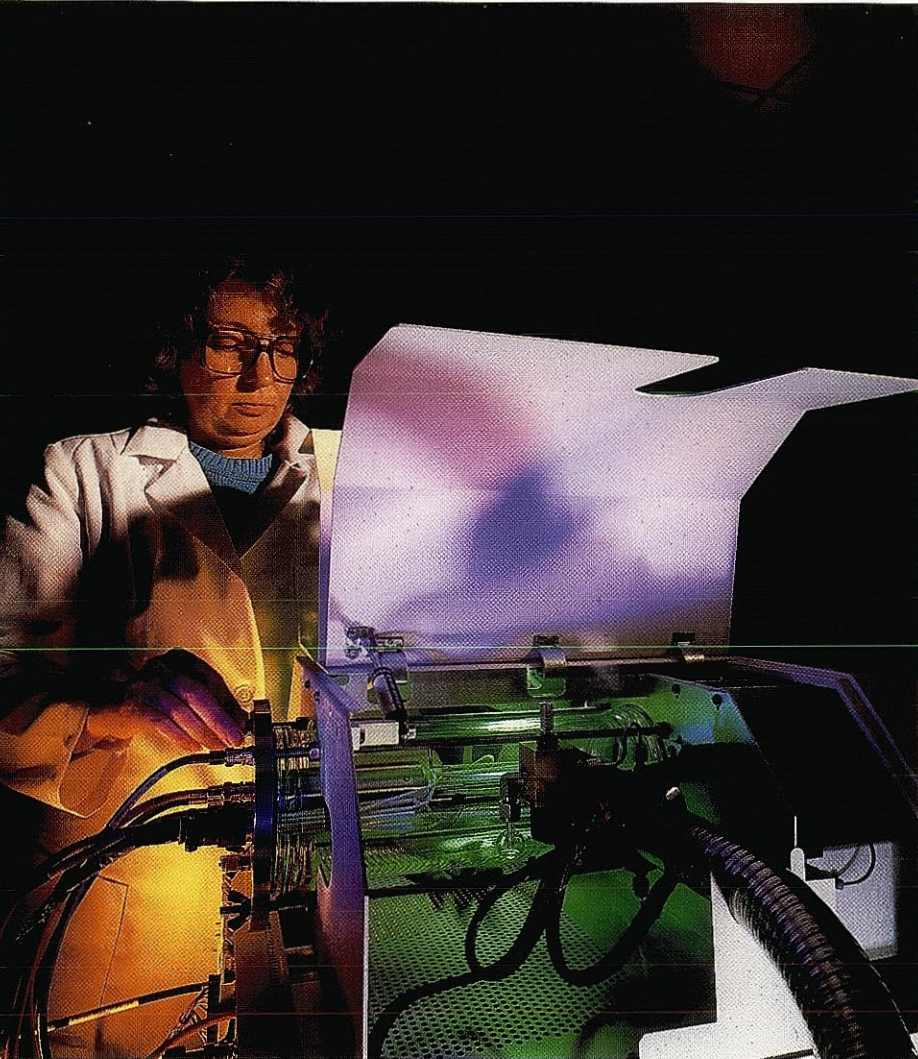




## SCIENTIFIC RESEARCH AND INNOVATION

**A REPAP  
COMMITMENT**

Repap Technologies Inc. is Repap's corporate scientific and technical centre. Based in Valley Forge, Pennsylvania, Repap Technologies represents and advises the Repap Group in scientific and technical areas and conducts innovative research and development in the pulp and paper industry from its modern laboratories. Repap Technologies is also the developer of the ALCELL® process. Ongoing responsibilities for the ALCELL® process include assistance in further process development and the development of markets for the ALCELL® process, including by-products and technical support for these markets.



**HIGH TECH ANALYSIS  
OF COMPLEX  
CHEMICAL MIXTURE.**

As the corporate research and development centre, Repap Technologies is called on by the Repap Group to:

- Conduct product and process research and development programs;
- Assist with technical problems which arise during operations;
- Monitor and investigate new technology developments and innovations as they apply to the Repap Group, the pulp and paper industry and its environment;
- Advise the Group on quality assurance programs and maintenance of product quality, and the quality of competitive products.

Over the past year, Repap Technologies has undertaken a technical review of all Repap Group operations and laid the foundation for Group-wide technical cooperation and communication. Quarterly "Technical/Operations" meetings provide a Group-wide forum and focus the Group's collective technical and scientific strengths on issues and opportunities at each operating site. These meetings have substantially strengthened technical cooperation between sales, marketing, operations, R&D and corporate management.



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## **REPAP IS READY TO TEST THE REVOLUTIONARY ALCELL® PULPING PROCESS EXPECTATIONS HEIGHTEN AS ECONOMIC AND ENVIRONMENTAL BENEFITS NEAR REALIZATION**

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## **ALCELL® PROCESS**

Fast-track construction of the Miramichi trial ALCELL® plant will enable Repap to start production in March 1989, an important step towards proving the revolutionary features of this radically different pulping technology in a commercial-size facility.

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### **BENEFITS**

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The proprietary ALCELL® process offers the pulp industry a dramatic strategic flexibility advantage over conventional processes due to the following features: feasibility of operating smaller units economically, positive environmental attributes, market diversification, and reduced construction periods.

#### **Smaller economic units**

Operating smaller units economically enables the producer to downscale, relieving capital and forest resource constraints. Non-integrated papermakers will now have an integration option without forced entry to the market pulp business.

#### **Positive environmental attributes**

Increasingly stringent environmental regulations on a global scale preclude the use of traditional chemical pulping methods in many areas. Enhanced environmental benefits inherent to the ALCELL® process open up many favourable sites, simultaneously reducing the high capital cost of protecting the environment.

#### **Market diversification**

Valuable process by-products diversify markets and provide further potential for growth and profitability.

#### **Reduced construction periods**

Minimum on-site fabrication will result in shorter construction periods for ALCELL® mills over kraft pulp mills as well as reducing capital costs.

**FAST-TRACK CONSTRUCTION OF THE MIRAMICHI TRIAL ALCELL® PLANT WILL ENABLE REPAP TO START PRODUCTION IN MARCH 1989, AN IMPORTANT STEP TOWARDS PROVING THE REVOLUTIONARY FEATURES OF THIS RADICALLY DIFFERENT PULPING TECHNOLOGY IN A COMMERCIAL-SIZE FACILITY.**

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### **SCIENTIFIC RESEARCH AND INNOVATION**

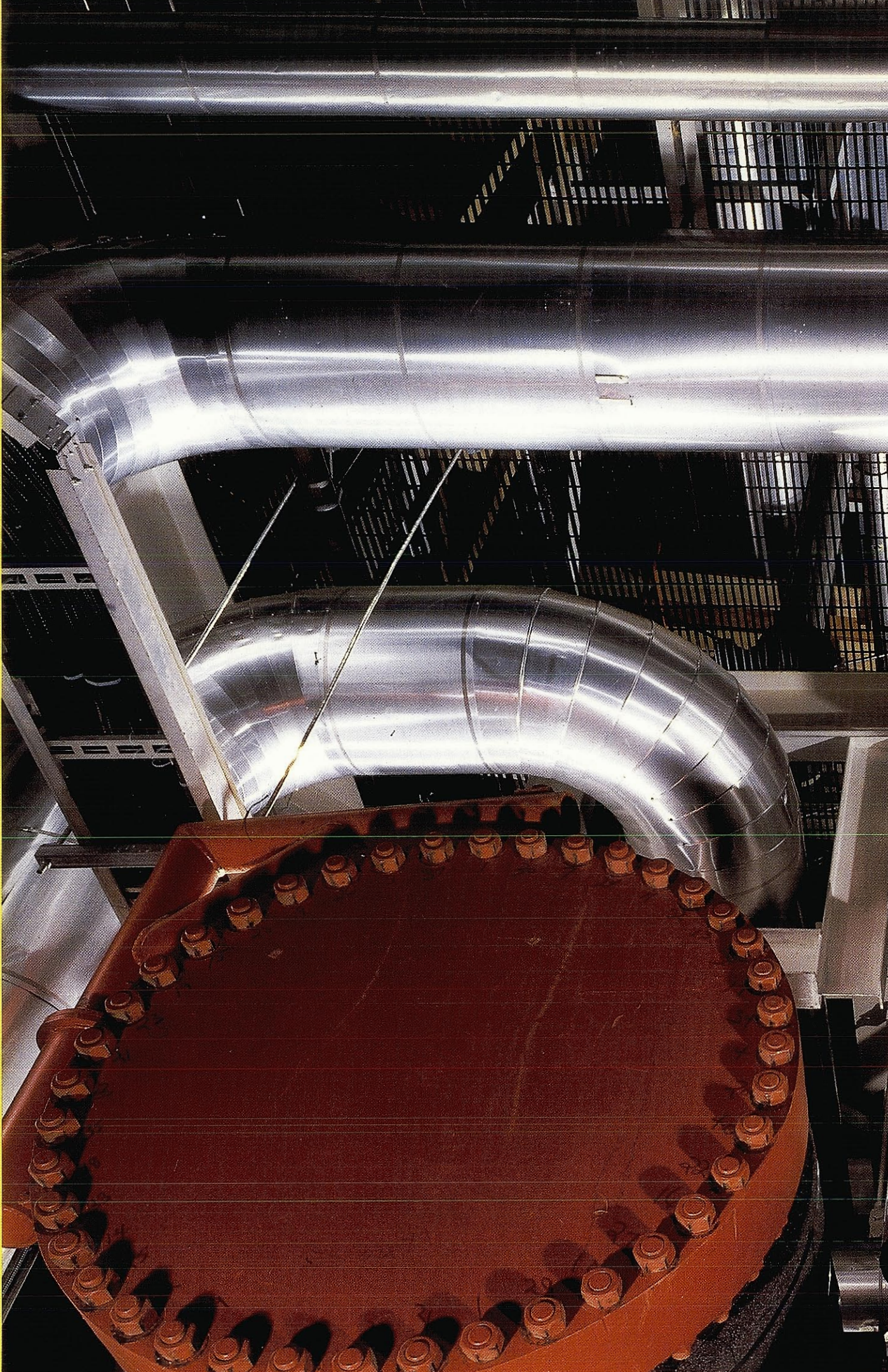
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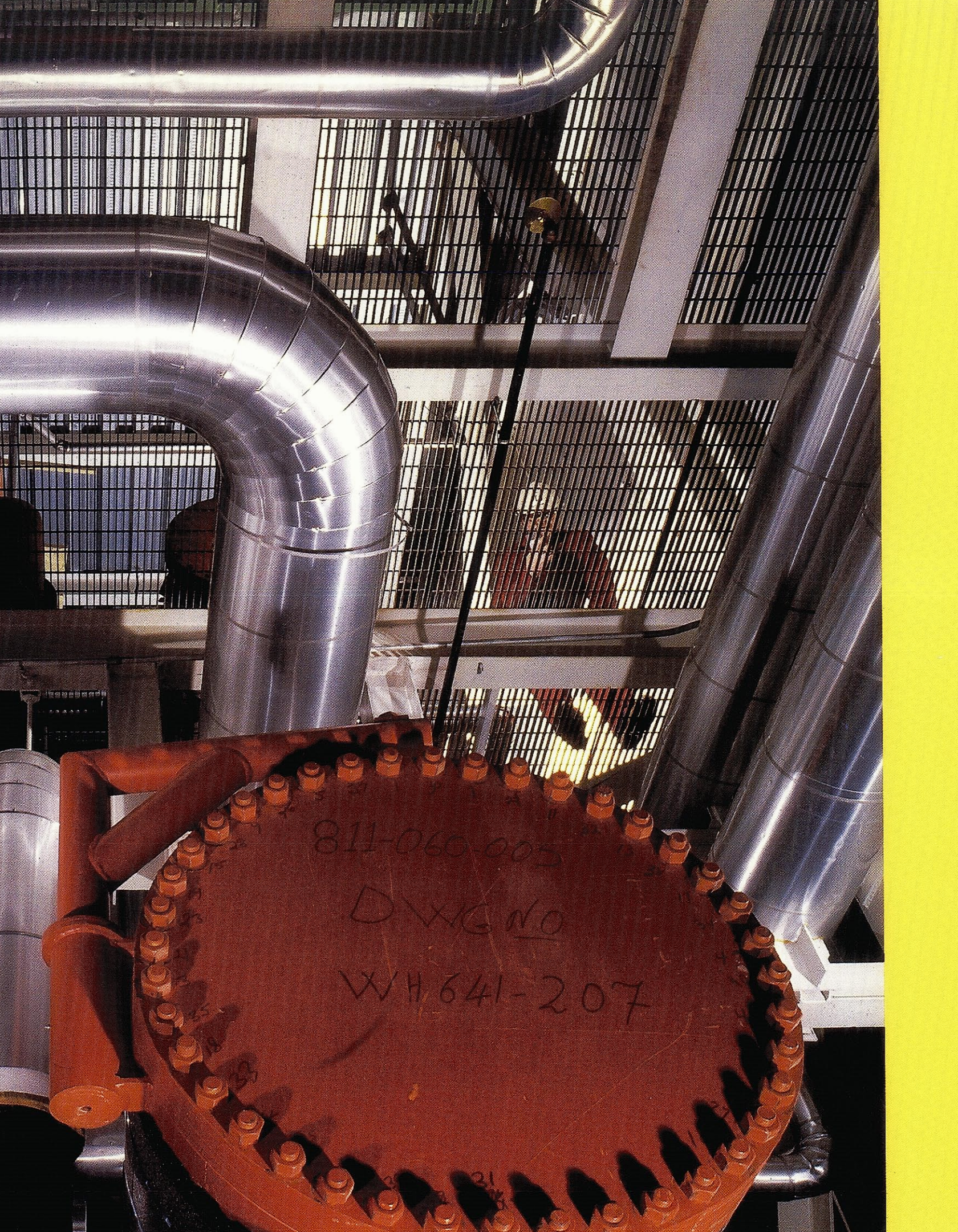
Since acquiring the ALCELL® process, Repap Technologies Inc. has accelerated the research and development effort. More than seven years of pilot plant trials, pulp testing, by-products investigation, process development, engineering and economic feasibility studies confirmed that the ALCELL® process holds great commercial promise.

Ground was broken for a 33 metric-tons-per-day trial plant on the Miramichi site in May 1988 and start-up is planned for March 1989. Given successful trial operations, Repap plans to expand the facility to a 250 metric-tons-per-day commercial plant which will have the flexibility to supply pulp to the A-2 paper mill, presently under construction at Miramichi, and to the market.



**THERMINOL  
HEAT EXCHANGERS**







## ALCELL® PROCESS

THE ALCELL® PROCESS IS A CLEAR INDICATION OF REPAP'S COMMITMENT TO BEING A LEADER IN THE IMPROVEMENT AND PROTECTION OF CLEAN WATER AND CLEAN AIR.

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### THE TECHNOLOGY

The philosophy behind the ALCELL® process is fundamentally different to conventional processes in that wood is viewed not simply as a source of cellulose fibers but as a multicomponent material that can be split into a number of valuable product streams, one of which is pulp. The approach, termed the "wood refinery concept," is somewhat analogous to the refining of crude oil. The ALCELL® process "refines" the fundamental wood components in relatively pure fractions suitable for a variety of commercial applications.

An ALCELL® pulp mill combines chemical industry processing technology in the extraction and recovery stages with conventional pulping technology in the fibre handling and in the pulp bleaching and handling stages. In essence, the major wood components are separated through exposure to a series of ethanol/water solvent mixtures at high temperatures and pressures. The extracted wood pulp is then screened and passed to the bleach plant while lignin is recovered from the solvent mixtures, through a proprietary system of precipitation, settling and centrifuging (1988 lignin patent). The remaining solvent mixture is then fed into a distillation recovery tower to separate ethanol from other dissolved wood components. By using greatly simplified solvent systems, extraction and, particularly, chemical recovery are far less complex than in conventional pulping processes.

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### ECONOMIC BENEFITS

Ongoing economic analysis indicates the ALCELL® process will exhibit higher profitability than its conventional competitors. The main factors contributing to its economic advantage are reduced capital costs due to a simplified recovery system, shorter construction periods and the revenue stream from ALCELL® by-products not produced by the kraft process. Enhanced profitability means that ALCELL® pulp mills become feasible at smaller scales giving a high degree of flexibility in terms of production options. The non-integrated paper producer will be able to integrate without producing market pulp and smaller wood resources will become available for economic pulp production.

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### ENVIRONMENTAL ADVANTAGES

The ALCELL® process does not produce noxious air pollutants such as sulphur dioxide and hydrogen sulphide produced by the kraft process and the ease of bleaching of ALCELL® pulps reduces the usage of bleaching agents. These environmental advantages offer the industry higher flexibility, opening up sites and forest resources which effectively are "off bounds" to the potential kraft pulp producer. As industry, governments and environmentalists become increasingly concerned about the health of the environment, the benefits of this feature of the ALCELL® process become more readily apparent. The ALCELL® process is a clear indication of Repap's commitment to being a leader in the improvement and protection of clean water and clean air.



## COMMERCIALIZATION STRATEGY

Repap is developing strategy for commercialization and exploitation of ALCELL® technology. The first step in this strategy is to prove the process technically and economically at the Miramichi trial facility. The next step is to utilize the technology within the Repap group focusing on integration of coated paper operations. The final stage will be to make the technology available globally.

By-product commercialization has been approached on a case by case basis with market development now underway in many areas. As trial plant volumes of by-products are produced at the Miramichi site, the scope for product application research and customer acceptance trials will grow and develop.

## ALCELL® PROCESS

### REPAP-FERROSTAAL INC.

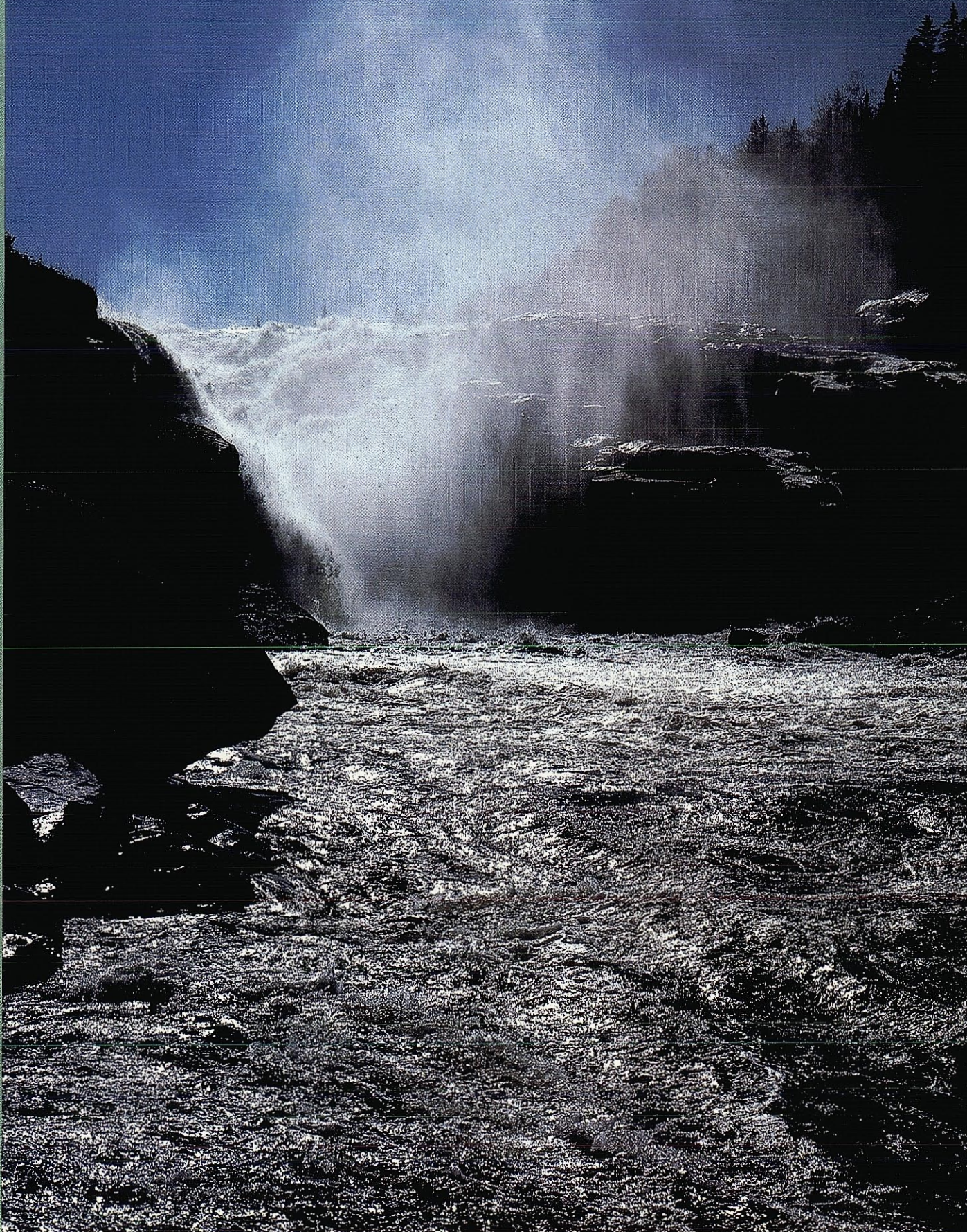
In 1988, Repap entered into a joint venture with Ferrostaal A. G. of Essen, West Germany, a major contractor in Europe and around the world and a wholly-owned subsidiary of the large MAN Group of Munich, West Germany. Repap and Ferrostaal A. G. each own 50% of Repap-Ferrostaal Inc. Repap-Ferrostaal will be a general contractor with a mandate to build ALCELL® mills on a turnkey basis worldwide.

Coupled with Repap "know-how" in building, start-up and operation of pulp and paper mills in North America, the new joint venture company will benefit from the strong experience of Ferrostaal A. G. in project engineering, supply, erection, and commissioning of multi-million dollar industrial plants around the world in such fields as mining, oil and gas, heavy manufacturing, automobiles and others. Repap-Ferrostaal's initial projects are the new A-2 Coated Paper Mill and the ALCELL® trial plant.

This association with Ferrostaal A. G. constitutes the first joint venture entered into by the Corporation on a 50:50 basis. We look forward to our association with MAN Ferrostaal A. G., a leading European company with worldwide interests.

TERTIARY ACCUMULATOR HOLDING FRESH LIQUOR FOR EXTRACTION.









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## **REPAP'S CORPORATE ENVIRONMENTAL POLICY**

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Repap believes in a clean, healthy and safe environment for its employees, the public and the regions where it operates.

To this end, the Corporation is committed to responsible environmental practices at its manufacturing, forest, laboratory and office operations — in all cases meeting or exceeding the regulations and laws of the day.

Corporate reviews of the environmental protection efforts of all locations will be carried out regularly. In line with this policy, Repap will upgrade facilities and modify operations as appropriate.

As a continuing effort, Repap will conduct and monitor research and process developments to determine the best practical means of minimizing the impact of its operations on the environment.

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## **THE REPAP STRATEGY**

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Repap is committed to protecting the environment in which it operates and in which its people live. A corporate environmental task force has been formed to lead our environmental effort. These efforts include the development of technical and legal knowledge of environmental issues within the company for control strategy development and employee and public information programs.

Specific strategies have been developed to meet environmental concerns and legislation in the short to long-term for each existing and proposed operating facility. In addition, we continue to build our technical capability to study, evaluate and develop technology to maximize clean air and clean water objectives.

Repap's investment in the ALCELL® pulping process is, in part, based on the Corporation's concern for environmental improvements and the belief that new technology can be developed to relieve the industry's pressure on the environment. In the medium to long-term, Repap believes the ALCELL® process will make a major contribution to environmental conditions. Environmental concerns also exist in our woods operations. Repap's professional foresters provide the expertise for sound, long-term timberland management. They diligently direct reforestation, fire control, road building, harvesting and most importantly, plan for continued use of the allotted forest lands.

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## **THE ISSUES**

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Ongoing environmental considerations with respect to pulp and paper mills have been sulphurous air emissions, Biological Oxygen Demand (BOD is the dissolved oxygen requirement, measured in parts per million, required for bacterial biodegradation of organic materials in effluents), wastes such as Total Organic Chloride compounds (TOCLs), dioxins and furans are relatively new issues that must be dealt with.

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## **IMPROVING THE ENVIRONMENT**

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Environmental conditions can be enhanced through preventative and remedial measures. Remedial measures include removal of particulate emissions from recovery boilers, clarification of effluents to remove settleable wastes for controlled disposal and secondary treatment by aeration in the presence of bacteria known to consume organics thus lowering the BOD and toxicity of the effluent. The preventative approach is based on the utilization of technologies which eliminate or produce less substances which affect air and water quality.

# **A CLEAN AIR AND CLEAN WATER POLICY**

**WITH A GENUINE CONCERN FOR THE ENVIRONMENT, REPAP'S PROFESSIONAL FORESTERS PROVIDE THE EXPERTISE FOR SOUND, LONG-TERM TIMBERLAND MANAGEMENT. THEY DILIGENTLY DIRECT REFORESTATION, FIRE CONTROL, ROAD BUILDING, HARVESTING AND MOST IMPORTANTLY, PLAN FOR CONTINUED USE OF THE ALLOTTED FOREST LANDS.**



## A CLEAN AIR AND CLEAN WATER POLICY

**MIDTEC CURRENTLY HAS THE LOWEST  
DISCHARGE PER TON OF PAPER IN  
THE STATE OF WISCONSIN.**

**REPAP IS COMMITTED  
TO REFORESTATION.**



### **ACTION TAKEN**

#### **Midtec Paper Corporation**

Midtec, in the heart of the environmentally sensitive Fox River Valley, has a history of investment in environmental enhancement facilities. A prime example is the innovative Zimpro high pressure oxidation system which treats paper mill sludge reducing landfill requirements, and creates substantial savings through the recycling of raw materials.

In 1988, with the start-up of M-7 and the closure of less efficient older machines, Midtec has reduced its BOD output per ton of paper produced. Construction of an improved, two stage aeration channel as a secondary treatment is planned for 1989 to further reduce total BOD output from the mill.

#### **Miramichi Pulp & Paper Inc. and Miramichi Paper Partnership**

In the spring 1988, the Miramichi Paper Partnership embarked on an ambitious \$495 million construction project of which \$80 million was for expenditures related to environment projects as follows:

1. Installation of a new low odour recovery boiler with accompanying precipitator which will reduce Total Reducible Sulphur emissions 50 fold and reduce particulate fallout by 50% at the Miramichi mill site.

2. The effluent treatment system will be enlarged through construction of a new primary clarifier and pump house, reducing solids loading to the secondary treatment systems by over 40%. The capacity of the secondary treatment system will also be increased significantly to handle BOD from the new paper mill being constructed by Miramichi Paper Partnership. Multiple clarifiers and emergency power back-up installations precludes potential untreated discharges.

On completion of this expansion project, MPPI will be one of the most progressive operations in the Canadian industry from the perspective of environmental technology.

#### **Skeena Cellulose Inc.**

Throughout 1988, projects to improve the quality of discharges were undertaken. In particular, major improvements to chip screening, brownstock washing and chlorination stage control were completed during the upgrading of the "B" line of operations. Actions to reduce and eliminate the presence of dioxins, such as ClO<sub>2</sub> substitution, were also undertaken in 1988. Skeena operates ambient air monitors located in the City of Prince Rupert and Port

Edward Village. These monitors routinely measure hydrogen sulphide and methyl mercaptan levels in the parts per billion range and report the results directly to the mill.

In 1989, close to \$24 million of capital is earmarked for further environmental improvement. Primary and secondary effluent treatment facilities are the major projects. These facilities will dramatically improve the mill effluent characteristics to levels that will comply with all government regulations.



## REPAP'S CAPACITY AND SHIPMENTS

### WOOD PULP

(thousands of metric tons)

CAPACITY	Bleached Kraft		Groundwood		Total	
	1988	1987	1988	1987	1988	1987
Miramichi	190	190	113	125	303	315
Skeena	480	425	—	—	480	425
Midtec	—	—	44	40	44	40
	670	615	157	165	827	780

### SHIPMENTS

SHIPMENTS	Bleached Kraft		Groundwood		Total	
	1988	1987	1988	1987	1988	1987
Miramichi	185	187	105	102	290	289
Skeena	406	413	—	—	406	413
	591	600	105	102	696	702

### COATED PAPER

(thousands of short tons)

	CAPACITY			SHIPMENTS	
	1988	1987		1988	1987
Midtec	500	340	Midtec	320	303
Miramichi	200	220	Miramichi	158	139
	700	560		478	442

### LUMBER

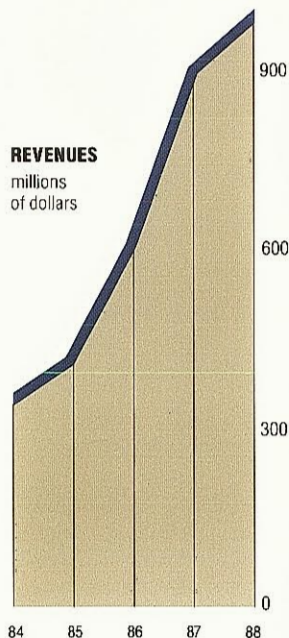
(million FBM)

	CAPACITY			SHIPMENTS	
	1988	1987		1988	1987
Miramichi	37	10	Miramichi	16	8
Skeena	150	138	Skeena	93	139
Groot	50	N/A	Groot	50	N/A
	237	148		159	147



## FINANCIAL REVIEW

**OVERVIEW:  
1988 EARNINGS REACH  
\$92.8 MILLION  
48% OVER 1987**



<b>Total</b>	<b>364</b>	<b>429</b>	<b>636</b>	<b>927</b>	<b>1028</b>
<b>Pulp</b>	<b>52</b>	<b>100</b>	<b>270</b>	<b>480</b>	<b>507</b>
<b>Paper</b>	<b>312</b>	<b>329</b>	<b>366</b>	<b>447</b>	<b>521</b>

Repap generated net income of \$92.8 million (\$1.79 per share), an increase of 48% over 1987's earnings of \$62.5 million (\$1.28 per share). The Corporation has surpassed all previous records in revenues, net income, cash flow and total assets.

Repap is well on its way to achieving its mission of becoming one of the world's leading producers of high quality coated paper and premium softwood market pulp.

The timely acquisitions of strategically located manufacturing facilities which have access to prime raw materials, combined with a commitment to expansion through the construction of state-of-the-art facilities designed to optimize cost efficiencies and product superiority are key to Repap's strategy.

To carry out this expansion and modernization program, Repap has supported, through internal and external funding, a five-year capital program totalling \$1.5 billion. Total assets have increased sevenfold from \$332 million in 1984 to \$2.3 billion.

During the past five years, the Corporation has increased its pulp capacity from 125,000 metric tons to 827,000 metric tons in 1988 and has increased its coated paper capacity from 338,000 short tons to 700,000 short tons.

Added capacity combined with state-of-the-art facilities and strong pulp and coated paper markets have resulted in revenues reaching the \$1 billion mark in 1988, averaging a compound annual growth rate of 31% since 1984.

The Corporation's strong performance in 1988 generated cash flow from operations (before net changes in non-cash working capital) of \$223.7 million, a 50% increase over 1987.

Interest cost in 1988 totalled \$88.9 million of which \$47.0 million was capitalized to construction in progress. In 1987, interest cost was \$70.1 million, of which \$21.5 million was capitalized. As a percent of revenues, 1988 interest expense was 4% compared to 5% in 1987.

Although 1988 was a record year, net income would have been \$26 million greater at 1987 exchange rates.

In 1988, the Corporation's effective income tax rate was 42% compared to 47%, reflecting a reduction in Canadian statutory tax rates.

### PULP OPERATIONS CONTRIBUTE \$174 MILLION TO OPERATING PROFITS

Net sales from pulp operations were \$460.6 million, a 7% increase over 1987 market pulp sales of \$428.7 million, reflecting the impact of three price increases in 1988.

Repap's pulp operations contributed \$173.7 million to operating profit (after deducting depreciation of \$23.0 million), representing a margin of 38% compared to 30% in 1987.

### COATED PAPER PROFITS IMPROVE

Shipments of coated paper products were 478,000 short tons in 1988 compared to 442,000 short tons in 1987. The increase in tonnage results mainly from the A-1 lightweight coated paper machine at Miramichi and the start-up



of the M-7 coated paper mill at the Wisconsin operations. The A-1 operating performance was affected by design inadequacies resulting in major repairs being made in the fall. The A-1 mill is expected to improve its contribution to profits in 1989 as it continues to develop its program for the production of the lighter weights in the 34 lb. range.

Successful start-up of the M-7 state-of-the-art coated paper complex located at Repap's Wisconsin operations has exceeded management expectations. Repap now operates one of the most modern coated paper complexes in the world and is able to supply cost-efficient value added products to its markets while meeting customers' high quality standards.

Operating profit on coated paper operations was \$58.6 million in 1988 (after deducting depreciation of \$14.7 million) compared to \$28.9 million in 1987. With the Corporation's new production facilities coming on stream, improved production efficiencies and favourable market conditions, management anticipates an improved contribution from coated paper operations in 1989.

### REPAP'S EXPANSION AND MODERNIZATION PROGRAM WILL CONTRIBUTE TO COST EFFICIENCIES

With new coated paper facilities and a completed modernization of the Skeena pulp operations, Repap has fixed assets which are about 10% depreciated in comparison to an industry average of approximately 40%. Repap's relatively new facilities will provide a major advantage in terms of long-term cost efficiencies.

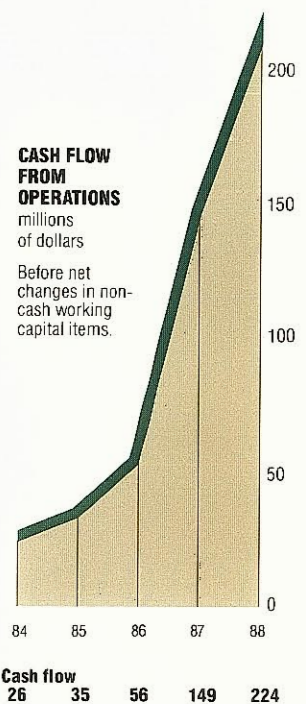
Newer equipment means that Repap's routine maintenance costs, a key element in this capital intensive industry, will be substantially less than industry average. Repap's strategy is to minimize operating manpower cost per unit of production. This is achieved by technologically advanced, computer-controlled equipment. While Repap's interest cost per dollar of revenue is currently higher than the industry average due to its intensive capital program, this cost will decrease with the amortization of debt. Thus, over time, Repap's advantage increases relative to its competitors who operate less modern, more labour-intensive equipment.

### 1987 COMPARED TO 1986

Net income in 1987 was \$62.5 million (\$1.28 per share) compared to \$13 million (\$0.38 per share) in 1986.

Revenues increased by 145% from \$635.5 million to \$927 million while operating profit increased from \$79.9 million to \$156.6 million.

The increase in profitability was due mainly to strong pulp markets and to the inclusion in Repap's results of a full year of operations of the Skeena pulp mill combined with major increases in productivity.





## FINANCIAL REVIEW

TO CARRY OUT THIS EXPANSION AND MODERNIZATION PROGRAM, REPAP HAS SUPPORTED, THROUGH INTERNAL AND EXTERNAL FUNDING, A FIVE-YEAR CAPITAL PROGRAM TOTALLING \$1.5 BILLION. TOTAL ASSETS HAVE INCREASED SEVEN-FOLD FROM \$332 MILLION IN 1984 TO \$2.3 BILLION.

THE CORPORATION'S STRONG PERFORMANCE IN 1988 GENERATED CASH FLOW FROM OPERATIONS (BEFORE NET CHANGES IN NON-CASH WORKING CAPITAL) OF \$223.7 MILLION, A 50% INCREASE OVER 1987.

### REPAP'S ASSET BASE SHOWS RAPID GROWTH OVER FIVE YEARS

At December 31, 1988, Repap's total assets reached \$2.3 billion, representing a 62% average compound growth rate since 1984 when assets were \$332 million. Of this increase, approximately \$1.5 billion is directly related to Repap's extensive capital program.

In order to finance its capital program, the Corporation has raised, over the past five years, \$1.6 billion in the form of debt, equity and equivalents thereof:

- \$737 million in debt, net of repayments;
- \$610 million in equity and convertible debentures (including equity in subsidiaries);
- \$193 million in investment tax credits for which cash has been received; and
- \$73 million in grants, \$22 million of which are repayable.

At December 31, 1988, Repap's ratio of total debt (including short-term borrowings, repayable development incentives less cash) to total assets was 42% compared to 43% at year-end 1987.

Given the quality of our assets, which are the most modern in the industry, the Corporation considers this to be a sound ratio at this stage in the company's development. With the completion of the Skeena modernization and the M-7 paper complex coming on stream, cash flow is expected to continue to increase, providing an additional source of internal funding.

Capital spending in 1988 was \$607 million, \$206 million of which was spent on the M-7 coated paper complex, \$49 million on the Skeena modernization, \$40 million on the new Terrace sawmill and \$198 million on the A-2 coated paper mill presently under construction by the Miramichi Paper Partnership. Total project cost is expected to be \$495 million and completion is scheduled for late 1989.

### 1988 NEW FINANCINGS

The Corporation was successful in completing the arrangements for several financings in 1988.

#### **\$75 million Convertible Subordinate Debentures**

In July 1988, Repap issued \$75 million 9% Convertible Subordinate Debentures, convertible into Subordinate Voting Shares of the Corporation at a conversion price of \$17.00 per Subordinate Voting Share. In addition, the Corporation has the right to redeem these debentures for shares. Maturity date of the issue is June 30, 1998. Proceeds from the issue were used to purchase preferred shares issued by Miramichi Pulp & Paper Inc. to third parties, to reduce current indebtedness and for general corporate purposes.

#### **U.S. \$100 million Multicurrency Unsecured Loan**

In September 1988, the Corporation completed negotiations for a U.S. \$100 million unsecured multicurrency loan facility with a syndicate of ten international banks. The loan facility covers a seven-year period from signing date. The facility is available for drawdown in the first two years, with repayment in the final three years of the term. Proceeds will be used for general corporate purposes including Repap's capital program.



### Financing of the A-2 Coated Paper Mill

In December 1988, Repap's Miramichi operations completed the arrangements for an additional bank line facility and for the issue of Series D First Mortgage Bonds. The proceeds from the private placement will provide liquidity for general corporate purposes, including potential additional equity contributions to the Miramichi Paper Partnership, of which Miramichi Pulp & Paper Inc. is the managing partner.

In addition, negotiations for a \$200 million Secured Project Loan for the Miramichi Paper Partnership were essentially completed in December. The project cost is estimated at \$495 million and funds from this Project Loan will be applied against the partial financing of the project. The balance of the project cost will be financed through Partners' capital contributions.

### COMPARISON TO FORECAST IN PROSPECTUS

Net income in 1988 was \$16.6 million lower than the \$109.4 million in net income originally forecast for 1988 and included in the Corporation's June 25, 1987 prospectus.

	Actual	June 25, 1987 Forecast
Net sales	\$ 934.9	\$1,003.2
Cost of sales	642.0	680.7
Gross profit	\$ 292.9	\$ 322.5
Selling, general and administrative expenses	35.2	23.8
	\$ 257.7	\$ 298.7
Depreciation and amortization	43.9	44.9
Operating profit	\$ 213.8	\$ 253.8
Interest expense	41.9	56.3
Other expenses (income)	0.3	(1.0)
	\$ 171.6	\$ 198.5
Provision for income taxes	78.8	89.1
Net income	\$ 92.8	\$ 109.4
Earnings per share	\$ 1.79	\$ 2.11

The reduction in net income arises mainly from a reduction in sales of \$68.3 million. The unfavourable variance is attributable to the following elements:

#### Variance - Fav. (unf.)

Price	\$ 62
Exchange	(75)
Volume	(55)
	\$ (68)

Gross margins were comparable, at 32%, while selling, general and administrative expenses were higher than forecast. Interest expense was lower by \$14 million, resulting mainly from higher capitalization.

Repap's financial statements are prepared in accordance with accounting principles generally accepted in Canada, which differ from U.S. generally accepted accounting principles. See Note 23 to the Notes to consolidated financial statements.



**REPAP  
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INC.**

## **SUMMARY OF SELECTED FINANCIAL DATA** (3)

(MILLIONS OF CANADIAN DOLLARS)

	1984	1985	1986	1987	1988
<b>OPERATING DATA</b>					
Revenues	364.3	429.3	635.5	927.0	<b>1028.3</b>
Net sales	333.1	390.2	579.6	844.0	<b>934.9</b>
Operating profit before depreciation and amortization	52.8	68.0	100.5	189.5	<b>257.7</b>
Operating profit	44.9	54.4	79.9	156.6	<b>213.8</b>
Interest expense	27.9	36.4	46.2	48.6	<b>41.9</b>
Net income	6.6	2.8	13.0	62.5	<b>92.8</b>
<b>BALANCE SHEET DATA</b>					
Cash	4.0	14.4	64.9	10.6	<b>168.6</b>
Net fixed assets	220.2	543.2	878.2	1118.4	<b>1658.5</b>
Long-term debt	156.2	392.6	521.8	575.5	<b>867.6</b>
Minority interest	1.3	38.4	44.1	128.9	<b>107.9</b>
Deferred income taxes	4.2	(4.2)	12.7	38.2	<b>83.1</b>
Investment tax credits	—	108.1	147.5	168.0	<b>240.6</b>
Shareholders' equity	7.9	10.9	247.5	386.2	<b>526.7(1)</b>
Total assets	331.7	866.0	1261.3	1535.6	<b>2264.9</b>
<b>CASH FLOW DATA</b>					
Cash flow from operations (before changes in non-cash working capital)	25.7	34.7	56.0	149.0	<b>223.7</b>
Additions to fixed assets	40.4	226.4	162.5	275.1	<b>606.7</b>
Acquisitions	1.3	126.6	109.0	19.8	<b>—</b>
Additions to debt	8.6	377.1	496.4	303.6	<b>469.5</b>
Repayment of debt	18.1	39.9	448.9	285.9	<b>125.6</b>
Issues of equity and convertible debentures	—	34.7	216.5	240.7	<b>118.2</b>
Dividends (\$/share)	—	—	—	0.05	<b>0.22</b>
Earnings per share (\$/share)(2)	0.20	0.09	0.38	1.28	<b>1.79</b>
<b>OUTSTANDING VOTING SHARES (thousands)</b>					
Multiple Voting	29,318	29,318	29,318	29,112	<b>29,112</b>
Subordinate Voting	3,256	3,256	16,912	22,618	<b>22,618</b>

(1) Includes convertible debentures of \$75 million.

(2) See Note 13 to Notes to consolidated financial statements.

(3) Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

NOTE: The financial data presented in this schedule have been prepared in accordance with accounting principles generally accepted in Canada, which differ in certain respects with accounting principles generally accepted in the United States. See Note 23 to Notes to consolidated financial statements for a reconciliation of these differences.





**REPAP  
ENTERPRISES  
CORPORATION  
INC.**

## QUARTERLY FINANCIAL INFORMATION

(MILLIONS OF CANADIAN DOLLARS)

(UNAUDITED - NOT REVIEWED BY INDEPENDENT ACCOUNTANTS)

<b>1988</b>	1	2	3	4	YEAR
Net sales	\$230.1	\$227.6	\$234.7	\$242.5	\$934.9
Cost of sales excluding depreciation and amortization	163.7	155.5	159.7	163.1	642.0
Selling, general and administrative expenses	7.4	9.1	8.9	9.8	35.2
	59.0	63.0	66.1	69.6	257.7
Depreciation and amortization	11.0	10.3	10.4	12.2	43.9
Operating profit	48.0	52.7	55.7	57.4	213.8
Net income	\$18.1	\$21.3	\$23.3	\$30.1	\$92.8
Earnings per share (\$/share)	\$0.35	\$0.41	\$0.45	\$0.58	\$1.79

### 1987

Net sales	\$214.9	\$216.9	\$197.7	\$214.5	\$844.0
Cost of sales excluding depreciation and amortization	169.0	169.7	142.9	151.7	633.3
Selling, general and administrative expenses	3.4	4.7	6.4	6.7	21.2
	42.5	42.5	48.4	56.1	189.5
Depreciation and amortization	7.8	7.6	7.7	9.8	32.9
Operating profit	34.7	34.9	40.7	46.3	156.6
Income before extraordinary items	\$11.1	\$12.1	\$15.5	\$18.0	\$56.7
Net income	\$12.7	\$13.8	\$17.1	\$18.9	\$62.5
Earnings per share (\$/share)	\$0.27	\$0.30	\$0.34	\$0.37	\$1.28



**REPAP  
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INC.**

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## **MANAGEMENT'S RESPONSIBILITY**

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Repap's management is responsible for the integrity and fair presentation of the financial statements included in the annual report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

The Corporation and its subsidiaries maintain systems of internal accounting controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets are adequately accounted for and safeguarded.

The financial statements have been reviewed by the Audit Committee and have been approved by the Board of Directors. In addition, the financial statements have been examined by Clarkson Gordon, the shareholders' auditors, whose report is included hereafter.

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## **AUDITORS' REPORT**

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To the Shareholders of Repap Enterprises Corporation Inc.:

We have examined the consolidated balance sheets of Repap Enterprises Corporation Inc. as at December 31, 1988 and 1987 and the consolidated statements of retained earnings, income and changes in financial position for each of the years in the three-year period ended December 31, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1988 and 1987 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1988 in accordance with accounting principles generally accepted in Canada applied on a consistent basis.

Montreal, Canada  
February 7, 1989.

*Clarkson Gordon*

Chartered Accountants



**REPAP  
ENTERPRISES  
CORPORATION  
INC.**

## **CONSOLIDATED STATEMENTS OF INCOME**

YEAR ENDED DECEMBER 31 (MILLIONS OF CANADIAN DOLLARS)

(INCORPORATED UNDER THE LAWS OF CANADA)

	NOTES	1988	1987	1986
Revenues		<b>\$1,028.3</b>	\$927.0	\$635.5
Sales deductions		<b>93.4</b>	83.0	55.9
Net sales		<b>934.9</b>	844.0	579.6
Cost of sales excluding depreciation and amortization		<b>642.0</b>	633.3	455.9
Selling, general and administrative expenses		<b>35.2</b>	21.2	23.2
Operating profit before depreciation and amortization		<b>257.7</b>	189.5	100.5
Depreciation and amortization		<b>43.9</b>	32.9	20.6
Operating profit		<b>213.8</b>	156.6	79.9
Interest expense	16	<b>41.9</b>	48.6	46.2
Miscellaneous income		<b>(12.3)</b>	(6.9)	—
Income before the following Provision for income taxes	15	<b>184.2</b>	114.9	33.7
		<b>78.8</b>	54.0	15.0
Income before minority interest and extraordinary items		<b>105.4</b>	60.9	18.7
Minority interest		<b>12.6</b>	4.2	4.7
Income before extraordinary items		<b>92.8</b>	56.7	14.0
Extraordinary items		<b>—</b>	5.8	(1.0)
Net income		<b>\$ 92.8</b>	\$ 62.5	\$ 13.0
Earnings per share	13			
- before extraordinary items		<b>\$ 1.79</b>	\$ 1.16	\$ 0.41
- after extraordinary items		<b>\$ 1.79</b>	\$ 1.28	\$ 0.38

See accompanying notes



**REPAP  
ENTERPRISES  
CORPORATION  
INC.**

## **CONSOLIDATED BALANCE SHEETS**

DECEMBER 31 (MILLIONS OF CANADIAN DOLLARS)

	NOTES	1988	1987
<b>ASSETS</b>			
Current:			
Cash and short-term deposits		\$ 168.6	\$ 10.6
Accounts receivable	8	148.4	122.1
Inventories	4,8	147.5	101.8
Prepaid expenses		4.0	9.9
Short-term investment		—	7.0
Total current assets		<u>468.5</u>	251.4
Fixed assets in use	7,9	1,119.6	999.5
Construction in progress		683.2	225.7
		<u>1,802.8</u>	1,225.2
Less accumulated depreciation		144.3	106.8
Net fixed assets		<u>1,658.5</u>	1,118.4
Cash and cash equivalents earmarked for long-term assets		19.2	84.1
Deferred charges and other assets	5	83.6	58.7
Investments	6	35.1	23.0
		<u>\$2,264.9</u>	<u>\$1,535.6</u>



**REPAP  
ENTERPRISES  
CORPORATION  
INC.**

## **CONSOLIDATED BALANCE SHEETS**

DECEMBER 31 (MILLIONS OF CANADIAN DOLLARS)

	NOTES	1988	1987
<b>LIABILITIES</b>			
Current:			
Short-term borrowings	8	\$ 99.0	\$ 35.7
Accounts payable and accrued liabilities	17,18	209.6	120.7
Current maturity of long-term debt	9	57.1	29.8
Total current liabilities		<u>365.7</u>	<u>186.2</u>
Long-term debt	9	867.6	575.5
Grants – repayable	10	21.5	20.8
<b>CAPITAL SOURCES</b>			
Minority interest	12	107.9	128.9
Deferred income taxes		83.1	38.2
Investment tax credits	11	240.6	168.0
Grants – non-repayable	10	51.8	31.8
		<u>292.4</u>	<u>199.8</u>
Convertible debentures and shareholders' equity:			
Convertible debentures	14	75.0	—
Share capital	13	188.7	188.7
Appraisal increment		114.7	119.7
Retained earnings	9	167.0	80.7
Translation adjustment	22	(18.7)	(2.9)
		<u>526.7</u>	<u>386.2</u>
		<u>\$2,264.9</u>	<u>\$1,535.6</u>

See accompanying notes

On behalf of the Board:

  
Joseph G. Kass, Director

  
Ronald H. Sumner, Director



**REPAP  
ENTERPRISES  
CORPORATION  
INC.**

## **CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

YEAR ENDED DECEMBER 31 (MILLIONS OF CANADIAN DOLLARS)

	<b>1988</b>	1987	1986
Retained earnings, beginning of year	<b>\$ 80.7</b>	\$18.8	\$ 7.7
Net income	<b>92.8</b>	62.5	13.0
Redemption premium and issue costs	<b>(0.7)</b>	(3.1)	(3.2)
Dividends (1988 - \$0.22 per voting share; 1987 - \$0.05 per voting share)	<b>(10.8)</b>	(2.5)	—
Transfer from appraisal increment	<b>5.0</b>	5.0	1.3
Retained earnings, end of year	<b><u>\$167.0</u></b>	<u>\$80.7</u>	<u>\$18.8</u>

See accompanying notes



**REPAP  
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CORPORATION  
INC.**

## **CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION**

YEAR ENDED DECEMBER 31 (MILLIONS OF CANADIAN DOLLARS)

	1988	1987	1986
<b>Operating activities:</b>			
Income before extraordinary items	\$ 92.8	\$ 56.7	\$ 14.0
Add items not affecting cash -			
Depreciation and amortization	43.9	32.9	20.6
Deferred income taxes	78.8	47.8	15.0
Minority interest	12.6	4.2	4.7
Other	(4.4)	7.4	1.7
<b>Cash flow before net changes in non-cash working capital</b>	<b>223.7</b>	149.0	56.0
Non-cash working capital changes (note 20)	(11.0)	(10.6)	2.6
<b>Cash from operations</b>	<b>212.7</b>	138.4	58.6
<b>Investment activities:</b>			
Acquisitions	—	(19.8)	(109.0)
Additions to fixed assets	(606.7)	(275.1)	(162.5)
Cash and cash equivalents earmarked for long-term assets	64.9	(84.1)	—
Acquisition of minority interests	(21.0)	(3.6)	(46.5)
Deferred charges, other assets and investments	(32.6)	(5.0)	(23.5)
Other	(13.2)	(10.5)	10.1
<b>Cash used in investment activities</b>	<b>(608.6)</b>	(398.1)	(331.4)
<b>Financing activities:</b>			
Additions to debt	469.5	303.6	496.4
Repayment of debt	(125.6)	(285.9)	(448.9)
Projects payable	45.3	—	—
Issue of share capital and convertible debentures (notes 13, 14)	75.0	79.8	98.0
Issue of share capital of subsidiaries	—	116.7	28.5
Partnership funding	43.2	44.2	90.0
Redemption of capital of subsidiary	—	(28.3)	—
Dividends paid by the Corporation	(10.8)	(2.5)	—
Dividends paid on preferred shares of subsidiaries	(11.8)	(3.5)	(4.5)
Other	5.8	(5.4)	47.9
<b>Cash provided by financing activities</b>	<b>490.6</b>	218.7	307.4
Net increase (decrease) in cash position	94.7	(41.0)	34.6
Cash position at beginning of year	(25.1)	15.9	(18.7)
<b>Cash position at end of year</b>	<b>\$ 69.6</b>	\$ (25.1)	\$ 15.9
Represented by:			
Cash and short-term deposits	\$168.6	\$ 10.6	\$ 64.9
Short-term borrowings	(99.0)	(35.7)	(49.0)
	<b>\$ 69.6</b>	<b>\$ (25.1)</b>	<b>\$ 15.9</b>

See accompanying notes



## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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The consolidated financial statements of the Corporation have been prepared by management in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). The financial statements have, in management's opinion, been properly prepared using careful judgement within reasonable limits of materiality and within the framework of the accounting policies summarized below.

As further described in note 23, the accounting policies followed by the Corporation differ in certain material respects from those that would have been followed had these financial statements been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") and the accounting principles and practices required by the Securities and Exchange Commission (SEC).

### NOTE 1

#### **BASIS OF FINANCIAL STATEMENT PRESENTATION**

These financial statements include the accounts of Repap Enterprises Corporation Inc. ("the Corporation") and the following subsidiaries in which majority share ownership is held:

	DECEMBER 31		
	1988	1987	1986
Repap Enterprises Inc.	99.0%	98.9%	98.8%
Miramichi Pulp & Paper Inc. ("Miramichi")	99.0%	98.9%	98.8%
Repap U.S.A. Inc. ("Repap U.S.A.")	99.0%	98.9%	98.8%
Repap Sales Corporation	99.0%	98.9%	98.8%
Midtec Paper Corporation ("Midtec")	99.0%	98.9%	98.8%
Skeena Cellulose Inc. ("Skeena")	99.0%	98.9%	98.8%
Repap Pulp & Paper Inc. ("RPPI")	99.0%	98.9%	98.8%
Groot Lumber Ltd.	99.0%	—	—
Repap International (1987) Inc. ("International")	100.0%	100.0%	—
Alcell Developments Inc ("Alcell")	100.0%	100.0%	—
Repap Technologies Inc. ("Technologies")	100.0%	98.7%	—

In 1988, Repap Holdings Inc. changed its name to Repap U.S.A. Inc., and Repap Cellulose Inc. changed its name to Repap Pulp & Paper Inc.

Also in 1988, the Miramichi Paper Partnership ("MPP") was formed to construct the new coated paper complex ("the A-2 Complex") at Miramichi, New Brunswick. Miramichi is the general and managing partner and the accounts of MPP are included in the accounts of Repap beginning December 30, 1988.

In 1987, the Repap Midtec Limited Partnership ("RMLP") was formed to construct a new coated paper mill facility ("the M-7 Complex") at Kimberly, Wisconsin. Midtec is the General Partner and Skeena is the Limited Partner. The consolidated accounts of Repap include the accounts of RMLP.





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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### NOTE 2

#### **SIGNIFICANT ACCOUNTING POLICIES**

##### **(a) Investments**

At December 31, 1988, the Corporation owns 8.5% (1987 - 9.8% and 1986 - 13.7%) of the outstanding common shares of Tembec Inc. ('Tembec'). This investment is accounted for at cost.

At December 31, 1988, the Corporation owns 25.2% of Penntech Papers, Inc. ('Penntech'). This investment is accounted for on an equity basis. Prior to 1988, this investment was accounted for at cost.

On December 4, 1988, Repap and Ferrostaal AG each agreed to subscribe for US \$10 million Common Shares in the capital of Repap Ferrostaal Inc. The Corporation accounts for its investment in Repap Ferrostaal Inc. on an equity basis.

##### **(b) Inventories**

Logs, chips and supplies are valued at the lower of cost, determined primarily on a weighted average basis, and replacement cost. Coated paper, pulp and lumber are valued at the lower of cost, determined on a weighted average basis, and net realizable value.

##### **(c) Fixed assets, depreciation and amortization**

Fixed assets are recorded at cost, with the exception of certain of Skeena's fixed assets which have been recorded at appraised value. The appraised value is based upon estimated new replacement cost less deductions for deterioration, obsolescence and the non-deductibility of the excess of appraised value over the cost for income tax purposes. The appraisal was made by H.A. Simons Ltd., as at September 12, 1986.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1988 (MILLIONS OF CANADIAN DOLLARS UNLESS OTHERWISE INDICATED)

### NOTE 2 (CONTINUED)

Cost includes all costs associated with the acquisition or construction of the related asset, including interest on indebtedness and pre-operating costs for constructed assets. Interest and pre-operating costs are capitalized until the asset is ready for its intended use.

Assets under construction are reflected in construction in progress until they are ready for their intended use.

Depreciation, which begins when construction is completed and start-up has taken place, is provided over the estimated useful lives of the assets, using straight-line and unit of production methods, at the rates set out below:

	ESTIMATED LIFE IN YEARS	RATE
Plant and buildings	12 - 42	2.4% - 8.3%
Machinery and equipment	2 - 51	2.0% - 50.0%
Roads	3 - 20	5.0% - 33.3%
Timber limits	35	2.9%

#### (d) Income taxes and investment tax credits

Income taxes are accounted for on the tax allocation basis. Investment tax credits are accounted for under the cost reduction method. Such credits are recognized in the accounts when there is reasonable assurance of their realization and amortized to income on the same basis that the related fixed assets are depreciated.

#### (e) Foreign currency translation

The Corporation translates the accounts of its self-sustaining foreign subsidiaries using the current rate method whereby the assets and liabilities of the foreign subsidiaries are translated into Canadian dollars at rates of exchange prevailing at the year-end. Revenue and expense items are translated at average rates of exchange prevailing during the year. Exchange gains and losses arising on translation are deferred and included as a separate component of shareholders' equity on the consolidated balance sheet (note 22).

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the year-end. Other foreign currency transactions are translated into Canadian dollars at rates of exchange in effect when the transaction was entered into.

Exchange gains and losses arising from the translation of monetary assets or liabilities with terms in excess of one year are deferred and amortized over the life of the assets or liabilities.

Other exchange gains and losses arising from the translation of foreign currency items are included in the determination of net income.



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### **NOTE 2 (CONTINUED)**

#### **(f) Deferred charges, other assets and amortization**

Charges related to obtaining debt financing are deferred and amortized on a straight-line basis over the duration of the financing. Training and other costs are deferred and amortized over the periods benefitted. Goodwill is amortized using the straight-line method over periods not exceeding 30 years.

#### **(g) Property under capital leases and amortization**

Property acquired under leases, which transfer substantially all of the benefits and risks of ownership to the lessee, are accounted for as the acquisition of an asset and the assumption of a related liability. Amortization is provided at rates which are designed to write off these assets over their estimated useful lives.

#### **(h) Government assistance**

Government assistance is recorded in the accounts when there is reasonable assurance that the Corporation has complied with, and will continue to comply with, all conditions necessary to obtain assistance.

The grants, which are related to the acquisition of fixed assets, are deferred and amortized on the same basis that the related fixed assets are depreciated.

Pursuant to the agreements, the repayable portion of the grants is adjusted quarterly, by a charge to operations, to reflect changes in the Canadian Consumer Price Index.

#### **(i) Pension costs and obligations**

The difference between pension fund assets and liabilities is amortized to income over the expected average remaining service life of the plan participants.

#### **(j) Appraisal increment**

The appraisal increment is transferred to retained earnings on the same basis as the related fixed assets are depreciated.

#### **(k) Net sales**

In arriving at net sales, revenues are reduced by commissions, discounts and freight. Prior to 1988, sales (and related cost of sales) generated by assets during the pre-operating period were also excluded. The comparative figures have been reclassified to conform to the 1988 presentation. This change in presentation had no effect on net income.

#### **(l) Earnings per share**

Earnings per share are calculated using the weighted average number of voting shares outstanding during the period.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1988 (MILLIONS OF CANADIAN DOLLARS UNLESS OTHERWISE INDICATED)

### NOTE 3

#### SIGNIFICANT ACTIVITIES

##### 1988

(a) In July 1988, the company issued \$75 million of 9% convertible redeemable subordinate debentures maturing June 30, 1998. The debentures are convertible at the option of the holder at any time prior to maturity or redemption at a conversion price of \$17.00 per subordinate voting share of the company.

(b) In September 1988, the Corporation completed negotiations for an unsecured US \$100 million multicurrency loan facility with a syndicate of ten international banks. The loan facility covers a seven-year period from signing date and the interest rate is based on LIBOR plus 0.5% for the first three years and LIBOR plus 0.625% for years four to seven.

(c) During 1988, Miramichi Paper Partnership commenced construction of the A-2 Coated Paper Mill Project on land leased from MPPI in Newcastle, New Brunswick. The Project includes a coated paper mill and a chemical recovery boiler. Under the terms of the Partnership Agreement, MPPI is the manager of the project and a general partner in the Partnership. On December 30, 1988, MPPI made an additional equity contribution to the Partnership, resulting in it holding a majority position.

(d) In December 1988, MPPI completed the arrangements for an additional bank line facility of \$25 million and for the issue of \$62 million Series D First Mortgage Bonds. The proceeds from the private placement will provide liquidity for general corporate purposes, including potential additional equity contributions to the Miramichi Paper Partnership.

(e) Negotiation of a \$200 million Secured Project Loan for the Miramichi Paper Partnership, responsible for the construction of the A-2 coated paper complex and a chemical recovery boiler at Miramichi, was essentially completed in December with the closing taking place in January 1989. This Project Loan will be applied against the partial financing of the project.

(f) Construction of the 33 ton-per-day Alcell® pulp mill in Newcastle, New Brunswick began in the second quarter of 1988 and is expected to be completed in the first quarter of 1989. Development grants provided by the federal government will finance approximately 50% of the capital and operating costs up to a maximum of \$32.5 million. The balance of the financing will come from Repap's internally generated funds.

##### 1987

(g) In 1987, the Corporation issued 5,500,000 Subordinate Voting Shares by way of a public offering for aggregate proceeds of \$73.8 million net of issue costs of \$5.3 million.

(h) In 1987, construction commenced on a new US \$300 million coated paper mill facility (the M-7 Complex) at Kimberly, Wisconsin by the Repap Midtec Limited Partnership. Midtec and RMLP completed negotiations for the placement of US \$75 million Series D First Mortgage Bonds, US \$80 million Series E First Mortgage Bonds and US \$75 million Class 1 Cumulative Redeemable Preferred Shares. The proceeds were used to redeem preferred shares in Midtec and were used to finance construction of the M-7 Complex.

(i) In 1987, Skeena also completed negotiations for the placement of \$150 million First Mortgage Bonds, the proceeds of which were used to fund Skeena's participation in the M-7 project and to contribute to Skeena's 1987 and 1988 modernization program.



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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **NOTE 4**

#### **INVENTORIES**

	DECEMBER 31	
	1988	1987
Raw materials and supplies	<b>\$106.3</b>	\$ 81.2
Work in process	<b>7.1</b>	3.1
Finished goods	<b>34.1</b>	17.5
	<b>\$147.5</b>	\$101.8

### **NOTE 5**

#### **DEFERRED CHARGES AND OTHER ASSETS**

	DECEMBER 31	
	1988	1987
Goodwill	<b>\$60.8</b>	\$47.9
Financing charges	<b>14.0</b>	7.8
Foreign exchange (gain) loss	<b>(1.6)</b>	2.8
Training and other costs	<b>22.0</b>	5.1
	<b>95.2</b>	63.6
Less accumulated amortization	<b>(11.6)</b>	(4.9)
	<b>\$83.6</b>	\$58.7

### **NOTE 6**

#### **INVESTMENTS**

	DECEMBER 31	
	1988	1987
Investment in Penntech	<b>\$11.2</b>	\$8.1
Investment in Tembec (quoted market value: 1988 - \$9.7 million, 1987 - \$9.2 million)	<b>8.7</b>	8.7
Investment in Repap Ferrostaal Inc.	<b>12.0</b>	—
Miscellaneous	<b>3.2</b>	6.2
	<b>\$35.1</b>	\$23.0



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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### NOTE 7

#### **FIXED ASSETS**

	<u>Gross</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
<b>December 31, 1988</b>			
Land, plant and buildings	\$ 26.8	\$ 5.3	\$ 21.5
Machinery and equipment	1,070.4	128.0	942.4
Roads	17.4	8.5	8.9
Timber limits	5.0	1.4	3.6
Construction in progress	683.2	1.1	682.1
	<u>\$1,802.8</u>	<u>\$144.3</u>	<u>\$1,658.5</u>
<b>December 31, 1987</b>			
Land, plant and buildings	\$ 19.9	\$ 4.2	\$ 15.7
Machinery and equipment	963.1	96.2	866.9
Roads	11.6	5.4	6.2
Timber limits	4.9	1.0	3.9
Construction in progress	225.7	—	225.7
	<u>\$1,225.2</u>	<u>\$106.8</u>	<u>\$1,118.4</u>

### NOTE 8

#### **SHORT-TERM BORROWINGS**

	<u>DECEMBER 31</u>	
	<u>1988</u>	<u>1987</u>
<b>Miramichi –</b>		
Demand loans collateralized by inventories and accounts receivable	<b>\$43.3</b>	\$17.7
Bank overdrafts	<b>11.1</b>	5.0
<b>Skeena –</b>		
Operating credit facility collateralized by inventories and accounts receivable	<b>13.5</b>	—
Bank overdrafts	<b>8.6</b>	—
<b>Repap U.S.A. –</b>		
Bank overdrafts	<b>4.6</b>	—
<b>Other –</b>		
Bank overdrafts and demand loans	<b>17.9</b>	13.0
	<u><b>\$99.0</b></u>	<u>\$35.7</u>



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 9

#### LONG-TERM DEBT

	DECEMBER 31			
	1988 U.S. DOLLAR COMPONENT	MATURITY DATE	1988	1987
<b>Miramichi –</b>				
Sinking fund mortgage bonds bearing interest at 13.75% – 14%	\$ 5.0	2003	\$ 48.9	\$ 49.8
Bank loans bearing interest at prime + 1%	43.1	1998	151.0	157.8
Bridge loan	—	1989	119.3	—
Other	—	1989-93	24.9	23.6
<b>Midtec –</b>				
First mortgage bonds bearing interest at 13.125%	85.0	2001	101.4	110.5
First mortgage bonds bearing interest at 14%	—	2001	17.1	17.8
Project payables – M-7 Complex	26.6	1989	31.7	20.8
First mortgage bonds bearing interest at 12.86%	75.0	2002	89.4	97.5
First mortgage bonds bearing interest at LIBOR + 1.25%	65.8	2002	78.5	—
Other	1.8	1991	2.2	3.1
<b>Skeena –</b>				
Series A first mortgage bonds bearing interest at prime + 0.75%	52.7	1995	64.6	10.0
Series B1 first mortgage bonds bearing interest at 12.75%	—	2002	37.3	40.0
Series B2 first mortgage bonds bearing interest at 12.95%	—	2002	28.0	30.0
Other	—	1989	0.7	0.3
<b>Repap –</b>				
Multicurrency loan bearing interest at LIBOR + 0.50% – 0.625%	100.0	1992-94	119.3	—
Term loan with a Canadian chartered bank bearing interest at 0.75% over the prime rate	—	1990	—	18.6
Long-term pulp payable	—	1991	6.1	7.4
Other	—	1989	4.3	18.1
			<b>924.7</b>	605.3
Less: current maturities			<b>57.1</b>	29.8
			<b>\$867.6</b>	\$575.5



## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **NOTE 9 (CONTINUED)**

Scheduled principal maturities of long-term debt, excluding loans to be refinanced by long-term debt, are as follows:

1989 - \$57.1	1994 - \$155.9
1990 - \$60.2	1995 - \$ 64.7
1991 - \$80.8	1996 - \$ 66.6
1992 - \$95.9	1997 - \$ 60.9
1993 - \$93.4	1998 - \$ 54.3

Substantially all of the Corporation's assets which are not pledged as collateral for the short-term borrowings set out in note 8, collateralize long-term debt.

Certain debt agreements of the Corporation's subsidiaries contain covenants with which the subsidiaries are to comply, including restrictions on payment of dividends. As at December 31, 1988, the Corporation's consolidated retained earnings totalled \$167.0 million, of which approximately \$38 million was available for distribution by the parent company.

At December 31, 1988, the Corporation is in compliance with all of its debt covenants.

### **NOTE 10**

#### **GRANTS**

The Corporation has earned grants in respect of eligible capital expenditures totalling \$73.3 million, \$21.5 million of which are repayable.

The repayable portion is due on a quarterly basis, commencing in June 1993, at the rate of 1% of net sales for the immediately preceding quarter. Repayment is to be made in "constant dollars" which will reflect changes in the Canadian Consumer Price Index.

The agreements governing these grants contain conditions and covenants with which the Corporation has complied.

During 1988, the Corporation entered into a Contribution Agreement ("the agreement") with the government of Canada whereby the government agreed to contribute up to \$32.5 million in connection with the Corporation's construction of a 33-tonne-per-day ALCELL® trial plant located at Newcastle, New Brunswick.

The terms of the agreement call for repayment of the grant if the Corporation fails to construct a full-size commercial scale ALCELL® plant at Newcastle within five years of successfully demonstrating the technology, providing certain economic conditions prevail, as described in the agreement. Management has classified this grant as non-repayable as it expects to fulfill the terms of the agreement.





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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### NOTE 11

#### **INVESTMENT TAX CREDITS**

	DECEMBER 31	
	1988	1987
Received in cash	<b>\$193.2</b>	\$142.5
Not yet received in cash	<b>47.4</b>	25.5
	<b>\$240.6</b>	<b>\$168.0</b>

### NOTE 12

#### **MINORITY INTEREST**

	DECEMBER 31	
	1988	1987
Preferred shares of Repap U.S.A. held by third parties (note 3 (h))	<b>\$ 89.5</b>	\$ 97.7
Preferred shares of Skeena held by third parties	<b>14.3</b>	15.7
Preferred shares of MPPI held by third parties	<b>0.4</b>	14.1
Other	<b>3.7</b>	1.4
	<b>\$107.9</b>	<b>\$128.9</b>

### NOTE 13

#### **SHARE CAPITAL**

##### **Authorized –**

- 30,000,000 Multiple Voting Shares carrying 15 votes each, convertible into Subordinate Voting Shares at any time at the option of the holder;
- Unlimited Subordinate Voting Shares carrying 1 vote each;
- Unlimited Preferred Shares, issuable in Series, of which 400,000 Non-Voting Preferred Shares, Series A, 400,000 Non-Voting Preferred Shares, Series B, and 280,000 Non-Voting Preferred Shares, Series C, have been created.
- Preferred Shares, Series A (all of which are held by a subsidiary), have a cumulative annual dividend of \$2.00, are redeemable by the Corporation at any time after May 21, 1990, retractable at any time after May 21, 1995, for \$25 per share and all accrued and unpaid dividends, and rank ahead of Preferred Shares, Series B, and Preferred Shares, Series C, on dissolution or wind-up.
- Preferred Shares, Series B, have a non-cumulative annual dividend of 7%, are redeemable at any time for \$25 per share together with all declared and unpaid dividends and if not redeemed prior to May 21, 1990, shall not be redeemed until the Preferred Shares, Series A, have been redeemed.
- Preferred Shares, Series C, have a non-cumulative annual dividend of 8%, are redeemable by the Corporation at any time after May 31, 1990 for \$25 per share together with all declared and unpaid dividends, and shall not be redeemed prior to May 13, 1990, unless all the Preferred Shares, Series A, and all the Preferred Shares, Series B, have been redeemed and cancelled.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 13 (CONTINUED)

Issued and outstanding –	DECEMBER 31		
	1988	1987	1986
<b>Multiple Voting Shares</b>			
<b>Beginning of year</b>	<b>\$ 2.1</b>	<b>\$ 2.1</b>	<b>\$ —</b>
29,317,623 shares issued in consideration for the capital stock of Repap Enterprises Inc. (In 1987, 205,668 shares were converted to Subordinate Voting Shares)	—	—	2.1
<b>End of year</b> (1988 and 1987: 29,112,055 shares; 1986: 29,317,723)	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>
<b>Subordinate Voting Shares</b>			
<b>Beginning of year</b>	<b>170.6</b>	<b>91.5</b>	<b>—</b>
3,502,391 shares issued in consideration for common shares of Repap Enterprises Inc.	—	—	3.4
490,822 shares issued in exchange for preferred shares of a subsidiary	—	—	6.1
5,500,000 shares issued for cash (12,918,807 shares in 1986) (In 1987, 205,668 shares were issued in conversion of Multiple Voting Shares)	—	79.1	82.0
<b>End of year</b> (1988 and 1987: 22,617,688 shares; 1986: 16,912,020 shares)	<b>170.6</b>	<b>170.6</b>	<b>91.5</b>
<b>Preferred Shares, Series A</b>			
<b>Beginning of year</b>	<b>10.0</b>	<b>10.0</b>	<b>—</b>
400,000 shares issued in consideration for preferred shares of Repap Enterprises Inc.	—	—	10.0
<b>End of Year</b> (1988, 1987 and 1986: 400,000 shares)	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>
<b>Preferred Shares, Series B</b>			
<b>Beginning of year</b>	<b>10.0</b>	<b>10.0</b>	<b>—</b>
400,000 shares issued in consideration for preferred shares of Repap Enterprises Inc.	—	—	10.0
<b>End of year</b> (1988, 1987 and 1986: 400,000 shares)	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>
<b>Preferred Shares, Series C</b>			
<b>Beginning of year</b>	<b>6.0</b>	<b>—</b>	<b>—</b>
240,000 shares issued in consideration for capital stock of Repap International Inc.	—	6.0	—
<b>End of year</b> (1988 and 1987: 240,000 shares)	<b>6.0</b>	<b>6.0</b>	<b>—</b>
<b>Deduct: Preferred Shares held by a subsidiary</b>	<b>(10.0)</b>	<b>(10.0)</b>	<b>(10.0)</b>
	<b>\$188.7</b>	<b>\$188.7</b>	<b>\$103.6</b>



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 13 (CONTINUED)

	DECEMBER 31		
	1988	1987	1986
Weighted average number of shares (in thousands) used in the calculation of basic earnings per share	<u>51,730</u>	<u>48,791</u>	<u>34,225</u>
Basic earnings per share	<u>\$1.79</u>	<u>\$1.28</u>	<u>\$0.38</u>
Fully diluted earnings per share	<u>\$1.73</u>	<u>\$1.28</u>	<u>\$0.38</u>

The values assigned to the Corporation's shares for accounting purposes differ from the corresponding amounts for legal and income tax purposes.

A Canadian chartered bank has an option to purchase up to 1,140,842 Subordinate Voting Shares from the Corporation at a price of \$15.50 each. This option expires in 1993.

### NOTE 14

#### CONVERTIBLE DEBENTURES

– 9% Convertible Subordinate Debentures, convertible at the option of the holder at any time prior to June 30, 1998 or if previously called for redemption, prior to the date specified for redemption, into Subordinate Voting Shares of the Corporation at a conversion price of \$17.00 per Subordinate Voting Share (note 13).

The debentures are not redeemable before June 30, 1992. Thereafter and on or before June 30, 1995, they are redeemable at par plus accrued and unpaid interest if certain conditions are met. After June 30, 1995, the debentures are redeemable at 102%, 101% and 100% of the principal amount plus unpaid interest for each of the twelve-month periods ended June 30, 1996, 1997, and 1998.

The company may, at its option, repay the debentures on maturity or redemption by issuing subordinate voting shares at a price equal to 95% of the weighted average trading price of the shares on the Toronto Stock Exchange for the thirty consecutive trading days ending not more than five days prior to maturity or the twenty consecutive trading days ending not more than five days prior to giving notice of redemption.

As the company expects that the debentures will either be converted into subordinate voting shares or repaid by the issue of subordinate voting shares, the debentures have been classified with shareholders' equity in the consolidated balance sheet.

	DECEMBER 31		
	1988	1987	1986
Issued and outstanding –	<u>\$75.0</u>	<u>\$ —</u>	<u>\$ —</u>



## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 1988 (MILLIONS OF CANADIAN DOLLARS UNLESS OTHERWISE INDICATED)

### NOTE 15

#### **INCOME TAXES**

The following summarizes the Corporation's income tax provisions, including elements of deferred income taxes, on earnings of its Canadian and foreign operations:

	YEAR ENDED DECEMBER 31		
	1988	1987	1986
<b>CANADA:</b>			
Income before income taxes	<b>\$156.4</b>	\$110.1	\$ 16.3
Income taxes:			
Current	—	6.2	—
Deferred -			
Tax effect of excess of income tax allowances over financial statement depreciation	<b>48.4</b>	44.5	6.5
Use of operating losses carried forward	<b>15.1</b>	2.5	—
Other	<b>4.5</b>	(1.2)	(0.1)
	<b>68.0</b>	52.0	6.4
Income before minority interest and extraordinary items	<b>88.4</b>	58.1	9.9
<b>FOREIGN:</b>			
Income before income taxes	<b>27.8</b>	4.8	17.4
Income taxes:			
Current	<b>0.1</b>	—	—
Deferred -			
Tax effect of excess of income tax allowances over financial statement depreciation	<b>8.1</b>	6.8	8.1
Additions to operating losses carried forward	—	(5.7)	(0.1)
Other	<b>2.6</b>	0.9	0.6
	<b>10.8</b>	2.0	8.6
Income before minority interest and extraordinary items	<b>17.0</b>	2.8	8.8
<b>TOTAL:</b>			
Income before income taxes	<b>184.2</b>	114.9	33.7
Income taxes:			
Current	<b>0.1</b>	6.2	—
Deferred -			
Tax effect of excess of income tax allowances over financial statement depreciation	<b>56.5</b>	51.3	14.6
Use of (additions to) operating losses carried forward	<b>15.1</b>	(3.2)	(0.1)
Other	<b>7.1</b>	(0.3)	0.5
	<b>78.8</b>	54.0	15.0
Income before minority interest and extraordinary items	<b>\$105.4</b>	\$60.9	\$18.7



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1988 (MILLIONS OF CANADIAN DOLLARS UNLESS OTHERWISE INDICATED)

### NOTE 15 (CONTINUED)

	YEAR ENDED DECEMBER 31		
	1988	1987	1986
Unremitted earnings of foreign subsidiaries on which the Corporation has not provided withholding taxes. (At the present time the Corporation has no intention to distribute such earnings to Canada. The Corporation is also subject to restrictions on the amount of any such earnings that can be distributed).	<b>\$42.1</b>	\$43.1	\$42.9
The Corporation's effective income tax rates are as follows:			
Canadian and U.S. federal income tax rates	<b>41.5%</b>	45.5%	46.0%
U.S. state and Canadian provincial income tax rates	<b>4.2</b>	5.0	5.0
Other	<b>(3.0)</b>	(3.4)	(6.7)
	<b>42.7%</b>	47.1%	44.3%

The Corporation and its subsidiaries have available non-capital losses for income tax purposes of approximately \$71.2 million (1987 - \$106 million; 1986 - \$50.3 million) in Canada, and U.S. \$90.2 million (1987 - U.S. \$74 million; 1986 - U.S. \$60.5 million) in the United States, the benefits of which have been recognized in the accounts as reductions of deferred income taxes (1988 - Canada: \$29 million; United States: U.S. \$34.4 million).

The Corporation and its subsidiaries also have available investment and energy tax credits of approximately \$50.7 million (1987 - \$18.8 million; 1986 - \$0.3 million) in Canada and U.S. \$21.7 million (1987 - U.S. \$18.2 million; 1986 - U.S. \$18.1 million) in the United States, the benefits of which have been recognized in the accounts (1988 - Canada: \$50.7 million; United States: U.S. \$21.7 million).

These losses and tax credits are available to reduce income taxes payable in future years and expire as follows:

Year of expiry	Non-capital losses		Investment and Energy tax credits	
	Canada	U.S.	Canada	U.S.
1990	\$ 0.2	\$ —	\$ —	\$ —
1991	0.3	—	—	—
1992	0.5	—	3.6	0.4
1993	5.5	—	3.0	0.8
1994	64.7	—	10.5	0.1
1995	—	—	33.6	11.1
1996	—	21.8	—	1.4
1997	—	27.0	—	0.7
1998	—	16.2	—	3.2
1999	—	6.8	—	3.1
2000	—	—	—	0.4
2001	—	6.5	—	0.5
2002	—	10.7	—	—
2003	—	1.2	—	—
	<b>\$71.2</b>	<b>\$90.2</b>	<b>\$50.7</b>	<b>\$21.7</b>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1988 (MILLIONS OF CANADIAN DOLLARS UNLESS OTHERWISE INDICATED)

### NOTE 16

#### INTEREST EXPENSE

Interest expense is comprised of the following:

	YEAR ENDED DECEMBER 31		
	1988	1987	1986
Interest on short-term borrowings	\$ 7.1	\$ 6.8	\$ 7.9
Interest on long-term debt	81.8	63.3	60.5
	88.9	70.1	68.4
Less: interest capitalized to fixed assets	(47.0)	(21.5)	(22.2)
	\$41.9	\$48.6	\$46.2

### NOTE 17

#### RELATED PARTY TRANSACTIONS

	YEAR ENDED DECEMBER 31		
	1988	1987	1986
Due to Repap Ferrostaal Inc. (included in accounts payable at year-end)	\$12.1	\$ —	\$ —
Pulp sold to Repap International Inc.	—	9.9	13.1
Commissions to Repap International Inc.	—	3.8	6.7
Purchases of raw materials from Repap International Inc.	—	5.5	4.0

In 1987, the Corporation acquired, from its controlling shareholder, 100% of the issued and outstanding shares of Repap International Inc. for a consideration of \$6 million, represented by 240,000 Preferred Shares, Series C redeemable at a price of \$25 per share. The value of the shares acquired was determined pursuant to an independent valuation prepared by Coopers & Lybrand, Chartered Accountants. The assets of Repap International included pulp sales agency agreements with Miramichi and Skeena and 98.7%, of the issued and outstanding shares of Repap Technologies, as well as a 25.2% investment in Penntech.

### NOTE 18

#### CONTINGENCIES AND COMMITMENTS

(a) The Corporation has commitments of approximately \$220 million for the purchase of fixed assets as at December 31, 1988.

(b) The Corporation is involved in certain litigation. Management is of the opinion, based on information presently available to it, that the eventual outcome of this litigation will not have a material adverse effect upon the Corporation.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1988 (MILLIONS OF CANADIAN DOLLARS UNLESS OTHERWISE INDICATED)

### NOTE 19

#### SEGMENTED INFORMATION

As established by resolution of the directors dated September 8, 1986, the Corporation operates in the pulp and coated paper sectors.

	1988	1987	1986
<b>INDUSTRY SEGMENTS</b>			
Net sales of pulp	\$ 558.6	\$ 463.6	\$ 239.1
Net intersegment sales of pulp	(98.0)	(34.9)	(12.9)
Net coated paper sales	474.3	415.3	353.4
Net sales	<u>934.9</u>	<u>844.0</u>	<u>579.6</u>
Pulp segment profit before the undernoted:	196.7	149.2	49.9
Depreciation and amortization	(23.0)	(20.5)	(11.4)
Coated paper segment profit before the undernoted:	73.3	39.6	53.5
Depreciation and amortization	(14.7)	(10.7)	(8.7)
Segment profit before the undernoted:	<u>232.3</u>	<u>157.6</u>	<u>83.3</u>
General corporate income (expenses)	(6.2)	5.9	(3.4)
Interest expense	(41.9)	(48.6)	(46.2)
Provision for income taxes	(78.8)	(54.0)	(15.0)
Minority interest	(12.6)	(4.2)	(4.7)
Income before extraordinary items	<u>\$ 92.8</u>	<u>\$ 56.7</u>	<u>\$ 14.0</u>
Identifiable assets by segment:			
Pulp	\$ 680.5	\$ 498.3	\$ 413.1
Coated paper	1,291.4	956.7	769.9
Corporate	293.0	80.6	78.3
	<u>\$2,264.9</u>	<u>\$1,535.6</u>	<u>\$1,261.3</u>
Fixed asset additions by segment:			
Pulp	\$ 183.5	\$ 63.1	\$ 12.2
Coated paper	422.4	211.7	150.3
Corporate	0.8	0.3	—
	<u>\$ 606.7</u>	<u>\$ 275.1</u>	<u>\$ 162.5</u>
<b>GEOGRAPHIC SEGMENTS</b>			
Sales arising from:			
Canada - (1)			
Net sales	\$ 548.0	\$ 502.7	\$ 259.6
Segment profit	174.5	122.4	36.5
Total identifiable assets	<u>1,601.3</u>	<u>990.3</u>	<u>950.3</u>
United States -			
Net sales	386.9	341.3	320.0
Segment profit	39.3	34.2	43.4
Total identifiable assets	<u>663.6</u>	<u>545.3</u>	<u>311.0</u>

(1) A substantial portion of sales arising from Canada are exported.



## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 1988 (MILLIONS OF CANADIAN DOLLARS UNLESS OTHERWISE INDICATED)

### **NOTE 20**

#### **NET CHANGE IN NON-CASH WORKING CAPITAL**

	YEAR ENDED DECEMBER 31		
	1988	1987	1986
Accounts receivable	<b>\$(14.8)</b>	\$ 11.6	\$(30.4)
Inventories	<b>(45.7)</b>	0.9	29.7
Prepaid expenses	<b>5.9</b>	(7.2)	—
Accounts payable and accrued liabilities	<b>43.6</b>	(15.9)	3.3
	<b>\$(11.0)</b>	<b>\$(10.6)</b>	<b>\$ 2.6</b>

### **NOTE 21**

#### **PENSION PLANS**

The Corporation maintains defined benefit final average pension plans which cover certain of its employees. The plans provide pensions based on length of service and final average earnings.

Actuarial reports prepared during the year, which were based on projections of employees' compensation levels to the time of retirement, indicate that the present value of the accrued pension benefits and the net assets available to provide for these benefits, at market value, were \$39.6 million and \$33.6 million, respectively, as of December 31, 1988.

In addition, pursuant to certain collective agreements, the Corporation contributes to pension plans administered by labour unions of which certain of its employees are members. At December 31, 1988, the Corporation has made all required contributions.

### **NOTE 22**

#### **TRANSLATION ADJUSTMENT**

Exchange gains and losses arising on the translation of self-sustaining foreign investments are deferred and included as a separate component of shareholders' equity (note 2 (e)).

	DECEMBER 31	
	1988	1987
Exchange losses on translation of shareholders' equity of subsidiaries		
Repap U.S.A.	<b>\$ 8.4</b>	\$2.3
Repap Technologies	<b>0.3</b>	0.2
Exchange loss on translation of investment in RMLP (M-7 Complex)	<b>10.8</b>	—
Other exchange losses (gains)	<b>(0.8)</b>	0.4
	<b>\$18.7</b>	<b>\$2.9</b>





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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1988 (MILLIONS OF CANADIAN DOLLARS UNLESS OTHERWISE INDICATED)

### NOTE 23

#### UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

	YEAR ENDED DECEMBER 31		
	1988	1987	1986
<b>a) INCOME ADJUSTMENTS</b>			
Net income in accordance with Canadian GAAP	\$ 92.8	\$ 62.5	\$ 13.0
Add (deduct):			
Unrealized gain (loss) on translation of long-term debt, net of income taxes (1)	2.2	(2.5)	—
Reversal of additional depreciation expense for fixed assets recorded at appraised values (2)	5.0	5.0	1.3
Deferred income taxes (3)	—	4.9	—
Net income in accordance with U.S. GAAP	\$ 100.0	\$ 69.9	\$ 14.3
Earnings per share (4)			
— Basic	\$ 1.93	\$ 1.33	\$ 0.37
— Fully diluted	\$ 1.86	\$ 1.33	\$ 0.37
<b>b) BALANCE SHEET ADJUSTMENTS</b>			
i) Net book value of fixed assets in accordance with Canadian GAAP	\$1,658.5	\$1,118.4	\$857.3
Add (deduct):			
Appraisal increment (2)	(114.7)	(119.7)	(124.7)
Net book value of fixed assets in accordance with U.S. GAAP	\$1,543.8	\$ 998.7	\$732.6
ii) Deferred income taxes provided in accordance with Canadian GAAP	\$ 83.1	\$ 38.2	\$ 12.7
Add (deduct):			
Cumulative deferred income tax adjustments (3)	—	—	(4.9)
Deferred income taxes in accordance with U.S. GAAP (5)	\$ 83.1	\$ 38.2	\$ 7.8
iii) Convertible debentures and shareholders' equity in accordance with Canadian GAAP	\$ 526.7	\$ 386.2	\$247.5
Add (deduct):			
Convertible debentures	(75.0)	—	—
Appraisal increment (2)	(114.7)	(119.7)	(124.7)
Cumulative U.S. GAAP income adjustments	(0.3)	2.4	—
Shareholders' equity in accordance with U.S. GAAP	\$ 336.7	\$ 268.9	\$122.8



## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 1988 (MILLIONS OF CANADIAN DOLLARS UNLESS OTHERWISE INDICATED)

### NOTE 23 (CONTINUED)

	YEAR ENDED DECEMBER 31		
	1988	1987	1986
<b>c) STATEMENT OF CHANGES IN FINANCIAL POSITION (6)</b>			
i) Cash provided by financing activities in accordance with Canadian GAAP	<b>\$490.6</b>	\$218.7	\$307.4
Add (deduct): change in short-term borrowings	<b>63.3</b>	(13.3)	15.9
Cash provided by financing activities in accordance with U.S. GAAP	<b>\$553.9</b>	\$205.4	\$323.3
Cash position			
Beginning of year	<b>\$ 10.6</b>	\$ 64.9	\$ 14.4
End of year	<b>\$168.6</b>	\$ 10.6	\$ 64.9
ii) Interest paid	<b>\$ 86.9</b>	\$ 69.1	\$ 67.5

(1) Unrealized gains and losses arising from the translation of foreign monetary assets or liabilities with terms in excess of one year are deferred and amortized over the remaining life of the related debt. Under U.S. GAAP, such gains and losses would be included in income as they arise.

(2) Certain fixed assets have been recorded at appraised values, and are being depreciated on that basis. U.S. GAAP does not permit the use of appraised values for fixed assets.

(3) Tax benefit of loss carryforwards recognized for financial statement purposes. Under U.S. GAAP the benefit of the loss carried forward was recorded when realized.

(4) Within 12 months prior to the completion of its initial public offering, the Corporation issued 6,168,807 Subordinate Voting Shares to certain Canadian individuals and to The Repap Stock Option Trust for a cash consideration of \$185,064. Under Canadian GAAP these shares have been included in the calculation of earnings per share from the date they were issued. It is the SEC staff's position that such shares should be treated as outstanding for purposes of calculating earnings per share for all periods covered by these financial statements.

(5) The United States Financial Accounting Standards Board has issued new accounting standards for income taxes. These new standards are to be applied in determining U.S. GAAP financial information for the Corporation commencing in fiscal 1990. The method of implementing the new standards and their effect on the Corporation's financial position and operating results have not yet been determined.

(6) In these financial statements, the definition of cash used in the measurement of cash flows includes short-term borrowings. Under U.S. GAAP, changes in short-term borrowings would be excluded from the definition of cash and presented as financing transactions.

### NOTE 24

#### **COMPARATIVE FIGURES**

Certain of the comparative figures have been reclassified to conform to the presentation adopted for the current year.



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**DIRECTORS****Robert E. Bellamy**

Toronto, Ontario  
Vice-Chairman, Burns Fry Limited

**James N. Bowersock**

Beaconsfield, Quebec  
President and Chief Operating Officer

**Warren Chippindale**

Westmount, Quebec  
Corporate Director and Consultant

**George B. Creamer**

Putnam Station, New York  
Consultant to the Pulp and Paper Industry

**Joseph G. Kass**

Beaconsfield, Quebec  
Vice-Chairman

**J. Patrick Maley**

Appleton, Wisconsin  
President of Repap-Ferrostaal Inc.

**Jerry Oppenheim**

New York, New York  
Partner, Oppenheim & Company, P.C.  
(Attorneys at Law)

**Harry R. Papushka**

Vancouver, British Columbia  
Executive Vice-President, Pulp

**George S. Petty**

Montreal, Quebec  
Chairman and Chief Executive Officer

**Ronald H. Sumner**

Ottawa, Ontario  
Executive Vice-President, Finance

**Jude Wanniski**

Morristown, New Jersey  
President of Polyconomics Inc.

**Harold F. Zigmund**

Minneapolis, Minnesota  
Consultant to the Pulp and Paper Industry

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**OFFICERS****George S. Petty**

Chairman and Chief Executive Officer

**Joseph G. Kass**

Vice-Chairman

**James N. Bowersock**

President and Chief Operating Officer

**Ronald H. Sumner**

Executive Vice-President, Finance

**Harry R. Papushka**

Executive Vice-President, Pulp

**J. Patrick Maley**

Executive Vice-President

**Joseph B. Simone**

Vice-President, Coated Paper Sales

**Dr. E. Kendall Pye**

Vice-President, Science and Research

**Anthony J. Dundas**

Vice-President, Treasurer and Assistant  
Secretary

**Georges Farah**

Vice-President and Controller

**Terry W. McBride**

Vice-President, General Counsel and  
Secretary

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**AUDIT COMMITTEE****Robert E. Bellamy****Warren Chippindale****Joseph G. Kass**

---

**Wayne H. Arnold**

Vice-President, General Manager  
Miramichi Pulp & Paper Inc.

**Gary B. Fenton**

Vice-President, General Manager  
Midtec Paper Corporation Inc.

**Reg L. Lightfoot**

Senior Vice-President, Operations  
Skeena Cellulose Inc.

**J. Patrick Maley**

President  
Repap-Ferrostaal Inc.

**Dr. E. Kendall Pye**

President  
Repap Technologies Inc.

**Joseph B. Simone**

President  
Repap Sales Corporation Inc.

## DIRECTORS AND OFFICERS

## OPERATING MANAGEMENT



## GLOSSARY

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### ALCELL®

Refers to a patented new, alcohol-based pulping process which produces a chemical pulp and a unique stream of wood-based by-products.

---

### ADMT

An air-dry metric ton. A term meaning a ton of pulp that is approximately 90% bone dry. The maximum allowable moisture content is 10%.

---

### BASIS WEIGHT

A measure of paper thickness and weight. The weight of a ream (500 sheets) of paper of specific length and width.

---

### BLEACHED PULP

Pulp that has been brightened with bleaching chemicals.

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### BOARD FOOT

One square foot of lumber, one inch thick.

---

### CHEMICAL PULP

Pulp produced by cooking wood chips in a pressure vessel (digester) which removes lignin and other wood chemicals.

---

### CHEMI-THERMO MECHANICAL PULP

A thermo-mechanical pulp with a chemical pre-treatment.

---

### COATED PAPER

Paper which is coated with clay and usually supercalendered to produce a glossy surface. The paper may be coated on only one side or on both sides.

---

### COATED PAPER GRADES

Paper can be coated on one side (C1S) or two sides (C2S). C2S is classified in five "enamel numbers" in terms of brightness, gloss and pulp content with No. 1 being the top grade. Nos. 1 through 3 and about one-half of No. 4 are freesheet papers while the other half of No. 4 and all of No. 5 are groundwood papers.

---

### ENAMEL NUMBERS

Coated paper is graded on the basis of enamel numbers (one to five) which among other criteria reflect the brightness of the coating, with No. 1 enamel having the highest brightness.

---

### FOREST LICENCE

A licence granted under the British Columbia Forest Act providing for harvesting of a certain annual volume of timber from within a designated timber supply area.

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### FRESHEET OR FRESHEET PAPER

A term meaning free of mechanical pulp or groundwood pulp. The term applies to higher value-added grades of paper that are made primarily from chemical pulps and less than 10% groundwood.

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### GROUNDWOOD COATED PAPER

A term to describe papers where a major component is groundwood or mechanical pulp. The chemical pulps such as kraft are used to provide sufficient strength to enable the paper to run properly on high speed paper machines and printing presses.

---

### GROUNDWOOD PULP

A type of mechanical pulp produced by grinding.

---

### HARDWOOD PULP

Pulp produced from hardwood (deciduous) trees. This pulp is generally used to provide opacity and smooth printing surface to printing papers.

---

### INTEGRATED

Generally refers to a company that produces the pulp it uses in papermaking. A captive pulp company.

---

### KRAFT PULP

The principal type of chemical pulp, produced by an alkaline cooking process and noted for its strength.

---

### LIGHTWEIGHT COATED PAPER

Groundwood coated paper in basis weights ranging from 32 to 45 pounds. Lightweight coated paper is the No. 5 enamel publication grade.



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**LIGNIN**

A wood chemical that acts as a binder for cellulose and other components found in wood.

---

**MARKET PULP**

Wood pulp produced by one company and sold to another in the open market.

---

**MECHANICAL PULP**

Wood pulp produced by mechanical methods (grinding) rather than by chemical methods.

---

**Mmfbm**

One million board feet.

---

**NORTHERN SOFTWOOD KRAFT PULP**

Kraft pulp produced from slow-growing northern softwood trees which commands a premium price because it is stronger than southern softwood pulp.

---

**OFF-MACHINE COATER**

A large machine which applies coating to paper to produce coated paper.

---

**REFINER GROUNDWOOD PULP**

Groundwood pulp produced by grinding wood chips between two metal plates.

---

**SHORT TON OR TON**

2,000 pounds.

---

**SOFTWOOD PULP**

Pulp produced from softwood (coniferous) trees such as spruce, fir and hemlock. This pulp is stronger than hardwood pulp.

---

**STONE GROUNDWOOD PULP**

Groundwood pulp produced by abrading logs against a revolving abrasive wheel. Generally considered to provide the best formation in the production of printing papers.

---

**SULPHITE AND SODA PULPS**

Grades of chemical pulp which represent a small percentage of total chemical pulp production.

---

**SUPERCALENDER**

A large machine that imparts a gloss to paper by heat and pressure.

---

**THERMO-MECHANICAL PULP**

Similar to refiner groundwood pulp except that the chips are pre-heated.

---

**TIMBER LICENCE**

A licence granted by a government providing for the management of a portion of public forest for a period of years, and providing for the harvesting of a certain volume of timber each year.

---

**TONNE**

One metric ton, equal to 1,000 kilograms or approximately 2,205 pounds.

---

**TREE FARM LICENCE**

A licence granted under the British Columbia Forest Act providing for the management of a portion of public forest for a period of years, and providing for the harvesting of a certain volume of timber each year.

---

**WHITE CHEMICAL PULP**

Bright pulps including bleached kraft pulp and unbleached sulphite pulp.

---

**WOOD PULP**

Wood fibres produced from solid wood for use in the production of paper, paperboard and other products.

---

**CONVERSION TABLE**

Imperial Measure	Metric System
1 inch	= 2.54 centimetres
1 foot	= 0.3048 metre
1 yard	= 0.9144 metre
1 mile	= 1.6093 kilometres
1 acre	= 0.4047 hectare
1 short ton	= 0.9072 tonne
1 cubic yard	= 0.7646 cubic metre

In this Annual Report, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars ("\$", "Cdn. \$", "dollars" or "Cdn. dollars").



## SHARE- HOLDER INFORMATION

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### ANNUAL MEETING

The Annual Meeting of the Shareholders of Repap Enterprises Corporation Inc. will be held on Tuesday, April 25, 1989, at 10:00 a.m. at Le Windsor, 1170 Peel Street, Montreal, Quebec.

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### SHARE INFORMATION

The Corporation's Subordinate Voting Shares are traded on the Toronto Stock Exchange, the Montreal Exchange and the Vancouver Exchange. The stock market symbol is RPP.

The Corporation's Subordinate Voting Shares are also traded on the NASDAQ National Market System in the United States. The stock symbol is RPAPF.

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### TRANSFER AGENT AND REGISTRAR

The Montreal Trust Company  
1 Place Ville Marie  
Montreal, Quebec H3B 4A8

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### AUDITORS

Clarkson Gordon  
1 Place Ville Marie, Suite 2400  
Montreal, Quebec H3B 3M9

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### SOLICITORS

<b>Canada</b>	Stikeman Elliot 1150 Peel Street, Suite 3900 Montreal, Canada H3B 3V2	Gowling & Henderson 2 First Canadian Place, Suite 2400 Toronto, Canada M5X 1A4
<b>United States</b>	Sullivan & Cromwell 125 Broad Street, 32nd Floor New York, N.Y. 10004	Oppenheim & Company P.C. 477 Madison Avenue New York, New York 10022

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### REGISTERED AND EXECUTIVE OFFICES

**Repap Enterprises Corporation Inc.**  
1150 Peel Street, Suite 3200  
Montreal, Canada H3B 3V2  
Telephone: (514) 879-1316

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### OPERATING FACILITIES

**Midtec Paper Corporation and Repap Midtec Limited Partnership**  
Kimberly, Wisconsin, U.S.A.

- Coated paper complex with coated paper machines and finishing equipment.

**Miramichi Pulp & Paper Inc. and Miramichi Paper Partnership**  
Newcastle, New Brunswick

- Integrated coated paper complex with market kraft pulp mill and market groundwood pulp mill.
- Nelson sawmill
- Blackville Lumber Inc.

**Skeena Cellulose Inc.**  
Watson Island, British Columbia

- Market kraft pulp mill.
- Terrace, British Columbia
- Sawmill.

Smithers, British Columbia  
■ Groot Lumber Ltd.



## THE TORONTO STOCK EXCHANGE

	High	Low	Volume
	(In Cdn. \$ per share)		(Number of shares)
1988			
First Quarter	\$16.75	\$11.00	2,292,307
Second Quarter	\$15.125	\$13.25	3,410,014
Third Quarter	\$14.875	\$10.875	1,097,534
Fourth Quarter	\$12.875	\$10.25	1,730,710
1987			
First Quarter	\$19.375	\$12.50	3,740,755
Second Quarter	\$18.00	\$14.125	1,052,274
Third Quarter	\$19.25	\$14.50	2,515,600
Fourth Quarter	\$19.50	\$ 8.875	3,612,701

## PRICE RANGE AND TRADING VOLUME OF SUBORDINATE VOTING SHARES

## THE MONTREAL EXCHANGE

	High	Low	Volume
	(In Cdn. \$ per share)		(Number of shares)
1988			
First Quarter	\$16.50	\$11.125	548,444
Second Quarter	\$15.125	\$13.25	256,762
Third Quarter	\$14.875	\$10.875	169,704
Fourth Quarter	\$12.875	\$10.375	277,351
1987			
First Quarter	\$19.375	\$12.50	1,108,238
Second Quarter	\$18.00	\$14.00	595,633
Third Quarter	\$19.25	\$14.50	766,549
Fourth Quarter	\$19.375	\$ 8.875	818,130

## NASDAQ NATIONAL MARKET SYSTEM

	High	Low	Volume
	(In U.S.\$ per share)		(Number of shares)
1988			
First Quarter	\$13.375	\$ 8.875	1,820,143
Second Quarter	\$12.25	\$10.75	583,536
Third Quarter	\$12.375	\$ 8.875	617,301
Fourth Quarter	\$10.875	\$ 8.50	1,142,498

Dividends paid to U.S. citizens are subject to a 15% withholding tax.



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