ABITIBI-PRICE

Annual Report 1980

Building for the Future

Abitibi-Price

Annual Report for the Year Ended December 31, 1980

Abitibi-Price, known principally as the world's largest producer of newsprint, is engaged in the manufacture of a wide range of printing and writing papers, pulp, lumber and building products. The Company also has mining activities and an ongoing mineral exploration program.

The resources managed for our shareholders provide income to 20,000 employees and all the communities in which we operate. The Company is committed to managing these resources responsibly and strives to attain a high level of performance, whether it be in the forest or the mine, in the mill or the marketplace. The photographs throughout this report feature various elements of resource management at Abitibi-Price and some of the men and women whose varied skills and accomplishments are building our future.

OUR COVER

The construction of a modern, twin-wire newsprint machine to replace four old machines at our Iroquois Falls mill is part of the largest capital improvement program in the Company's history.

ABITIBI-PRICE INC.
Toronto-Dominion Centre
Toronto, Canada M5K 1B3

On peut obtenir ce rapport annuel en français sur demande

Financial Highlights

(thousands of dollars, except per share figures)	1980	1979
NET SALES	**$1,364,695**	$1,470,910
Mining income (loss)	**(2,349)**	2,368
Equity interest in earnings of Mattabi Mines Limited	**6,649**	8,723
Depreciation and depletion	**53,104**	49,441
Interest expense	**35,114**	23,473
Income taxes	**40,680**	68,046
EARNINGS BEFORE EXTRAORDINARY ITEMS	**83,753**	114,104
Per common share	**3.94**	5.62
NET EARNINGS	**90,607**	115,118
Per common share	**4.30**	5.67
DIVIDENDS DECLARED		
Preferred shares	**9,840**	9,147
Common shares	**30,065**	28,039
Per common share	**1.60**	1.50
ADDITIONS TO FIXED ASSETS	**216,517**	148,100
Working capital	**414,306**	339,121
Long-term debt	**360,660**	237,726
Book value of common shares	**478,045**	426,320
Per common share	**25.41**	22.80

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Robert C. Gimlin
President and Chief Executive Officer

For Abitibi-Price, 1980 was a year of difficult challenges, but it was also one in which we achieved considerable progress on our plans for growth in the future.

Sales and net earnings of $1,364.7 million and $90.6 million, respectively, were the second highest in the Company's history, bettered only by the records set last year. In fact, performance was ahead of 1979 until mid-year when widespread labour disruptions occurred.

Most of our Canadian pulp and paper mills were shut down for five weeks by a strike of the Canadian Paperworkers Union. In Quebec, our three mills in the Saguenay-Lac-St-Jean area were struck for some six months by the Confédération des syndicats nationaux. Although settlement was reached in December, one of these operations, the Kenogami groundwood papers mill, remained closed until mid-February pending the resolution of several contentious issues.

While all mills are now operating, the serious labour problems we experienced in 1980, with their inevitable drain on productivity, raise the question of whether any company, or indeed any industry or country, can prosper with the type of continuing conflict that has come to characterize the forest products industry. Anything of value is produced not by conflict but by cooperation and unless we can turn our employee relations from adversarial to cooperative, the well-being and prosperity of each of us will be severely inhibited.

Needless to say, a change of this magnitude is a great challenge, but change we must! With these sober facts in mind, the Company has made its primary objective the achievement of a major improvement in employee relations.

Market conditions were mixed for our various operations in 1980. Demand for pulp and paper products remained strong throughout the year (even allowing for strike-induced demand) and under normal conditions capacity operations would have been maintained. Mineral resources earnings were better than expected. The weak areas were lumber and building products which suffered from depressed markets for both new construction and the repair/remodel trade. Our converting and distribution subsidiaries maintained their usual steady growth.

While each of our business units has unique responsibilities for resource management, resource renewal is the foundation upon which they all depend. In this connection, during 1980 we were pleased to be the first company to sign a Forest Management Agreement with the Province of Ontario, marking the beginning of a new kind of cooperation in the management and regeneration of Ontario's forest resources. More details are given in the Woodlands section of this report.

Doing business in an international environment is not becoming any less complex. Inflation, political controversy, energy concerns and economic uncertainty continue to plague our global community. In such an atmosphere, investment to optimize productivity and quality is vital to maintain a competitive position in world markets. To this end, the Company has in place a carefully developed strategic plan and capital expenditure program. During the year, most capital projects progressed according to plan, with total additions to fixed assets reaching $216.5 million, compared with $148.1 million in 1979.

A key planning principle is to focus effort and capital spending on those businesses in which we have a competitive advantage and to withdraw from those that do not fit our long term objectives. Thus, in 1980 we disposed of our sheathing operation in Blountstown, Florida, and arranged for the sale of our 50% interest in a newsprint machine in DeRidder, Louisiana.

The timely implementation of our capital improvement program also demands a forward looking financial plan and adept management of our capital resources so that funds are available when required. In this context, the Company arranged for a $50 million issue of convertible preferred shares early in 1981.

Our cash resources, provided mainly by earnings and borrowings, are judiciously allocated to many requirements, including dividends to our shareholder-owners. This year's record dividend of $1.60 per share, or over 40% of 1980 earnings before extraordinary items, could be considered high in view of the strike-depressed results. However, since lower earnings resulted primarily from events of a temporary nature, the Directors believed the financial integrity of the Company could be maintained without reducing dividends.

During the year we completed the transition to a results-oriented profit centre organization, which has proven to be an effective management concept for our Company. We are very pleased with the fine cadre of dedicated managers who now guide Abitibi-Price. Indeed, at all levels of the organization, we are intensifying our efforts to identify and develop the talented and energetic men and women who will lead the Company in the competitive years ahead.

Mr. C. Harry Rosier retired as Vice-Chairman on December 31. Mr. Rosier, a former President of the Company, is a man whose leadership has been an inspiration to all of us. Although his day-to-day participation will be missed, his many contributions over the years will continue to benefit the Company.

For 1981, we anticipate a return to more normal operations. Market conditions, although not expected to be as buoyant as in 1980, should still provide a generally satisfactory environment for our pulp and paper groups. We see no indication of early improvement in the construction market, but there is some expectation that lower interest rates could stimulate building activity later in the year. While mineral exploration was successful in 1980, the additional ore discovered in Ontario and Newfoundland will not be available for 1981 production and consequently mining earnings will reflect lower processing volumes. For the Company as a whole in 1981, we foresee a marked improvement over this year's earnings.

The events of 1980 required extra effort from many of our employees and caused personal hardship for many others. As we step into 1981, we are encouraged by the spirit of cooperation which helped to speed our return to normal operations and which is such an important element in building our future.

On behalf of the Board,

T. J. Bell.

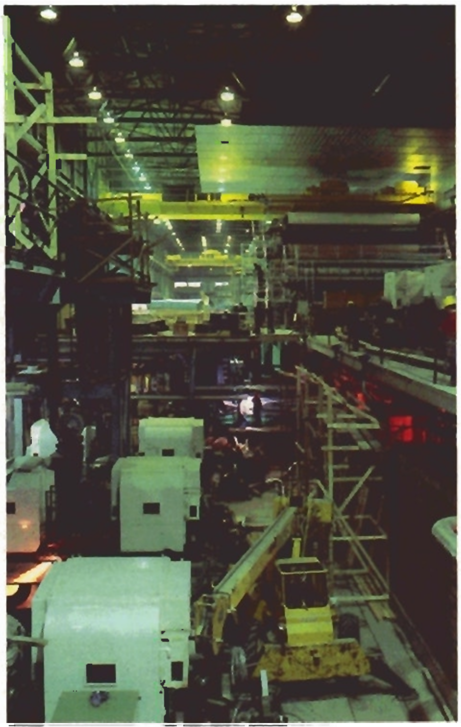
CHAIRMAN OF THE BOARD

R. C. Gimlin

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Toronto
February 16, 1981

Thomas J. Bell
Chairman of the Board



When this modern newsprint machine starts up at Stephenville in early 1981, Abitibi-Price will have five mills with access to ocean-going vessels.

Major capital investments ensure high quality, cost-competitive newsprint for world markets.

Newsprint

Newsprint, our major contributor to sales and earnings, would have surpassed all records in 1980 had we not lost approximately 264,000 metric tons of production through labour disruptions. As it was, Abitibi-Price mills ran at 85% of effective capacity to produce 1,546,000 metric tons.

Canadian industry shipments to the United States of 6,117,000 metric tons fell short of last year's 6,371,000 metric tons. Shipments of 980,000 metric tons to Canadian users were about equal to 1979, while sales to offshore customers rose 6% to 1,524,000 metric tons. It should be noted, however, that demand in international markets including the United States was not fully satisfied and inventories remain at a level that is insufficient to adequately service customers.

The changing structure of the newsprint market in the United States was clearly evident in 1980. While consumption by large metropolitan newspapers declined somewhat, the percentage used by smaller newspapers and for other uses such as pre-printed advertising inserts continued to increase. This growing market segment already accounts for about 43% of all newsprint consumed and we believe that it will continue to demand a greater share of production.

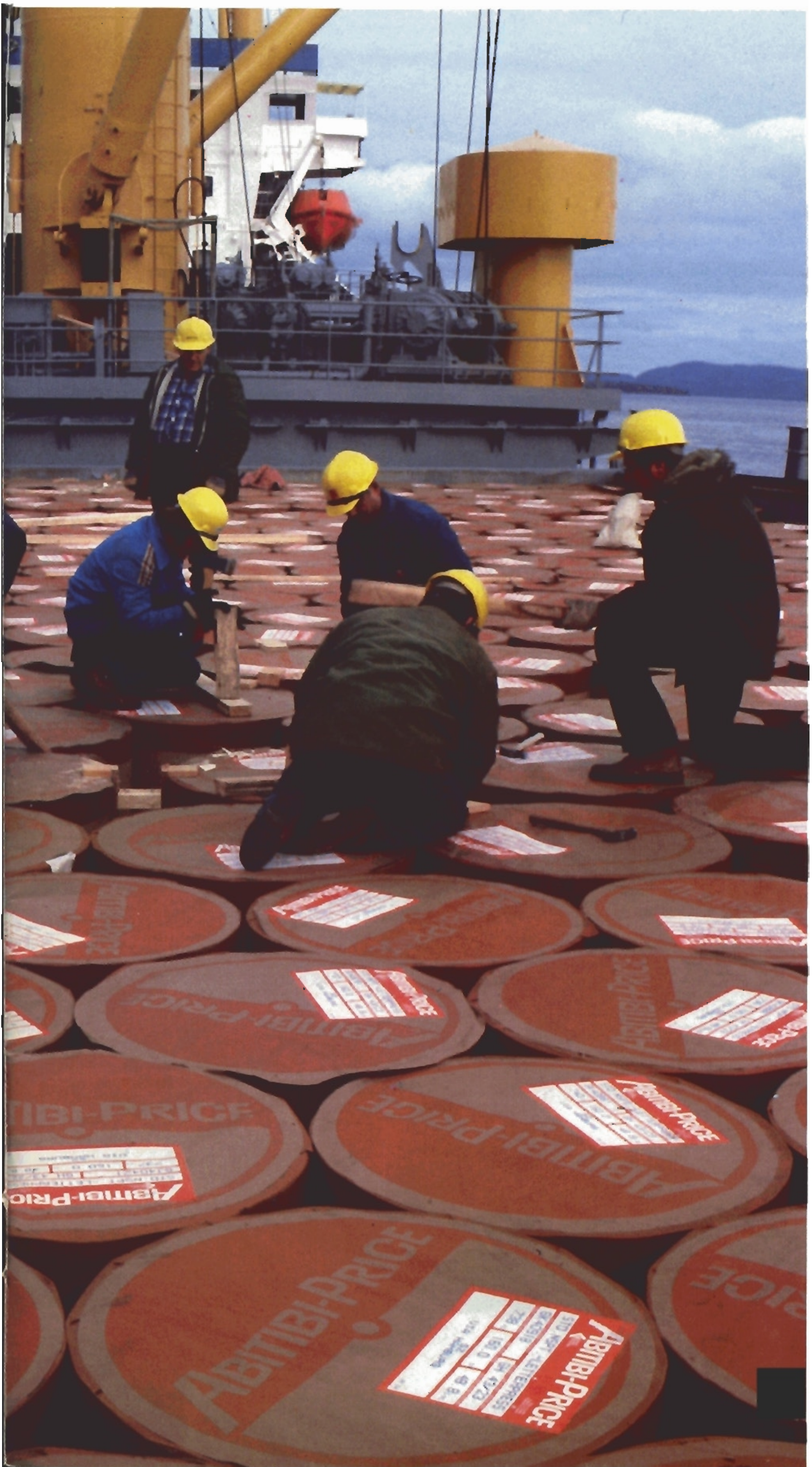
Preparing for tomorrow's markets requires investment today. In 1980, expenditures on capital improvements at the Company's newsprint mills exceeded those of 1979. In spite of the labour disruptions, progress was made on many important projects, with emphasis being placed on quality, productivity and cost improvement.

Start-up of the 140,000-metric-ton-per-year newsprint mill at Stephenville, Newfoundland, is now expected in the spring of 1981, having been delayed several months by a strike of the construction trades in that province. When completed, this will be one of the most modern newsprint plants in the world, capable of

Left Ron Roome,
Port Superintendent, Botwood

Centre Ron Wilson,
Foreman, Treating Plant, NWP, Thunder Bay

Right Dave Chown,
Assistant Manager, Woodlands, Thunder Bay



producing a very high quality product and strategically located on tidewater to serve customers around the globe.

A new sulphonated chemi-mechanical pulping plant scheduled for early 1981 start-up at our Fort William mill in Thunder Bay, Ontario, will reduce costs and improve water quality. At Grand Falls, Newfoundland, conversion of refiner mechanical pulp to thermo-mechanical pulp and of regular yield sulphite to high yield sulphite are due to be completed by early 1982 and will result in quality and environmental improvement.

At Iroquois Falls, construction has begun on a modern, twin-wire newsprint machine with an annual capacity of 170,000 metric tons, marking the beginning of a complete modernization program at this location. Start-up is projected for the third quarter of 1982, at which time four old newsprint machines will shut down.

In December, the Company announced that its 50% equity interest in a newsprint machine at DeRidder, Louisiana, would be sold to its partner as of January 1, 1981. Continued involvement in this venture did not fit our long-range objectives of maximizing return on investment. Abitibi-Price, however, retains the right to market 50% of the machine's output through 1995.

OUTLOOK: Slow recovery from the recession and significant capacity additions both in North America and overseas will likely result in reduced operations for Canadian newsprint producers in 1981. At the same time, there is evidence that U.S. per capita newsprint consumption continues to increase and we therefore expect that the full effect of the economic recession will not be felt in demand. Moreover, some of the new capacity will be offset by the closing of several European mills. On balance, we are predicting operating rates of well over 90% of our capacity. We expect our newsprint earnings to be better than in 1980, hopefully regaining record levels.

At Botwood, Newfoundland, newsprint is being loaded for shipment overseas.

Left Bill MacKenz'e
Sales Representative Toront

Centre Sharon Tone
Mill Co-ordinator Toront

Right Ken Nesbi
Director of Marketing Toront

Groundwood Papers

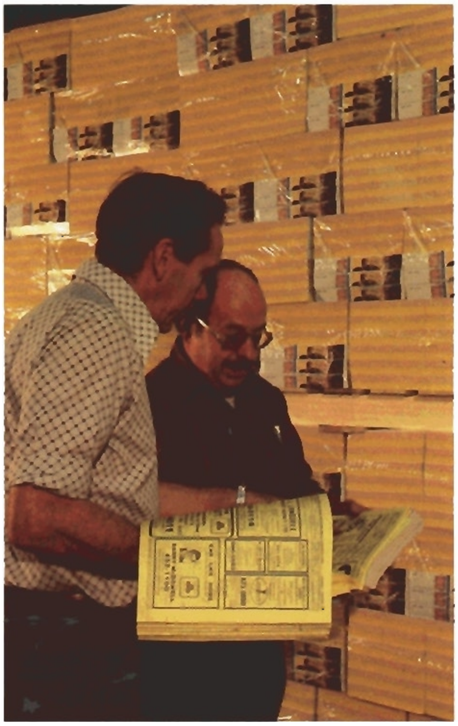
Abitibi-Price is the largest North American producer of groundwood papers, one of the fastest growing segments of the paper industry. In 1980, however, the division was unable to take advantage of this potential as labour disruptions drastically curtailed production.

The mill at Sault Ste. Marie, Ontario, was idled five weeks during the summer, while at the Kenogami mill in the Saguenay-Lac-St-Jean area of Quebec, a strike which began in mid-May was not resolved until mid-February 1981. As a result, shipments in 1980 were 220,000 short tons instead of the planned 400,000 tons and the division incurred a loss.

Meanwhile, the market remained relatively firm in spite of swings in the U.S. and Canadian economies. Directory, magazine and catalogue market segments, which consume about half of our capacity, were largely unaffected by the recession and continued to grow. Demand for inserts and business forms remained firm, but consumption for newspaper weekend supplements dropped, reflecting a reduction in newspaper circulation. Throughout 1980, the division's sales force worked closely with customers to reduce the adverse impact of strikes and to ease re-entry of our post-strike capacity.

While labour problems set back the capital program at Sault Ste. Marie, and more so at the Kenogami mill, some significant elements were completed. At Kenogami, the conversion of the final kraft paper machine to groundwood papers was accomplished in the first quarter, adding 40,000 short tons of volume and raising total Abitibi-Price groundwood papers annual capacity to 425,000 short tons. The pulp bleaching capability of Sault Ste. Marie was doubled as part of our program to increase capacity for brighter grades and upgrade product mix. At both locations, progress was made on quality and productivity related projects including computerized paper machine control, pulp refining and wood handling improvements.

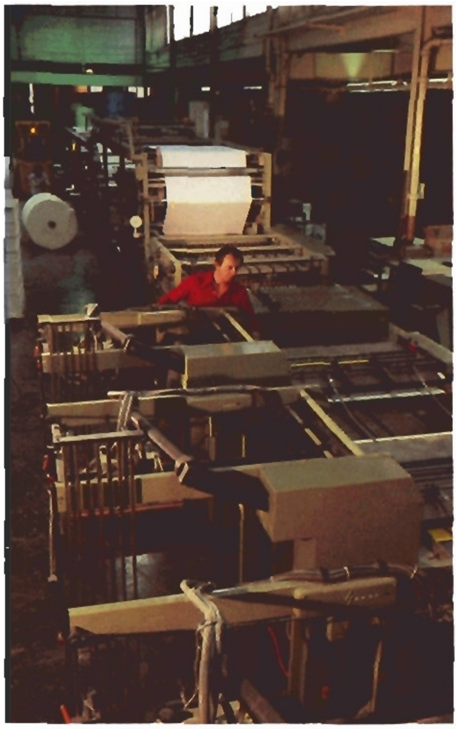
OUTLOOK: Looking to 1981 and beyond, it is expected that the Canadian industry will convert more older non-competitive newsprint machines to manufacture groundwood papers. There have also been announcements of new machines dedicated to these grades. These capacity increases reflect growing industry awareness that the groundwood papers market is an attractive growth market deserving specialized attention — something it has been receiving at Abitibi-Price for several years. In spite of the announced increases, we expect that capacity could continue to lag behind demand for the foreseeable future. Given a relatively stable labour environment in 1981, the division is anticipating a return to normal operating rates and significant improvement in profit contribution.



Abitibi-Price groundwood paper meets this printer's rigid specifications.

Projects to improve quality and productivity protect the Company's leadership in this rapidly expanding market.

Groundwood papers in familiar items: weekend supplements, advertising flyers, catalogues, magazines, telephone directories and paperback books.



Modern equipment, such as this multi-function machine, is one reason why Hilroy is recognized for quality products across Canada.

High standards of excellence govern our quality and service.

Fine Papers and Kraft Products

CONVERTING AND DISTRIBUTION

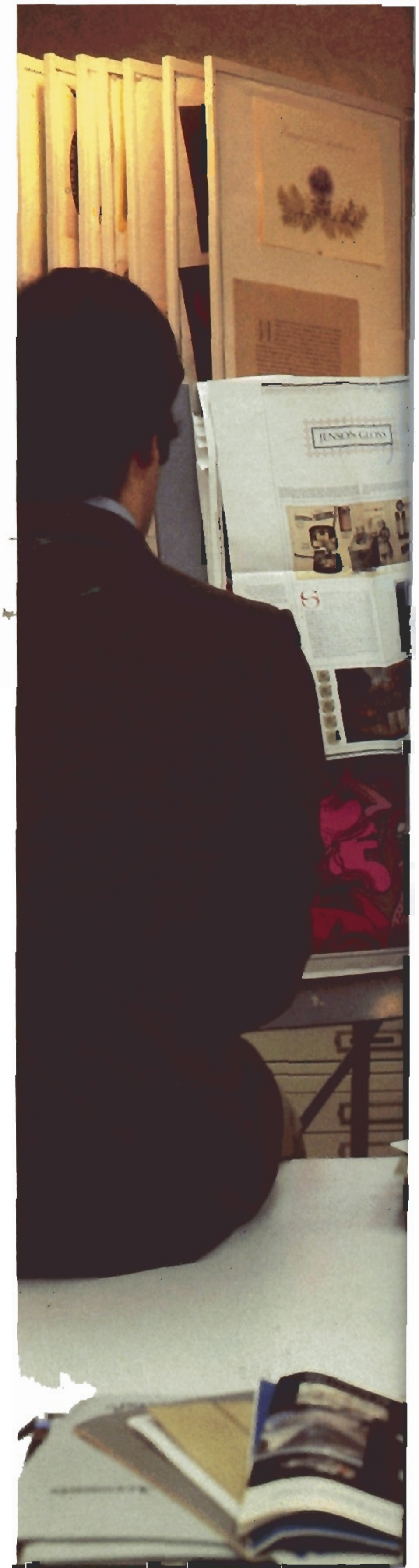
Our three converting and distribution companies performed well throughout the year and registered combined sales of $246 million, up 14% from 1979.

Inter City Papers Ltd., including its two major divisions, Lauzier, Little Inc. and Price Wilson, achieved important gains in sales and earnings. All parts of the company contributed toward maintaining its rapid growth record and strategic plans presently in place should sustain this established pattern.

Hilroy Ltd., with its major division, Papeterie Canadienne Ltée, is Canada's largest supplier of school stationery products. Although school enrollments are declining, gains were made in the non-school product areas and satisfying increases were achieved in sales and earnings. The installation in September of a $1¼ million, high-speed machine (which not only converts rolls of paper into cut sizes, but perforates, prints, punches holes and makes inserts, as required) will help Hilroy maintain its position as the lowest cost manufacturer in the industry.

Canada Envelope Company operated well in a recessionary environment in which industry volume dropped nearly 5%. Although Canada Envelope's shipments were reduced accordingly, earnings were maintained at 1979 levels due to an improved product mix. An additional web envelope machine installed in the Toronto plant is helping to maintain the low cost operation of this modern unit. Plants in Vancouver, Calgary and Montreal performed particularly well.

OUTLOOK: With continuing slow economic conditions, we expect growth in these businesses to be lower than usual, perhaps in the 5% to 10% range.



Left: Bill Smeed
Machine Tender, Thorold

Centre: Elise Lacombe
Inside Sales, Lauzier Little, Montreal

Right: Dave D[illegible]
Office Manager, Thorold

FINE PAPER MANUFACTURING

Fine paper manufacturing operations suffered a significant loss in 1980 due to a five-week strike, as well as an extensive shutdown for rebuilding of the No. 4 paper machine at Thorold, Ontario. Even without these costly but unusual disruptions, results would have been unsatisfactory since the cost of raw materials and labour rose rapidly but selling prices did not increase correspondingly despite strong market conditions and capacity operations at most mills throughout the industry.

The major capital expenditure in this division was the rebuilding of the paper machine which will yield an additional 10,000 short tons of volume at Thorold and will improve the quality of our wall coverings, label and packaging papers.

Other significant capital expenditures included major improvements to the finishing room operations at Thunder Bay, Ontario, and the completion of a water effluent treatment plant at Thorold to enable the mill to meet the strict governmental compliance schedule.

OUTLOOK Despite slow economic growth conditions, we expect our mills to operate in excess of 95% of capacity. Pulp prices are predicted to be reasonably stable and, without costly disruptions, this division will return to profitable operations.

KRAFT PRODUCTS

The strong pulp market in 1980, combined with efficient, high quality production, enabled our pulp mill at Smooth Rock Falls, Ontario, to achieve excellent results, in spite of a five-week strike and some costly maintenance downtime thereafter.

Pulp produced at our mill in Jonquière, Quebec, is used in the manufacture of paperboard at the same mill and is also pumped in slush form to our nearby Kenogami groundwood paper mill. The remaining 20,000 metric tons are dried and sold. Here, too, production was satisfactory until a strike halted operations for six months.

Paperboard production at the Jonquière mill, historically a marginally profitable business, was showing steady improvement until the strike. Since then, the market has slowed and our converter customers have had few problems obtaining their needs from other suppliers. Regaining our market position will be difficult and slow.

OUTLOOK With pulp price (the main determinant of profitability for these operations) expected to remain at current levels, the Smooth Rock Falls and Jonquière pulp mills should show year-to-year improvement. Paperboard results, however, are not likely to make a contribution until the second half. Overall, these operations should be considerably improved over 1980 and should make a respectable contribution to earnings in 1981.

Left: Bruce Sherman, [illegible] Superintendent, Roaring River
[illegible] B[illegible]
[illegible] Roaring River
[illegible] B[illegible]
[illegible] Roaring River

Dave [illegible] and Dave [illegible] building products marketing team [illegible] North Carolina retail outlet.

We're preparing now to meet increased demand for siding, panelling and mouldings in the 1980's.

Building Products

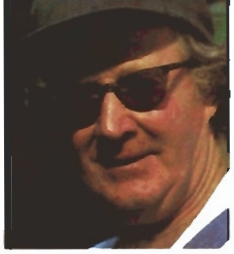
Earnings contribution from this business unit was severely depressed due to lower physical volume, less profitable product mix, competitive pressure on selling prices and cost increases.

With U.S. housing starts down 26% from 1979 to slightly under 1.3 million units, demand for hardboard siding tumbled in the second quarter and selling prices dropped by as much as 10% from prior year levels. For only the second time in its ten-year history, our siding plant at Roaring River, North Carolina, was forced to take downtime. During the second half, housing starts increased, demand improved and selling prices began to strengthen. Throughout the year, cost containment was encouraging.

In 1980, remodelling and repair expenditures in the U.S. experienced the largest decline since the 1960's, causing a drop in industry sales of all types of panelling. However, hardboard panel sales held up well at the expense of plywood which underwent some unusually sharp price increases. During the year, hardboard prices improved and we increased our market share somewhat, although product mix was weaker as customers chose a larger proportion of low and medium-priced panels.

The major item in our broad line of prefinished mouldings is AZTRA, an extruded polystyrene moulding manufactured under exclusive licence at Middlebury, Indiana. This product, which has the attributes of wood, but costs less, has been well accepted by consumers. Nonetheless, sales were not up to forecast due to retailers' reluctance to add new products to inventory during the recession. Still, during our first full year of operations we established close to 5,000 stocking dealers.

Part of our strategy to strengthen earnings is to concentrate on siding, panelling, moulding and related products. Thus, the insulating sheathing plant in Blountstown, Florida, which was not a comple-



mentary operation, was sold in mid-year.

At year-end, the $32 million project to increase hardboard siding capacity by 65% at our Roaring River plant was virtually completed, and operations started up in January 1981. A new finishing line capable of producing a broad range of prefinished siding products will also start up early in 1981, enabling us to maintain our share of this profitable market.

During the year an additional $4 million was invested at Middlebury to double AZTRA moulding capacity in preparation for the expected increased demand for this new product.

OUTLOOK In 1981, high interest rates will continue to constrain housing starts, particularly during the first quarter. U.S. housing starts for the year are forecast at about 1.4 million units, a slight improvement over 1980, while remodelling and repair expenditures are projected to increase 7%. Nevertheless, we are budgeting for a significant sales increase and a commensurate improvement in earnings in 1981, because of new product introductions that will lead to increased market penetration.

[illegible] hardboard siding plant [illegible]

[illegible] Roger [illegible] water [illegible] Roaring River plant [illegible]

Left: Paul Audet, Woodsman, Iroquois Falls
Centre: Glenn Brown, Camp Foreman, Thunder Bay
Right: Mary McBride, Forester, Iroquois Falls

Durability and attractive appearance make Outdoor Wood ideal for patios, decks, fencing, bridges and wharves.

Tomorrow's wood and paper products depend on today's forest management.

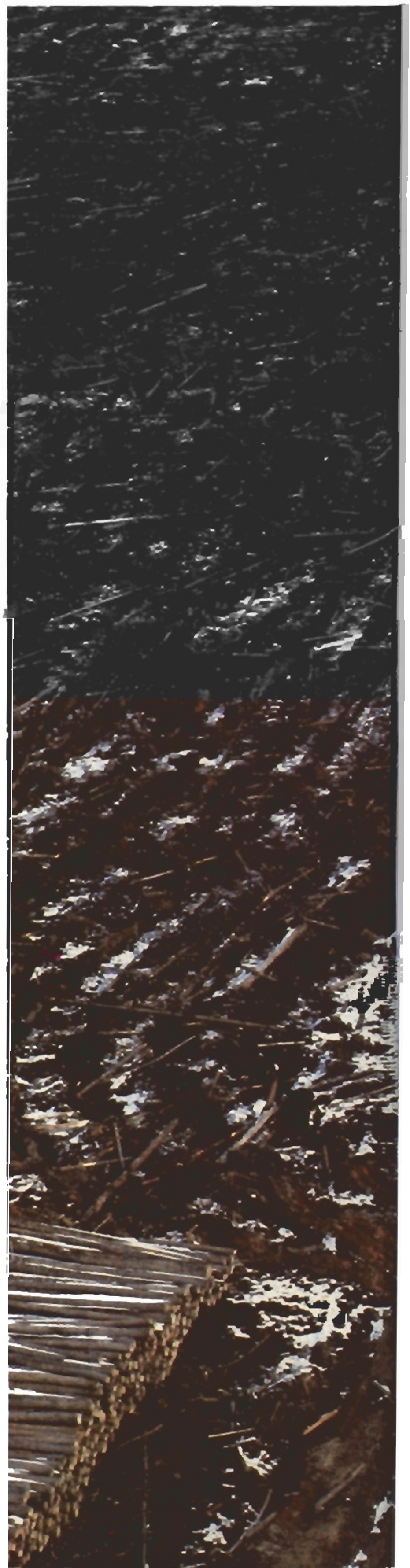
Lumber

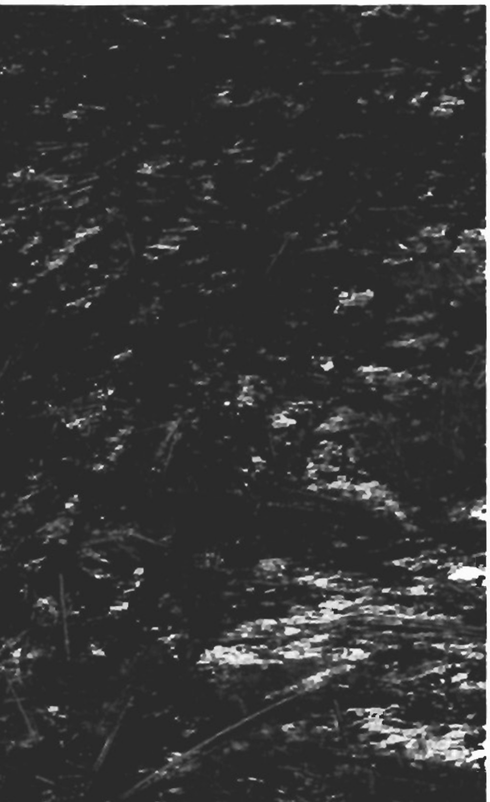
Our lumber operations were adversely affected by the North American recession and high interest rates which depressed housing and other lumber-using markets, causing lumber prices to fall. At the same time, since a major purpose of our sawmilling operations is to provide chips to our pulp and paper mills, the lengthy strike in Quebec at the Saguenay-Lac-St-Jean paper mills forced a seven-month shutdown of both our Peribonca lumber mill at L'Ascension and our Shipshaw mill at Falardeau. The Matane sawmill at Price, Quebec, closed in August for the balance of the year due to the slump in lumber markets. The combination of depressed prices and suspension of some mill operations resulted in our lumber business ending the year in a loss position.

While the mills were operating, however, productivity and efficiency were generally satisfactory and product quality continued at a high level. At our sawmill in White River, Ontario, a major improvement in operating efficiency was achieved as a result of training programs and equipment changes.

Capital expenditures this year were directed primarily towards expanding the treating facilities at Northern Wood Preservers in Thunder Bay, Ontario, so that by early 1981 pressure treated lumber capacity will be increased by 28%. This profitable product, marketed under the trade name Outdoor Wood, supplies a rapidly expanding market that has not been subjected to the extreme price fluctuations experienced by the white lumber market.

OUTLOOK: With U.S. housing starts predicted to increase to 1.4 million units in 1981, the consumption of lumber in both Canada and the U.S. is forecast to rise 10% over 1980. However, market prices are not expected to improve sufficiently to produce a profit until housing starts increase still further in 1982.




Woodlands

Abitibi-Price's wood harvesting was considerably reduced in 1980, due in part to depressed lumber markets, but mostly to strikes throughout the pulp and paper manufacturing sector of the Company. Nonetheless, harvesting costs were successfully maintained near original budgets despite the lower production.

Woodworkers in Ontario and Manitoba signed two-year contract renewals without disruption, but at Chandler, Quebec, woodland operations were struck during contract negotiations, forcing the Chandler newsprint mill to close for six weeks.

For the past few years, safety in our woodland operations has received greatly increased emphasis, including various education and inspection programs. These efforts continued to produce excellent results in 1980, with the frequency rate of lost-time accidents decreasing by 30% from the previous year. Further improvement in safety performance continues to be a major objective.

In 1980, the Company signed the first Forest Management Agreement issued by the Province of Ontario. Essentially this agreement, which pertains to the Iroquois Falls Forest, transfers responsibility for forest regeneration from the Province to the Company and provides for an equitable reallocation of costs between the parties. Other agreements are currently being negotiated and in due course all our cutting licences in Ontario will be converted to Forest Management Agreements. In Manitoba, where a similar arrangement was made in 1979, a long-term forest renewal plan has been developed and major silvicultural activities are now in progress.

On our freehold lands in both Ontario and Newfoundland, silvicultural programs involving planting, site preparation and pre-commercial thinning were continued during the year.

Regeneration programs on freehold land and areas covered by Forest Management Agreements are designed to ensure a continuing supply of fibre for Company operations. However fire and insect losses can have a significant effect on supply.

This year, major forest fires in Ontario and Manitoba severely damaged Abitibi-Price timber limits. North of Thunder Bay, Ontario, the worst fire in Company history spread over 264 000 acres of our limits, destroying an estimated 2½ million cunits of standing timber, which represents about seven years' fibre supply for the Company's Lakehead mills. Fortunately, although cutting plans will be radically changed and wood costs increased, this will not result in a wood supply shortfall.

In Newfoundland, the spruce budworm attack continues at an accelerating rate, threatening the forest base with serious devastation. In 1980, the Province did not permit spraying for budworm control, but appointed a Royal Commission to investigate all aspects of forest protection and management. The Commission's recommendations, expected early in 1981, will be of critical importance to the future wood supply of our Newfoundland mills.

[illegible] David Barbour
[illegible] Buchans

[illegible] Joe Parsons
[illegible] Driller, Buchans

Right: Ian Mott [illegible]
[illegible] Research [illegible] Sheridan Park

[illegible] resident geologist [illegible]
[illegible] Buchans [illegible]

Expanding exploration activities will lead to increased mineral development.

Mineral Resources

Earnings from mining activities were greater than expected since strong metal prices during 1980 offset lower production volumes at the Mattabi mine near Ignace, Ontario, and the Buchans mine in central Newfoundland.

The Mattabi mine, in which the Company has 40% equity, milled 842,000 tons of ore containing 7.44% zinc, 0.40% copper, 0.90% lead and 3.14 ounces of silver per ton. Production will decline further to 1,000 tons per day during 1981, but additional ore reserves of 1.7 million tons delineated during 1980 will permit a return to production of 2,000 tons of ore per day during 1984.

The Buchans mine (51% owned), treated 83,000 tons of ore which graded 9.38% zinc, 0.85% copper, 5.42% lead and 2.99 ounces of silver per ton. New mineralization in excess of 250,000 tons was delineated in the deepest part of the mine, and feasibility of extraction is being studied while exploration continues. At Buchans, construction is in progress on a $2.9 million project to produce barite (a major component of drilling mud for the oil industry) from accumulated mine tailings. Production, expected from mid-1981, will supply the offshore Newfoundland market.

Exploration expenditures, principally on the Company's mineral holdings in Ontario and Newfoundland, exceeded $3 million in 1980. Additional exploration on our land was carried out in joint ventures with other companies.

At our wholly-owned prospect in Lucas Township, Ontario, drilling has outlined mineralization of at least 250,000 tons at 0.12 ounces of gold per ton. Drilling on this property is continuing.

OUTLOOK: Sharply lower earnings from mining are anticipated in 1981 because Mattabi will mill a reduced tonnage and lower grade of ore derived from underground instead of the more cheaply mined open pit, and the Buchans mill will continue to experience a shortage of available ore.

Research and Development

Chemi-mechanical pulps continue to be the highlight of our R & D activities. Early in the year, installation of Abitibi-Price's new thermo-chemi-mechanical process was completed at Kenogami, successfully replacing an obsolete groundwood mill and an environmentally unacceptable sulphite mill with an ultra-modern facility. Research into other types of ultra-high-yield processes has produced still more alternatives to make our mills more compatible with the environment and to provide improved working conditions and better product quality.

Because the market for high brightness groundwood papers continues to expand, additional R & D efforts are aimed at improving pulp brightness and bleachability of mechanical and chemi-mechanical pulps for these grades.

Experiments with the pilot coater and dryer at our Sheridan Park research facility led to the use of new coating materials and techniques in our fine paper mills, and resulted in energy savings and improved coating machine productivity.

In all our mills, we are making increasing use of sophisticated electronic equipment to study high speed phenomena on paper machines and other processes.

In the complex area of papermaking chemistry, one of our research teams has found improved ways to control retention of fine particles in paper, with significant improvements in key paper qualities, such as opacity and printability.

Since most Abitibi-Price papers are ultimately printed, continuing analysis of paper-ink-press relationships on new printing presses is an important part of our R & D program, assisting us in tailoring our products to the requirements of emerging printing techniques.

A magnetometer survey conducted by Dave Barbour (r.), geologist, and Morton Verbiski, senior geophysical technician, provides clues to rock characteristics

At Sheridan Park Research Centre, our own printing press helps us to test and improve paper quality

Research teams work to improve product quality for customers today...and tomorrow.

Shareholder Information

Common Share Market Information

Common shares are listed on the Montreal, Toronto and Vancouver stock exchanges. The following table sets forth the market price range, based on daily closing prices, and aggregate volume of common shares traded on the Montreal and Toronto stock exchanges for the periods indicated.

Period		High	Low	Volume (000's)	Dividends Paid
1979	First Quarter	$19¾	$17⅜	1,947	$0.40
	Second Quarter	19	17	1,862	0.35
	Third Quarter	21¼	17½	2,348	0.35
	Fourth Quarter	20½	16⅞	1,435	0.40
1980	**First Quarter**	**24½**	**18**	**2,886**	**0.40**
	Second Quarter	**19⅞**	**17⅝**	**1,530**	**0.40**
	Third Quarter	**24¼**	**18⅝**	**3,049**	**0.40**
	Fourth Quarter	**26¾**	**21⅞**	**1,922**	**0.40**

Valuation Day (December 22, 1971) share prices:
Common . . . . $ 7.25
7½% Cumulative Redeemable Preferred, Series A . $49.50

Distribution of Common Shares
December 31,1980

	Shareholders No.	Shareholders %	Shares (000's) No.	Shares %
Canada	16,815	91.86	17,648	93.81
U.S.A.	1,317	7.20	1,023	5.44
Other	172	0.94	141	0.75
Total	18,304	100.00	18,812	100.00

Dividend Option Plan

The Company has instituted a dividend option plan under which shareholders may choose to receive their dividends in cash, common shares of the Company or Class A shares of the Company. The purpose of the plan is to enable shareholders to receive their dividends in the form which best suits their investment and tax objectives. Details are available from the Secretary.

HEAD OFFICE

Abitibi-Price Inc.
Toronto-Dominion Centre
Toronto, Canada
M5K 1B3

TRANSFER AGENTS AND REGISTRARS

Montreal Trust Company
Toronto, Montreal, Vancouver,
Calgary, Regina, Winnipeg
and Halifax,
Canada

Citibank N.A.
New York, U.S.A.

AUDITORS

Price Waterhouse & Co.
Toronto, Canada

FINANCIAL SECTION

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Financial Review

1980 sales of $1,364.7 million were down 7% from the preceding year's $1,470.9 million and earnings before extraordinary items were $83.8 million or $3.94 per common share, compared with $114.1 million or $5.62 per share in 1979. Including extraordinary items, 1980 net earnings were $90.6 million as against $115.1 million the previous year. The decline in both sales and earnings was attributable to the strikes at the Company's mills during 1980.

Excluding extraordinary items, the rate of return on average capital employed during the year was 9.9% compared with 14.3% in 1979, while the return on average common shareholders' equity was 16.3% as against 27.1% the preceding year.

Common share dividends declared in 1980 amounted to $1.60 per share compared with the previous record dividend rate of $1.50 set in 1979.

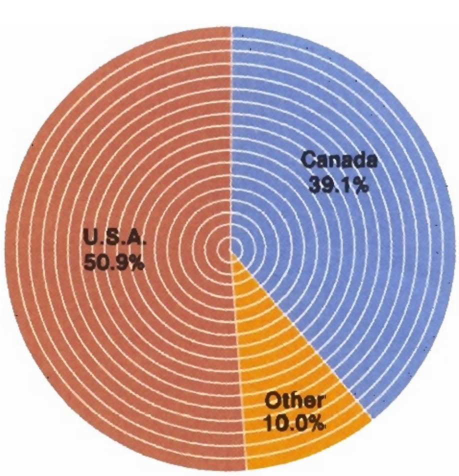
While corporate tax rates increased in 1980 as a result of the introduction of the 5% federal income tax surcharge and increases of one percentage point in the rates charged by the provinces of Quebec and Newfoundland, the effective rate of income taxes charged against the Company's 1980 earnings declined significantly because of the effect of tax benefits resulting from federal investment tax credits.

At the beginning of January 1981, the Company completed the sale of its 50% equity interest in Boise-Price Southern Newsprint Corporation for U.S. $15 million, which had been negotiated in the latter part of 1980. The resulting $6.8 million gain is reflected as an extraordinary item in 1980 earnings.

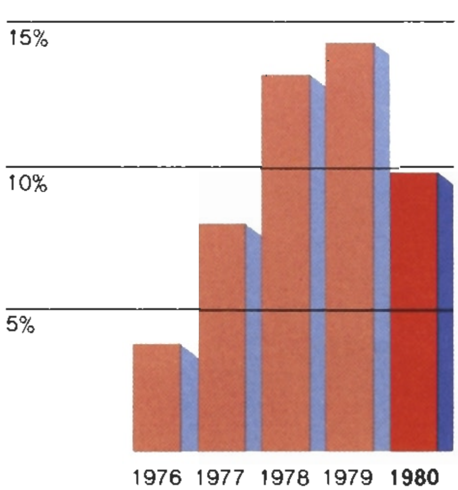
Since the Canadian dollar was freed from the pegged rate of U.S. $.9250 effective June 1, 1970, it has fluctuated between an annual average high of U.S $1.0225 in 1974 and an annual average low of U.S. $.8536 in 1979. In 1980 it averaged U.S. $.8554. While there is no reason to assume that parity is or should be the normal relationship between the Canadian and the U.S. dollar, if parity is used as a basis, the premium on the U.S. dollar contributed approximately $45 million or 53% of 1980 earnings before extraordinary items, as against $54 million or 47% in 1979. Apart from the effect of translating certain balance sheet items, it is estimated that each one cent change in the U.S. exchange rate over a full year's operations would affect earnings by approximately 20¢ per common share.

Including the portion financed with federal and provincial government grants of $35.3 million, capital additions during the year aggregated $216.5 million, compared with $148.1 million in 1979. In spite of the higher level of capital expenditures and the nega-

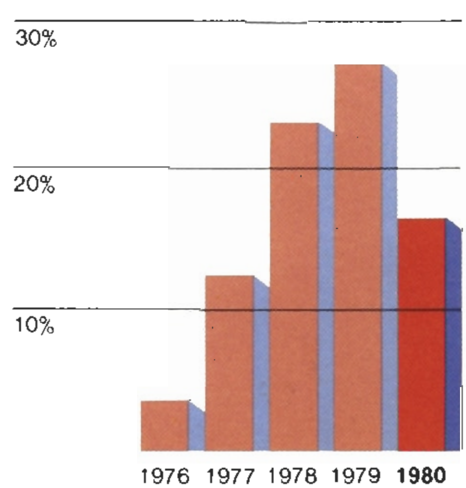
Net Sales by Market 1980



Return on Average Capital Employed (%)



Return on Average Common Shareholders' Equity (%)



tive effect of the mill strikes on funds from operations, the Company's working capital position improved from $339.1 million at the end of 1979 to $414.3 million at the end of 1980, reflecting the receipt in February of the $122.4 million balance of a 10.15% U.S. $135 million debenture issue which was negotiated with a group of private lenders in 1979.

In January 1981, the Company entered into an agreement for the issue on February 17 of two million $2.17 Convertible Preferred Shares Series E at a price of $25 per share. The net proceeds of approximately $48 million, after estimated issue expenses, will be used in financing the Company's ongoing capital expenditures program.

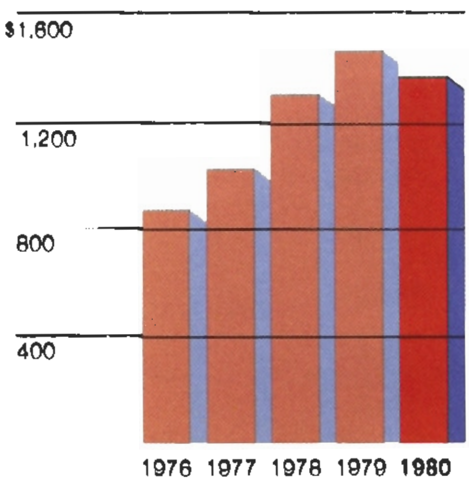
Net Sales by Product
(thousands of dollars)

	1980	1979
Newsprint	**$ 670,178**	$ 676,680
Groundwood papers	**106,051**	152,069
Fine papers, including converting and distribution operations	**366,284**	332,938
Kraft products	**45,782**	53,855
Packaging	**—**	33,468
Total Pulp and Paper	**1,188,295**	1,249,010
Building products	**111,345**	119,751
Lumber	**65,055**	102,149
Total Building Products and Lumber	**176,400**	221,900
Total All Products	**$1,364,695**	$1,470,910

Net Sales and Earnings by Quarter
(thousands of dollars)

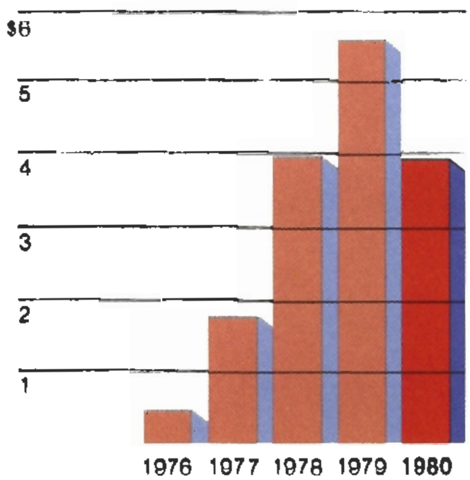
*before extraordinary items	Net Sales 1980	Net Sales 1979	Earnings* 1980	Earnings* 1979
1st quarter	**$ 386,650**	$ 354,010	**$ 34,614**	$ 21,996
2nd quarter	**389,644**	374,851	**27,563**	33,269
3rd quarter	**261,533**	368,090	**647**	27,253
4th quarter	**326,868**	373,959	**20,929**	31,586
	$1,364,695	$1,470,910	**$83,753**	$114,104

Net Sales
(millions of dollars)

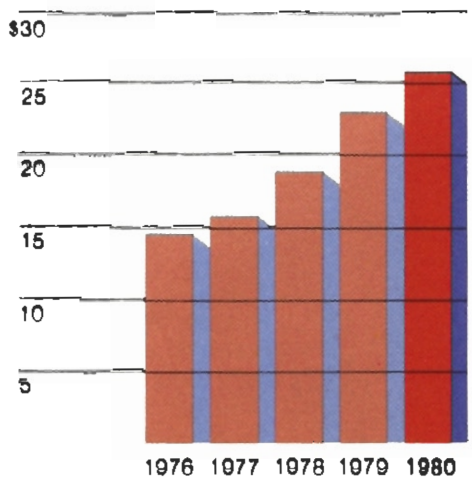


Earnings per Common Share*
(dollars)

*before extraordinary items



Book Value per Common Share
(dollars)



Consolidated Net Earnings
(thousands of dollars)

	Year Ended December 31 1980	1979
Net sales	**$1,364,695**	$1,470,910
Mining income (loss)	**(2,349)**	2,368
Foreign exchange loss	**(3,057)**	(3,027)
Interest and other income	**29,493**	12,245
	1,388,782	1,482,496
Cost of sales	**1,079,542**	1,138,379
Selling, administrative and research expenses	**98,832**	93,433
Depreciation and depletion	**53,104**	49,441
Interest and expense on long-term debt	**34,807**	22,678
Other interest	**307**	795
Income taxes	**40,680**	68,046
	1,307,272	1,372,772
	81,510	109,724
Interest in earnings of companies accounted for on the equity basis —		
Mattabi Mines Limited	**6,649**	8,723
Other	**347**	1,363
	88,506	119,810
Minority shareholders' interest	**4,753**	5,706
Earnings before extraordinary items	**83,753**	114,104
Extraordinary items (note 3)	**6,854**	1,014
Net earnings	**$ 90,607**	$ 115,118
Per Common Share:		
Earnings before extraordinary items	**$ 3.94**	$ 5.62
Net earnings	**4.30**	5.67

Consolidated Retained Earnings
(thousands of dollars)

	Year Ended December 31 1980	1979
Retained earnings at beginning of year	**$ 371,494**	$ 293,562
Net earnings	**90,607**	115,118
Gain by The Price Company Limited on preferred shares purchased for cancellation	**460**	—
	462,561	408,680
Dividends declared —		
Preferred Shares	**9,840**	9,147
Common Shares (note 7)	**30,065**	28,039
Retained earnings at end of year	**$ 422,656**	$ 371,494

Changes in Consolidated Financial Position
(thousands of dollars)

	Year Ended December 31 1980	1979
Financial Resources Provided By:		
Earnings before extraordinary items	**$ 83,753**	$114,104
Depreciation and depletion	**53,104**	49,441
Deferred income taxes	**14,619**	4,085
Equity interests —		
Earnings	**(6,996)**	(10,086)
Dividends received	**6,015**	10,012
Minority shareholders' interest	**4,753**	5,706
Reduction in deferred income	**(2,941)**	(1,061)
Other — net	**(167)**	(616)
Funds from operations	**152,140**	171,585
Extraordinary items —		
Sale of equity interest	**17,828**	—
Sale of operating units, net of working capital	**—**	22,941
Deferred income	**16,842**	35,318
Issue of long-term debt	**147,832**	14,702
Substitution of obligations —		
Issue of preferred shares	**—**	102,500
Redemption of preferred shares of a subsidiary company	**—**	(75,000)
Redemption of convertible promissory notes	**—**	(27,500)
Government grants toward long-range capital expenditures program	**35,322**	—
Disposals of fixed assets	**6,674**	3,878
Issue of common shares	**563**	—
	377,201	248,424
Financial Resources Used For:		
Additions to fixed assets	**216,517**	148,100
Reduction of long-term debt net of unrealized exchange loss	**28,914**	15,347
Discount and expense on issue of long-term debt	**258**	689
Dividends —		
Preferred and common shareholders	**39,905**	37,186
Minority shareholders of subsidiary companies	**9,917**	2,109
Retirement of preferred shares —		
Abitibi-Price Inc.	**3,042**	2,208
The Price Company Limited	**537**	—
Acquisition of common shares of The Price Company Limited	**182**	2,032
Other items — net	**2,744**	2,305
	302,016	209,976
Increase in Working Capital	**75,185**	38,448
Working Capital at Beginning of Year	**339,121**	300,673
Working Capital at End of Year	**$414,306**	$339,121

Consolidated Balance Sheet
(thousands of dollars)

ASSETS	December 31 1980	1979
Current Assets:		
Cash and short-term investments	$ 129,536	$ 76,454
Accounts receivable	201,255	217,309
Income taxes recoverable	11,604	—
Inventories (note 4)	268,602	229,223
Prepaid expenses	9,770	7,595
	620,767	530,581
Fixed Assets (note 8):		
Properties, plant and equipment	1,120,646	959,576
Logging equipment and development	77,863	67,201
Woodlands and mineral and water power rights	38,919	42,413
	1,237,428	1,069,190
Less — accumulated depreciation and depletion	527,049	480,488
	710,379	588,702
Other Assets:		
Equity interests —		
Mattabi Mines Limited	12,833	12,184
Other companies (note 3)	881	9,196
Receivables not currently due	5,162	2,920
Investments, at cost	3,746	4,138
Cost of shares of acquired companies in excess of values attributed to underlying net assets, less accumulated amortization	19,981	20,031
Unamortized discount and expense on long-term debt	1,968	1,902
Unrealized loss on translation of long-term debt payable in U.S. funds (note 1(b))	18,061	14,045
	62,632	64,416
	$1,393,778	$1,183,699

The financial statements have been approved by the Board:

T. J. Bell, Director

R. C. Gimlin, Director

LIABILITIES	December 31 1980	1979
Current Liabilities:		
Bank indebtedness	$ —	$ 5,534
Accounts payable and accrued liabilities	**173,208**	153,257
Income and other taxes payable	**11,024**	15,750
Dividends payable (note 7)	**8,952**	8,916
Long-term debt due within one year (note 5)	**13,277**	8,003
	206,461	191,460
Deferred Income (note 6)	**71,513**	57,612
Long-Term Debt (note 5)	**360,660**	237,726
Deferred Income Taxes	**119,103**	103,117
Minority Shareholders' Interest	**18,076**	24,465

SHAREHOLDERS' EQUITY		
Stated Capital (notes 7 and 12):		
Preferred Shares —		
Series A — 166,100 shares (1979 — 169,990 shares)	**8,305**	8,499
Series B — 582,300 shares (1979 — 640,000 shares)	**29,115**	32,000
Series C — 1,500,000 shares	**75,000**	75,000
Series D — 550,000 shares	**27,500**	27,500
Class A Shares	—	—
Common Shares — 18,811,908 shares (1979 — 18,701,030 shares)	**55,389**	54,826
Retained Earnings	**422,656**	371,494
	617,965	569,319
	$1,393,778	$1,183,699

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) PRINCIPLES OF CONSOLIDATION

The financial statements consolidate the accounts of Abitibi-Price Inc. and all companies in which it holds more than a 50% interest. Investments in companies in which Abitibi-Price holds a major interest, but not more than 50%, are included in the financial statements in accordance with the equity method of accounting.

The cost of shares of acquired companies in excess of values attributed to underlying net assets is recorded as an asset on the balance sheet. The excess for companies acquired prior to 1974 is not being amortized, while the excess in respect of subsequent acquisitions is amortized on a straight-line basis over an appropriate period not in excess of 40 years.

(b) TRANSLATION OF FOREIGN CURRENCIES

Balances and transactions in foreign currencies are translated into Canadian dollars as follows:

Fixed assets, investments and deferred income taxes — at historical rates of exchange;

Other assets and liabilities — at rates in effect at December 31;

Transactions included in net earnings — at rates prevailing during the year, except depreciation and depletion which are on the same basis as the related fixed assets.

The unrealized gain or loss on translation of long-term debt payable in United States funds is deferred on the balance sheet. The amount of such gain or loss ultimately realized is dependent on the exchange rate in effect when the debt is retired.

Foreign exchange gains or losses, which result from changes in exchange rates between the dates when transactions affecting earnings occur and the dates when foreign currencies are converted to Canadian funds or foreign currency working capital items are translated to their Canadian funds equivalent, are disclosed separately on the earnings statement.

(c) INVENTORIES

Inventories of finished products, work in process and materials and operating supplies are valued at the lower of average cost and net realizable value. Inventories of pulpwood and sawlogs are valued at average cost.

(d) FIXED ASSETS AND DEPRECIATION

Fixed assets are recorded at cost and depreciation is provided at rates considered adequate to amortize the cost over the productive lives of the assets. The principal asset category is primary production equipment which is depreciated over 20 years on a straight-line basis. Timber limits are depleted on the unit-of-production basis to the extent of amounts allowable for income tax purposes.

(e) DISCOUNT AND EXPENSE ON LONG-TERM DEBT

Discount and expense on long-term debt is amortized over the terms of the related obligations.

(f) PENSION COSTS

Current service pension costs are charged to earnings and funded as they accrue. Past service costs are charged to earnings and funded at rates which, based on independent actuarial estimates, will fully provide for the obligations over periods not longer than those permitted by the various regulatory bodies.

(g) INCOME TAXES

Earnings are charged with income taxes relating to reported profits. Differences between such taxes and taxes currently payable, which result from timing differences between the recognition of income and expenses for accounting and for tax purposes, are reflected as deferred income taxes in the financial statements.

When losses are incurred, no provision is made for the related tax benefit unless recovery is virtually certain. When tax benefits not previously recognized are realized, they are included in earnings as an extraordinary item.

Investment tax credits are accounted for using the "flow-through" method which recognizes the tax benefit in the year in which the eligible capital expenditures are made, except for the deferment of the tax benefit applicable to the Stephenville newsprint mill conversion as described in note 6.

(h) EARNINGS PER COMMON SHARE

Earnings per common share calculations are based on the average number of shares outstanding during the year and are computed after allowing for dividends on preferred shares.

2. Segmented Information ($ millions)

BUSINESS SEGMENTS	Pulp and Paper		Building Products and Lumber		Mining		Consolidated	
	1980	1979	**1980**	1979	**1980**	1979	**1980**	1979
Net sales	**$1,188**	$1,249	**$ 177**	$ 222			**$1,365**	$1,471
Operating profit (loss) before depreciation and depletion	**$ 224**	$ 255	**$ (2)**	$ 17	**$ (2)**	$ 2	**$ 220**	$ 274
Depreciation and depletion	**(41)**	(37)	**(12)**	(12)	**—**	—	**(53)**	(49)
Equity earnings — net of taxes	**—**	1	**—**	—	**6**	9	**6**	10
Operating profit	**$ 183**	$ 219	**$ (14)**	$ 5	**$ 4**	$ 11	**$ 173**	$ 235
Foreign exchange loss							**(3)**	(3)
Interest and other income							**30**	12
General corporate expenses							**(35)**	(33)
Interest and long-term debt expense							**(35)**	(23)
Income taxes							**(41)**	(68)
Minority shareholders' interest							**(5)**	(6)
Earnings before extraordinary items							**$ 84**	$ 114
Identifiable assets	**$ 935**	$ 852	**$ 241**	$ 192	**$ 19**	$ 18	**$1,195**	$1,062
General corporate assets							**199**	122
Total assets							**$1,394**	$1,184
Additions to fixed assets	**$ 172**	$ 120	**$ 45**	$ 28			**$ 217**	$ 148

Note: The directors of the Company have determined the foregoing segments as appropriately reflecting the classes of business in which the Company is involved.

GEOGRAPHIC SEGMENTS	Canada		U.S.A.		Consolidated	
	1980	1979	**1980**	1979	**1980**	1979
Net sales	**$1,153**	$1,270	**$ 212**	$ 201	**$1,365**	$1,471
Operating profit	**$ 166**	$ 226	**$ 7**	$ 9	**$ 173**	$ 235
Identifiable assets	**$ 999**	$ 919	**$ 196**	$ 143	**$1,195**	$1,062
General corporate assets					**199**	122
Total assets					**$1,394**	$1,184

Note: (1) Geographic segments reflect the location of the Company's production facilities.
(2) Canadian operations include sales to the U.S. market of $483 million (1979 — $573 million) and other export sales of $136 million (1979 — $135 million).

3. Extraordinary Items

	1980	1979
Gain on sale of equity interest, net of income tax provision of $2,300,000*	$6,854,000	$ —
Gain on sale of Price-Skeena Forest Products Ltd. completed in January 1980, net of income tax provision of $933,000	—	4,459,000
Loss on sale of assets and business of the Company's Canadian building products and packaging operations, net of income tax provision of $1,000,000	—	(1,300,000)
Provision for net loss relating to the sale or planned shutdown of three small U.S. building products plants, net of income taxes of $2,942,000	—	(2,145,000)
	$6,854,000	$1,014,000

*In accordance with an agreement dated December 19, 1980, the Company completed in January 1981 the sale of its 50% equity interest in Boise-Price Southern Newsprint Corporation to the other shareholder, Boise Southern Company, for U.S. $15,000,000. Abitibi-Price is to continue to purchase and market one-half of the output of Boise-Price's newsprint machine until 1995, subject to the Company's right to reduce its obligation upon two years' notice.

4. Inventories

	1980	1979
Finished products and work in process	$ 67,153,000	$ 61,476,000
Pulpwood, sawlogs and expenditures on current logging operations	132,022,000	108,969,000
Materials and operating supplies	69,427,000	58,778,000
	$268,602,000	$229,223,000

5. Long-Term Debt

	1980	1979
Abitibi-Price Inc.:		
Sinking Fund Debentures —		
5¼% Series A, maturing 1985	$ 10,088,000	$ 10,820,000
7¼% Series B, maturing 1987	7,422,000	8,168,000
9¾% Series D, maturing 1990	9,660,000	10,399,000
10½% Series E, maturing 1995	38,850,000	40,950,000
11% Series F, maturing 1995	12,521,000	13,180,000
11⅜% Series G, maturing 1995	71,628,000	69,996,000
10.15% Series H, maturing 2000	161,163,000	14,758,000
Abitibi-Price Corporation and subsidiary companies:		
Revolving Bank Credit bearing interest at lender's prime rate	—	9,333,000
6½% Industrial Revenue Bonds, maturing 1992	5,730,000	—
Instalment Note bearing interest at ⅝% above lender's prime rate, maturing 1981	895,000	1,750,000
5⅛% Instalment Notes, maturing 1984	5,492,000	6,183,000
5½% Instalment Note, maturing 1986	7,163,000	8,166,000
7⅜% Instalment Notes, maturing 1988	11,938,000	12,833,000
5¼% Instalment Note, maturing 1991	—	3,054,000
Other notes	1,074,000	2,251,000
The Price Company Limited and subsidiary companies:		
Sinking Fund Debentures —		
5¾% Series A, maturing 1982	3,870,000	5,800,000
6¾% Series B, maturing 1987	15,700,000	15,700,000
5½% Sinking Fund Notes, maturing 1985	6,649,000	7,793,000
6% Sinking Fund Notes, maturing 1986	3,247,000	3,733,000
Other indebtedness	847,000	862,000
	373,937,000	245,729,000
Less: Amount due within one year	13,277,000	8,003,000
	$360,660,000	$237,726,000

Long-term debt payable in U.S. dollars included above aggregated U.S. $238,790,000 at December 31, 1980 (1979 — U.S. $129,153,000).

Sinking fund and instalment payment obligations for 1981 amount to $17,687,000, of which $4,410,000 has been discharged by prior purchase and retirement. Principal repayment obligations for the years 1982 to 1985 are estimated to be $16,972,000, $16,446,000, $19,589,000 and $54,614,000, respectively. The holders of the Series E Debentures have the right to elect prepayment on March 1, 1985.

Abitibi-Price Inc. has effectively guaranteed payment of certain outstanding long-term debt of Abitibi-Price Corporation and subsidiary companies amounting to U.S. $15,350,000 at December 31, 1980. As security for its guarantee of the 7⅜% Instalment Notes, of which U.S. $10,000,000 were outstanding at December 31, 1980, Abitibi-Price Inc. issued and pledged 7⅝% Series C Debentures in the authorized principal amount of U.S. $17,000,000.

6. Deferred Income

With the purchase of Labrador Linerboard Limited from the Province of Newfoundland in 1978, Abitibi-Price acquired approximately $205,000,000 of unused capital cost allowances which exceeded the $40,900,000 of the purchase price allocated to the cost of the Stephenville mill assets by $164,100,000. The tax benefits realized on this excess and on the investment tax credits resulting from subsequent capital expenditures to convert the linerboard mill to a newsprint mill are treated as deferred income, to be used to offset preproduction and start-up costs, with the balance to be transferred to earnings over the productive life of the new newsprint mill.

7. Stated Capital

The Company is governed by the Canada Business Corporations Act and is authorized to issue an unlimited number of Preferred Shares, Common Shares and Class A Shares.

7½% CUMULATIVE REDEEMABLE PREFERRED SHARES SERIES A —

The Series A shares, which were issued at $50 per share, are redeemable at $52 per share on or before May 31, 1983 and at $51 per share thereafter. During 1980, 3,890 shares with a book value of $194,000 were purchased at a cost of $156,000 and cancelled (1979 — 4,300 shares with a book value of $215,000 at a cost of $208,000).

10% CUMULATIVE REDEEMABLE PREFERRED SHARES SERIES B —

The Series B shares, which were issued at $50 per share, are required to be redeemed at $50 per share through the operation of a cumulative sinking fund at the rate of 40,000 shares annually. The shares are otherwise redeemable at $52.50 per share after June 14, 1980 to and including June 15, 1981, at prices declining annually from that date to and including June 15, 1985 and at $50 per share thereafter. Under the sinking fund provisions, 40,000 shares with a book value of $2,000,000 were redeemed and cancelled in each of the years 1980 and 1979, and during 1980 an additional 17,700 shares with a book value of $885,000 were purchased at a cost of $886,000 and cancelled.

FLOATING RATE PREFERRED SHARES SERIES C —

The Series C shares, which were issued at $50 per share, are redeemable by the Company at $50 per share after January 1, 1981 and they are retractable at the option of the holders at $50 per share on January 1, 1990. The shares provide for a dividend payable at a floating rate of one-half the average prime rate of the five largest Canadian chartered banks plus 1%, with a maximum dividend rate of 9% per annum.

PREFERRED SHARES SERIES D —

The Series D shares were issued at $50 per share and one quarter of the shares originally issued are required to be redeemed at $50 per share on December 31 in each of the four years 1981 to 1984. No dividend is payable in respect of these shares.

COMMON SHARES AND CLASS A SHARES —

	Number of Common Shares	Thousands of dollars
Outstanding at December 31, 1979	18,701,030	$ 54,826
Issued during 1980 —		
Under stock dividend elections by Common shareholders	28,355	562
Under the Key Employees' Stock Option Plan	82,523	1
Outstanding at December 31, 1980	18,811,908	$ 55,389

The directors are permitted to give Common shareholders the right to elect to receive all or part of any dividends in the form of stock dividends of either Common Shares or Class A Shares in lieu of cash dividends. Stock dividends payable in the form of Common Shares shall comprise the number of Common Shares which has a value, as determined by the board of directors, that is substantially equal to the cash dividend otherwise payable, with cash to be paid for any fractional share interest. Stock dividends payable in the form of Class A Shares shall have a value per share equal to the cash dividend declared at the time and shall be redeemed by the Company within 15 days of issue.

Under elections made by Common shareholders relating to dividends paid during 1980, the Company issued 28,355 Common Shares with a value of $562,000 and Class A Shares with a value of $315,000. The Class A Shares were redeemed on issue.

Under elections made by Common shareholders relating to the December 15, 1980 dividend declaration of 40¢ per share, the Company is committed on February 1, 1981 to issue 6,148 Common Shares with a value of $150,000 and Class A Shares with a value of $81,000. The Class A Shares are to be redeemed on issue at 40¢ per share.

Under the Key Employees' Stock Option Plan, 82,523 Common Shares were issued during 1980 and at the end of the year options were outstanding on 327,297 shares at prices equal to market value at date of grant, ranging from $9.9375 to $18.5625 per share. Options are for terms of up to ten years and are exercisable mostly in instalments upon fulfillment of service conditions. A market growth formula is used in determining the number of shares to be issued when an option is exercised. The number of shares to be issued pursuant to the market growth formula is determined by multiplying the number of shares subject to the exercise of an option by the increase in the market value per share from date of grant to date of exercise and then dividing such multiple by the market value per share on date of exercise. Shares to this number are issued to the optionee in consideration of his relinquishing his right to the remaining shares under the option and the payment of one cent per share issued.

8. Government Grants

During 1980, fixed assets were credited with grants of $15,000,000 received in connection with the conversion of the Stephenville mill and $20,322,000 received under government programs designed to assist the pulp and paper industry with environmental and modernization projects. The Company's capital expenditures programs are progressing in accordance with the terms of the government agreements and it is not anticipated that any portion of the grants will have to be repaid under the various contingency clauses.

9. Capital Projects

Estimated expenditures of $182 million will be required to complete approved capital projects.

10. Unfunded Pension Benefits

Estimates received from independent actuaries indicate that at December 31, 1980 the present value of the unfunded liability for past service pension benefits not provided for in the accounts was approximately $29 million.

11. Other Statutory Information

(a) The aggregate direct remuneration paid by the Company and its subsidiaries to the directors and senior officers of the Company during the year ended December 31, 1980, determined in accordance with the Québec Securities Act, was $173,000 and $3,030,000, respectively.

(b) Loans outstanding with officers relating to the purchase of residences amounted to $362,000 at December 31, 1980.

12. Subsequent Event

On January 19, 1981, the Company entered into an agreement for the issue on February 17, 1981 of 2,000,000 $2.17 Convertible Preferred Shares Series E at a price of $25 per share for net proceeds of approximately $48 million after estimated issue expenses.

Auditors' Report

TO THE SHAREHOLDERS OF ABITIBI-PRICE INC.:

We have examined the consolidated balance sheet of Abitibi-Price Inc. as at December 31, 1980 and the consolidated statements of net earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of other independent accountants who have examined the financial statements of Mattabi Mines Limited, a partly-owned company accounted for by the equity method.

In our opinion, these consolidated financial statements present fairly the financial position of Abitibi-Price Inc. as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
CHARTERED ACCOUNTANTS

Toronto, February 13, 1981

Five-Year Financial Review
(thousands of dollars, except per share figures)

	1980	1979	1978	1977	1976
Sales and Earnings					
Net sales	**$1,364,695**	$1,470,910	$1,292,762	$1,036,314	$877,191
Mining income (loss)	**(2,349)**	2,368	(1,450)	(660)	(872)
Equity interest in earnings of Mattabi Mines Limited	**6,649**	8,723	3,280	3,421	4,155
Depreciation and depletion	**53,104**	49,441	48,307	43,963	41,942
Interest expense	**35,114**	23,473	23,818	23,856	25,032
Income taxes	**40,680**	68,046	63,738	29,363	13,420
Minority shareholders' interest	**4,753**	5,706	18,304	11,623	3,687
Earnings before extraordinary items	**83,753**	114,104	78,650	37,908	13,024
Per common share	**$ 3.94**	$ 5.62	$ 3.98	$ 1.83	$ .47
Extraordinary items	**6,854**	1,014	(305)	(1,687)	—
Net earnings	**90,607**	115,118	78,345	36,221	13,024
Per common share	**$ 4.30**	$ 5.67	$ 3.96	$ 1.74	$ .47
Dividends Declared					
Preferred shares	**$ 9,840**	$ 9,147	$ 4,703	$ 4,366	$ 4,584
Common shares	**30,065**	28,039	17,680	6,446	2,172
Per common share	**$ 1.60**	$ 1.50	$ .95	$ .35	$ .12
Additions to Fixed Assets	**$ 216,517**	$ 148,100	$ 59,163	$ 43,580	$ 54,371
Financial Position					
Working capital	**$ 414,306**	$ 339,121	$ 300,673	$ 259,836	$224,562
Net fixed assets	**710,379**	588,702	519,411	476,230	489,437
Long-term debt	**360,660**	237,726	241,165	242,512	243,168
Deferred income taxes	**119,103**	103,117	106,628	103,224	99,725
Minority shareholders' interest	**18,076**	24,465	23,276	110,417	111,671
Preferred shares	**139,920**	142,999	117,715	44,815	47,016
Book value of common shares	**478,045**	426,320	348,388	292,424	262,192
Per common share	**$ 25.41**	$ 22.80	$ 18.66	$ 15.77	$ 14.49

Primary Production
(figures in thousands)

		Newsprint (metric tons)	**Groundwood Papers** (short tons)	**Fine Papers** (short tons)	**Kraft Products** (metric tons)	**Hardboard** (msf-equivalent)	**Lumber** (mfbm)
Effective Capacity	1980	1,814	404	210	207	750	334
Production	**1980**	**1,546**	**222**	**196**	**136**	**693**	**244**
	1979	1,779	370	202	224	848	360
	1978	1,780	292	181	269	935	356
	1977	1,537	231	157	246	904	324
	1976	1,552	211	113	224	854	272

Products, Plants and Sales Offices

PRODUCTS	MANUFACTURED AT	SALES COMPANIES AND OFFICES
Newsprint	Pine Falls, Man.; Thunder Bay (2 mills) and Iroquois Falls, Ont.; Beaupré, Alma and Chandler, Que.; Grand Falls and Stephenville, Nfld.; Augusta, Ga.	*Abitibi-Price Sales Corporation New York, N.Y.; Des Plaines, Ill.; Atlanta, Ga.; Troy, Mich. *Abitibi-Price Sales Ltd. Toronto, Ont.; Montreal, Que.
Groundwood Papers	Sault Ste. Marie, Ont.; Jonquière, Que.	*Abitibi-Price Sales Company Limited London, England * Each of these companies sells both newsprint and groundwood papers.
Fine, Printing, Packaging and Business Papers, Wall Paper and Specialty Papers	Thorold, Thunder Bay and Georgetown, Ont.	Abitibi-Price Fine Papers Division Toronto, Ont.; Montreal, Que.
School, Home and Office Supplies	Toronto, Ont.; Vancouver, B.C.; Joliette, Que.	Hilroy Ltd. Toronto, Ont.; Montreal, Que.; Vancouver, B.C.
Envelopes	Stellarton, N.S.; Montreal, Que.; Toronto, Ont.; Winnipeg, Man.; Calgary, Alta.; Vancouver, B.C.	Canada Envelope Company Stellarton and Halifax, N.S.; Montreal, Que.; Toronto, Ottawa and London, Ont.; Winnipeg, Man.; Calgary and Edmonton, Alta.; Vancouver, B.C.
Wholesale Distribution Fine Paper Products		Inter City Papers Limited Ottawa, Mississauga and London, Ont.; Halifax, N.S.; Winnipeg, Man. Lauzier, Little Inc. Montreal and Quebec, Que.
Grocery Bags, Sacks, Paper Towels	Lachute, Que.	Price Wilson Moncton, N.B.; Quebec and Montreal, Que.; Ottawa, Toronto, London and Kitchener, Ont; Winnipeg, Man.; Calgary and Edmonton, Alta.; Vancouver and Victoria, B.C.
Paperboard	Jonquière, Que.	Price Paperboard and Pulp Limited Montreal, Que.; Toronto, Ont.
Kraft Pulp	Smooth Rock Falls, Ont.	Abitibi-Price Inc. Toronto, Ont.
Hardboard **Woodgrain and Decorative Hardboard** **Hardboard Siding** **Prefinished Wood and Plastic Mouldings**	Alpena, Mich. Toledo, Ohio Roaring River, N.C. Middlebury, Ind.	Abitibi-Price Corporation Troy, Mich.
Lumber	Thunder Bay, Smooth Rock Falls and White River, Ont.; Falardeau, L'Ascension and Price, Que.	Abitibi-Price Lumber Ltd. Toronto and Thunder Bay, Ont.
Ties, Treated Wood Products and Treating Services	Thunder Bay, Ont.	Thunder Bay, Ont.

DIRECTORS

****Marcel Bélanger, O.C.**
President
Gagnon et Bélanger Inc.
Quebec City, Canada

***Thomas J. Bell, M.C.**
Chairman of the Board
Abitibi-Price Inc.
Toronto, Canada

†Howard W. Blauvelt
Consultant
Conoco Inc.
Greenwich, Connecticut
U.S.A.

***Edmund C. Bovey, C.M.**
Chairman
Norcen Energy
Resources Limited
Toronto, Canada

†Marsh A. Cooper
Geologist
Toronto, Canada

***Robert C. Gimlin**
President and
Chief Executive Officer
Abitibi-Price Inc.
Toronto, Canada

***Henry H. Ketcham, Jr.**
Chairman of the Board
West Fraser Timber Co. Ltd.
Vancouver, Canada

****Leonard G. Lumbers**
Chairman of the Board
Noranda Manufacturing Ltd.
Toronto, Canada

***C. Edward Medland**
Chairman, President and
Chief Executive Officer
Wood Gundy Limited
Toronto, Canada

****The Honorable John P. Robarts,**
P.C., C.C., Q.C.
Partner
Stikeman, Elliott,
Robarts & Bowman
Toronto, Canada

C. Harry Rosier
Consultant and Director
Toronto, Canada

****Francis J. Ryan, Q.C.**
Partner
Stirling, Ryan, Reid, Harrington,
Andrews & Lilly
St. John's, Newfoundland
Canada

***Kenneth R. Thomson**
Chairman of the Board and
Chief Executive Officer
Thomson Newspapers Limited
Toronto, Canada

Charles R. Tittemore
President and
Chief Executive Officer
The Price Company Limited
Quebec City, Canada

†John A. Tory, Q.C.
President
The Thomson Corporation
Limited
Toronto, Canada

†William O. Twaits, C.C.
Director
Toronto, Canada

Honorary Director
General Lauris Norstad
D.S.M., Silver Star, C.B.E.

The Board of Directors meets monthly in discharging its responsibilities to shareholders. In addition, there are three Committees of the Board which meet separately to address specific activities in more detail.

*EXECUTIVE COMMITTEE

The Executive Committee's principal function is to act in the interim between regular Board meetings on matters that cannot be postponed until the full Board can be assembled. These matters will usually have been addressed in advance by the full Board, which will have provided direction to the Executive Committee.

**AUDIT COMMITTEE

The Audit Committee, composed solely of outside Directors, meets with senior financial management to approve financial statements, to monitor the effectiveness of internal audit and control procedures, and to consider the annual appointment of an independent auditor for approval by the Board and the shareholders.

†OFFICERS' COMPENSATION COMMITTEE

This Committee of outside Directors reviews the individual performance of senior executives of the Company and provides an independent judgement on management quality. It also deals with remuneration of those executives including salaries, incentive compensation and benefits.

OFFICERS

Thomas J. Bell
Chairman of the Board

Robert C. Gimlin
President and
Chief Executive Officer

Charles R. Tittemore
Executive Vice-President

Charles F. Buckland
Group Vice-President

John G. Davis
Group Vice-President

Bernd K. Koken
Group Vice-President

K. Linn Macdonald
Group Vice-President

J. Ian McGibbon
Group Vice-President

T. Newman McLenaghen
Senior Vice-President

Thomas H. Birchall
Vice-President, Fine Papers

Frank R. Boynton
Vice-President,
Financial Administration

Dean O. Gray
Vice-President,
Industrial Relations

William W. Hall
Vice-President,
Groundwood Papers

P. Denis Hamel
Vice-President,
Newsprint Manufacturing,
Region 2

William J. Johnston
Vice-President,
Woodlands Operations

Mark D. S. Kellow
Vice-President, Personnel

James A. McGregor
Vice-President, Mineral Resources

Frank L. Morton
Vice-President,
Engineering Services

James B. Papoe
Vice-President,
Newsprint Manufacturing,
Region 1

Donald C. Parker
Vice-President, Lumber

J. Kenneth Stevens
Vice-President,
Corporate Development

H. Colin Warner
Vice-President and Controller

Michael D. Thompson
Secretary and General Counsel

J. Gordon Maw
Treasurer

Douglas J. Butler
Assistant Secretary

Jean E. Gebbie
Assistant Secretary

Robert A. Cook
Assistant Treasurer

Bernard Conway
Assistant Treasurer

Donald J. McMullan
Assistant Treasurer

PRINCIPAL SUBSIDIARIES

Abitibi-Price Corporation
Charles F. Buckland, President

Abitibi-Price Lumber Ltd.
Donald C. Parker, President

Abitibi-Price Sales Corporation
George R. Arellano, President

Canada Envelope Company
Robert M. Sleeth, President

Hilroy Limited
Reginald A. Donaldson, President

Inter City Papers Limited
Ronald Y. Oberlander, President

Price Paperboard and Pulp Limited
Durward B. Geffken, President

The Price Company Limited
Charles R. Tittemore, President

Lithographed in Canada
COVER: Kromekote* CC1S 10 pt.
TEXT: Abitibi-Price Fine Papers
Jenson Gloss — 160M
* Kromekote is a registered trademark owned by Champion International Corporation.