ABITIBI-PRICE

1985

ANNUAL REPORT

Abitibi-Price Inc.

Annual Report for the year ended December 31, 1985

Abitibi-Price Inc., a Canadian company incorporated in 1914, is the world's leading producer of newsprint and uncoated groundwood papers. The Company's operations are managed through two business groups. The Core Group includes newsprint, groundwood papers, pulp, lumber and woodlands. The Diversified Group includes coated papers, distribution operations, converted products and building products. Augmented by two acquisitions in 1985, this group is becoming an increasingly important contributor to corporate results.

At the end of 1985, the Company employed close to 15,500 people in 40 plants and over 70 sales and distribution locations, most in Canada and the United States. During the year, Gulf Canada Limited (now Gulf Canada Corporation) became Abitibi-Price's principal shareholder through the purchase of 90 percent of the Company's outstanding common shares.

The competitive challenges in all areas of global commerce, including forest products, have intensified in recent years. Abitibi-Price is committed to meeting these challenges to fulfil its responsibilities to shareholders, customers, employees and the communities in which it operates. This is being accomplished through the strategies described in this report and through an overriding commitment to being the best in the Company's businesses.

Abitibi-Price's common shares are listed on the Toronto, Montreal and Vancouver stock exchanges and traded under the ticker symbol A.

On peut obtenir ce rapport annuel en français sur demande.

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Financial Highlights

(millions of dollars)	1985	1984
Net sales	**$2,550**	$2,137
Earnings before extraordinary items	**100**	72
Net earnings	**100**	70
Capital expenditures	**202**	126
Working capital	**373**	410
Common shareholders' equity	**858**	806
Per Common Share (1)		
Earnings before extraordinary items	**$ 1.42**	$ 1.02
Net earnings	**1.42**	.99
Dividends declared (2)	**.73**	.40
Common shareholders' equity	**13.37**	12.60
Return on average capital employed	**8.0%**	6.8%
Return on average common shareholders' equity	**10.9%**	8.3%
Long-term debt/debt plus shareholders' equity	**31.7%**	31.6%

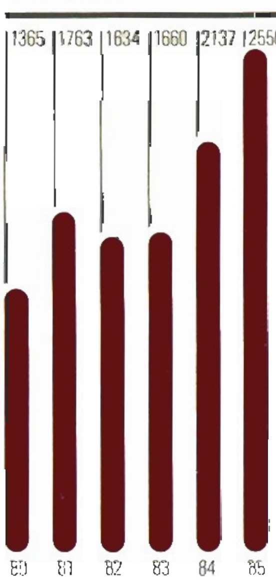
Notes:

(1) 1984 figures have been restated to reflect the 3-for-1 split of Common Shares which became effective May 1, 1985.

(2) Four quarterly dividends were paid in each of 1984 and 1985, but because of a change in dividend declaration dates, five dividends were declared in 1985.

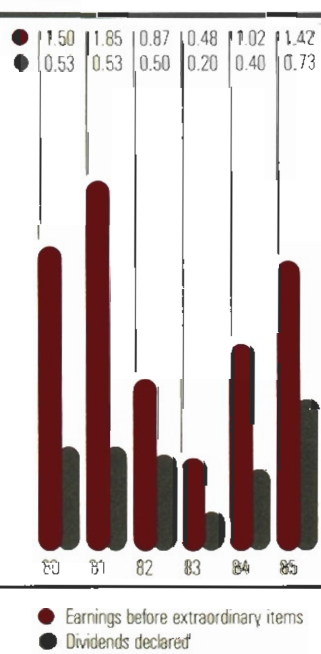
NET SALES

(millions of dollars)



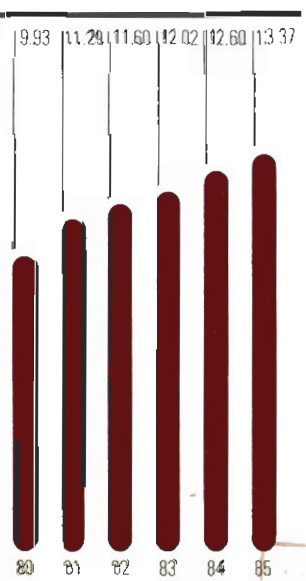
EARNINGS AND DIVIDENDS PER COMMON SHARE

(dollars)



COMMON SHAREHOLDERS' EQUITY PER SHARE

(dollars)



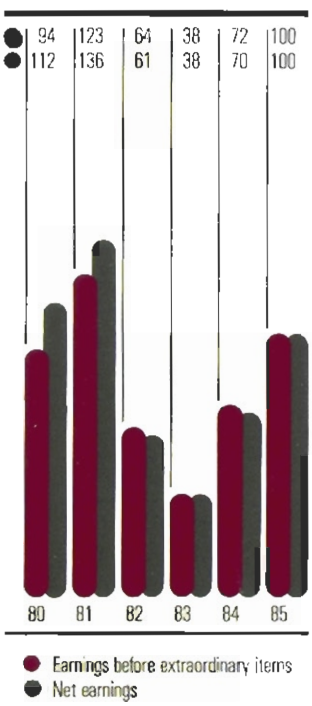
Report of the Directors

The past year was an eventful one for Abitibi-Price. As a result of acquisitions and internal growth, the Company established a new sales record of $2.5 billion, up 19 percent from the previous year. Earnings increased 43 percent to $100 million. The improved results, as well as substantial progress toward corporate objectives, were achieved in face of a very competitive worldwide business environment.

Results

Among the factors contributing to the earnings increase were growing benefits from recent capital expenditures, acquisitions in the Diversified Group, effective cost control, and an increase in the value of the U.S. dollar against the Canadian dollar. These factors offset the adverse effects of weak overseas currencies, relative to the U.S. dollar, which made it more difficult for North American producers to compete in world markets. It should also be noted that 1985 earnings would have been $11 million greater had the Company not changed its method of accounting for investment tax credits to comply with the new requirement of The Canadian Institute of Chartered Accountants.

EARNINGS
(millions of dollars)



Corporate Direction

Having achieved a number of major modernization and rationalization objectives in the 1979 to 1984 period, Abitibi-Price is now concentrating on optimizing returns from its natural resource base and invested capital. This includes conversion of some newsprint and groundwood papers capacity to higher value grades, continued modernization of paper mills to gain further cost and quality advantages, and selective acquisitions of businesses with high growth and profit potential.

Capital Improvements

In line with these objectives, the Company spent $202 million on capital improvements in 1985. This included the first phase of a product and facilities upgrade at the Alma and Jonquière mills in Quebec. Supercalendering equipment was installed at the Jonquière groundwood papers mill, allowing production of higher value groundwood papers, beginning in early 1986.

Twin-wire formers, which represent the most modern paper formation technology, were installed on three newsprint machines – one at the Alma mill and others at Grand Falls, Newfoundland, and Augusta, Georgia.

The Diversified Group's Provincial Papers division at Thunder Bay, Ontario, added a second off-machine paper coater late in 1985, allowing the mill to reach its goal of coating 100 percent of its paper production.

Acquisitions

Progress was also made on the Company's objective of expanding the non-core segment of its business with the completion of two acquisitions in the Diversified Group.

In February, the Company strengthened its position as a distributor of industrial papers and related products through the purchase of CIP Daxion Inc. These operations were subsequently merged with the existing Price Wilson division. Renamed Price Daxion, the new division operates as part of Inter City Papers Limited.

In April, the Company completed the acquisition of Barbecon Inc., Canada's largest envelope manufacturer and a major distributor of printing papers. Barbecon's envelope operation absorbed Abitibi-Price's Canada Envelope to form a new division, Innova Envelope.

Shareholder Events

At the annual meeting in April 1985, shareholders approved a three-for-one split of the Company's common shares, effective May 1, 1985. This was done to bring the common share price into a trading range that is more attractive to investors.

Since 1981, Olympia & York Developments Limited had been the Company's majority shareholder, beneficially holding about 93 percent of the outstanding common shares at the end of 1984. In the second half of 1985, Olympia & York sold 54,734,197 common shares of Abitibi-Price to Gulf Canada Limited (now Gulf Canada Corporation). Gulf acquired an additional 3,003,760 Abitibi-Price shares in an offer to minority shareholders and currently holds 90 percent of the total outstanding common shares.

Dividends

Based on the Company's earnings and prospects, the directors voted in March to increase the quarterly dividend to 15 cents per share (on a post-split basis), representing an increase of 12.5 percent over the previous rate.

Directors and Officers

In April, Abitibi-Price President, Bernd K. Koken, assumed the additional responsibilities of Chief Executive Officer from Robert C. Gimlin who remains Chairman of the Board.

Two new members were welcomed to the Board in 1985. S. Keith McWalter, Chairman, President and Chief Executive Officer of Gulf Canada Corporation, joined the Board in September. In December, Marshall A. Cohen, President and Chief Operating Officer of Olympia & York Enterprises Limited, became a director.

Employees

During the year, employees continued to demonstrate a commitment to the Company's objectives. The directors recognize this as a significant factor in maintaining a competitive edge and greatly appreciate this effort.

Outlook

Abitibi-Price plans a high capital expenditure level again in 1986. This will be applied to the completion of scheduled projects for higher value product conversions and facilities modernization.

Competition in international markets will remain very active and will continue to challenge the Company in 1986. At the same time, however, as a major exporter, the Company is benefiting from the recent weakening of the Canadian and U.S. dollars against major overseas currencies.

Most observers are predicting continued real growth for North American economies in 1986, with some acceleration in rate in the second half. This higher economic activity is expected to produce a related increase in paper requirements by the print media.

Continuing earnings improvement should result from increases in sales volumes, a richer mix of higher value grades and the inclusion of full-year earnings from the new acquisitions.

On behalf of the Board of Directors,

R.C. Gimlin

Robert C. Gimlin
Chairman of the Board

B.K. Koken

Bernd K. Koken
President and Chief Executive Officer

Toronto, February 17, 1986

Bernd K. Koken
President and Chief Executive Officer

J. Ian McGibbon
Group Vice-President
Responsible for corporate planning and development; all human resource functions

John G. Davis
Group Vice-President
Responsible for worldwide sales of newsprint and groundwood papers

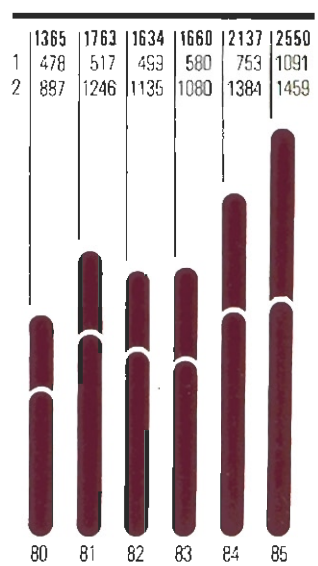
Bernd K. Koken
President and Chief Executive Officer

J. Kenneth Stevens
Senior Vice-President, Finance
Responsible for all finance functions, information systems, investor relations

Ronald Y. Oberlander
Group Vice-President
Responsible for Diversified Group

K. Linn Macdonald
Group Vice-President
Responsible for newsprint, groundwood papers operations; lumber and pulp divisions; woodlands, research and development

NET SALES BY GROUP
(millions of dollars)



1 Diversified 2 Core

The Competitive Challenge

The year 1985 was one in which international competition reached new levels of intensity. This was particularly the case for natural resource-based exporting businesses.

In this actively competitive environment, Abitibi-Price was able to increase revenues and earnings in 1985 because of the plans set for its businesses a number of years ago and subsequently implemented. Determined to position the Company for continuing growth, Abitibi-Price continually updates its strategies to address the competitive challenges currently faced in the global marketplace.

A number of external factors influence the Company's businesses. The supply/demand balance for the Company's products affects prices. Changes in foreign exchange rates can affect both the profitability of offshore sales and competitive activity in North American markets. The Company is also sensitive to the general level of economic activity, particularly advertising volumes, print media circulation, and the number of housing starts.

The Company's goal is to optimize the return from its natural and capital resources. To do this, the Company is focussing on increasing its proportion of higher value products, continuing its modernization program where there are cost and quality advantages to be gained, and expanding the Diversified Group to act as a balance to the more cyclical Core Group businesses.

Underlying all of these objectives is Abitibi-Price's determination to deliver more value to its customers. By creating additional value through carefully targeted capital investment and customer service programs, Abitibi-Price is differentiating its products in what is generally considered a commodity business.

The Company is committed to being recognized by users as "the best" in terms of quality, technology, service and product selection.

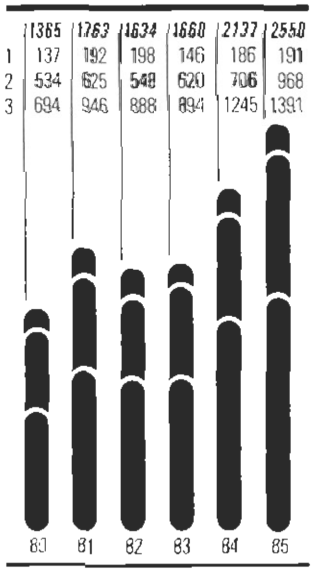
The Core Group, comprising newsprint, groundwood papers, pulp and lumber, is concentrating on higher value paper grades and advances in quality and service.

The Diversified Group, which includes coated papers manufacturing, distribution, converting and, as of 1985, building products, grew through two acquisitions in the converting and distribution businesses. The Group made contributions to the Company's emphasis on higher value products in both the coated papers and building products divisions. The Diversified Group complements the Core Group, as it is not as cyclical and is much less fixed capital intensive.

Further details of the progress made on the Company's objectives are discussed in the following pages.

The challenges Abitibi-Price faces will undoubtedly change over the years, with the Company altering its strategies accordingly. The Company is confident that the plans now in place will further consolidate its leadership position in the businesses in which it operates and enhance its competitiveness in domestic and international markets over the next several years.

NET SALES BY MARKET
(millions of dollars)



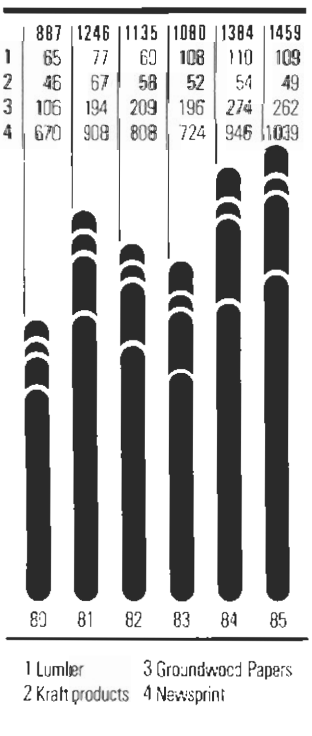
1 Overseas 3 U.S.A.
2 Canada

Investments in new technology ensure a continuing supply of quality newsprint to meet the needs of modern pressrooms.

New supercalenders at Jonquière, Quebec, are an important step in the Company's move to higher value groundwood papers.

Core Group includes four product divisions – newsprint, uncoated groundwood papers, lumber and kraft pulp – as well as the woodlands operations responsible for harvesting and forest management. The Group's 1985 sales, at $1.5 billion, comprised 57 percent of total Company sales and represented an increase of 5 1/2 percent over 1984. During the year, the Group accomplished several major capital improvements, achieved further gains in productivity, and launched innovative marketing services, all aimed at improving the Company's competitive edge.

CORE GROUP
NET SALES
(millions of dollars)



Newsprint

Worldwide newsprint markets were highly competitive throughout 1985. Consumption in the major U.S. market grew 1.4 percent, somewhat modest after 1984's strong 8.1 percent increase which did include some extra demand resulting from the U.S. elections and Olympic games.

Abitibi-Price's 1985 shipments to the U.S. market increased, but were balanced by lower shipments to Canadian and overseas customers. Total shipments exceeded those of 1984, although reductions in the Company's newsprint inventories resulted in a slight decline in production.

The difficult market environment resulted from a combination of some continuing excess supply and fluctuations in currency relationships. The relative strength of the Canadian and U.S. dollars versus the currencies of certain other countries, especially those involved in the export of forest products, both reduced profitability in some world markets and increased competitive activity in North America.

In this environment, the Company's efforts to achieve a U.S. price increase were unsuccessful. However, the effect was mitigated to some extent by the gradual strengthening of the U.S. dollar against the Canadian dollar, which resulted in higher returns on sales denominated in U.S. dollars. Late in the year, when the Canadian dollar weakened materially against major offshore currencies, profitability in world markets improved.

The Company's nine newsprint mills produced 1,699,000 tonnes compared with 1,721,000 tonnes in 1984. Recent capital expenditures resulted in excellent gains in quality and productivity at several mills. Improvements at Augusta, Georgia, at Pine Falls, Manitoba, and at Iroquois Falls and Fort William, Ontario, were particularly noteworthy. Throughout the newsprint system, effective controls kept cost increases below the level of inflation.

Groundwood Papers

Markets for uncoated groundwood papers were also very competitive in 1985, showing many of the same market factors as newsprint. While supply of these grades is increasing, demand is continuing to grow at a strong pace. Groundwood papers are used predominantly in advertising inserts, weekend supplements, business forms, directories and catalogues.

Both of the Company's mills, located in Jonquière and Beaupré, Quebec, operated at capacity in 1985, producing 349,000 tonnes. This compares with 374,000 tonnes in 1984, during which the Company had additional tonnage available from a third mill, sold in that year. The Beaupré mill, converted from newsprint to groundwood papers in 1984, increased its output by 22 percent in 1985 as the mill reached budgeted production levels of higher brightness papers.

Modern newsprint carriers reduce shipping costs and deliver cargos efficiently and in good condition to customers around the world.

Inventories are costly. Abitibi-Price's exclusive computer-based inventory control programs provide additional value to the Company's newsprint and groundwood papers customers.

Pulp and Lumber

The Company was not adversely affected by the poor pulp market that prevailed in 1985 because it buys slightly more pulp for its various operations than is produced at its single market pulp mill in Smooth Rock Falls, Ontario.

The Company's exposure to the volatile lumber industry has been reduced over the past few years and it operated only two sawmills during 1985. The mills at Smooth Rock Falls, Ontario, and L'Ascension, Quebec, achieved break-even results but the low revenues were partially compensated for because chip and wood waste by-products from these mills are used by the Company's paper mills.

Major Developments

Core Group objectives are consistent with the Company's emphasis on increasing the value of its products for its customers. Capital expenditures in 1985 focussed on two main areas – the conversion of a greater percentage of production to higher value grades and modernization projects to achieve further gains in quality and cost reduction.

The Company continues to provide improved quality to newsprint customers to enable them to increase the use of color and compete more effectively with other media.

A principal component of this effort has been the conversion of a number of newsprint machines to twin-wire configuration. Traditional newsprint machines have a single surface, or wire, below the pulp as it is formed into paper. The addition of a second forming wire, often referred to as a "top wire", results in the improved sheet appearance and printability required by many modern pressrooms.

In 1985, three more machines were converted to twin-wire configuration – No. 1 paper machine at Augusta, Georgia, No. 14 paper machine at Alma, Quebec, and No. 3 paper machine at Grand Falls, Newfoundland. By the end of 1986, almost 75 percent of the Company's newsprint production will be from twin-wire machines.

The Grand Falls installation is part of a $34 million machine rebuild. In 1986, work will continue on a new press section and calendering equipment, with completion scheduled for late in the year.

Two other paper machines at Grand Falls, Nos. 6 and 7, will be rebuilt as part of a $15.5 million project commencing in 1986. The project includes the installation of twin-wire formers on these machines, as well as improvements to the pulping and cleaning systems.

Other paper machines scheduled to receive twin-wire formers in 1986 include Nos. 9 and 10 at Alma.

In groundwood papers, Abitibi-Price's thrust is toward increased production of higher value papers. A significant portion of the 1985 capital expenditure program was directed toward this goal.

At the Jonquière groundwood papers mill, a $135 million modernization and conversion project is in progress. The installation of two supercalenders was completed close to year-end, allowing the Company to move into the growing market for supercalendered paper early in 1986. Supercalendering is a method of imparting high gloss to paper for demanding printing applications.

Work will continue at Jonquière during 1986. In this phase, No. 7 paper machine will be speeded up and converted to the production of clay-filled supercalendered paper. The project, which includes alterations to the pulping system and a third

14.3 million seedlings planted in 1985 supplemented other forms of regeneration.

Harvesting operations keep Company mills supplied with essential wood fibre.

supercalender, will be completed in the first half of 1987.

At the nearby newsprint mill in Alma, the Company has commenced a $37 million project to convert No. 9 paper machine to directory and light-weight catalogue paper, scheduled for completion in late 1986.

In addition to these investments in facilities and processes to provide customers with products of higher quality and value, the Company is also expanding support and services to customers.

In 1985, the marketing arm of the Core Group introduced an innovative service program. Utilizing a series of computer programs developed by the Company and tested at customer locations, the service enables newspaper publishers and commercial printers to track and control inventories, reduce waste, and improve analysis and reporting. The first two programs, Abitran and Abiscan, have been well accepted by the market. Abitrol, a complete inventory management system, is being launched early in 1986.

To better serve its offshore customers, the Company commissioned two new ships to replace two older ones in its charter fleet of newsprint carriers. The Abitibi Concord and the Abitibi Macado are equipped with state-of-the-art features to reduce shipping costs and ensure that newsprint cargos remain safe, clean and dry throughout the journey to ports around the world.

Forest Management

Abitibi-Price owns or has cutting rights on approximately 25 million acres of land in Canada and the United States. These lands supply the greater part of the Company's requirements for wood and wood fibre. Additional supplies are obtained through outside purchases.

In addition to harvesting, the Company is actively involved in protecting the existing forest resource base from fire, insects and disease and is a leader in forest management in Eastern Canada.

Forest renewal programs receive strong emphasis in Ontario, Manitoba and Newfoundland, and formal agreements are in place with the governments of these provinces. In each area cut, the Company's foresters determine the optimum reforestation method. Natural regeneration is supplemented with extensive tree planting which, in 1985, resulted in the planting of 14.3 million trees in these provinces. There is also an ongoing program to propagate genetically superior trees.

The Quebec government has announced a new forest policy. If it is implemented as proposed, the Company expects that forest management in Quebec will move toward the levels of other provinces.

Outlook

Newsprint consumption in North America is expected to grow between one and two percent in 1986. This, combined with the recent improving trend in currency relationships, is expected to provide the basis for better returns from the Company's newsprint operations. Groundwood papers, already a high growth area, should reap additional benefits from a strengthening economic environment and the availability of higher value supercalendered production.

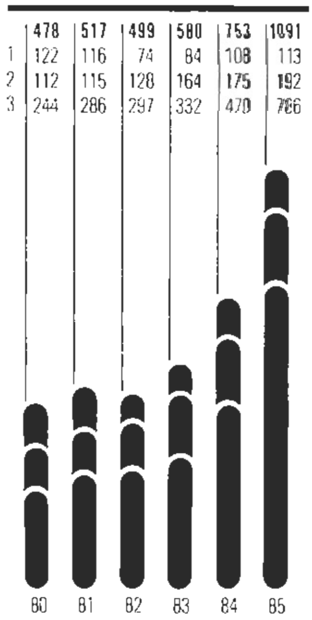
Capital expenditures for the Core Group will be increased in 1986 and will continue to be directed toward higher value products and improved quality and cost competitiveness.

Provincial Papers' sheet-fed
and web offset coated papers
produce high quality results
for graphic arts customers.

Provincial's extensive product line
meets every requirement for
coated printing papers.

Diversified Group

DIVERSIFIED GROUP NET SALES
(millions of dollars)



1 Coated Papers
2 U.S. Building Products
3 Converting and Distribution

Abitibi-Price's Diversified Group now encompasses four types of businesses – coated papers manufacturing, converted products, distribution operations, and building products. The Group is becoming an increasingly important contributor to overall Company results. This was demonstrated in 1985 with a 45 percent increase in sales, following a 30 percent increase the preceding year. Record sales were achieved by all the Group's businesses, including the multi-division companies, Inter City Papers Limited and Barbecon Inc.

Planned expansion is occurring in the Diversified Group, both to counterbalance Abitibi-Price's Core Group activities and to capitalize on the specialized expertise developed in this Group over the years.

Two key acquisitions during the year strengthened the Company's leadership position in the paper converting and distribution markets. CIP Daxion Inc., a distributor of industrial papers and allied products, was acquired in February 1985. This operation was subsequently merged with the Company's existing Price Wilson distribution operation, forming an expanded nationwide industrial products distribution network under the new name of Price Daxion.

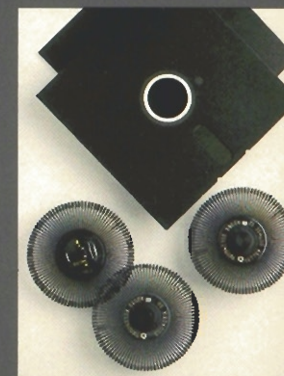
The acquisition of Barbecon Inc. at the end of the first quarter of 1985, provided the opportunity for significant benefits. Barbecon's printing papers distribution network strengthened Abitibi-Price's existing distribution organization. Barbecon's stationery operations were sold to Abitibi-Price's Hilroy division. Its large envelope converting operation and the smaller Canada Envelope division of Abitibi-Price were merged to form a new entity, Innova Envelope, now operating as a divison of Barbecon.

Coated Papers Manufacturing

Provincial Papers, which made an impressive turnaround in 1984, further improved its performance in 1985, with production of 126,000 tonnes compared with 121,000 tonnes in 1984. The division achieved increases in sales and earnings, benefiting from strong markets and prices for coated papers in the first half of the year, as well as aggressive marketing and continued sensitivity to cost control on the part of Provincial's employees.

Additional coating capacity was installed at Provincial's Thunder Bay, Ontario, mill towards the end of 1985 and the division entered 1986 with the ability to coat 100 percent of its paper production. This is in line with Provincial's strategy of maximizing returns by upgrading its product mix to the highest value grades possible while maintaining top quality standards.

Two distribution companies, Inter City Papers Limited and Barbecon Inc., supply quality printing papers to meet the needs of business and the graphic arts industry.



(above) Information processing supplies comprise a growing segment of the distribution product line.
(below) The foodservice industry is a key market segment for the wide range of industrial paper and related products distributed by Price Daxion.

Converted Products

Converted Products includes Hilroy, Barbecon's Innova Envelope division and Inter City Papers Limited's Price Wilson plant at Lachute, Quebec.

In 1985, Converted Products benefited from generally strong markets, and results improved over 1984. This was particularly the case with the envelope operations, which experienced a significant increase in sales and earnings.

Hilroy successfully maintained its market share and, through new product development and close cost controls, was able to improve its results over 1984. This was accomplished despite offshore competition and price erosion in markets for school and office products.

Hilroy, which acquired Barbecon's stationery division toward the end of 1985, will concentrate on streamlining and merging this operation with its existing stationery business in 1986. The combined operations are expected to become a significant force in the Canadian market for home stationery products.

Barbecon's new Innova Envelope division, which resulted from the merger of Barbecon's envelope business with Abitibi-Price's Canada Envelope division, is emerging as a modern, innovative operation. Innova operates a variety of cost-effective long-run, short-run and specialty plants geared to customer needs.

In addition to traditional envelope products, Innova is positioned to expand its participation in the fast-growing market for non-post office products, such as courier envelopes, photo bags, and computer diskette pouches.

In 1986, efforts will be focussed on completing the envelope operations merger and on new product development.

Distribution Operations

The distribution operations of Inter City Papers Limited and Barbecon Inc. assure that the Company is a highly efficient source of commercial printing papers and business papers in every major Canadian centre and a number of locations in the U.S. Information processing supplies are becoming an increasingly important line of products.

Results from the distribution operations improved over 1984 levels despite a downturn in the Canadian and U.S. printing papers markets in the latter part of the year that reduced volumes and prices.

The new Price Daxion division, which grew out of the merger of CIP Daxion Inc. and Inter City's Price Wilson industrial distribution operation, relies on the same distribution know-how as the paper merchant businesses, but serves a very different clientele. This operation supplies hospitals, hotels, restaurants and other service industries with industrial papers and allied products, such as paper towels, fast food containers, aluminum foil and packaging products. Here again, the new operations have resulted in a stronger nationwide network better able to serve customers' needs.

In 1986, the distribution operations will concentrate efforts on completing the Price Daxion merger, aggressively growing in the information processing supplies business, and introducing new products and sales programs. Attention will also be directed toward ensuring that all existing operations are performing at their maximum potential.

The Company's successful siding products come in a variety of styles to satisfy a wide range of consumer preferences.

(above) Hilroy's well-known line of products for office, home and school, continues to grow. *(below)* Newly formed Innova Envelope, can meet both high volume and specialty envelope needs.

U.S. Building Products

U.S. Building Products joined the Diversified Group in 1985. This division shares some of the distinguishing features of other businesses in the Diversified Group in that it is an autonomous unit which best thrives under an entrepreneurial management style.

With U.S. housing starts at 1.7 million units, U.S. Building Products operations experienced record sales in 1985, primarily the result of a strong market for siding, a major component of new residential construction. The Roaring River, North Carolina, siding plant operated close to capacity and made a record contribution.

A bright spot in an otherwise unexceptional market for panelling and plastic mouldings was the Company's GLAZTILE™ line of decorative plastic-finished panelling. This moisture-resistant product simulates ceramic tile and is becoming increasingly popular with home owners. Woodgrain panelling, on the other hand, has decreased in popularity in recent years and the Company is reducing its volumes of this product.

An exciting new hardboard siding product, called Thermolock™, was test marketed in 1985 with encouraging results. This lightweight, attractive, easy-to-install insulating siding will be produced at the Alpena, Michigan, plant commencing in the second quarter of 1986 upon completion of a U.S. $10 million capital program.

U.S. Building Products will focus its efforts during 1986 on new product development, plastics research and cost containment. As well, the division is interested in potential acquisitions that are compatible and offer attractive long-term growth and profitability.

Outlook

The outlook for 1986 is for continued strong financial performance from the Diversified Group. Provincial Papers will benefit from recent capital programs, and particularly from its ability to now coat all production from the Thunder Bay mill. Innova Envelope, should perform well in 1986, as should Hilroy through new product development and an aggressive marketing strategy. Improved performance is expected from the distribution operations as the benefits of merging Price Wilson and CIP Daxion start to materialize.

Housing starts are predicted to remain at levels similar to those of 1985, creating a promising outlook for U.S. Building Products. The full market introduction of the division's new siding product, Thermolock™, combined with ongoing cost containment programs and other new product development, should result in increased earnings in 1986.

Locations, Products and Markets

Group	Division or Segment	Plants	Sales Companies and Offices
Core	**Newsprint**	Pine Falls, Man.; Thunder Bay (2 mills) and Iroquois Falls, Ont.; Alma and Chandler, Que.; Grand Falls and Stephenville, Nfld.; Augusta, GA	*Abitibi-Price Inc.* Toronto, Ont.; Montreal, Que. *Abitibi-Price Sales Corporation* New York, NY; Des Plaines, IL; Atlanta, GA; Detroit, MI; Dallas, TX *Abitibi-Price Sales Company Limited* London, England
	Groundwood Papers	Beaupré and Jonquière, Que.	
	Kraft Pulp	Smooth Rock Falls, Ont.	*Abitibi-Price Inc.* Toronto, Ont.; Montreal, Que.
	Lumber	Smooth Rock Falls, Ont.; L'Ascension and Falardeau, Que.	*Abitibi-Price Lumber Sales* Toronto, Ont.
Diversified	**Coated Papers**	Thunder Bay and Georgetown, Ont.	*Provincial Papers* Thunder Bay and Toronto, Ont.; Montreal, Que.
	Distribution Printing Papers		*Inter City Papers Limited* Ottawa, Toronto and London, Ont.; Halifax, N.S.; Winnipeg, Man.; Vancouver, B.C. • *Lauzier Little Inc.* Montreal and Quebec, Que. • *Whitaker Carpenter Paper Company* Chicago, IL; Detroit, MI; Nashville, TN; Appleton and Milwaukee, WI • *Azerty* Buffalo, NY *Barbecon Inc.* • *Barber-Ellis* Moncton, N.B.; Dartmouth, N.S.; St. John's, Nfld.; Montreal, Que.; Toronto, London, Hamilton and Windsor, Ont.; Winnipeg, Man.; Regina and Saskatoon, Sask.; Calgary and Edmonton, Alta.; Vancouver, B.C. • *Jaffe Stationers, Inc.* Miami and Fort Lauderdale, FL
	Industrial Products		*Inter City Papers Limited* • *Price Daxion* St. John's, Nfld.; Moncton, N.B.; Halifax, N.S.; Quebec and Montreal, Que.; Ottawa, Toronto, London and Thunder Bay, Ont.; Winnipeg, Man.; Regina and Saskatoon, Sask.; Calgary, Edmonton and Lethbridge, Alta.; Vancouver, Victoria and Vernon, B.C.
	Converted Products Envelopes	Dartmouth, N.S.; Montreal, Que. (2); Toronto (3) and Brantford, Ont.; Winnipeg, Man. (2); Calgary and Edmonton, Alta.; Vancouver, B.C. (2)	*Barbecon Inc.* • *Innova Envelope* Dartmouth, N.S.; Montreal, Que.; Ottawa and Toronto, Ont.; Winnipeg, Man.; Calgary and Edmonton, Alta.; Vancouver, B.C.
	Home, School, Office Products	Toronto, Ont.; Vancouver, B.C.; Joliette, Que.	*Hilroy* Toronto, Ont.; Montreal, Que.; Vancouver, B.C.
	Industrial Paper Products	Lachute, Que.	*Price Wilson, Inc.* Montreal, Que.
	U.S. Building Products Hardboard Products	Alpena, MI; Toledo, OH	*Abitibi-Price Corporation* Troy, MI
	Hardboard Siding Products	Roaring River, NC	
	Plastic Products	Middlebury, IN	

Products and Services	Markets or End Uses	Abitibi-Price Market Position
Produces standard grade newsprint from 75-95% mechanical pulp reinforced with chemical pulp, weighing between 40 and 48.8 grams per square metre of surface and measuring 58 on the brightness scale.	Used primarily for daily newspapers; also for various commercial printing purposes, including free-standing inserts distributed through newspapers and direct mail.	The world's largest newsprint producer, with 13% of North American capacity and 7% of world capacity; most production is shipped to the U.S. and Canada, with the balance going to over 30 other countries.
Produces uncoated groundwood papers in various grades with basis weights ranging from 29.3 to 97.6 grams per square metre and brightness ratings between 60 and 74.	Used for business forms, weekend newspaper supplements, magazines, advertising inserts and flyers, telephone and other directories, catalogues and paperback books.	A leading world producer of uncoated groundwood papers; most production is sold to commercial printers in Canada and the U.S.
Produces bleached softwood kraft market pulp.	Sold to other producers for use in a wide variety of printing papers, packaging and tissue products.	Share of market pulp sales is relatively insignificant; on balance, the Company purchases slightly more market pulp than it sells.
Produces studs and random length softwood lumber; also sells the output of three sawmills and a waferboard plant owned by others.	Sold to wholesale distributors, retail chains, buying groups and mass merchandisers.	A minor factor in the North American lumber industry; most sales are to U.S. customers.
Manufactures a wide range of coated papers.	Sold to publication printers, commercial printers and paper converters.	Canada's largest producer of premium coated papers.
Distributes a wide selection of commercial printing papers, business papers (including copier paper), graphic art supplies, information processing supplies and office stationery products.	Thousands of deliveries made daily to a wide variety of markets, including office users and the graphic arts industry.	Canada's largest paper merchant companies, with the number one market position in most of the individual Canadian markets they serve.
Distributes a wide array of products including bags, folding cartons, packaging supplies, plastic and foam containers and other disposable items, foil, closures, labels, and cleaning and institutional paper supplies; division also supplies plastic packaging products and equipment.	Users include restaurants, fast food chains, airlines, hospitals and other institutions.	
Manufactures all types of envelopes, including courier envelopes, computer diskette pouches and cash dispersal envelopes for automated teller machines.	Primarily supplies the office market.	Largest envelope manufacturer in Canada with the number one market position in the markets it serves.
Manufactures and distributes a variety of paper and paper-related products for school, home and office.	Supplies the office market and retail distribution outlets.	Holds the number one position in most areas of the market for its products.
Manufactures and distributes a wide range of products including plain and printed paper bags, folding cartons and impact-cushioned bags.	Supplies the foodservice industry, supermarkets, retail stores, the fish processing industry and agricultural end users.	Market position varies depending on product line.
Manufactures 1/4" prefinished and 1/8" decorative panels with various surface treatments, including woodgrain designs and decorative plastic finishes; also makes industrial hardboard.	All products serve the new construction, and repair and renovation markets, primarily for residential, commercial and light industrial applications. Sales are made to wholesalers and mass merchandisers.	The number one producer of 1/8" decorative hardboard panelling and the second largest producer of 1/4" prefinished hardboard panelling.
Manufactures primed and prefinished lap and panel siding.		Second largest producer of hardboard siding in the U.S., serving markets East of the Rockies.
Manufactures prefinished extruded plastic mouldings and industrial products.		Number one supplier of these products to dealers and retailers in the U.S.

Sales in 1985 totalled $2.5 billion, a 19% increase over 1984 sales of $2.1 billion. Net earnings of $100.2 million, or $1.42 per common share, reflect a 43% improvement over 1984 net earnings of $70.1 million, or 98 cents per share, which included an extraordinary loss of $2.2 million. Earnings per common share for 1984 have been restated to reflect the 3-for-1 share split which took effect May 1, 1985.

Results for 1985 were favourably affected by the benefits resulting from recent capital expenditures, by acquisitions made during the year, by effective cost control, and by the further increase in the value of the U.S. dollar against the Canadian dollar. At the same time, however, earnings were adversely affected by a change in an accounting policy which is referred to below.

Reflecting the improvement in earnings, the rate of return on average capital employed increased to 8% in 1985 from 6.8% in 1984, and the return on average common shareholders' equity rose to 10.9% from 8.3% the preceding year.

Earnings for 1985 would have been higher by $11 million, or 17 cents per common share, had the Company not been required to adopt a new accounting standard of The Canadian Institute of Chartered Accountants with respect to investment tax credits. Prior to 1985, the benefit from investment tax credits was fully taken up in earnings as a reduction of income tax expense in the year of the related capital expenditures. Commencing in January 1985, however, investment tax credits are applied to reduce the cost of the related capital expenditures, with the result that they will benefit earnings only in future years through a reduction in the depreciation charge.

In the first half of the year, Abitibi-Price made two acquisitions, CIP Daxion Inc. and Barbecon Inc., whose operations are compatible with those of the Company's Diversified Group. The cost of the acquisitions aggregated $81.2 million, comprising cash of $24.5 million, an 11 1/2% note for $14.4 million which came due in February 1986, and Preferred Shares Series F with an assigned value of $42.3 million. (Further detail with respect to these acquisitions is provided in Note 4 to the financial statements.)

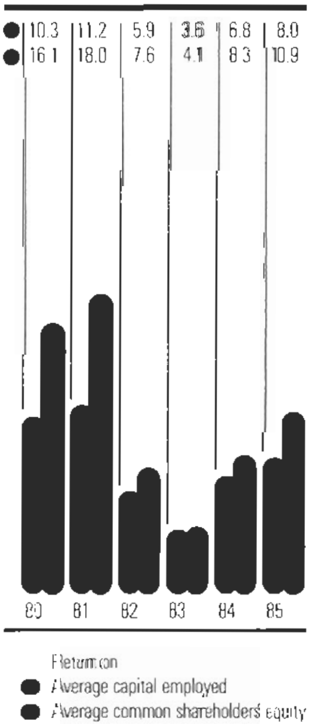
Income taxes, as a percentage of pre-tax earnings, increased to 39.1% in 1985 from 27.2% in 1984, chiefly as a result of the change in the method of accounting for investment tax credits referred to above.

The quarterly dividend paid to common shareholders on April 30 was increased by 12.5%, from 40 cents to 45 cents per share, or to the equivalent of 15 cents per share on the basis of the 3-for-1 share split which took effect on May 1. On a post-split basis, the four quarterly dividends paid in 1985 totalled 58 cents per common share, compared with four dividends totalling 40 cents per share paid in 1984. The financial statements, however, reflect dividends declared, as opposed to dividends paid, and because of a change in dividend declaration dates, five dividends totalling 73 cents per common share were declared in 1985, compared with four dividends totalling 40 cents per share declared in 1984.

The stock dividend option plan, which permitted common shareholders to elect to receive shares of the Company in lieu of cash dividends, was discontinued in June as a result of the Federal Budget brought down in May which eliminated the income tax advantages associated with stock dividends.

Capital expenditures in 1985 totalled $202.4 million, up 60% from 1984 expenditures of $126.3 million, with

RETURN ON CAPITAL AND COMMON EQUITY
(percent)



the major part of 1985 expenditures directed toward modernization of manufacturing facilities to permit the production of higher value papers and to achieve cost and quality improvements for the Company's products.

During the year, the Preferred Shares Series B which remained outstanding were retired, and, apart from $42.3 million of Preferred Shares Series F issued in connection with the acquisition of Barbecon Inc., there was no new financing.

In spite of an increase over 1984 in funds provided by operations, working capital declined by $36.5 million during the year and the working capital ratio dropped from 2.6:1 to 2:1. This was largely attributable to the high level of capital expenditures, to the retirement of the Preferred Shares Series B and to the increase in cash dividends paid on common shares as a result of the increase in the dividend rate and the discontinuance of the stock dividend option plan.

At the end of 1985, long-term debt as a percentage of debt plus shareholders' equity was 31.7%, approximately the same as the 31.6% at the end of 1984.

Net Sales by Product
(millions of dollars)

	1985	1984
Newsprint	**$1,039.3**	$ 946.4
Groundwood papers	**262.2**	274.3
Kraft products	**48.8**	53.8
Lumber	**108.3**	109.7
Total Core Group	**1,458.6**	1,384.2
Coated papers	**112.9**	108.4
Converting and Distribution	**785.7**	469.8
Building products	**192.6**	174.8
Total Diversified Group	**1,091.2**	753.0
Total all products	**$2,549.8**	$2,137.2

Net Sales by Quarter
(millions of dollars)

	1985	1984
1st Quarter	**$ 581.4**	$ 470.8
2nd Quarter	**662.4**	586.6
3rd Quarter	**633.5**	546.3
4th Quarter	**672.5**	533.5
	$2,549.8	$2,137.2

Earnings before Extraordinary Items by Quarter	1985		1984	
	$ millions	Per Share	$ millions	Per Share
1st Quarter	**$ 23.7**	**$ .34**	$10.4	$ .13
2nd Quarter	**21.3**	**.29**	23.0	.34
3rd Quarter	**25.4**	**.36**	15.3	.21
4th Quarter	**29.8**	**.43**	23.6	.34
	$100.2	**$1.42**	$72.3	$1.02

Capital Employed at December 31	1985		1984	
	$ millions	Percent	$ millions	Percent
Common shareholders' equity	**$ 858.1**	**50.4**	$ 805.7	51.5
Preferred shareholders' equity	**124.1**	**7.3**	104.2	6.7
Total shareholders' equity	**982.2**	**57.7**	909.9	58.2
Long-term debt	**455.7**	**26.8**	419.9	26.8
Deferred income taxes	**236.9**	**13.9**	209.3	13.4
Minority interest	**26.3**	**1.6**	25.1	1.6
Total capital employed	**$1,701.1**	**100.0**	$1,564.2	100.0

Consolidated Earnings

Year ended December 31 (millions of dollars)	1985	1984
Net sales	$2,549.8	$2,137.2
Joint ventures–newsprint (note 5)	(3.1)	(5.3)
–mining	(2.7)	(1.6)
Interest and other income	23.9	22.9
	2,567.9	2,153.2
Cost of sales	2,072.2	1,788.7
Selling and administrative expenses	188.4	132.9
Depreciation and depletion	82.1	76.8
Exploration costs	1.2	2.3
Interest on long-term debt (note 10)	43.6	40.4
Other interest	3.0	1.2
	2,390.5	2,042.3
	177.4	110.9
Income taxes (notes 2 and 6)	69.4	30.2
	108.0	80.7
Minority interest	7.8	8.4
Earnings before extraordinary items	100.2	72.3
Extraordinary items (note 7)	—	(2.2)
Net earnings	$ 100.2	$ 70.1
Per Common Share (note 11):		
Earnings before extraordinary items	$ 1.42	$ 1.02
Net earnings	1.42	.99

Consolidated Retained Earnings

Year ended December 31 (millions of dollars)	1985	1984
Retained earnings at beginning of year	$ 671.3	$ 634.2
Net earnings	100.2	70.1
	771.5	704.3
Dividends declared–		
Preferred Shares	(9.3)	(8.0)
Common Shares	(47.0)	(25.0)
Retained earnings at end of year	$ 715.2	$ 671.3

Changes in Consolidated Cash Position

Year ended December 31 (millions of dollars)	1985	1984
Operating Activities		
Earnings before extraordinary items	**$100.2**	$ 72.3
Depreciation and depletion	**82.1**	76.8
Deferred income taxes	**24.8**	16.9
Minority interest	**7.8**	8.4
Other	**3.1**	4.0
	218.0	178.4
Change in non-cash working capital (note 8)	**57.6**	(27.9)
	275.6	150.5
Financing Activities		
Net increase (decrease) in long-term debt	**(0.3)**	4.7
Retirement of preferred shares	**(22.4)**	(9.6)
Other	**1.2**	0.7
	(21.5)	(4.2)
Investment Activities		
Acquisition of subsidiary companies	**(81.2)**	(9.2)
Bank loans, net of cash, of acquired companies	**(5.2)**	(4.8)
Preferred shares and note payable issued as partial consideration	**56.7**	—
	(29.7)	(14.0)
Additions to fixed assets	**(202.4)**	(126.3)
Government capital grants and investment tax credits	**28.6**	12.0
Disposals of fixed assets	**5.6**	4.8
Contribution to newsprint joint venture	**(12.2)**	(11.5)
Increase in long-term receivables	**(8.9)**	(16.3)
Sales of operating units	**—**	16.9
Other	**5.0**	1.1
	(214.0)	(133.3)
Dividends Declared		
Preferred shareholders	**(9.3)**	(8.0)
Common shareholders	**(47.0)**	(25.0)
Less: Paid in form of Common Shares	**0.1**	15.7
Minority shareholder of a subsidiary company	**(6.6)**	(2.8)
	(62.8)	(20.1)
Cash – Increase (decrease)	**(22.7)**	(7.1)
– Beginning of year	**37.1**	44.2
– End of year	**$ 14.4**	$ 37.1

Cash comprises cash and short-term investments, less bank loans.

Consolidated Balance Sheet

December 31 (millions of dollars)	1985	1984
Assets		
Current assets		
Cash and short-term investments	**$ 31.3**	$ 41.2
Accounts receivable	**354.3**	292.3
Inventories (note 9)	**353.4**	326.8
Prepaid expenses	**9.2**	6.7
	748.2	667.0
Fixed assets		
Property, plant and equipment	**1,742.6**	1,546.8
Logging equipment and development	**88.7**	90.0
Timber limits and mineral and water power rights	**30.2**	31.4
	1,861.5	1,668.2
Less – accumulated depreciation and depletion	**729.5**	657.9
	1,132.0	1,010.3
Other assets		
Equity interests in joint ventures –		
Newsprint (note 5)	**51.3**	40.0
Mining	**6.5**	10.8
Long-term receivables and other assets	**47.3**	41.1
Goodwill	**23.9**	5.9
Unrealized loss on translation of long-term debt payable in U.S. funds (note 1(b))	**67.1**	46.6
	196.1	144.4
	$2,076.3	$1,821.7

The financial statements have been approved by the Board:

Director

Director

	1985	1984
Liabilities		
Current liabilities		
Bank loans	**$ 16.9**	$ 4.1
Accounts payable and accrued liabilities	**309.2**	234.4
Income and other taxes payable	**20.0**	13.0
Dividends payable	**10.9**	1.4
Long-term debt due within one year (note 10)	**3.8**	4.6
Note payable (note 4)	**14.4**	—
	375.2	257.5
Deferred income taxes	**236.9**	209.3
Long-term debt (note 10)	**455.7**	419.9
Minority interest	**26.3**	25.1
Shareholders' Equity		
Stated capital (note 11)		
Preferred Shares –		
Series A – 137,100 shares (1984 – 144,300 shares)	**6.8**	7.2
Series B – nil shares (1984 – 440,000 shares)	**—**	22.0
Series C – 1,500,000 shares	**75.0**	75.0
Series F – 3,680,393 shares	**42.3**	—
Common Shares – 64,200,874 shares (1984 – 63,930,387 shares)	**122.2**	121.3
Retained earnings	**715.2**	671.3
Deferred foreign currency translation gain (note 1(b))	**20.7**	13.1
	982.2	909.9
	$2,076.3	$1,821.7

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 joint ventures are included in the financial statements in accordance with the equity method of accounting.

Goodwill, which represents the excess of the cost of shares of acquired companies over the values attributed to underlying net assets, is amortized over periods not exceeding 40 years.

(b) Translation of foreign currencies
The assets and liabilities of self-sustaining foreign subsidiaries and affiliates are translated to Canadian funds at year-end exchange rates and the resulting unrealized exchange gains or losses are deferred in shareholders' equity. The earnings statements of such operations are translated at exchange rates prevailing during the year.

Monetary assets and liabilities of domestic companies and integrated foreign subsidiaries which are denominated in foreign funds are translated to Canadian funds at year-end exchange rates, non-monetary assets are translated at historical rates, and transactions included in earnings are translated at rates prevailing during the year with the exception of depreciation which is translated at historical rates. Exchange gains or losses are included in earnings with the exception of the unrealized gain or loss on translation of long-term debt payable in U.S. funds which is deferred and is hedged by an income stream denominated in U.S. funds.

(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, which includes capitalized interest and preproduction and start-up costs. Investment tax credits and grants received under government programs relating to capital expenditures are credited to fixed assets.

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.

(e) Pension costs
Current service pension costs are charged to earnings and funded as they accrue. Past service costs are charged to earnings and funded over periods not longer than those permitted by the various regulatory bodies.

(f) 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.

2. Change in accounting for investment tax credits

In 1985, the Company changed its method of accounting for investment tax credits to comply with a new standard of The Canadian Institute of Chartered Accountants which requires that such credits be accounted for by the cost reduction method and amortized to earnings over the period during which the related fixed assets are to be depreciated. Previously, the benefits from investment tax credits were included in earnings as a reduction of income tax expense in the year of the related capital expenditures.

As a result of this change, which has been adopted on a prospective basis, earnings for 1985 have been reduced by approximately $11 million, or 17 cents per common share.

3. Segmented Information (millions of dollars)

Business Segments	Pulp and Paper		Building Products and Lumber		Consolidated	
	1985	1984	1985	1984	1985	1984
Net Sales						
Core Group						
Newsprint	$1,039.3	$ 946.4	$	$	$	$
Groundwood papers	262.2	274.3				
Kraft products	48.8	53.8				
Lumber			108.3	109.7		
	1,350.3	1,274.5	108.3	109.7	1,458.6	1,384.2
Diversified Group						
Coated papers	112.9	108.4				
Converting and distribution	785.7	469.8				
Building products			192.6	174.8		
	898.6	578.2	192.6	174.8	1,091.2	753.0
Total sales	$2,248.9	$1,852.7	$ 300.9	$ 284.5	$2,549.8	$2,137.2
Operating profit before depreciation and depletion	$ 304.1	$ 226.7	$ 26.4	$ 25.3	$ 330.5	$ 252.0
Depreciation and depletion	(70.7)	(64.3)	(11.4)	(12.5)	(82.1)	(76.8)
Operating profit	$ 233.4	$ 162.4	$ 15.0	$ 12.8	248.4	175.2
Mining and exploration					(3.9)	(3.9)
Interest and other income					23.9	22.9
General corporate expenses					(44.4)	(41.7)
Interest expense					(46.6)	(41.6)
Income taxes					(69.4)	(30.2)
Minority interest					(7.8)	(8.4)
Earnings before extraordinary items					$ 100.2	$ 72.3
Total assets –identifiable	$1,674.7	$1,441.2	$ 222.7	$ 223.6	$1,897.4	$1,664.8
–general					178.9	156.9
–total					$2,076.3	$1,821.7
Additions to fixed assets –identifiable	$ 184.2	$ 106.0	$ 17.0	$ 17.1	$ 201.2	$ 123.1
–general					1.2	3.2
–total					$ 202.4	$ 126.3

Geographic Segments	Canada		U.S.A.		Consolidated	
	1985	1984	1985	1984	1985	1984
Net sales	$1,986.4	$1,676.7	$ 563.4	$ 460.5	$2,549.8	$2,137.2
Operating profit	$ 230.4	$ 154.0	$ 18.0	$ 21.2	$ 248.4	$ 175.2
Total assets –identifiable	$1,626.8	$1,427.1	$ 270.6	$ 237.7	$1,897.4	$1,664.8
–general					178.9	156.9
–total					$2,076.3	$1,821.7

Notes:

(1) Geographic segments reflect the location of the Company's production facilities.

(2) Canadian operations include sales to the U.S. market of $830.7 million (1984 – $786.6 million) and other export sales of $189.9 million (1984 – $185.1 million).

4. Acquisitions

In February 1985, Abitibi-Price acquired all of the outstanding common shares of CIP Daxion Inc., a distributor of industrial paper and packaging products, for a total cost of $28.4 million, comprising cash of $14 million and an 11 1/2% note for $14.4 million due in February 1986.

In April 1985, the Company acquired all of the outstanding Class A and Class B shares of Barbecon Inc., a major distributor of printing papers and Canada's largest envelope company, for a total cost of $52.8 million, comprising cash of $10.5 million and 3,680,393 Preferred Shares Series F with an assigned value of $42.3 million.

Both acquisitions have been accounted for by the purchase method and have been included in the consolidated financial statements from March 1 in the case of Daxion and from April 1 in the case of Barbecon. The acquisitions are summarized as follows:

	Daxion	**Barbecon** (millions of dollars)	**Total**
Net assets acquired, at fair value:			
Cash and bank loans	$ 0.3	$ (5.5)	$ (5.2)
Other working capital	23.4	34.8	58.2
Fixed assets	1.4	24.5	25.9
Goodwill	4.2	14.6	18.8
Long-term debt	(0.7)	(14.1)	(14.8)
Deferred income taxes	(0.2)	(1.5)	(1.7)
Total cost	$ 28.4	$ 52.8	$ 81.2

Goodwill, which represents the excess of the cost of the Company's investment over the values attributed to the underlying assets acquired, is being amortized on a straight-line basis over 20 years.

5. Newsprint joint venture

The Company's 50% share of the loss and net assets of the joint venture newsprint operation at Augusta, Georgia, is as follows:

	1985	1984
	(millions of dollars)	
Revenue	**$ 95.5**	$ 81.7
Expenses	**98.6**	87.0
Loss	**$ (3.1)**	$ (5.3)
Assets	**$219.7**	$208.9
Liabilities	**168.4**	168.9
Net assets	**$ 51.3**	$ 40.0

Liabilities include $157.8 million (1984 – $157.8 million) representing 50% of long-term borrowings, without recourse to the partners, which were arranged to finance the installation of a second newsprint machine and related facilities at the Augusta mill.

Under a marketing agreement, the joint venture's newsprint production is sold through a wholly-owned sales subsidiary of Abitibi-Price Inc.

6. Income taxes

The Company's effective income tax rate is as follows:	1985	1984
	(millions of dollars)	
Earnings before income taxes, minority interest and extraordinary items	**$177.4**	$110.9
Income taxes	**69.4**	30.2
Effective income tax rate	**39.1%**	27.2%
Made up of:		
Combined basic Canadian federal/provincial income tax rates	**46.0%**	46.4%
Increase (decrease) resulting from –		
Manufacturing and processing allowances	**(4.0)**	(4.2)
Investment tax credits	**—**	(7.6)
Inventory allowances	**(1.6)**	(2.4)
Capital gains and other reduced rate transactions	**(2.6)**	(4.1)
Higher (lower) effective tax rates on earnings of foreign subsidiaries	**(0.4)**	0.4
Other	**1.7**	(1.3)
Effective income tax rate	**39.1%**	27.2%

7. Extraordinary items

	1985	1984
	(millions of dollars)	
Net loss on sales of groundwood papers mill at Sault Ste. Marie, Ont., and sawmill at White River, Ont., after income tax credit of $0.8 million	**$ —**	$ 2.2

8. Change in non-cash working capital

Cash provided by (used for) changes in other working capital components:	1985	1984
	(millions of dollars)	
(Increase) decrease in current assets:		
Accounts receivable	**$ (62.0)**	$ (32.2)
Inventories	**(26.6)**	(28.3)
Prepaid expenses	**(2.5)**	1.1
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	**74.8**	18.0
Income and other taxes payable	**7.0**	8.9
Dividends payable	**9.5**	0.2
Long-term debt due within one year	**(0.8)**	—
	(0.6)	(32.3)
Non-cash working capital acquired with purchase of subsidiary companies	**58.2**	8.9
Non-cash working capital included in sales of operating units	**—**	(4.5)
Change in non-cash working capital applicable to operating activities	**$ 57.6**	$ (27.9)

9. Inventories

	1985	1984
	(millions of dollars)	
Finished products and work in process	**$164.1**	$133.2
Pulpwood, sawlogs and expenditures on current logging operations	**126.4**	131.9
Materials and operating supplies	**62.9**	61.7
	$353.4	$326.8

10. Long-term debt

	1985	1984
	(millions of dollars)	
Abitibi-Price Inc.:		
Sinking Fund Debentures (secured) –		
5 1/4% Series A, maturing 1985	**$ —**	$ 6.8
7 1/4% Series B, maturing 1987	**5.3**	5.3
9 3/4% Series D, maturing 1990	**7.5**	7.5
10 1/2% Series E, maturing 1985	**—**	35.3
11% Series F, maturing 1995	**10.9**	10.9
11 3/8% Series G, maturing 1995 (U.S. $40 million)	**55.9**	58.2
10.15% Series H, maturing 2000 (U.S. $135 million)	**188.8**	178.4
15 3/4% Debentures Series I, maturing 1991 (secured) (U.S. $50 million)	**69.9**	66.1
Abitibi-Price Refinance Inc.:		
Floating Rate Cumulative/Term Loan, maturing 1993 (U.S. $48.1 million) (a)	**67.2**	15.3
Abitibi-Price Corporation:		
7 3/8% Instalment Notes, maturing 1988 (U.S. $5 million) (b)	**7.0**	7.9
The Price Company Limited:		
6 3/4% Sinking Fund Debentures Series B, maturing 1987	**8.6**	9.7
Gaspesia Pulp and Paper Company Ltd.:		
Floating Rate Revolving Loan, maturing 1993 (U.S. $11 million) (c)	**15.3**	10.4
Barbecon Inc.:		
Bank Loans, maturing 1990 – 1991 (d)	**11.5**	—
Other indebtedness	**11.6**	12.7
	459.5	424.5
Less: Amount due within one year, less amounts to be refinanced	**3.8**	4.6
	$455.7	$419.9

(a) Abitibi-Price Refinance Inc. may borrow from certain banks up to U.S. $70 million, or its Canadian funds equivalent, to refinance long-term debt repayment obligations of Abitibi-Price Inc. to December 31, 1986, with the balance of the loan at that date to be repaid by December 31, 1993. Interest is at rates approximating U.S. base rate, U.S. dollar bankers' acceptances or LIBOR for U.S. funds borrowings and at rates approximating bank prime for Canadian funds borrowings. The loan is secured by an Abitibi-Price Inc. Series K Debenture (secured).

(b) Abitibi-Price Corporation's 7 3/8% Instalment Notes are secured by Abitibi-Price Inc. 7 3/8% Series C Debentures (secured).

(c) Gaspesia Pulp and Paper Company Ltd. may borrow from a bank on a revolving basis up to U.S. $25 million to September 19, 1993, with the balance of the loan becoming due on that date. Interest is at rates approximating U.S. prime, U.S. dollar bankers' acceptances or LIBOR.

(d) Interest on Barbecon Inc.'s Bank Loans is at rates approximating bank prime.

Sinking fund and other long-term debt repayment obligations for the years 1987 to 1990 are estimated to be $36.5 million, $28.3 million, $24.6 million and $26.1 million, respectively.

During the year ended December 31, 1985, interest of $5.9 million has been capitalized on major capital additions (1984 – $6.3 million).

11. 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.

Common Shares and Class A Shares –
At the annual meeting on April 15, 1985, the shareholders approved a 3-for-1 split of the Company's Common Shares, effective May 1, 1985. All 1984 figures in these financial statements which relate to Common Shares have been adjusted to reflect the share split.

	1985 Number of Common Shares	**$ millions**	1984 Number of Common Shares	$ millions
Outstanding at beginning of year	**63,930,387**	**$121.3**	62,199,945	$105.2
Issued –				
Under stock dividend elections by Common shareholders	**8,155**	**0.1**	1,673,886	15.7
Under the terms of the Key Employees' Stock Option Plan	**262,332**	**0.8**	15,252	—
On conversion of Preferred Shares Series E	—	—	41,304	0.4
Outstanding at end of year	**64,200,874**	**$122.2**	63,930,387	$121.3

The stock dividend option plan, under which Common shareholders could elect to receive Common Shares or Class A Shares in lieu of cash dividends, was discontinued in June 1985 as a result of the Federal Budget of May 23, 1985 which eliminated income tax advantages previously associated with stock dividends.

No Class A Shares are outstanding.

7 1/2% Cumulative Redeemable Preferred Shares Series A –
The Series A shares, which were issued at $50 per share, are redeemable at $51 per share. During 1985, 7,200 shares with a book value of $0.4 million were purchased at a cost of $0.3 million and cancelled (1984 – 3,700 shares with a book value of $0.2 million at a cost of $0.1 million).

10% Cumulative Redeemable Preferred Shares Series B –
The Series B shares, which were issued at $50 per share, were fully retired during 1985 at a cost equal to book value (1984 - 40,000 shares were purchased at a cost approximating book value of $2 million).

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 and are retractable at the option of the shareholders at $50 per share on January 1, 1990. Dividends are 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.

$0.94 Cumulative Redeemable Retractable Preferred Shares Series F –
In April 1985, the Company issued 3,680,393 Preferred Shares Series F at $11.50 per share as partial consideration for the purchase of Barbecon Inc. (note 4). The shares are redeemable by the Company in whole or in part at $13.00 per share to December 31, 1986 and thereafter at prices declining to $11.50 per share on January 1, 1990. The shares are retractable at $11.50 per share at the option of the holder on March 31, 1986 and on January 1 in each year thereafter.

12. Lease commitments

The Company and its subsidiaries have entered into operating leases to charter ships and lease equipment and property for various periods up to the year 2007 at rentals aggregating approximately $100.2 million. Minimum payments under these leases are as follows:

	(millions of dollars)
1986	$ 20.5
1987	19.7
1988	15.6
1989	9.4
1990	5.8
Remaining years	29.2
	$100.2

13. Pension plans

Most employees are members of Company pension plans, with the majority participating in contributory plans that provide pensions based on length of service and final average earnings. For these plans, the Company has an obligation to ensure there are sufficient funds to pay the benefits earned.

Accumulated plan benefits and plan net assets were as follows at December 31, 1985:

	(millions of dollars)
Actuarial present value of accumulated plan benefits:	
– based on current service and compensation levels	
Vested	$444
Non-vested	29
	$473
– based on projected service and compensation levels	
Vested	$560
Non-vested	41
	$601
Actuarial value of net assets available for benefits (at market – $673 million)	$596

In some of the plans there are unfunded past service costs which aggregate $35 million. These are being funded and charged to earnings generally over periods not exceeding 15 years.

Auditors' Report

To the Shareholders of Abitibi-Price Inc.:

We have examined the consolidated balance sheet of Abitibi-Price Inc. as at December 31, 1985 and the consolidated statements of earnings, retained earnings and changes in cash 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.

In our opinion, these consolidated financial statements present fairly the financial position of Abitibi-Price Inc. as at December 31, 1985 and the results of its operations and changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of accounting for investment tax credits as referred to in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants
Toronto, February 5, 1986

Directors

Marcel Bélanger, O.C. (2)
President
Gagnon et Bélanger Inc.
Quebec, Quebec

Thomas J. Bell, M.C. (1,5)
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Howard W. Blauvelt (3,4)
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Toronto, Ontario

Bernd K. Koken (1,3,4)
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Abitibi-Price Inc.
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Toronto, Ontario

Paul Reichmann (1,3,4)
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and Secretary
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Ralph Reichmann
Executive Vice-President and Treasurer
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Honorary Director
General Lauris Norstad
D.S.M., Silver Star, C.B.E.

(1) Executive Committee
(2) Audit Committee
(3) Human Resources and
Compensation Committee
(4) Planning Committee
(5) Pension Fund Committee

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Chairman

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President and Chief Executive Officer

Bernd K. Koken

Group Vice-Presidents

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K. Linn Macdonald
J. Ian McGibbon
Ronald Y. Oberlander

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J. Kenneth Stevens
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Vice-Presidents

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Operations (Region III)

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Engineering

M. Thomas Neill
Research and Development

James B. Papoe
Operations (Region I)

Sharon A. Paul
Corporate Communications

Michael D. Thompson
General Counsel and Secretary

H. Colin Warner
Controller

J.A. Warner Woodley
Personnel

Other Officers

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Assistant Secretary

Bernard Conway
Assistant Treasurer

Robert A. Cook
Assistant Treasurer

Jean E. Gebbie
Assistant Secretary

Donald J. McMullan
Assistant Treasurer

Six-year Financial Review

	1985	1984	1983	1982	1981	1980
Sales and earnings ($ millions)						
Net sales	**$2,549.8**	$2,137.2	$1,660.2	$1,634.3	$1,763.4	$1,364.7
Joint ventures - newsprint	**(3.1)**	(5.3)	1.9	2.0	—	0.4
- mining	**(2.7)**	(1.6)	(0.7)	(2.2)	(0.4)	18.4
Interest and other income	**23.9**	22.9	27.2	33.9	24.0	26.4
Cost of sales	**2,072.2**	1,788.7	1,441.6	1,354.4	1,356.3	1,076.9
Selling and administrative expenses	**188.4**	132.9	114.8	121.8	117.8	98.8
Depreciation and depletion	**82.1**	76.8	68.6	70.1	61.7	53.3
Exploration costs	**1.2**	2.3	1.5	2.7	4.6	3.9
Interest on long-term debt	**43.6**	40.4	18.9	25.2	28.2	25.7
Other interest	**3.0**	1.2	0.8	1.4	—	0.3
Income taxes	**69.4**	30.2	0.7	22.4	87.2	51.9
Minority interest	**7.8**	8.4	3.7	6.1	7.8	4.8
Earnings before extraordinary items	**100.2**	72.3	38.0	63.9	123.4	94.3
Extraordinary items	—	(2.2)	—	(2.6)	12.3	18.0
Net earnings	**100.2**	70.1	38.0	61.3	135.7	112.3
Dividends declared ($ millions)						
Preferred Shares	**$ 9.3**	$ 8.0	$ 7.4	$ 10.8	$ 10.0	$ 9.8
Common Shares (2)	**47.0**	25.0	12.4	31.1	33.1	30.1
Capital expenditures ($ millions)	**$ 202.4**	$ 126.3	$ 165.3	$ 187.9	$ 207.0	$ 231.0
Financial position ($ millions)						
Working capital	**$ 373.0**	$ 409.5	$ 384.2	$ 437.3	$ 461.4	$ 414.3
Fixed assets, net	**1,132.0**	1,010.3	993.6	917.9	837.1	730.0
Long-term debt	**455.7**	419.9	395.1	385.8	388.9	360.7
Deferred income taxes	**236.9**	209.3	191.8	187.6	174.7	127.9
Minority interest	**26.3**	25.1	19.5	19.5	16.6	18.1
Preferred Shares	**124.1**	104.2	113.8	122.7	130.8	139.9
Common shareholders' equity	**858.1**	805.7	747.7	721.1	701.5	560.4
Per Common Share (1)						
Earnings before extraordinary items	**$ 1.42**	$ 1.02	$ .48	$ .87	$ 1.85	$ 1.50
Net earnings	**1.42**	.99	.48	.82	2.05	1.82
Dividends declared (2)	**.73**	.40	.20	.50	.53	.53
Common shareholders' equity	**13.37**	12.60	12.02	11.60	11.29	9.93
Return on average capital employed	**8.0%**	6.8%	3.6%	5.9%	11.2%	10.3%
Return on average common shareholders' equity	**10.9%**	8.3%	4.1%	7.6%	18.0%	16.1%
Long-term debt/debt plus shareholders' equity	**31.7%**	31.6%	31.4%	31.4%	31.8%	34.0%
Number of employees (year end)	**15,500**	14,800	15,100	14,600	17,800	17,300

Notes:

(1) Figures for the years 1980 to 1984 have been restated to reflect the 3-for-1 split of Common Shares which became effective May 1, 1985.

(2) Four quarterly dividends were paid in each of the years 1980 to 1985, but because of changes in dividend declaration dates, three dividends were declared in 1983 and five in 1985.

Primary Production

(figures in thousands)	Newsprint* (tonnes)	Groundwood Papers (tonnes)	Kraft Products (tonnes)	Lumber (mfbm)	Coated Papers (tonnes)	Hardboard (msf - equivalent)
Production						
1980	1,546	201	136	244	178	824
1981	1,788	308	188	291	154	878
1982	1,512	321	173	140	101	942
1983	1,461	321	173	181	114	1,113
1984	1,721	374	115	181	121	1,111
1985	**1,699**	**349**	**105**	**103**	**126**	**1,155**
Capacity – 1986	**1,953**	374	**107**	**140**	**135**	**1,267**

*Newsprint figures include the total production of the 50%-owned joint venture at Augusta, Georgia, but exclude tonnage made available under an exclusive marketing agreement during the years following the sale of the Company's 50% interest in a newsprint machine at DeRidder, Louisiana, at the end of 1980.

Annual general meeting
The annual meeting of shareholders of Abitibi-Price Inc. will be held in Commerce Hall, Concourse Level, Commerce Court West, Toronto, Canada, on Monday, April 21, 1986 at 10:00 a.m.

Common share information
Common shares of the Company are listed on the Montreal, Toronto and Vancouver stock exchanges and traded under the ticker symbol A.

Valuation Day (December 22, 1971) share prices:

Common	$ 7.25
7 1/2% Cumulative redeemable preferred, Series A	$49.50

The Valuation Day common share price does not reflect the 3-for-1 split which was effective May 1, 1985.

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

National Bank of Detroit
Detroit, U.S.A.

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