ABITIBI-PRICE

Unlocking our potential

Creating our future through being the finest and growth

1996 ANNUAL REPORT

ABITIBI-PRICE At A Glance

Although based in Canada, we are a global paper company

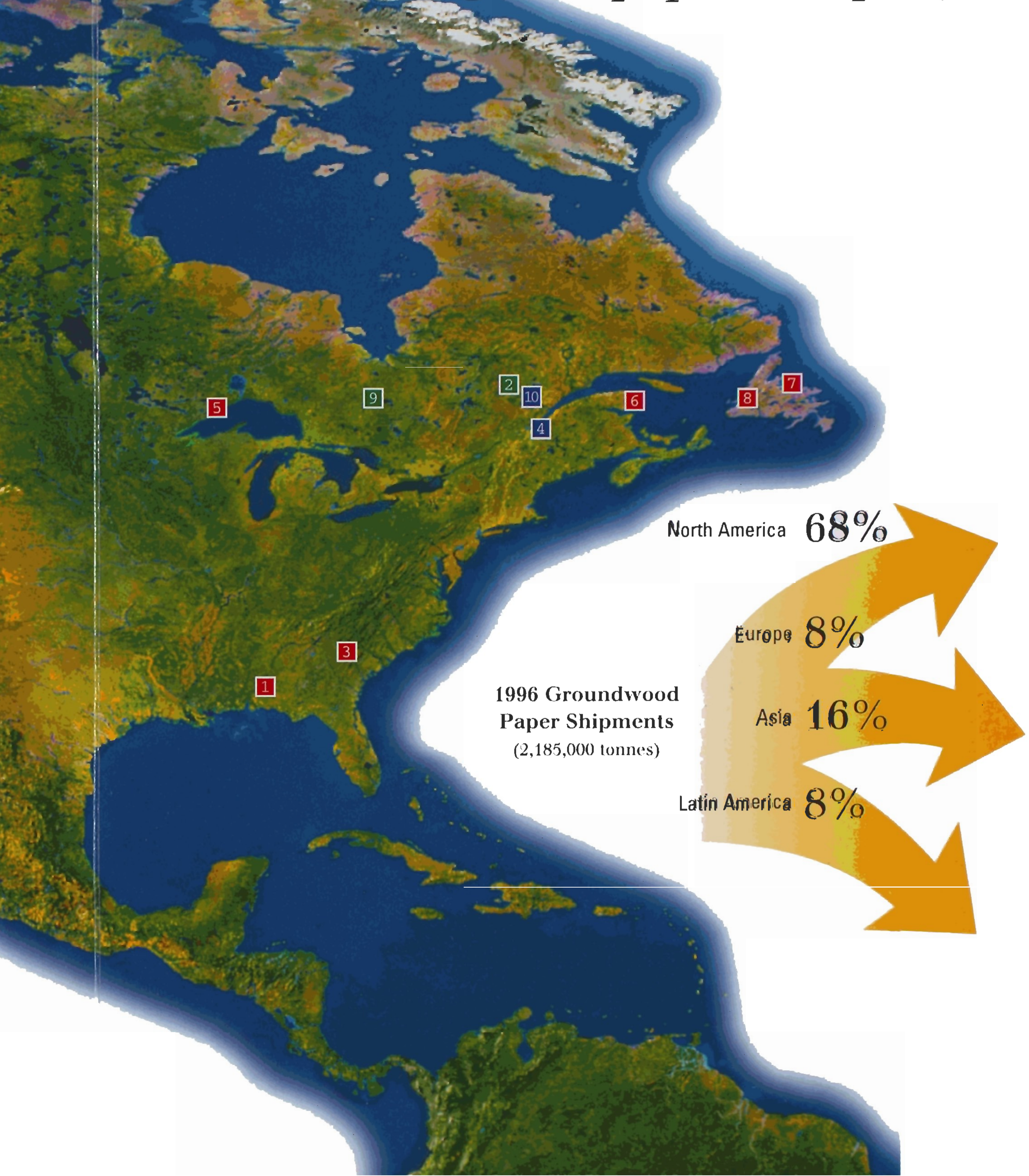
Mill by Mill Review

Mill Business Units	Abitibi-Price 1997 Capacity (000s tonnes) Newsprint	Value-Added Papers	Total	Number of Machines	ISO Quality Status
1 **Alabama River Newsprint** [1] Claiborne, Alabama	128	—	128	1	9002
2 **Alma** Alma, Quebec	158	119	277	3	9003
3 **Augusta Newsprint Company** [1] Augusta, Georgia	207	—	207	2	—
4 **Beaupré** Beaupré, Quebec	—	179	179	2	9003
5 **Fort William** Thunder Bay, Ontario	145	—	145	1	9003
6 **Gaspesia Pulp and Paper Company** Chandler, Quebec	258	—	258	2	9003
7 **International** Grand Falls	210	—	210	2	— [2]
&					
8 Stephenville, Newfoundland	184	—	184	1	9003
9 **Iroquois Falls** Iroquois Falls, Ontario	218	115	333	3	9003
10 **Kénogami** Jonquière, Quebec	—	250	250	4	9003
Total	1,508	663	2,171	21	

(1) Capacity figures shown for Alabama River Newsprint and Augusta Newsprint Company represent our 50% interest in those mills.

(2) Working towards ISO 9003 certification.

Newsprint — Value-Added Papers — Mixed Grades



Corporate Profile

Abitibi-Price Inc. — We are a Canadian-based forest products Company, which manufactures newsprint and value-added papers at ten mills in North America and markets these products around the world. We are also a distributor of office products in North America and Europe.

Contents

New in this year's report! Please flip open the inside front cover for a **map** of our operations and open the inside back cover for our **glossary** of terms.

On peut obtenir le présent rapport en français sur demande.

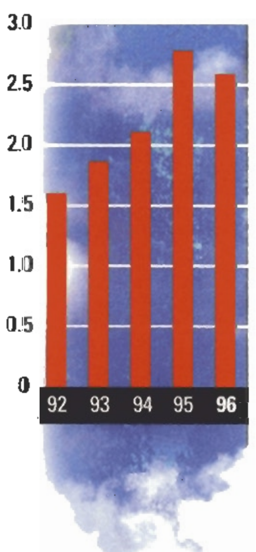
Financial Highlights

For the Year (In millions of Canadian dollars, except per share data)	**1996**	1995	1994
Financial Summary			
Net sales	**$ 2,590**	$ 2,782	$ 2,110
Operating profit from continuing operations	**206**	480	18
Earnings (loss) from continuing operations	**104**	272	(52)
Capital expenditures	**338**	345	106
Working capital	**97**	118	234
Per Common Share:			
Earnings (loss) from continuing operations	**1.17**	3.24	(0.62)
Dividends declared	**0.40**	0.30	—
Dividends paid	**0.40**	0.20	—
Common shareholders' equity	**12.49**	12.08	9.93

At Year End (In millions of Canadian dollars, except per share data)	**1996**	1995	1994
Financial Position			
Long-term debt (including non-recourse)	**$ 611**	$ 549	$ 666
Current portion of long-term debt (including non-recourse)	**67**	76	27
Bank loan	**15**	17	32
Cash and deposits	**60**	178	272
Total assets	**2,499**	2,371	2,189
Common shareholders' equity	**1,108**	1,015	838
Weighted average number of common shares outstanding (millions)			
Basic	**88.7**	84.0	84.4
Fully diluted	**91.4**	95.4	96.6
Fully diluted number of common shares outstanding (millions)	**91.5**	91.4	99.6

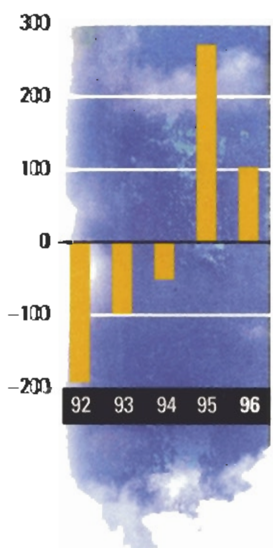
Net Sales

(billions of dollars)



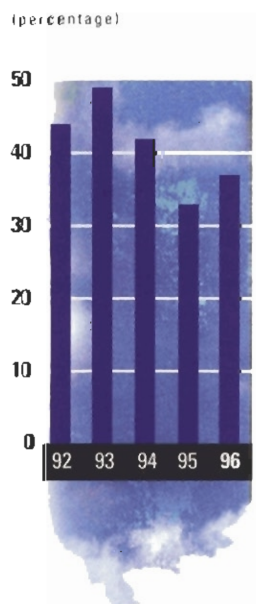
Earnings (Loss) from Continuing Operations

(millions of dollars)



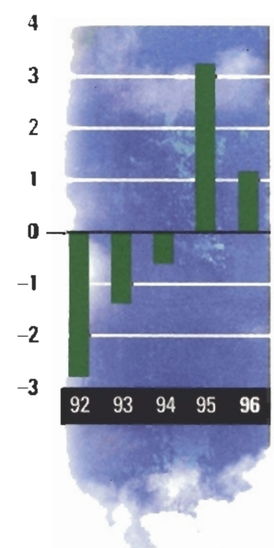
Net Debt to Total Capitalization

(percentage)



Earnings (Loss) from Continuing Operations Per Share

(dollars)



Unlocking *our* Potential

1996 was a year of tremendous accomplishment at Abitibi-Price.

Despite tough global market conditions, we are able to look back on 1996 with pride. Some of the most significant accomplishments were as follows:

- Our net earnings in 1996 were $104 million or $1.14 per share, despite the largest and fastest fall in North American newsprint prices — a 12-month drop of approximately U.S.$240 per tonne;
- We achieved world-class efficiency levels in our newsprint operations of 88.1%, a great accomplishment given the numerous start-ups and shut-downs related to the 157,000 tonnes of downtime that we decided to take;
- Our $242 million investment in thermo-mechanical pulping (TMP) in Alma, Quebec, and Iroquois Falls, Ontario came on-line ahead of schedule, and at a lower installed cost per

Ronald Y. Oberlander
Chairman and
Chief Executive Officer

tonne than any other TMP project of comparable size, and is expected to reduce our annual cost base by $60 million;

- Seven of the company's ten mill business units have met our Cornerstone criteria on cost performance, cash flow and product positioning — and in respect of the three non-Cornerstone mills, we are actively engaged in selling the Fort William mill in Thunder Bay, Ontario, and are continuing to seek solutions for the mills in Chandler and Jonquière, Quebec;
- After severe flooding hit Quebec's Saguenay Region and damaged our Kénogami mill in Jonquière, the mill was up and running again in only 12 days due to the tremendous dedication and hard work of our mill's employees — and at the same time this mill along with our mill in Alma provided crucial emergency aid to the region's inhabitants during and after the disaster;
- Our share price rose by over 10% despite our high sensitivity to changes in newsprint prices, which fell 32% in 1996;
- Consistent with our stated goal of consolidation, on February 14, 1997, we announced our intention to amalgamate with Stone-Consolidated.

Becoming the Finest

This list of accomplishments is impressive, but it has only been possible due to the will and desire of our employees to propel Abitibi-Price toward becoming the finest manufacturer and marketer of groundwood papers — the first part of our two-part strategy. I'll address the second part, growth, in a moment.

Through our efforts to become the finest, we began to unlock our potential to create superior shareholder value. In the pages immediately following this letter, you will be able to judge for yourself the success of our efforts. The benchmarks we used were those outlined in last year's report. We measure our performance against our goals and the performance of our competitors.

Working to meet our targets has resulted in a tremendous improvement at Abitibi-Price for the benefit of all stakeholders. While we have not met every target, we are pleased with the overall performance and improvement. Our dissatisfaction with the areas where our performance did not reach our target drives us to do better.

It is no coincidence that as we have moved closer to becoming the finest, our return to shareholders has improved dramatically. In 1996, this return increased by 13% despite the plunge in newsprint prices.

Growth

As I have previously reported to you, we strongly believe that growth is more than just increasing our capacity or revenues — our objective is to increase share price.

We set strategies for the growth of our core business in two directions: North American consolidation and joint venture partnerships in expanding international markets, where we already have an established marketing presence.

In North America, we believe that sticking to our core business of groundwood papers is the way to capitalize on the core competencies that we have built in manufacturing and marketing. I spoke at

Through our efforts to become the **finest**, we began to unlock our potential to create superior shareholder value.

last year's annual meeting about the need for consolidation in this industry and the likely role that we would play in that consolidation. This led us to actively seek merger and acquisition opportunities and as a result, in February of this year we were able to announce our intention to amalgamate with Stone-Consolidated. We believe the amalgamation provides a strong platform for further value-creating growth in North America and internationally.

Shifting our product mix towards value-added papers has also been an initiative at Abitibi-Price, an initiative shared by Stone-Consolidated. In 1996, we looked at the potential of expanding further into supercalendered (SCA) paper at our Kénogami business unit in Jonquière, Quebec. However, a proposed project to replace three small paper machines with a twin for the mill's existing SCA machine left concerns about whether the product quality would match future demand. With our competition bringing new SCA capacity on stream, we did not expect the project to provide the required returns. While that project was cancelled, we continue to look for solutions at this mill and for value-added growth both in and outside of North America.

International Growth

Internationally, our search for growth has been focused on our core business — both newsprint and value-added papers. We have been seeking opportunities in regions where demand for groundwood papers is at the highest levels and have concentrated on potential projects in Asia and South America.

Our objective in these regions is to become a 'regional partner of choice'. We have been seeking opportunities to work with local partners who will lend their expertise and understanding of the local political and economic environment. We are targeting small, staged investments, but only in projects that will open up opportunities for further investment when satisfactory returns are captured from the initial investments.

We already sell our paper in these high demand growth regions and expect that by creating a

We continue to look for value-added **growth** both in and outside of North America.

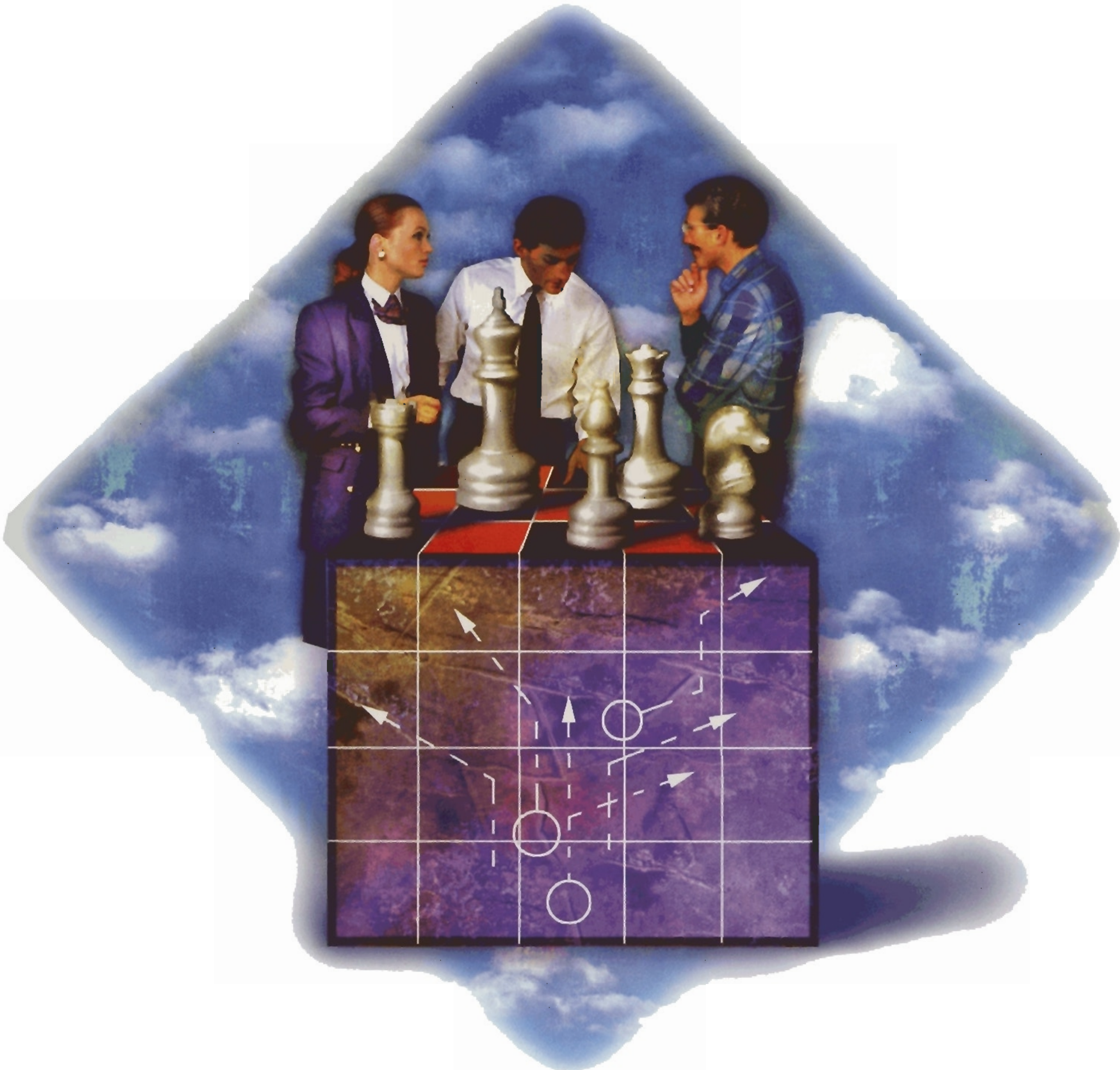
local presence in these markets we will also open up new opportunities to sell our North American produced paper. We have been working hard to establish our human bridges in these regions and are much more confident of the investment potential in one or both of them. We believe that this is a valid strategy for the future.

The third avenue that we considered for growth was in our non-core Office Products Division. In 1996, we purchased Tenex for $47 million. Tenex, a Canadian distributor of data processing supplies, boosted 1996 revenue for the Division by $85 million. The Division is a successful, growing asset that has generated significant value since its inception. However, it does not fit with our long-term strategy and can be divested for value. The proceeds from its divestiture could provide capital to invest in high-return projects in our core business.

Over the past five years, we have achieved better balance in meeting our responsibilities towards all stakeholders — our employees, our customers, our communities and, of course, our shareholders — and we value their continued support. We have increasingly sought opportunities with you to talk openly about our progress and our plans for the future, and to listen to your questions and concerns. We will continue our commitment to this two-way communication as your views have provided valuable input into our strategies to achieve the best returns on your investment.

We are convinced that our vision to become the finest will further unlock our potential and make us a stronger company. We believe that the strategies we have followed will continue to deliver sustainable growth in shareholder value.

RONALD Y. OBERLANDER
Chairman and Chief Executive Officer
April 14, 1997



We believe that the **strategies** we have followed will continue to deliver sustainable growth in shareholder value.

Is Abitibi-Price the finest?

Last year we outlined some critical measurements that we set to define our goal of becoming the world's finest manufacturer and marketer of groundwood papers. To be judged the finest, we explained that we must perform strongly in areas that were beneficial to each of our four principal stakeholder groups.

We have not met all of our goals to become the finest. We have, however, unlocked enough of our potential to learn what it takes to be the finest. In the table below we describe each measure, define our target and show our progress to date.

You be the judge...

		Goals	What *we aimed to achieve*	How *we measured up* Average	Abitibi-Price	Competition	Rank
Shareholders	1	**Be the best forest product investment opportunity.**	Five-year average return to shareholders, higher than our key North American competitors' returns.	5-year 3-year 1996	10% 13% 13%	15% 15% 12%	3rd of 4 3rd of 5 2nd of 6
Shareholders	2	Earn a return on capital employed (ROCE) greater than competitors.	Our pre-tax ROCE to be greater than our six key North American competitors' ROCE for the most recent year in which data was available.	1995	29%	21%	3rd
Shareholders	3	**Realize lower production costs than our competitors.**	Average mill costs must rank in the lowest quartile of North American mills in each major product category.	5 of 8 newsprint mills and 2 of 3 value-added papers mills in low-cost quartile; the average of all newsprint mills (adjusted for downtime) within $2 per tonne of target.			
Employees	1	Achieve the best overall safety record in our industry.	Lost-time accidents had to rank in the top 10% of Canadian industry (below 16 per million man hours).	Since 1991 the number has dropped from 75 to 19 accidents per million man hours, still slightly above the target.			
Employees	2	**Achieve a superior level of employee relations.**	75% of employees must rate company as good or better than it was in areas relating to reputation, training, safety, and job satisfaction.	Average across the company reached 71% with 3 of 10 divisions exceeding the target.			
Customers	1	Sustain high levels of customer satisfaction at low cost.	75% of customers rate the company as the sole or preferred supplier in an independent survey.	For the year 1996, the company achieved a rating of 74%.			
Society	1	**Maintain full compliance with all environmental regulations.**	Must place in top quartile of Canadian industry with less than 2.5 incidents per mill per year.	Average in 1996 was 1.3 incidents per mill per year.			
Society	2	Industry leadership through excellence in sustainable forest management practices.	We will voluntarily seek certification that our practices meet international standards.	First steps taken in multi-year process of certification. With a 'gap analysis' done and a 2-year action plan in place we continue to seek certification.			

Management's Discussion and Analysis
of Financial Condition and Results of Operations

FOR THE YEAR ENDED DECEMBER 31, 1996

Contents

Overview

In 1996, we continued to make strides in fulfilling our vision of becoming the finest manufacturer and marketer of groundwood papers. In pursuit of that vision, we have made significant improvements throughout our operations over the last five years.

These improvements have partially mitigated the downside of the current cycle. This is most evident when comparing periods of similar average newsprint transaction prices. During 1996 newsprint transaction prices averaged U.S.$649 per tonne for the year but only U.S.$573 per tonne in the second half of the year, very similar to the U.S.$555 per tonne for the full twelve months of 1990. Our annualized operating profit performance for the second half of 1996 was $82 million, an improvement over 1990's loss of $18 million (after adjustment for inflation, currency and comparable tonnes). The difference of $100 million is attributable principally to improvements in our operations.

When we set our vision in 1990, we looked to the long-term and envisioned what the future might look like. Today, we are proud of our accomplishments and report 1996 net earnings of $104 million or $1.14 per share on a fully diluted basis.

1996 NET EARNINGS OF $104 MILLION

What started as another very promising year quickly saw a reversal of the trend of improving quarterly results we had experienced in 1994 and 1995. The Company recorded net earnings of $104 million in 1996 — $168 million lower than 1995 earnings of $272 million, but a $160 million improvement over the loss of $56 million in 1994. Fully diluted net earnings per common share were $1.14 — down $1.76 from 1995 earnings of $2.90, but significantly better than the loss of 66¢ per common share in 1994. In the fourth quarter of 1996 we recorded a net loss of $9 million or 10¢ per fully diluted common share. This was $99 million, or $1.05 per fully diluted common share, lower than the fourth quarter earnings of $90 million in 1995.

The reversal of the quarterly earnings trend was mainly due to reduced sales volumes, falling prices and production downtime taken in the Company's core business — newsprint and value-added papers. Lower sales volumes and selling prices and the production downtime taken in 1996 hampered our cash flow as well as our earnings.

Paper Prices

Newsprint prices began a steady increase from March 1994 until early 1996. From April through December 1996, newsprint prices fell monthly — from a high of U.S.$750 per tonne in March to U.S.$510 per tonne in December, a 32% decline. According to industry analysts, value-added paper prices, on average, fell approximately 2.6% from December 1995 to December 1996. Lower newsprint and value-added paper prices reduced our 1996 revenues by $96 million as compared with 1995.

On average, our 1995 paper prices rose 47% above 1994 levels for newsprint and 44% for value-added papers.

Downtime

In late 1995 and early 1996, customers increased their inventories in anticipation of further price increases. This resulted in a supply/demand imbalance in the paper industry. Customer inventories were significantly inflated, with the result that demand throughout 1996 was generally lower than in 1995. To minimize inventory accumulation at the mills, many major North American paper producers, including Abitibi-Price, reduced their 1996 output by taking downtime. In total, we took 212,000 tonnes of market-related production downtime in 1996 — 157,000 tonnes of newsprint and 55,000 tonnes of value-added papers. This market-related downtime increased the fixed cost portion of our manufacturing cost per tonne. No market-related production downtime was taken in 1995 and 1994 due to higher demand in both of those years.

HIGHLIGHTS OF 1996

TMP Plants Started Up

In June, two thermo-mechanical pulping (TMP) plants were started up, one at Alma, Quebec and the other at Iroquois Falls, Ontario. In 1995 we committed to build these plants in 15 months. Both start-ups were ahead of schedule and at a lower installed cost per tonne than any other TMP facility of their size. The total cost was $242 million, of which $156 million was spent in 1996 and $86 million in 1995. The Company recorded restructuring charges of $28 million in June 1996 related to the write-off of old assets replaced by the TMP plants and employee restructuring costs.

The TMP investments are pivotal to our strategy of becoming a leading international groundwood manufacturer. The TMP process is expected to lower our annual production costs by $60 million through a reduction in the use of kraft pulp, labour and chemicals. Additional benefits of the TMP process include improved paper quality and a more efficient, environmentally cleaner manufacturing process.

Star Lake Hydro Project

We have converted surplus land and water rights in Newfoundland into a potentially valuable business through participation in a government-supported non-utility generation program. In July 1996, we confirmed our participation in the development of the 15 MW, Star Lake Hydro Project in Newfoundland. Star Lake is the result of a successful bid with our venture partner, CHI Hydroelectric Company, Inc., to supply electricity under a 25-year agreement with Newfoundland and Labrador Hydro. The facility is a $54 million project that will be financed 85% by limited recourse debt, and 15% by equity from the venture partners.

The project is expected to generate average annual net, after tax, cash flow of approximately $3.5 million over the term of the supply agreement, and provides greater than 100% return on our equity investment. After 30 years, the facility will revert to Abitibi-Price for $1, and the generating capacity will be added to our existing capacity of 58 MW in Newfoundland. Our share of the venture is 51%. Construction is expected to commence in the spring of 1997 and will be completed by October 1998.

Grand Falls Power Canal

In April 1996 construction began on a power canal to replace the aging penstocks and concrete inlet structures which convey water to the hydro generating station at Grand Falls. The power canal represents a significant step forward in fulfilling our strategic plan for the Grand Falls mill and to maintain its position as a Cornerstone mill. The power canal was completed and became operational in December, at a total cost of $25 million.

Labour Negotiations

During 1996, wage negotiations were concluded with our major unions. The settlements followed the industry pattern for 1996 which consisted of a 3.5% increase in each of 1996 and 1997 in addition to a lump-sum payment of $1,000 per employee in both years. These settlements were reached without any labour disruptions, which demonstrates the strength of the relationship between the Company and its unionized workforce.

Machine Purchase in Peru

Consistent with our international growth strategy, we purchased a second-hand newsprint machine and related ancillary equipment in Peru. The machine's capacity is 140,000 tonnes, and cost $22 million. The machine was purchased from the government-owned paper firm, Sociedad Paramonga. Our intention is to use this machine for international expansion. It will be dismantled and shipped when we find the right investment opportunity.

Acquisition by Office Products Division

Revenues of the Office Products Division have tripled since the business started in 1988. Growth has come primarily from internal sources through increasing the number of product lines and services, and expanding geographically. In 1996 we augmented this internal growth by acquiring Tenex Data Corporation (Tenex), for $47 million. The principal business of Tenex is the distribution of computer supplies and data storage products. Since July 1, 1996, the Tenex business has added $85 million to the sales of the division.

With the Tenex acquisition, we believe that the Office Products Division is now large enough to be a significant competitor in its industry. Accordingly, all future Office Products growth will be financed by the division.

Saguenay Flood

In July, our Kénogami mill was affected by the severe flooding in the Saguenay region of Quebec. Management, unions and employees worked exceptionally well together to manage this crisis. The result was that, despite the severity of this event, a total of only 12 days of production was lost.

Much of the cost for the business interruption and repairs to operating equipment and buildings was covered by insurance, subject to a deductible amount. The deductible amount together with some cleaning and repair costs not covered by insurance was $4 million and was charged against 1996 earnings in the third quarter. Insurance proceeds related to those assets which were completely destroyed were $9 million. Under generally accepted accounting principles, this amount was recorded as a gain in the fourth quarter. The proceeds were used to acquire replacement assets and added to our fixed assets. Accounts receivable at December 31, 1996 included $7 million of claims receivable from insurance companies.

Operating Profit from Continuing Operations

Operating profit from continuing operations was $206 million in 1996, down $274 million from 1995's record operating profit of $480 million, but substantially better than 1994's operating profit of $18 million. The decrease is largely attributable to our core paper bnsiness. Operating profit from other businesses was $12 million — compared with $19 million in 1995, and $18 million in 1994.

Sales Down 7%

Sales were down 7% in the year to $2.59 billion, as compared with 1995 sales of $2.78 billion. However, compared with 1994 sales of $2.11 billion, 1996 sales were 23% higher. The decrease from 1995 was attributable to reduced sales volumes and prices in our core paper business. The increase over 1994 is largely due to higher average selling prices in our core paper business, offset by lower sales volume.

Selling and Administrative Expenses Up $19 Million

Since 1994, the Company has invested in various programs to develop, build and enhance competence throughout the organization. Known as "initiatives," these programs consist of cross-functional teams focusing on activities which affect the entire enterprise.

Selling and administrative expenses in 1996 were $19 million higher than 1995, and $45 million higher than 1994. The increase from 1995 related to:

- $10 million increase in our core business:
  - $4 million for activities related to developing potential new business growth opportunities;
  - $5 million for general cost increases and other miscellaneous expenditures; and
  - $1 million donation to the Saguenay region for flood relief.
- $10 million increase in our Office Products division:
  - $3 million from growth of the base business; and
  - $7 million related to the operations of Tenex for the six months since being acquired.
- less $1 million resulting from the discontinuance of the lumber and panelboard brokerage business.

The increase in selling and administrative expenses from 1994 to 1995 was largely due to our company-wide initiatives designed to cut costs, improve environmental and natural resource management, and grow our core business. In 1996, initiatives continued at spending levels equal to those of 1995. These initiatives have resulted in cost savings of $125 million over 1995 and 1996, and further savings of $167 million are expected over 1997 and 1998.

These initiatives have resulted in our selling and administrative expenses being high compared to the industry, however, the money has been spent wisely. It has improved efficiencies and substantially reduced our cost of sales.

One-Time Charges

During 1996 the following one-time charges reduced our operating profit by $41 million, principally consisting of:

- Restructuring charges of $28 million which were recognized on start-up of the two new TMP plants. The charges include the write-off of the old groundwood and sulphite pulp plant assets of $19 million, as well as employee restructuring costs of $9 million.

Operating Profit Increase (Decrease)

(millions of Canadian dollars)	Paper Business Newsprint	Paper Business Value-Added Papers	Paper Business Total	Office Products Division	Brokerage	Total
1996 versus 1995:						
Higher (lower) selling prices in:						
North America	(30)	1	(29)	—	—	(29)
International markets	(61)	(6)	(67)	(1)	(1)	(69)
Higher (lower) sales volumes in:						
North America	(52)	(19)	(71)	5	—	(66)
International markets	7	(6)	1	1	1	3
Stronger Canadian dollar	(4)	(2)	(6)	—	(2)	(8)
Cost of downtime	(26)	(12)	(38)	—	—	(38)
Acquisition of Tenex	—	—	—	2	—	2
Discontinued lumber and panelboard	—	—	—	—	(3)	(3)
Selling and administrative expenses	(10)	—	(10)	(3)	(2)	(15)
Depreciation expense	(6)	(5)	(11)	(1)	—	(12)
Restructuring costs	(11)	(11)	(22)	—	—	(22)
Key manufacturing input costs:						
Price	9	9	18	—	—	18
Usage	(32)	(11)	(43)	—	—	(43)
Manufacturing efficiency increases	8	(2)	6	—	—	6
Other	(4)	9	5	(3)	—	2
Operating profit change 1996 versus 1995	(212)	(55)	(267)	—	(7)	(274)
1995 operating profit	309	152	461	10	9	480
1996 operating profit	**97**	**97**	**194**	**10**	**2**	**206**
1995 versus 1994:						
Higher selling prices	357	195	552	(3)	1	550
Higher sales volumes	2	3	5	1	1	7
Weaker Canadian dollar	2	1	3	—	—	3
Sale of Pine Falls, Manitoba newsprint mill	2	—	2	—	1	3
Acquisition of 49% of Gaspesia newsprint mill	28	—	28	—	1	29
Selling and administrative expenses	(14)	(7)	(21)	(1)	—	(22)
Depreciation expense	—	(2)	(2)	—	—	(2)
Restructuring costs	1	1	2	—	—	2
Manufacturing costs	(60)	(48)	(108)	—	—	(108)
Operating profit change 1995 versus 1994	318	143	461	(3)	4	462
1994 operating profit	(9)	9	—	13	5	18
1995 operating profit	309	152	461	10	9	480

- Temporary interruptions at our Kénogami mill in two separate incidents — a failure on one of the paper machines and disruption of the water supply to the power plant. The cost for the repairs and business interruption was covered by insurance. Costs charged to earnings relating to both these events were $3 million.
- The cost of $4 million for the future clean-up of the river driving operations on the Peribonca River and Lac St. Jean, as we are no longer using these waterways to transport logs. The total cost was charged to 1996 earnings.

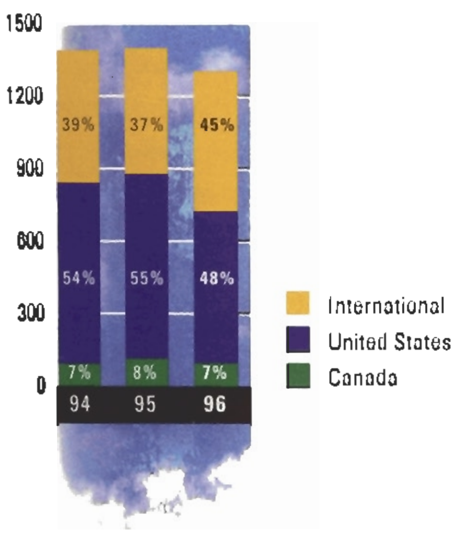
In 1995 and 1994, one-time charges which affected operating profit were for restructuring; the charges were $6 million and $8 million, respectively.

Newsprint and Value-Added Papers

In 1996 the Company had an operating profit from its newsprint and value-added papers division of $194 million compared with $461 million in 1995. The decrease was due to lower selling prices and higher manufacturing costs largely resulting from production downtime taken during 1996. In 1994, operating profit from our core paper business was at a breakeven level. The increase in operating profit from 1994 to 1995 was mainly due to higher selling prices and increased sales volumes for our paper products.

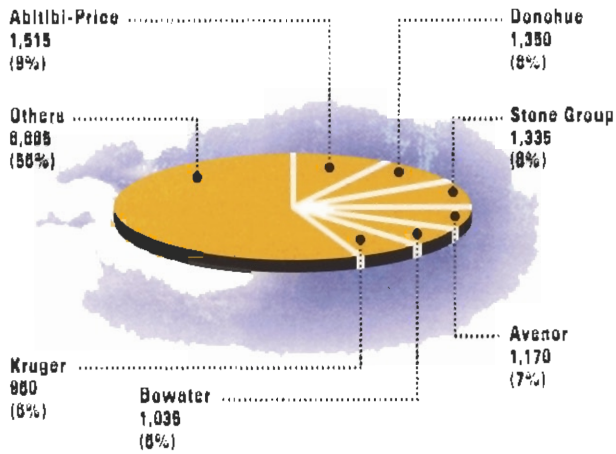
Where We Sold Our Newsprint

(thousands of tonnes)



North American Newsprint Capacity

(thousands of tonnes)



(Source: *Canadian Paper Analyst*)

NEWSPRINT

The Company is one of the world's leading newsprint manufacturers and marketers. As the largest proportion of our newsprint production is used to print newspapers and advertising flyers, the demand and resulting sales volume for these products is determined by circulation and advertising. Circulation is determined by newspaper prices and distribution, largely as it relates to rural locations. Print advertising volume is determined by major economic forces — retail sales, home sales, auto sales and employment — as well as by the price charged to the advertiser by the newspaper publisher.

Our 1996 sales included 321,000 (1995 – 304,000; 1994 – 425,000) tonnes for our joint venture partners. These brokerage sales are made under fixed margin agreements and are not included with our core newsprint manufacturing and marketing business.

In 1996 we manufactured 1,298,000 (1995 – 1,426,000; 1994 – 1,582,000) tonnes of newsprint, including our proportionate share of the production from our joint venture mills.

North American Newsprint Market

Operating profit from North American newsprint markets was $82 million lower than in 1995, but $145 million more than in 1994. The decrease from the 1995 operating profit was largely due to lower selling prices and reduced sales volume. Higher selling prices resulted in the operating profit improvement in 1995 as compared with 1994.

Selling Prices

Through most of the first half of 1996, average North American selling prices were higher than the same period in 1995. By June 1996, prices had fallen by more than 10% from January 1996 levels, reaching a level that was about equal to that of June 1995, when prices were rising. Weakness continued through the second half, and by year end prices were below the levels of January 1995. The average 1996 industry selling price was 3% lower than the 1995 average, and prices for the year 1995 on average were more than 40% higher than 1994.

Average North American U.S. Dollar Transaction Price Per Delivered Tonne of Newsprint

	1996	1995	1994
First Quarter	$ 750	$ 570	$ 420
Second Quarter	700	650	445
Third Quarter	615	705	480
Fourth Quarter	530	755	525
Annual Average	$ 649	$ 670	$ 468

(Source: *Pulp & Paper Week*)

Factors Impacting Price Volatility

Although transaction prices were U.S.$750 at the beginning of 1996, three factors combined to undermine this historically high price: a change in consumption, customer inventory levels and mill inventory levels.

In the area of consumption, as early as mid-1995 publishers reacted to rising newsprint prices by taking aggressive action to cut usage by reducing circulation levels, cutting page size and raising advertising rates. The latter move prevented the rise in volumes that might normally have been expected in a year when the Olympics, a U.S. presidential election, and a strong economy all coincided. The result was that consumption in very early 1996 lagged early 1995 by 7 to 8% and for the year as a whole fell by an estimated 2.7% from the 1995 average.

Second, customers continued to order paper at a high rate in early 1996 in preparation for a price hike that had been announced for the spring, and to prepare for possible supply disruptions related to labour negotiations in the newsprint industry. With orders remaining strong and consumption slumping, customer inventories ballooned to a peak of 57 days of newsprint supply, according to the Canadian Pulp & Paper Association (CPPA), an increase of 10 to 15 days from a year earlier.

Third, as the year progressed orders fell further as a result of the combination of falling consumption and the failure of the announced spring price increase. Downtime taken in the industry did not balance orders with production. North American mill inventories rose to an unusually high level of 685,000 tonnes in July and remained close to that level for most of the year, according to the CPPA. This compares with a slightly below normal level of 284,000 tonnes in December 1995.

With all three factors being felt at various times during the year, pricing began to erode in the spring and average prices fell each month from April through to the year end.

Similar factors impacted the increase in 1995 selling prices from those of 1994. Consumption in 1995 had already fallen by 4.1% from 1994, but newsprint demand remained flat as newspaper publishers rebuilt their inventories from 36 days of supply at the end of 1994 to 46 days of supply at the end of 1995. In addition, strong demand in international markets in 1995 tightened supply and forced North American prices to increase. Finally, due to a scarce supply of value-added papers in 1995, many commercial printers substituted with newsprint.

1997 North American Newsprint Outlook

We believe that newsprint prices should strengthen in 1997. We have four reasons for this outlook:

First, North American consumption is improving after a slow period early in 1996. Half of all large dailies actually increased their circulation after several years of decline. According to Resource Information Systems Inc. (RISI), consumption is expected to grow by approximately 2% in 1997.

Second, according to the CPPA, customer inventories were down to 40 days of supply at the end of December compared with 57 days in February, when stock levels peaked. Industry analysts expect that customers will maintain inventories of at least 40 days of supply, on average.

Third, North American mill inventory levels decreased in the last three months of 1996, and finished the year at 512,000 tonnes as compared with 1995 inventory of 284,000 tonnes.

Fourth, supply is restrained, with no new North American newsprint capacity being built.

Based on these factors, we notified our customers of a reduction in price discounts to take effect March 1, 1997. This should increase our mill net revenue by U.S.$75 per tonne.

International Newsprint Markets

Our international newsprint markets contributed $54 million less to operating profit than in 1995, but $110 million more than in 1994. The decrease from the 1995 operating profit was due to lower selling prices, offset slightly by increased sales volume. Compared with 1994, higher selling prices contributed to the improvement in operating profit.

Selling Prices

International markets experienced much the same conditions in early 1996 as the North American market did. Customers curbed usage of increasingly expensive newsprint while continuing to increase inventory in advance of rising prices. The result was an excessive buildup of inventories, and then a dramatic fall in prices.

By year end, prices in East Asia and Oceania — traditionally the most volatile of the world's spot markets — had fallen to less than U.S.$500 per tonne, and prices elsewhere were also well below previous year levels. On the other hand, inventories in most regions had come down significantly and were at levels that could be considered normal.

In 1996, 745,000 tonnes of newsprint capacity were added worldwide, as new machines started up in South Korea, Indonesia and Europe. Owners of these mills aggressively bought market share, undermining pricing — particularly in the volatile Asian region.

In 1995, demand growth and price increases in international markets outpaced those of North America, with average prices increasing by 62% over 1994. Consumption increases, especially in Asia, and lack of sufficient supply to international customers in the first half of 1995, were the primary contributors to higher prices in 1995 as compared with 1994.

Higher Sales Volumes

Demand continued to grow in some markets, particularly in Asia. But growth rates were below the pace of the previous two years due to intensive customer conservation efforts. In other markets, conservation caused some actual erosion of demand. The CPPA estimates that global demand fell by 2.5% in 1996. International consumption rates ranged from a decrease of 2.2% in the European Union (excluding the U.K.) to increases of 1.1% in Latin America, 1.2% in Japan and 18.1% in China.

Among the underlying factors in world consumption dynamics are the continued growth of consumer economies in Asia and Latin America, the recent deregulation of the media in many countries, and the slow revival of consumption in the three largest usage areas: the U.S., Europe and Japan.

Our 1995 sales to international markets decreased from 1994, as we redirected some shipments to meet the demand of our North American customers.

1997 International Newsprint Outlook

The global demand outlook in 1997 is considerably improved in comparison with 1996 because of the more balanced state of inventories. According to the CPPA, a combination of price-induced consumption cuts and inventory reductions in 1996 drove worldwide demand down by an estimated 0.9 million tonnes. By contrast, the association forecasts a 1.5 million tonne increase in *demand this year as usage grows with lower pricing and* as shipments more closely track consumption. The expected result will be a net increase in demand of 2.4 million tonnes over 1996. This is encouraging given that 1997 worldwide capacity is projected to rise by just 1.1 *million tonnes.*

However, worldwide demand forecasts are subject to greater variability than North American forecasts due to the difficulty of anticipating developments in a number of areas. At present, economic analysts see a continued growth in the economies of East Asia, a return to healthy growth for the Latin American economies and slow growth in most of Western Europe.

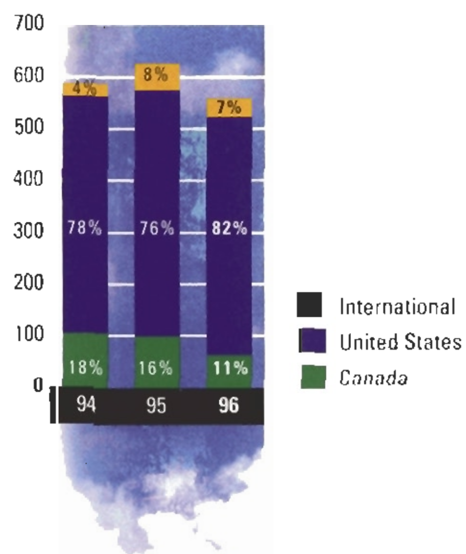
As long as these important economies remain on track — particularly their consumer segments — global demand for newsprint should grow.

VALUE-ADDED PAPER MARKETS

Our value-added products consist of uncoated groundwood paper grades used by commercial printers, converters, advertisers and publishers to produce advertising inserts, books, technical instruction manuals, telephone directories, business forms, magazines and catalogues. Value-added papers provide our customers with a unique value opportunity when substituted for fine or coated printing papers since they offer the brightness, gloss and smoothness required for print quality, at a lower cost.

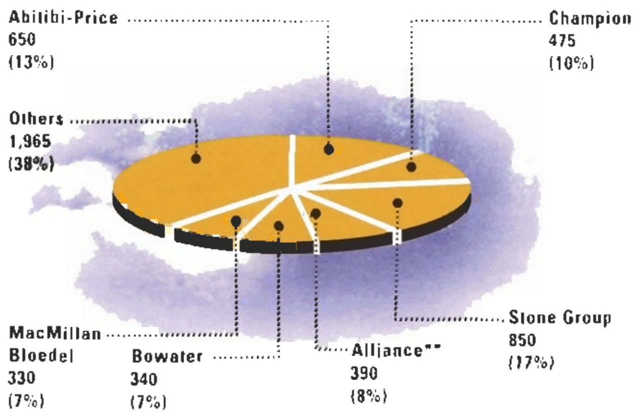
Where We Sold Our Value-Added Papers

(thousands of tonnes)



North American Value-Added Paper Capacity*

(thousands of tonnes)



* The value-added papers manufactured by the company fit within the *Canadian Paper Analyst* definition for uncoated mechanical specialties.

** Alliance figures include the proposed Coosa Pines acquisition and conversion of a newsprint machine at Dolbeau.

(Source: *Canadian Paper Analyst*)

Our primary value-added papers are clay-filled super-calendered (SC) paper, soft-nip paper, machine-finished grades (MF), Alternative Offset™ paper, high brightness groundwood paper, telephone directory, catalogue paper and other specialty grades. SC products compete favourably against lightweight coated (LWC) groundwood grades. Alternative Offset™ is a high brightness grade which offers a cost-effective substitute for uncoated freesheet (UFS).

Sales of valued-added papers were as follows:

(tonnes)

Paper Grade	1996	1995	1994
SC, Soft-Nip & MF	**211,000**	238,000	217,000
Alternative Offset™ & Hi-Brite paper	**156,000**	175,000	158,000
Directory & Catalogue paper	**104,000**	108,500	112,000
Specialty paper	***88,000***	*105,000*	*101,000*
Total value-added papers	**559,000**	626,500	588,000

Operating Profit

Value-added grades contributed $97 million to operating profit in 1996. This is $55 million less than in 1995, and $88 million more than in 1994. The decrease from 1995 is mainly due to reduced sales volume. Stronger demand and tighter supply in 1995 fuelled higher sales volumes and selling prices as compared with 1994 and resulted in the operating profit improvements.

Demand for Value-Added Papers

Value-added paper sales in 1996 were down 11% from 1995. In 1996, North America saw a combination of reduced consumption and falling inventories in reaction to the high pricing of the previous year.

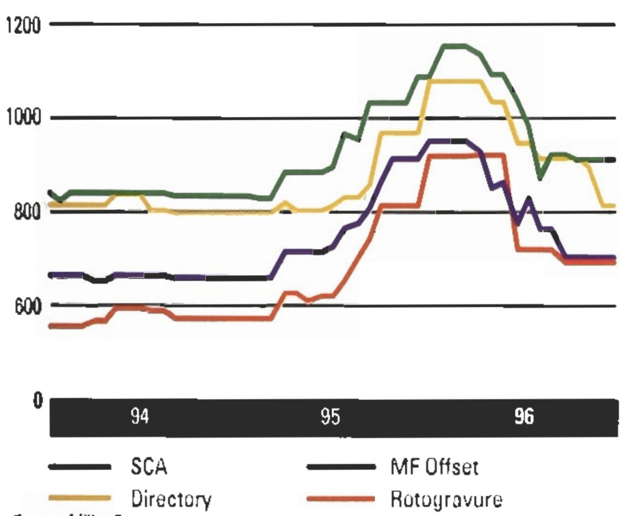
In 1996, sales of SC grades were 11% lower than 1995, but this compares favourably with an estimated drop in North American consumption of more than 14%. This was primarily a result of the availability of low cost competing paper grades.

Although overall 1996 sales of high brightness groundwood papers were 11% lower than in 1995, sales of our Alternative Offset™ grade showed significant growth throughout the year.

Sales of directory and catalogue papers in 1996 were 4% lower than in 1995. Overall industry demand was down 7%. 1996 demand for directory and catalogue paper was affected by customers' paper conservation measures, in reaction to the rising prices during 1995.

Specialty paper includes newsprint specialties that are derivatives of newsprint as well as non-printing technical grades such as construction paper and tubestock. Sales of specialty papers in 1996 decreased 16% from 1995, largely from increased competition.

Value-Added Papers
U.S. Dollar Transaction Price Per Tonne



Source: Miller Freeman

In 1995, value-added paper sales increased 7% from our 1994 sales level. The increase was largely from our SC and Alternative Offset™ grades. With rapid price increases and tight supply in 1995 for LWC and UFS paper (which we do not make), many users shifted down the grade curve and bought less costly substitutes — our SC and Alternative Offset™ grades. At the same time, stronger 1994 retail sales levels increased 1995 advertising budgets and led to more printed advertising.

Selling Prices

Weaker demand led to price decreases for most value-added papers. On average, our 1996 prices were 2% lower than in 1995, and were 41% higher than in 1994. According to RISI, 1996 industry prices decreased 2.6% from 1995, on average.

Our 1996 average selling price for SC papers was at the same level as the average in 1995; however, the price in December 1996 was 19% lower than in December 1995.

The first half of 1996 saw weak demand and lower prices for Alternative Offset™ grades corresponding to the trend in the UFS market. Pricing did stabilize in the third quarter, however.

Most of our directory paper business is marketed under long-term contracts. As a result, price changes typically lag behind those of newsprint and other value-added papers throughout the business cycle. 1996 saw strong directory prices.

Prices for specialty grades are typically less cyclical than newsprint or printing and writing papers. In 1996, prices for our specialty grades decreased in reaction to higher pricing in 1995 and reduced demand in 1996. But the price decreases were not as significant as those for newsprint.

Overall, stronger demand and tighter supply for our value-added papers in 1995 helped to fuel average price increases of 44% from 1994 to 1995.

1997 Outlook for Value-Added Papers

The first quarter is traditionally a period of low demand for SC papers in their key end-use markets: inserts, magazines and catalogues. Graphic Arts Production/Market Tracking Research and Consulting (GAPTRAC) estimates that paper usage for inserts will grow by 2.7% in 1997, catalogue paper consumption will grow by 4.1% and paper usage for magazines will grow between 3 and 4% because of increased advertising. After the first quarter, as no new industry capacity is coming on-line and with a better balance of producer and customer inventories as compared with 1996 levels, it is possible that demand could outstrip supply for SC grades.

Higher prices have caused end-users of directory papers to implement conservation measures. Coupled with 1996's rapid decline in newsprint prices, both domestically and offshore, contract prices may decline. With a stable base of North American customers and an emerging portfolio of offshore customers, we are well positioned to compete in 1997.

Prices for Alternative Offset™ grades are expected to increase in the first quarter of 1997. Strong growth is expected in the U.S. market in 1997, and the third quarter of 1997 should bring strong demand and an opportunity for higher prices.

Continued product development is expected to create significant earnings and volume potential for specialty papers in 1997. Expected improving newsprint market conditions should allow positive growth in the newsprint specialty market. Focused efforts will enable the Company to reach its goal of being a leader in its markets.

PAPER MANUFACTURING OPERATIONS

The Company's paper manufacturing facilities consist of eight wholly owned newsprint and value-added paper mills and 50% interests in two U.S. newsprint joint venture mills. The wholly owned mills, and our share of the newsprint joint venture mills, have a proportionate production capacity of 2.2 million tonnes, 1.5 million tonnes of which is newsprint and 663,000 tonnes is value-added papers. The Company's 50% ownership interests are in the Augusta Newsprint Company and Alabama River Newsprint Company, which have a combined newsprint capacity of 670,000 tonnes of which our share is 335,000 tonnes.

Downtime

During 1996 we took 212,000 tonnes of production downtime due to market-related conditions. This increased the fixed cost portion of our manufacturing cost per tonne and lowered our operating profit by $38 million. Downtime taken throughout 1996 by most of our mills resulted in an average annual operating rate of 89% compared with 98% in 1995 and 97% in 1994.

Abitibi-Price's Proportionate Ownership Interest in Primary Production*

(thousands of tonnes)

	Newsprint **		Value-Added	Total	Average	Operating
	Canada	USA	Canada	Paper	Efficiency	Rate
1997 Budgeted	1,093	331	626	2,050	87.0%	95%
1996 Actual	979	319	560	1,858	86.1%	89%
1995 Actual	1,117	309	631	2,057	85.3%	98%
1994 Actual	970	300	585	1,855	84.7%	97%
1993 Actual	915	300	528	1,743	82.9%	94%
1992 Actual	847	295	490	1,632	80.5%	94%

* Figures shown above include only 50% of the newsprint production of the joint venture mills. Our partners' 50% shares are not included because the manufacturing profits associated with that production are theirs. Had this production been included, 1996 production would have been 319,000 (1995 – 309,000; 1994 – 421,000) tonnes higher.

** Newsprint production figures for 1994 and prior years have been restated to eliminate the production tonnes of the Pine Falls, Manitoba mill which we sold in September of 1994. In 1994, this represented 112,000 tonnes of newsprint. In 1995, as a result of the acquisition of 49% of Gaspesia, an additional 122,000 tonnes of newsprint production from the Gaspesia mill were included in the above figures.

Improved Manufacturing Efficiency

Despite normal efficiency losses from shutdowns and start-ups when taking market-related downtime, our manufacturing efficiency actually improved compared with 1995 and 1994. For 1996, operating efficiency of 88.1% for newsprint was significantly better than 86.8% for 1995 and 86.2% for 1994. Operating efficiency for value-added papers was down slightly at 80.8% during 1996, compared to 81.2% in 1995 and 80.6% in 1994. Our improved newsprint manufacturing efficiencies lowered our manufacturing costs and increased operating profit by $6 million compared to 1995. The improved efficiency increased our newsprint capacity by 30,000 tonnes in 1996.

In 1995, our manufacturing efficiency improvement from 1994 allowed us to produce 31,000 tonnes more than in 1994. This increased our 1995 operating profit by $13 million as compared with 1994.

Raw Materials

While the cost of some of our key raw materials decreased in 1996, the cost of others increased and the overall net impact was a $25 million increase in our manufacturing costs.

In 1995, while paper prices rose, the cost of many of our key raw materials increased dramatically and the overall net impact was a $126 million increase in manufacturing costs.

Kraft

In 1996, our average kraft pulp purchase price was $778 per tonne compared to $1,107 per tonne in 1995 and $643 per tonne in 1994. These lower kraft prices reduced our manufacturing costs by $30 million in 1996 compared with 1995. Higher kraft prices in 1995 increased manufacturing costs by $49 million compared with 1994.

The installation of the two TMP facilities reduced our requirements for kraft pulp, but this was partially offset by increased kraft usage as a result of production downtime, as frequent downtime makes it difficult to maintain consistent quality without the addition of kraft pulp. In 1995, the mills reduced kraft consumption by substituting virgin wood fibre in response to rising kraft prices. Overall, we lowered our use of kraft per tonne by 2% from 1995 and 18% from 1994, reducing our manufacturing costs by $6 million and $16 million, respectively.

ONP/OMG

In 1996 our mills used 189,000 tonnes of waste paper, unchanged from 1995 despite lower production levels,

Manufacturing Costs Decrease (Increase)

(millions of Canadian dollars)	1996 versus 1995 Price	1996 versus 1995 Volume & Usage	1996 versus 1995 Total	1995 versus 1994 Price	1995 versus 1994 Volume & Usage	1995 versus 1994 Total
Downtime	$ —	$ (38)	$ (38)	$ —	$ —	$ —
Improved manufacturing efficiency	—	6	6	—	13	13
Raw Materials:						
Kraft pulp	30	6	36	(49)	10	(39)
ONP / OMG	27	(3)	24	(21)	(2)	(23)
Virgin wood fibre	(16)	—	(16)	(17)	(10)	(27)
Power	(8)	(10)	(18)	(3)	(6)	(9)
Labour and benefits	(13)	(3)	(16)	(14)	(2)	(16)
Mill maintenance and supplies	—	(17)	(17)	—	(12)	(12)
Effluent treatment	—	(11)	(11)	—	—	—
Chemicals	(2)	(5)	(7)	—	—	—
Total	18	(43)	(25)	(104)	(22)	(126)
Other, net cost	—	5	5	—	5	5

and 10,000 tonnes more than 1994. On a per tonne basis we have increased the content of recycled fibre in the paper we produced in 1996 by 5% compared with 1995 and 11% compared with 1994.

The 1996 prices we paid for old newsprint and magazines fell 52% from 1995 levels to an average of $151 per delivered tonne, reducing our manufacturing costs by $27 million from 1995. In 1995, prices for waste paper had risen 75% over 1994 prices, largely because collection systems at the time were unable to meet the higher demand in 1995. Rising prices in 1995 increased manufacturing costs by $21 million from 1994.

Virgin Wood Fibre

Our wood fibre prices rose in 1996 for two primary reasons. First, stumpage rates were higher for our Ontario mills as the wood harvest in Ontario occurred primarily during the winter months, before rates decreased with paper prices. Stumpage rates for our Quebec mills, which are not tied to paper prices, increased by 1.5%. Higher stumpage rates were also the major cause of the increase in wood fibre costs in 1995 over 1994.

Second, higher priced wood chips had to be substituted for roundwood fibre for use in the new TMP operations.

Overall, higher wood prices increased manufacturing costs by $16 million.

Where We Spent Our Revenue Dollars from Our Groundwood Paper Business

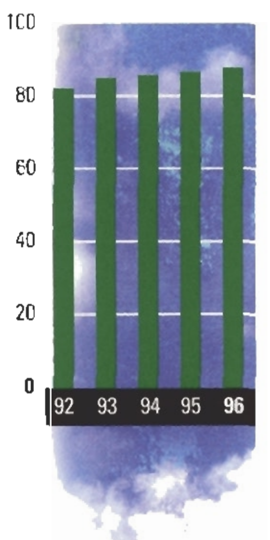
	1996	1995	1994
Sales	**$ 1.00**	$ 1.00	$ 1.00
Manufacturing Costs:			
Labour and pension costs	**(0.19)**	(0.18)	(0.25)
Virgin wood fibre	**(0.13)**	(0.12)	(0.15)
Purchased fibre (ONP/OMG and kraft pulp)	**(0.06)**	(0.09)	(0.09)
Electric power, purchased and self-generated	**(0.09)**	(0.07)	(0.11)
Maintenance (excluding maintenance labour costs)	**(0.04)**	(0.03)	(0.05)
Chemicals	**(0.04)**	(0.03)	(0.04)
All other manufacturing costs	**(0.16)**	(0.11)	(0.15)
Cost of sales	**(0.71)**	(0.63)	(0.84)
Selling and administrative costs	**(0.06)**	(0.04)	(0.06)
Cost reduction initiatives	**(0.01)**	(0.01)	—
Restructuring costs	**(0.02)**	—	(0.01)
Operating profit before non-cash depreciation charge of 8¢ (1995 – 6¢; 1994 – 9¢)	**0.20**	0.32	0.09

Power

Based on the relative operating rates between 1996 and 1995, we consumed more electric power in 1996 because of higher operating rates, new TMP plants, secondary treatment plants, and low water levels in our hydro resources. Overall, our power costs increased by $18 million.

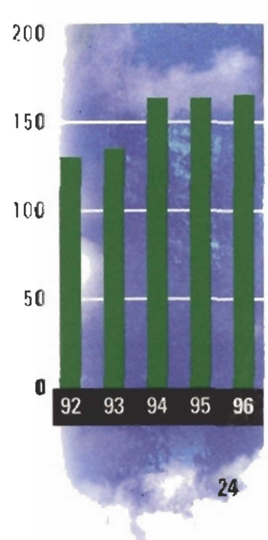
Average Annual Newsprint Absolute Efficiency

(percentage)



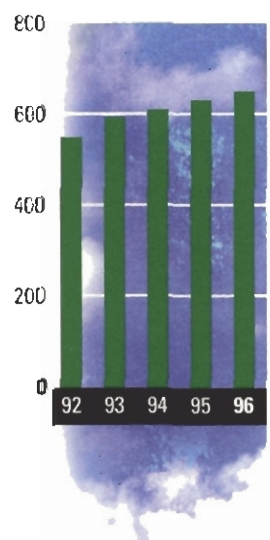
Average Annual Newsprint Machine Capacity

(thousands of tonnes)



Average Annual Newsprint Productivity

(kg/cm)



Labour and Benefits

In 1996, our labour costs rose $16 million from 1995, primarily because unionized wages increased in accordance with the settlement of the Company's collective bargaining agreements. These settlements represented a 3.5% increase in our wage costs in 1996 and 3% annually. In addition, increases in mill salaries and benefits added to our labour costs in 1996.

Our secondary effluent treatment plants, which were installed in late 1995, required additional workforce. This increase in employees was more than offset by the reduced workforce required by the two new TMP plants.

Mill Maintenance and Supplies

Mill maintenance costs increased $17 million in 1996 compared with 1995. Additional maintenance was required as a result of start-ups and shut-downs associated with the market-related production downtime taken in 1996. Furthermore, many mills took the opportunity to perform unscheduled preventative maintenance during this time.

Effluent Treatment

The secondary effluent treatment plants at our Canadian mills were in operation throughout 1996. The majority of these plants were completed during the third and fourth quarters of 1995 in compliance with regulatory requirements. In addition to power and labour costs to operate these plants, they also required chemicals, equipment and other operating supplies, which increased our manufacturing costs by $11 million in 1996, as compared with 1995.

Chemicals

The change in our product mix to higher quality and higher brightness papers increased our use of chemicals in 1996, adding $7 million to our manufacturing costs as compared with 1995.

Office Products

Business Expansion

The Office Products Division distributes information processing supplies, office products and computer peripherals. Our customers include specialized computer supply dealers, office products stationers and major retailers. We distribute name brand products including printer toner, ink jet cartridges, data storage devices, computer accessories, printers, faxes, personal copiers and traditional office supplies. The division is becoming a global provider of a selected range of goods and services.

In June 1996, we expanded our distribution business by acquiring the Tenex Data Corporation (Tenex), a Canadian, privately held distributor of information processing supplies and data storage products and a converter and distributor of computer forms.

We also expanded our services business in 1996. This business began in 1995 and grew in 1996 with the addition of two major distribution contracts in Europe and the acquisition of a small services company in the U.S. In addition, we began an operation to take advantage of rapidly expanding distribution opportunities in the bar coding industry.

Operating Profit

Operating profit was $10 million in 1996 after one-time costs of $2 million — equal to that of 1995. One-time costs incurred in 1996 included investments in start-up operations and costs associated with the start-up of new businesses and for investigating potential acquisitions we eventually decided not to pursue. Tenex operating profit of $2 million subsequent to the acquisition date offset these one-time costs.

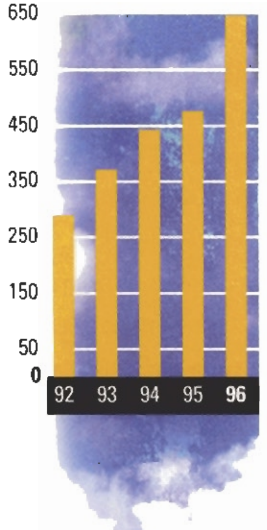
Operating profit trended upward during 1996 — to the point where the fourth quarter's operating profit was equal to that of the first nine months of the year. In addition to Tenex, the improvement in the last quarter was attributable to our new computer systems, next day delivery service and warehouse rationalization.

Operating profit of $10 million for 1995 was $3 million less than in 1994. In 1995, sales were up 7% from 1994, however, this was offset by higher delivery costs including start-up of next-day delivery programs, lower

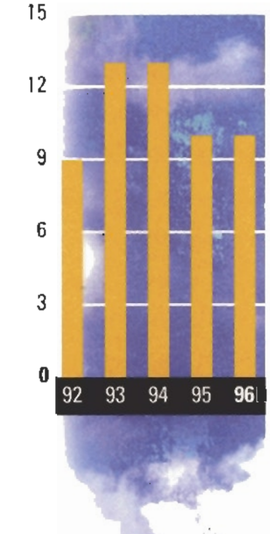
Office Products Business

(millions of Canadian dollars)

Sales



Operating Profit



margins on computer-related products, and one-time charges for new information systems and a warehouse rationalization program.

Sales up and Margins Improved

In 1996, sales were $647 million, an increase of 36% from 1995 and 46% from 1994. Just under half of the increase in 1996 was attributable to the acquisition of Tenex. Excluding Tenex, the existing business was able to hold margins at the same levels as in 1995, a major accomplishment when compared with industry trends.

Outlook

1997 is looking very promising as evidenced by the improvement of earnings in the last quarter of 1996. Our recent investments in new information systems, warehouse rationalization and our delivery programs, in addition to our investments in new businesses, have set the stage for growth and improved profitability in 1997.

With the Tenex acquisition, we believe that the division is now large enough to be a significant competitor in its industry. After examining our value creation strategy, we have decided that all future growth must be financed within the division itself. Accordingly, we are assessing the potential for a future sale of this division.

Brokerage Business

Newsprint

The Company acts as broker for our joint venture partners' 50% shares of production of the Alabama and Augusta mills. Under the joint venture sales agreements, we purchase and then resell this paper. The sales and cost of sales are recorded in our financial statements.

We also act as commissioned sales agent for Pine Falls Paper Company which operates the Manitoba newsprint mill we sold in September 1994. We do not purchase or resell the production of the Pine Falls mill. Only our sales commissions are included in the financial statements.

Before selling and credit risks, we earn a commission of between 2% and 3% of sales. Over the last three years, we brokered newsprint for the following mills:

(thousands of tonnes)	**1996**	1995	1994
Joint Venture Partners' Newsprint Production			
Alabama River Newsprint Company	**121**	116	113
Augusta Newsprint Company	**198**	193	187
Gaspesia Pulp & Paper Company	—	—	121
Total Brokerage Newsprint	**319**	309	421
Newsprint Sold on Commission Basis			
Pine Falls Paper Company	**154**	171	58

Lumber and Panelboard

Until the third quarter of 1996, the Company acted as a marketer of lumber and panelboard produced by third parties. The products were purchased and resold with the sales and cost of sales recorded in our financial statements. In 1996, we sold 129 million board feet (1995 — 263 million; 1994 — 291 million) of lumber and 382 million square feet (1995 — 431 million; 1994 — 354 million) of panelboard products.

In accordance with agreements, the suppliers elected to take over the marketing of these products. As a result, we discontinued lumber sales in June 1996 and panelboard sales in August 1996. The elimination of these businesses will reduce our brokerage sales by an estimated $235 million and operating profit by $3 million per year.

Financial Position and Liquidity

Our Cornerstone strategy and cost reduction activities have enabled us to maintain positive cash flow from operations despite the unfavourable market conditions experienced in 1996. The $262 million in cash generated by operations in 1996 was $261 million below record cash from operations of $523 million achieved in 1995 and $242 million above 1994.

$118 million of cash available at the end of 1995, $124 million of borrowings on our long-term lines of credit, $14 million received on redemption of the preferred shares of Perkins Paper in 1996, and cash of $262 million generated by operations for the year were primarily used to increase corporate value through:

(millions of Canadian dollars)	1996	1995	1994
Capital spending:			
Cost reduction and mill improvement	$ 289	$ 198	$ 10
International growth	22	—	—
Environmental	20	118	72
Integrated business systems	15	11	—
Repayment of long-term debt	77	66	—
Acquisition of Tenex	47	—	—
Payment of dividends to common shareholders	36	16	—
Purchase and cancellation of 8.7 million common shares	—	194	—

Overall, cash on hand decreased to $60 million at December 31, 1996 from $178 million at December 31, 1995 and $272 million at December 31, 1994.

CAPITAL SPENDING

Our core business is capital intensive and wise spending is essential to our continuing cost competitiveness.

Expenditures on the TMP plants at our Iroquois Falls, Ontario and Alma, Quebec mills amounted to $156 million in 1996, with a total of $242 million spent over 1995 and 1996. Other capital improvements at our mills designed to improve efficiency and reduce costs totalled $133 million. Major projects included improvements to our Grand Falls hydro facilities, the speed-up of one SC paper machine at Kénogami, and pre-engineering costs incurred as part of the assessment of options that could lead to Kénogami meeting our Cornerstone criteria.

To promote international growth, we spent $22 million on a used newsprint machine in Peru. The expected cost to dismantle and ship the machine when we find the right investment opportunity is $2 million.

The upgrade of our computer systems continued in 1996. In 1996 we spent $15 million on this project, and $11 million in 1995. These new systems are expected to enhance business operations, decision making and customer service. The new systems have already been successfully installed at two of our mills.

During 1995 and 1994 we spent $118 million and $72 million, respectively, on environmental projects, including the construction of secondary effluent treatment plants at seven of our Canadian mills.

CAPITAL STRUCTURE

Shareholders' Equity

In 1996, shareholders' equity increased by $93 million with net earnings of $104 million and the conversion to common shares of the remaining $24 million convertible subordinated debentures (the Debentures). Four quarterly dividends were declared, for a total cost of $36 million.

Common Shares Outstanding

The number of common shares outstanding increased by 1.8 million shares to 89.0 million shares at December 31, 1996. The Debentures were converted into 1.6 million common shares in the first quarter of 1996 and stock options exercised during the year resulted in the issue of an additional 0.2 million common shares.

LIQUIDITY

The Company's liquidity strategy is aimed at maximizing financial flexibility by maintaining access to diverse funding sources, a liquidity reserve, credit capacity and leverage in the 35% to 40% range, on average. In 1996, our net total debt increased by $47 million as cash from operations was insufficient to cover our capital expenditure program. At December 31, 1996, our net debt to total capitalization ratio was 37%, as compared with 33% for 1995 and 42% for 1994.

Repayment of Debt

During 1996 we repaid U.S.$17.4 million of our 10.65% Series H debentures, and the remaining debentures, U.S.$15 million, were repaid in the first quarter of 1997. In addition, U.S.$37 million was repaid by our newsprint joint ventures.

On March 31, 1997 all of the Series F Preferred Shares were redeemed, for an aggregate redemption price of $10 million.

Interest Expense

Interest expense incurred on long-term debt in 1996 decreased $17 million compared with 1995, and was $30 million lower than in 1994. Interest expense in 1996 was $9 million lower than 1995, and $12 million lower than 1994 due to the conversion of the Debentures in late 1995 and early 1996. Interest capitalized to major projects lowered 1996 interest expense by $11 million as compared with $9 million in 1995 and $1 million in 1994. Lower levels of joint venture debt in 1996 compared with 1995 reduced interest expense by an additional $7 million offset by a $1 million increase from higher average recourse debt. Debt levels in 1995 were lower than those in 1994, resulting in reduced interest charges of $2 million in 1995, as compared with 1994.

Risks and Opportunities

CYCLICAL NATURE OF PAPER INDUSTRY

Historically, the paper industry has been cyclical in nature. Over the past three years, newsprint prices have ranged from a low of U.S.$425 per tonne in January 1994 to a high of U.S.$750 per tonne from October 1995 through to March 1996 and back down to U.S.$510 per tonne in December 1996.

In our 1995 Annual Report we stated that we believed "the focused efforts in the last five years, including our Cornerstone strategy, cost reduction efforts and our commitment not to build new newsprint capacity in North America will make us stronger in the next downturn." In 1996, we continued to generate positive operating cash flow even though a market downturn occurred. Our two new TMP facilities have contributed to lowering our costs by $8 million in 1996, and we expect total annual operating cost savings from these projects to be $60 million.

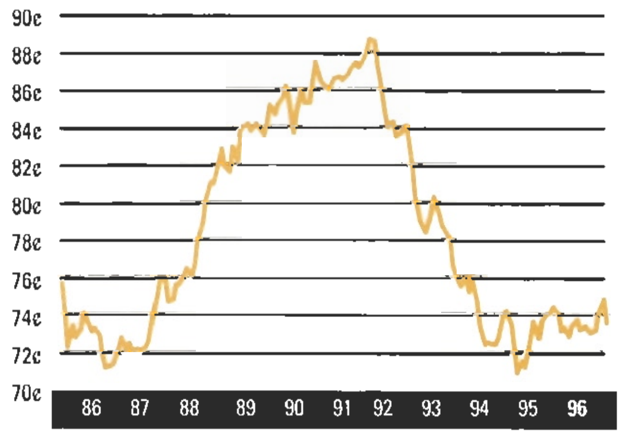
While we are very sensitive to market and specifically price fluctuations, we are making the Company better able to weather these downturns and to compete in international markets against tough competitors.

FOREIGN EXCHANGE

The Company's exposure to U.S. dollar denominated sales and expenses represents the dominant foreign exchange risk faced by the Company. Of the Company's net revenues, 80% are U.S. dollar denominated, and 66% of our international sales are U.S. dollar denominated with the remainder in local currencies. Comparatively, only 56% of our expenses are in United States dollars. This exposure results in cash flow and earnings volatility, shifting our cost competitiveness against other global producers.

The Canadian – U.S. dollar exchange rate is one of the key factors in determining the Company's long-term profitability. Accordingly, we have an exchange rate management program in place to partially protect against rapid appreciation in the value of the Canadian dollar in relation to the U.S. dollar.

Average Monthly U.S. Dollar Value of the Canadian Dollar 1986–1996



In 1996, we revised our foreign exchange risk management policy under which we principally manage our exposure to changes in the exchange rate between the U.S. dollar and the Canadian dollar. The new policy is to hedge portions of forecasted U.S. dollar cash flows at decreasing levels for periods out to five years, using foreign exchange forward contracts. Previously, the Company used a program of foreign exchange options and forward rate contracts for periods of up to 12 months. This program is further described in note 18 to the Company's financial statements on page 45 of this Annual Report.

The overall objective of the policy is to assist in adding value by minimizing the potential impact of foreign exchange fluctuations through controlled management of foreign currency exposures occurring naturally from our core business activities. Since our principal paper markets are outside Canada, exposure to exchange rate risks cannot be eliminated. Although we believe we are prudently protecting ourselves, we expect this business risk will always be with us.

INTEREST RATE SENSITIVITY

The revolving-term credit facility represents the Company's only floating rate recourse debt, and this facility matures in February 1998. With $124 million of this debt outstanding at December 31, 1996, the Company has limited exposure to interest rate movements. It is not the Company's intention to have outstanding debt from this facility for any extended period of time.

LABOUR, POWER AND FIBRE STRENGTHS

In 1996, our management, unions and employees continued their efforts to lessen the impact of higher costs by the efficient management of the Company's three largest cost components. We view these three inputs as our main strength: a stable and skilled workforce, a secure fibre supply and self-generated hydro-electric power.

Labour stability

We continued to benefit in 1996 from a stable labour/management relationship as we entered the fourth year of five-year labour contracts with our major unions, the Communications, Energy and Paperworkers Union (CEP), the Confederation of National Trade Unions (CNTU), the International Woodworkers of America, and the Office and Professional Employees International Union (OPEIU).

During 1996 wage negotiations were concluded with the unions for the remaining two years of the contracts. Each of the settlements was reached without any labour disruptions, which signifies the strength of the relationship between the Company and its unionized employees.

Fibre supply

One of the natural strengths of the Company is the secure supply of sufficient wood fibre to sustain its mills. The Company manages 6.3 million hectares of both company-owned and crown-licenced land in eastern Canada and the southern United States. On average the Company harvests less than half of one percent of its total landbase annually. This supplied 47% of the virgin fibre we used to make our products, either directly or through exchanges of roundwood for chips. Without our fibre resources, we would have paid over $30 million more to purchase the wood fibre we needed.

In addition to our cutting licences, we have entered into long-term contracts with local sawmills.

In 1996 we continued to work on a comprehensive fibre competence strategy to determine how we can best utilize the Company's vast fibre resources. Each woodlands operations has been analyzed to optimize sourcing and operating practices, and to ensure that sustainable forest management is being practised. In 1996, these efforts resulted in savings of $2 million. In 1997 and 1998, we expect further savings of $12 million.

Purchased Fibre

Many of our operations use kraft pulp and/or ONP and OMG. In 1995 we saw significant price increases for these raw materials. In 1996 these prices fell. In the last quarter of 1996, the prices for kraft pulp increased. However,

Abitibi-Price 1996 Fibre Resources

Mill Business Unit	Virgin Wood Fibre Cutting Rights (thousands of hectares) Owned	Leased	Total	1996 Wood Usage (000s m³)	1996 Harvest (000s m³)	Harvest as a % of usage
Chandler	—	418	418	512	402	79%
Stephenville	*	*	—	437	158	36%
Iroquois Falls	60	1,184	1,244	677	370	55%
Grand Falls	114	1,725	1,839	462	309	67%
Kénogami	—	646	646	380	200	53%
Alma	—	982	982	455	206	45%
Beaupré	48	154	202	401	69	17%
Fort William	201	732	933	294	239	81%
Alabama**	—	—	—	230	—	—
Augusta**	11	—	11	332	—	—
Total	434	5,841	6,275	4,180	1,953	47%

* Stephenville shares virgin wood fibre cutting rights with the Grand Falls, Newfoundland mill.
** Figures shown reflect our 50% ownership interest in these mills' production.

an announced increase for January 1, 1997 was delayed and may be pushed into the second quarter as kraft shipments remain weak. Higher prices for ONP and OMG are also anticipated in 1997, but prices for kraft and recycled fibres are expected to remain below 1995 levels.

With the start-up of the TMP plants at Alma and Iroquois Falls, our kraft consumption decreased by 7,300 tonnes in 1996. On an annual basis our kraft consumption will be reduced by 19,000 tonnes. This will significantly lower our exposure to kraft price increases in the future.

Power Advantage

Electric power is one of the largest cost components for a paper manufacturer. Any increase in electricity rates has significant impact on our costs and competitive position.

We are nearly self-sufficient at four of our eight Canadian mills, generating over 40% of the power needed by our wholly owned mills. This gives us an advantage over many paper manufacturers.

In 1995 and 1996 we examined our hydro-electric resources and needs with a goal to reduce both our electricity costs and our reliance on externally purchased power. We expect future power savings over the next two years from this effort in general.

CONSISTENT HIGH PERFORMANCE

Consistent High Performance (CHP) is an initiative that focuses on building management skills to improve the performance of existing equipment. From 1994 to 1996, CHP has resulted in savings of approximately $30 million. This initiative is ongoing and we anticipate further annual savings of $12 million during 1997 and 1998.

CORNERSTONE UPDATE

Seven of our ten mills have achieved Cornerstone status. Reaching Cornerstone status means we believe the mill is a worldwide first-quartile low-cost producer, has long-term markets for its paper, and will have positive cash flow after all required capital expenditures over the next 10 years, even at anticipated cyclical pricing lows.

Achieving Cornerstone is only the first step; we have to ensure that our mills remain at this high level of performance, regardless of changing market conditions such as an escalating Canadian dollar.

We are proud of the improvements our three non-Cornerstone mills have made, but they still have farther to go. We will resolve the non-Cornerstone mills as quickly as we can, but only when we are sure that we have explored all the opportunities and we are able to make the decision that provides the best value.

We recently announced our intention to offer for sale our Fort William newsprint mill and woodlands. If it is sold, the proceeds will be reinvested in the Company's core business operations. As previously mentioned, we are reviewing a number of options for our Kénogami and Chandler mills.

CONTINGENT LIABILITIES

As of December 31, 1996, the Company had been named as a defendant in a number of lawsuits. This topic is discussed in note 20 to the Company's financial statements on page 46 of this Annual Report.

ENVIRONMENTAL REGULATION

From 1994 to 1996, $210 million of the Company's total capital spending was targeted at projects providing a return to the environment, such as recycling capacity additions and secondary effluent treatment plants. This does not include an additional $45 million each year spent to operate the Company's effluent treatment plants and undertake reforestation and other forest protection measures.

In 1995, the Company completed the construction of seven secondary effluent treatment plants at its Canadian mills at a total cost of $160 million ($90 million below the original $250 million estimated cost). All of the Company's mills are now equipped to comply fully with current environmental standards.

While it is difficult to forecast the pace or direction of future regulations, we think our current effluent systems are more than capable of satisfying government standards for the foreseeable future.

Operating Profit Sensitivities

The Company's operating profit will be impacted by the following sensitivities:

1997 Operating Profit Sensitivities*

(millions of Canadian dollars)

	Impact on		
	Operating Profit	Net Earnings	Fully-diluted Earnings Per Share
Each U.S.$50 change in transaction price per tonne of:			
Newsprint:			
North America	$ 55	$ 36	40 ¢
International markets	38	25	25
SC paper	7	5	5
Alternative Offset™ paper	9	6	5
Directory paper	7	5	5
Specialty paper	7	5	5
Manufacturing cost changes:			
U.S.$50 change in kraft pulp price per tonne	5	3	3
Cdn.$1 change in fibre costs per cubic metre	5	3	3
1 day of paper manufacturing downtime	3	2	2
U.S.$10 change in ONP/OMG price per tonne	2	1	1
1% change in electricity rates	2	1	1
Foreign exchange:			
U.S.1¢ change in the relative value of the Canadian dollar	17	11	12

* based on budgeted volumes and prices

Outlook for 1997 and 1998

On February 14, 1997, we announced our agreement to amalgamate with Stone-Consolidated Corporation. Upon amalgamation, the two companies will continue as one corporation carrying on the same operations with the same assets and liabilities as currently held by the two corporations.

The amalgamated company will have an annual capacity to produce 4.4 million tonnes of publication papers, including newsprint, directory, high-bright offset papers, supercalendered papers and other value-added grades. In addition, the amalgamated company will have an annual capacity to produce 430 million board feet of lumber at its seven sawmills and 160,000 tonnes of kraft market pulp and kraft papers.

Shareholder approval of the amalgamation is being sought in the second quarter of 1997.

Management's Report

The consolidated financial statements and all other information in the Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and include some amounts which are based on best estimates and judgements. Financial information provided elsewhere in the Annual Report is consistent with that shown in the financial statements.

The integrity of the financial statements is supported by an extensive and comprehensive system of internal accounting controls and internal audits, the latter being coordinated with reviews and examinations performed by the shareholders' auditors in the course of satisfying themselves as to the reliability and objectivity of the financial statements.

The shareholders' and internal auditors have free and independent access to the Audit Committee which is comprised of four non-management members of the Board of Directors. The Audit Committee, which meets regularly throughout the year with members of financial management and the shareholders' and internal auditors, reviews the consolidated financial statements and recommends their approval to the Board of Directors.

The accompanying consolidated financial statements have been examined by the shareholders' auditors, Price Waterhouse, whose report follows.

Ronald Y. Oberlander
Chairman and Chief Executive Officer

Patrick G. Crowley
Senior Vice-President and Chief Financial Officer

January 29, 1997
Toronto, Ontario

Auditors' Report

To the Shareholders of Abitibi-Price Inc.

We have audited the consolidated balance sheets of Abitibi-Price Inc. as at December 31, 1996 and 1995 and the consolidated statements of earnings, retained earnings and changes in cash position for each of the three years in the period ended December 31, 1996. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1996 in accordance with Canadian generally accepted accounting principles.

Price Waterhouse
Chartered Accountants

January 29, 1997, except
Note 22 which is as at February 14, 1997
Toronto, Ontario

Consolidated Earnings

Year ended December 31 (millions of Canadian dollars, except per share amounts)	1996	1995	1994
Net sales	**$ 2,590**	$ 2,782	$ 2,110
Cost of sales	**2,091**	2,063	1,879
Selling and administrative expenses	**139**	120	94
Depreciation and depletion	**126**	113	111
Restructuring costs *(note 4)*	**28**	6	8
	2,384	2,302	2,092
Operating profit from continuing operations	**206**	480	18
Interest expense	**(44)**	(61)	(74)
Unusual items *(note 5)*	**5**	4	(21)
Other income and expenso, net *(note 6)*	**(4)**	(5)	(4)
Earnings (loss) from continuing operations before income taxes	**163**	418	(81)
Recovery of (provision for) income taxes *(note 7)*	**(59)**	(146)	29
Earnings (loss) from continuing operations	**104**	272	(52)
Loss on disposal of discontinued operations, net of income tax recoveries of $2 *(note 8)*	**—**	—	(4)
Net earnings (loss) for the year	**$ 104**	$ 272	$ (56)
Per common share:			
Earnings (loss) from continuing operations	**$ 1.17**	$ 3.24	$ (0.62)
Earnings (loss) for the year			
Basic	**1.17**	3.24	(0.66)
Fully diluted	**1.14**	2.90	(0.66)
Dividends declared	**0.40**	0.30	—
Dividends payable	**0.10**	0.10	—
Weighted average number of common shares outstanding (millions)			
Basic	**88.7**	84.0	84.4
Fully diluted	**91.4**	95.4	96.6
Fully diluted number of common shares outstanding (millions)	**91.5**	91.4	99.6

Consolidated Retained Earnings

Year ended December 31 (millions of Canadian dollars)	1996	1995	1994
Retained earnings, beginning of year	**$ 402**	$ 298	$ 359
Net earnings (loss) for the year	**104**	272	(56)
	506	570	303
Dividends declared	**(36)**	(25)	—
Purchase of common shares in excess of average stated capital *(note 15)*	**—**	(140)	—
Unamortized convertible subordinated debenture issue costs, net of income tax recoveries of $1 *(note 14)*	**—**	(3)	—
Expenses of common share issue, net of income tax recoveries of $2	**—**	—	(5)
Retained earnings, end of year	**$ 470**	$ 402	$ 298

Consolidated Balance Sheet

December 31 (millions of Canadian dollars)	1996	1995
ASSETS		
Current assets		
Cash and deposits	$ 60	$ 178
Accounts receivable *(note 9)*	221	215
Inventories *(note 10)*	272	234
Prepaid expenses	18	11
	571	638
Fixed assets *(note 11)*	1,733	1,526
Investments and other assets *(note 12)*	74	90
Deferred pension cost	90	92
Goodwill	31	25
	$ 2,499	$ 2,371
LIABILITIES		
Current liabilities		
Bank loan	$ 15	$ 17
Accounts payable and accrued liabilities	383	397
Dividends payable	9	9
Income taxes payable	—	21
Current portion of long-term debt		
Recourse *(note 13 (a))*	52	24
Non-recourse – joint ventures *(note 13 (b))*	15	52
	474	520
Long-term debt		
Recourse *(note 13 (a))*	369	294
Non-recourse – joint ventures *(note 13 (b))*	242	255
Deferred income taxes	296	253
Convertible subordinated debentures *(note 14)*	—	24
Preferred shares *(note 15)*	10	10
	1,391	1,356
SHAREHOLDERS' EQUITY		
Common shares *(note 15)*	638	613
Retained earnings	470	402
	1,108	1,015
	$ 2,499	$ 2,371

Approved by the Board of Directors:

Director

Director

Changes in Consolidated Cash Position

Year ended December 31 (millions of Canadian dollars)	1996	1995	1994
Continuing operating activities			
Earnings (loss) from continuing operations	$ 104	$ 272	$ (52)
Depreciation and depletion	126	113	111
Restructuring costs	28	—	—
Unusual items	—	(4)	21
Provision for (recovery of) deferred income taxes	49	150	(32)
Other non-cash items	2	23	(3)
	309	554	45
Changes in the non-cash working capital components of continuing operations *(note 16)*	(47)	(31)	(25)
Cash generated by continuing operating activities	262	523	20
Financing activities of continuing operations			
Increase in (repayment of) long-term debt and bank loan, net	47	(66)	6
Purchase of common shares for cancellation	—	(194)	—
Retirement of preferred shares	—	(1)	(6)
Issue of common shares, net of expenses	—	—	169
Cash generated by (used in) financing activities of continuing operations	47	(261)	169
Investing activities of continuing operations			
Additions to fixed assets, net of $6 (1995 – $8; 1994 – $2) of investment tax credits	(346)	(327)	(82)
Acquisitions *(note 3)*	(47)	—	(2)
Decrease (increase) in investments and other assets	5	(5)	(9)
Proceeds from sales of discontinued operations and operating divisions, net of $40 debentures received from purchasers	—	—	33
Cash used in investing activities of continuing operations	(388)	(332)	(60)
Dividends paid to common shareholders	(36)	(16)	—
Cash generated by (used in) continuing operations	(115)	(86)	129
Cash used in discontinued operations	(3)	(8)	(7)
Increase (decrease) in cash during the year	(118)	(94)	122
Cash and deposits, beginning of year	178	272	150
Cash and deposits, end of year	$ 60	$ 178	$ 272

Consolidated Segmented Information

Business Segments

Year ended December 31 (millions of Canadian dollars)	Net Sales	Cost of Sales	Gross Profit	Selling & Administrative Expenses	Depreciation	Restructuring Costs
1996						
Newsprint [1]	**$ 994**	**$ 730**	**$ 264**	**$ 71**	**$ 81**	**$ 15**
Value Added	**576**	**392**	**184**	**32**	**42**	**13**
Total Paper [2]	**1,570**	**1,122**	**448**	**103**	**123**	**28**
Office Products [3]	**647**	**602**	**45**	**32**	**3**	**—**
Lumber & Newsprint Brokerage [4] & [5]	**373**	**367**	**6**	**4**	**—**	**—**
Discontinued	**—**	**—**	**—**	**—**	**—**	**—**
	$ 2,590	**$ 2,091**	**$ 499**	**$ 139**	**$ 126**	**$ 28**
1995						
Newsprint [1]	$ 1,150	$ 701	$ 449	$ 61	$ 75	$ 4
Value Added	652	429	223	32	37	2
Total Paper [2]	1,802	1,130	672	93	112	6
Office Products [3]	476	443	33	22	1	—
Lumber & Newsprint Brokerage [4] & [5]	504	490	14	5	—	—
Discontinued	—	—	—	—	—	—
	$ 2,782	$ 2,063	$ 719	$ 120	$ 113	$ 6
1994						
Newsprint [1]	$ 748	$ 634	$ 114	$ 43	$ 75	$ 5
Value Added	428	356	72	25	35	3
Total Paper [2]	1,176	990	186	68	110	8
Office Products [3]	443	408	35	21	1	—
Lumber & Newsprint Brokerage [1], [4] & [5]	491	481	10	5	—	—
Discontinued	—	—	—	—	—	—
	$ 2,110	$ 1,879	$ 231	$ 94	$ 111	$ 8

Geographic Segments [1]

Year ended December 31 (millions of Canadian dollars)	Net Sales	Cost of Sales	Gross Profit	Selling & Administrative Expenses	Depreciation	Restructuring Costs
1996						
Canada	**$ 307**	**$ 251**	**$ 56**	**$ 10**	**$ 9**	**$ 28**
USA	**1,709**	**1,340**	**369**	**85**	**77**	**—**
International [2]	**574**	**500**	**74**	**44**	**40**	**—**
	$ 2,590	**$ 2,091**	**$ 499**	**$ 139**	**$ 126**	**$ 28**
1995						
Canada	$ 276	$ 207	$ 69	$ 11	$ 11	$ 1
USA	1,924	1,446	478	78	73	5
International [2]	582	410	172	31	29	—
	$ 2,782	$ 2,063	$ 719	$ 120	$ 113	$ 6
1994						
Canada	$ 206	$ 176	$ 30	$ 8	$ 10	$ 8
USA	1,529	1,361	168	62	73	—
International [2]	375	342	33	24	28	—
	$ 2,110	$ 1,879	$ 231	$ 94	$ 111	$ 8

	Operating Profit	Paper Produced (000s of tonnes)	Paper Sales (000s of tonnes)	Fixed Asset Additions [6]	Total Assets
	$ 97	**1,298**	**1,305**	**$ 200**	**$ 1,676**
	97	**560**	**559**	**135**	**681**
	194	**1,858**	**1,864**	**335**	**2,357**
	10	**—**	**—**	**3**	**123**
	2	**319**	**321**	**—**	**19**
	—	**—**	**—**	**—**	**—**
	$ 206	**2,177**	**2,185**	**$ 338**	**$ 2,499**
	$ 309	1,426	1,401	$ 221	$ 1,585
	152	631	627	121	579
	461	2,057	2,028	342	2,164
	10	—	—	3	155
	9	309	304	—	38
	—	—	—	—	14
	$ 480	2,366	2,332	$ 345	$ 2,371
	$ (9)	1,382	1,391	$ 39	$ 1,524
	9	585	588	66	482
	—	1,967	1,979	105	2,006
	13	—	—	1	132
	5	421	423	—	37
	—	—	—	—	14
	$ 18	2,388	2,402	$ 106	$ 2,189

1) In 1994, 121,000 tonnes of Gaspesia newsprint production were included in the brokerage business (see financial statement note 3 b)). In 1995 and 1996, Gaspesia was wholly owned by the Company and 100% of its results were included with the newsprint business. 1994 includes 112,000 tonnes of newsprint produced by the Pine Falls, Manitoba mill prior to its sale in September 1994.
2) The Paper Business consists of the Company's eight wholly owned paper mills and 50% of the Company's two newsprint joint venture mills.
3) The Office Products Division distributes information processing supplies and provides sales, marketing and logistics services.
4) The Brokerage Business represents sales of lumber and panelboard products for third parties and sales of the Company's joint venture partners' share of production of the newsprint joint venture mills. Lumber and panelboard sales were discontinued by the end of the third quarter of 1996.
5) This segment includes the commission received on sale of 154,000 (1995 – 171,000; 1994 – 58,000) tonnes of newsprint sold for the Pine Falls Paper Company following its sale in September 1994. The figures for paper production and sales do not include those of the Pine Falls, Manitoba mill after September 1994, as they represent commission revenues only.
6) Fixed asset additions include adjustments for amounts in accounts payable and accrued liabilities related to capital expenditures.

	Operating Profit	Paper Produced (000s of tonnes)	Paper Sales (000s of tonnes)	Fixed Asset Additions [3]	Total Assets
	$ 9	**1,539**	**160**	**$ 328**	**$ 1,870**
	207	**638**	**1,328**	**9**	**590**
	(10)	**—**	**697**	**1**	**39**
	$ 206	**2,177**	**2,185**	**$ 338**	**$ 2,499**
	$ 46	1,747	218	$ 330	$ 1,778
	322	619	1,505	15	569
	112	—	609	—	24
	$ 480	2,366	2,332	$ 345	$ 2,371
	$ 4	1,788	211	104	$ 1,610
	33	600	1,575	2	563
	(19)	—	616	—	16
	$ 18	2,388	2,402	$ 106	$ 2,189

1) Geographic segments reflect the ultimate sales destination for the products. Sales and cost of sales by manufacturing or purchase source location are as follows:

1996	***Net Sales***	***Cost of Sales***
Canada	***$ 1,617***	***$ 1,243***
USA	***888***	***767***
International	***85***	***81***
	$ 2,590	***$ 2,091***
1995		
Canada	*$ 1,853*	*$ 1,270*
USA	*863*	*730*
International	*66*	*63*
	$ 2,782	*$ 2,063*
1994		
Canada	*$ 1,375*	*$ 1,085*
USA	*685*	*747*
International	*50*	*47*
	$ 2,110	*$ 1,879*

2) International markets consist of all markets outside Canada and the United States.
3) Fixed asset additions include adjustments for amounts in accounts payable and accrued liabilities related to capital expenditures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are expressed in Canadian dollars and are prepared in accordance with accounting principles and disclosure standards generally accepted in Canada (Canadian GAAP). The statements of earnings and changes in cash position include three years information for comparative purposes. These financial statements are not intended to provide other disclosures which would typically be found in financial statements prepared in accordance with generally accepted accounting standards in the United States (U.S. GAAP).

(a) Basis of presentation The financial statements consolidate the accounts of Abitibi-Price Inc., its subsidiary companies, the Company's proportionate interest in its U.S. joint venture partnerships comprising Augusta Newsprint Company (Augusta) – 50%, Alabama River Newsprint Company (Alabama) – 50% and Alabama River Recycling Company (Alabama Recycling) – 50%, and its ownership interest in Gaspesia Pulp & Paper Company Limited (Gaspesia) – 51% to December 15, 1994 and 100% after that date (see note 3 (b)).

(b) Use of estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses for the reported period. Actual results could differ from those estimates.

(c) Translation of foreign currencies Assets and liabilities denominated in foreign currencies are translated at year end exchange rates. Revenues and expenses are translated at prevailing market rates.

The net U.S. dollar assets of self-sustaining joint ventures and subsidiaries hedge a portion of the Company's U.S. dollar debt. Any remaining U.S. dollar debt is hedged by future U.S. dollar revenues. Exchange gains or losses on U.S. dollar debt hedged by future revenue are deferred and included in earnings in the period that the revenue is earned.

(d) Financial instruments Realized gains and losses on option and forward exchange rate contracts that hedge anticipated revenues are included in earnings when the revenue is earned.

(e) Inventories Inventories are valued at the lower of average cost and net recoverable amount.

(f) Fixed assets and depreciation Fixed assets are recorded at cost, which includes capitalized interest and preproduction costs. Investment tax credits and government capital grants received reduce the cost of the related fixed assets.

Depreciation is provided at rates which amortize the fixed asset cost over the productive life of the asset. The principal fixed asset category is production equipment which is generally depreciated over 20 years on a straight-line basis.

(g) Environmental costs Environmental expenditures that continue to benefit the Company are recorded at cost and capitalized as part of fixed assets. Depreciation is charged to income over the estimated future benefit period of the asset. Environmental expenditures that do not provide a benefit to the Company in future periods are expensed as incurred.

(h) Investments Long-term investments are recorded at the lower of cost and net recoverable amount.

(i) Pension costs Earnings are charged with the cost of pension benefits earned by employees as services are rendered. Pension expense is determined using management's best estimates of expected investment yields, wage and salary escalation, mortality rates, terminations and retirement ages. Adjustments arising from pension plan amendments, experience gains and losses, and assumption changes are amortized to earnings over the average remaining service lives of the members.

Any difference between pension expense (determined on an accounting basis) and funding (as required by regulatory authorities) gives rise to deferred pension costs.

(j) Goodwill Goodwill is recorded at the lower of book value and net recoverable amount and is amortized over its estimated period of future benefit — currently 20 years. Any impairment in value is recorded in earnings when it is identified.

(k) Income taxes Deferred income taxes result from differences in the timing of income and expense recognition for accounting and tax purposes.

(l) Research and development costs Research costs are expensed as incurred. Development costs for technically and commercially feasible products or processes which management intends to produce and market and/or use are deferred until commercial use begins. At that time, these costs are charged to earnings over the estimated commercial life of the product or process.

2. NEWSPRINT JOINT VENTURES

The Company's investments in joint ventures are accounted for using the proportionate consolidation method of accounting. The effects on the Company's results of operations, changes in cash position and financial position are as follows:

			1996			1995			1994
	Equity Accounting for Joint Ventures	Increase (Decrease)	Proportionate Accounting for Joint Ventures as Reported	Equity Accounting for Joint Ventures	Increase (Decrease)	Proportionate Accounting for Joint Ventures as Reported	Equity Accounting for Joint Ventures	Increase (Decrease)	Proportionate Accounting for Joint Venture as Reported
Consolidated Earnings Statement									
Net sales	$ 2,590	$ —	$ 2,590	$ 2,782	$ —	$ 2,782	$ 2,110	$ —	$ 2,110
Operating profit	143	63	206	404	76	480	16	2	18
Income (loss) from joint ventures	38	(38)	—	45	(45)	—	(33)	33	—
Interest expense	(19)	(25)	(44)	(29)	(32)	(61)	(40)	(34)	(74)
Unusual items & other income and expense, net	1	—	1	(2)	1	(1)	(24)	(1)	(25)
Earnings (loss) from continuing operations before income taxes	163	—	163	418	—	418	(81)	—	(81)
Net earnings (loss)	$ 104	$ —	$ 104	$ 272	$ —	$ 272	$ (56)	$ —	$ (56)
Changes in Consolidated Cash Position									
Operating activities	$ 188	$ 74	$ 262	$ 458	$ 65	$ 523	$ 21	$ (1)	$ 20
Financing activities	144	(97)	47	(222)	(39)	(261)	147	22	169
Investing activities	(381)	(7)	(388)	(322)	(10)	(332)	(49)	(11)	(60)
Dividends paid	(36)	—	(36)	(16)	—	(16)	—	—	—
Cash generated by (used in) continuing operations	$ (85)	$ (30)	$ (115)	$ (102)	$ 16	$ (86)	$ 119	$ 10	$ 129
Consolidatad Balance Sheet									
Current assets	$ 551	$ 20	$ 571	$ 591	$ 47	$ 638			
Fixed assets	1,362	371	1,733	1,140	386	1,526			
Investments in joint ventures	131	(131)	—	138	(138)	—			
Deferred pension cost	96	(6)	90	97	(5)	92			
Other assets	94	11	105	102	13	115			
Total assets	$ 2,234	$ 265	$ 2,499	$ 2,068	$ 303	$ 2,371			
Current liabilities	$ 451	$ 23	$ 474	$ 472	$ 48	$ 520			
Long-term debt:									
Recourse	369	—	369	294	—	294			
Non-recourse – joint ventures	—	242	242	—	255	255			
Deferred income taxes	296	—	296	253	—	253			
Convertible subordinated debentures	—	—	—	24	—	24			
Preferred shares	10	—	10	10	—	10			
Shareholders' equity	1,108	—	1,108	1,015	—	1,015			
Total liabilities and equity	$ 2,234	$ 265	$ 2,499	$ 2,068	$ 303	$ 2,371			

3. ACQUISITIONS

(a) Tenex Data Corporation Effective July 1, 1996, the Company acquired all of the outstanding shares of Tenex Data Corporation (Tenex), of Toronto, Ontario, a distributor of computer supplies and data storage products and a paper converter, at a cost of $47 million. The results of its operations have been included in the consolidated financial statements from July 1, 1996.

The 1996 acquisition has been accounted for using the purchase method of accounting. Acquisition costs were allocated as follows:

Working capital	$ 34
Fixed assets	7
Goodwill	6
	$ 47

Cash consideration	$ 22
Debt acquired	25
Acquisition cost	$ 47

Additional consideration may be payable relating to Tenex's future earnings from its paper converting business. The maximum amount payable is approximately $5 million and will be recorded as a cost of the acquisition when incurred.

(b) Gaspesia Pulp and Paper Company Limited On December 16, 1994, the Company purchased 49% of Gaspesia to increase its ownership interest to 100%. Gaspesia owns and operates a newsprint mill with an annual production capacity of 260,000 tonnes, located in Chandler, Quebec. Prior to this acquisition, Gaspesia was a joint venture and has been accounted for, in these financial statements, using the proportionate consolidation method. Its revenues, expenses, assets and liabilities have been fully consolidated in these financial statements subsequent to the purchase date.

This 1994 acquisition has been accounted for using the purchase method of accounting. Acquisition costs were allocated as follows:

Working capital	$ (10)
Fixed assets	9
Deferred pension cost	3
Acquisition cost	$ 2

4. RESTRUCTURING COSTS

	1996	1995	1994
Thermo-mechanical pulping conversions	**$ 28**	$ —	$ —
Relocation of inside sales and customer service offices	—	6	—
Employee restructuring costs	—	—	8
	$ 28	$ 6	$ 8

During 1996, the Company incurred one-time restructuring charges on the start-up of two thermo-mechanical pulping plants, including $19 million for the write-off of redundant fixed assets and $9 million for employee restructuring costs.

5. UNUSUAL ITEMS

	1996	1995	1994
Net proceeds from insurance claims relating to assets destroyed by flooding at Jonquière, Quebec (Kénogami) mill and hydro plant	**$ 5**	$ —	$ —
Gain on sale of Thunder Bay, Ontario newsprint mill	—	4	—
Loss on sale of Pine Falls, Manitoba newsprint mill	—	—	(21)
	$ 5	$ 4	$ (21)

6. OTHER INCOME AND EXPENSE, NET

	1996	1995	1994
Interest income	$ 7	$ 15	$ 10
Discount on sale of accounts receivable *(note 9)*	(11)	(13)	(5)
Other income (expense)	1	(6)	(8)
Dividends on preferred shares *(note 23)*	(1)	(1)	(1)
	$ (4)	$ (5)	$ (4)

7. INCOME TAXES

The Company's recovery of (provision for) income taxes and effective income tax rates are:

	1996	1995	1994
Earnings (loss) from continuing operations before income taxes	$ 163	$ 418	$ (81)
Recovery of (provision for) income taxes	(59)	(146)	29
Effective income tax rate	36%	35%	36%

Reconciliation to statutory tax rate:			
Average Canadian combined federal/provincial rate of income tax	39%	38%	40%
Increased (reduced) by:			
Manufacturing and processing allowances	(4)	(6)	(5)
Large corporations tax	2	1	(3)
Tax rate differential between Canada and the USA	1	2	5
Other	(2)	—	(1)
Effective income tax rate	36%	35%	36%

At December 31, 1996, the Company's U.S. subsidiaries had $118 million in non-capital tax loss carryforwards which are available to reduce taxable income in future years. These losses expire between 2005 and 2009. The benefit of these tax losses was recorded in earnings in the years incurred.

8. DISCONTINUED OPERATIONS

The Company sold its Price Wilson and Hilroy converted products operations on June 10, 1994 and November 30, 1994, respectively, at an after tax loss of $4 million. This loss included allocated interest expense of $1 million.

At December 31, 1996, accrued liabilities related to all discontinued operations were $12 million (1995 – $15 million).

9. ACCOUNTS RECEIVABLE

Under ongoing agreements with major banks, the Company sells accounts receivable to two of its wholly owned subsidiary companies. These companies then sell the receivables, with minimal recourse, to the banks. The Company acts as a service agent and administers the collection of these accounts receivable. At December 31, 1996, these banks owned $174 million (1995 – $170 million) of such receivables, with a maximum credit risk exposure to the Company of $13 million (1995 – $12 million).

10. INVENTORIES

	1996	1995
Finished goods	$ 145	$ 114
Materials and supplies	79	73
Pulpwood	48	47
	$ 272	$ 234

11. FIXED ASSETS

	1996			1995		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Property, plant and equipment	$ 2,929	$ (1,238)	$ 1,691	$ 2,656	$ (1,173)	$ 1,483
Logging equipment and development	88	(68)	20	88	(67)	21
Timber limits	46	(24)	22	45	(23)	22
	$ 3,063	$ (1,330)	$ 1,733	$ 2,789	$ (1,263)	$ 1,526

During the year, $11 million (1995 – $9 million; 1994 – $1 million) of interest was capitalized to fixed assets. In addition, the Company recorded $6 million (1995 – $8 million; 1994 – $2 million) of investment tax credits that reduced the cost of the related fixed assets.

12. INVESTMENTS AND OTHER ASSETS

	1996	1995
Pine Falls Paper Company Limited		
Subordinated, $37 million debenture (1995 – $40 million), maturing in 2004, accruing 10% simple interest to 2000, and 17% semi-annual compound interest payable thereafter	$ 27	$ 28
Unamortized portion of debt financing costs	13	16
Perkins Paper Ltd.		
3.84% cumulative, convertible, redeemable, retractable Class B preferred shares	—	14
Exchange loss on long-term debt hedged by future revenue	9	9
St. Laurent Paperboard Inc.		
12% discounted present value of $7 million, non-interest bearing notes, maturing between 1997 and 2005	4	4
Other	21	19
	$ 74	$ 90

13. LONG-TERM DEBT

(a) Recourse

The debt described below has recourse to the general credit of Abitibi-Price Inc. and consists of:

	1996	1995
Abitibi-Price Inc. and		
Abitibi-Price Sales Corporation		
Floating rate revolving credit facility, unsecured, with interest rate of LIBOR plus 0.875%, maturing in 1998 (U.S. portion – U.S.$67 million)	$ 124	$ —
Abitibi-Price Inc.		
7.92% notes, maturing in 2005 (U.S.$200 million)	274	273
Sinking fund debentures, redeemable at the Company's option 10.65% Series H, maturing in 1997 (U.S.$15 million; 1995 – U.S.$33 million)	21	44
Other	2	1
	421	318
Less: Current portion of long-term debt	(52)	(24)
	$ 369	$ 294

The Company may borrow under its credit facility on a revolving basis up to U.S.$250 million.

The debt agreements contain certain restrictive financial and other covenants.

(b) Non-recourse – joint ventures

The Company's interest in the long-term debt of its U.S. newsprint joint ventures is without recourse to the assets of Abitibi-Price Inc. These non-recourse loans are secured by $371 million (1995 – $386 million) of joint venture fixed assets and consist of:

	1996	1995
Alabama		
LIBOR plus 1.50% term loans, rising to LIBOR plus 1.875% in 1996 and LIBOR plus 2% in 1999, maturing in 2002, with quarterly principal repayments of U.S.$2.5 million (U.S.$149 million; 1995 – U.S.$162 million)	$ 205	$ 222
Alabama Recycling		
10.50% senior notes, maturing in 2008 (U.S.$13 million; 1995 – U.S.$14 million)	18	19
Augusta		
Senior 10.01% secured notes, maturing from 2001 to 2004 (U.S.$25 million; 1995 – U.S.$25 million)	34	34
Series A & B notes, LIBOR plus 1.25%, repaid in 1996 (1995 – U.S.$23 million)	—	32
	257	307
Less: Current portion of long-term debt	(15)	(52)
	$ 242	$ 255

At December 31, 1996, Alabama had interest rate agreements with major banks, which expire between 1997 and 2001, that provide an effective interest rate of 9.6% (1995 – 8.5%; 1994 – 9.0%) on $68 million of the $205 million non-recourse debt outstanding (1995 – $92 million of $222 million outstanding). In 1996, the effective interest rate on the Alabama debt was 8.2% (1995 – 8.6%; 1994 – 8.6%).

Augusta has a line of credit of U.S.$15 million bearing prevailing market interest rates. This line of credit was undrawn as at December 31, 1996 and 1995.

Partnership distributions are subject to certain restrictions until these loans are repaid in accordance with the loan agreements.

In 1997, Alabama may not be in compliance with certain debt covenants under certain circumstances. The outcome of these matters is not determinable. The assets less the liabilities of Alabama included in the consolidated financial statements were $22 million at December 31, 1996.

(c) Scheduled long-term debt repayments are as follows:

	Recourse Debt	Non-Recourse Debt	Total
1997	$ 52	$ 15	$ 67
1998	156	15	171
1999	30	22	52
2000	30	15	45
2001	30	25	55
Thereafter	123	165	288
	$ 421	$ 257	$ 678

The estimated fair value of the long-term debt at the period end dates is as follows:

	1996	1995
Recourse	$ 440	$ 340
Non-recourse	270	330

14. CONVERTIBLE SUBORDINATED DEBENTURES

During 1996, 1.6 million (1995 – 8.4 million) common shares were issued on conversion of $24 million (1995 – $126 million) of the 7.85% convertible subordinated debentures. The $3 million of related unamortized issuance costs, previously included in other assets, were charged to retained earnings in 1995.

15. CAPITAL STOCK

(a) The Company is incorporated under the Canada Business Corporations Act and is authorized to issue an unlimited number of preferred shares and common shares.

(b) Common shares

	1996		1995		1994	
	Millions of shares	**$**	Millions of shares	$	Millions of shares	$
Common shares, beginning of year	**87.2**	**613**	87.4	540	77.3	365
Shares issued by:						
Conversion of convertible subordinated debentures *(note 14)*	**1.6**	**24**	8.4	126	—	—
Exercise of stock options	**0.2**	**1**	0.1	1	0.1	2
Public offering	—	—	—	—	10.0	173
Shares purchased and cancelled for $194 million	—	—	(8.7)	(54)	—	—
Common shares, end of year	**89.0**	**638**	87.2	613	87.4	540

The $140 million excess of purchase price over the average stated capital of shares purchased and cancelled in 1995 was charged to retained earnings.

At December 31, 1996, the Company had 2.5 million (1995 – 2.6 million; 1994 – 2.2 million) management stock options outstanding. These options are exercisable at prices between $12.25 and $23.06 and expire between 1997 and 2005. Of these stock options, 84% can be exercised in 1997, 10% in 1998 and 6% in 1999 or later years.

The payment of a cash dividend on the Company's common stock is restricted under certain debt agreements. In 1996, the Company declared dividends to common shareholders of 40¢ per share (1995 – 30¢; 1994 – nil), having satisfied the conditions of these debt agreements.

(c) Preferred shares

	1996		1995		1994	
	Millions of shares	**$**	Millions of shares	$	Millions of shares	$
Preferred shares, beginning of year	**0.9**	**10**	1.0	11	1.5	17
Shares retracted by holders	—	—	(0.1)	(1)	(0.5)	(6)
Preferred shares, end of year	**0.9**	**10**	0.9	10	1.0	11

The 94¢ Cumulative Redeemable Retractable Preferred Shares Series F are redeemable by the Company at $11.50 per share. These shares are retractable at $11.50 per share at the option of the holder on January 1 of each year.

16. CHANGES IN THE NON-CASH WORKING CAPITAL COMPONENTS OF CONTINUING OPERATIONS

	1996	1995	1994
Decrease (increase) in current assets:			
Accounts receivable	**$ (6)**	$ (31)	$ (24)
Inventories	**(38)**	(54)	(5)
Prepaid expenses	**(7)**	—	2
(Decrease) increase in current liabilities:			
Accounts payable and accrued liabilities, net of an increase (decrease) in liabilities for fixed asset additions of $ (8) (1995 – $18; 1994 – $24)	**(12)**	27	14
Income taxes payable	**(21)**	19	3
	(84)	(39)	(10)
Changes in non-cash working capital not pertaining to operating activities of continuing operations:			
Acquisition of Tenex *(note 3 (a))*	**34**	—	—
Acquisition of Gaspesia, net of bank loan	—	—	6
Sale of Pine Falls, Manitoba mill	—	—	(19)
Discontinued operations	**3**	8	(2)
Changes in the non-cash working capital components of continuing operations	**$ (47)**	$ (31)	$ (25)

17. PENSION PLANS

The Company primarily has contributory, defined benefit pension plans that provide benefits based on length of service and final average earnings. The Company has an obligation to ensure these plans have sufficient funds to pay the benefits earned. The Company's contributions are made in accordance with the annual regulatory contribution requirements.

At December 31, the funded status, on an accounting basis, of the Company's pension plans is:

	1996	1995
Market value of assets	$ 923	$ 850
Actuarial present value of accumulated plan benefits based on current service and compensation levels:		
Vested	776	666
Non-vested	16	14
	792	680
Excess of market value of assets over accumulated benefit obligations	$ 131	$ 170

In 1996, pension plan assets were increased by Company and employee contributions of $24 million (1995 – $23 million) and pension plan investment gains of $130 million (1995 – $126 million gain). The plan assets were reduced by benefit payments of $68 million (1995 – $69 million) and $6 million (1995 – $5 million) paid for pension fund expenses. Plan assets were also reduced by $11 million, the value of past service benefits for non-union employees who elected to transfer to a new defined contribution plan offered by the Company effective January 1, 1996.

On a going concern basis, using assumptions required by regulatory authorities, the pension plans had an aggregate unfunded liability of $48 million (1995 – $47 million) at the time of the latest actuarial valuation reports.

18. FINANCIAL INSTRUMENTS

The Company is subject to foreign exchange exposures which arise from its foreign currency sales and international operations. Of the Company's net revenues, 80% is U.S. dollar denominated; and 66% of its non-North American sales are U.S. dollar denominated with the remainder in local currencies.

The Company currently manages its foreign exchange exposure with a program of foreign exchange forward contracts with major banks as counterparties for periods up to 5 years. The Company has a maximum of 40% of its foreign exchange forward contracts which may be outstanding with any one bank.

The Company had the following foreign exchange forward contracts outstanding at December 31 for the purchase of foreign curreneies:

Currency	Maturity	Average Contract Rate to buy $1 Cdn.	Contract Amount (millions) 1996	1995
U.S. Dollar	1996	U.S. 73.12¢	—	U.S.$80
	1997	U.S. 75.13¢	U.S.$725	—
	1998	U.S. 76.59¢	U.S.$420	—
	1999	U.S. 76.61¢	U.S.$239	—
	2000	U.S. 76.92¢	U.S.$172	—
	2001	U.S. 76.60¢	U.S.$138	—
Japanese Yen	1996	¥73.58	—	¥680
	1997	¥79.16	¥1,074	—
Pound Sterling	1997	£0.45	£13	—
German Mark	1997	DM 1.09	DM 14	—
Italian Lira	1997	L 1,118	L 24,728	—
Spanish Peseta	1997	ESP 93.29	ESP 1,625	—
French Franc	1997	FF 3.70	FF 53	—
Belgian Franc	1997	BEF 23.28	BEF 2	—

The Company had the following foreign exchange options outstanding at December 31, 1995:

	Contract Amount (millions)	Market Value (millions)	Maturity Dates	Average Rate
Call Options: U.S. Dollar	U.S.$1,065	U.S.$5	January to December 1996	U.S. 75.84¢
Put Options: U.S. Dollar	U.S.$1,065	U.S.$(5)	January to December 1996	U.S. 70.04¢

19. LEASE COMMITMENTS

The Company has operating lease agreements for the rental of property, equipment and the charter of cargo vessels. The minimum annual rental payments under these leases are as follows:

1997	$ 14
1998	4
1999	2
2000	2
2001	2
Thereafter	8
	$ 32

20. CONTINGENT LIABILITIES

Abitibi-Price Inc. and its U.S. subsidiary, Abitibi-Price Corporation, have been named as defendants in several lawsuits, including purported class actions, filed on behalf of homeowners in the United States relating to a certain hardboard siding product which was manufactured by Abitibi-Price Corporation prior to October 1992. In each of the lawsuits, the plaintiffs allege that Abitibi-Price Corporation hardboard siding was defective for the purposes for which it was sold. The Company denies this allegation and is vigorously defending the claims made in these actions.

Each of the lawsuits appears to seek substantial damages in a trial by jury. However, no specific amounts have yet been claimed by the respective plaintiffs. Nor is it possible at this time to quantify meaningfully the amount of, or the range of, damages implicated by the plaintiffs' claims. Management cannot at this time assess the likelihood that the Company will incur a loss or obtain an unfavourable result in connection with any one of these actions.

The Company is subject to a number of other unrelated claims in respect of which either an adequate provision has been made or for which no material liability is expected.

21. UNITED STATES ACCOUNTING PRINCIPLES

The financial statements have been prepared in accordance with Canadian GAAP which, in the case of the Company, conform in all material respects with U.S. GAAP, with the following exceptions:

(a) The Company defers exchange gains and losses on U.S. dollar debt hedged by future revenue (see Note 1 (c)). Under U.S. GAAP, unrealized exchange gains or losses are recognized in income.

(b) The Company follows the deferral method of accounting for income taxes. Under U.S. GAAP, Financial Accounting Standard No. 109 (FAS109), the asset and liability method of tax accounting is used.

(c) In 1994, the allocation of the Company's taxable earnings between Canada and the United States was changed as a result of an agreement between tax authorities in both countries. This agreement resulted in a prior period adjustment under Canadian GAAP. Under U.S. GAAP, the full impact of this adjustment would have been recorded in 1994 net earnings.

(d) The Company has designated its foreign exchange forward contracts as a hedge of future anticipated revenues. Under U.S. GAAP, these foreign exchange forward contracts would be marked-to-market.

(e) As required under Canadian GAAP, the Company presents its preferred shares as a liability and the related dividends as an expense. Under U.S. GAAP, preferred shares and the related dividends are shown as components of shareholders' equity.

(f) As required under Canadian GAAP, the Company accounts for its joint venture investments by the proportionate consolidation method of accounting. Under U.S. GAAP, these joint ventures would be accounted for using the equity method. The impact of this difference has been disclosed in note 2.

In accordance with U.S. GAAP, the effect of these differences would be:

	1996	1995	1994
Earnings (loss) from continuing operations – Canadian GAAP	$ 104	$ 272	$ (52)
Exchange gain (loss) on long-term debt hedged by future revenue *(note 21 (a))*	—	4	(7)
Reduction of income tax provision *(note 21 (b))*	—	3	14
Prior period adjustment under Canadian GAAP *(note 21 (c))*	—	—	11
Mark-to-market of foreign exchange forward contracts, net of tax effect of $13 million *(note 21 (d))*	(23)	—	—
Dividends on preferred shares *(note 21 (e))*	1	1	1
Earnings (loss) from continuing operations – U.S. GAAP	82	280	(33)
Loss from discontinued operations	—	—	(4)
Net earnings (loss) for the year – U.S. GAAP	82	280	(37)
Provision for dividends on preferred shares	(1)	(1)	(1)
Net earnings (loss) attributable to common shareholders – U.S. GAAP	$ 81	$ 279	$ (38)
Per Fully-Diluted Common Share:			
Earnings (loss) from continuing operations – Canadian GAAP	$ 1.14	$ 2.90	$ (0.62)
Adjustments to conform to U.S. GAAP	(0.25)	0.07	0.22
Earnings (loss) from continuing operations – U.S. GAAP	$ 0.89	$ 2.97	$ (0.40)
Net earnings (loss) – Canadian GAAP	$ 1.14	$ 2.90	$ (0.66)
Adjustments to conform to U.S. GAAP	(0.25)	0.07	0.22
Net earnings (loss) – U.S. GAAP	$ 0.89	$ 2.97	$ (0.44)

22. SUBSEQUENT EVENT

On February 14, 1997, the Boards of Directors of the Company and Stone-Consolidated Corporation agreed to amalgamate the two companies. The amalgamation will be recorded as a pooling of interests for accounting purposes.

Upon amalgamation, each common share of the Company will be converted into one common share of the combined entity. Each common share of Stone-Consolidated Corporation will be converted into 1.0062 common shares of the combined entity.

The transaction is expected to close in the second quarter of 1997 subject to, among other things, approval from the companies' shareholders and Canadian and U.S. regulatory authorities.

23. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to the current year's financial statement presentation, including the adoption on a retroactive basis of recommendations under Canadian GAAP that preferred shares be reclassified to liabilities from shareholders' equity in the consolidated balance sheet and the related dividends be recorded as an expense in the consolidated statement of earnings.

Eleven-Year Financial Review[1]

(Unaudited) (millions of Canadian dollars, except per share amounts)	1996	1995	1994
CONSOLIDATED EARNINGS			
Net Sales	$ 2,590	$ 2,782	$ 2,110
Cost of Sales	2,091	2,063	1,879
Selling and administrative expenses	139	120	94
Depreciation and depletion	126	113	111
Restructuring costs	28	6	8
Operating profit (loss) from continuing operations	206	480	18
Interest expense	(44)	(61)	(74)
Unusual items	5	4	(21)
Other income and expense, net [2]	(4)	(5)	(4)
Earnings (loss) from continuing operations, before income taxes	163	418	(81)
Recovery of (provision for) income taxes	(59)	(146)	29
Earnings (loss) from continuing operations	104	272	(52)
Earnings (loss) from discontinued operations, net of tax	—	—	(4)
Net earnings (loss) for the year	$ 104	$ 272	$ (56)
Per Basic Common Share:			
Earnings (loss) from continuing operations	$ 1.17	$ 3.24	$ (0.62)
Net earnings (loss) for the year	1.17	3.24	(0.66)
Dividends declared [3]	0.40	0.30	—
Dividends paid [3]	0.40	0.20	—
Common shareholders' equity	12.49	12.08	9.93
CONSOLIDATED SEGMENTED INFORMATION			
Net Sales			
Newsprint	$ 994	$ 1,150	$ 748
Value-Added	576	652	428
Office Products	647	476	443
Brokerage	373	504	491
	$ 2,590	$ 2,782	$ 2,110
Operating Profit			
Newsprint	$ 97	$ 309	$ (9)
Value-Added	97	152	9
Office Products	10	10	13
Brokerage	2	9	5
	$ 206	$ 480	$ 18
Paper produced (thousands of tonnes)			
Newsprint	1,298	1,426	1,382
Value-Added	560	631	585
Brokerage	319	309	421
	2,177	2,366	2,388
Paper sales (thousands of tonnes)			
Newsprint	1,305	1,401	1,391
Value-Added	559	627	588
Brokerage	321	304	423
	2,185	2,332	2,402

Notes: (1) The financial statements for the years 1986 to 1994 have been restated to reflect the adoption of the proportionate consolidation method of accounting for the Company's investments in joint ventures.
(2) The financial statements for 1986 to 1995 have been restated to reflect the reclassification of preferred shares from shareholders' equity to liabilities and the related dividends as an expense.
(3) Four quarterly dividends were paid in each of the years 1986 to 1992. Common share dividends were suspended after the first declaration in 1993 and resumed in 1995.

1993	1992	1991	1990	1989	1988	1987	1986
$ 1,869	$ 1,601	$ 1,533	$ 1,635	$ 1,732	$ 1,822	$ 1,634	$ 1,573
1,698	1,548	1,333	1,423	1,399	1,336	1,256	1,225
106	101	88	106	113	108	93	80
111	113	107	103	100	96	84	76
19	3	19	35	9	—	—	—
(65)	(164)	(14)	(32)	111	282	201	192
(70)	(58)	(47)	(50)	(43)	(49)	(45)	(44)
(3)	(62)	(19)	(19)	(14)	3	—	(3)
(12)	(14)	6	5	7	5	6	(4)
(150)	(298)	(74)	(96)	61	241	162	141
51	104	30	35	(30)	(99)	(72)	(68)
(99)	(194)	(44)	(61)	31	142	90	73
(13)	(27)	(34)	9	17	41	28	25
$ (112)	$ (221)	$ (78)	$ (52)	$ 48	$ 183	$ 118	$ 98
$ (1.38)	$ (2.79)	$ (0.62)	$ (0.88)	$ 0.44	$ 2.05	$ 1.30	$ 1.08
(1.56)	(3.19)	(1.12)	(0.76)	0.70	2.64	1.70	1.46
0.125	0.50	0.50	0.50	0.875	1.00	0.70	0.60
0.25	0.50	0.50	0.50	1.00	1.00	0.60	0.60
10.08	10.75	14.44	16.06	17.32	17.50	15.86	14.86
$ 755	$ 658	$ 710	$ 822	$ 899	$ 1,071	$ 991	$ 975
317	304	326	344	363	343	279	266
371	290	238	235	216	150	84	—
426	349	259	234	254	258	280	332
$ 1,869	$ 1,601	$ 1,533	$ 1,635	$ 1,732	$ 1,822	$ 1,634	$ 1,573
$ (63)	$ (128)	$ (9)	$ (24)	$ 97	$ 231	$ 176	$ 143
(14)	(26)	(4)	(10)	20	44	12	37
13	9	7	6	(2)	(5)	(1)	—
(1)	(19)	(8)	(4)	(4)	12	14	12
$ (65)	$ (164)	$ (14)	$ (32)	$ 111	$ 282	$ 201	$ 192
1,454	1,375	1,249	1,419	1,523	1,625	1,566	1,533
438	413	407	420	416	407	363	350
402	402	364	304	268	275	267	265
2,294	2,190	2,020	2,143	2,207	2,307	2,196	2,148
1,455	1,394	1,226	1,433	1,510	1,626	1,609	1,583
440	471	457	468	482	453	416	394
403	406	358	303	264	273	268	269
2,298	2,271	2,041	2,204	2,256	2,352	2,293	2,246

(Unaudited) (millions of Canadian dollars)	1996	1995	1994
CONSOLIDATED BALANCE SHEET			
Assets			
Cash and deposits	$ 60	$ 178	$ 272
Accounts receivable	221	215	183
Inventories	272	234	180
Prepaid expenses	18	11	11
	571	638	646
Net assets held for divestiture	—	—	—
Fixed assets, net	1,733	1,526	1,316
Investments and other assets	74	90	104
Deferred pension cost	90	92	95
Goodwill	31	25	28
	$ 2,499	$ 2,371	$ 2,189
Liabilities			
Dividend payable [3]	$ 9	$ 9	$ —
Bank loan and bank indebtedness	15	17	32
Income taxes payable	—	21	1
Current portion of long-term debt			
Recourse	52	24	12
Non-recourse – joint ventures	15	52	15
Accounts payable and accrued liabilities	383	397	352
	474	520	412
Long-term debt			
Recourse	369	294	329
Non-recourse – joint ventures	242	255	337
Deferred income taxes	296	253	112
Convertible subordinated debentures	—	24	150
Preferred shares [2]	10	10	11
Shareholders' Equity			
Common shares	638	613	540
Retained earnings	470	402	298
	1,108	1,015	838
	$ 2,499	$ 2,371	$ 2,189
Other			
Return on average common shareholders' equity	9%	29%	—
Net debt to total capitalization	37%	33%	42%
Number of employees at December 31	7,266	6,787	6,475

Notes: (1) The financial statements for the years 1986 to 1994 have been restated to reflect the adoption of the proportionate consolidation method of accounting for the Company's investments in joint ventures.
(2) The financial statements for 1986 to 1995 have been restated to reflect the reclassification of preferred shares from shareholders' equity to liabilities and the related dividends as an expense.
(3) Four quarterly dividends were paid in each of the years 1986 to 1992. Common share dividends were suspended after the first declaration in 1993 and resumed in 1995.

	1993	1992	1991	1990	1989	1988	1987	1986
	$ 150	$ 136	$ 20	$ 6	$ 13	$ 41	$ 177	$ 31
	159	109	187	311	394	418	426	373
	175	181	361	420	428	412	369	355
	13	12	29	27	27	26	15	15
	497	438	597	764	862	897	987	774
	40	54	255	305	312	265	253	218
	1,328	1,366	1,469	1,525	1,444	1,324	1,263	1,184
	49	69	39	81	77	84	75	105
	79	79	73	65	51	34	23	16
	28	29	28	31	32	43	1	—
	$ 2,021	$ 2,035	$ 2,461	$ 2,771	$ 2,778	$ 2,647	$ 2,602	$ 2,297
	$ —	$ 9	$ 9	$ 9	$ 9	$ 19	$ 19	$ 11
	13	9	62	163	153	—	—	5
	—	—	—	—	11	15	14	5
	13	12	14	17	33	31	25	18
	17	21	9	8	8	8	9	10
	312	343	355	377	327	283	324	278
	355	394	449	574	541	356	391	327
	324	383	369	389	405	457	561	413
	301	280	265	255	175	106	124	141
	150	213	356	413	426	401	307	264
	150	—	—	—	—	—	—	—
	17	20	21	27	31	115	121	123
	365	262	262	262	262	262	262	260
	359	483	739	851	938	950	836	769
	724	745	1,001	1,113	1,200	1,212	1,098	1,029
	$ 2,021	$ 2,035	$ 2,461	$ 2,771	$ 2,778	$ 2,647	$ 2,602	$ 2,297
	—	—	—	—	4%	16%	11%	11%
	49%	44%	42%	38%	36%	36%	38%	40%
	6,458	6,641	6,713	7,431	8,251	8,662	8,812	8,917

(Unaudited) (millions of Canadian dollars)	1996	1995	1994
CHANGES IN CONSOLIDATED CASH POSITION			
Continuing operating activities			
Earnings (loss) for the year from continuing operations	**$ 104**	$ 272	$ (52)
Depreciation and depletion	**126**	113	111
Unusual items	**—**	(4)	21
Provision for (recovery of) deferred income taxes	**49**	150	(32)
Provision for restructuring	**28**	—	—
Other non-cash items	**2**	23	(3)
	309	554	45
Changes in the non-cash working capital components of continuing operations	**(47)**	(31)	(25)
Cash generated by continuing operating activities	**262**	523	20
Financing activities of continuing operations			
Purchase of common shares for cancellation	**—**	(194)	—
Increase in (repayment of) long-term debt and bank loan, net	**47**	(66)	6
Retirement of preferred shares	**—**	(1)	(6)
Other	**—**	—	—
Issue of common share, net of expenses	**—**	—	169
Cash generated by (used in) financing activities of continuing operations	**47**	(261)	169
Investing activities of continuing operations			
Additions to fixed assets, net	**(346)**	(327)	(82)
Increase in investments and other assets	**5**	(5)	(9)
Proceeds from sales of discontinued operations and operating divisions, net	**—**	—	33
Acquisitions	**(47)**	—	(2)
Cash used in investing activities of continuing operations	**(388)**	(332)	(60)
Dividends paid to common shareholders[3]	**(36)**	(16)	—
Cash generated by (used in) continuing operations	**(115)**	(86)	129
Cash used in discontinued operations	**(3)**	(8)	(7)
Increase (decrease) in cash during the year	**(118)**	(94)	122
Cash and deposits, net of bank indebtedness, beginning of year	**178**	272	150
Cash and deposits, net of bank indebtedness, end of year	**$ 60**	$ 178	$ 272

Notes: (1) The financial statements for the years 1986 to 1994 have been restated to reflect the adoption of the proportionate consolidation method of accounting for the Company's investments in joint ventures.
(2) The financial statements for 1986 to 1995 have been restated to reflect the reclassification of preferred shares from shareholders' equity to liabilities and the related dividends as an expense.
(3) Four quarterly dividends were paid in each of the years 1986 to 1992. Common share dividends were suspended after the first declaration in 1993 and resumed in 1995.

1993	1992	1991	1990	1989	1988	1987	1986
$ (99)	$ (194)	$ (44)	$ (61)	$ 31	$ 139	$ 90	$ 76
111	113	107	103	108	96	84	76
—	62	10	20	—	—	—	—
(52)	(113)	(30)	(35)	18	81	31	36
10	3	18	10	23	—	—	—
7	28	(5)	(11)	—	11	11	35
(23)	(101)	56	26	172	327	216	223
(53)	62	(17)	128	32	(9)	23	(53)
(76)	(39)	39	154	204	318	239	170
—	—	—	—	—	—	—	—
94	(26)	(8)	45	37	(98)	169	(37)
(3)	(1)	(6)	(4)	(84)	(6)	(2)	(1)
(8)	—	1	1	(2)	1	(1)	19
98	—	—	—	—	—	—	134
181	(27)	(13)	42	(49)	(103)	166	115
(59)	(30)	(52)	(202)	(250)	(182)	(220)	(230)
30	3	3	(2)	(3)	(8)	6	—
2	353	52	—	—	—	—	30
—	—	—	—	—	(105)	—	(9)
(27)	326	3	(204)	(253)	(295)	(214)	(209)
(17)	(35)	(35)	(35)	(69)	(69)	(42)	(41)
61	225	(6)	(43)	(167)	(149)	149	35
(38)	(56)	121	26	(14)	13	2	(4)
23	169	115	(17)	(181)	(136)	151	31
127	(42)	(157)	(140)	41	177	26	(5)
$ 150	$ 127	$ (42)	$ (157)	$ (140)	$ 41	$ 177	$ 26

Quarterly Financial Information

(Unaudited) (millions of Canadian dollars, except per share amounts)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
1996					
Net sales	$ 709	$ 643	$ 613	$ 625	$ 2,590
Cost of sales	525	506	500	560	2,091
Selling and administrative expenses	34	33	36	36	139
Depreciation and depletion	31	30	31	34	126
Restructuring costs	—	28	—	—	28
Operating profit (loss)	119	46	46	(5)	206
Net earnings (loss) for the period	72	23	18	(9)	104
Per common share:					
Net earnings (loss) for the period – fully diluted	$ 0.78	$ 0.26	$ 0.20	$ (0.10)	$ 1.14
Dividends declared	0.10	0.10	0.10	0.10	0.40
Weighted average number of common shares outstanding – fully diluted (millions)	91.2	91.2	91.3	91.4	91.4
Production (thousands of tonnes)					
Newsprint	340	308	309	341	1,298
Value-added papers	138	136	143	143	560
Total paper business	478	444	452	484	1,858
Newsprint brokerage	79	78	82	80	319
Sales (thousands of tonnes)					
Newsprint	306	291	316	392	1,305
Value-added papers	133	132	140	154	559
Total paper business	439	423	456	546	1,864
Newsprint brokerage	68	74	80	99	321
1995(1)					
Net sales	$ 609	$ 676	$ 757	$ 740	$ 2,782
Cost of sales	487	496	546	534	2,063
Selling and administrative expenses	26	32	29	33	120
Depreciation and depletion	29	28	28	28	113
Restructuring costs	—	—	6	—	6
Operating profit	67	120	148	145	480
Net earnings for the period	30	68	84	90	272
Per common share:					
Net earnings for the period – fully diluted	$ 0.33	$ 0.71	$ 0.91	$ 0.95	$ 2.90
Dividends declared	—	0.10	0.10	0.10	0.30
Weighted average number of common shares outstanding – fully diluted (millions)	98.2	98.3	96.8	95.4	95.4
Production (thousands of tonnes)					
Newsprint	353	361	352	360	1,426
Value-added papers	153	164	160	154	631
Total paper business	506	525	512	514	2,057
Newsprint brokerage	78	72	80	79	309
Sales (thousands of tonnes)					
Newsprint	330	351	368	352	1,401
Value-added papers	149	166	164	148	627
Total paper business	479	517	532	500	2,028
Newsprint brokerage	75	70	83	76	304

Note: (1) The financial statements for the year 1995 have been restated to reflect the reclassification of dividends on preferred shares from retained earnings to net earnings.

Approximately 80% of the Company's revenues, 56% of expenses and 95% of the Company's debt are denominated in United States dollars. To provide investors with information regarding our financial position, results of operations and cash changes for the year in U.S. dollars, we have translated our consolidated balance sheet, earnings and changes in cash position statements (financial statements) into U.S. dollars.

These unaudited financial statements, reported in U.S. dollars, are based on the Company's audited financial statements prepared under Canadian generally accepted accounting principles. As the amounts shown in U.S. dollars are for convenience only, the exchange rate of U.S. 73¢, the rate at December 31, 1996, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying financial statements. U.S. dollar amounts shown are not a representation that Canadian dollar balances have, or could have, been converted into U.S. dollars at the translation rate used.

These unaudited financial statements, reported in U.S. dollars, are provided solely for our shareholders' convenience. They are not a substitute for, and do not include the full disclosures contained in, our audited financial statements on pages 32 to 47 of this Annual Report.

Consolidated Earnings

(unaudited)

Year ended December 31 (millions of United States dollars, except per share amounts)	1996	1995	1994
Net sales	**$ 1,890**	$ 2,030	$ 1,539
Cost of sales	**1,526**	1,505	1,371
Selling and administrative expenses	**101**	88	68
Depreciation and depletion	**92**	82	81
Restructuring costs	**20**	4	6
	1,739	1,679	1,526
Operating profit from continuing operations	**151**	351	13
Interest expense	**(32)**	(45)	(54)
Unusual items	**3**	3	(15)
Other income and expense, net	**(3)**	(4)	(3)
Earnings (loss) from continuing operations before income taxes	**119**	305	(59)
Recovery of (provision for) income taxes	**(43)**	(107)	21
Earnings (loss) from continuing operations	**76**	198	(38)
Loss on disposal of discontinued operations, net of income tax recoveries of $1	**—**	—	(3)
Net earnings (loss) for the year	**$ 76**	$ 198	$ (41)
Per common share:			
Earnings (loss) from continuing operations	**$ 0.86**	$ 2.36	$ (0.45)
Earnings (loss) for the year			
Basic	**0.86**	2.36	(0.48)
Fully diluted	**0.83**	2.08	(0.48)
Dividends declared	**0.29**	0.22	—
Dividends payable	**0.07**	0.07	—
Weighted average number of common shares outstanding (millions)			
Basic	**88.7**	84.0	84.4
Fully diluted	**91.4**	95.4	96.6
Fully diluted number of common shares outstanding (millions)	**91.5**	91.4	99.6

U.S. Dollar Reporting

Consolidated Balance Sheet

(unaudited)

December 31 (millions of United States dollars)	1996	1995
Assets		
Current assets		
Cash and deposits	$ 44	$ 130
Accounts receivable	161	157
Inventories	198	171
Prepaid expenses	13	8
	416	466
Fixed assets	1,264	1,113
Investments and other assets	54	66
Deferred pension cost	66	67
Goodwill	23	18
	$ 1,823	$ 1,730
Liabilities		
Current liabilities		
Bank loan	$ 11	$ 12
Accounts payable and accrued liabilities	279	290
Dividends payable	7	7
Income taxes payable	—	15
Current portion of long-term debt		
Recourse	38	18
Non-recourse – joint ventures	11	38
	346	380
Long-term debt		
Recourse	269	214
Non-recourse – joint ventures	177	186
Deferred income taxes	216	185
Convertible subordinated debentures	—	18
Preferred shares	7	7
	1,015	990
Shareholders' Equity		
Common shares	465	447
Retained earnings	343	293
	808	740
	$ 1,823	$ 1,730

Changes in Consolidated Cash Position

(unaudited)

Year ended December 31 (millions of United States dollars)	1996	1995	1994
Continuing operating activities			
Earnings (loss) for the year from continuing operations	$ 76	$ 198	$ (38)
Depreciation and depletion	92	82	81
Restructuring costs	20	—	—
Unusual items	—	(3)	15
Provision for (recovery of) deferred income taxes	36	109	(23)
Other non-cash items	1	17	(2)
	225	403	33
Changes in the non-cash working capital components of continuing operations	(34)	(22)	(18)
Cash generated by continuing operating activities	191	381	15
Financing activities of continuing operations			
Increase in (repayment of) long-term debt and bank loan, net	34	(48)	4
Purchase of common shares for cancellation	—	(141)	—
Retirement of preferred shares	—	(1)	(4)
Issue of common shares, net of expenses	—	—	123
Cash generated by (used in) financing activities of continuing operations	34	(190)	123
Investing activities of continuing operations			
Additions to fixed assets, net of $4 (1995 – $6; 1994 – $1) of investment tax credits	(252)	(238)	(60)
Acquisitions	(34)	—	(1)
Decrease (increase) in investments and other assets	3	(3)	(7)
Proceeds from sales of discontinued operations and operating divisions, net of $29 debentures received from purchasers	—	—	24
Cash used in investing activities of continuing operations	(283)	(241)	(44)
Dividends paid to common shareholders	(26)	(12)	—
Cash generated by (used in) continuing operations	(84)	(62)	94
Cash used in discontinued operations	(2)	(6)	(5)
Increase (decrease) in cash during the year	(86)	(68)	89
Cash and deposits, beginning of year	130	198	109
Cash and deposits, end of year	$ 44	$ 130	$ 198

Corporate governance has been defined as the process and structure used to direct and manage the business and affairs of the corporation, with the objective of enhancing shareholder value. Both the Board of Directors and the management of the Company recognize the inherent value of having appropriate structures and procedures in place to ensure that the Board can function independently of management. To this end, the Company has adopted a number of policies which are aimed at ensuring the effectiveness of its corporate governance practices.

More detailed disclosure may be found in the *Joint Management Proxy Circular* of Abitibi-Price Inc. and Stone-Consolidated Corporation; however, the following summarizes the principal elements of the Company's corporate governance practices.

RESPONSIBILITIES OF THE BOARD

The Company's Board of Directors has officially adopted a document called Principles and Practices to outline the details of the Board's goals, responsibilities, composition, size and manner of operation. The Board recognizes it has the ultimate responsibility for supervising management of the business and affairs of the Company and for acting in the best interests of the Company. Through the Board's stewardship of the Company, the goal is to enhance long-term value for the shareholders and to preserve and protect the underlying value of the enterprise and for the benefit of all stakeholders.

COMPOSITION OF THE BOARD

The Company's Board of Directors was comprised of eleven members in 1996. The Board believes that ten of the directors qualified as "unrelated" directors. An "unrelated" director is a director that is independent of management and free from any interest in any business or other relationship which could or could reasonably be perceived to materially interfere with the director's ability to act in the best interests of the Company. The Board considers Ronald Y. Oberlander to be a "related" director. The composition of the Board is intended to: (i) reflect some representation from the Company's principal operating and customer regions, and (ii) represent a skill profile which will serve the Board best in discharging its duties. The Board is satisfied that the existing structure and procedures provide assurance that the Board acts independently of management.

COMMITTEES OF THE BOARD

The Board of Directors carries out a number of its responsibilities through committees, which are appointed annually. In addition, the Board may appoint ad hoc committees periodically as may be needed. At regular scheduled meetings of the full Board, the directors receive, consider and discuss Board committee reports. With the exception of the Executive Committee, all committees are entirely composed of "unrelated" directors.

BOARD EXPECTATIONS OF MANAGEMENT

The information management provides to the Board is critical to the effective functioning of the Board and so the directors must have confidence in the data gathering, analysis and reporting functions of management. The Corporate Governance Committee monitors the nature of the information requested by and provided to the Board so that it is able to determine if the Board can be more effective in identifying opportunities and risks for the Company.

	Audit	Corporate Governance	Environment	Executive	Human Resources and Compensation	Pension
André Caillé President & CEO Hydro-Québec Montreal, Québec		●			●	
Richard Drouin, Q.C. Chairman of the Board Memotec Communications Inc. Montreal, Québec	●	◆		●		
Stanley H. Hartt, Q.C. Chairman Salomon Brothers Canada Inc. Toronto, Ontario	●					
H. Earl Joudrie Chairman Algoma Steel Inc. & Gulf Canada Resources Ltd. Toronto, Ontario			◆	●	●	
Claudette MacKay-Lassonde Chairman & CEO Enghouse Systems Ltd. Toronto, Ontario			●			●
C. Edward Medland President Beauwood Investments Ltd. Toronto, Ontario		●		●	●	◆
Allan H. Michell Director Montreal, Québec	●					●
Henry J. Nowak Attorney-at-Law/Consultant Buffalo, New York			●			●
Ronald Y. Oberlander Chairman & CEO Abitibi-Price Inc. Toronto, Ontario				◆		
John A. Tory, Q.C. Deputy Chairman The Thomson Corporation Toronto, Ontario		●		●	◆	
David A. Ward, Q.C. Partner Davies, Ward & Beck Toronto, Ontario	◆		●	●		

● Chair of Committee

CHAIRMAN AND CEO

Ronald Y. Oberlander

EXECUTIVE VICE-PRESIDENTS

David Loretto

C. Donald Martin

John W. Weaver

SENIOR VICE-PRESIDENTS

Jean-Claude Casavant
Organizational Leadership & Innovation

Patrick G. Crowley
Chief Financial Officer

William H. Sheffield

VICE-PRESIDENTS

Donald G. Curry
Controller

Fernand H. Duquette
Engineering & Environment

Daniel R. Perkins
Treasurer

Robert P. Kanee

Paul A. Planet
Marketing

Jacques P. Vachon
Legal Affairs & Secretary

Phil Whiting
Executive Scientist

Brian J. Young
Environmental Affairs

OFFICE PRODUCTS

Bruce J. McGroarty
President of Aridata, Azerty, Eurozerty, Azerty de Mexico

MILL BUSINESS UNIT MANAGEMENT TEAMS

Alabama River Newsprint Company
Claiborne, Alabama

Ben Cagle
Co-Leader

Thor Thorsteinson
Co-Leader

Barbara Cole
Finance

Russ Sirmon
Production

Terry Wilkerson
Human Resources

Alma
Alma, Quebec

Breen Blaine
Co-Leader

Jean-Marc Simard
Co-Leader

Richard Guay
Human Resources

Gilles Daigneault
Finance

Gratien Girard
Paper Machines

Robert Gareau
Pulping

Augusta Newsprint Company
Augusta, Georgia

Bob Collez
Co-Leader

Dick Dorris
Co-Leader

David Pierce
Finance

Jim Reece
Human Resources

Rich Zogol
Production

Beaupré
Beaupré, Quebec

Michel Maillé
Co-Leader

Luc Ranger
Co-Leader

Richard Leblanc
Human Resources

Daniel Sénéchal
Finance

Fort William
Thunder Bay, Ontario

John Plouffe
Co-Leader

Brian Stevenson
Co-Leader

Tom McNeely
Finance

Carol Hansen
Human Resources

Gaspesia Pulp and Paper Company
Chandler, Quebec

Tom Crowley
Co-Leader

Allen Dea
Co-Leader

Ghislain Cyr
Production

Daniel Gauvin
Human Resources

Peter Martin
Finance

International
Grand Falls & Stephenville, Newfoundland

Dave Kerr
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Colin Keeler
Co-Leader

Gord Olford
Co-Leader

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Finance

Iroquois Falls
Iroquois Falls, Ontario

Jon Melkerson
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Co-Leader

Alain Lalonde
Finance

Don McCroome
Human Resources

Roy Richardson
Production

Kénogami
Jonquière, Quebec

Breen Blaine
Co-Leader

Alain Grandmont
Co-Leader

Gaétan Guérin
Human Resources

Michel Tanguay
Finance

Gérald St-Pierre / Michel Lessard
Production

Market for Securities

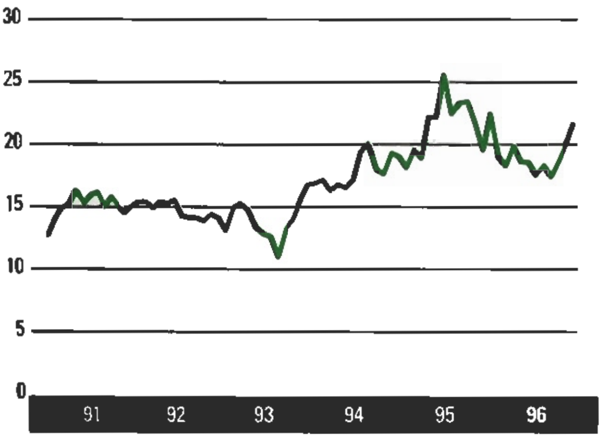
The common shares of Abitibi-Price are listed on the Toronto, Montreal and Vancouver stock exchanges under the symbol "A". The common shares are also listed on the New York Stock Exchange under the symbol "ABY". The following sets forth the high and low reported prices and trading volume of the common shares on the Toronto Stock Exchange and the New York Stock Exchange for the periods indicated.

	TSE[1]			NYSE[2]		
	High[3] ($ Canadian)	Low[3]	Volume (# of shares)	High[3] ($US)	Low[3]	Volume (# of shares)
FISCAL 1994						
First Quarter	18.75	15.25	12,452,888	13.75	11.38	468,300
Second Quarter	17.88	15.63	13,151,651	13.13	11.50	705,300
Third Quarter	20.63	16.25	25,943,261	15.25	11.75	1,281,400
Fourth Quarter	20.25	16.50	16,487,869	15.13	12.00	1,312,400
FISCAL 1995						
First Quarter	20.13	17.13	25,793,825	14.50	12.00	5,982,700
Second Quarter	23.63	18.50	28,623,657	17.25	13.75	6,990,300
Third Quarter	25.88	22.13	23,472,911	18.88	16.13	13,372,900
Fourth Quarter	25.13	19.00	19,750,072	18.63	13.88	17,592,200
FISCAL 1996						
First Quarter	**23.63**	**18.13**	**27,592,108**	**17.25**	**13.38**	**7,913,100**
Second Quarter	**21.00**	**18.10**	**13,946,344**	**15.38**	**13.25**	**5,111,100**
Third Quarter	**19.60**	**16.50**	**12,854,017**	**14.25**	**12.50**	**5,106,300**
Fourth Quarter	**22.00**	**17.10**	**17,293,733**	**16.13**	**12.63**	**4,068,600**

1 As reported by the Toronto Stock Exchange.
2 As reported by the New York Stock Exchange.
3 Based on one or more 100 share lots.

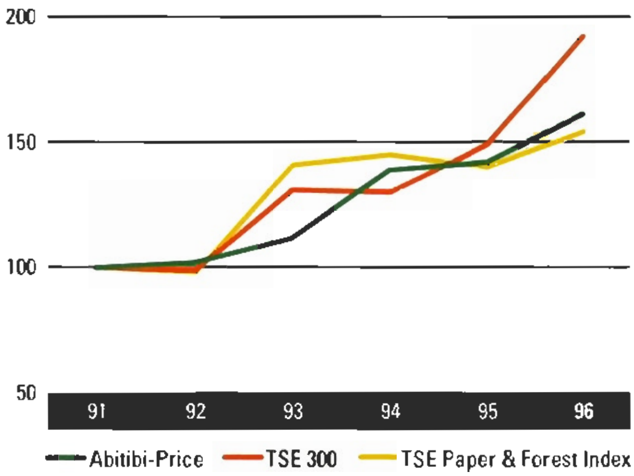
Stock Price Closing

(dollars per share)



Cumulative Total Return

(dollars)



Glossary of Terms

Alternative Offset™ high bright uncoated groundwood paper used for printing catalogues, inserts, technical manuals, books, and direct mail and financial circulars.

Capacity the amount, in tonnes, of paper a machine can produce in a year adjusted for statutory holidays and downtime periods extending beyond one day.

Coated paper grades of paper to which a coating is applied, either on the paper machine or a subsequent process.

Chemical pulp pulp obtained by cooking wood in solutions of various chemicals. The principal chemical processes are sulphite and kraft.

Deinking a process of re-pulping waste paper to remove inks and other non-fibre contaminants, producing clean fibre suitable for paper manufacturing.

Effluent the liquid waste of industrial processing.

Effluent treatment
Primary treatment a process which removes suspended solids from effluent.
Secondary treatment a process which reduces the biochemical oxygen demand (BOD) and toxicity of effluent.

Fibre the structural component of woody plants that are separated from each other during the pulping operation in a pulp mill and reassembled into the form of a sheet during the papermaking process.

Groundwood pulp pulp produced from wood fibres which are separated by mechanically grinding logs on a stone wheel.

Hectare 259 hectares equal 1 square mile, 1 hectare = 2.471 acres or .01 square kilometres.

High brightness papers uncoated groundwood paper with a brightness level higher than standard newsprint.

International refers to any geographical area outside North America when used in reference to our markets.

Kraft pulp pulp produced by a process where the active cooking agent is a mixture of sodium hydroxide and sodium sulphide.

Limits leased or owned forest lands (usually described in terms of square miles or hectares), where the company procures fibre for its paper mills.

LWC (or light-weight coated) clay-coated groundwood paper having a smooth finish and high opacity, used primarily for catalogues, magazines and inserts. A higher-value grade that competes in same end-use market as SC papers.

MF (or machine finished) offset uncoated groundwood paper that has had its surface properties improved while still on the paper machine, used primarily for "offset" printing.

Mill net price transaction price less delivery cost.

Newsprint a printing paper whose major use is in newspapers. It is made largely from groundwood or mechanical pulp reinforced to varying degrees by chemical pulp.

ONP (old newspapers) used newspapers collected to make recycled paper products.

OMG (old magazines) used or unsold magazines collected to make and strengthen recycled paper products.

Operating rate the ratio of actual days of machine operation to the days available.

Operating efficiency the ratio of actual saleable tonnes manufactured to the maximum possible tonnes.

Printing papers a term used to describe those paper grades used by printers and publishers in their production of books, magazines, newspapers, etc.

Pulp the generic term describing the cellulose fibres derived from wood and/or waste paper. Pulp can result from a variety of pulping processes including cooking, refining, grinding and the processing and cleaning of waste paper.

Pulpwood logs used for making pulp, as opposed to those used for lumber (sawlogs).

Rotogravure paper high smoothness uncoated groundwood paper, typically used for printing of catalogues and magazines.

SC (or supercalendered) paper clay-filled groundwood paper, having a smooth finish and high opacity, used primarily for catalogues, magazines and inserts. SCA is a higher-value grade than SCB, which is higher than SCC.

Soft-nip a process where the pressure point between two rolls gives the paper a smooth and glossy finish.

Stumpage fee the charge levied by certain provincial governments in Canada for trees cut on government land.

Sustainable forestry managing and using the forest to meet the various needs of today's society, while maintaining the productive capacity of natural forest ecosystems and the biodiveristy of the forest.

TMP (thermo-mechanical pulp) a process where wood chips are separated mechanically into fibres after pre-heating with steam.

Tonne (metric) 1.1023 short tons (1 short ton equals 2,000 pounds)

Transaction price list price less discount.

UFS (uncoated freesheet) printing and writing paper made mostly from chemical pulp without applied sheet-coating material.

Uncoated groundwood a higher-value grade of paper which has properties similar to newsprint and is used in printing papers for directories, catalogues, advertising circulars, periodicals, etc.

Value-added papers quality uncoated paper that is a higher grade than newsprint, but lower than fine paper, in terms of brightness, surface smoothness and opacity. Made largely from groundwood or mechanical pulp. Also contains varying proportions of chemical pulp and fillers.

Special Meeting of Shareholders

The special meeting of Abitibi-Price Inc. shareholders will be held at the John W.H. Bassett Theatre, Lower Level, Metro Toronto Convention Centre, 255 Front St. West, Toronto, Canada, on Thursday, May 29, 1997 at 11:00 a.m.

Transfer Agents and Registrars

Montreal Trust Company

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

Harris Trust and Savings Bank

Chicago, U.S.A.

Auditors

Price Waterhouse

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This report is printed in Canada on paper containing recycled fibre.

Information Available Upon Request

Upon request, the Company will make available without cost copies of its annual report, annual information form, management proxy circular, interim reports and news releases.

Annual Information Form (Form 40-F)

The Company's Annual Information Form (AIF) is filed with securities regulators in Canada and the United States.

Under the Multi-Jurisdictional Disclosure System (MJDS) introduced in 1991, the Company's AIF is filed in its Form 40-F with the U.S. regulatory authority, the Securities and Exchange Commission (SEC), in satisfaction of its annual filing requirement.

Interim Reports (Form 6-K)

Similarly, the Company files each of its interim quarterly reports with regulatory authorities in Canada and with the SEC in the United States in Form 6-K.

Environmental Report

Copies of the Company's 1996 Progress Report on the Environment, published in the second quarter of 1997, are available on request.

Credits
Design: Bryan Mills & Associates Ltd.
Illustration: Cary Henrie
Photography: Deborah MacNeill
Printing: Bowne of Toronto

ABITIBI-PRICE

Vision

TO BECOME THE WORLD'S FINEST MANUFACTURER AND MARKETER OF GROUNDWOOD PAPERS.

Philosophy

WE RECOGNIZE THAT, FOR OUR COMPANY TO SURVIVE AND PROSPER, WE MUST ACCEPT AND BALANCE OUR RESPONSIBILITIES TOWARDS THE VARIED INTERESTS AND CONCERNS OF OUR SHAREHOLDERS, OUR CUSTOMERS, OUR EMPLOYEES AND SOCIETY.

Values

TO BECOME THE FINEST, WE RESHAPED OUR CORPORATE CULTURE THROUGH OUR FIVE CORE VALUES:

CONTINUOUS LEARNING

keeping pace with change by constantly upgrading our knowledge and skills to meet the challenges;

VELOCITY

moving with great urgency to make changes for the better and grasp opportunities as they arise;

FLEXIBILITY

being responsive to change and open to new ways of doing things;

BUSINESS-LIKE THINKING

examining every job and every task in terms of its impact on the company;

WISE SPENDING

looking for the optimum benefit of all expenditures – of time, energies, resources and money.