

# Tembec

Specialty Cellulose

High Yield Pulp

Paperboard

Newsprint

Lumber

Flooring

Engineered Lumber Products

Lignosulfonates

Resin

Alcohol



## NEW OPPORTUNITIES

1 9 9 4   A n n u a l   R e p o r t



## SHAREHOLDER INFORMATION

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### **Auditors**

KPMG Peat Marwick Thorne  
Montréal, Québec and North Bay, Ontario

**Transfer Agent and Registrar**  
General Trust of Canada

**Shares listed**  
Montreal Exchange  
Toronto Stock Exchange

**Trading Symbol**  
TBC A

### **Annual General Meeting**

Tembec's 1994 Annual General Meeting will be held at:  
Bonaventure Hilton Hotel  
1 Place Bonaventure  
Montreal, Quebec  
on Thursday, January 26, 1995 at 11:00 A.M.

### **Annual Information Form**

The annual information form for Tembec Inc.  
for the fiscal year ended September 30, 1994  
is available at the Head Office:  
Tembec Inc.  
800 René-Lévesque Blvd. West, Suite 2790  
Montreal, Quebec H3B 1X9

On peut se procurer la version française  
du présent rapport en s'adressant aux:  
Relations Générales  
C.P. 3000  
Témiscaming (Québec) J0Z 3R0

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# Company Profile

## TEMBEC INC.

### TEMBEC INC. IS A MAJOR CANADIAN FOREST PRODUCTS COMPANY

The Company's primary products are marketed in over 50 countries and include softwood and hardwood lumber, specialty alpha and dissolving cellulose pulp, high yield chlorine-free market pulps, coated paperboard, lignosulfonates, resins, ethanol and newsprint.

Most of the Company's facilities are located in northwestern Quebec and northeastern Ontario and directly employ over 3,000 people including Spruce Falls Inc.

The Company has established itself as a world leader in pulping technology, innovation and human resource management.

### CORPORATE VISION

A company of people building their own future.

### CORPORATE MISSION

Tembec's mission is to be a profitable integrated forest products company, converting forest resources into competitive and innovative quality products for customers while protecting the environment and creating positive long-term social, cultural and economic benefit for the region and its people, employees and shareholders.

### CORPORATE PRINCIPLES AND GUIDELINES

The following principles and guidelines have been established to guide Tembec in the pursuit of its mission.

**FINANCIAL** • To operate the Company in a prudent financial manner so as to ensure continued profitability and long-term growth and stability.

**EMPLOYEE PARTICIPATION** • To maintain high standards of performance by encouraging all employees to maximize their potential by providing effective training and open communication, and by participative management involving employees in decision making through the problem solving process.

To provide employees with a non-discriminatory, safe, and healthy work environment.

To provide employees with the opportunity to share in the growth and financial success of the Company through share ownership and participation in profits.



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**CUSTOMER SERVICE** • To meet customers' expectations in an evolving market with competitive quality products and superior service on a consistent basis and to treat our customers as long-term partners.

**SUPPLIER RESPECT** • To develop vendor partnerships which consistently meet our specifications for quality, service and price, and to build partnerships on trust, mutual benefit and understanding of each other's expectations.

**PRODUCT QUALITY** • To dedicate our employees to developing competitive products through sound capital investments and emphasis on creativity, and a continuous improvement of processes.

**SOCIAL RESPONSIBILITY** • To dedicate a minimum of 1.0% of pre-tax profits to promote health, education, culture and recreation that contribute to improving the individual and collective quality of life and to be supportive of employee involvement in the community and professional group activities.

**ENVIRONMENTAL RESPONSIBILITY** • To establish policies and guidelines in all phases of our operations which provide for responsible stewardship and sustained yield and development of our resources while protecting the health and safety of employees, customers and the public.

**ETHICS** • To conduct business and relationships with respect, openness and integrity.

**CREATIVITY AND INNOVATION** • To foster creativity by encouraging and rewarding open-mindedness at all levels, being receptive to suggestions, supplying the tools, time and atmosphere to create, as well as providing understanding when ideas fail and support when they succeed.

# Financial Highlights

	1994	1993	1992 <sup>(1)</sup>	1991 <sup>(1)</sup>	1990
<b>OPERATIONS</b> (\$ thousands)					
Gross Sales	\$ 574,397	\$ 445,871	\$ 358,856	\$ 284,148	\$ 267,348
Net Earnings (Loss)	72,731	(48,616)	(28,821)	(34,997)	18,374
Cash Flow Provided (Used)					
by Operations <sup>(2)</sup>	39,317	(17,224)	2,483	16,979	39,104
Capital Expenditures	25,190	47,431	81,060	112,306	88,782
Working Capital at Year-End	104,721	66,008	142,334	97,502	75,597
<b>PER COMMON SHARE</b> (\$)					
Net Earnings (Loss)	\$ 2.24	\$ (1.73)	\$ (1.36)	\$ (1.98)	\$ 1.08
Fully Diluted Earnings	1.90	—	—	—	0.96
Book Value	9.55	7.01	8.75	10.06	12.10
Cash Flow Provided (Used)					
by Operations <sup>(2)</sup>	1.21	(0.61)	0.13	0.98	2.30
<b>OTHER DATA</b>					
Common Shares Outstanding	38,419,938	28,167,388	28,021,693	17,767,144	17,581,271
Employees at Year-End	2,297	2,057	2,237	1,990	2,037
Pulp Produced (Tonnes)	362,900	313,400	308,700	261,600	243,700
Pulp Sold (Tonnes)	354,600	317,200	285,600	279,200	237,300
Lumber Produced (In Thousands FBM)	402,300	362,400	339,100	309,800	223,700
Wood Chips (Bone Dry Tonnes)	545,700	519,700	494,300	365,600	249,000
Paperboard Sold (Tonnes)	141,200	117,300	109,600	144,900	35,300

<sup>(1)</sup> Comparative numbers have been reclassified to reflect discontinued operations.

<sup>(2)</sup> Cash flow from operations before net change in non-cash working capital balances.



# Financial Highlights

## QUARTERLY FINANCIAL INFORMATION

	Fiscal 1994				Fiscal 1993			
	Three months ended				Three months ended			
	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30
Sales and Income (\$ millions)								
Net Sales	\$ 101.8	\$ 115.2	\$ 134.5	\$ 133.9	\$ 84.6	\$ 90.7	\$ 94.4	\$ 100.6
Net Income (Loss)	\$ (2.6)	\$ (2.1)	\$ 5.3	\$ 72.1	\$ (11.0)	\$ (16.4)	\$ (6.7)	\$ (14.5)
Per Class A Share (in dollars)								
Net Loss	\$ (0.09)	\$ (0.07)	\$ 0.18	\$ 2.24	\$ (0.39)	\$ (0.59)	\$ (0.23)	\$ (0.52)
Cash Flow	\$ 0.19	\$ 0.34	\$ 0.53	\$ 0.15	\$ (0.20)	\$ (0.55)	\$ (0.03)	\$ 0.16

## PERFORMANCE AGAINST LONG-TERM FINANCIAL OBJECTIVES

	1994	1993	1992	1991	1990	Stated Objective
Average Return on Shareholders' Equity	20.2%	(16.9)%	(11.1)%	(4.0)%	9.0%	15.0 %*
Return on Capital Employed	11.2%	(2.4)%	(0.7)%	(4.9)%	6.7%	10.0 %*
Working Capital Ratio	2.0:1	1.5:1	2.6:1	2.4:1	2.1:1	2.0:1
Long-Term Debt to Equity Ratio	46:54	56:44	56:44	49:51	34:66	50:50

\*As Per Price-Waterhouse's survey of the Canadian Forest Products Industry, from 1987-1991, the average five year industry return on shareholders' equity was 6.3%, and the average five year industry return on capital employed was 6.2%.



# Message

## TO SHAREHOLDERS

"What a difference a year makes..." Yes indeed!

In fiscal 1993 we experienced the worst of the recession and we looked forward to 1994 with guarded optimism.

Our optimism was well founded as gross profit from our pulp operations rebounded by approximately \$37,5 million. We ended the year on a positive note with a net profit of \$72,7 million, although a significant portion of this was due to the successful refinancing of the Company.

Looking back, how did we measure up against our targets and goals?

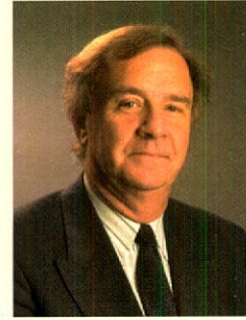
In 1994, our primary focus was set on cash generation. During the year we succeeded in increasing cash flow from ongoing operations by \$63 million, turning a negative \$22,9 million in 1993 to a positive \$40,1 million in 1994. We intend to maintain this focus in 1995 by continuing our emphasis on reduction of unit costs, increased production, and better margins. Our objective is to repeat the improvement and generate in excess of \$100 million in 1995.

During the year we continued to maximize the full potential of our fibre resources. We started up a new biomass boiler to convert sawmill and biomass waste into heat and electrical energy. We succeeded in expanding our pulp grade mix, increased yields significantly at several of our sawmills, and continued our customer driven rather than production driven strategies throughout the Company. The strategy will continue in the coming year.

A third objective was to develop a better risk management strategy and improve our information systems. Although some progress was made, the implementation of a Company-wide integrated information system will remain a priority for the coming year. During the year, we implemented a hedging strategy to stabilize the effect of the fluctuating Canadian dollar on our margins. Going forward we will hedge 60 percent of our U.S. dollar receipts for one year and roll forward on a monthly basis.



*Frank A. Dottori*



*Jacques Giasson*

In fiscal 1993, Patriot Paper Corp., which operated a deinked paper mill in Boston, filed for protection under Chapter 11 of the Federal Bankruptcy Code of the United States due to liquidity problems brought on by technical problems and poor market conditions. After more than a year of negotiations, Patriot failed to reach an agreement with its lender on a restructuring proposal. As a consequence, Patriot filed for liquidation under Chapter 7 of the bankruptcy code. The lender has filed a lawsuit against Tembec pursuant to certain performance guarantees; Tembec is contesting the suit and has filed counter-claims of its own. The matter is now before the courts and may not be resolved for some time. Meanwhile we have taken a provision for any expected exposure or loss.

The Company's balance sheet improved considerably. The net proceeds of a \$58,2 million equity issue in March 1994, and the financial restructuring of Temboard, improved our overall debt to equity ratios from 56:44 to 46:54 at the end of fiscal 1994. More details of the restructuring are covered under the Management Discussion and Analysis section of this report. As a consequence of the restructuring and improved outlook, the Company's unsecured 12.10 % debentures were increased to B+ high. At September 30, 1994, the Company had over \$56 million of short term credit available and no principal payment due until late fiscal 1996. The completion of the restructuring puts our financial problems behind us and will allow management to concentrate on increasing profitability once again.

This year also provided some unique unplanned opportunities. In July 1994, in a partnership with Cascades, we acquired a 50 % ownership in a 140,000 tonnes per year sulphite pulp mill located in Tartas, France. The mill was acquired for a nominal amount and generated \$3,9 million in net profits to Tembec in the three months ended September 30, 1994. With the development of a long-term fibre supply program, this mill will continue to perform well.



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We also signed an agreement with Uniforêt Inc. to provide technical assistance and to market the output of their BCTMP mill at Port Cartier. The mill is expected to start operations in early 1995 with a capacity expected to reach 200,000 tonnes per year of high yield pulp.

Our investment in Spruce Falls continued to perform well and the operation is now well established as an efficient low cost producer of newsprint and publishing paper. A new sawmill with a capacity of 100 million board feet per year should start up in early 1995 and further improve the profitability of this operation.

Our industry, like many other sectors of the economy, has suffered through the worst recession since the 1930's. A great deal of gaseous wealth was condensed into smaller liquid or solid values due to the frigid economic environment. At the same time, we have seen the start of a new information revolution spurred by the new computer technologies. Governments and companies around the world have reacted by recognizing that wealth generation and the resultant increased standards of living come from tapping the creativity and entrepreneurship of the individual. We believe these changes bring new opportunities for resource companies such as ours that are market driven and focus on new technologies.

Our Company has established a series of guiding principles which we believe will serve us well in this new environment. Our emphasis on customer service, training, research, and entrepreneurship will continue. Each of our employees is aware of our objectives as well as his/her responsibilities. This is a powerful resource which is further enhanced by our profit sharing plans. This year we will pay out \$4.1 million to our employees as part of profit sharing.

The outlook for 1995 is very optimistic. Although we expect interest rates to rise, the impact should be minimal as we have fixed a good portion of our debt. The Canadian dollar is expected to be unstable due to the political and fiscal uncertainty of the Canadian situation. Our hedging strategy should diminish any significant effects in 1995. Demand for all our products is strong and expected to strengthen further with better margins.

We have modern assets, efficient, low cost operations, and one of the industry's best fibre resources with potential for further growth. Our major environmental expenditures are substantially complete and we are supported by well trained, dedicated, and motivated employees. We believe we can capitalize on these strengths in the coming years and create enhanced value for both our shareholders and our employees.

As a result, we believe we will attain record profits and cash flow for the coming year.



FRANK A. DOTTORI  
President and Chief Executive Officer



JACQUES GIASSON  
Chairman of the Board

# Research & Development

TEMBEK INC.

Tembec's long-term success and its future growth depends upon our Research and Development activity. It drives everything we do. Research teams in each business unit of the company continually ask our customers what they want and then we develop products to meet their needs. This direct link with our customers gives us a competitive edge and substantially reduces lead time in new product development. Our R&D personnel spend more time in our customer's plants than they do in their home, because that's where the real product development is done.

## WOOD

The three key objectives for the Wood Group are unchanged from 1993: develop new products maximizing utilization and margin added from our forest resources; achieve better product quality and higher yields using new technology and remain a low-cost producer of quality lumber products. Our ongoing mission is to do more and better with less.

A recent example is a new processing and sawing line designed specifically for small diameter logs developed by our research engineers. Results of the initial testing of the prototype unit, scheduled to commence at year-end 1994, will be in hand by the end of the second quarter, 1995. We are optimistic.

Another area under scrutiny is exploring new and emerging technologies and production techniques to find efficient uses for alternative, under-utilized wood resources such as hemlock. As well, we are currently finding faster and more efficient ways to dry lumber, a factor that will improve product quality and raise customer satisfaction.

Ongoing developments in engineered products include our efforts to obtain a higher level of certification for our Laminated Veneer Lumber (LVL). Meeting the required specifications will enable us to achieve three important goals, optimize the working properties of the present product, solidify its acceptance in the engineered wood products segment and aid in the development of other engineered wood products. Due to research already completed, we anticipate launching two new value-added products in the near future.

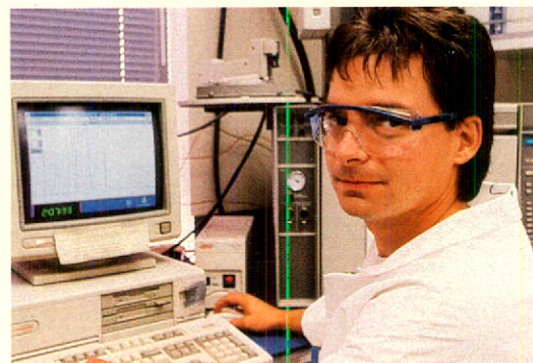
## PULP

In direct response to customer demand, trials conducted at the Specialty Cellulose mill resulted in the successful production of a chlorine-free dissolving pulp. From it, our customers make viscose rayon staple fibre used in non-woven materials supplied to the sanitary products industry. Work also continues in developing another chlorine-free pulp type used in producing a new textile fibre which uses a direct solvent solution process.

Maximizing our wood resource continues to be a top priority for our researchers. Their efforts resulted in the creation of a new series of very high viscosity pulps from aspen wood for the cellulose derivatives industry.

Developments in Temcell (High-Yield pulp) quality have resulted in significant improvements in properties such as the pulp's ash content and foaming tendencies. Trials also continue on high bulk, high brightness birch grades. Through the R&D findings, we also learned that other abundant softwood species are suitable replacements for spruce fibre when mixed with the new maple grade. Another objective is to develop Temcell high-yield pulp grades used by our paper-maker customers as a direct replacement for the more costly chemical grade pulps they use.

Compliance with evolving environmental regulations has led to many modifications in our pulp grades. The challenge in future is to ensure pulp quality is in no way compromised and continues to meet customer expectations as we aim for zero effluent.





## CHEMICAL

One major undertaking in 1994 was improving phenol-formaldehyde resins for the oriented strand board industry (OSB). Assisted by engineers at Forintek we successfully developed resins which were stronger, cured faster and emitted less formaldehyde vapors. Their acceptance in the marketplace is positive and we plan to continue and expand their development in 1995.

Another initiative in 1994 was to increase production at our alcohol plant. Construction of the new laboratory is complete and work has begun on a pilot plant scheduled to open in 1995. We plan to develop a unique fermentation process capable of converting previously unfermentable sugars into alcohol. We are convinced that learning to understand fermentation processes better will yield many direct and indirect benefits resulting in further market opportunities.

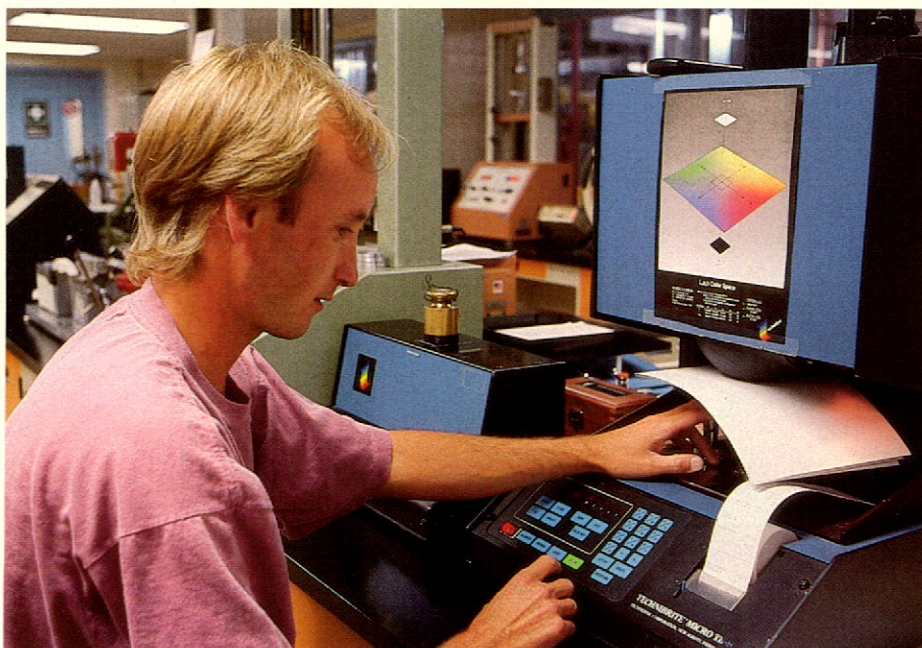
## PAPERBOARD

The R&D team at Temboard has a four-part mandate: (1) develop better profit contribution products; (2) reduce costs; (3) improve existing product quality and (4) increase and optimize the use of Temcell pulp.

In response, The R&D team made significant progress in each area. They developed a low-density product intended for use in the direct-mail industry. Changes in coating formulation and wet end chemistry have led to an annual cost saving exceeding \$840,000. Client demands for increased quality were met by revising the coating formulations. Optimization of the fibre mix increased Temcell pulp usage by 17% per tonne of paperboard produced. The faith we placed in our R&D team was well justified and we expect further progress in the coming year.

## OUTLOOK

R&D efforts are intended to add value and margin to our specialty products and to differentiate our products from the competition. We will maintain our efforts in environmental sciences and meet our zero emissions objectives by the year 2005. The key to our long-term competitiveness is finding more and better uses for fibres and under-utilized species.



# Pulp Group

TEMBEC INC.

Tembec's Pulp Group is a producer of specialty cellulose and high-yield pulp with activities concentrated at our pulping operations in Temiscaming, Quebec. Operating earnings from our Pulp Group exceeded our objectives in 1994, and while still low by historic terms, were improved significantly over 1993. Continued improvements in worldwide economic activity throughout the year, particularly in the paper and board sectors, allowed for a return to a more balanced supply/demand situation and rapid improvements in product pricing through the year.

Our strategic focus on asset optimization led to an increase in production from our pulp mills by 50,000 tonnes over 1993 to a record 363,000 tonnes. We expect achievement of our 1995 objectives will result in a further 30,000 tonne growth in productivity.

Market pulp continues to be a core business. In 1994, as part of our strategic growth objective for this business, we acquired a 50% share in the 140,000 tonnes per year Tartas SA sulphite mill in Tartas, France, and signed agreements to market the output of the Uniforêt Inc.'s new 180,000 tonnes per year BCTMP pulp mill in Port Cartier, Quebec. Both these undertakings serve to further strengthen Tembec's world leadership position in the marketing of specialty and high-yield pulps.

A key objective in 1994 was to continue to maximize the cash generation capabilities of each of our pulp mills, reducing operating costs and maximizing productivity.



## SPECIALTY CELLULOSE (SULPHITE)

Operating results from our specialty pulp mill exceeded planned performance in 1994. Unit operating costs declined for the third consecutive year, allowing us to meet our objective of keeping manufacturing cost increases below the rate of inflation.

Productivity increased 2000 tonnes or 1% over the previous year, and our quality and continuous improvement programs resulted in a 7% reduction in off-quality produced. The mill achieved its ISO 9002 certification in January, 1994, a significant achievement for a multi-grade specialty cellulose pulp mill.

Our 1994 capital expenditure program was focused on energy cost reduction and our environmental protection program. The start-up of a new 100-tonne per hour Biomass boiler which will burn bark, sawdust and waste treatment sludge to produce steam and electricity was completed during the year. Unit energy cost has been reduced 34% over the previous year as a result, and we expect continued improvements in this cost area.

Results from our continuous product research program were encouraging. We have developed a new grade of Totally Chlorine-Free (TCF) dissolving pulp, considered the first in North America, and that grade is now in commercial production. We believe the technology developed in this area will help us to better serve our customers' needs, and also help us to adapt to more stringent environmental regulations in the future.

## OUTLOOK

Earnings generated by our specialty cellulose business are expected to improve significantly in 1995. Strong worldwide demand and continuing economic recovery will support a market supply/demand balance and improved pricing for our products.

We will continue our emphasis on reducing operating costs and improving productivity to ensure continued global competitiveness of this business. We also expect continued improvement in our safety record and in our quality and customer service as a result of increased employee involvement in all facets of the operation.



### HIGH YIELD PULP (TEMCELL)

Our high-yield pulp mill is a modern and highly efficient, low cost operation producing high-yield (BCTMP) chlorine-free pulps. High-yield pulp is used in conjunction with chemical grade Kraft pulps in the making of paper, paperboard and tissue products.

Business conditions improved dramatically for Temcell this year. Overcapacity, which had led to the selling price free-fall over the previous 3 years, was eliminated as increased demand for all pulp and paper products, inventory rebuilding and curtailed supply led to a dramatic turnaround in the market pulp business.

Temcell operating results significantly exceeded planned performance in all sectors. Production output reached a record level of 201,000 tonnes in 1994, an increase of 47,000 tonnes over the previous year. Sales revenues kept pace with our increased productivity and a 45% increase in gross revenues was accomplished. Cash flow generated by the business increased 24%. As a result of higher operating rates and continued focus on reducing material cost and consumption, unit operating costs were reduced 18% from the previous year. Manufacturing costs are now at their lowest level in 4 years. The emphasis on cost reduction and productivity improvement will continue as part of our ongoing strategic plan of optimizing the cash-generating potential of our high-yield pulp business.

Temcell continues to differentiate itself from competitors in the marketplace by tailor-making pulps from the unique and abundant fibre resources available in the Temiscaming area. High-yield pulps produced from Birch and Maple fibres, in addition to our core Aspen grades, are providing the basis for strong market growth for Temcell. We are developing strong alliances with customers who value the unique properties of the various Temcell fibres in their end-products. ISO 9002 certification of our quality systems in January, 1994 is assisting us in our objective of improving customer service and on-time shipping performance.

### OUTLOOK

Expectations for our high-yield pulp business are optimistic. Increased and sustained demand for paper products around the world has allowed market pulp capacity increases of recent years to be absorbed, and a balance has returned to the market place. We expect a period of sustained earnings for this sector of our business.





# Forest Products Group

TEMBEC INC.

The Group represents 36 % of gross consolidated sales with an annual production capacity of 450 million board feet of lumber; 10 million board feet of flooring; 590,000 tonnes of bone-dry chips; 440,000 cubic feet of Laminated Veneer Lumber, based on 2 shift operations. Its focus is to maximize fibre utilization and to create higher margin products. As a case in point, our Braeside mill now produces a range of more profitable products through improved planing and drying techniques. A new hardwood flooring plant in Huntsville was completed and is now moving successfully through its start-up phase. Full capacity should be attained in early 1995.

Markets and prices in 1994 generally remained firm for lumber, LVL, white pine and hardwood. Increased demand for LVL required adding a third shift at Temlam. Sales of kiln-dried lumber from the Bearn sawmill increased as more sales were directed to U.S. markets.

Programs to increase productivity and maximize operating performance continued at all operations. In addition, modernization programs were carried out at the Mattawa, LaSarre, Taschereau and Delebo mills. A similar program is slated for TKL mill at Temiscaming. Major improvements at Alban and Temlam returned these mills to profitability.





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Considerable progress was made in our efforts to maximize utilization of available forest resources. The LaSarre sawmill collaborated with Équipement Hydraulique Boréal and our Research and Development team to design and implement a sawing system to more fully utilize short and very small diameter trees. The purchase of Bois St-Omer sawmill will not only provide a new outlet for owners of private forests in the Gaspé region but provide the Delebo operations with a more integrated wood supply.

During last year we established a wood supply strategy to ensure adequate wood supply for our sawmills. Our objectives are to maximize the long term sustained potential of our forest as part of Quebec supply agreements. In addition, we have obtained previously non-utilized volume quotas from the provincial government.

## OUTLOOK

The key issue will continue to be obtaining a long term secure supply of sawlogs at an economical price. We will continue our focus on developing alternate sources of wood supply via long term strategic agreements with third parties.

We will continue to focus on increasing the yield from our forest on a long term sustained basis by better management and new techniques, as well as from our sawmills and manufacturing units by improving technology and investments.

We have reoriented our strategy to become customer driven rather than production driven. We will make new and better products.

As a result we are optimistic and expect to repeat this year's record results next year.





# Paperboard

TEMBOARD INC.

The Temboard paperboard segment set records in sales and productivity for the year while increasing the use of own make pulp. Improvements in quality and marketing enabled the division to gain market share in the more demanding and higher quality markets. This progress was made despite difficult market conditions, particularly in the first half of the year.

Net sales at Temboard during the year were a record \$114.3 million reflecting a 20.5% increase in volume and a 1.8% increase in average net selling price. Temboard represents 24% of gross consolidated sales of the company. Our marketing efforts were aided by the impact of the ISO 9001 certification we obtained in the previous year. Temboard is unique in its ISO 9001 certification as most competitors have the lower ISO 9002 rating. Efforts to expand our customer base in higher value products area continued with increasing success as the year progressed.

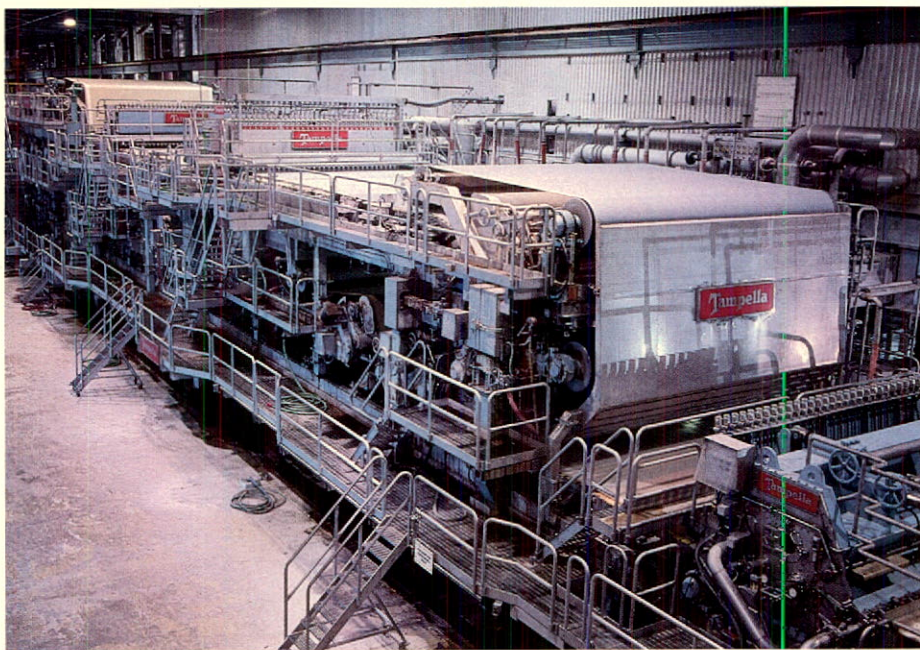
Manufacturing operations achieved record productivity, for the year. Total tonnes produced increased 22%, reflecting a 9.3% productivity increase and full operation for the year. Cost of sales increased by only 1.2% despite significant increases in pulp prices. The addition of new computer controls and changes in operating strategies enabled manufacturing to improve quality and productivity levels.

Temboard faced some of the worst market conditions in the history of the bleached board industry during the first half of the year. Sluggish demand and increasing capacity in the industry result in falling operating rates and rising price discounts. By the fourth quarter the industry had staged a dramatic turnaround as world economy created rising demand. This market turnaround is expected to continue into next year.

Product development activities in 1994 have provided Temboard with the opportunity to continue our growth in the more demanding market sectors in 1995.

## OUTLOOK

Entering 1995 the division management is optimistic about the new opportunities to improve the divisions financial performance. Market conditions have never been better for the division to realize the mill's potential. Changes in marketing and manufacturing made in 1994 combined with these improving market conditions have opened up new opportunities.





# Chemical Products Group

TEMBEC INC.

As part of the reorganization and consolidation of assets of the Company, a Chemical Group was formed. This division operates the former assets of Temfibre and Temeco. Created to produce and market products from the specialty cellulose pulp mill's spent liquor, we are now positioning the Chemical Group to increase its contribution to the Company's operating results.

The Chemical Group is divided into three business units: Resin, Lignin and Alcohol. In the last quarter a new management structure has been implemented, bringing together Manufacturing, Marketing and Research and Development expertise. The new structure will focus on reducing the costs of manufacturing and improving the profitability of the group. Significant breakthroughs have been made in the last quarter in both the Alcohol and Resin manufacturing facilities.

## ALCOHOL DIVISION

Ethanol is produced from the sugars present in the spent sulfite liquor and is used in vinegar, detergents, cosmetics and a variety of industrial applications. We enjoy a solid reputation in Canadian markets as a reliable supplier of quality ethanol.

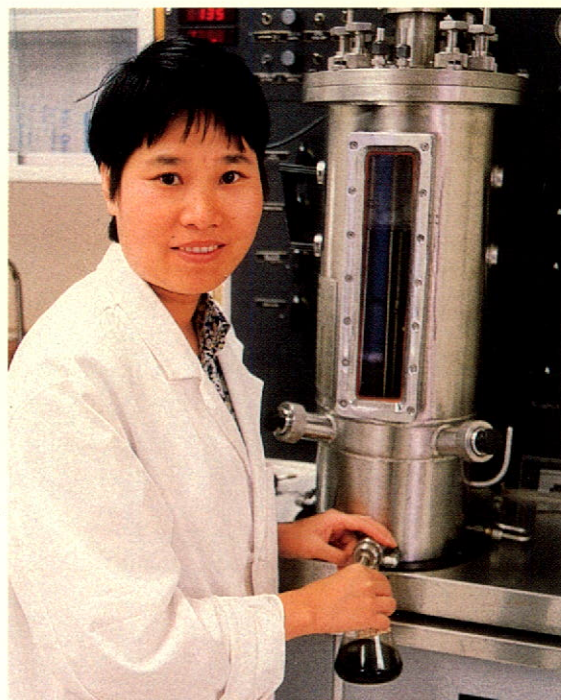
The Alcohol Product Division competes successfully against other North American ethanol producers. Our competitiveness is due to the availability of low cost raw material from the mill waste streams.

The output of the alcohol plant increased throughout the past year through improvements in fermentation efficiency and is approaching design capacity. Major improvements in product quality have allowed us to expand our customer base. In the coming year, our emphasis will be to reduce manufacturing costs and develop new sugar sources to increase capacity. Markets are expected to firm up as the general economy continues to improve.

## LIGNIN DIVISION

Sales of lignin products virtually doubled in 1994 due to an aggressive marketing effort. A powder product was introduced during the year and has received excellent market acceptance. Dust suppressant sales were expanded through the establishment of a dealer network throughout Ontario and Quebec.

Supply of lignin will more than double from the specialty cellulose pulp mill by 1995 as a result of the environmental program. A major thrust will be developing, producing and marketing new sulfonate products. Animal feed additives and concrete admixtures are two areas where we will concentrate efforts to expand sales and market share.



## RESIN DIVISION

The Resin Division has positioned itself as a premier supplier of quality resins into the oriented strand board (OSB) business. In 1994 the Resin spray dryer was sold out. This was accomplished through aggressive marketing and the introduction of high performing resins. Significant strides were made in the Fourth quarter of the year in improving the spray dryer outputs which will contribute to the better results in the coming year.

The OSB market is in full expansion and is expected to double within the next 2 to 3 years. We have established long term relationships with several customers that will allow us significant growth opportunities. We expect to expand our present facilities to meet the new demands of our customers.

## OUTLOOK

Continued economic growth worldwide is forecasted for the coming year and all indications show increased demand for alcohol, resin and sulfonate. Capital projects will be directed at optimizing Alcohol production and increasing, resin and sulfonate production capacity. At the same time the Chemical Group will continue to play a major role in Tembec's environmental program by developing new co-products from the pulp mill waste streams. The outlook is for increased contribution to earnings.



Spruce Falls Inc. a wholly-owned subsidiary of Spruce Falls Acquisition Corp. (SFAC), operates a 300,000 tonnes per year integrated newsprint operation in Kapuskasing, Ontario. Employees own 52% of the outstanding shares and Tembec Inc. owns 41%. Residents of Kapuskasing and surrounding communities own the remainder. Spruce Falls Inc. produces quality newsprint and publishing grades for newspapers and publishers in the north-eastern U.S.A. and in eastern Canada.

Our mission is to be a profitable, low-cost, integrated forest products company. Our goals are to continually respect our environment and create long-term social, cultural and economic benefits for shareholders and employees alike. Products include quality publishing and printing papers and solid wood products for a variety of customers.

We remain focused on our major modernization program. Capital investments will continue in new technology and manufacturing processes aimed at providing further growth and diversification.

A new sawmill located at the paper mill site should reach completion in early 1995. The projected capacity is 100 million board feet of softwood lumber. This facility will generate approximately 50% of the wood chips consumed in the newsprint operation.

Work is also progressing on a secondary treatment plant. The plant is physically complete and is proceeding to the start-up phase. The completion of the plant will allow Spruce Falls to comply with the new effluent regulations scheduled to come into effect in late '95.

### OUTLOOK

The outlook for Spruce Falls is positive. Capital expenditures made this year are part of ongoing efforts to make the company an efficient, low-cost producer of quality publishing and printing papers. The expansion into softwood lumber provides an element of diversification and is expected to contribute to the overall profitability of the Kapuskasing complex by optimizing value added from the extensive wood resource. The market outlook for newsprint and publishing papers is expected to remain positive for at least several years.





Envirotem is a Tembec subsidiary which promotes and manages Tembec's corporate environmental policies as well as undertaking research, development and commercialization of new techniques to reduce the impact of industrial processes on the environment.

Efforts in the past year concentrated on developing Phase II of Tembec's water treatment program at the Temiscaming complex. Since 1989, Tembec invested over \$123 million to comply with a variety of environmental regulations. Projects included:

- adding new evaporators which recover and concentrate over 90% of waste liquor;
- converting an existing boiler to a waste liquor incinerator for energy and chemical recovery and recycling;
- building an alcohol plant to recover sugars from the waste streams;
- building a secondary treatment facility to reduce and eventually eliminate toxicity of the effluents;
- building a biomass boiler to convert solid wastes to heat and electrical energy for the process of displacing fossil fuels.

The primary goal of these projects was the reduction of discharges to the environment.

Phase II will focus on two major challenges: to significantly reduce discharges of toxic and oxygen consuming substances.

In the past year, Envirotem initiated two R&D projects to test new water treatment technologies. The first project employed a membrane bio-reactor (MBR) to treat strong, concentrated effluents. The second project substituted air with oxygen during aeration in the biological treatment facilities. MBR trials proved positive and Tembec plans to build and operate a larger unit in 1995-1996. This project was initiated to comply with Tembec's stated goal of zero emission by the year 2005.

In the past year, Tembec also continued to make significant improvements on the air quality surrounding the Temiscaming complex. The objective of reducing SO<sub>2</sub> by over 98% was achieved. New monitoring technologies have also been developed and tested on our recovery boiler with successful results. This should result in better air quality control in the coming year.

Envirotem continues to offer all divisions of the Company, guidance on environmental matters. Several programs began at sawmills aimed to ensure compliance with the Company's Environmental Policy. A new Forestry Regulatory Practice was approved and is currently being put into effect.



## OUTLOOK

In the coming year Envirotem's efforts will focus principally on Phase II of the water treatment program and the implementation of the company's new Code of Forest Practices. The company has been proactive and has made major improvements over the last few years but much remains to be done if we are to meet our objective of zero emissions. We are confident we will succeed.

## ENVIRONMENTAL POLICY

Tembec shares with all Canadians important responsibilities to the environment in which we live and work. We support the responsible stewardship of resources, including forest, fish and aquatic habitat, wildlife, air, land and water. Responsible stewardship of our resources makes possible sustained economic development and an improved quality of life.

In this spirit, Tembec believes, and has adopted, a set of policies and guidelines that will govern our attitude and action in environmental matters.

- *We will conduct our business in a responsible manner designed to protect the environment and to protect the health and safety of our employees, our customers and the public.*
- *We will assess, plan, construct and operate facilities in compliance with all applicable regulations.*
- *We will encourage and support research to improve our ability to protect the environment and maintain public health and safety and strive for the virtual elimination of any persistent toxic emissions from our operations.*
- *We will manage and protect our forest resources to ensure sustained yield in a manner consistent with all applicable regulations. Beyond, or in the absence of, regulatory requirements, we will maintain their biodiversity, protect wildlife habitat and ecosystems.*
- *We will promote new technologies aimed at conserving, recycling and renewing the resources we utilize.*
- *We will promote environmental awareness and train our employees in their environmental responsibilities.*
- *We will work and consult with governments and public in the development of regulations and policies based on sound, economically achievable technologies and the analysis of environmental and health impacts.*
- *We will implement programs and procedures to minimize the consequences of emergency events by ensuring prompt and effective responses.*
- *We will report regularly to our Board of Directors on our environmental status and perform audits to ensure compliance with our policies and guidelines.*



# Table of Operations

## FOREST PRODUCTS GROUP

### TASCHEREAU

**SPF LUMBER** 94,000 (000's FBM) **WOODCHIPS** 94,000 TONNES

### LASARRE

**SPF LUMBER** 78,000 (000's FBM) **WOODCHIPS** 106,000 TONNES

### DELEBO

**SPF LUMBER** 70,000 (000's FBM) **WOODCHIPS** 84,000 TONNES

### BOIS ST-OMER

**POPLAR, SPF AND HARDWOOD LUMBER** 18,000 (000's FBM) **WOODCHIPS** 13,000 TONNES

### BÉARN

**WHITE AND RED PINE AND SPF LUMBER** 87,000 (000's FBM) **MIXED WOODCHIPS** 87,000 TONNES

### MATTAWA

**WHITE AND RED PINE AND SPF LUMBER** 33,500 (000's FBM) **MIXED WOODCHIPS** 18,000 TONNES

### ALBAN

**WHITE AND RED PINE AND SPF LUMBER** 37,000 (000's FBM) **WOODCHIPS** 21,000 TONNES

### BRAESIDE

**DRYING AND PLANING FACILITIES FOR WHITE AND RED PINE** 59,000 (000's FBM)

### HUNTSVILLE

**HARDWOOD LUMBER** 20,000 (000's FBM) **MIXED WOODCHIPS** 16,000 TONNES  
**HARDWOOD FLOORING** 10,000 (000's FBM)

### TKL

**MAPLE AND HEMLOCK LUMBER** 12,000 (000's FBM) **MIXED WOODCHIPS** 92,000 TONNES

### TEMLAM

**LAMINATED VENEER LUMBER** 800,000 (CU. FEET) **ASPEN WOODCHIPS** 57,000 TONNES

## PULP GROUP

### HIGH YIELD PULP

**SOFTWOOD AND HARDWOOD PULPS** 250,000 TONNES

### SPECIALTY CELLULOSE

**SOFTWOOD AND HARDWOOD PULPS** 160,000 TONNES

### TARTAS SA

**SOFTWOOD SULPHITE PULP** 140,000 TONNES

## LOCATIONS





# Table of Operations

## PAPERBOARD

### TEMBOARD INC.

THREE-PLY COATED PAPERBOARD  
140,000 TONNES

#### ★ Temiscaming Mill Complex

Specialty Cellulose  
High Yield Pulp  
Paperboard  
Resins  
Lignin  
Alcohol  
Hardwood Sawmill

#### ◆ Other Locations

Tartas  
Kapuskasing  
Macamic

#### ● Wood Products Locations

Alban  
Béarn  
Braeside  
Huntsville  
LaSarre  
Mattawa  
Nouvelle  
Taschereau  
Ville-Marie



## CHEMICAL PRODUCTS GROUP

### LIGNIN

LIGNOSULFONATES & DUST SUPPRESSANT  
20,000 TONNES

### RESINS

PHENOLFORMALDEHYDE RESINS  
20,000,000 LBS.

### ALCOHOL

ETHYL ALCOHOL  
18,000,000 LITRES

## NEWSPRINT

### SPRUCE FALLS INC. (41%)

NEWSPRINT AND PUBLISHING PAPER  
300,000 TONNES

## OTHER FACILITIES

### ÉQUIPEMENT HYDRAULIQUE BORÉAL INC.

SAWMILL EQUIPMENT,  
CUSTOMIZED HYDRAULIC CYLINDERS AND REPAIRS  
AND MACHINERY MANUFACTURING

# Management Discussion & Analysis

FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1994

## OVERVIEW

Consolidated gross sales in the fiscal year ended September 30, 1994 increased to \$574.4 million, a \$128.5 million or 29% improvement over fiscal 1993. Wood Products operations account for \$62.5 million (49% ) of the increase; pulp sales, \$29.9 million (23%) and paperboard sales, approximately \$28 million (22%). The balance of the increase is attributed to sales of lignin products of approximately \$3 million and \$5 million to the Temeco alcohol operation acquired at the end of December 1993 and consolidated into the operations for the first time.

Sales deductions, consisting principally of transportation costs, increased to \$89.0 million, up \$13.5 million over fiscal 1993. The Paperboard division, with increased shipments of almost 24,000 tonnes, accounts for \$7 million of the increase and \$4.9 million is related to wood products. Increased sales of lignin accounts for \$1.2 million with the balance related to pulp operations.

Consolidated gross profit increased over \$63 million. The sharp turnaround in the profitability of the Pulp division contributed \$37.6 million (60%) of the increase while \$24.4 million stems from the Wood Product operations. Lignin products contributed \$1 million while the performance at Temboard Inc. ("Temboard") remained relatively unchanged from 1993.

### Segmented Gross Profit

(\$ millions)	1994	1993	1992
Pulp	\$27.4	(\$10.2)	\$1.7
Wood Products	48.0	23.5	13.5
Paperboard Products	(4.5)	(4.6)	(0.7)
Chemical Products	2.8	1.8	0.5
Other	0.1	0.2	0.8
	\$73.8	\$10.7	\$15.8

Selling general and administrative expenses increased to \$31.6 million up \$2.6 million from 1993. The Pulp division accounts for \$1.3 million of the increase and the full consolidation of Temeco which began in December 1993 accounts for \$0.8 million through the consolidation of the Chemical Products group.

Overall interest charges, at \$29.6 million were down slightly from the \$30.3 million incurred in fiscal 1993 due to a variety of factors. Interest on the combined long term and short term borrowings were \$33.8 million in 1994 compared to \$32.5 million in 1993. The average prime rate declined slightly from 1993 levels, however, the resulting decrease in interest was offset by the cost of carrying a higher debt load, including a drawdown of \$6.5 million made in October 1993.

In the previous fiscal year the Company retired \$42 million of US\$ unsecured notes. Unamortized exchange losses of \$4.7 million relating to this was expensed. Relatively little US\$ debt was replaced in 1994 and the corresponding exchange loss was reduced to \$ 0.7 million.

### Interest Summary

(\$ millions)	1994	1993
Interest on: Long term debt	\$29.8	\$28.2
Short term debt	4.0	4.3
	33.8	32.5
Net Exchange Losses	0.7	5.2
Amortization of Deferred finance expenses	0.6	0.4
	35.1	38.1
Capitalized Interest	(0.4)	(2.6)
Interest Income	(5.1)	(5.2)
	\$29.6	\$30.3

Capitalized interest on construction projects at \$0.4 million, was down significantly from the \$2.6 million recorded in 1993 as many of the Company's capital projects were completed and put into service.

Dividends paid on distress preferred shares in Temboard decreased from \$7.2 million in 1993 to \$6.0 million primarily because dividends were no longer required following the Financial Reorganization concluded in August. (see Financial Reorganization).

The company follows a practice of paying profit sharing based on a percentage of the gross profit earned at a given division or complex. Overall profit sharing expense increased \$2.6 million. Improved profits of the Wood Products division accounted for \$1.5 million of the increase while the return to profitability of the pulp group accounted for \$1 million of the balance.

The company's share of profits from equity investments in other corporations amounted to \$10.6 million versus \$5.1 million earned in 1993. The 41% equity investment in the Spruce Falls newsprint mill accounted for \$6.9 million compared to \$6.4 earned in 1993. Prior to its consolidation in this fiscal year, the Company absorbed losses from Temeco Enterprises Inc. ("Temeco") of \$1.4 million in fiscal 1993 and \$0.2 million in 1994. In July, 1994 the company acquired a 50% interest in the Cellulose du Pin Tartas pulp mill in Tartas France. The company's share of profits earned at Tartas for the three months to September 30, 1994 amounted to \$3.9 million.



In the prior year the Company recorded a charge to income of \$11.1 million representing the loss from the discontinued operations of Patriot Paper and the disposal of Drysec during fiscal 1993. During fiscal 1994, the Company recorded a gain on the redemption of distress preferred shares of Temfin Inc of \$60 million and a gain of \$5.4 million relating to settlement of an obligation with a supplier to Temboard. (see Financial Reorganization).

Net income after tax from continuing operations was \$72.7 million or \$2.24 per share compared to a loss of \$48.6 million or \$1.33 per share in 1993. Net income after tax from ongoing operations amounted to \$12 million in the last half of fiscal 1994, totally offsetting losses incurred in the first half of approximately \$4.7 million. Cash flow generated in the second half of the year was \$50 million. The company is forecasting that this improving trend will continue in 1995.

#### OPERATING RESULTS BY MAJOR SEGMENT

##### Pulp

The company sold 159,199 tonnes of specialty cellulose pulp in 1994, compared to 162,830 tonnes during fiscal 1993. The average price, at US\$641 per tonne was unchanged from a year earlier. Some upward movement in prices occurred in the second half of the year. The average price of specialty cellulose pulp sold in September 1994 was up US\$50 per tonne over the annual average. Additional price increases have been already announced for fiscal 1995. The unit cost to manufacture a tonne of specialty cellulose pulp declined approximately \$23 in 1994 as a result of improved production efficiency and the gross profit generated by this pulp sector increased from \$2 million in 1993 to \$14.5 million in 1994.

Sales volumes of high yield Temcell BCTMP ended the year at 195,447 tonnes, up 41,023 tonnes for a significant 27% gain over 1993. The increase was made possible by the addition of the second production line at Temcell that came on stream during 1993, which coincided with improved market conditions. In effect 1994 was the first full year of expanded production capacity. BCTMP offers pulp users an alternative to chemical pulp at a lower price. Markets in 1994 strengthened far more than was originally anticipated. The price per tonne averaged US\$ 378 per tonne in 1994 compared to US\$ 353 per tonne in 1993, however the average price in September 1994 was US\$456 per tonne up 35% over the comparable month in fiscal 1993. Further price increases for this pulp category have also been announced or are being implemented for fiscal 1995.

The cost to produce a tonne of high yield BCTMP declined approximately \$80 or 18% over 1993 largely as a result of lower raw material costs. Gross profit generated by the BCTMP product line amounted to \$12.9 million in 1994 compared to a loss of \$11.9 million in 1993, for an improvement of approximately \$25 million.

Gross profit for the combined pulp sector amounted to \$27.4 million which represents an increase of \$37.6 million over 1993.

##### Wood Products

Gross sales of the Wood Products division at \$207 million continued to set new records and surpassed the previous level of \$144 million set in fiscal 1993. The Company sold 374.2 million board feet (fbm) of lumber, including 8 million fbm of hardwood flooring, in 1994, compared to 336.6 million fbm, including 6.8 million fbm of hardwood flooring, sold in 1993. Sales of laminated veneer lumber (LVL) more than tripled to a new high of 292,672 cubic feet (ft<sup>3</sup>) up from the 91,307 ft<sup>3</sup> sold in 1993.

The four sawmills in the Abitibi, Béarn and Delebo operations accounted for \$42 million or (88%) of the gross profit generated by the Wood Products divisions in 1994 compared to \$20 million or 85% in 1993. They also account for \$22.3 million or 91% of the improvement in gross profit over 1993 for the wood products group as a whole. The improved performance of this segment is due largely to a 32% increase in selling prices experienced during the year compared to 1993. Prices basically stabilized in the third and fourth quarter but the Company expects to see some weakness develop in 1995.

The former Braeside Ontario operations of Stone Consolidated were acquired during the year. This operation is currently operating as a planing and finishing mill and will develop specialty products as well as add additional drying capacity for the company's pine products.

In March 1992, the US Government imposed a countervailing duty on the export shipments of softwood lumber from Canada. The legality and propriety of this action was reviewed under provisions of the Canada - US Free Trade Agreement as well as the US Department of Commerce. In July 1994, it was determined that the imposition of the countervailing duty was unjustified. Duty levied after March 17, 1994 was to be refunded and the Company has recognized \$1.3 million of such duty as revenue in the current period. Duty imposed prior to March 1994 amounting to \$3.8 million will be taken into income pending the disposition of further legal action initiated by the US Lumber interests.



## Paperboard

Temboard sold 141,244 tonnes of product during 1994 surpassing the previous mark of 117,318 set in 1993 for an increase of 20% or 23,926 tonnes. During the year the division expanded its sales of sheeted products and increased its sales of both rolls and sheet products in the far east. Average selling prices were US\$ 717 per tonne compared to US\$730 per tonne in the previous year but a more favourable exchange rate enhanced the actual gross selling price in Canadian dollars by \$40 per tonne over 1993. Transportation and related sales deductions increased approximately \$26 tonne and eroded much of the favourable exchange gain. The division generated a loss of \$4.5 million before general administration and interest charges in 1994 compared to a loss of \$4.6 million in 1993. The improvement in overall economic conditions currently underway is expected to increase demand for paperboard products in general and improve the profitability of this division.

Prior to August 1994, Temboard was subject to a stand alone financing agreement with a syndicate of banks. Beginning in September 1993, it was in default of principal redemption payments due on the distress preferred shares of its subsidiary Temfin Inc. These defaults were cured as a result of a financial reorganization that was completed in August 1994. (see Financial Reorganization).

## Chemical Products

The Temfibre operation recovers lignin in the spent liquor from the specialty cellulose pulping process to produce a variety of products including animal feed binders and road dust suppressant. Through a separate resin production facility lignin is combined with phenol formaldehyde to produce glues used in the manufacture of composite woodboard.

The remaining shares of Temeco were acquired in December 1993 by Temfibre Inc. and subsequently the Temeco operations were consolidated with the Company. Through Temeco the sugars present in the spent liquor are recovered and used to produce ethyl alcohol for a variety of end uses including perfumes, mouthwash, solvents and vinegars.

As part of the Financial Reorganization concluded in August the Company combined the operations of Temfibre and Temeco into the chemical products group.

During 1994, sales of chemical products increased over \$8 million (57%). The consolidation of Temeco accounted for \$5 million of the increase. Overall gross profit for the product group increased to \$2.8 million from \$1.8 million in 1993 and this is due entirely to the Temfibre operation. During the year, sales of lignin products almost doubled from 22,232 tonnes to 42,472 tonnes and sales of resin products increased 3% to 8,960 tonnes. Average prices for resin products increased 10% during 1994 and this virtually doubled the contribution from this product line. Resin products accounted for approximately \$2.2 million of gross profit of the division while lignins accounted for the balance.

## Related Companies

### Spruce Falls

Tembec owns a 41% equity interest in the Spruce Falls Acquisition Corp., which in turn owns 100% of Spruce Falls Inc. (Spruce Falls). The latter owns and operates a newsprint mill in Kapuskasing Ontario.

In addition to the equity investment, Tembec has advanced US\$ 11.0 million in 10% subordinated debentures of Spruce Falls Inc. and interest payments from Spruce Falls totalled approximately \$1.5 million for the year. Tembec also received direct compensation for management services provided under the terms of a management support agreement.

Spruce Falls supplied approximately \$1 million in tree-length wood to Tembec sawmills and purchased \$2.9 million in woodchips from Tembec's woodlands division during fiscal 1994.

For the fiscal year ended September 30, 1994, Spruce Falls generated \$142.1 million in net sales and \$35.2 million in cash flow from operations before changes in working capital. Net sales increased \$6 million over 1993 due almost entirely to a more favourable exchange rate on the US\$ sales. Net earnings for the year were \$16.7 million of which Tembec's share was \$6.9 million, up slightly from the \$6.4 million generated in 1993.

During 1994, Spruce Falls issued US\$ 11.9 million of 4% subordinated debentures and US\$ 60 million of 8.39% senior unsecured notes. A portion of these funds was utilized to finance capital expenditures of \$61 million. Major expenditures included \$22 million on a sawmill, \$16 million on an effluent treatment facility and \$11 million on the modernization of paper machines. At September 30, Spruce Falls held approximately \$75 million in cash, an increase from the \$15 million held at the beginning of the year.

The newsprint operation has successfully completed the reorganization and modernization program which began in December 1991. It is now positioned as a low cost producer of quality newsprint. Both demand and pricing of newsprint have been strengthening and the Company anticipates that earnings will remain strong thereby continuing to provide a favourable impact on Tembec's earnings.



### **Tartas SA**

In July 1994, the Company, through a wholly-owned subsidiary incorporated in the Netherlands, Tembec International BV, (Tembec BV) acquired a 50% equity interest in the former Cellulose du Pin Tartas pulp mill in Tartas France for a nominal investment. The remaining 50% is held by a French subsidiary of Papier Cascades Inc (Cascades).

Together with Cascades, Tartas SA was formed to acquire the assets of Cellulose for an initial investment of 250,000 French francs with Tembec BV's share amounting to 125,000 francs. Pursuant to the terms of the acquisition arrangement, the vendor, through a subsidiary St-Gobain Développement, provided Tembec BV and Cascade each with non-recourse loans totalling 12.5 million francs (approximately \$3.2 million) for the purpose of funding additional advances to Tartas. Since acquiring the mill, 5 million francs have been advanced by each of Tembec BV and Cascades. Although the loans carry an interest rate of 3.85%, Cellulose has undertaken to provide funding for the interest payments making the loans effectively interest free. The loans are repayable at the rate of 20% of cash flow earned in Tartas to a maximum of 2.5 million francs per year beginning in October 1997.

The mill has a production capacity of 140,000 tonnes with current production concentrated in fluff pulp destined for the disposables market. Under the terms of the acquisition arrangement, Cascades will provide administrative services and Tembec will provide marketing and technical services, each for an equivalent fee. Since its acquisition in July 1994, the mill has been in operation continuously and generated a profit to Tembec of \$3.9 million, for the three month period ended September 30, 1994. This includes an unusual gain of \$3.3 million largely resulting from the sale of inventory acquired as part of the original transaction.

Over time, the strategy at Tartas calls for a gradual improvement in the grade mix to higher priced pulps that would serve to complement the grade mix already supplied by the Temiscaming Quebec specialty cellulose mill.

### **Patriot Paper Corporation**

Patriot Paper Corporation (Patriot) was formed in 1990 by Tembec and certain principals of New England Paper Group to acquire the former James River recycled paper mill located in Boston Massachusetts. Tembec subsequently acquired control in January 1992.

In November 1990, as part of a planned modernization program ('the Project'), Patriot began construction of a US\$21 million deinking facility designed to use less costly raw materials in its recycled paper process. The Project also provided for the construction of a planned US\$7 million waste water treatment facility to process effluent from the manufacturing process. As part of Patriot's financing of the Project, Tembec executed certain performance obligations in favour of National Westminster Bank plc ("NatWest") guaranteeing that certain performance tests would be met by specified dates.

Due to poor market conditions and start-up problems which resulted in operating losses, Patriot was forced to shut down operations in January 1993 and sought protection under Chapter 11 of the Federal Bankruptcy Code of the United States on March 17, 1993. Patriot instituted legal proceedings against the engineers responsible for designing the deinking facility. Between March 1993 and May 1994, Tembec presented and negotiated with NatWest various proposals and scenarios for re-starting the mill.

On May 17, 1994, Patriot filed proceedings under the United States Bankruptcy Code to have its Chapter 11 filing converted to a Chapter 7 liquidation. The Bankruptcy Court granted Patriot's motion on May 18th, 1994. This conversion followed the refusal by NatWest to proceed with a financial restructuring and reorganization of Patriot, including a settlement of Tembec's liability, if any, under the performance tests. As a result, on May 18th, 1994, NatWest filed suit against Tembec in New York Supreme Court, county of New York. The suit alleges violation of the performance guarantees by Tembec and seeks damages of up to US\$51 million, substantially representing advances by NatWest to Patriot. Tembec disputes the allegations contained in the suit which it is defending vigorously and has filed counterclaims of approximately US\$ 12 million against NatWest for, among other things, damages sustained by Tembec for having been misled by NatWest in restructuring discussions prior to Patriot's Chapter 7 liquidation filing.

## Financial Reorganization

Prior to August 1994, the Company and its principal operating subsidiaries, Temboard, Temeco and Tembec Forest Products, were each party to separate loan agreements or debt obligations with various banks or bank syndicates. The loans were each structured on a stand alone basis with no recourse to Tembec except, in certain circumstances, for the Temeco loan.

In the case of Temboard, the debt obligation to the banks comprised operating loans of \$20 million as well as Class 1 and 2 distress preferred shares of its wholly owned subsidiary Temfin Inc amounting to \$135 million. Further obligations consisting of \$80 million of Class G distress preferred shares of Temfin Inc were also held by the Société Développement Industrielle du Québec (SDIQ) a Quebec government agency. Additional debt of Temboard consisted of unsecured debentures of \$15 million and unsecured promissory notes of \$6 million.

Since 1990, the paperboard industry has suffered through an oversupply situation resulting in a highly competitive market and depressed prices and volumes. This condition coupled with a slower than expected start-up of the paperboard mill, led to Temboard's financial difficulties.

At December 31, 1993, Temfin was in arrears of two scheduled instalments on the Class 1 and 2 distress preferred shares totalling \$4.3 million. At that time Tembec proposed to the Temboard lenders the basis on which it was prepared to continue to support Temboard. The proposal consisted of a financial reorganization plan that would reduce the overall obligations of Temboard, consolidate all the indebtedness owed to the principal lenders in the various subsidiaries of Tembec into new credit facilities, extend maturities due under the various loans and subsequently merge or wind-up the subsidiaries into Tembec.

Pursuant to a prospectus dated March 17, 1994 the company issued 6,400,000 Class A shares and raised net proceeds of \$ 58.2 million. These funds were added to short term cash investments already on hand and set aside for eventual use under the reorganization plan.

Negotiations with principal lenders continued and resulted in a reorganization plan that was concluded in August 1994 with the signing of new credit facilities with a syndicate of banks. The new credit facility consists of a revolving term loan of \$285 million and an operating loan authorization up to \$61 million. This replaces the combined \$365 million of term debt and distress preferred shares owed the banks prior to the reorganization as well as the previous authorized limit on the operating line of credit of \$91 million.

The effect and impact of the reorganization on the consolidated assets and capitalization of the Company on a pro forma basis at June 30, 1994 the last quarter preceeding the reorganization, is reflected in the following table:

**Tembec Inc.**  
**Consolidated Balance Sheet**  
**As at June 30, 1994**

	Actual	Pro forma	Increase (Decrease)
<b>Assets</b>			
Cash & Marketable Securities	\$113.4	\$17.3	(\$96.1)
Other Current Assets	182.6	182.6	0.0
	<u>296.0</u>	<u>199.9</u>	<u>(96.1)</u>
Investments, Fixed Assets (net) and Other Assets	767.8	767.8	0.0
<b>Total Assets</b>	<u>\$1,063.8</u>	<u>\$967.7</u>	<u>(\$96.1)</u>
<b>Liabilities &amp; Shareholders' Equity</b>			
Bank Indebtedness	\$101.6	\$23.9	(\$77.7)
Other Current Liabilities	62.5	62.5	0.0
	<u>164.1</u>	<u>86.4</u>	<u>(77.7)</u>
Long Term Debt -Banks	215.6	285.6	70.0
-Other	128.9	107.9	(21.0)
Minority Interest	197.7	0.0	(197.7)
	<u>542.2</u>	<u>393.5</u>	<u>(148.7)</u>
Deferred Credits	63.8	63.8	0.0
Shareholders' Equity			
-Preferred Shares	36.6	66.6	30.0
-Class A (Common) Shares	252.3	287.3	35.0
-Retained Earnings	4.8	70.1	65.3
	<u>293.7</u>	<u>424.0</u>	<u>130.3</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$1,063.8</u>	<u>\$967.7</u>	<u>(\$96.1)</u>

### Cash and Marketable Securities

Cash and marketable securities of \$96.1 million were used to reduce operating loans by \$29.3 million, to acquire \$6 million principal amount of promissory notes of Temboard for \$600,000 and to reduce long term debt by approximately \$66 million.

### Bank Indebtedness

Bank indebtedness was reduced by \$77.7 million. Current portion of long term debt amounting to \$38.4 million as well as \$10 million of current bank indebtedness in Temboard were reclassified as long term debt. In addition, \$29.3 million in bank indebtedness was paid down with cash from cash on hand.



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### **Long Term Debt - Banks**

Long term debt due to the banks increased by \$70 million. This consisted of a combination of factors.

Distress preferred shares owned by the banks in Temfin, a wholly owned subsidiary of Temboard, amounted to \$117.7 million and were included in minority interest as well as \$17.3 million currently due or maturing in the following twelve months and included in current redemptions of minority interest. The banks agreed to accept \$30 million in non-cumulative preferred shares as part payment on these obligations and the balance of \$105 million was reclassified as long term debt. Long term debt was further increased by the transfer of \$10 million of operating line as well as approximately \$21 million in other current maturities. Long term debt was subsequently reduced by cash repayments of \$66 million including scheduled quarterly payments of approximately \$3.5 million made after the end of the June quarter.

### **Long Term Debt - Other**

Unsecured debentures in Temboard of \$15 million were exchanged for 1.5 million class A shares of Tembec issued at a price of \$10 each. Unsecured promissory notes of Temboard amounting to \$6 million due to a supplier were acquired by Tembec for a cash payment of \$600,000.

### **Minority Interest**

The balance of minority interest consisting of \$80 million of Class G Distress preferred shares of Temfin were acquired by the issue of 2 million Class A shares of Tembec at \$10 each.

### **Retained Earnings**

The company benefited from a one-time increase in net income of \$65.4 million. This amount consists of the difference between the sum of the carrying value of the Class G distress preferred shares (\$80 million) plus the unsecured notes (\$6 million) less the value of cash and shares (\$20.6 million) issued to acquire these assets.

### **New Credit Agreement**

The reorganization is expected to reduce interest expense by approximately \$5.5 million per year. Under the terms of the new long term credit agreement no principal repayments are required on the long term bank debt before June 1996.

### **Liquidity and Capital Resources**

Subsequent to the Financial Reorganization and as at September 30, 1994, the company's principal secured credit facility consisted of a revolving loan of approximately \$285 million and an operating loan authorization of up to \$61 million. Currently US\$73 million of the revolving facility is fixed at a rate of approximately 9.25% for up to five years. Other fixed rate debt consists of unsecured 7.5 % convertible debentures in an amount of \$70 million and unsecured 12.10% subordinated debentures in amount of \$22.1 million. At September 30, approximately \$56 million of credit was available under the operating loan facility.

Pursuant to the terms of the new credit facilities, new loan covenants were put in place, all of which the Company meets at September 30, 1994, and no difficulty is foreseen in meeting the covenants in the coming year. Following, and principally because of the Financial Reorganization the Canadian Bond Rating Service upgraded the rating on Tembec's unsecured 12.10% debentures from B+ to B+(High). The rating on the Company's Convertible Subordinated Debentures was reaffirmed at B.

Many of Tembec's products are sold primarily in US dollars although some are sold in other currencies. The effect of converting a stronger US dollar into a weaker Canadian dollar has a significant favourable impact on reported earnings and profits. In 1993 the average US dollar of sales converted into \$1.27 Canadian dollars. In 1994 the exchange rate averaged \$1.36 Canadian dollars for every US dollar of sales. The Company estimates that a decrease of \$0.01 in the value of the Canadian dollar relative to the US dollar will increase pre tax earnings by approximately \$5.8 million. As a partial hedge against the effect of fluctuations in the relative value of the Canadian dollar versus the US dollar, the Company has initiated a hedging policy. The policy provides for taking out forward exchange contracts not exceeding 18 months for up to 60% of anticipated US dollar receipts.

During 1994 the company generated \$40.1 million in cash flow from operations, compared to a loss of \$22.9 million in 1993. Approximately \$37.3 million of this originated from the wood products division and \$16.3 million from the pulp division before accounting for \$14.2 million of cash used by the paperboard division. Cash generated in the last half of the fiscal year amounted to approximately \$50 million.

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## Environmental

Tembec is subject to various laws and regulations governing emissions of gaseous, liquid and solid waste. Since 1992, the Federal and Provincial governments published new regulations dealing with various environmental matters related to the pulp and paper industry.

New regulations under the Fisheries Act (Canada) established limits for allowable discharges of biological oxygen demand (BOD5) and total suspended solids (TSS). Mill effluent must also be non-toxic. Although these regulations became law in 1992, they provide time for mills to design and install the required environmental treatment systems. The Company installed such treatment systems in 1991. The Company's pulp group requested and received a transitional authorisation to December 31, 1993 and has obtained an extension to December 31, 1995, in order to optimize the performance of these systems. The Company expects to spend approximately \$10 million in the next fiscal year to improve the systems' performance.

The Regulation Respecting Pulp and Paper Mills (Quebec), which applies to both air emissions and water effluents, as well as to pulp and paper mill waste management, calls for compliance at dates ranging from 1993 to 1996, depending upon the contaminants covered. In the most recent fiscal year, Tembec was charged for failing to comply with the Environmental Quality Act and its regulations with respect to provincial standards pertaining to biological oxygen demand and total suspended solids in its effluent and for discharges of processed liquor in the environment in 1992. The Company is contesting these charges. Should the Company be found liable pursuant to the charges, the maximum liability is approximately \$1 million.

The use of chlorine and chlorine compounds in bleaching continues to attract controversy due to the formation of adsorbable organic halides (AOX) in pulp mill effluent. The provincial government of Quebec has adopted regulations providing for a standard for AOX content in effluent of 1.5 kgs or 2.5 kgs per tonne, depending on the species used for the production of pulp. The Company is planning to spend approximately \$5 million in this fiscal year to reduce the levels of AOX in its effluent.

During the five years ended September 30, 1994, the Company spent in excess of \$123 million on environmental capital improvements. The major elements of these expenditures included a \$40 million secondary treatment facility and a \$44 million biomass boiler facility at its Temiscaming complex. These expenditures, combined with the current environmental spending program of \$15 million, should allow Tembec to meet current regulations and those coming into force in 1995.

During the year, the Company's forest products group adopted a Code of Forest Practices. Tembec is in the process of developing specific operating procedures and guidelines to ensure compliance with the Code.

In April 1993, Tembec submitted an application to the Ministère de l'environnement et de la faune du Québec ('MEF') in relation with a system to treat leachate from Tembec's landfill site in its Temiscaming complex. Once the required permit and certificate are received, Tembec will implement the treatment system at an approximate cost of \$1.5 million. Tembec has received notices from the MEF regarding exceedances of standards applicable to the discharge of such leachates.



# Consolidated Balance Sheet

TEMBEC INC.

September 30  
(\$ thousands)

## ASSETS

### CURRENT ASSETS

	1994	1993
Cash and term deposits	\$ 25,887	\$ 40,000
Accounts receivable		
Trade and others	92,106	81,602
Related parties	340	3,588
Income taxes recoverable	110	-
Government assistance receivable	209	209
Inventories (note 2)	83,881	79,151
Prepaid expenses	4,427	1,480
Total current assets	206,960	206,030

### INVESTMENTS (note 3)

50,359 43,531

### FIXED ASSETS (note 4)

716,361 707,786

### OTHER ASSETS (note 5)

17,386 17,355

\$ 991,066 \$ 974,702

## LIABILITIES AND SHAREHOLDERS' EQUITY

### CURRENT LIABILITIES

Bank indebtedness	\$ 30,392	\$ 59,305
Accounts payable and accrued charges	69,250	52,955
Current portion of long-term debt	2,597	16,962
Current redemption of minority interest	-	10,800
Total current liabilities	102,239	140,022

### LONG-TERM DEBT (note 6)

393,621 335,162

### DEFERRED CREDITS

Income taxes	26,647	24,726
Other (note 7)	34,752	36,431
	61,399	61,157

### MINORITY INTEREST (note 8(c))

425 204,200

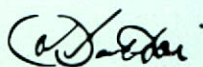
### SHAREHOLDERS' EQUITY

Share capital (note 9)	356,580	230,031
Cumulative exchange translation of foreign subsidiary	(59)	-
Retained earnings	76,861	4,130
	433,382	234,161
	\$ 991,066	\$ 974,702

Contingent liabilities (note 10)

Commitments (note 11)

On Behalf of the Board:



Director



Director



# Consolidated Statement of Earnings and Retained Earnings

## TEMBEC INC.

Years Ended September 30

(\$ thousands)

	1994	1993
Gross sales	\$ 574,397	\$ 445,871
Freight and commissions	89,001	75,537
Net sales	485,396	370,334
Cost of sales	371,365	323,226
Depreciation and amortization (note 12)	40,237	36,369
	411,602	359,595
Gross profit	73,794	10,739
Expenses		
General, selling and administrative	31,637	28,961
Interest (note 12)	29,561	30,276
Employees' profit sharing	4,061	1,441
	65,259	60,678
Income (loss) before unusual items, income taxes, share in income of related companies and preferred share dividends	8,535	(49,939)
Gain on redemption of Distress Preferred Shares (note 8)	(60,000)	-
Gain on settlement of an obligation (note 8)	(5,400)	-
	(65,400)	-
Income (loss) before income taxes, share in income of related companies and preferred share dividends	73,935	(49,939)
Income taxes (recovery) (note 13)	5,726	(14,496)
Income (loss) before share in income of related companies and preferred share dividends	68,209	(35,443)
Share of income of related companies	10,566	5,086
Dividends on preferred shares of a subsidiary company	(6,044)	(7,163)
	4,522	(2,077)
<b>NET INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	72,731	(37,520)
Loss from discontinued operations (note 18)	-	(11,096)
<b>NET INCOME (LOSS)</b>	72,731	(48,616)
Retained earnings at beginning of year	4,130	52,746
<b>RETAINED EARNINGS AT END OF YEAR</b>	\$ 76,861	\$ 4,130
Income (loss) per share		
Income (loss) from continuing operations	\$ 2.24	\$ (1.33)
Income (loss) from discontinued operations	.00	(.40)
	\$ 2.24	\$ (1.73)
Fully diluted earnings per share (note 14)	\$ 1.90	



# Consolidated Statement of Changes in Financial Position

TEMBEC INC.

Year Ended September 30  
(\$ thousands)

	1994	1993
<b>CASH PROVIDED BY (USED FOR):</b>		
<b>OPERATING ACTIVITIES</b>		
Net income (loss) from continuing operations	\$ 72,731	\$ (37,520)
Add (deduct) charges (credits) to operations not requiring a cash outlay:		
Depreciation and amortization	40,237	36,369
Amortization of deferred foreign exchange and financing costs	511	2,616
Exchange loss on repayment of US debt	-	4,696
Deferred income taxes	1,921	(12,734)
Deferred revenues	-	(3,565)
Share in income of related companies	(10,566)	(5,086)
Loss on disposal of investments	-	150
Gain on disposal of fixed assets	(117)	(2,150)
Gain on redemption of Distress Preferred Shares	(60,000)	-
Gain on settlement of an obligation	(5,400)	-
	39,317	(17,224)
Net change in non-cash working capital balances related to operations	774	(5,663)
	40,091	(22,887)
Net loss from discontinued operations	-	(11,096)
Add deferred taxes which do not require a cash outlay	-	4,149
	-	(6,947)
<b>Cash provided by (used in) operating activities</b>	<b>40,091</b>	<b>(29,834)</b>
<b>INVESTMENT ACTIVITIES</b>		
Acquisition of companies	(3,361)	-
Acquisition of fixed assets	(25,190)	(47,431)
Proceeds on disposal of fixed assets	1,107	1,827
Proceeds on sale of investment	-	8,000
Acquisition of investments	(3,789)	(1,437)
Other assets	2,490	(1,008)
Cumulative exchange translation on foreign subsidiary	(59)	(350)
<b>Cash used in investment activities</b>	<b>(28,802)</b>	<b>(40,399)</b>
<b>FINANCING ACTIVITIES</b>		
Issue of share capital, net of issue expenses	126,549	2,871
Subscriptions receivable	-	47,300
Addition to long-term debt	115,962	74,302
Repayment of long-term debt	(23,351)	(67,817)
Redemption of minority interest	(215,000)	-
Minority interest	425	-
Government assistance received	901	1,250
Deferred revenue	(138)	(262)
Other assets	(1,837)	(1,897)
<b>Cash provided by financing activities</b>	<b>3,511</b>	<b>55,747</b>
<b>NET INCREASE (DECREASE) IN CASH POSITION</b>	<b>14,800</b>	<b>(14,486)</b>
Cash position at beginning of year	(19,305)	(4,819)
<b>CASH POSITION AT END OF YEAR</b>	<b>\$ (4,505)</b>	<b>\$ (19,305)</b>

Cash position includes cash and term deposits less bank indebtedness.



# Notes to Consolidated Financial Statements

## TEMBEC INC.

YEAR ENDED SEPTEMBER 30, 1994

(Figures in tables are in \$ thousands except for number of shares and per share amounts)

### GENERAL

Tembec Inc. ("Tembec" or "the Company") is governed by Part 1(A) of the Québec Companies Act. Its principal business activities include the manufacture, production and sale

of market pulp, wood products and chemical products to North American and overseas markets.

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Consolidation

The consolidated financial statements include the accounts of Tembec and its wholly-owned subsidiaries: Temtation Papers Inc., Envirotec Inc., Invescorp Inc., Forestem Inc., Équipement Hydraulique Boréal Inc. Tembec Construction Company Inc., Tembec Development Corporation Inc., Temboard Inc. and its subsidiary Temfin Inc., Tembec International BV, 2949-2386 Québec Inc. and 9009-1075 Québec Inc. and its wholly-owned subsidiary Bois St-Omer Inc.

#### Investments

Investments in companies subject to significant influence and the joint venture are accounted for on the equity basis.

Other investments are carried at cost.

#### Inventories

Finished goods are valued at the lower of cost, on a first in, first out or average cost basis, and net realizable value. Other inventories are valued at the lower of cost, on a first in, first out or average cost basis, and replacement cost.

#### Fixed assets and government assistance

Fixed assets are recorded at cost and depreciation is provided over their estimated useful lives, generally on a straight-line basis, except for forest access roads for which depreciation is calculated in relation to the volume of wood cut.

Government assistance relating to the acquisition of fixed assets is deferred and amortized on the same basis as the related fixed assets are depreciated.

#### Deferred costs

Deferred costs are recorded at cost and consist of development and pre-operating expenses amortized on a straight-line basis over a period not exceeding 10 years, and consist also of financing charges which are amortized on a straight-line basis over the term of the related debt.

#### Capitalized interest on construction projects

Capitalized interest is based on the average cost of construction in progress during the year, using interest rates actually paid on long-term debt.

#### Pension costs and obligations

Tembec and its subsidiaries maintain contributory defined benefit pension plans for the benefit of substantially all employees. The pension obligations of the plans are valued on an accrued benefit actuarial method and management's

best estimate assumptions. The assets of these pension plans are valued at market values. Current service costs are expensed in the year. Adjustments arising from past service benefits, experience gains and losses and the difference between pension plan assets and the present value of accrued pension benefits at year-end are amortized on a straight-line basis over the estimated average remaining service life of the employee groups covered by the plans.

#### Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated at the rate of exchange prevailing at the balance sheet date. Items related to earnings are translated at the average rate of exchange for the month during which transactions take place. Gains and losses from translation are included in earnings for the current year except for unrealized gains and losses on long-term debt which are deferred and amortized over the remaining life of the debt.

Exchange gains and losses arising from the translation of the financial statements of the Company's self sustaining foreign operations are deferred and included as a separate component of shareholders' equity.

#### Income taxes

Tembec follows the tax allocation method of accounting for income taxes. Under this method, income tax expense is calculated on the basis of earnings as reported in the statement of earnings rather than on the Company's taxable income.

#### Income (loss) per share

- (a) The income (loss) per share is calculated using the weighted average number of Class A shares outstanding during the year.
- (b) The fully diluted earnings per share are calculated using the weighted average number of Class A shares which would have been outstanding assuming the additional shares had been issued at the beginning of the year or on the date of issue of the conversion or exercise rights, as applicable, pursuant to the conversion rights of the outstanding 7.5% convertible debenture and the outstanding stock options



# Notes to Consolidated Financial Statements

## TEMBEC INC.

### 1. ACQUISITIONS AND WIND-UP

#### (a) Acquisitions

On December 17, 1993, the Company, through a wholly-owned subsidiary, Temfibre Inc. acquired the remaining 50% of the issued shares of Temeco Enterprises Inc. The transaction has been accounted for by the purchase method with the results of operations included in these financial statements from the date of acquisition.

On August 19, 1994, the Company, through a wholly-owned subsidiary, 9009-1075 Quebec Inc. acquired all of the outstanding shares of Bois St.-Omer Inc.

Details of the acquisitions are as follows:

	Temeco Enterprises Inc.	Bois St.-Omer Inc.	Total
Net assets acquired			
Working capital			
Cash	\$ 401	\$ -	\$ 401
Non-cash working capital	(794)	(1,358)	(2,152)
	(393)	(1,358)	(1,751)
Non-working capital			
Fixed assets	12,683	1,319	14,002
Other assets	99	1,877	1,976
Long-term debt	(12,089)	(528)	(12,617)
	693	2,668	3,361
	300	1,310	1,610
Minority interest	-	(425)	(425)
	\$ 300	\$ 885	\$ 1,185
Consideration given in cash	\$ 300	\$ 885	\$ 1,185

On July 1, 1994, the Company, through a wholly-owned subsidiary, Tembec International BV acquired a 50% investment in the shares of Tartas SA (note 3).

#### (b) Wind-Up

The assets and liabilities of Tembec's wholly-owned subsidiaries, Tembec Forest Products (1990) Inc. (TFPI), Temboard Enterprises Inc., Temfibre Inc., Scierie TKL Inc. and Temeco Enterprises Inc. were transferred to Tembec as at February 28, 1994 (TFPI) and September 30, 1994 and the subsidiaries are in the process of being dissolved.

### 2. INVENTORIES

	1994	1993
Finished goods	\$ 41,854	\$ 34,013
Logs and chips	26,126	29,247
Supplies and materials	15,901	15,891
	\$ 83,881	\$ 79,151



# Notes to Consolidated Financial Statements

## TEMBEC INC.

### 3. INVESTMENTS

	1994	1993
<b>Temeco Enterprises Inc.</b>	\$ -	\$ 7,686
<b>Spruce Falls Acquisition Corp.</b> (41% of all issued shares)		
13,139,790 Class 1 shares	12,499	12,499
399,246 Class 4 shares (1993 - 266,571)	534	269
Series B 10% debentures	14,806	14,717
	27,839	27,485
Share of profits since date of acquisition (1994 - \$6,851, 1993 - \$6,449)	15,165	8,314
	43,004	35,799
<b>Tartas SA</b> (50% of all issued shares)		
1,247 Common shares	32	-
Interest bearing advance	1,270	-
Cumulative exchange translation of a foreign subsidiary	(59)	-
	1,243	-
Share in profits since date of acquisition	3,940	-
	5,183	-
<b>Uniforêt Inc.</b>		
8¼% debenture	2,000	-
<b>Other investments</b>	172	46
	\$ 50,359	\$ 43,531

### 4. FIXED ASSETS

		1994			1993
	Estimated useful life (years)	Cost	Accumulated depreciation	Net	Net
Land	—	\$ 2,423	\$ —	\$ 2,423	\$ 2,325
Forest access roads	—	13,623	8,387	5,236	6,195
Buildings	20-30	169,575	37,048	132,527	129,949
Machinery, equipment and other	3-30	729,561	166,551	563,010	565,315
		915,182	211,986	703,196	703,784
Construction in progress		13,165	—	13,165	4,002
		\$ 928,347	\$ 211,986	\$ 716,361	\$ 707,786

### 5. OTHER ASSETS

	1994	1993
Long-term note receivable on sale of Drysec Inc., secured by a fixed charge on the assets, bearing interest at 6%, with quarterly principal payments of \$250,000, maturing August, 1998. The mortgage has been assigned to the lenders under the bank credit facilities.	\$ 4,073	\$ 5,000
Less: current portion	1,087	1,000
	2,986	4,000
Deferred costs, at amortized value		
Development and pre-operating costs	6,719	6,938
Financing costs	2,518	3,410
Long-term loans to employees	5,163	3,007
	\$ 17,386	\$ 17,355



# Notes to Consolidated Financial Statements

## TEMBEC INC.

### 6. LONG-TERM DEBT

	1994	1993
<b>Tembec Inc.</b>		
Revolving credit facility up to a maximum of \$285,577,395. The advances are to be converted into a term loan repayable in equal quarterly instalments of \$ 7,500,000 over 5 years commencing April, 1996 and maturing March 31, 2001. The Company can borrow funds in Canadian and US dollars, in various forms and at various interest rates, fixed and floating.		
Revolving loan bearing interest at prime rate plus .25%	\$ 105,356	\$ -
Revolving loan bearing interest at prime rate plus .75%	81,296	-
US \$ 24,871,605 bearing interest at 8.9%	33,415	-
US \$ 48,128,395 bearing interest at 9.4%	64,660	-
The revolving credit facility and the operating loan facility are secured by mortgage bonds of the Company totalling \$725,000,000		
Revolving loan	-	133,350
Project loan facility	-	57,750
Unsecured debentures, bearing interest at 12.10%, repayable at the option of the holders on October 1 of each year and maturing on October 1, 1998	22,693	27,000
Convertible unsecured subordinated debentures, bearing interest at 7.5%, convertible at \$10 per Class A share at any time at the option of the holder and maturing on August 1, 2003	70,000	70,000
Capital lease obligations bearing interest at rates ranging from 6.7% to 12.1% and maturing at various dates to February, 2000	4,850	5,833
<b>Tembec International BV (TIBV)</b>		
Unsecured term loan, bearing interest at 3.85%, for which interest is repaid by Cellulose du Pin Tartas to TIBV, principal repayable based on funds generated by Tartas SA up to a maximum annual amount of \$634,750 commencing October 31, 1997	3,204	-
<b>Forest Products Group (formerly Tembec Forest Products (1990) Inc.)</b>		
Revolving loan	-	15,000
Term loan	-	11,239
Debenture	-	48
Mortgage loan, bearing interest at 0.20% over the prime rate payable until June 2000 in monthly instalments of \$40,800 secured by a specific charge on all of the assets of the LaSarre mill	2,815	3,305
Bank loan, bearing interest at 0.75% over the prime rate, payable until October 1996 in annual instalments of \$82,490, secured by a trust deed providing a floating first-ranking charge on all of the Ville-Marie mill present and future assets	165	247
Capital lease obligations, bearing interest at rates up to 5.9% and maturing at various dates up to July, 1998	541	303
Participating loan with the Société de Développement Industriel du Québec (SDI) bearing interest at the SDI weekly rate, payable monthly. Principal repayable in annual instalments equal to 30% of after tax profits of the Temlam division excluding depreciation and amortization	4,632	4,632
Bank loan, bearing interest at 0.75% over the prime rate, payable in monthly instalments of \$2,917, secured by a lien on machinery and maturing August 1, 2000	242	277
Notes payable to Stone Consolidated Inc., bearing interest at prime rate plus 1.0%, repayable in equal annual instalments of \$ 500,000 on June 28, 1995 and June 28, 1996	1,000	-



# Notes to Consolidated Financial Statements

## TEMBEC INC.

### 6. LONG-TERM DEBT (continued)

	1994	1993
<b>Forest Products Group (formerly Tembec Forest Products (1990) Inc.)</b>		
Participating loan with the Société de Développement Industriel du Québec (SDI) bearing interest at the SDI cost of funds and payable monthly. Principal repayable in annual instalments equal to 30% of after tax profits of Scierie TKL excluding depreciation and amortization and maturing December, 1997	\$ 378	\$ 1,031
Capital lease obligation bearing interest at 8.9% payable in monthly instalments of \$364 and maturing June, 1995	3	7
<b>Tembec Development Corporation Inc.</b>		
Mortgage loan, 11.5% payable until June, 2016 in monthly instalments of \$3,689 and renewable in June, 1996	361	365
Mortgage loan, 11.5% payable until June, 2016 in monthly instalments of \$1,595 and renewable in June, 1996	156	157
Mortgage loan, 8.25% payable until March, 2009 in monthly instalments of \$827 and renewable in June, 1996	84	102
Mortgage loan, 8.25% payable until March, 2009 in monthly instalments of \$678 and renewable in June, 1996	69	75
<b>Équipement Hydraulique Boréal Inc.</b>		
Bank loan bearing interest at 0.75% over the prime rate, repayable in monthly instalments of \$5,833, secured by first mortgage bonds and a specific floating charge on all assets and maturing December, 1998	298	368
<b>Temboard Inc.</b>		
Unsecured debenture	—	15,000
Note payable to Tampella Ltd.	—	6,000
<b>Envirotem Inc.</b>		
Capital lease obligation	—	35
<b>TOTAL LONG-TERM DEBT</b>	<b>396,218</b>	<b>352,124</b>
Less current portion	2,597	16,962
<b>LONG-TERM DEBT</b>	<b>\$ 393,621</b>	<b>\$ 335,162</b>

Instalments on consolidated long-term debt for the four years following September 30, 1995 are as follows:

1996	\$ 16,902
1997	31,349
1998	55,147
1999	31,676

Accounts receivable and inventories are pledged as collateral for the bank indebtedness and the revolving credit agreement of the Company.

### 7. DEFERRED CREDITS – OTHER

	1994	1993
Exchange gains related to long-term monetary items	\$ 1,733	\$ 1,992
Unamortized government assistance	29,227	30,509
Deferred revenue	3,792	3,930
	<b>\$ 34,752</b>	<b>\$ 36,431</b>



# Notes to Consolidated Financial Statements

## TEMBEC INC.

### 8. FINANCIAL REORGANIZATION AND MINORITY INTEREST

#### (a) Financial Reorganization

During fiscal 1994, the Company reorganized its financial structure, concurrently with the restructuring of the debt and Distress Preferred shares in Temboard Inc. and its wholly-owned subsidiary Temfin Inc. The objectives of the reorganization were to reduce the indebtedness and obligations of Temboard Inc., to consolidate all the indebtedness owed to the Banks by the principal operating subsidiaries to Tembec Inc. under new credit facilities to be entered into directly with the Company, to extend maturities of such indebtedness and to merge the principal operating subsidiaries directly with Tembec. The principal features of the financial reorganization plan completed in August 1994, were as follows:

- Class 1 and 2 Distress preferred shares of Temfin Inc., amounting to \$135,000,000 were reduced by the issuance of 1,875,000 of Series 3 Class B preferred shares of the Company for a value of \$30,000,000. The balance was repaid from the proceeds of a new long-term credit facility entered into for such purpose (see note 6).
- Class G Distress preferred shares of Temfin Inc. amounting to \$80,000,000 were redeemed for 2,000,000 Class A shares of the Company for a value of \$20,000,000.
- An unsecured debenture of Temboard Inc., totalling \$15,000,000 and bearing interest at prime plus 1% was redeemed for 1,500,000 Class A shares of the Company for a value of \$15,000,000.
- Unsecured notes payable to a supplier of Temboard Inc., totalling \$6,000,000 were redeemed for a cash payment of \$600,000.

As part of the reorganization, the assets of Tembec's principal wholly-owned subsidiaries were transferred to the Company and the subsidiaries are in the process of being dissolved. (note 1(b)).

#### (b) Gain on Redemption of Distress Preferred Shares and Settlement of an Obligation

As part of the redemption of the Temfin Inc. Class G Distress Preferred Shares and the unsecured notes payable due to a supplier, the Company recorded \$60,000,000 as a gain on redemption on Distress Preferred Shares and \$5,400,000 as a gain on settlement of an obligation.

#### (c) Minority Interest

	1994	1993
<b>Temfin Inc.</b>		
115,000,000 Class 1 Distress Preferred Shares	\$ -	\$ 115,000
20,000,000 Class 2 Distress Preferred Shares	-	20,000
	-	135,000
Less: current redemption	-	(10,800)
	-	124,200
80,000 Class G Preferred Shares	-	80,000
	-	204,200
<b>9009-1075 Quebec Inc.</b>		
100,000 Class C Preferred Shares	125	-
150,000 Class D Preferred Shares	150	-
50,000 Class E Preferred Shares	50	-
100,000 Class F Preferred Shares	100	-
	425	-
	\$ 425	\$ 204,200

### 9. SHARE CAPITAL

#### Authorized

Unlimited number of Class A voting shares, without par value.

Unlimited number of non-voting Class B preferred shares issuable in series without par value, with other attributes to be determined at time of issuance:

20,000 7% Series 1 Class B shares redeemable in 2003, ineligible to participate in dividends until 2004 and thereafter on a non-cumulative basis.

Unlimited number of Series 2 Class B shares retractable at the option of the holder on June 26, 2011 at the issue price plus unpaid dividends and redeemable by the Company at the issue price plus unpaid dividends at any time.

1,875,000 0.5% per month non-cumulative Series 3 Class B shares redeemable in 2003 by the Company at the greater of issue price and the current value plus declared and unpaid dividends.

250,000 Class C shares, with a par value of \$1 each, non-voting, participating and redeemable at the issue price plus the increase in the book value per share since the issue date.



# Notes to Consolidated Financial Statements

TEMBEC INC.

## 9. SHARE CAPITAL (continued)

	1994	1993
<b>Issued and fully paid:</b>		
38,419,938 Class A shares (1993 – 28,167,388)	\$ 289,952	\$ 193,403
20,000 7% Series 1 Class B shares	20,000	20,000
16,627,500 Series 2 Class B shares	16,628	16,628
1,875,000 Series 3 Class B shares	30,000	–
	<b>\$ 356,580</b>	<b>\$ 230,031</b>

During the year, the Company issued 10,252,550 (1993 – 145,695) Class A shares for a consideration of \$96,549,441 (1993 – \$1,207,715) and 1,875,000 Series 3 Class B shares for \$30,000,000.

The 7.5% convertible unsecured subordinated debentures are convertible at the option of the holder into 7,000,000 Class A shares of the Company.

As at September 30, 1994, under the Employee Stock Option Plan, there were outstanding options to purchase 1,095,700 Class A shares, exercisable as follows:

Number of shares	Price (\$)	Date of expiry
69,000	10.38	November, 1994
81,000	9.63	January, 1995
93,200	9.00	November, 1995
150,000	11.13	August, 2001
455,000	7.38	July, 2003
195,000	10.75	January, 2004
40,000	9.38	April, 2004
12,500	9.50	July, 2004

## 10. CONTINGENT LIABILITIES

Tembec has been named in a law suit filed in the Supreme Court of the State of New York in the amount of US \$51,000,000 alleging breach of a performance guarantees, executed by the Company and its wholly-owned subsidiary Tembec Construction Company Inc., that certain contractual performance obligations relating to a De-inking plant and a Waste Water Treatment plant would be met by specified dates. The Company has filed countersuits in the amount of approximately US \$12,000,000.

The outcome of these matters cannot be reasonably determined at this time by the Company. The Company has accrued an amount in the accounts for damages which it reasonably expects could be required of it should it be found liable under the claim.

Tembec Construction Company Inc. and Patriot Paper Corporation have instituted legal proceedings against the engineers responsible for designing the De-inking facility, and taken the position that the losses and start-up problems resulting in Patriot's shutdown are attributable to the aforesaid engineers who have filed a counterclaim.

## 11. COMMITMENTS

At September 30, 1994, the Company has incurred commitments totaling approximately \$3,589,000 relating to its modernization and expansion programs at its various plants.



# Notes to Consolidated Financial Statements

## TEMBEC INC.

### 12. DEPRECIATION AND AMORTIZATION, INTEREST AND FOREIGN EXCHANGE

	1994	1993
(a) Depreciation and amortization		
Fixed assets	\$ 40,389	\$ 36,117
Deferred development and pre-operating costs	2,129	2,460
Deferred government assistance	(2,281)	(2,208)
	<u>\$ 40,237</u>	<u>\$ 36,369</u>
(b) Interest and Foreign Exchange		
Amortization of deferred exchange (gains) losses	\$ (62)	\$ 2,195
Amortization of deferred financing costs	573	421
Total amortization	<u>511</u>	<u>2,616</u>
Interest on long-term debt	29,824	28,215
Interest capitalized on construction projects	(398)	(2,662)
Interest on bank indebtedness	3,982	4,307
Interest income	(5,088)	(5,246)
Exchange loss on repayment of US debt	-	4,696
Other exchange (gains) losses	730	(1,650)
	<u>\$ 29,561</u>	<u>\$ 30,276</u>

### 13. INCOME TAXES

	1994	1993
Income (loss) before income taxes and share in losses of related companies	\$ 73,935	\$ (49,939)
Provision for income taxes based on combined federal and provincial income tax rates of 37.74% (1993 - 37.84%)	\$ 27,903	\$ (18,895)
Increase (decrease) resulting from		
Manufacturing and processing deduction	(4,941)	2,142
Rate differential on reversal of timing differences	(195)	135
Permanent differences - Gain on redemption of Distress Preferred Shares	(18,594)	-
Others	(192)	365
Large corporations tax	1,745	1,757
	<u>(22,177)</u>	<u>4,399</u>
INCOME TAXES (RECOVERY)	\$ 5,726	\$ (14,496)
Current (recovery)	\$ 3,059	\$ (621)
Deferred (reduction)	2,667	(13,875)
	<u>\$ 5,726</u>	<u>\$ (14,496)</u>
Effective income tax rate	7.74%	29.03%

### 14. FULLY DILUTED EARNINGS PER SHARE

Fully diluted earnings per share have not been reported for the year ended September 30, 1993 as they result in a decrease in loss per share.

### 15. PENSION PLANS

The Company has contributory defined benefit pension plans which cover substantially all of its employees. The pension plans provide pension benefits based on length of service and final average earnings.

The estimated value of the pension fund assets as of September 30, 1994 amounts to \$12,224,000 (1993 - \$10,009,900) and the estimated actuarial present value of accrued pension benefits attributed to services rendered amounts to \$13,541,800 (1993 - \$9,759,700).



# Notes to Consolidated Financial Statements

## TEMBEC INC.

### 16. SEGMENTED INFORMATION

	Pulp		Wood Products	
	1994	1993	1994	1993
<b>By industry segment</b>				
i) Gross sales				
To external customers	\$ 207,613	\$ 177,670	\$ 206,997	\$ 144,466
Within segments	1,953	1,669	516	476
To other segments	29,580	23,997	34,140	40,578
	<b>\$ 239,146</b>	<b>\$ 203,336</b>	<b>\$ 241,653</b>	<b>\$ 185,520</b>
ii) Gross profit	\$ 27,389	\$ (10,239)	\$ 48,010	\$ 23,567
Non segment expenses – net	–	–	–	–
Net loss	–	–	–	–
iii) Identifiable assets *	511,593	559,230	160,958	122,419
iv) Acquisition of fixed assets	7,602	41,112	16,142	5,409
v) Depreciation and amortization	19,561	17,564	9,673	9,583
<b>By geographic segment</b>				
Gross sales				
Canada	9,751	5,353	118,296	95,072
United States	33,120	31,831	83,113	43,316
Pacific Rim and India	47,255	40,396	2,010	2,368
United Kingdom, Europe and other	117,487	100,090	3,578	3,710
	<b>\$ 207,613</b>	<b>\$ 177,670</b>	<b>\$ 206,997</b>	<b>\$ 144,466</b>

\* All of the companies' manufacturing plants are situated in Canada.

### 17. RELATED PARTY TRANSACTIONS

During the year the Company made sales (\$2,890,000) to and provided management and other services (\$847,056) to companies under significant influence and the joint venture. In addition, interest in the amount of \$1,494,536 was charged to companies under significant influence and the joint venture.

### 18. DISCONTINUED OPERATIONS

**Patriot Paper Corporation** (see note 10)

On January 15, 1993, as a result of continued losses and start-up problems, Patriot Paper Corporation ("Patriot"), a wholly-owned subsidiary of Invescorp Inc. ("Invescorp"), shut down its operations. On March 17, 1993 it filed for protection from its creditors under Chapter 11 of the United States Bankruptcy Code to allow for a reorganization of its operations. This was converted to a Chapter 7 liquidation on May 17, 1994.

The Company has written off its investment in Invescorp and amounts due from Patriot. The 1993 operating results have been classified as discontinued operations in the accompanying financial statements.

## Auditors' Report To The Shareholders of Tembec Inc.

We have audited the consolidated balance sheets of Tembec Inc. as at September 30, 1994 and September 30, 1993 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1994 and September 30, 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants

Montréal, Canada  
November 14, 1994



# Notes to Consolidated Financial Statements

## TEMBEC INC.

Paperboard Products		Chemical Products		Other Products		Consolidated	
1994	1993	1994	1993	1994	1993	1994	1993
\$ 137,248	\$ 109,281	\$ 22,244	\$ 14,187	\$ 295	\$ 267	\$ 574,397	\$ 445,871
-	-	-	-	-	-	2,469	2,145
-	-	-	-	1,322	8,670	65,042	73,245
\$ 137,248	\$ 109,281	\$ 22,244	\$ 14,187	\$ 1,617	\$ 8,937	\$ 641,908	\$ 521,261
\$ (4,487)	\$ (4,594)	\$ 2,811	\$ 1,799	\$ 71	\$ 206	\$ 73,794	\$ 10,739
-	-	-	-	-	-	1,063	59,355
-	-	-	-	-	-	72,731	(48,616)
266,697	275,860	39,674	12,032	12,144	5,161	991,066	974,702
888	600	557	120	1	190	25,190	47,431
9,385	8,288	1,374	662	244	272	40,237	36,369
28,123	17,917	13,483	7,510	295	267	169,948	126,119
77,012	84,185	7,846	6,202	-	-	201,091	165,534
28,407	4,887	108	285	-	-	77,780	47,936
3,706	2,292	807	190	-	-	125,578	106,282
\$ 137,248	\$ 109,281	\$ 22,244	\$ 14,187	\$ 295	\$ 267	\$ 574,397	\$ 445,871

## Management's Responsibility

The consolidated financial statements and all information in the Annual Report are the responsibility of the Board of Directors and management. The consolidated financial statements have been prepared by management based on information available and are in accordance with accounting principles generally accepted in Canada. Financial information presented throughout the Annual Report is consistent with the data presented in the consolidated financial statements.

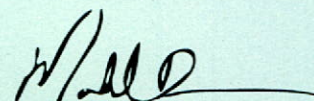
A system of internal accounting and administrative controls is maintained by management in order to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records properly maintained to provide accurate and reliable financial statements.

The Board of Directors has appointed an Audit Committee which consists of three directors who are not officers or employees of the Company. The Audit Committee meets periodically with management and the independent auditors to review the performance of their responsibilities and

to discuss audit, accounting policy and financial reporting matters, and to approve the annual consolidated financial statements of the Company. The Audit Committee also reviews the audit plan of the independent auditors and discusses the results of their audit and their audit report prior to submitting the consolidated financial statements to the Board of Directors for approval.



FRANK A. DOTTORI  
President & Chief Executive Officer



JACQUES GIASSON  
Chairman of the Board



# Five Year Financial Review

## TEMBEC INC.

### SALES & EARNINGS (\$ thousands)

	1994	1993	1992 <sup>(1)</sup>	1991 <sup>(1)</sup>	1990
Gross Sales	\$ 574,397	\$ 445,871	\$ 358,856	\$ 284,148	\$ 267,348
Freight and Commissions	89,001	75,537	54,330	31,254	29,454
Net Sales	485,396	370,334	304,526	252,894	237,894
Cost of Sales	371,365	323,226	261,756	209,652	174,486
Depreciation & Amortization Expense	40,237	36,369	26,935	17,544	14,004
General, Selling & Administrative Expense	31,637	28,961	25,201	14,895	18,735
Gain on redemption of Distress Preferred Shares	(60,000)	-	-	-	-
Gain on settlement of an obligation	(5,400)	-	-	-	-
Interest Expense - net	29,561	30,276	12,882	6,946	1,097
Employees' Profit Sharing	4,061	1,441	780	1,305	2,276
Income (Loss) Before Income Taxes, Share in Income (Losses) of Related Companies, and Minority Interests	73,935	(49,939)	(23,028)	2,552	27,296
Income Tax (Recovery)	5,726	(14,496)	(9,505)	(4,029)	8,339
Income (Loss) Before Share in Income (Losses) of Related Companies, and Minority Interests	68,209	(35,443)	(13,523)	6,581	18,957
Share in Income (Losses) of Related Companies and Minority Interests	10,566	5,086	(6,118)	(7,763)	(583)
Share in loss, Temboard & Company Limited Partnership	-	-	-	(32,072)	-
Dividends on Preferred Shares of a Subsidiary Company	(6,044)	(7,163)	5,092	-	-
Net Income (Loss) From Continuing Operations	72,731	(37,520)	(24,733)	(33,254)	18,374
Loss From Discontinued Operations	-	(11,096)	(4,088)	(1,743)	-
Net Income (Loss)	\$ 72,731	\$ (48,616)	\$ (28,821)	\$ (34,997)	\$ 18,374

### ASSETS & CAPITALIZATION (\$ thousands)

Working Capital	\$ 104,721	\$ 66,008	\$ 142,334	\$ 97,502	\$ 75,597
Investments	50,359	43,531	37,158	9,674	51,009
Fixed Assets	716,361	707,786	750,674	406,556	313,705
Other Assets	17,386	17,355	34,913	17,724	7,659
Net Assets	\$ 888,827	\$ 834,680	\$ 965,079	\$ 531,456	\$ 447,970
Long-Term Debt	\$ 393,621	\$ 335,162	\$ 393,783	\$ 235,438	\$ 133,018
Deferred Income Taxes	26,647	24,726	34,862	45,076	50,467
Deferred Government Assistance	29,227	30,509	32,538	29,164	28,225
Exchange Gains Related to Long-Term Debt	1,733	1,992	(1,085)	3,322	3,566
Deferred Revenue	3,792	3,930	7,233	6,396	-
Minority Interests	425	204,200	217,492	-	-
Shareholders' Equity	433,382	234,161	280,256	212,060	232,694
Total Capitalization	\$ 888,827	\$ 834,680	\$ 965,079	\$ 531,456	\$ 447,970
Acquisition of Fixed Assets	\$ 25,190	\$ 47,431	\$ 81,060	\$ 112,306	\$ 88,782

### FINANCIAL STATISTICS

Common Shares Outstanding	38,419,938	28,167,388	28,021,693	17,767,144	17,581,271
Book Value Per Share (\$)	9.55	7.01	8.75	10.06	12.10
Earnings (Loss) per Share (\$):					
continuing operations	2.24	(1.33)	(1.17)	(1.88)	1.08
discontinued operations	-	(0.40)	(0.19)	(0.10)	-
Earnings (Loss) per Share (\$)	2.24	(1.73)	(1.36)	(1.98)	1.08
Fully Diluted Earnings (Loss) Per Share (\$)	1.90	-	-	-	0.96
Cash Flow Provided (Used) by					
Operations Per Share (\$)	1.21	(0.61)	0.13	0.98	2.30
Pulp Production (Tonnes)	362,900	313,400	308,700	261,600	243,700
Plywood Production (000's of sq.ft 1/4")	-	-	-	-	7,200
Laminated Veneer Lumber (cubic feet)	288,500	163,200	39,900	28,100	-
Lumber Production (000's of board feet)	402,300	362,400	339,100	309,800	223,700
Wood Chip Production (Bone Dry Tonnes)	545,700	519,700	494,300	365,600	249,000
Number of Employees	2,297	2,057	2,237	1,990	2,037
Annual Payroll & All Benefits (\$)	112,924,500	99,846,400	106,463,400	84,577,500	73,635,500
Ratio of Current Assets to Current Liabilities	2.0:1	1.5:1	2.6:1	2.4:1	2.1:1
Ratio of Long-Term Debt to Shareholders' Equity	46:54	56:44	56:44	49:51	34:66

(1) Comparative numbers have been reclassified to reflect discontinued operations.



## Directors

**Claude Boivin**  
Company Director

**Bernard W. Burgess**  
Company Director

**Frank A. Dottori**  
President and Chief Executive Officer, Tembec Inc.

**Marcel Gagnon**  
Financial Advisor  
Fonds de Solidarité des Travailleurs du Québec

**Marc Gauvreau**  
President, Local 233, Communications,  
Energy and Paperworkers Union of Canada

**Jacques Giasson**  
Chairman of the Board, Groupe Giasson Inc.

**Pierre Goyette**  
President, Goyette Duhamel Danisi Inc.

**Gordon S. Lackenbauer**  
Deputy Chairman, Nesbitt Burns Inc.

**Jean-Marie Rodrigue**  
President and Chief Executive Officer, Rexfor

**Laurier St. Laurent**  
Company Director

**Guylaine Saucier**  
Company Director

**François Tremblay**  
Partner, Cain, Lamarre, Wells

## Corporate Officers

**Jacques Giasson**  
Chairman of the Board

**Frank A. Dottori**  
President and Chief Executive Officer

**Bruce L. Baird**  
Senior Vice President, Paperboard

**André Boudreault**  
Senior Vice President, Forest Products Group

**Claude Imbeau**  
General Counsel and Secretary

**Terrence P. Kavanagh**  
Executive Vice President, Pulp & Paper Group

**Thomas W. Laberge**  
Vice President, Finance and Chief Financial Officer

**James Lopez**  
Vice-President and General Manager,  
Chemical Products Group

**Stephen J. Norris**  
Treasurer

**Mahendra Patel**  
Vice President, Engineering and Purchasing

**Guy Rivière**  
Vice President, Projects

**Jacques Rocray**  
Vice President, Environment

**Daniel Tardif**  
Vice President Corporate Development

**Jean-Louis Tétrault**  
Vice President Administration and Legal Affairs

**Richard Tremblay**  
Corporate Controller

## Group Officers

### PULP AND PAPER GROUP

**Terrence P. Kavanagh**  
President

**Bernard Guimont**  
Vice President and General Manager,  
High Yield Pulp

**Yvon Pelletier**  
Vice President and General Manager,  
Specialty Cellulose

**Len Woodward**  
Vice President, Marketing

**Roy Yorke**  
Vice President, Technical Services and  
Research and Development

### PAPERBOARD

**Bruce Baird**  
President

**Kenn MacIntosh**  
Vice President and General Manager

### CHEMICAL PRODUCTS GROUP

**James Lopez**  
Vice President and General Manager

**Robert Benson**  
Vice President, Research and Development  
and Technical Services

### FOREST PRODUCTS GROUP

**André Boudreault**  
Executive Vice President and Chief Operating Officer

**Richard Durocher**  
Vice President and General Manager, Temlam Division

**Réal Fortier**  
Vice President, Abitibi Division

**Jack Law**  
Vice President, Sales and Marketing

**Bill Love**  
Vice President, Technical Development

**Kenton Martin**  
Vice President and General Manager,  
Huntsville Division

**Réal Provencher**  
Vice President, Témiscamingue Division



## TEMBEC INC.

### Head Office

800 René-Lévesque Blvd. West, Montréal, Québec H3B 1X9  
Telephone: (514) 871-0137

### FOREST PRODUCTS GROUP

#### Québec Office

3314 Chemin Ste-Foy, Suite 203, Ste-Foy, Québec G1X 1S3  
Telephone: (418) 653-3220

#### Rouyn Office

155 Dallaire, Suite 100, Rouyn-Noranda, Québec J9X 4T3  
Telephone: (819) 797-4782

#### LaSarre

495 Route 111 West, P.O. Box 100, LaSarre, Québec J9Z 2X4  
Telephone: (819) 333-3858

#### Taschereau

630 4th Avenue, P.O. Box 190, Taschereau, Québec J0Z 3N0  
Telephone: (819) 796-3305

#### Delebo

521 Perron Blvd., P.O. Box 39, Nouvelle Oust, Québec G0C 2G0  
Telephone: (418) 794-2211

#### Bois St-Omer

521 Perron Blvd., P.O. Box 39, Nouvelle Oust, Québec G0C 2G0  
Telephone: (418) 794-2211

#### Béarn

67 Principale South, P.O. Box 30, Béarn, Québec J0Z 1G0  
Telephone: (819) 726-3551

#### TKL

P.O. Box 3000, Témiscaming, Québec J0Z 3R0  
Telephone: (819) 627-3321

#### Mattawa

R.R. No.2, Mattawa, Ontario P0H 1V0  
Telephone: (705) 744-5563

#### Alban

Turenne Road, P.O. Box 70, Alban, Ontario P1B 1A0  
Telephone: (705) 857-2772

#### Braeside

Braeside, Ontario K0A 1J0  
Telephone: (613) 623-4211

#### Huntsville

40 Main West, P.O. Box 367, Huntsville, Ontario P0A 1K0  
Telephone: (705) 789-2371

#### Temlam

48 Boivin, P.O. Box 1178, Ville-Marie, Québec J0Z 3W0  
Telephone: (819) 629-2543

### PULP GROUP

#### High Yield Pulp & Specialty Cellulose

P.O. Box 3000, Témiscaming, Québec J0Z 3R0  
Telephone: (819) 627-3321

#### Tartas S.A.

Route de Dax, 48400 Tartas, Landes, France  
Telephone: 58 56 47 56

### TEMBOARD

P.O. Box 3000, Témiscaming, Québec J0Z 3R0  
Telephone: (819) 627-3321

### CHEMICAL PRODUCTS GROUP

#### Lignin - Alcohol - Resin

P.O. Box 3000, Témiscaming, Québec J0Z 3R0  
Telephone: (819) 627-3321

### NEWSPRINT

#### Spruce Falls Inc.

P.O. Box 100, Kapuskasing, Ontario P5N 2Y2  
Telephone: (705) 337-1311

### OTHER FACILITIES

#### Équipement Hydraulique Boréal Inc.

29 8th Avenue East, P.O. Box 276, Macamic, Québec J0Z 2S0  
Telephone: (819) 782-4671

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Printed in Canada

#### Cover

Printed on Kallima™ Graphic, 10 pt, manufactured by  
Temboard Inc.

#### Interior

This coated gloss paper was produced using virgin pulps totally  
free from chlorine bleaching chemicals. Virgin fibre is 25%  
Aspen BCTMP with 75% other totally chlorine-free chemical  
pulp. 10% of post-consumer waste fibre also added.

#### Design

Communications DG4 Inc.