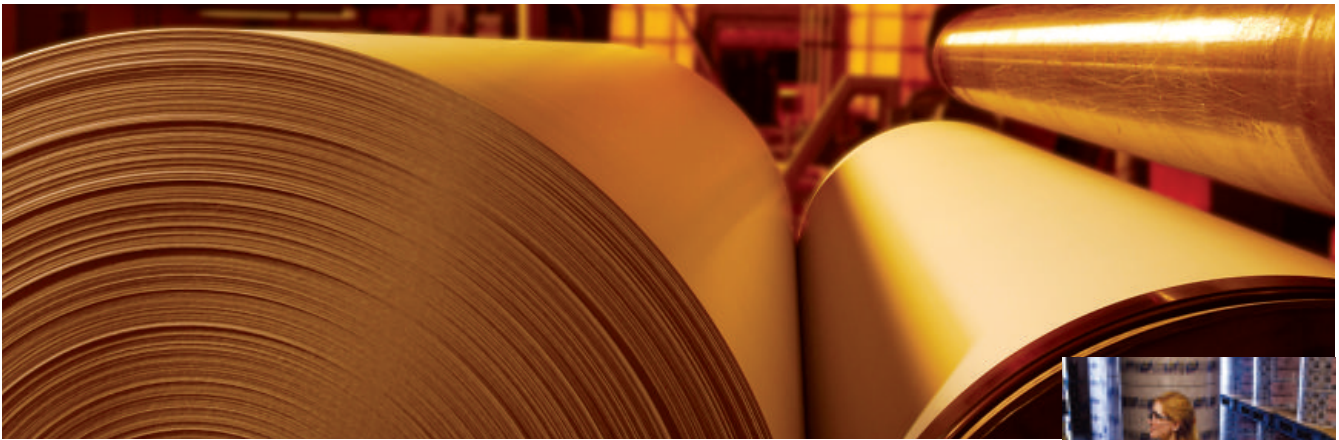
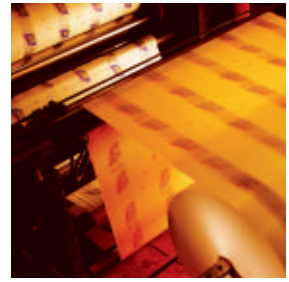




BADGER PAPER

2001 Annual Report



We Make Paper Products...

Smarter



We make paper products...*smarter.*

Can a paper product be smart? Maybe not smart enough to earn a Ph.D., but the answer is “Yes!”

Our expertise is in paper technology, and how to apply color graphics for functional consumer packaging. Our goal is to develop and manufacture specialty paper products that work harder, deliver more benefits, and save money for our customers. For example, Badger has developed a unique food-grade wrap for individual fast food items like hamburgers and burritos. This new product is specially processed and coated. It keeps the food warmer, the customer cleaner, and retains ink in a way that delivers eye-popping color graphics like no other wrap product.

Is that smart, or what? Smart products are good for our business and for our customers.

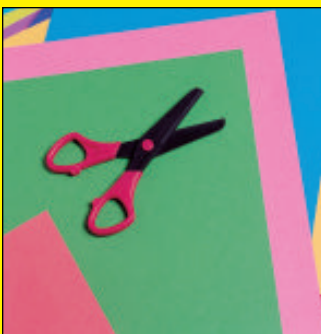
Every day the people at Badger use their knowledge of specialty papers to develop innovative solutions for our customers. And, we use our own “smarts” to constantly create new and efficient processes that enable us to create more value for our business and our shareholders.

We’re excited about the future, and we’ll share our plans and vision with you in this report.

“For our Customers: Innovation, Leadership, and Service”

“For our Employees: Opportunity, Pride, and Involvement”

“For our Shareholders: Performance, Growth, and Value”



About Badger Paper

Badger Paper manufactures specialty papers, with a particular focus on wax- and polymer-coated products. The paper products segment produces a variety of paper including fine paper, recycled paper, business paper, colored paper, waxed paper, specialty coated base papers and twisting papers. We also operate a full-service printing and converting operation that prints and converts flexible packaging such as paper, films and non-woven materials. Badger Paper has plants in Peshtigo and Oconto Falls, Wisconsin. The company trades on the Nasdaq SmallCap Exchange under the symbol: BPML.

Badger: New Leadership in Specialty Papers

Badger Paper Mills aims to expand its franchise in specialty papers. The company has the unique ability to produce high-quality specialty papers, with or without graphics, at stringent specifications required by its consumer packaged goods customers. We offer outstanding printing capabilities for our customers who want a complete manufacturing and printing solution. We are working closer than ever with customers to develop creative, smart solutions.

Our managers and employees are developing new and exciting ways to enable our business to run faster, smarter, and more efficiently. A new senior management team has sharpened Badger's focus on markets served, a higher-margin product mix, cost management, and achieving maximum productivity levels. The end goal is to produce higher sustainable returns on invested capital – the key metric for increasing shareholder value.

As we carefully manage costs and focus on maximum productivity, opportunities to reinvest our operating cash flow into higher-return businesses and projects are also being explored. These objectives all support our total focus on creating maximum value for our shareholders, our employees, and our customers.

Financial Highlights

	For the Years Ended December 31,		
<i>(Thousands of Dollars)</i>	2001	2000	Change
Operating Results:			
Net Sales	\$76,305	\$76,137	\$ 168
Gross Profit	\$ 9,842	\$ 2,686	\$ 7,156
Gross Profit as % of Sales	12.9%	3.5%	9.4%
EBITDA*	\$ 7,875	\$ 298	\$ 7,577
Income (Loss) Before Taxes*	\$ 3,593	(\$3,957)	\$ 7,550
Net Income	\$ 3,846	(\$3,066)	\$ 6,912
Per Share of Common Stock:			
Net Income (Loss) Fully Diluted	\$ 1.89	(\$1.55)	\$ 3.44
Average Shares Outstanding	2,037,429	1,981,716	55,713
Balance Sheet:			
Total Assets	\$40,280	\$43,357	(\$3,077)
Total Debt	\$10,208	\$16,522	(\$6,314)
Total Equity	\$20,445	\$16,482	\$ 3,963
Working Capital	\$ 6,717	(\$9,950)	\$16,667
Cash Flow	\$ 7,201	(\$61)	\$ 7,262
Tons Shipped	60,185	60,912	(727)
Number of Employees	288	293	(5)

* - Does not include Gain on Sale of Timberland in 2001

The products pictured in this annual report incorporate paper solutions manufactured by Badger Paper Mills, Inc.



Inside
The Original
Cracker Jack
BRAND

CARAMEL COATED POPCORN
& PEANUTS

NET WT. 1

NOW Softer!
Scott's Tissue
1000 Sheets
UNSCENTED BATHROOM TISSUE 120 SHEET 20.5 4 1/2 4 1/2 ONE-PLY
EACH SHEET 4.5 X 4 1/2 IN. (114 X 101 mm)

NOW Softer!
Scott's Tissue
1000 Sheets

NOW Softer!
Scott's Tissue
1000 Sheets

BUGS BUNNY

SPACE JAM
Get r

SURPRISE INSIDE
GUESS WHAT'S INSIDE
SURPRISE INSIDE
GUESS WHAT'S INSIDE
SURPRISE INSIDE
GUESS WHAT'S INSIDE
Fold And

Dear Shareholders, Customers, and Employees,

We make
paper
products...

Smarter

When I joined Badger Paper in July, 2001, my number one challenge was to define and implement a new strategy that would let us take advantage of Badger's unique capabilities in producing and printing specialty paper. This annual report outlines the strategy, and planned actions, as clearly as possible for the benefit of investors, customers and employees.

This new strategy capitalizes on Badger's tradition of innovation and quality, and on our ability to create paper-based products that represent innovative solutions for our customers. Executing this plan represents Badger's best chance to prosper and grow. At a time when many paper manufacturers are closing their doors forever, we see a bright future for Badger. Our management and employees realize that it will take hard work and commitment to implement our strategy. Based on our tradition of hard work and our current progress, I am confident that we can accomplish our goals.

Most of this report will focus on the future. Before moving to our strategy, however, I will summarize the highlights of our 2001 performance.

Robert A. Olah
President and CEO

Profit Turnaround in 2001

Most notably, the company reversed a significant net loss in 2000 and recorded a profit in 2001. The hard work of employees and managers to control costs throughout operations and administration, plus an increased emphasis on sales of higher-margin products, made a measurable difference. The turnaround in company operations was assisted by falling pulp prices throughout 2001.

In 2001, Badger reported net income of \$3.8 million or \$1.92 per share basic and \$1.89 per share diluted compared with a net loss of \$3.1 million or \$1.55 loss per share. Year-over-year revenue was flat – \$76.3 million in 2001 compared with \$76.1 million in 2000. This indicates to me that we have considerable upside in the future as we improve the quality and quantity of our revenues from new products and customers, while continuing to manage expenses for the best possible margins.

During 2001, in line with our strategy, we sharply reduced our reliance on the highly competitive, low-margin "commodity" papers. With the increased sale of specialty paper products, we were able to better manage workflow and match expenses, resulting in higher margins. We had a significant breakthrough in developing a new type of food wrap that provides improved performance and brighter graphics. This is one of our new products with great promise that will be discussed in greater detail later in this report.

Also in 2001, the company refocused its sales teams and strategies according to product expertise. With this repositioning, our sales force is more attuned to specific market trends and evolving customer requirements. As a result, we can be more effective in working with customers and prospects to create innovative solutions.

Along with a focused marketing strategy, we know that management of our assets is critical. We aim to tighten the relationships between sales forecasting, production planning, inventory investment and cash collections. To this end, we have created a new executive team with expanded responsibilities. I joined the company in July and Chief Financial Officer William Peters joined the company in August 2001. Michael Bekes, Vice President and Chief Operating Officer, assumed additional responsibilities. We created a new title of Vice President of Sales-Flexible Packaging, and we tapped Clifton Martin, formerly Vice President of our Oconto Falls operation, for this position.

Jodi Steiner
reviewing
printed rolls,
surrounded by
various Badger
products.



We have tremendous value and guidance from our Board of Directors, which was further strengthened during the year with the addition of John Paprocki, who brings an additional dimension of financial and accounting expertise to Badger. I would also like to recognize Mr. Paprocki for going above and beyond the call of duty to serve as the company's interim CFO for seven months.

Our Strategic Plan for Growth, Service, and Profitability

Throughout 2001, we put in place the plan and the team needed to drive Badger's growth and profitability. Now, I would like to outline this plan, with some comments on why we believe this plan can create an exciting and dynamic future for Badger's stakeholders.



Revenue and New Business Opportunity:

From Calling on Customers to Developing New Market Niches

Badger's traditional sales organization has focused on customers, rather than markets. For many years, this worked well, but both the industry and our customers' needs have changed. Today's customer doesn't want a generalist, but instead wants the advice and leadership that comes from expertise in specific products and markets.

A sales team with such expertise not only responds to customer needs, but becomes a key business partner, working to develop leading-edge product ideas and applications. Our recent successes in advanced product applications offer a glimpse of Badger's future. We've proven that we can develop cost-saving packaging for a fast-growing customer; produce high-

quality product to exacting specifications; and become a preferred supplier in the company's selected markets. Industry consolidation has left fewer specialty paper producers, which gives Badger significant opportunities to build market share with this new approach.

Moving the Product Mix Upscale;

From Commodity Products to Specialty Papers

Specialty papers, such as those used to wrap fast food sandwiches for leading national franchises, or packaging for candies and pharmaceuticals, are performance-priced. For these types of products, we can add value through manufacturing, inventory management, just-in-time distribution and full-service printing capabilities. Badger Paper delivers functionality and cost savings, a key to our competitive advantage.

We don't need to call on the world, only our best prospective customers. The technical specifications and volumes that are typical in our specialty papers are not well suited to the productive assets of large pulp and paper producers, which means a significant opportunity for us. Meanwhile, capacity additions in specialty papers are at historically low levels. These factors represent Badger's opportunity to drive our product mix upscale as we grow.



A New View of Productivity and Service:

From Filling Orders to Managing Relationships

In our traditional paper business, orders were simply "filled." Our sales goal was, therefore, to keep plants at full capacity, regardless of how profitable the business was. The company's new sales focus will include expanding our specialty paper business. The goal is still to add volume, but also to ensure that the new business will produce more consistent profitability.

Competing effectively in the value-added specialty area requires the ability to consult with customers, test products, and provide a total cost analysis. Our future customers are looking for long-term relationships. Therefore our sales and service methods must adapt quickly to capture and retain these customers. Their business will bring more recurring revenues and profitability over time.

**Growing Margins by Adding Value for Customers:
From Fighting Price Wars to Setting Standards**

Gross margins for specialty papers are well above those for commodity paper grades. A higher mix of specialty papers also lessens the company's exposure to pulp prices. Badger produces papers to meet the exacting specifications that accompany the new markets we aim to serve. Our customers' need for quality and consistency drive product demand and pricing.

Another benefit from specialty papers is that working capital needs are significantly less since product is of a quick-turn nature. However, not all products leave our plants immediately. As part of our value-added distribution service, we maintain dedicated inventories for a number of customers. No matter how it's done, we can reduce the total cost for our customers and still achieve our targeted returns.

**New Measurements of Performance:
From (Reactive) Downtime to (Proactive) Workflow Management**

To counter industry weakness, most manufacturers still rely on downtime to reduce inventories and available capacity. This reactive step is not a strategy; it's a symptom of being hostage to risks and factors outside of a company's control. At Badger Paper Mills, we are taking control of our destiny through our strategy of a focused product offering and an aggressive sales effort.

We have established workflow management processes that allow us to determine optimal plant and equipment utilization levels. With the ability to achieve maximum productivity for all our assets, Badger will not need to accept business that falls below our target margins, just to keep busy. We continue to look for ways to better absorb our fixed costs with incremental volume opportunities. Our new process even enables us to decide in specific situations whether to manufacture certain products, or have others make those products to our specifications. This flexibility plays a key role in our growth plan because it allows us to add volume without adding physical assets.

The bottom line is that our customers get the quality and the service they require, while Badger has far greater control over its processes and its financial results. What we run through our plants is the key difference in how much cash we can generate at the end of the day. We are growing our order backlogs with the right kinds of products and narrowing the time frame between making the sale, buying inventory, shipping finished goods and receiving payment. At Badger, it's not about the tons produced; it's about profitability.

Reinvesting for High Returns

No business can grow without reinvestment. New technologies, used in tandem with our own experience and creativity, will be key to developing new products and processes that keep us ahead of the competition. The focus of future capital investment will be on specialty papers – the capacity to handle more business, and the equipment and technology to create new products, significantly improve manufacturing speed, and reduce manufacturing costs.



Michael Weber, responsible for quality control testing of paper, runs a tensile test.



Management plans to extend production capabilities in a controlled manner to meet anticipated product rollouts, as well as for new customer relationships. We are installing sophisticated coating equipment to keep pace with the increasing demand for specialty paper products. This new technology, expected to come on-line in mid-year 2002, will enable us to experiment and develop creative new solutions, unique products and superior quality. This equipment is critical to giving us the ability to produce higher volumes of the new light-weight fast food wrap that we developed in 2001.

We expect these new solutions to be among our highest-margin products. They will give us a significant competitive advantage.



Carl Kesler prepares a printed roll for rewinding to final roll sizes at the Oconto Falls plant.

Total Focus on Value Creation

The end result of this strategic plan is to enable Badger Paper Mills to generate higher returns on investment – better margins and more cash flow. The company has focused its resources on advanced applications for specialty papers. The new business template involves driving profit margins from higher-value products.

With a lessening dependence on sales of commodity paper grades, the expected benefits are higher gross margins, improved inventory turns, and faster time-to-market with new products. Long-term financial goals include increasing EBIT (Earnings Before Interest and Taxes) margins, achieving steady revenue growth and focusing on expanding cash flow returns on investment. Simply put, the goal is to increase the value of Badger.

For our shareholders, a stronger, more profitable Badger is an attractive investment. For our customers, it means we have the financial resources to continue developing new products and processes, and that we will be a strong, financially secure business partner. For our employees, it means being part of an exciting, growing company that provides significant employment security and many opportunities for contribution and advancement.

Although the outlook for the United States economy in 2002 is not very optimistic, our ability in 2001 – a tough year by any standard – to make such a significant turnaround in both our business and our profitability bodes well as the economy rebounds.

We are cautiously optimistic about 2002. We have set relatively conservative financial performance goals for the year, since we will not have our new processes and capabilities fully in place until mid-year. We should see steady progress toward achieving goals for improved productivity, better margins, and accelerating growth in sales of specialty paper products.

We are counting heavily on the support and contributions of every Badger employee to execute on this new strategy. We believe it has great potential, and that Badger has a significant opportunity to grow and build market share in a number of specialty paper areas. Our management team looks forward to sharing updates of our progress throughout 2002.

Robert A. Olah
President and CEO
February 25, 2002



Case Studies

Badger Meets Market Need with Unique Solution

To maximize advertising punch, the fast food market is demanding better, brighter graphics on food packaging products. The product is typically a waxed food wrap sheet. The wax coating is necessary to prevent moisture and heat from escaping when the sandwich is wrapped. However, brilliant graphics are difficult to achieve because printing ink does not adhere to wax, and in conventional food wrap, some wax transfers through to the printable side of the wrap.

Badger Paper Mills seized that market opportunity, concluding that to solve the problem, wax had to be applied to one side of the sheet in a way that prevented wax migration to the other side of the sheet. Because of current equipment design, this process was not available and therefore, Badger saw the chance to meet a growing, and unmet, customer need.

Badger's experts brainstormed the problem and designed a solution including both a different base sheet and a new wax application system to perfect the product. The changes in the base sheet contributed to excellent print surface and the new application method resulted in minimal wax migration through the sheet.

The new sheet was brought to market and the resulting print graphics were the best the market had seen. Customers were impressed, and orders started rolling in – a home run for the market and for Badger.



Team members (left to right): Cory Coopmans, Daniel Denowski and Rick Vandenack

One-Stop Answer Solves Customer Problem, Saves Money

A major supplier of small paper condiment cups came to Badger Paper Mills asking for a new type of paper that would solve manufacturing problems in its respective operating plants. Products from current suppliers included dry material, which caused difficulties when running through processing equipment, and also had cracking at the rims of formed cups. This meant high internal rejection rates and waste-related expense. It took three different vendors to create this product, and none wanted to accept responsibility for the problems.

Badger studied the issues and presented smart solutions. Because we can handle paper manufacturing, paper waxing and paper winding all under one roof, we were given a chance to supply prototype material to the customer. Several trials resulted in a base paper that meets every one of the customer's

stringent specifications. The end result – the customer has a high quality product, more reliable supply, and cost savings due to minimized waste, greater processing efficiency, less overtime, and consolidating three vendors into one supplier.

Badger's smart solution translated into a similar answer for other customers, and this grade line now represents volume exceeding thousands of tons per year.



Team members (left to right): Brian LaPalm, Brian Bindow and John Wenger

Board of Directors:

Harold J. Bergman
*Retired President & CEO
Riverside Paper Corp.*

L. Harvey Buek
LHB - O & M Consulting

Mark D. Burish
*President
Hurley, Burish & Milliken, SC*

James L. Kemerling
*President & CEO
Riiser Oil Company, Inc.*

Robert A. Olah
*Chairman of the Board
President & CEO
Badger Paper Mills, Inc.*

John T. Paprocki
*Principle Consultant
Paprocki & Associates*

William A. Raaths
*President & CEO
Anchor Appetizer Group*

Corporate Officers:

Robert A. Olah
President & CEO

Michael J. Bekes
Vice President & COO

William H. Peters
Vice President & CFO

Shareholders' Information

Market Makers:

Herzog, Heine, Geduld, Inc. (HRZG)
Spear, Leeds & Kellogg (SLKC)
Hill, Thompson, Magid & Co. (HILL)
Sherwood Securities Corp. (NDBC)
Island System Corp. (ISLD)

Stock Transfer Agent:

Computershare Investor Services
2 North LaSalle Street
Chicago, Illinois 60602

Stock Price and Dividend Information:

The following table presents high and low sales prices of the Company's Common Stock in the indicated calendar quarters, as reported by Nasdaq SmallCap Market.

Quarterly Price Ranges of Stock:

Quarter	2001		2000	
	High	Low	High	Low
First	\$5.938	\$1.500	\$6.500	\$3.750
Second	\$4.000	\$2.500	\$5.375	\$4.063
Third	\$4.000	\$2.750	\$4.438	\$3.313
Fourth	\$4.900	\$2.850	\$4.500	\$2.000

Quarterly Dividends Per Share:

The Company's line of credit maintains certain covenants, which limit the Company's ability to pay dividends. See "Management's Discussion and Analysis — Liquidity and Capital Resources — Capital Resources."

Annual Meeting of Shareholders:

The Annual Meeting of Shareholders of Badger Paper Mills, Inc. will be held at The Best Western Riverfront Inn, 1821 Riverside Avenue, Marinette, Wisconsin, on Tuesday, May 14, 2002, at 10:00 a.m.

Direct Inquiries to:

Badger Paper
Attention: Investor Relations
200 West Front Street
Peshtigo, WI 54157-0149

Telephone: 715-582-4551
Facsimile: 715-582-4853
www.bpm@badgerpaper.com



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200 West Front Street
Peshtigo, WI 54157-0149