Great Lakes Forest Products Limited Annual Report 1982

OUR COMPANY

Great Lakes Forest Products Limited, incorporated under the laws of Ontario in 1936, acquired the assets of a predecessor company which went into receivership in the early 1930's. These assets, located on the company's present mill site in Thunder Bay, included two newsprint machines. During the late 1930's and 1940's, the new company improved and modernized its facilities, acquired additional licensed forest lands and established itself in the U.S. newsprint market. In the mid-1950's, extensive expansion took place with the addition of Nos. 3 and 4 newsprint machines. The expansion included enlargement of such operations as groundwood pulp production, wood handling and timber harvesting.

Over the years the company's woodlands operations evolved from the horse-drawn methods of old to modern mechanized systems. A leader in woodlands mechanization, the company continues to play an important role in the development of improved operating methods.

In 1966 the first kraft pulp mill went into operation providing diversification and permitting more complete use of tree species in the company's forest areas.

Further diversification and expansion took place during the 1970's with the construction and subsequent expansion of a stud lumber mill, construction of a waferboard plant and the addition of the second kraft pulp mill.

With the construction of the first kraft pulp mill the company commenced a comprehensive environmental control program and has gained wide recognition over the years for leadership in this field.

In 1979 the Dryden, Ontario assets of Reed Ltd. were acquired and since 1980 the company has undertaken extensive modernization and expansion of the Dryden kraft pulp mill and fine paper mill, as well as construction of a stud lumber mill. The kraft pulp mill project was completed at the end of 1982 and started up in January 1983.

The company manufactures the following products: *bleached kraft pulp*, a prime ingredient in a wide range of paper products from high quality printing papers to disposable paper products for home and medical use; *newsprint*, the paper on which newspapers are printed; *fine and envelope papers*, printing papers, similar to the paper in the financial section of this report, copy papers and paper that is converted to envelopes of varying sizes and styles to meet commercial and personal mailing needs; *stud lumber*, precision cut 2 × 4's for use in housing and light construction and *waferboard*, a tough, water-resistant building board for exterior sheathing, interior panelling, roofing and floor underlayment.

Pulp is sold through Lake Superior Pulp and Paper Inc., Chicago and White Plains, N.Y.; R. L. Nash is president and F. M. Jennings, vice-president. Servicing of our newsprint contracts is handled by Lake Superior Newsprint Co., Chicago; W. D. Frost is president and O. E. Babcock, vice-president. Fine papers are marketed through the company's offices in Toronto and Winnipeg; John H. Sim is director, fine paper sales. Stud lumber is marketed through St. Regis Paper Company and waferboard through MacMillan Bloedel Limited. James D. Kingston is director, building products sales.

Common share transfer agents and registrars are The Royal Trust Company, Toronto, Montreal and Calgary and the Bank of Montreal Trust Company in New York.

Price Range of our Common Stock

Year	High	Low
1978	$41.00	$21.25
1979	53.00	40.50
1980	73.50	44.00
1981	93.50	67.00
1982	81.50	46.00

Our Net Earnings and Dividends

Year	Net Earnings (restated)	Dividends Declared
	(per share)	
1978	$ 5.65	$0.45
1979	12.44	1.50
1980	18.01	2.00
1981	16.59	2.90
1982	3.80	3.20

HIGHLIGHTS

'000 omitted	1982	1981 (restated)
Net sales: Pulp and paper	$416,246	$529,671
Building products	21,608	38,923
Total	437,854	568,594
Operating profit	57,203	159,930
Earnings before income taxes	17,350	130,421
Income taxes	(1,202)	49,400
NET EARNINGS: Total amount	18,552	81,021
Per share	3.80	16.59
Cash flow	71,622	137,095
Expenditures on fixed assets	168,765	189,023
Working capital at year end	48,991	77,985

Five-year shipment and financial summaries are shown on pages 19, 22 and 23.

- ☐ Net earnings for 1982 of $18.6 million or $3.80 per share were down from a restated $81 million or $16.59 per share in 1981 due to the depressed economy in the U.S. and Canada.
- ☐ Net sales of $437.9 million in 1982 versus $568.6 million in 1981 resulted from weak markets for our major products and erosion of prices.
- ☐ The modernized and expanded kraft pulp mill in Dryden commenced operations in January 1983.
- ☐ Market prospects for our products are expected to improve over the next few years.

On Inside Pages

Dollars in this report are Canadian unless otherwise identified.

All tons in this report are metric tons. A metric ton is equivalent to approximately 1.1 short tons.

Front Cover

A new forest of jackpine appears as a group of light red dots in this infrared aerial photograph taken five years after a harvesting operation in a portion of our English River Forest area. Jackpine and spruce stands can be seen in the surrounding areas. Following harvesting, this area had its soil exposed by a process called scarification. It was then aerially seeded with jackpine. Infrared photography is a new technique used by our foresters to monitor regeneration success while keeping sampling from the ground to a minimum. Tree species, numbers, heights and ages can be discerned from such photographs.

The photograph on the left shows an established stand of young jackpine.

Shareholders' Meeting

Our shareholders' meeting will be held at 11:30 a.m. Eastern Standard Time in the Confederation Room of The Royal York Hotel, Toronto on Monday, April 18, 1983.

TO THE SHAREHOLDERS

The deepening recession in 1982 affected all our markets and resulted in depressed earnings for the year. We see little cause for optimism for most of 1983 but a turnaround in our fortunes may begin in the latter part of the year. In view of these difficult conditions, we have reduced capital spending wherever possible, pared our operations to reduce costs and implemented a hiring freeze. Over the next few years, however, we expect there will be an upturn in our markets as discussed in our outlook section beginning on page 7.

Weak demand for our products necessitated periodic shutdowns of all our operations in 1982 which meant our employees were laid off for varying periods during the year. Despite these interruptions in work schedules, employees at all levels made a noteworthy effort to hold costs down and operate with all possible efficiency. This was an essential factor in helping us through the difficult times we faced in 1982. On behalf of the directors I would like to extend our heartfelt thanks for this valuable support.

In Dryden, our new kraft pulp mill started up successfully in January 1983 and in a couple of months the new stud mill will be in operation. Installation of the new fine paper machine has been temporarily suspended but will be resumed as soon as required by market circumstances. These new facilities in Dryden will bring significant strength and stability to our operations and make a major contribution to the future well-being of the company.

The retirement of Messrs. Irwin Maier and Paul Nepveu, directors of the company, was announced at our shareholders' meeting on April 14, 1982. Mr. Maier served as a director for fourteen years and Mr. Nepveu for three years. The directors expressed their gratitude to the retiring directors for their dedicated service to the company. We welcomed two new directors, W. Norman Kissick, president and chief operating officer, Union Carbide Canada Limited and William W. Stinson, president, Canadian Pacific Limited, who were elected to the board at the shareholders' meeting.

On behalf of the directors,

CHARLES J. CARTER,
chairman and president

Thunder Bay, Ontario
February 2, 1983

EARNINGS, SALES REFLECT ECONOMIC RECESSION

Net earnings for 1982 were $18.6 million or $3.80 per share compared with $81 million or $16.59 per share in 1981 on a restated basis. As discussed on page 9, we changed our accounting policy in 1982 with respect to investment tax credits to bring it in line with the practice of most other major Canadian public companies in the forest products industry. This change had the effect of increasing net earnings in 1982 by $15.1 million and in 1981 by $3.2 million.

The significant drop in earnings in 1982 reflected the depressed economy in the U.S. and Canada which had an adverse effect on our markets as discussed in the next section. We also faced continued cost inflation in 1982, particularly in wages, energy, transportation and chemicals. The impact of the economic situation on our major products worsened as the year progressed and quarterly results declined with a loss recorded in the fourth quarter as shown in the tables on page 23.

Sales Down

Net sales of $437.9 million in 1982 were down from $568.6 million in 1981 due to general market softness which resulted in lower shipments for all our products and widespread erosion of prices.

During the first half of 1982 newsprint shipments were close to 1981 levels. However, a marked deterioration in market conditions occurred in the second half of the year due to weak demand and excess manufacturing capacity resulting in reduced shipments and price erosion. Demand for kraft pulp remained soft throughout the year affecting prices and shipments. We continued to ship kraft pulp in 1982 to offshore markets, including the Far East. A substantial portion of our Thunder Bay pulp production in 1982 was hardwood kraft pulp, some of which was used in the Dryden fine paper operation. Fine paper also experienced slack demand throughout 1982. All our pulp and paper operations were shut down for varying periods during the year.

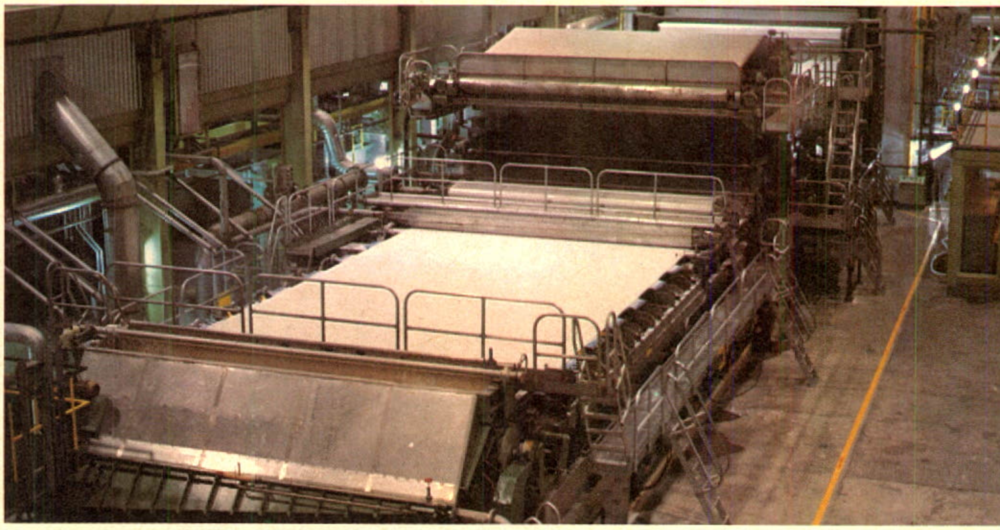
While the severe depression in the market for building products had a serious effect on prices and resulted in the waferboard plant being shut down for virtually the entire year, we were able to sustain our lumber operations through most of 1982. Interruptions in lumber production resulted from the integrated nature of our operations where a shutdown of the kraft pulp mills affects the log supply to the lumber mills.

Exchange Impact

Our exchange premium on U.S. dollar sales during the past two years has been affected by the forward exchange contracts we entered into in 1981 for the sale of a substantial portion of our forecast U.S. dollar revenue through 1984. In 1982 our average exchange premium on U.S. dollar sales remained virtually unchanged at 19.1 percent.

Income Taxes

Income tax expense for 1982 is a negative amount of $1.2 million on earnings before income taxes of $17.4 million, resulting in a negative effective tax rate of 6.9 percent. This compares with a rate of 37.9 percent a year ago, on a restated basis. The normal effective tax rate for a manufacturing company is approximately 45 percent. Investment tax credits are the primary reason for our rate being substantially lower in both years. These credits, a portion of which is deducted in determining income tax expense, are related to the level of capital spending rather than the level of earnings and consequently, they reduce, or may even exceed, the current year's normal tax provision. This latter situation occurred in 1982 where $8.5 million of investment tax credits were recognized in accordance with our new accounting policy



The latest in pulp technology to produce a quality product is employed in our new kraft pulp mill at Dryden.

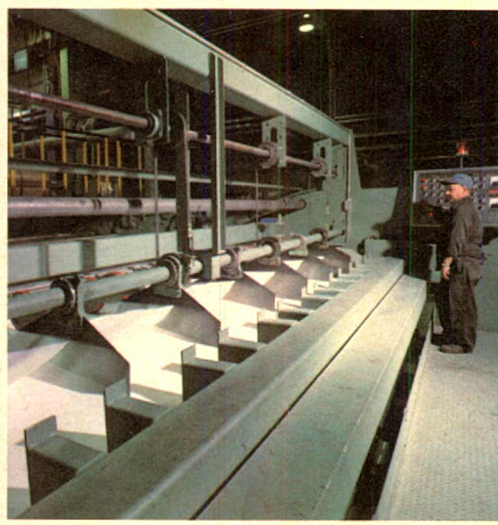
Raw pulp is cleaned and whitened as it passes through a six-stage bleaching process, top left.

At the headbox of the pulp machine, top right, the pulp is formed into a 238-inch-wide continuous sheet which moves some 3,000 feet through various drying processes before reaching the finishing section.

Within the Flakt dryer section, near right, the sheet makes 25 passes back and forth in temperatures of up to 200 degrees Centigrade.

At the cutter-layboy, far right, the dried pulp is cut into 28¼-inch square sheets and stacked. Stacks of approximately 400 sheets are then precisely weighed, compressed to half their original height, wrapped and baled ready for shipment to our customers.

Maintenance of woodlands and mill vehicles is carried out at the new 14-bay central garage located at the Dryden mill complex, bottom photograph.



described on page 9. The credits are to be recovered against tax payments of future years. A reconciliation of the company's effective tax rate for 1982 and 1981 is included in Note 7 to the financial statements on page 16.

Dividends

Dividends of $3.20 per share were declared in 1982 compared with $2.90 per share in 1981. The quarterly rate of 80 cents per share was maintained throughout the year.

Working Capital Down

Working capital of $49 million was down from $78 million in 1981. This was due to the use of our line of credit with Canadian Pacific Securities Limited, which is classified as a short-term borrowing, to finance a portion of the shortfall in our cash flow in meeting our capital expenditures, redemption of debt and dividends. Our cash flow from operations was $71.6 million, down $65.5 million from last year due mainly to net earnings being lower by $62.5 million. Long-term bank borrowing increased by $83.6 million.

Capital Expenditures

In 1982 our capital expenditures totalled $168.8 million of which $75.2 million was spent in completing the $250 million modernization and expansion of the kraft pulp mill in Dryden. Originally scheduled for start-up by mid-1982, a prolonged strike by construction workers delayed completion of this program to year end. This program, which started in 1980, included the replacement of 80 percent of the old mill with a new enlarged facility capable of producing 225,000 metric tons of fully-bleached kraft pulp annually and construction of a 60 million board-feet-per-year stud lumber mill to replace the aging dimension lumber mill at Colenso. The kraft mill commenced operation in mid-January 1983 and has experienced a successful start-up. The stud mill is scheduled for completion early in the second quarter. Also included in this program are the Dryden environmental improvements discussed in the next section.

We spent $54.9 million on the fine paper modernization project in Dryden in 1982 which brings the total expenditures on this project to $80.5 million since it started early in 1981. In 1982 the capital cost, initially estimated at $90 million, was increased to $100 million with the decision to proceed with modernization of the paper finishing line. By the end of 1982 the buildings were completed, equipment foundations were in place and all major equipment for the new paper machine was on the mill site. Because of economic conditions further work has been temporarily suspended but will be resumed as soon as required by market circumstances. In the meantime, fine paper customers will continue to be served through the use of the two old machines which will be phased out when the new mill goes into operation.

Capital expenditures on the Thunder Bay operations amounted to $18.9 million in 1982. Some $11.1 million of this amount was spent principally to modernize our newsprint machines and to increase energy self-sufficiency. The balance was applied to our environmental program to meet government standards as discussed in the next section.

Woodlands capital expenditures amounted to $8.8 million in 1982 including completion of a new equipment maintenance garage at Dryden and purchases of new harvesting equipment for both Thunder Bay and Dryden operations.

Our Environmental Programs

During 1982 we continued to update our environmental facilities in Thunder Bay and Dryden to meet the requirements of the Ontario Ministry of the Environment's control orders issued in May 1981 and June 1980 respectively.

In Thunder Bay, a number of in-plant measures to remove oxygen-consuming wastes from the liquid discharge, or effluent, from our kraft pulp mills have been installed and others are to be completed in 1983. This includes the first North American installation of a new type of pulp washer in the original kraft mill to separate residual pulping chemicals from the pulp before it proceeds to the bleaching process. We continued our efforts to improve the recycling of wastes within both kraft mills through the closed-cycle system. Also in progress are modifications to the existing effluent treatment system and additional spill control facilities to further decrease suspended solids in the effluent from the kraft mills. Additional improvements to our odor abatement facilities were planned in 1982 for implementation in 1983.

Due to construction trades strikes during 1982, completion of the sulphite recovery system in Thunder Bay was delayed by six months. This new system, now scheduled for start-up early in 1983, will significantly reduce the discharge of oxygen-consuming wastes in the effluent from our sulphite pulp mill in our newsprint operation by burning the spent sulphite pulping liquor in the kraft mill chemical recovery furnace.

With the decision to burn coal in two main power boilers instead of higher cost natural gas, we proceeded in 1982 with the construction of air management facilities to further reduce emissions from this source. Completion of these control systems is scheduled for mid-1983.

In Dryden, construction of the secondary effluent treatment system has been delayed due to the construction strikes mentioned above and the fact that work is restricted as a result of winter conditions. The two 58-acre basins which, through aeration, permit biological action to treat the effluent before it is discharged to the river are scheduled for completion late in 1983. New odor abatement facilities were completed in mid-1982 and became fully operational with the start-up of the new mill early in 1983.

The new woodroom in Dryden started up in late 1982 using a dry debarking system. This marked the end of over 70 years of river drives and towing operations on the Wabigoon Lake and River system.

Our Forest Resources

1982 was our third year of operation under a forest management agreement, known as an FMA, with the Ontario Government covering the English River Forest, one of ten areas in Northwestern Ontario which comprise our woodlands. A map of our woodlands is shown on the inside back cover. This agreement gives the company responsibility for planning and implementing a complete forest management program including harvesting, road construction and regeneration of cutover areas. In the English River Forest we harvested some 7,500 acres in 1982. Approximately 13,600 acres of treated cutover area, most of which were harvested in the past few years, were seeded and 1,380 acres were hand-planted with seedlings in this management area. We closely monitor these treated areas to observe the success of our regeneration efforts.

The remaining areas comprising our woodlands limits are held under licensing arrangements where the Ontario Ministry of Natural Resources retains the responsibility for regeneration. We are pursuing negotiations with the Ministry to conclude two more FMA's and hope to have agreements covering all our forest areas over the next few years.

Unfortunately the intricate process of negotiating FMA's with the Ministry has been complicated by the Ontario Government's current land use planning program. In 1982 the Strategic Land Use Plan for Northwestern Ontario and the district land use plans were released by the Ministry for public comment. These land use plans embrace our entire woodlands areas and are designed to provide a framework and guidelines for resource management well into the future. The Ministry has not concluded its planning process and no decisions have been announced. This has seriously hampered and delayed company planning and forest road access in several areas.

The 1982 planning documents also proposed further withdrawals of productive forest area for parkland in addition to those park proposals put forward in 1981. Alienation of forest land from productive uses is a matter of grave concern. If implemented, these proposals will have a serious effect on our ability to supply wood fibre to our mills. In 1982 we intensified our public information efforts and made extensive representation to the Government regarding our resource requirements. We have supported multiple use of the forest for many years and believe that, under responsible forest management, recreation and enjoyment are compatible with woodlands operations.

Employee Relations

Contracts with unions representing our Thunder Bay and Dryden employees expired between April 30 and September 30, 1982. Two-year agreements were signed with the mill unions in Thunder Bay and Dryden. These settlements, which are in line with those negotiated throughout the industry in eastern Canada, provide for substantial increases in wages and benefits. In the case of the waferboard mill, the union agreed to maintain the wage rates of the previous contract for current employees who elect to return to their old jobs and to accept reduced wage rates for new employees for the life of the contract in return for a company commitment to operate the waferboard plant for a minimum of three months in 1983. If market conditions allow, we will make every effort to operate the waferboard plant on a permanent basis. Contracts with the office and woods unions are still under negotiation.

As the Colenso sawmill is phased out early in the second quarter of 1983, the majority of the workers affected will transfer to the new stud lumber mill in Dryden and the remainder will be offered jobs in other parts of the Dryden operations.

Market Outlook

The adversity we faced in 1982 brought on by the serious recession in the U.S. and Canada is expected to continue in 1983. Recent hopeful signs such as lower inflation and interest rates may help to spark a slow recovery in 1983, but confidence must be restored before real progress is made. Over the next few years, with the anticipated trend of a gradually improving economy, we look for a return to more normal market conditions.

We enter 1983 with extremely soft markets for kraft pulp. Higher than normal producers' inventories were declining by the end of 1982 due to production curtailments. There has been only minor expansion of kraft pulp production in recent years and little has been announced. We are confident that there will be a growing demand for kraft pulp over the longer term with the increasing use of this product in a wide-range of paper products and the expanding opportunities provided by offshore markets such as the Far East. Therefore, while the immediate outlook for kraft pulp in 1983 is not encouraging, a turnaround, when it occurs, could result in a quick return to stronger markets.

U.S. newsprint consumption was 10.1 million metric tons in 1982, virtually unchanged over the past five years. We expect the newsprint market will remain soft for the next few years due to the current five-year upsurge in new manufacturing capacity which is now well past its mid-point. Publishers' newsprint inventories in the U.S. have declined but are still above normal. In its January 1983 forecast, the Canadian Pulp and Paper Association predicts an increase of five percent in total newsprint shipments by Canadian producers for 1983. Over the next few years, with the anticipated improvement in the economy, we expect the new manufacturing capacity will be absorbed through growth in demand.

We do not anticipate much improvement through most of 1983 in our fine paper market which is mainly domestic. Demand is expected to be similar to 1982 but we look with cautious optimism for some improvement later in 1983 or early 1984. Due to low customer inventories, any upturn in the market should show immediate benefits. Over the next few years we believe demand will grow and the markets for fine paper will show a decided improvement.

Housing construction activity showed definite signs of improvement in the latter part of 1982. The drop in interest rates which commenced late last year is expected to stimulate increased building activity in 1983 and should lead to a strengthening of the market for building products. The demand for new housing can be expected to exert considerable upward pressure on this market as greater stability returns to the economy. At present, some uncertainty exists regarding the possible introduction of a countervailing duty sought by some U.S. lumber producers on imported Canadian lumber. The Canadian industry believes such action is unwarranted and that, should it occur, it would be disruptive to North American lumber markets.

Company Outlook

In 1983 we expect that continuing market weakness and cost escalation will have a detrimental effect on our results, but we look for a gradual improvement in the latter part of the year. On a more positive note, most of the expansion and modernization program in Dryden is now behind us. Our policy of financing a major portion of the cost of the Dryden undertaking through internal funding during the period when our cash flow was strong has left us with a relatively low debt load. As a result, even though earnings and cash flow are likely to be disappointing in 1983, we expect to maintain a sound financial position.

Furthermore, the strength and efficiency of our Thunder Bay operations are considerably increased by the addition in Dryden of the enlarged modern kraft pulp mill and will be further enhanced by the new stud mill and fine paper mill which will be operational in due course. Our Thunder Bay and Dryden woodlands operations continue to increase productivity through the improvement of logging systems. To ensure the effectiveness of our work force, we conduct ongoing training programs in nearly every aspect of our operations to enhance efficiency and upgrade our employees' skills. With our modern facilities and our well-trained people, we are confident that we will continue to hold our own in the face of current setbacks.

As we look ahead, we believe the economy will rebound in the next few years and, with it, we will see increasing demand for all our products. The heavy investment we have made over the years to maintain the strength and quality of our operations will, we believe, be amply repaid when the fortunes of our industry improve and we return again to a healthy, growing economy.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF 1982 FINANCIAL STATEMENTS

Operating Results

Net sales of $437.9 million in 1982 were $130.7 million lower than in 1981. Weak markets for all of the company's products resulted in lower average net selling prices for kraft pulp, lumber and waferboard and reduced shipment volumes for all products. The deterioration of selling prices combined with escalation of delivery costs reduced net sales by approximately $20 million in 1982 and the lower shipment volumes accounted for the remainder, approximately $110 million. Due to the reduced revenue, the company's forward exchange contracts, which were originally designed to hedge approximately 55 percent of expected U.S. dollar sales proceeds during the Dryden modernization and expansion program, covered 82 percent of the U.S. dollar sales proceeds for 1982. The average exchange premium experienced for 1982 was 19.1 percent compared with 19.4 percent for 1981.

Cost of sales of $370.7 million decreased $26.6 million in 1982. The decrease was due to the lower volume of shipments which necessitated periodic shutdowns of all sectors of the company's operations during 1982 to reduce costs and control inventories. Largely offsetting these savings was the continued escalation of labor, energy and transportation rates. Selling and administrative expenses at $10 million were $1.4 million lower than a year ago as a result of lower net sales and the company's efforts to contain overhead costs by such measures as employment and salary freezes and the curtailment of other discretionary costs. Interest and other income for 1982 decreased by $7.9 million due to lower cash balances for temporary investment. Interest on borrowed funds increased to $16.4 million from $8.4 million in 1981 but, due to the capitalization of interest on borrowings directly associated with the Dryden modernization program, the interest charged to earnings was $6.6 million, $1.5 million less than a year ago. Depreciation increased by $3.1 million in 1982 due largely to the placing in service of some portions of the new facilities in Dryden. In 1983, with the completion of most of the Dryden program, interest and depreciation associated with these new facilities will be charged to earnings.

The paper in this section is Opaque Litho manufactured in our Dryden fine paper mill.

During 1982, the company changed its accounting policy with respect to investment tax credits. The change brings the company's practice in line with that of most other major Canadian public companies in the forest products industry and, it is believed, accurately reflects the performance of the company by more closely relating the benefits of the company's capital expenditure programs with the timing of the expenditures. The previous policy, which had been in effect since the introduction of investment tax credits in 1975, recognized investment tax credits only in the year they could be claimed for tax purposes. Due to the reduced level of earnings and the availability of substantial amounts of accelerated depreciation for tax purposes, the company has a tax loss for 1982 sufficient to recover the $21.7 million of income taxes paid for 1981. Under the previous policy, the $6.6 million of investment tax credits recognized as a reduction of income tax expense in 1981 would have had to be reversed in 1982 which, in addition to the normal tax provision on 1982 earnings, would have resulted in an effective tax rate of 80 percent. The change in the method of accounting for investment tax credits eliminates the requirement to reverse the prior year's credits, but, since it also enables the recognition of $8.5 million as a reduction of income tax expense for investment tax credits earned on 1982 capital expenditures, it creates a negative effective tax rate as shown in Note 7 to the financial statements. The impact of the change in policy is to reduce income tax expense and thereby increase net earnings by $15.1 million for 1982 and $3.2 million for 1981. The change has no effect on working capital.

Financial Condition

Working capital, which decreased from $78 million to $49 million during 1982, reflected a decrease in accounts receivable of $20.7 million due to the reduced volume of shipments in the latter part of 1982, an increase of $21.7 million for income taxes recoverable and a decrease due to the $48.4 million of short-term revolving loans under a line of credit with Canadian Pacific Securities Limited. These loans, and borrowings during the year of $83.6 million under long-term bank lines of credit, were used to supplement cash flow from operations of $71.6 million in financing capital expenditures of $168.8 million during 1982. Cash flow from operations in 1982 was $65.5 million less than in 1981 due primarily to net earnings being lower by $62.5 million. Since the purchase of the Dryden operations from Reed Ltd. in late 1979 for approximately $90 million, the company has spent approximately $300 million, excluding financing costs, on its announced $350 million modernization and expansion program for those facilities. During 1982, expenditures on these projects totalled $130 million and a further $38.8 million was spent on various other environmental and operating improvements and replacements. At December 31, 1982, the company had available unused lines of credit which are expected to be adequate to see the completion of the major Dryden modernization and expansion program and, during that period, to meet its other capital and operating needs. However, floating rate borrowing now represents approximately 65 percent of total borrowing and, to reduce exposure to fluctuating interest rates, the company is exploring the possibility of converting some of its floating rate debt to a fixed rate obligation with a longer term.

Effects of Economic Conditions

The principal reason for the sharply reduced net earnings for 1982 has been the continued escalation of costs, particularly for labor, chemicals and transportation, in the face of lower net selling prices. Due to the general recession in the company's principal market areas and excess worldwide capacity for certain products, intense competition in the market place resulted in the average net selling prices for all of the company's products being approximately 4 percent lower in 1982 than in 1981. This deterioration in prices for the company's principal products was felt most severely in the fourth quarter of 1982 when the prices for newsprint and kraft pulp were approximately 6 percent and 20 percent lower, respectively, than for the corresponding quarter a year ago. This compression of margins resulted in a loss for the fourth quarter of 1982. Although it is felt that some improvement in prices will occur in 1983, as has already been evidenced for the company's building products, the uncertainties for the next several quarters have caused the company to undertake the cost curtailment measures discussed previously, to defer completion of the Dryden fine paper modernization and expansion program and to make only critical capital expenditures.

No attempt has been made to measure the effects of inflation on these financial statements. In December of 1982, the Canadian Institute of Chartered Accountants issued its recommendations on the method by which the effects of changing prices should be disclosed in financial statements. These recommendations are to be effective for 1983 and are to apply only to certain prescribed large corporations of which this company would be one. We still have reservations about the usefulness of this information to the general readership of corporate financial statements but we will be analyzing the recommendations of the Institute during 1983 to determine what supplementary information might be appropriate to a better understanding of the effects of inflation on this company.

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of Great Lakes Forest Products Limited

We have examined the consolidated balance sheet of Great Lakes Forest Products Limited as at December 31, 1982 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change, with which we concur, in the method of accounting for investment tax credits as described in Note 8, on a basis consistent with that of the preceding year.

Thorne Riddell

THORNE RIDDELL,
Chartered Accountants

Toronto, Canada, January 21, 1983

EARNINGS

consolidated statement for years ended December 31 (thousands of dollars)

	1982	1981
		(restated, Note 8)
Net sales:		
Pulp and paper	$416,246	$529,671
Building products	21,608	38,923
	437,854	568,594
Cost of sales	370,690	397,312
Selling and administrative expense	9,961	11,352
OPERATING PROFIT	57,203	159,930
Interest and other income	1,355	9,248
	58,558	169,178
Interest (Note 5)	6,630	8,154
Foreign exchange on long-term debt	877	–
Depreciation	33,701	30,603
EARNINGS before income taxes	17,350	130,421
Income taxes (Note 7)	(1,202)	49,400
NET EARNINGS	$ 18,552	$ 81,021
Net earnings per share	$ 3.80	$ 16.59

RETAINED EARNINGS

consolidated statement for years ended December 31 (thousands of dollars)

Retained earnings at beginning of year		
As previously reported	$272,129	$208,519
Prior period adjustment (Note 8)	3,247	–
As restated	275,376	208,519
Net earnings	18,552	81,021
	293,928	289,540
Dividends declared	15,630	14,164
RETAINED EARNINGS at end of year	$278,298	$275,376

BALANCE SHEET

consolidated statement at December 31 (thousands of dollars)

	1982	1981
		(restated, Note 8)
Assets		
CURRENT ASSETS		
Cash	$ 3,701	$ –
Accounts receivable	48,004	68,703
Income taxes recoverable	21,670	–
Inventories:		
Finished goods	9,360	9,098
Pulpwood and sawlogs	36,641	38,230
Materials and supplies	29,563	25,612
Prepaid expenses	2,823	1,652
	151,762	143,295
FIXED ASSETS (Note 2)	844,613	682,667
Accumulated depreciation and depletion	272,183	239,946
	572,430	442,721
	$724,192	$586,016

	1982	1981
		(restated, Note 8)
Liabilities		
CURRENT LIABILITIES		
Accounts payable and accrued charges	$ 41,089	$ 50,897
Loan payable (Note 12)	48,373	–
Income and other taxes payable	6,674	6,428
Dividend payable	3,907	3,907
Current portion of long-term debt	2,728	4,078
	102,771	65,310
LONG-TERM DEBT (Note 3)		
First Mortgage Bonds:		
8% sinking fund bonds, Series B, maturing 1989	10,808	11,715
11¼% sinking fund bonds, Series C, maturing 1995	30,380	31,370
8¾% debentures maturing 1984 (U.S. $11.6 million)	12,143	17,506
Notes payable	14,306	9,953
Bank loans	84,144	568
Lease obligations	4,968	8,563
	156,749	79,675
Current portion	2,728	4,078
	154,021	75,597
DEFERRED INCOME TAXES	134,453	115,084
Shareholders' Equity		
Common shares without par value		
Authorized 10,000,000 shares		
Issued 4,884,355 shares	54,649	54,649
Retained earnings	278,298	275,376
	332,947	330,025
	$724,192	$586,016

Approved by the Board:

C. J. CARTER, *Director*

RICHARD C. MEECH, *Director*

CHANGES IN FINANCIAL POSITION

consolidated statement for years ended December 31 (thousands of dollars)

	1982	1981 *(restated, Note 8)*
WORKING CAPITAL PROVIDED		
Net earnings	$ 18,552	$ 81,021
Charges not affecting working capital:		
Depreciation	33,701	30,603
Increase in deferred income taxes	19,369	25,471
GENERATED FROM OPERATIONS	71,622	137,095
Government grants (Note 2)	4,856	13,117
Notes payable	4,428	9,953
Bank loans	83,576	568
Sale of fixed assets	499	582
	164,981	161,315
WORKING CAPITAL USED		
Expenditures on fixed assets	168,765	189,023
Reduction of long-term debt	9,580	5,872
Dividends declared	15,630	14,164
	193,975	209,059
DECREASE IN WORKING CAPITAL	28,994	47,744
Working capital at beginning of year	77,985	125,729
WORKING CAPITAL at end of year	$ 48,991	$ 77,985

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Year ended December 31, 1982

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the financial position and results of operations of Great Lakes Forest Products Limited and all its subsidiary companies.

Foreign Exchange

Accounts receivable and sales in U.S. dollars, to the extent that they are covered by forward exchange contracts, are converted at the rates of exchange provided in the contracts. Other current assets and current liabilities in foreign currencies are translated into Canadian dollars at current rates of exchange at the date of the balance sheet. Other assets and liabilities and items affecting earnings are converted at rates of exchange in effect at the dates of the transactions.

Inventories

Inventories of finished goods and materials and supplies are valued at average cost which is less than net realizable value. Inventories of pulpwood and sawlogs are valued at average cost.

Fixed Assets and Depreciation

Fixed assets are recorded at cost. The cost and related accumulated depreciation of items disposed of are removed from the accounts and any gain or loss is included in earnings. Depreciation is based on the estimated economic lives of the assets, using the following methods and composite rates of depreciation:

Buildings and machinery	
Pulp and paper	4½% straight line
Building products	10% straight line
Woodlands improvements and equipment	30% diminishing balance

No depreciation is charged on major improvements or expansions until construction has been completed.

Capital Leases

Assets under capital lease are capitalized at their fair value at the inception of the lease. The related obligation is recorded as long-term debt and represents the present value of minimum lease payments. The assets are depreciated in accordance with the depreciation policy stated above and the implicit interest content of the lease payments is charged to earnings as interest on long-term debt.

Income Taxes

Income taxes are charged to earnings based on the items included within the determination of those earnings irrespective of any timing differences for the recognition of certain items under current tax legislation. The excess of the income taxes charged to earnings over the amount actually payable in any year is set aside as deferred income taxes to be drawn upon in those years when tax payments exceed the amount charged to earnings.

Investment tax credits are recognized in the year in which the qualifying capital expenditures are made. These tax credits affect taxable income of future years since the value of depreciable assets for taxation purposes is reduced by the amount of the credits claimed as a reduction of income taxes payable. A portion of the tax credits, determined at the current tax rate, is therefore set aside as deferred income taxes and the balance is applied to reduce income taxes charged to earnings.

Interest

Interest on debt incurred to finance major expansion programs, less any interest earned on the temporary investment of the proceeds, is capitalized during the construction period.

Net Earnings Per Share

Net earnings per share are calculated based on the average number of shares outstanding during the year.

2. Fixed Assets (thousands of dollars)

	December 31, 1982 Cost	December 31, 1982 Net Value	December 31, 1981 Net Value
Land	$ 1,325	$ 1,325	$ 1,325
Buildings and machinery			
Pulp and paper	480,418	291,299	248,333
Building products	26,389	6,217	8,877
Woodlands improvements and equipment	75,987	26,620	24,958
Timber licences	3,945	–	–
Assets under capital lease	12,452	2,872	5,204
Construction in progress	244,097	244,097	154,024
	$844,613	$572,430	$442,721

The company has been granted $48 million through agreements under the joint Ontario and Federal Governments' Pulp and Paper Industry Facilities Improvement Programme for environmental, modernization and energy conservation projects currently being undertaken at its facilities in Dryden and Thunder Bay. $38.4 million was received in prior years, $4.9 million in 1982 and the remainder will be received over the following two years. Amounts as received are being applied to reduce the cost of the projects. The agreements provide for a pro rata refund of a portion of the grant should the company fail to complete any component project.

The cost to complete these projects is estimated to be $75.7 million of which $13.9 million is committed at December 31, 1982.

3. Long-Term Debt

The notes payable are to two non-resident suppliers of equipment and contain terms and conditions which are similar and maturity dates which are two months apart. The terms and conditions of the larger of the two notes provide for interest at the rate of 10 percent with the principal to be repaid in 10 semi-annual installments to August, 1987.

Repayment of these notes has been arranged through a foreign bank which extends the terms of repayment to 1989, with the right of prepayment.

Loan agreements with two Canadian banks currently provide for operating lines of credit of $80 million in either U.S. or Canadian funds at floating rates. Loans are secured by charges on inventory and assignments of accounts receivable. These agreements expire on June 1, 1985. As at December 31, 1982, $20 million in Canadian funds was drawn down under these agreements.

In addition, the company has loan agreements for unsecured operating lines of credit at floating interest rates with a United States bank in the amount of $50 million (U.S. funds) and with a Canadian bank in the amount of $50 million (Canadian funds or U.S. equivalent). These agreements expire on June 30, 1986 and May 1, 1985, respectively, although the former agreement contains the right to convert to a term loan extending to June 30, 1990. As at December 31, 1982, $50.8 million in U.S. funds was drawn down under these agreements.

Obligations under capital leases comprise many individual leases with implicit interest rates ranging from 6 percent to 12 percent with expiry dates extending to 1989.

Required payments to reduce long-term debt over the next five years, based on the exchange rates at which the debt is recorded in the financial statements, are as follows (thousands of dollars):

	Bonds and Debentures	Bank Loans	Other	Total
1983	$ –	$ –	$ 2,728	$ 2,728
1984	13,751	–	1,369	15,120
1985	2,400	20,000	462	22,862
1986	2,620	6,414	460	9,494
1987	2,870	14,946	304	18,120

4. Dividend Restriction

Certain of the indentures relating to the company's long-term debt contain covenants limiting dividends. The most restrictive of these requires that, after any dividend is declared, working capital (which for these purposes is before the deduction of the current portion of long-term debt) must be over $10 million and shareholders' equity must be over $50 million.

5. Interest

Interest for the year amounted to $15.1 million ($8.2 million in 1981) on long-term debt and $1.3 million ($169,000 in 1981) on short-term indebtedness. Of these amounts, $9.8 million ($230,000 in 1981) has been capitalized.

6. Executive Remuneration

In 1982, directors' fees amounted to $61,000. The total remuneration, including directors' fees, received by the directors and senior officers amounted to $1,034,000.

7. Income Taxes

The company's effective income tax rate is made up as follows:

	1982	1981
Combined basic federal and provincial rate	50.0%	50.0%
Manufacturing and processing allowance	(6.0)	(5.8)
Federal 5% surtax	1.5	1.6
3% inventory allowance	(3.8)	(.4)
Federal investment tax credits	(49.1)	(7.5)
Other	.5	–
Effective income tax rate	(6.9)	37.9

8. Change in Accounting Policy

The company's accounting policy with respect to the timing of recognition of investment tax credits described under "Income Taxes" in Note 1 was adopted in 1982. Previously, such credits had been recognized only when they could be claimed for tax purposes. The 1981 figures have been restated to reflect retroactive application of the new policy. Without the change in policy, net earnings would have been $3.5 million or 71 cents per share for 1982 and $77.8 million or $15.92 per share as orginally reported for 1981.

9. Past Service Pension Costs

Past service pension costs, resulting from retroactive increases in benefits in the current and prior years, are being funded and charged to earnings over 15-year periods from the dates such costs were established. Based on recent actuarial reports, the unfunded amount was $17.1 million at December 31, 1982.

10. Forward Exchange Contracts

The company has entered into forward exchange contracts for the delivery of $690 million U.S. funds to the end of 1984 at exchange rates which average $1 U.S. = $1.18 Cdn.

11. Litigation

The agreement under which the company purchased the assets of the Dryden operations of Reed Ltd. in 1979 provides that the company and Reed Ltd. shall share equally any liability up to $15 million plus related costs arising from claims, actions or proceedings based on actions, circumstances or events up to the date of purchase and related to the discharge, escape or presence of any pollutant from or in the assets purchased by the company. Amounts payable by Reed Ltd. pursuant to the foregoing have been unconditionally guaranteed by Reed International Limited (the United Kingdom-based senior company in the Reed group of companies). In the event that any liability in excess of $15 million plus related costs were to arise, the company would be responsible.

Legal proceedings based on alleged pollution are as follows:

a) Two actions instituted by writs dated in 1970 by Barney's Ball Lake Lodge Limited and by Ontario Central Airways Limited against Dryden Chemicals Limited and Dryden Paper Company Limited (predecessor companies to Reed Ltd.) claiming damages said to be caused by alleged pollution of the Wabigoon-English River system. No proceedings have been taken in the Airways action and the last proceedings in the Lodge action were examination for discovery of the President of the plaintiff in 1971. The examination for discovery was adjourned pending production by the plaintiff of further information, which information has not been produced. The amount of damages claimed in the Lodge action total $3.8 million and no amount has been specified in the Airways action. It is not possible to make any firm estimate of the damages sustained or the ultimate liability, if any, should these actions proceed.

b) An action instituted by writ dated in 1977 on behalf of numerous plaintiffs, members of two Indian bands, against Reed Ltd. and its predecessor companies, claiming damages said to be caused by alleged pollution of the Wabigoon-English River system and requesting a mandatory order requiring removal of the alleged pollutants. A statement of claim has not been filed nor have any proceedings on this action been taken and it is not possible to make any firm estimate of the damages sustained or the ultimate liability, if any, should this action proceed.

The Treasurer of Ontario wrote to the company in 1979 stating in paragraph 2, "I further understand that the Reed group of companies and Great Lakes are willing to assume, on an equal basis, responsibility, up to a maximum of $15 million, for any environmental damages attributable to the operations of Reed Ltd. or any of its predecessor companies in the Dryden area prior to this acquisition by Great Lakes". The letter further states, "... in the event that Great Lakes is required to pay any monies as a result of any final decision of a court against Great Lakes, Reed Ltd. or any other person prior to the year 2010 in respect of pollution caused by Reed Ltd. or any of its predecessor companies in the Dryden area prior to the date upon which Great Lakes acquires the assets and undertaking of the Dryden complex of Reed Ltd. or in the event that any settlement with any claimant is made the amount of which settlement has been approved by the Attorney General of Ontario, I have been authorized by the Executive Council of Ontario to advise you that I will make a Recommendation to the Executive Council of Ontario that the Government of Ontario take effective steps to ensure that Great Lakes Forest Products Limited will not be required to pay any monies in excess of the maximum amount of $15 million referred to in paragraph 2 of this letter, provided that over the next three to four years Great Lakes expends in the order of $200 million for the modernization and expansion of the Dryden facilities". The position of the Government of Ontario was confirmed in a letter to the company from the Provincial Secretary for Resources Development dated January 28, 1982.

Any material payment by the company related to these actions is expected to be accounted for as an adjustment of the purchase price of the Dryden assets.

12. Related Party Transactions

Canadian Pacific Enterprises Limited owns approximately 54 percent of the common shares of the company and consequently many of the companies within the Canadian Pacific organization are related parties.

The company has a revolving line of credit with Canadian Pacific Securities Limited in the amount of $50 million (Canadian funds or U.S. equivalent) which provides for loans of up to one year at interest rates based on the lender's cost of borrowing. At December 31, 1982, $41 million in Canadian funds and $6 million in U.S. funds was drawn down under this line of credit. Interest for the year under this line of credit amounted to $811,000.

The company makes extensive use of both major Canadian railways, including C.P. Rail for the transportation of its inbound pulpwood and outbound finished products. Freight rates are at published tariff rates.

A small portion of the company's production is sold to subsidiaries of CIP Inc., a subsidiary of Canadian Pacific Enterprises Limited. Such sales are made in accordance with the company's normal terms of sale.

In addition, as part of normal business transactions, the company makes use of other services, facilities and products of the Canadian Pacific organization. These transactions are, to the knowledge of management, at terms and rates no more nor less favorable than with unrelated parties.

13. Industry Segment and Export Sales

The company's entire operations consist of the manufacture and sale of products of the forest industry. In 1982, 86 percent (1981–84 percent) of the company's net sales were exported, largely to United States destinations, and priced in U.S. dollars.

GLOSSARY OF TERMS

NET SALES: The Canadian dollar proceeds from the sale of products after deducting costs of delivery to customers.

OPERATING PROFIT: Profit realized from manufacture and sale of products after deducting all costs except interest, foreign exchange on long-term debt, depreciation and income taxes. Applies to operations only; does not include investment or other income.

DEPRECIATION: The distribution on a yearly basis of the original cost of a fixed asset over its estimated useful life, which is written off as a charge to earnings.

NET EARNINGS: Total income less all costs; the net amount available from the year's operations to pay dividends or retain for use in the business.

CASH FLOW: Total funds generated by operations in a year. In our case, cash flow includes net earnings and charges not affecting working capital; principally depreciation and deferred income taxes.

BALANCE SHEET: Statement of financial position at a year end showing what is owned (assets of all kinds) versus what is owed (liabilities of all kinds) and shareholders' equity; set forth in accordance with The Business Corporations Act (Ontario). The word "Consolidated" means that all subsidiaries are included to show the position of the enterprise as a whole.

CURRENT ASSETS: Assets which, in the normal course, will be converted into cash or consumed in operations within one year.

CURRENT LIABILITIES: Amounts owed (including a portion of long-term debt) due for payment within one year.

WORKING CAPITAL: Amount by which current assets exceed current liabilities, both as defined above. This is a measure of working or operating resources.

FIXED ASSETS: Property, such as land, buildings and machinery including equipment under capital lease, held for long-term use rather than for sale or consumption in operations.

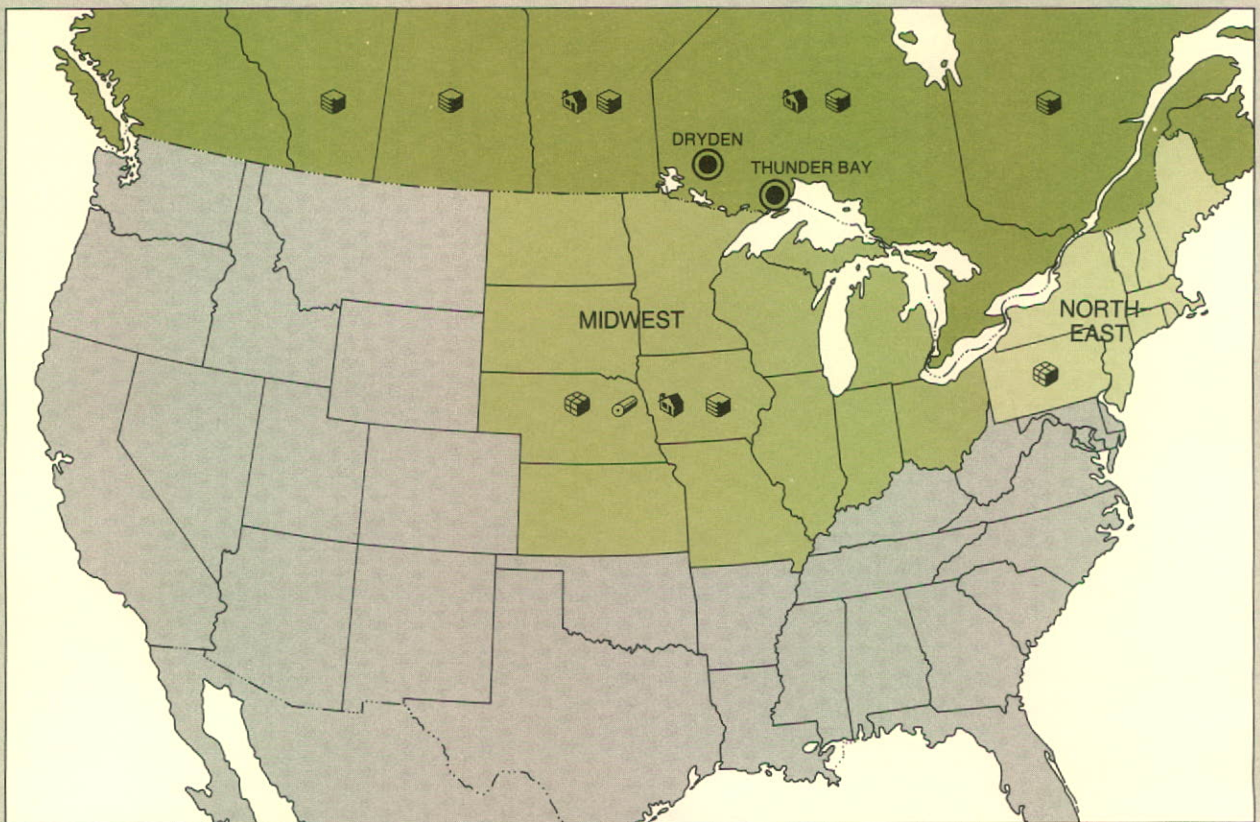
LONG-TERM DEBT: Amounts borrowed for a term longer than one year.

CAPITAL LEASE: A long-term lease obligation which conveys on the lessee substantially all the benefits of ownership of the asset leased. Such leases typically contain an option under which the lessee may purchase the asset from the lessor.

SHAREHOLDERS' EQUITY: Value of the shareholders' ownership or interest in the company on an historic basis. Consists of share capital plus retained earnings and is the amount by which assets exceed liabilities.

RETAINED EARNINGS: Accumulated total of annual net earnings since the start of the company (1936) less dividends to shareholders during the same period.

OUR MARKETS



Kraft Pulp Newsprint Building Products Fine Paper

The bulk of our production is shipped to customers in the shaded portions of the United States shown above which extends in a radius of approximately 1,500 kilometers from our mills at Thunder Bay and Dryden. Virtually our entire newsprint and the majority of our kraft pulp markets at present lie within this area with newsprint concentrated in the midwest and kraft pulp extending from the midwest into the northeastern section. We also ship kraft pulp to offshore markets, including the Far East. Some of our fine paper production is shipped to the midwestern United States but the majority is shipped to markets in Canada as shown on the map. Our building products are sold to customers in the United States in the shaded portion, as well as to customers in Canada.

OUR SHIPMENT SUMMARY: LAST FIVE YEARS

	1978	1979	1980	1981	1982
Newsprint (000 metric tons)	362	378	391	386	360
Kraft pulp (000 metric tons)	327	356	521	504	380
Fine papers (000 metric tons)	. . .	. . .	62	64	44
Total (000 metric tons)	689	734	974	954	784
Lumber (millions of board feet)	103	107	132	137	114
Waferboard (millions of sq. ft.—⅜-inch basis)	97	111	87	86	15

While waferboard is manufactured in varying thicknesses, for comparative purposes with the industry statistics on page 21, our shipment volume is shown here on a ⅜-inch equivalent basis.

NEWSPRINT PAPER

The United States is Canada's principal customer for newsprint and accounts for approximately 45 percent of the free-world's consumption. The following table, based on reports issued by the Canadian Pulp and Paper Association (CPPA), indicates the size and growth of newsprint markets over the period 1978 through 1982. World totals for newsprint omit communist countries for which reliable information is lacking.

	1978	1979	1980	1981	1982
			(millions of metric tons)		
Free-world production capacity	23.2	23.8	24.9	26.0	27.4
Free-world production	21.0	22.2	23.0	24.1	23.0
Canadian production capacity	9.0	9.1	9.1	9.5	9.9
Canadian production	8.8	8.7	8.6	8.9	8.1
Canadian exports	8.0	7.8	7.6	7.8	7.1
Canadian exports to U.S.	6.4	6.4	6.1	6.0	5.6
Total U.S. consumption	9.9	10.2	10.1	10.1	10.1

Source: CPPA (1982 estimated).

BLEACHED KRAFT PULP

Bleached kraft pulp is included in the general commodity classification of paper grade chemical pulp. North America and Scandinavia are the major suppliers of paper grade chemical pulp, having a production capacity in 1982 of approximately 65.3 million metric tons or 65.8 percent of the world's total production capacity. The bulk of the pulp produced by these countries is captive production for use by the producers or affiliated companies. The balance, known as market pulp, is available for sale on the open market. Most of this market pulp consists of bleached kraft pulp. In 1982 the production capacity in North America and Scandinavia for market bleached kraft pulp was approximately 15.1 million metric tons of which Canadian production capacity amounted to approximately 40.6 percent, or 6.1 million metric tons. Our company is a major supplier of this market pulp.

	1978	1979	1980	1981	1982
Paper Grade Chemical Pulp			(millions of metric tons)		
North American and Scandinavian production	55.2	58.7	59.4	59.9	55.2
Bleached Kraft Pulp					
North American and Scandinavian production	27.6	29.6	31.0	31.7	30.2
Market Bleached Kraft Pulp					
Total demand for North American and Scandinavian production	12.2	12.6	13.3	13.0	11.7
Canadian shipments	5.3	5.4	5.9	5.5	4.7
Canadian exports to U.S.	1.9	2.0	2.0	1.9	1.6
Total U.S. supply (including imports)	3.7	4.0	4.0	3.9	3.6

Source: CPPA (1982 estimated).

FINE PAPER

The term "fine paper" covers a broad range of papers manufactured to suit a variety of specialty end uses. The major categories are: converting papers, which include papers used for envelopes, scribblers and continuous and single, multiple-part forms, representing approximately 41 percent of all fine papers produced in Canada; printing grades, representing 39 percent, which include coated and uncoated papers designed specifically for the printing of text books, annual reports, magazines, advertising pieces, etc.; and business papers, representing 20 percent, which include papers for office copiers, letterheads, documents, office forms, etc.

At our Dryden mill we manufacture only a few fine paper products in the above categories, primarily those classified as uncoated printing papers, copy papers and envelope papers.

	1978	1979	1980	1981	1982
		(thousands of metric tons)			
Canadian production capacity	834.5	943.0	982.0	1,019.0	1,008.0
Domestic shipments	628.8	704.4	697.2	661.6	648.8
Export shipments	156.7	204.1	200.8	127.2	174.1
Canadian imports	141.1	130.0	150.9	217.7	150.0
Canadian demand	769.9	834.4	848.1	879.3	798.8

Sources: Statistics Canada, CPPA (1982 estimated).

LUMBER

Residential construction provides the principal use for softwood lumber produced in Canada and the U.S., a substantial portion of which is stud lumber. The following table indicates the level of housing construction and the sources of softwood lumber production in North America over the past five years.

	1978	1979	1980	1981	1982
			(millions)		
North American housing starts	2.3	1.9	1.5	1.3	1.2
Seasonally adjusted year-end rate of North American housing starts	2.3	1.7	1.7	1.1	1.4
Softwood lumber production			(billions of board feet)		
U.S.	30.7	29.7	31.6	22.8	21.7
British Columbia	12.5	12.5	12.0	10.4	9.8
Rest of Canada	5.8	6.0	6.2	6.0	5.5
Total	49.0	48.2	49.8	39.2	37.0

Sources: Statistics Canada, U.S. Bureau of Census, National Forest Products Assn. (1982 estimated).

BOARD

Waferboard competes in its uses with the exterior grades of softwood plywood sheathing which represent approximately 60 percent of all softwood plywood production in North America.

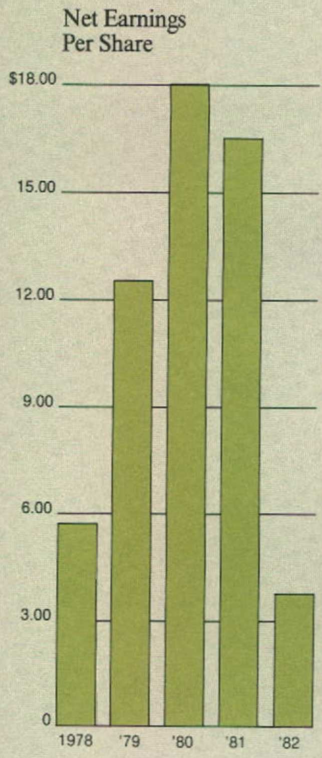
	1978	1979	1980	1981	1982
			(billions of square feet)		
Softwood plywood (⅜-inch basis)					
U.S. production	19.9	19.7	16.7	17.1	17.0
Canadian production	2.9	2.8	2.6	2.4	1.9
Waferboard (⅜-inch basis)					
Canadian production	.5	.6	.6	.8	.6
U.S. production	.1	.1	.2	.3	.5

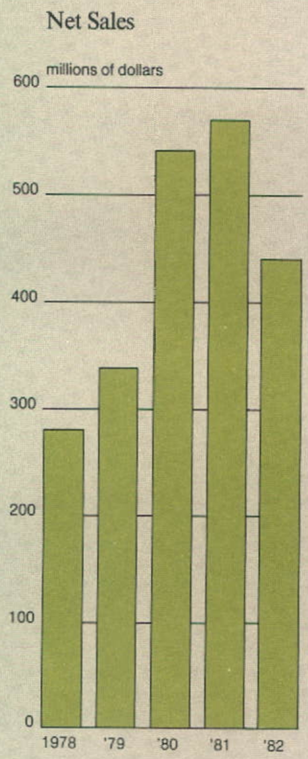
Sources: Dept. of Industry, Trade and Commerce, American Plywood Assn., FORSIM of Data Resources Inc. (1982 estimated).

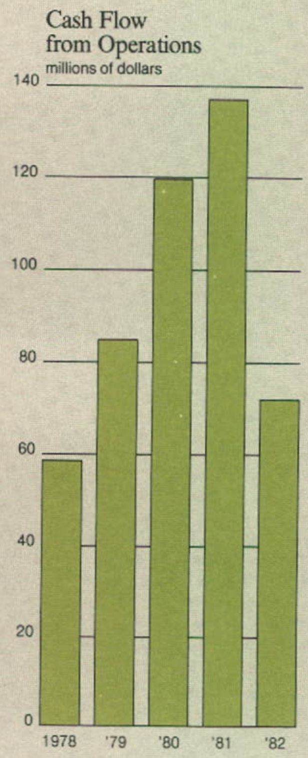
FINANCIAL SUMMARY: LAST FIVE YEARS

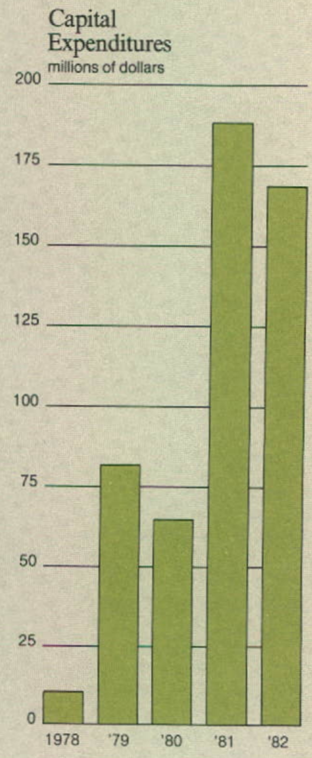
Except for per share amounts as indicated, all dollar figures are in thousands	1978	1979	1980	1981	1982
SALES & EARNINGS					
Net sales: pulp and paper	239,990	299,407	503,861	529,671	416,246
building products	37,372	38,668	35,418	38,923	21,608
total	277,362	338,075	539,279	568,594	437,854
Operating profit	75,133	108,410	174,210	159,930	57,203
Interest expense	13,435	10,944	8,893	8,154	6,630
Depreciation	19,654	20,203	28,375	30,603	33,701
Earnings before income taxes	39,740	81,603	143,105	130,421	17,350
Income taxes	19,352	35,008	61,753	49,400	(1,202)
Net earnings	20,388	46,595	81,352	81,021	18,552
Net earnings per share	5.65	12.44	18.01	16.59	3.80
Dividends declared, total	1,625	5,731	9,280	14,164	15,630
Dividends per share	.45	1.50	2.00	2.90	3.20
ASSETS & LIABILITIES					
Current assets	109,418	109,524	222,455	143,295	151,762
Current liabilities	76,887	91,396	96,726	65,310	102,771
Ratio of above assets to liabilities	1.4	1.2	2.3	2.2	1.5
Working capital	32,531	18,128	125,729	77,985	48,991
Inventories, described in balance sheet	27,628	49,915	64,030	72,940	75,564
Fixed assets, see notes to financial statements	387,699	468,927	508,555	682,667	844,613
Accumulated depreciation and depletion	162,885	182,677	210,555	239,946	272,183
Long-term debt	97,607	76,767	70,948	75,597	154,021
Ratio of above debt to shareholders' equity	1.0	.5	.3	.2	.5
Deferred income taxes	61,405	79,498	89,613	115,084	134,453
Retained earnings, at year end	95,583	136,447	208,519	275,376	278,298
EQUITY & OTHER DATA					
Common shares outstanding, at year end	3,610,039	3,907,484	4,884,355	4,884,355	4,884,355
Number of shareholders	2,727	2,557	2,726	2,518	2,397
Percentage of shares held in Canada	97.9	98.0	98.4	98.4	98.4
Shareholders' equity, total	98,333	148,113	263,168	330,025	332,947
Shareholders' equity per share	27.24	37.90	53.88	67.57	68.17
Cash flow from operations	58,534	84,891	119,842	137,095	71,622
Cash flow per share	16.21	22.66	26.53	28.07	14.66
Net earnings percentage on net sales	7.4	13.8	15.1	14.2	4.2
Annual expenditures on fixed assets	10,776	81,931	65,612	189,023	168,765
Number of employees on payroll	3,831	5,598	5,709	5,745	5,246

Net earnings per share and cash flow per share are based on the average number of shares outstanding during the year. Dividends per share are based on the number of shares outstanding at the record dates of the dividends. 1978 to 1981 figures on pages 22 and 23 have been restated to reflect retroactive application of the change in accounting for investment tax credits described in Note 8 to the financial statements.









Results by Quarters

1982 Sales and Earnings
('000 omitted)

Quarter	Net Sales	Oper. Profit	Net Earnings
First	$132,275	$ 32,928	$ 14,392
Second	109,164	18,888	7,607
Third	100,380	8,972	936
Fourth	96,035	(3,585)	(4,383)
	$437,854	$ 57,203	$ 18,552

Net Earnings Per Share

Quarter	1978	1979	1980	1981	1982
First	$0.73	$ 2.12	$ 5.09	$ 4.23	$ 2.95
Second	1.30	2.79	4.42	4.44	1.56
Third	1.25	3.59	4.41	4.07	0.19
Fourth	2.37	3.94	4.09	3.85	(0.90)
	$5.65	$12.44	$18.01	$16.59	$ 3.80

Board of Directors at December 31, 1982

C. R. BOWLES *executive vice-president, Great Lakes Forest Products Limited*	Thunder Bay	1964
*C. J. CARTER *chairman of the board and president, Great Lakes Forest Products Limited*	Thunder Bay	1947
R. E. CHAMBERS *executive vice-president, Great Lakes Forest Products Limited*	Thunder Bay	1959
R. S. DEMONE *president and chief operating officer, Maple Leaf Mills Limited*	Toronto	1981
†J. R. JONES *president, Lakehead Newsprint Limited*	Thunder Bay	1981
*W. NORMAN KISSICK *president and chief operating officer, Union Carbide Canada Limited*	Toronto	1982
†*RICHARD C. MEECH, Q.C. *partner, Borden & Elliot, barristers and solicitors*	Toronto	1980
*B. H. RIDDER, JR. *chairman of the executive committee, Knight-Ridder Newspapers, Inc.*	St. Paul, Minnesota	1957
IAN D. SINCLAIR *chairman, Canadian Pacific Enterprises Limited*	Toronto	1969
*W. JOHN STENASON *president, Canadian Pacific Enterprises Limited*	Calgary	1972
WILLIAM W. STINSON *president, Canadian Pacific Limited*	Montreal	1982
†G. GORDON STRONG *retired publisher*	Oakland, California	1968
J. G. TREZEVANT *senior vice-president, Field Newspaper Syndicate*	Irvine, California	1975
KENNETH A. WHITE *chairman of the board, Royal Trustco Limited*	Toronto	1977

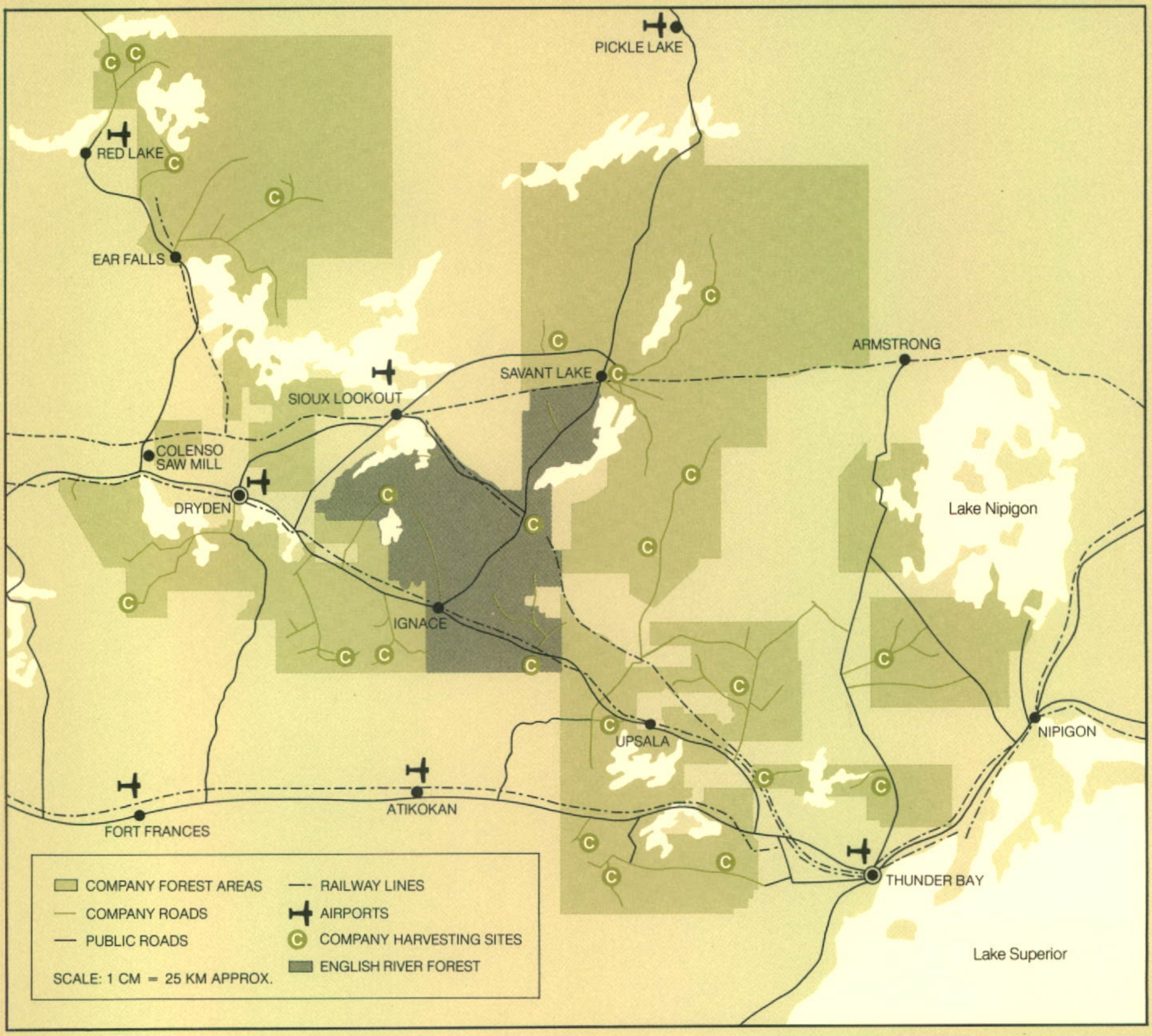
* *Members of the Executive Committee*
† *Members of the Audit Committee*
Years denote beginning of connection with the company or acquired operations.

Honorary director, R. G. MEECH, Q.C.

Management at December 31, 1982

C. J. CARTER, *chairman of the board and president*	1947
C. R. BOWLES, *executive vice-president*	1964
R. E. CHAMBERS, *executive vice-president*	1959
M. CEBROWSKI, *vice-president, mill operations*	1964
M. R. MCKAY, *vice-president, woodlands operations*	1944
K. E. WINROW, *vice-president finance and comptroller*	1971
T. M. BROWN, *secretary*	1956
D. D. MORROW, *treasurer*	1964
W. E. MACVITTIE, *assistant comptroller*	1968
R. A. LEHTOVAARA, *assistant comptroller*	1975
B. R. KERR, *assistant treasurer*	1964
F. H. TOLLEFSEN, *manager, public relations*	1966

MAP OF OUR WOODLANDS AREAS



The map shows our woodlands areas for both Thunder Bay and Dryden operations. These forest areas encompass some 21,000 square miles which are held under licence from the Province of Ontario. The English River Forest shown on the map is the one area at present held under a forest management agreement with the Province as discussed on page 6. To open and harvest our woodlands resources about 4,055 kilometres of company roads have been built as well as the camps and work sites shown on the map. The Dryden woodlands work force commutes by bus daily to their work sites from Dryden and Ear Falls, whereas our Thunder Bay operations require camps to accommodate most of the work force because of the distance of most operating areas from the main centres. Wood is brought to the mills by rail and truck on a scheduled daily delivery system.