Canadian Pacific Forest Products Limited

Annual Report

1992

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Corporate Profile

Canadian Pacific Forest Products Limited manufactures a wide range of products including newsprint, pulp, white paper, paperboard and packaging, and wood products. The Corporation's sales were $1.8 billion in 1992 and total assets at year-end were $3.0 billion.

The Corporation is one of the leading international marketers of high-quality newsprint, North America's largest supplier of post-consumer recycled-content newsprint, and Canada's largest exporter of market pulp. With access to more than 11 million hectares of forest, the Corporation is the largest holder of timber cutting rights in Ontario and a major landowner in New Brunswick, Quebec, and British Columbia.

The Corporation supplies customers in more than 40 countries. The United States is the Corporation's largest single trading area. Export markets account for more than 75% of total sales. The Corporation has a network of marketing and sales offices in Canada, the United States, Europe, and Asia.

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Mission

- We will be a leading producer of cost-competitive forest products, with a focus on communication papers and market pulp.
- We will be a preferred supplier of quality products supported by superior customer service.
- We will be a preferred employer in our industry.

Values

Customers
- Customers must be provided with a quality product backed by superior service.
- We will meet or exceed customer expectations.

Employees
- People are our strength.
- We will provide a healthy and safe work environment.
- We will foster personal growth and development.
- We will value initiative and commitment to excellence.

Profitability
- Our business must be profitable to provide growth and a satisfactory return to our shareholders.

Ethics
- We will demonstrate honesty and integrity in everything we do.

Community Involvement
- We will contribute to the improvement of the community.

Environment
- Protection of the environment is a priority.
- We will conduct our business accordingly.

Forest Management
- We will protect our forests and manage them for multiple use, on a sustained-yield basis.

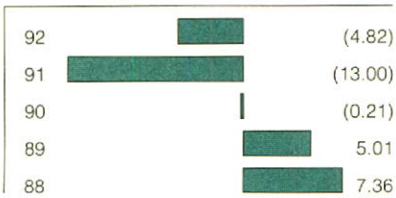
Technology
- We will employ the best available, cost effective technology to increase productivity and to provide a quality product that serves our customers' needs.

Communication
- We will communicate clearly and in a forthright manner.

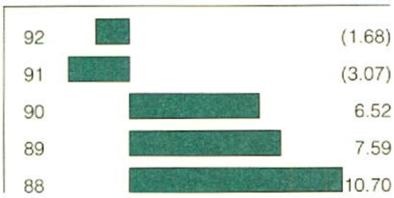
Financial Highlights

(in millions of dollars)	**1992**	1991	1990
Sales	**$1,825.5**	$1,979.5	$2,098.7
Operating earnings (loss) before unusual items	**(189.7)**	(272.0)	73.5
Unusual items	**-**	(528.3)	-
Operating earnings (loss)	**(189.7)**	(800.3)	73.5
Equity in losses of joint ventures	**(79.8)**	(53.4)	(71.8)
Net loss	**(248.0)**	(571.5)	(9.4)
Assets	**3,000.8**	2,965.0	3,263.3
Long-term debt	**1,392.2**	1,216.7	667.1
Shareholders' equity	**999.2**	1,047.6	1,636.7
Cash flow from operations	**(86.5)**	(134.9)	286.6
Per share data (in dollars)			
Net loss	**(4.82)**	(13.00)	(0.21)
Cash flow from operations	**(1.68)**	(3.07)	6.52
Shareholders' equity	**19.05**	23.83	37.23
Return on average shareholders' equity	**(24.2)%**	(42.6)%	(0.6)%
Ratio of total debt to equity	**59:41**	54:46	33:67
Average number of employees	**10,774**	13,215	14,494
Number of shareholders	**1,189**	1,243	1,250
Weighted average number of outstanding common shares (000's)	**51,461**	43,959	43,959

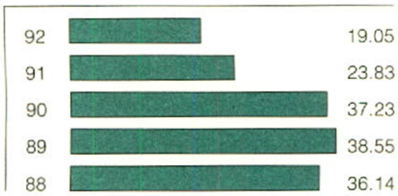
Net earnings (loss) per share
(in dollars)



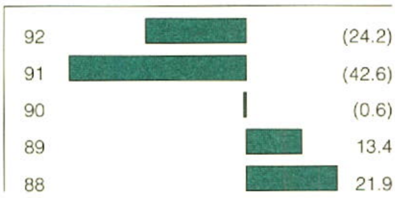
Cash flow from operations per share
(in dollars)



Shareholders' equity per share
(in dollars)



Return on average shareholders' equity (%)



Objectives

Our objectives for 1992 were clear: to restructure the Corporation's assets to ensure we concentrate on areas offering strong growth potential and a competitive advantage; to review the Corporation's organizational structure to develop a company that supports quick and effective reactions to problems and opportunities; and to make CP Forest, first and foremost, customer and quality-driven. In addition, we made specific commitments to environmental protection and health and safety improvements.

We were determined to focus our resources on products, markets and assets upon which we can build profitable long-term businesses. The goals were to not only weather adverse conditions, but to achieve superior returns for our shareholders as markets improve and to emerge as a strong competitor in newsprint, pulp and white paper.

While we met most of our objectives in corporate restructuring, management reorganization, manufacturing improvements, health and safety and the environment, these initiatives were overshadowed by a poor pricing environment which contributed significantly to the Corporation's loss.

Challenges

The slowness of the economic recovery continued to be a major challenge. Prices bottomed out in most of CP Forest's business sectors in North America and Europe during the past year, but their average level was significantly lower than in 1991. For example, in newsprint, which accounts for 31% of the Corporation's sales, the average price received east of the Rockies was lower by seventeen percent. Demand, while increasing, did so very slowly. Productivity improvements were successful in most of our business sectors, but improvements in newsprint did not meet our expectations. Actions are being taken to improve this situation.

Achievements

Corporate restructuring

The strategic initiatives announced early in the year have been completed. With the closure of the Trois-Rivières mill and downsizing of the Dalhousie mill, the newsprint business is now able to capitalize on the turnaround starting in that industry. The Single Service division and the Quebec corrugated container operations were sold during the year. Operations at the London container plant have been phased out with production transferred to the Markham and Burlington facilities. The container operation is now focusing on central Canada. CP Forest is continuing to examine options for the La Tuque mill's long-term future. The Corporation is pursuing its $14.5 million capital investment program for the Matane mill's conversion to 100% recycled fibres and is no longer actively seeking a buyer for that mill.

Management reorganization

CP Forest has moved away from its traditional functional organization with the creation of three business teams that have become the primary means of managing operations. The Team Chairmen, Robert E. Chambers, Wayne B. Wolfe, and J. Hugh Whalen have authority and accountability for the financial performance of the Newsprint, Pulp and White Paper, and Paperboard businesses respectively. We believe this is an essential step in focusing management on key operational issues, focusing employees on results and in reducing reaction time to marketing opportunities.

Capital expenditures

Nineteen-ninety-two saw the completion of several capital projects that contributed greatly to realizing both current and future objectives. During the year, the Corporation spent $280.9 million on capital projects including investment in joint ventures. A large portion of these funds was committed to the Gatineau mill with $34.6 million invested for the deinking plant and refuse boiler, which came on-line during the year, and $110.6 million for the thermomechanical pulp mill started up early in 1993 and paper machine modifications scheduled for 1993 completion. With the Gatineau and Thunder Bay deinking facilities operational, CP Forest is now the largest supplier of recycled-content newsprint in North America. This is proving to be a significant competitive advantage.

Capital spent on environmental projects included $29 million for a secondary effluent treatment system at the Gold River mill and $6.5 million on the construction of a recycling facility underway at the Matane mill, due for completion in 1993.

Michel Bélanger
Chairman of the Board

Paul E. Gagné
President and Chief Executive Officer

Manufacturing initiatives

In manufacturing, lower costs in pulp, white paper, paperboard, and wood products have established a new baseline for 1993 improvements. Improvements were realized through the increased productivity of new and existing equipment, and through reduced fibre and energy costs. Significant cost reductions were realized at all our pulp mill operations and the business' performance for the year was significantly improved. At the Thunder Bay mill, this was achieved by converting a growing portion of the fibre requirements to wood chips and sawmill residue, a source of high-quality lower-cost fibre. Energy reduction programs, implemented at the Dryden and Thunder Bay mills, are being developed at our operations across the country. In wood products, extracting maximum value from the available fibre remains a key element of success.

Customer satisfaction

In our efforts to transform CP Forest into a truly customer-driven company, we have set a goal of achieving "preferred supplier" status for all our businesses. Responding to customer demands, we have already established CP Forest as a major presence in recycled-content newsprint from the Thunder Bay and Gatineau mills.

New grades have been developed to meet specific customer requirements in pulp, white paper, paperboard, and wood products. Total quality continuous improvement programs have been introduced at the La Tuque and Dryden mills. The introduction of the advanced computer Customer Service Information System (CSIS) in pulp was a major step in realizing our goal of maximizing customer satisfaction. Installation of CSIS on a company-wide basis is underway.

Mission, values

To further focus the Corporation on principles on which future success depends, we developed a Statement of Mission and Values in 1992. The Mission declares that we will be a leading producer of cost-competitive forest products, a preferred supplier and a preferred employer within the industry. This will be realized through the application of our corporate Values which include a commitment to customer satisfaction, employees, profitability, business ethics, community involvement, environmental protection, sustainable forestry, best available cost-effective technology, and open communication. The Statement of Mission and Values can be found in this Annual Report.

Environment, health and safety

In our drive to protect the environment and provide a healthy and safe workplace for all of our employees, we took several initiatives that have already borne fruit. In 1992, an Environment, Health and Safety Committee was established by the Board of Directors. Its role is to report to the Board on the effectiveness of the

Corporation's response to environment, health and safety issues, including compliance with statutory and regulatory requirements. Through its mandate, the Committee supports the Corporation's commitment to protecting the environment and to making the establishment of a healthy and safe workplace a priority. We also published a new environmental policy as well as one for health and safety. Significant progress has been made on both these fronts. More information on these initiatives can be found in this report. A separate Environmental Annual Report is being published in conjuction with this Report to Shareholders.

Labour practices

The introduction of flexible work practices continues to be an important element in realizing our competitiveness objectives. To date, such practices have been implemented in the La Tuque and Matane mills and we must expand these practices to all facilities.

Research and development

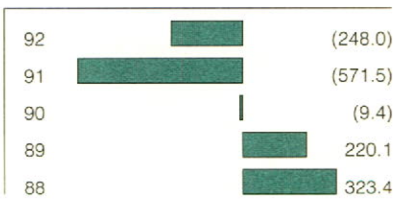
Technological development and application remains a key lever in improving production quality and efficiency for CP Forest. By building a highly-skilled technology development group at the Thunder Bay mill and, by investing in the Pulp and Paper Research Institute of Canada and other industry research organizations, the Corporation continues to demonstrate its commitment to innovation. CP Forest intends to increase its commitment of resources to technological development and application in coming years.

1992 results

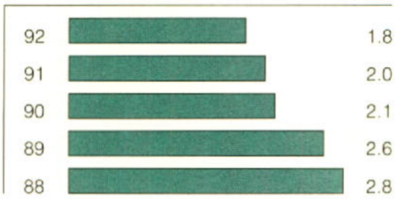
During 1992, shipments increased in all sectors compared to 1991 levels, except for newsprint and wood products. Lower average selling prices in all sectors, except for wood products, continued to negatively impact the Corporation's results.

The net loss totalled $248.0 million, or $4.82 per share, compared to $571.5 million, or $13.00 per share in 1991. Excluding the one-time charge for unusual items of $368.1 million after tax, and earnings from discontinued operations of $58.1 million after tax, the net loss for 1991 amounted to $261.5 million, or $5.95 per share. The operating loss for the year amounted to $189.7 million, compared to $800.3 million in 1991, which included a one-time charge for unusual items of $528.3 million.

Net earnings (loss)
(in millions of dollars)



Sales
(in billions of dollars)

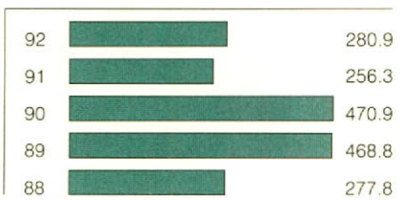


The improvement came principally from the lower value of the Canadian dollar compared with the U.S. dollar, generally lower production and administration costs, and lower depreciation and depletion charges. Equity in losses of joint ventures increased by $26.4 million and interest expense increased by $25.9 million due to higher borrowings required to finance the Corporation's capital expenditure program. Total sales declined by 8% to $1.8 billion from $2.0 billion the previous year.

Financial position

During 1992, CP Forest's borrowings increased by $228.6 million to $1,480.2 million, bringing the total debt to equity ratio, at December 31, 1992, to 59:41, compared with 54:46 at the same point in 1991.

Investment activities
(in millions of dollars)



Capital spending totalled $280.9 million, principally related to the projects mentioned previously under capital expenditures, and included investments in joint ventures of US$11.2 million in additional equity in Ponderay Newsprint Company and of $59 million in additional subordinated notes of Gold River Newsprint Limited Partnership.

To fund its financial needs, the Corporation raised $218 million from an issue of common shares on February 13, 1992 and US$225 million from an issue of debentures in the U.S. public market on June 25, 1992. An additional amount of US$75 million in debentures was issued in the U.S. public market in January 1993. On March 9, 1993, the Corporation filed a short form preliminary prospectus with securities commissions and other regulatory authorities in Canada for the issue of 8 million common shares at a price of $20 per share. Net proceeds are expected to amount to $153.6 million. The closing is scheduled to take place on March 30, 1993.

In December 1992, the Corporation also sold $200 million of non-capital tax losses to PanCanadian Petroleum Limited for $58 million. This transaction enhanced the Corporation's cash flow without resulting in any change in its business.

The Board of Directors maintained the quarterly dividend at $0.10 per share throughout 1992. In order to reduce cash outflows, the Board of Directors, at its meeting held on January 29, 1993, decided to discontinue for the time being the payment of dividends to the shareholders.

Officers and Directors

- R.W. Campbell and Paul Paré, Directors, having reached the mandatory age of retirement, will not stand for re-election at the 1993 Annual Meeting of Shareholders.
- J. Ross LeMesurier, Director, will not stand for re-election at the 1993 Annual Meeting of Shareholders for personal reasons.
- Claude Pratte, Q.C., resigned as a Director, effective January 11, 1993, for health reasons.
- L. Yves Fortier, Q.C., was elected to the Board of Directors at the 1992 Annual Meeting of Shareholders.
- Senior appointments made during the year were:

  Marc Régnier, Senior Vice-President and General Counsel
  Joseph Gurandiano, Vice-President, Manufacturing Services and Special Projects

1993 objectives

While this past year provided more challenges than we had expected, the organization is now more responsive and effective. CP Forest is focused on the products, markets and assets with the best long-term prospects. Our objective for 1993 is clear. We are concentrating on improving our competitive position in each of our businesses.

This will be achieved by lowering overall manufacturing costs through improved machine efficiency and lower fibre and energy costs. We will capitalize on the cost reductions resulting from major expenditures such as the recently completed thermomechanical pulp mill at the Gatineau complex. We will consolidate and capitalize on the organizational changes made during 1992 and maintain and continuously improve product quality and customer focus. Further improvements in environmental and safety performance will be realized.

To meet the challenges of the competitive international business environment in which we operate, we will increase our commitment to training. Developing supervisors' management skills and employees' technical skills is an essential element in further improving our competitive position.

In order for the Corporation to achieve satisfactory returns for its shareholders, we must continue to build on the initiatives taken in 1992. Our actions will continue to be overshadowed by a poor pricing environment, especially during the first half of 1993, but with the hardest decisions now behind us, major capital expenditures nearing completion, the economy improving, and a focus on employee training and management development, we can realize the full potential of CP Forest.

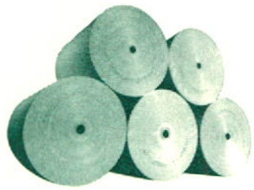
Michel Bélanger
Chairman of the Board

Paul E. Gagné
President and Chief Executive Officer

Corporate Review

Newsprint

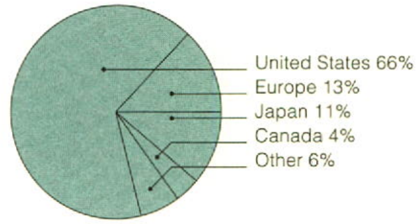
Products/Mills | **Markets**



- Standard virgin newsprint
- Post-consumer recycled-content newsprint
- Groundwood specialties

- Gold River, British Columbia (83.8%[1])*
- Usk, Washington State (40%[2])*
- Thunder Bay, Ontario
- Gatineau, Quebec
- Dalhousie, New Brunswick (67%[3])*

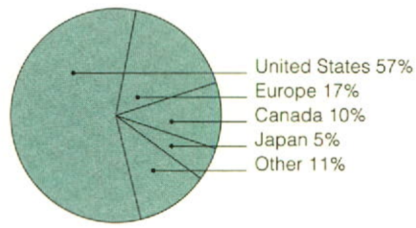
* Corporation's equity at December 31, 1992
[1] Gold River Newsprint Limited Partnership
[2] Ponderary Newsprint Company
[3] NBIP Forest Products Inc.



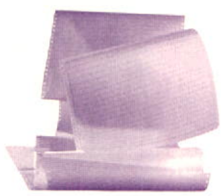
Pulp

- Bleached northern softwood kraft
- Semi-bleached northern softwood kraft
- Unbleached northern softwood kraft
- Bleached northern hardwood kraft

- Gold River, British Columbia
- Dryden, Ontario
- Thunder Bay, Ontario
- La Tuque, Quebec

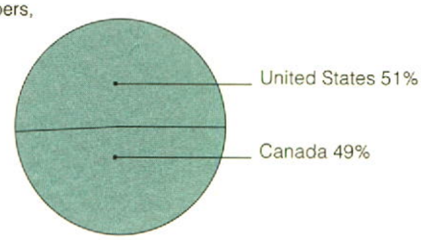


White Paper



- Uncoated freesheet for copy and laser print papers, printing papers, register bond, and envelopes

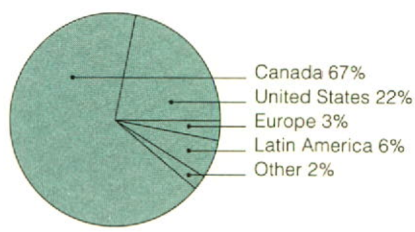
- Dryden, Ontario



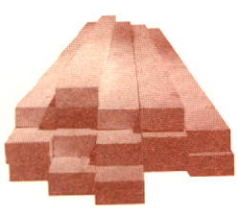
Paperboard and Packaging

- Linerboard
- Corrugating medium
- Corrugated containers
- Solid-bleached and polycoated boards
- Polycoated lightweight products

- La Tuque, Quebec
- Matane, Quebec
- Corrugated container plants in Markham and Burlington, Ontario
- Paper products plant in Montreal, Quebec



Wood Products



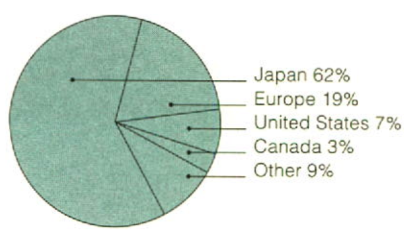
- High-quality softwood lumber produced to offshore standards – Hemlock, Douglas fir, Spruce

- Ladysmith, British Columbia
- Nanaimo, British Columbia (60%)*
- Tahsis, British Columbia

* Corporation's equity at December 31, 1992 in Mayo Forest Products Ltd.

- Kiln-dried studs for residential construction – Spruce and Pine

- Dryden, Ontario



1992 Developments

- Completed construction of Gatineau deinking plant and refuse boiler as part of $390 million modernization program
- Commenced production at deinking plant at Gatineau mill
- Production capacity for post-consumer recycled-content newsprint up to 900,000 tonnes per year, largest supplier in North America
- Closed Trois-Rivières mill and two machines at Dalhousie mill (reducing total capacity by 25%)

- Total capacity: 1,125,000 tonnes**

**Excludes mills at Gold River (230,000 tonnes) and Usk (230,000 tonnes)

Sales/Operating Earnings/Shipments

	1992	1991	1990	1989	1988
Sales (in millions of dollars)	**$ 563.8**	$ 824.4	$ 773.7	$1,017.5	$1,189.8
Operating earnings (loss)*** (in millions of dollars)	**$(162.6)**	$(523.8)	$ (43.7)	$ 22.1	$ 204.1
Shipments (in thousands of tonnes)	**1,012**	1,309	1,173	1,492	1,560

***Operating earnings (loss) includes Unusual items referred to in Note 3 to the consolidated financial statements and has been restated to exclude Equity in losses of joint ventures referred to in Note 16 to the consolidated financial statements.

- Completion of $50 million secondary effluent treatment system at Gold River mill
- Installation of advanced computerized Customer Service Information System
- Initiation of Total Quality Management program at La Tuque and Dryden mills
- ISO 9003 certification received at Thunder Bay mill

- Total market pulp capacity: 930,000 tonnes

	1992	1991	1990	1989	1988
Sales (in millions of dollars)	**$ 458.3**	$ 397.0	$ 550.0	$849.2	$790.9
Operating earnings (loss) (in millions of dollars)	**$ (21.9)**	$ (89.7)	$ 118.8	$304.2	$253.2
Shipments (in thousands of tonnes)	**736**	662	618	899	933

- Introduced bright white printing papers, high brightness copy and laser papers, high bulk book papers
- Commenced project for recycled white paper line for 1993 introduction
- For first time, U.S. accounted for more than half of sales
- Initiation of Total Quality Management program at the Dryden mill

- Total capacity: 285,000 tonnes

	1992	1991	1990	1989	1988
Sales (in millions of dollars)	**$ 188.3**	$187.0	$201.5	$149.0	$115.6
Operating earnings (loss) (in millions of dollars)	**$ (19.0)**	$ (13.5)	$ 8.6	$ 14.0	$ 20.6
Shipments (in thousands of tonnes)	**230**	213	190	131	101

- Packaging group restructured with sale of Montreal and Vaudreuil plants, Single Service division, and closure of London corrugated container plant
- Production of corrugated containers consolidated at Markham and Burlington plants
- Total Quality Management program initiated at La Tuque mill
- Pursuing $14.5 million investment program at Matane mill to allow supply of recycled products to North American market and conform to environmental regulations

- Total primary capacity: 429,000 tonnes

	1992	1991	1990	1989	1988
Sales (in millions of dollars)	**$337.6**	$ 327.0	$317.2	$348.0	$387.0
Operating earnings (loss)*** (in millions of dollars)	**$ (3.8)**	$(159.4)	$ 8.3	$ 30.5	$ 57.4
Shipments (in thousands of tonnes)	**431**	403	343	352	396

***Operating earnings (loss) includes Unusual items referred to in Note 3 to the consolidated financial statements.

- Concentrated on growth and high prices in Japan with specialty products for that market
- Maximizing extraction of fibre value from wood through mill configuration and employee training
- Edger-optimizer brought on-line at Tahsis sawmill
- Dry kiln project completed at Ladysmith sawmill
- Installation of new planer completed at Nanaimo operation in early 1993

- Total capacity: 400 million board feet (lumber only)

	1992	1991	1990	1989	1988
Sales (in millions of dollars)	**$226.9**	$190.2	$187.4	$203.2	$208.4
Operating earnings (loss) (in millions of dollars)	**$ 17.7**	$ (11.2)	$ (13.2)	$ (0.8)	$ 35.4
Shipments (in million board feet)	**373**	382	388	428	484

Robert E. Chambers
Executive Vice-President
Chairman, Newsprint Team

Newsprint

Overview

CP Forest is one of the world's largest newsprint producers. Through an international network of sales and customer service offices, this business generated $564 million in 1992, or over 30% of total sales. Three-quarters of newsprint sales were to customers in North America, while Europe and Japan accounted for thirteen and eleven percent respectively.

With the Thunder Bay and Gatineau deinking plants fully operational, CP Forest is now able to supply 900,000 tonnes of post-consumer recycled-content newsprint annually. This makes it the largest North American supplier of this product, now mandated by law or by voluntary agreement in 23 U.S. states.

Conditions

Demand for newsprint in North America increased moderately during 1992 due to gains in newspaper and magazine advertising lineage and circulation. Combined with capacity closure, the improved demand led to higher industry operating rates. Transaction prices reached bottom in the first quarter, increased in the third, and finished the year on average nearly 20% lower than in 1991.

Western European consumption was essentially flat during 1992 and excess supply depressed prices. Canadian shipments to fast-growing Asian markets increased by nearly 40%.

Initiatives

CP Forest reinforced its competitive position by concentrating on business segments and operations providing higher potential. The closure of the Trois-Rivières mill and downsizing of the Dalhousie mill, announced at the beginning of the year, reduced capacity by 25% to 1.6 million tonnes, including the Gold River and Usk joint venture mills.

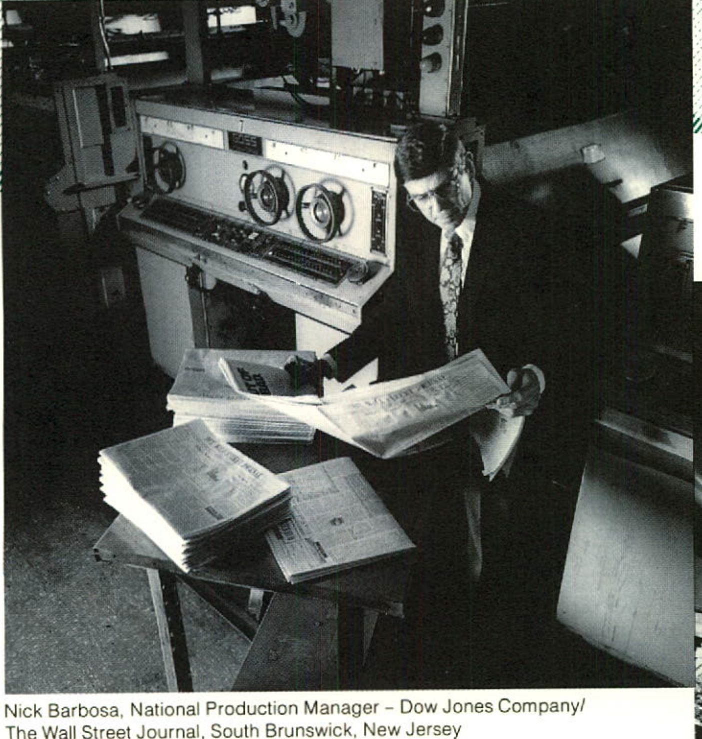
Sales and marketing were restructured to provide a sharper focus on target markets. Through an emphasis on customer satisfaction, CP Forest is committed to achieving and maintaining ''preferred supplier'' status with all of its customers.

Results

As a result of recent capital investments, CP Forest plants are among the most modern in North America. The reorganization of the newsprint business has resulted in improved responsiveness to customer needs as well as improved quality and customer mix.

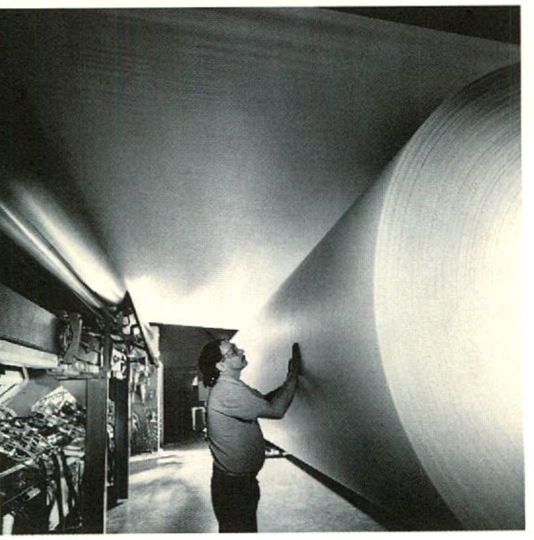
The Usk and Gold River joint venture mills reduced costs significantly during 1992 and actions to reduce operating costs further are ongoing at all facilities. These include programs to improve machine efficiency and reduce fibre costs.

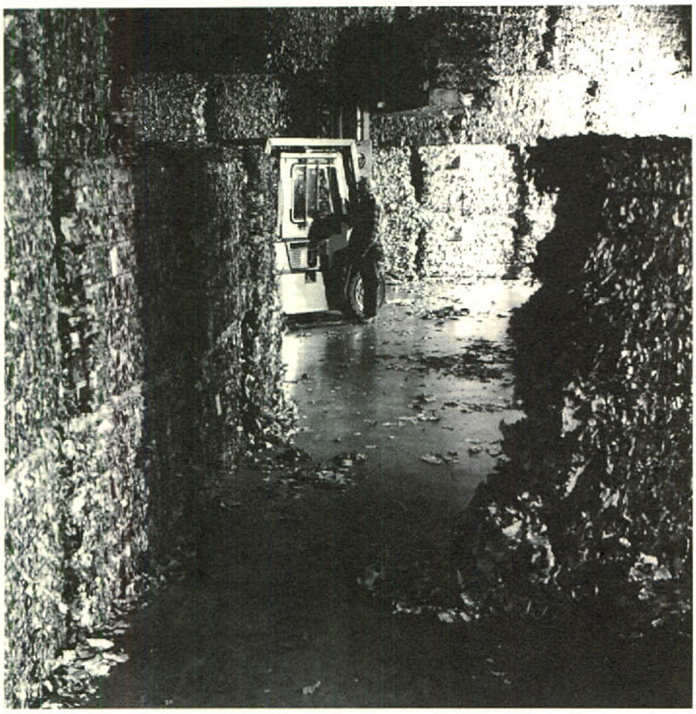
Norman W. Lord
Vice-President, Marketing
Newsprint



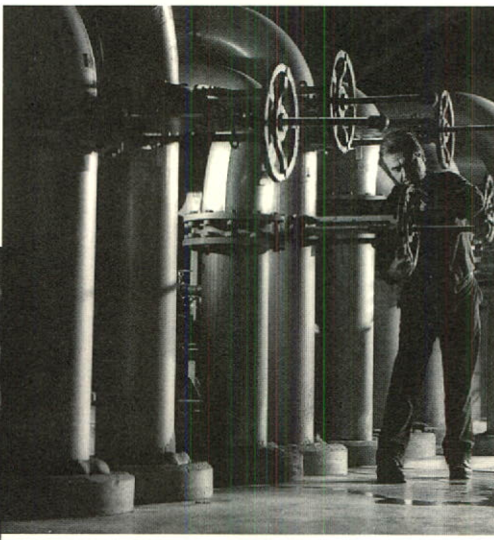
Nick Barbosa, National Production Manager – Dow Jones Company/
The Wall Street Journal, South Brunswick, New Jersey

Newsprint machine – Gatineau mill

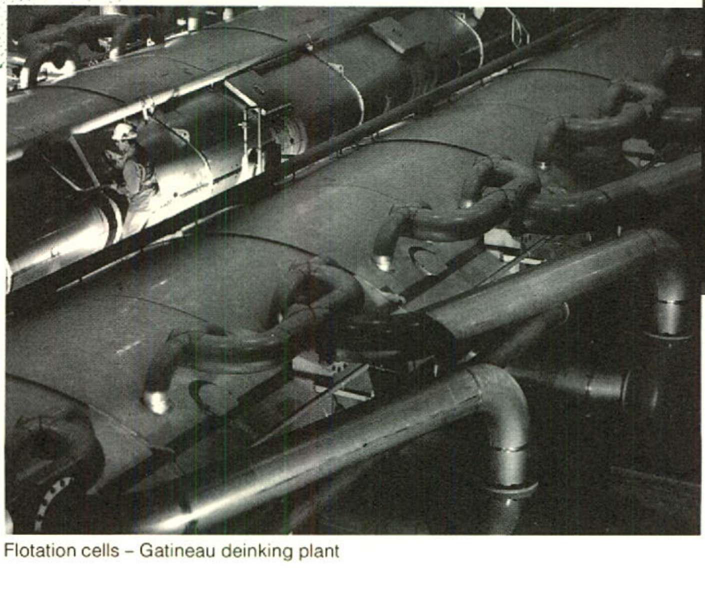




Bales of old newspapers and magazines – Gatineau deinking plant warehouse



Process piping –
Gatineau deinking plant



Flotation cells – Gatineau deinking plant

Outlook

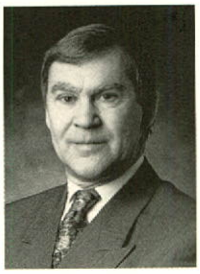
Economic recovery in North America should fuel higher advertising levels and drive increased newsprint consumption in parallel with GNP growth. Industry operating rates should reach 94% in North America. Further price improvements are expected in most markets during 1993. A discount rate reduction of 7% was announced for March 1, 1993, east of the Rockies, with a 7.6% reduction announced for April 1 on the west coast.

Weak economic growth or recession in Western Europe will hold down consumption while overcapacity will keep prices at low levels. European industry operating rates will continue at a low 85%.

The full impact of CP Forest's modernization program will be felt in 1993. The new thermomechanical pulp mill and the modification of the three paper machines will improve the performance at the Gatineau mill. On-going cost reduction and productivity measures will contribute to improvements at all other newsprint mills.

The Corporation's coast-to-coast operations, large supply of recycled-content newsprint and improved quality and customer service through the implementation of a Customer Service Information System, will reinforce its position as a competitive long-term player in the industry.

Pulp



Wayne B. Wolfe
Executive Vice-President, Manufacturing
Chairman, Pulp and White Paper Team

Overview

CP Forest is Canada's leading exporter of market pulp. In 1992, the pulp business generated sales of $458 million, 25% of total sales. The North American market accounted for more than two-thirds of pulp sales, Europe for 17%, and Asia for 11%. Eighty percent of the four pulp mills' capacity is dedicated to northern bleached softwood kraft pulp production, the industry's premium pulp, and the balance to bleached hardwood kraft pulp.

Conditions

Higher North American and European paper production resulted in moderately improved demand for market pulp in the first three quarters of 1992. Operating rates remained high through most of the year and price increases were implemented for both softwood and hardwood kraft pulps in the first three quarters. Shipments to Asia were strong during most of the year.

As the year progressed, paper mill curtailments worldwide and economic slowdown in Europe and Asia contributed to falling demand. Combined with high pulp inventories, this led to lower prices in the fourth quarter. The list price of northern bleached softwood kraft pulp, though rising from US$520 to US$600 through the first half of the year, declined to US$540 at year-end.

Initiatives

Initiatives undertaken in CP Forest's pulp business in 1992 included the installation of an advanced computerized Customer Service Information System; the reorganization of marketing and sales offices to improve responsiveness and technical support; and the initiation of a Total Quality Management program at the La Tuque and Dryden mills. ISO 9000 certification is in process at all mills.

Cost reduction measures were implemented in all pulp operations including energy conservation programs at both the Thunder Bay and Dryden mills and the initiation of a wood chip conversion program at Thunder Bay.

To emphasize higher margin grades, production of hardwood pulp was increased at the Thunder Bay mill. The market position of the La Tuque mill was strengthened through the development of a hardwood pulp and the promotion of a wood residue-containing pulp, Novocell 30. The Gold River mill's market position was improved through the development of new grades to meet customers' high quality needs.

Results

Production costs at the Gold River mill declined by over twenty percent and by ten percent for the pulp business as a whole.

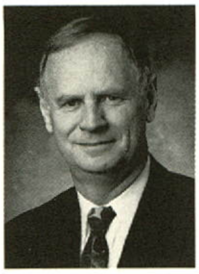
The introduction of a hardwood grade at La Tuque and increased production of hardwood pulp at Thunder Bay improved the financial contribution of the business. The Thunder Bay mill has received ISO 9003 certification and the certification process is continuing at the other three mills. The marketing and sales organization broadened the customer base, with sales in twenty-four countries in 1992, up from fourteen two years earlier.

Outlook

Demand for market pulp in North America is expected to improve slowly but the market will be competitive due to the introduction of new pulp capacity in Canada and the southern U.S. Demand is expected to weaken in Europe but should remain strong in South East Asian markets.

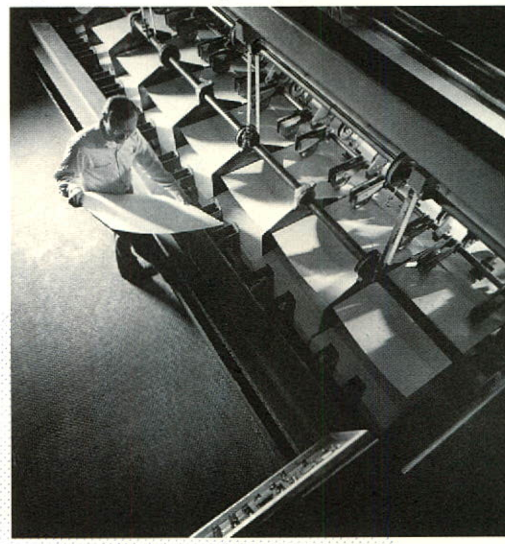
Price discounting will continue until inventories are reduced, with prices to improve thereafter.

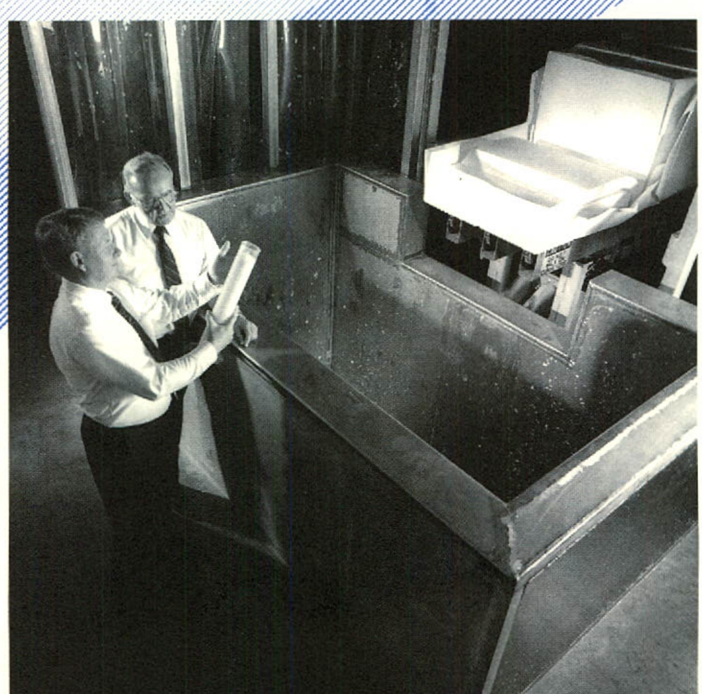
Reduced manufacturing costs and new grades will enable CP Forest's pulp business to maintain its North American position and grow in offshore markets.



John H. Sim
Vice-President, Marketing
Pulp

Pulp cutter – Thunder Bay kraft pulp mill



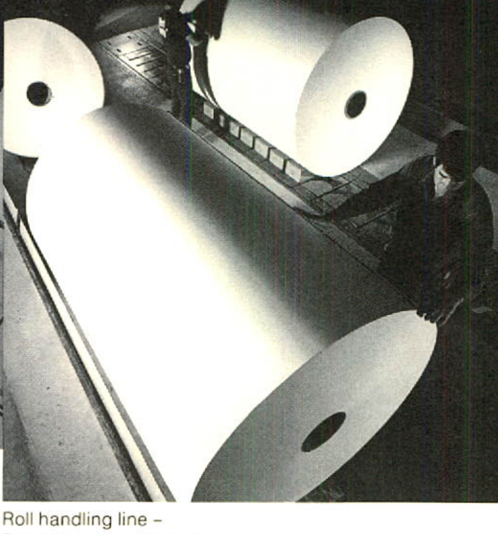


Jim Lauden (left), Purchasing Manager –
Consolidated Papers, Wisconsin Rapids, Wisconsin

Denis Auclair
Vice-President, Marketing
White Paper and
Paperboard

▶
White paper machine –
Dryden white paper mill

Armand Lanthier (left), General Manager –
Lauzier Little/Custom Cheques, Montreal, Quebec



Roll handling line –
Dryden white paper mill

White Paper

Overview

CP Forest continues to build on its reputation as a high-quality North American white paper supplier of a variety of commodity grades and value-added specialty grades produced at its Dryden mill. In 1992, the white paper business had sales of $188 million, or 10 % of CP Forest's total sales. For the first time, the United States accounted for more than half of total shipments, Canada for the balance.

Conditions

While demand in North America started to recover in 1992 with slow improvements in economic conditions, markets remained weak due to overcapacity. Overseas markets experienced growth early in the year and absorbed some of this excess supply. Prices in all markets were erratic throughout the year.

Initiatives

With an increasingly competitive business environment, CP Forest has concentrated its efforts on developing grades that best utililize its fibre base and existing equipment. During the year, the Corporation successfully introduced a number of new products that provide good margins and incremental volumes, including bright white printing papers, high brightness copy and laser print papers, and high bulk book papers. CP Forest is developing a recycled white paper line for introduction in 1993.

A Total Quality Management program for continuous improvement in product and service was introduced at the Dryden mill during 1992. Customer service initiatives included award programs and surveys to monitor and improve operating and service practices. Press size improvements were fully implemented during the year as were energy cost reductions.

Results

Despite difficult economic and industry conditions, CP Forest maintained its market share in Canada and improved its position in the United States.

New, higher-value-added grades contributed to white paper's financial performance as did improvements in press size and in operating efficiencies.

Despite a twelve percent rise in Ontario Hydro rates during the year, energy-saving measures at the Dryden mill offset nearly all of this increase.

Outlook

As the office supply market picks up in step with the recovery in the North American economy, demand for white paper is expected to improve and industry operating rates should continue to rise. This should result in higher prices, although the rate of increase may be limited by industry overcapacity.

CP Forest is counting on improved productivity at the Dryden mill, a growing line of higher margin products and on-going cost reduction measures to improve white paper's performance in 1993.

Paperboard and Packaging

J. Hugh Whalen
Executive Vice-President, Marketing
Chairman, Paperboard Team

Overview

CP Forest is a well-established producer of paperboard and packaging products. Sales for the year were $338 million, or 18% of the Corporation's total. Two-thirds of paperboard sales were generated in the Canadian market, one-quarter in the United States and the balance primarily in Latin America and Europe.

Conditions

Slowly growing North American and European economies made 1992 a difficult year for the paperboard industry. North American containerboard prices did not improve in 1992 despite a 4% increase in box shipments and high operating rates for linerboard and corrugating medium mills. The influence of lower offshore prices continued to have a negative impact on domestic prices.

Initiatives

Numerous initiatives were taken in 1992 to focus the business on products offering better growth potential. The packaging group was restructured and the Montreal and Vaudreuil container plants were sold to subsidiaries of Cascades Inc. A supply agreement for linerboard and corrugating medium was negotiated with the purchasers.

The Single Service division was sold to Tetra Laval Inc., with a supply agreement negotiated for polycoated paperboard.

Operations at the London container plant have been phased out with production transferred to the Markham and Burlington facilities. The consolidated container operation is now focusing on central Canada.

A Total Quality Management program was introduced at the La Tuque mill and a customer survey was completed during the year to provide the paperboard business with a baseline from which to measure progress.

The La Tuque mill is shifting from integrated production to higher margin supply for the open market. The strength, smoothness and printing characteristics resulting from the mill's superior fibre allows it to concentrate on producing White Top products for customers requiring high graphic properties.

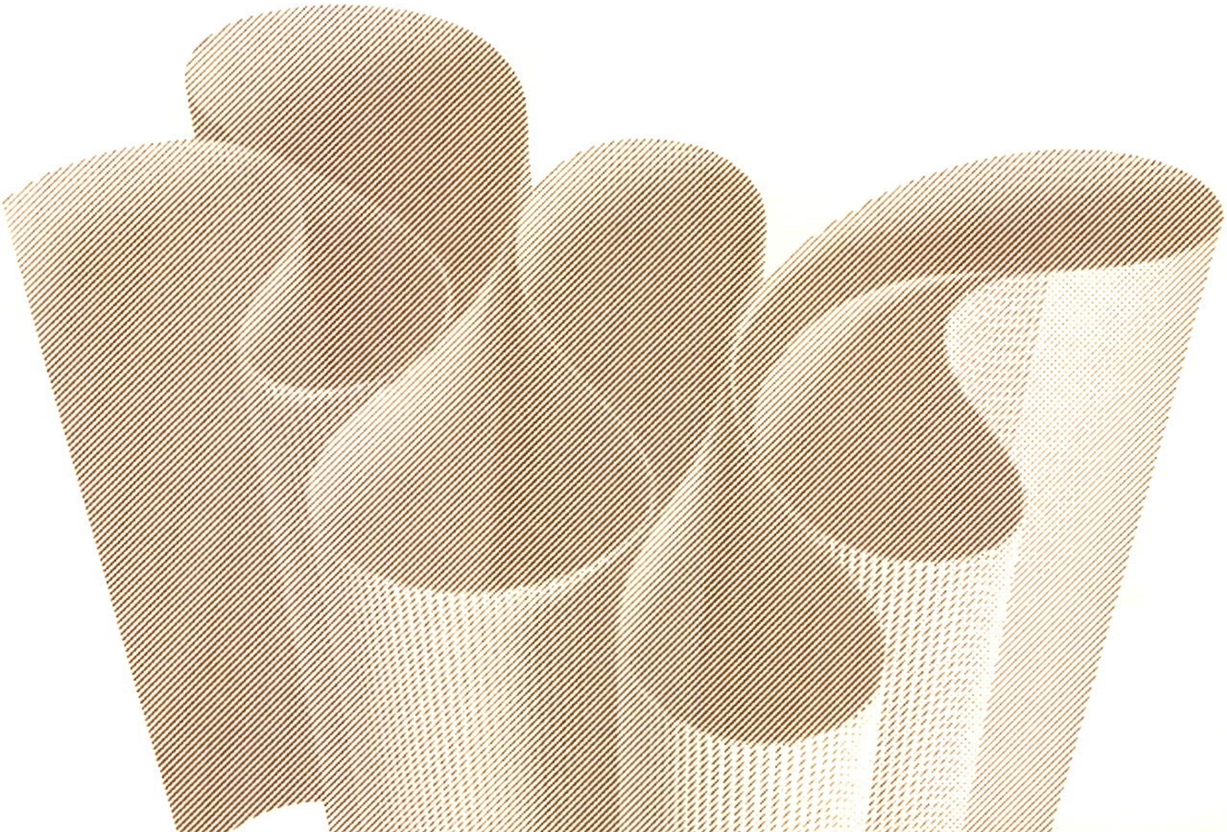
At the Matane mill, CP Forest is pursuing a $14.5 million capital investment program to allow the mill to supply recycled products to the North American market and conform to environmental regulations. The Corporation announced on December 9, 1992 that it was no longer actively seeking a buyer for the mill.

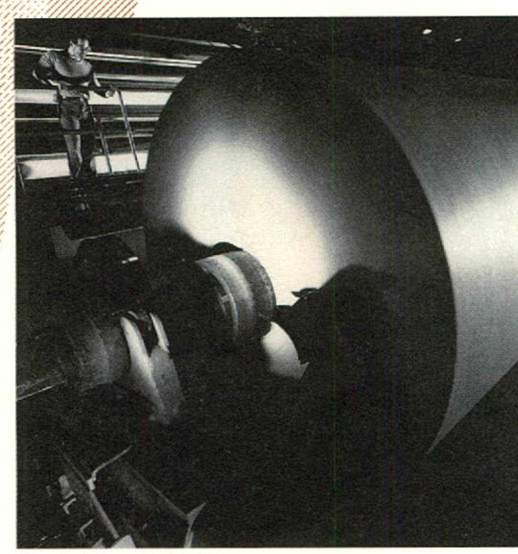
Results

Significant increases were realized in U.S. shipments and the La Tuque and Matane mills operated at capacity throughout the year. The converting facilities in Markham and Burlington are well-positioned to serve their customer base.

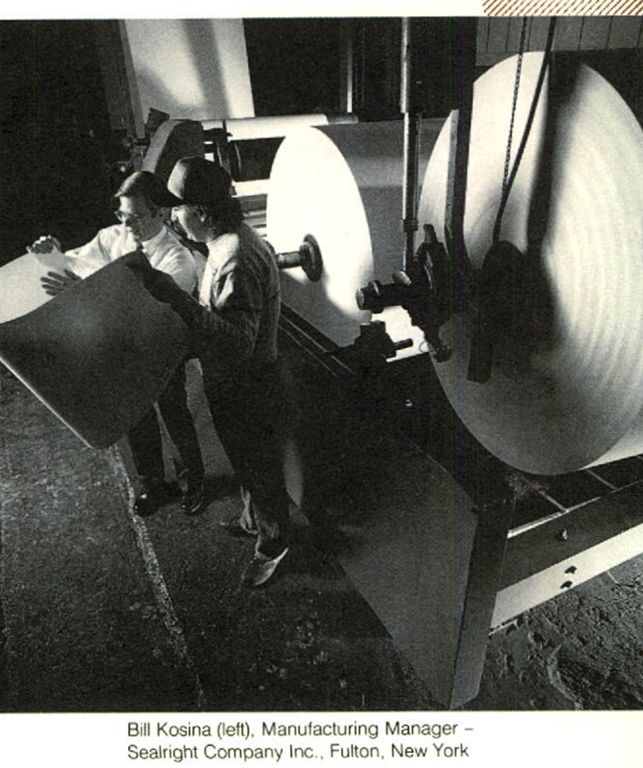
Outlook

With growing demand in CP Forest's key markets and no significant new capacity additions, operations are expected to continue running at full capacity. Price improvements are expected for all containerboard products. With higher prices, competitive new grades and continuous quality improvement, CP Forest's paperboard business will improve its financial performance during 1993.





Bleached board machine –
La Tuque paperboard mill

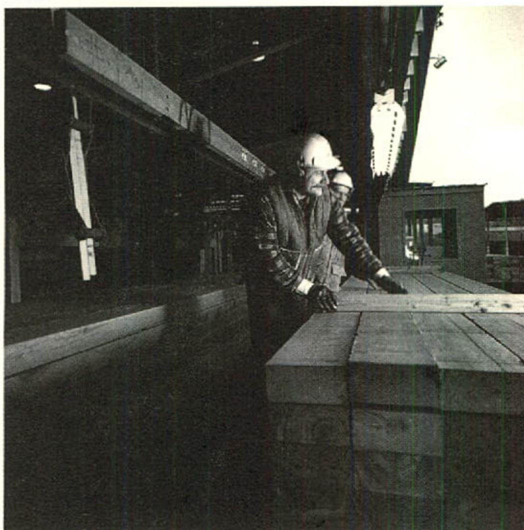


Bill Kosina (left), Manufacturing Manager –
Sealright Company Inc., Fulton, New York

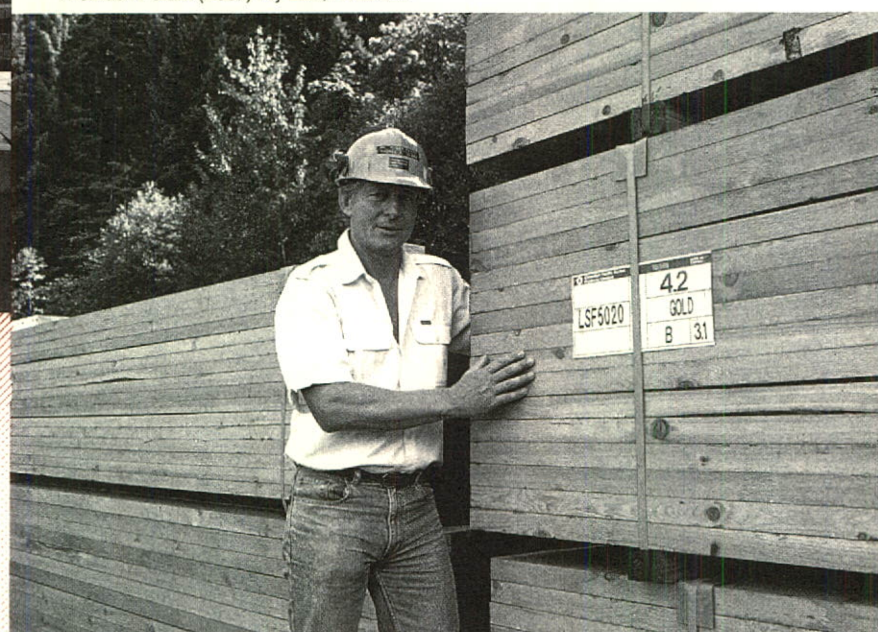
Corrugating medium machine – Matane mill

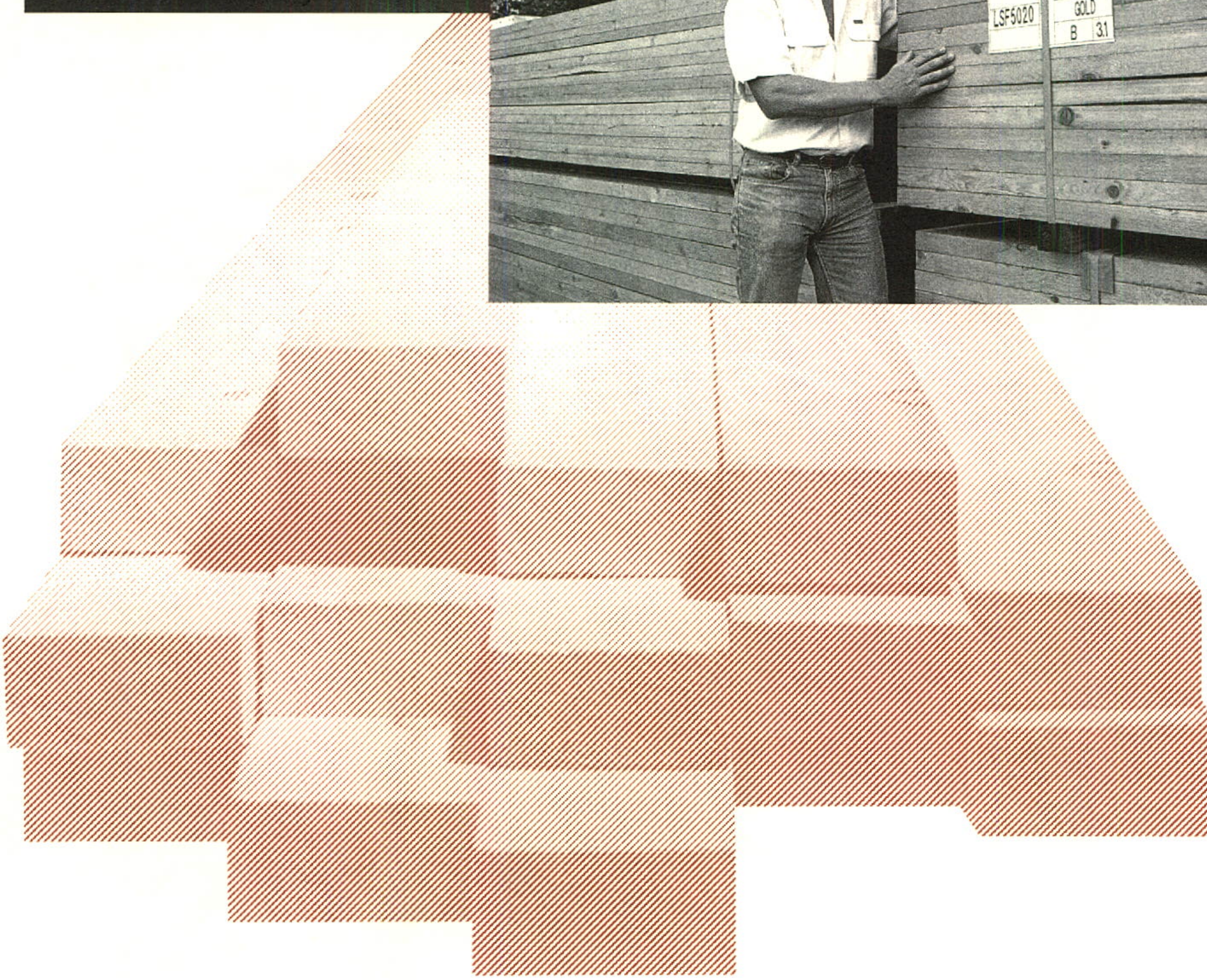
Sandy M. Fulton
Vice-President,
Wood Products

Finished lumber –
Ladysmith sawmill



Roger Clark, Managing Director –
Thomas P. Clark (Aust.) Pty Ltd., Australia





Wood Products

Overview

CP Forest's wood products business markets cost-competitive, high-quality wood products to a worldwide customer base through modern operations in Tahsis, Ladysmith and Nanaimo, British Columbia, generating sales of $227 million in 1992, or 12% of the Corporation's total sales. The Japanese market accounted for two-thirds of sales, with Europe accounting for nearly one-quarter.

Conditions

Fibre shortages, primarily on the west coast, and stable or slightly increased demand combined to improve world markets and raise prices for most products. Japan led the way with strong demand and low inventories. The United Kingdom continued to feel the effects of a slow economy and demand declined while the Australian market improved with increased consumption and higher prices.

Initiatives

With strong growth and higher prices in Japan, the wood products business concentrated on meeting that country's need for specialty products including traditional housing components. For this market, as in others, quality control remained a key component in the successful marketing of new, higher-margin products.

Extracting maximum fibre value from wood is a key variable in the success of the wood products operations. This was enhanced by configuring the mills for value recovery and employee training programs to continually increase plant efficiencies. In addition, existing product lines have been refined and new products developed through direct marketing to nearly two hundred overseas customers.

To support these efforts, in 1992 an edger-optimizer was brought on-line at the Tahsis sawmill in February and a dry kiln project was completed at the Ladysmith sawmill in December. In early 1993, the installation of a new planer was completed at the Nanaimo operation.

Results

While the Tahsis and Ladysmith sawmills operated on a curtailed basis to balance inventories during the first quarter, both, along with the Nanaimo sawmill, operated at full capacity during the balance of the year. With improved lumber prices for value-added products, lower wood costs and improved operating efficiency at the sawmills, the financial performance of the wood products business was significantly improved over 1991.

Outlook

Fibre shortages in the U.S. Pacific North West and British Columbia are expected to continue exerting upward pressure on prices and accentuate the need to continually maximize extraction of fibre value. The emphasis on higher-margin products, coupled with economic recovery in key markets, should result in continued improvement in financial performance in 1993.

A Commitment to Health and Safety

In its drive to reduce costs and improve quality and productivity, CP Forest has not lost sight of the fact that people are the Corporation's primary strength. Providing each employee with a healthy and safe work environment must be a constant priority and the Corporation's objective is to achieve an accident-free workplace. This will be accomplished by establishing the clearly defined goal of reducing lost time and appropriate work injuries by 25% per year until the goal of zero is reached. For 1992, this reduction represented an incidence rate target of 6.0 which meant that no more than 6% of CP Forest employees would incur a lost time or appropriate work injury during the year.

1992 initiatives

In 1992, the Board of Directors established an Environment, Health and Safety Committee composed of W. Norman Kissick, Chairman, Paul E. Gagné, E. Neil McKelvey, and L. Yves Fortier. The Committee's role is to report to the Board on the effectiveness of the Corporation's response to environment, health and safety issues, including compliance with statutory and regulatory requirements. Through its mandate, the Committee supports the Corporation's commitment to making the establishment of a healthy and safe workplace a priority.

A new Corporate Health and Safety Committee was created by senior management to define health and safety objectives, find concrete ways, in conjunction with unit management, to make CP Forest a safe and healthy place to work, and to monitor progress. A new Health and Safety policy has been developed and now appears in every CP Forest location. Implementation standards have also been developed. Awareness initiatives have been undertaken at the unit level to develop a commitment to safety among all employees and to provide them with the knowledge and tools they require.

Management has reinforced its commitment to maintain safe facilities, establish safety procedures and ensure that all employees have been trained in the skills to safely perform all daily tasks. All levels of supervisors will be held accountable for the safety performance of their unit.

A Joint Health and Safety Committee is in place at each location. The thorough investigation of each work-related accident and communication of results is an on-going means of preventing re-occurrences. Furthermore, employees individually and in groups have been recognized and rewarded for outstanding safety performance.

To reinforce the Corporation's commitment and to communicate safety objectives, a health and safety video was produced and shown to management and employees at all locations.

Roger Hébert, Vice-President, Administration

Gilles Dontigny, Mill Manager, Gatineau

Paul E. Gagné, President and CEO

Health and Safety Policy

We are committed to the prevention of occupational injury and illness and to the personal safety of all employees. We will provide our employees with a healthy and safe working environment.

Our goal is to achieve an accident-free environment and our policy is to:

Hold all levels of management accountable for ensuring the prevention of accidents and injuries and assess their performance accordingly.

Ensure that the prevention of accidents and injuries is integrated into all aspects of the occupational environment and into every work activity, including the purchase, design, construction, operation and maintenance of equipment.

Hold all employees responsible for following safe work practices.

Provide all employees with the opportunity for meaningful involvement and participation in the development and implementation of each operational unit's accident prevention program.

Train all employees to identify health and safety hazards, to work safely and to protect themselves and their fellow workers from occupational illness and injury.

Encourage all employees to detect and report to their supervisors hazardous conditions and practices along with suggestions for their correction.

Ensure that all laws and regulations pertaining to occupational health and safety are strictly adhered to.

1992 performance

In 1992, the Corporation's incidence rate was 6.3, a reduction of 22% from the 1991 level, a significant achievement. Noteworthy performances were realized throughout the Corporation during the year, both in reducing incidence rates and in maintaining superior safety performance.

Looking ahead

The drive for creating an accident-free workplace will continue in 1993. A safety audit program will be initiated across the Corporation. CP Forest has set for itself an incidence rate target of 4.5 for its combined operations, representing a 28% reduction.

A special mention

A special mention must be made of the accomplishments of the Tahsis Lumber Operation. Tahsis won two prestigious provincial awards during the Canadian Occupational Health and Safety Week, including best in the forestry category and best in the overall category in which thirty-three B.C. companies participated. The Tahsis Accident Prevention Committee was cited for working with employees to organize activities involving municipal officers, the fire department, ambulance service, Lions Club, schools, and Tahsis community citizens. Included were guided mill tours, a safety theme poster contest, a ''Stacker Rodeo'' forklift safety demonstration, a safety audit, first aid courses, and others.

At the 1992 National Occupational Health and Safety Conference, the Tahsis Lumber Operation also won the Canadian Award of Excellence ''for a company whose Occupational Health and Safety program goes beyond the requirements of the law''.

These initiatives undertaken at Tahsis and other CP Forest operations are good illustrations of what employees can achieve when they work together to realize the goal of an accident-free work environment.

A Commitment to the Environment

Canadian Pacific Forest Products has made environmental protection an integral part of its daily decision making.

In its on-going effort to meet the needs and expectations of its customers and of the general public, CP Forest continues to use the best available, cost-effective technology based on sound science. By making major capital investments in plant and equipment and by raising the awareness of employees at every operation, the Corporation has made substantial progress in environmental protection.

Recycling initiatives

With deinking plants in Thunder Bay, Ontario and Gatineau, Quebec operational, CP Forest removes some 330,000 tonnes of old magazines and newspapers from the waste stream annually. Capable of producing 900,000 tonnes of recycled-content newsprint each year, the Corporation is now North America's largest supplier of this product. Other initiatives include the utilization of 65,000 tonnes per year of high-quality, post-consumer recycled white paper at the Dryden mill and the conversion of the Matane mill to the use of 100% old corrugated containers for its furnish, both to be operational in 1993.

Meeting customers' needs

CP Forest has maintained its record of non-measurable levels of dioxins and furans in effluent at three kraft mill locations and, to meet the demands of some European customers, provides elemental chlorine-free pulp on a regular basis. Furan levels were above measurable levels at the Gold River mill due to the burning of salt laden bark. The bleaching process did not contribute to this exceedance and research is being conducted to find solutions to this problem.

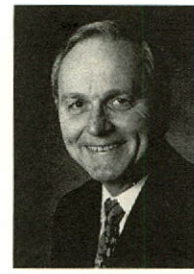
To further improve effluent quality, the Corporation completed secondary treatment facilities at the Thunder Bay and Gold River mills in 1992.

A demonstrated commitment

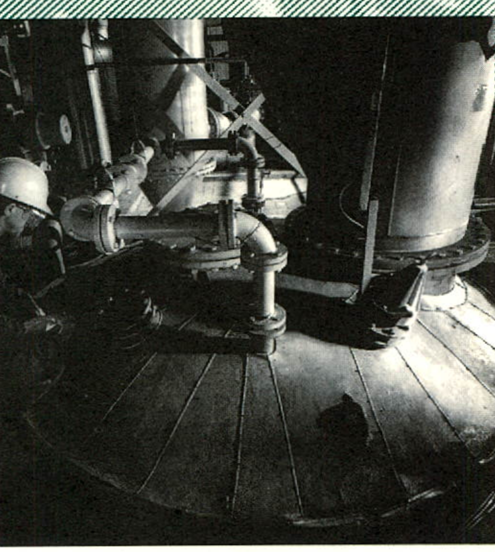
In 1992, an Environment, Health and Safety Committee was established by the Board of Directors to oversee policy and performance in environmental management. A new environmental policy and implementation guildelines were also developed during the year and distributed to all units. The policy appears in this report. Environmental audits were carried out at five locations and are planned on a regular basis to ensure compliance with government regulations and internal policies. An Environmental Status Report was published during the year and an Environmental Annual Report is being published in conjunction with this Annual Report to Shareholders. The latter discusses CP Forest's environmental initiatives and performance in detail.

CP Forest recognizes the need for the long-term sustainability of its primary resources: the forests and waterways of Canada. Because of this, the Corporation plans and conducts operations in a manner that respects biodiversity, sustainability and multiple use of these resources for all Canadians. These principles extend to harvesting methods and to the considerable investments made in silvicultural research and replanting.

During 1992, despite difficult financial and market conditions, CP Forest invested $43 million for environmental projects. This does not include expenditures related to the management and renewal of forests. The Corporation has clearly demonstrated its commitment to the environment.



Wallace M. Vrooman
Vice-President,
Environment



Chlorine dioxide generator –
Thunder Bay mill

Clearcut, second and old growth forests –
Gold River woodlands

Environmental Policy

Canadian Pacific Forest Products Limited is committed to protecting the environment. The Company has been entrusted with the stewardship of extensive renewable natural resources and accepts the responsibility of managing these resources on a sustainable basis to ensure their productive use and enjoyment by future generations.

The Company will:

Forest Management
Plan and conduct our forest management activities in a manner which respects the value of the forest and recognizes the principles of biodiversity, sustainability and multiple use of forest lands.

Operations
Design and manage our manufacturing and forestry operations in a manner which incorporates good environmental practices and ensures compliance with government regulations.

Take prompt corrective action in the event of any accidental discharge.

Support research and development to ensure that our processes and products are environmentally acceptable and of a quality which meets customer requirements.

Communication
Continually inform and encourage meaningful input from employees, customers, governments and the public about our operations and their impact on the natural environment.

Audits
Conduct operational audits on a regular basis and initiate action plans, where required, to ensure compliance with Company policies and standards and government regulations.

Ensure the audit programs and methods are periodically reviewed by independent experts.

We recognize that the long-term viability of our operations and the well-being of our employees and their communities are dependent upon a healthy, natural environment.

The slow pace of economic recovery and significantly lower transaction prices in most sectors continued to have an impact on the Corporation. Excluding the effect on the 1991 operating loss of a one-time charge for unusual items, 1992 results improved over last year. The lower value of the Canadian dollar compared with the U.S. dollar, generally lower production and administration costs and lower depreciation and depletion charges all contributed to the operating loss improvement.

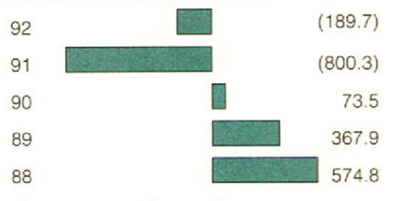
During 1992, the Corporation changed significantly. As a result of the strategic decisions announced early in the year, the Trois-Rivières groundwood specialties mill was permanently closed and two older paper machines were permanently shut down at the Dalhousie newsprint mill, thus removing a total of 460,000 tonnes, or 25 %, of newsprint capacity. In the paperboard and packaging business, the two Quebec corrugated container plants and the liquid packaging converting operations (Single Service division) were sold. Operations at the London container plant have been phased out with production transferred to the Markham and Burlington facilities. The container operation is now focusing on central Canada.

The Corporation has gained a significant competitive advantage with the completion of deinking plants at the Gatineau and Thunder Bay newsprint mills. The Corporation is now able to supply 900,000 tonnes per year of recycled-content newsprint, making it the largest supplier of this product in North America. The modernization of the Gatineau facility continued with the construction of a new thermomechanical pulp mill that was started up in early 1993. The final phase of the modernization program, the rebuilding of the paper machines, is expected to be completed by the end of the third quarter of 1993.

Results 1992 vs 1991

The net loss for 1992 was $248.0 million or $4.82 per share, compared with a net loss of $571.5 million or $13.00 per share in 1991. The results in 1991 included earnings from discontinued operations of $58.1 million after tax, or $1.32 per share, and a one-time charge for unusual items of $368.1 million after tax, or $8.37 per share. Excluding these items, the net loss for 1991 amounted to $261.5 million, or $5.95 per share. The operating loss for 1992 was $189.7 million, compared with an operating loss of $800.3 million in 1991 which included $528.3 million for unusual items. The operating loss excludes equity in losses of joint ventures which has been reclassified as a separate line below Operating loss in the Consolidated Statement of Earnings.

Operating earnings (loss)
(in millions of dollars)



Lower 1992 average prices in all business sectors, except lumber, contributed to the continuing loss. Lower production and administrative costs, lower depreciation and depletion expense, the lower value of the Canadian dollar, which averaged US 82.8 cents compared to US 87.3 cents in 1991, contributed to most of the improvement in 1992 results. These favourable variances were partly offset by a higher equity in losses of joint ventures and by higher interest expense due to increased borrowing.

The net loss in the fourth quarter of 1992 was $59.5 million, or $1.13 per share, compared with a loss of $95.9 million, or $2.19 per share in the fourth quarter of 1991, excluding the one-time charge of $368.1 million, or $8.37 per share. The operating loss in the fourth quarter of 1992 was $36.3 million, compared with an operating loss of $630.1 million in the fourth quarter of 1991 which included the $528.3 million charge for unusual items.

Higher average prices for market pulp and lumber, lower production costs, lower depreciation and depletion expense, higher other income and a lower Canadian dollar accounted for most of the improvement. These variances were partially offset by lower prices in newsprint and white paper, higher equity in losses of joint ventures, and higher interest expense due to increased borrowing.

Sales for 1992 of $1,825.5 million were down 8% from the 1991 level of $1,979.5 million. Lower prices in most sectors and lower shipments in newsprint were the major contributors to the lower level of sales. As some 60 percent of sales are in U.S. dollars, the lower value of the Canadian dollar partly offset these unfavourable variances.

Newsprint shipments were lower than last year due primarily to the 25% capacity reduction as a result of the closure of the Trois-Rivières mill and the shutdown of two machines at the Dalhousie mill. Sales volume at the remaining newsprint mills increased for the year. Lower shipments of newsprint were more than offset by higher shipments of market pulp, paperboard and packaging, and white paper.

Newsprint demand in the North American market began to recover in the second half of the year in response to higher levels of consumption in the northeast, central and southern regions of the United States. The August 1, 1992, US$34.25 per tonne newsprint transaction price increase, brought about by reducing discount levels by five percentage points, was implemented east of the Rockies, with a further price increase of US$47.95 announced for March 1, 1993. Price increases were implemented January 1, 1993 west of the Rockies with a further price increase of US$47.95 announced for April 1, 1993. Customer interest remained strong in the new recycled-content newsprint products of the Gatineau and Thunder Bay newsprint mills. Laidlaw Waste Systems Ltd., an affiliated corporation, is the sole supplier of recyclable newspapers and magazines to these two mills under a twenty-year agreement.

Market pulp shipments increased by 11% in 1992, in response to increased paper consumption and despite a six-week strike at the Gold River mill. List prices for northern bleached softwood kraft pulp (NBSK) increased steadily through the first half of the year from US$520 to US$600 per tonne. A further list price increase of $20 per tonne announced for October 1, 1992, was subsequently rescinded. High pulp inventories and paper mill curtailments worldwide contributed to a drop in demand and to a decline in list prices during the fourth quarter, reaching US$540 per tonne by year-end.

Excess capacity in the white paper industry continued to limit price improvements. Prices for the Corporation's paperboard and packaging products have remained depressed throughout the year as industry-wide price increases were unsuccessful. However, the Corporation has improved its performance through increased production of value-added bleached board grades. Lumber prices have improved significantly compared to the 1991 levels due to fibre shortages and increased demand.

Cost of sales was lower in 1992 due to the lower volumes in newsprint and the implementation of cost reduction measures. Flexible work practices were introduced at the La Tuque and Matane mills thereby improving efficiency and competitiveness. Unit production costs on a corporate-wide basis were lowered by an average of 3% in 1992 despite the escalation of some cost elements.

Depreciation and depletion decreased by $44.9 million compared to 1991. However, depreciation expense in 1991 included accelerated depreciation charges of $31.3 million on equipment being taken out of service as a result of the modernization programs at the Thunder Bay and Gatineau mills. In 1992, the accelerated depreciation amounted to $12.2 million.

Selling and administrative expenses were 8% below the 1991 level. This resulted from the corporate restructuring, the sale of certain businesses, the reorganization of the corporate offices, and the decentralization of staff functions.

A review of the unusual items provision recorded in 1991 has been completed and the provision was considered to be adequate and no adjustment was recorded in 1992. However, this provision was based on estimates of costs, some of which are yet to be incurred. Accordingly, adjustments may be required in the future when actual costs are determined.

The equity in losses of joint ventures of $79.8 million was $26.4 million higher than 1991. The lower prices for newsprint was the main factor contributing to the higher loss. Both the Gold River Newsprint Limited Partnership mill in British Columbia and the Ponderay Newsprint Company mill in Usk, Washington improved their operating performances and lowered their unit production costs significantly.

The Gold River newsprint mill was shut down for a total of 11 weeks in 1992, six weeks due to a labour strike, three weeks due to maintenance, and two weeks for market-related downtime. During the year, the Corporation's participation in the Gold River Newsprint Limited Partnership averaged 82%, compared to 76% during 1991 as a result of additional investments in subordinated notes.

Interest expense increased by $25.9 million to $111.1 million in 1992 due to an increase in total debt level of $228.6 million. The additional debt supported the Corporation's capital expenditure program, additional investments in its joint ventures, as well as the funding of general operations. Interest capitalized on major projects under construction amounted to $10.4 million, compared to $20.7 million in 1991.

Other income of $4.0 million was $3.2 million higher than 1991.

During 1992, the Corporation sold $200 million of non-capital tax losses to PanCanadian Petroleum Limited, an affiliate, for $58 million. Income taxes included a net gain of $2.7 million which represented the difference between what was previously recorded by the Corporation and the proceeds received. An advance ruling was obtained from Revenue Canada.

Results – 1991 vs 1990

The affairs of the Corporation for 1991 compared with those of 1990 were discussed in detail in the 1991 Annual Report made available to shareholders.

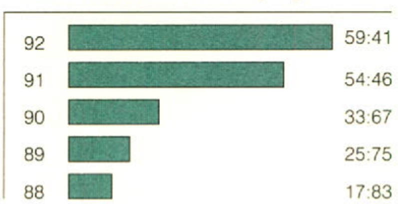
The principal matters discussed therein were that sales declined 6% in 1991 due to lower prices in all business sectors and that the decline was partly offset by higher shipments in all segments, except lumber. The Canadian dollar rose from an average of US 85.7 cents in 1990 to US 87.3 cents in 1991, resulting in a negative impact on operations. In 1991, a one-time charge of $368.1 million after tax, or $8.37 per share, was recognized relating to the shutdown, downsizing and write-down of certain operations. The 1991 results also included earnings from discontinued operations of $58.1 million after tax, or $1.32 per share, which included the gain from the disposal of the tissue business.

Depreciation and depletion increased by $63.2 million compared to 1990. Nearly half of this increase was due to accelerated depreciation charges of $31.3 million on equipment being taken out of service as a result of the modernization programs at the Thunder Bay and Gatineau mills. The substantial capital expenditure program undertaken in recent years added approximately $18 million to 1991 depreciation expense. In 1990, depreciation expense was lower by approximately $12 million as a result of labour strikes at three of the Corporation's primary mills in the latter part of 1990.

Interest expense rose by $44.6 million in 1991 due to an increase in the total debt level which resulted from the Corporation's capital expenditure program and additional investments in its joint ventures as well as funding of general operations.

These factors resulted in a net loss in 1991 of $571.5 million, or $13.00 per share, a substantial increase from the prior year. Reduced cash flow from operations of $421.5 million, which was partly offset by lower capital spending of $29.8 million, proceeds of $184.8 million from the sale of the tissue business and lower dividend payments of $57.1 million, increased the Corporation's borrowing to $1,251.6 million. This resulted in a total debt-to-equity ratio of 54:46.

Ratio of total debt to equity



Financial condition and liquidity

Cash used in operations in 1992 amounted to $86.5 million, compared to $134.9 million in 1991. The improvement resulted from a lower cash loss from operations of $79.4 million which was partly offset by a lower reduction of working capital compared to 1991 of $31.0 million.

Investing activities dropped to $280.9 million compared to $441.1 million in 1991, excluding proceeds from the sale of the tissue business of $184.8 million. Spending of $240.5 million in 1992 was mostly related to the continuation of the Gatineau newsprint mill modernization program, which included $34.6 million for the deinking plant and refuse boiler, and $110.6 million for the thermomechanical pulp mill and paper machine modifications. Also included were environmental projects of $29.0 million for the completion of the secondary effluent treatment system at the Gold River facility and $6.5 million for the construction of a recycling facility underway at the Matane mill.

Investments in joint ventures during 1992 included a US$11.2 million infusion of equity in the Ponderay Newsprint Company and $59 million in additional subordinated notes of the Gold River Newsprint Limited Partnership. Approximately $12 million of the Gold River investment was used to repay debt and $7.9 million to fund the partnership's share of the facility's secondary effluent treatment system. Included in other investing activities was $43.5 million recorded for the sale of the two Quebec corrugated container plants and the liquid packaging converting operations.

The investment program is currently winding down after five years of modernization, upgrades and new construction during which the Corporation invested $1,939.5 million in its facilities and joint ventures.

To fund its financial needs principally arising from investments, the Corporation raised a total of $547.9 million in 1992 from outside sources, compared to $695.3 million in 1991. On February 13, 1992, the Corporation issued and sold 8.5 million common shares at a price of $26.50 per share which resulted in net proceeds of $217.8 million. Canadian Pacific Enterprises Limited purchased 1.7 million common shares, 20% of the issue, and, as a result, its ownership in the Corporation decreased from 79.68% to 70.01%.

On June 25, 1992, the Corporation issued debentures of US$225 million maturing on June 15, 2002 with a coupon of 9.25%. The debentures were sold on the United States public market at 99.80% of their principal amount, for a yield of 9.28%. Interest rate swap agreements have been completed with banks which effectively convert the 9.25% debenture into floating rate debt until June 15, 1995.

In December 1992, the sale of non-capital tax losses to an affiliated corporation generated proceeds of $58 million which were used to repay indebtedness.

The quarterly dividend, although higher in dollar amount due to the additional common shares issued in 1992, was maintained at 10 cents per common share throughout the year in order to maintain the Corporation's securities as eligible investments for 1993 under certain Canadian statutes and, consequently, to facilitate access to capital markets in Canada. In view of recent and forthcoming modifications to these statutes, it is expected that there will no longer be a requirement to pay dividends to maintain eligibility for investment. In order to reduce cash outflows, the Corporation has discontinued for the time being the payment of dividends to the shareholders.

At the end of 1992, long-term debt amounted to $1,392.2 million and short-term debt to $88 million for a total of $1,480.2 million, compared with total debt of $1,251.6 million at the end of 1991. This resulted in a total debt-to-equity ratio of 59:41 at the end of 1992, compared with 54:46 a year earlier. Approximately 65% of the Corporation's debt was at fixed rates as at December 31, 1992.

Total debt denominated in US dollars as at December 31, 1992 amounted to CDN $1,230.9 million, including Canadian debt effectively converted into US dollars through forward exchange contracts. The unrealized translation loss on this debt amounted to $95.0 million, of which $94.1 million was unamortized.

At the end of 1992, the credit rating of the Corporation's debentures remained at B++ (low) by Canadian Bond Rating Service and BBB (low) by Dominion Bond

Rating Service Limited. During 1992, the Corporation also obtained ratings for its debentures from two major U.S. rating agencies, BBB from Standard and Poor's Corporation and Ba1 from Moody's Investors Service. Subsequent to year-end 1992, the credit rating of the Corporation's debentures was reduced to B+ by Canadian Bond Rating Service on January 29, 1993, and to BBB (low) by Standard & Poor's Corporation on February 10, 1993.

The pension expense indicated in Note (11) of the Consolidated Financial Statements, amounted to $28.7 million in 1992, compared to $30.5 million in 1991 including the portion attributable to unusual items. The deficit of $67.1 million at the end of 1992 is being amortized over a period of approximately 15 years.

Research and development expenditures amounted to $5 million in 1992 which includes the cost of both in-house activities and contributions to industry research organizations. In-house activities were carried out at a silviculture centre in Saanich, B.C., a paperboard and packaging research centre in Montreal and by a technological development group in Thunder Bay.

Future events and trends

The $390 million modernization program at the Gatineau newsprint mill is nearing completion with the start-up of the thermomechanical pulp mill completed early in 1993 and the paper machines modification program to be completed by the end of the third quarter of 1993. Capital spending of $120 million will be required to complete the Gatineau project and other construction in progress at the end of 1992. It is estimated that 90% of this amount will be spent in 1993. Approximately $166 million of capital spending is expected to be required over the next three years in order to meet federal and provincial pulp and paper environmental regulations.

The Corporation anticipates that the capital spending program will continue to be financed primarily by raising funds from outside sources in 1993. As at December 31, 1992, the Corporation had available unused long-term bank lines of credit of $345.9 million. On January 21, 1993, the Corporation accessed the U.S. public capital market for a second time with an issue of US$75 million of 10.25% debentures maturing January 15, 2003. On March 9, 1993, the Corporation filed a short form preliminary prospectus with securities commissions and other regulatory authorities in Canada for the issue of 8 million common shares at a price of $20 per share. Net proceeds are expected to amount to $153.6 million. The closing is scheduled to take place on March 30, 1993. These issues are important components of the Corporation's 1993 financing program.

To support the Corporation's continuing commitment to the protection of the environment, the Board of Directors created an Environment, Health and Safety Committee during the year. The Committee's mandate is to report to the Board of Directors on the effectiveness of the Corporation's response to environment, health and safety issues, including compliance with statutory and regulatory requirements. Environmental audits are conducted on a regular basis at all facilities to ensure compliance with government regulations and the Corporation's policies. Audits were conducted at five facilities in 1992.

The Corporation developed and distributed a new environmental policy and implementation guidelines and published an Environmental Status Report during the year. An Environmental Annual Report is being issued in conjunction with the 1992 Annual Report to Shareholders.

The year 1993 is expected to show improvement as the North American economic recovery materializes. While price discounting will continue for market pulp until inventories are reduced through production curtailment, current prices are expected to improve for all products in 1993. Newsprint consumption is expected to grow moderately in North America as retail and classified advertising increases in response to higher consumer spending. Production cost improvements will be realized with the 1993 completion of the modernization program at the Gatineau newsprint mill. Demand for market pulp is expected to resume its slow improvement but the pulp market will remain competitive as production from recent capacity expansions must be absorbed.

In white paper, the development of higher-margin products, better prices and improved productivity is expected to improve the sector's contribution. Paperboard facilities are expected to continue to operate at capacity in 1993. The completion of the Matane recycling project will allow the mill to respond to market needs for recycled products in North America and conform to environmental regulations. In wood products, fibre shortages and growing export demand will continue to benefit the sector's performance.

The Corporation's earnings will continue to be highly sensitive to pricing of its principal products and changes in the value of the Canadian dollar. The estimated annual effect of these sensitivities is indicated in the following table.

Sensitivity of Net earnings	$ millions	$ per share
US 1 cent change in the value of the Canadian dollar	12.4	0.24
1% change in price of newsprint	5.0	0.10
1% change in price of pulp	4.1	0.08

Management Report

The consolidated financial statements of Canadian Pacific Forest Products Limited have been prepared by management in accordance with generally accepted accounting principles in Canada. The financial information contained elsewhere in the annual report is consistent with the consolidated financial statements.

Management maintains a system of internal accounting and administrative controls designed to provide reasonable assurance that the financial information is accurate and reliable and that the Corporation's assets are adequately accounted for and safeguarded. These controls are reviewed regularly by the internal audit department and their findings are presented to management and the Audit Committee.

The Audit Committee, which is comprised of outside directors, meets periodically with management, the internal and external auditors, to review the adequacy of the system of internal controls and the integrity of the Corporation's financial reporting.

The consolidated financial statements have been reviewed by the Audit Committee prior to submission to the Board. In addition, the consolidated financial statements have been audited by Price Waterhouse, Chartered Accountants, who have full access to the Audit Committee with and without the presence of management. This report is provided below.

Paul E. Gagné
President and
Chief Executive Officer

David G. Toole
Senior Vice-President and
Chief Financial Officer

January 27, 1993

Auditors' Report

To the Shareholders of
Canadian Pacific Forest Products Limited

We have audited the consolidated balance sheets of Canadian Pacific Forest Products Limited as at December 31, 1992 and 1991 and the consolidated statements of earnings, retained earnings and changes in cash position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1992 and 1991 and the results of its operations and the changes in its cash position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse
Chartered Accountants
Montreal, Quebec
January 27, 1993

Consolidated Statement of Earnings

Year ended December 31 (in millions of dollars, except per share amounts and number of shares)	1992	1991
Sales	$1,825.5	$1,979.5
Cost of delivery	198.3	220.9
Net sales	1,627.2	1,758.6
Cost of sales	1,593.5	1,756.1
Depreciation and depletion	153.3	198.2
Selling and administrative expenses	70.1	76.3
Unusual items (Note 3)	-	528.3
	1,816.9	2,558.9
Operating loss (Note 16)	(189.7)	(800.3)
Equity in losses of joint ventures (Notes 6 and 16)	79.8	53.4
Interest expense (Note 12)	111.1	85.2
Other income	4.0	0.8
Loss before income taxes and minority interest	(376.6)	(938.1)
Income taxes (Note 13)	(128.1)	(279.6)
Loss before minority interest	(248.5)	(658.5)
Minority interest	(0.5)	(28.9)
Loss from continuing operations	(248.0)	(629.6)
Discontinued operations (Note 2)	-	58.1
Net loss	$ (248.0)	$ (571.5)

Per common share		
Loss from continuing operations	$ (4.82)	$ (14.32)
Net loss	$ (4.82)	$ (13.00)
Weighted average number of outstanding common shares (in millions)	51.5	44.0

Consolidated Statement of Retained Earnings

Year ended December 31 (in millions of dollars)	1992	1991
Balance at beginning of year	$ 155.7	$ 744.8
Net loss	(248.0)	(571.5)
Share issuance expenses, net of income taxes of $2.8	(4.7)	–
Dividends declared	(21.0)	(17.6)
Balance at end of year	$ (118.0)	$ 155.7

Consolidated Balance Sheet

December 31 (in millions of dollars)	1992	1991
Assets		
Current assets		
Accounts receivable (Note 14)	**$ 271.5**	$ 292.2
Income taxes recoverable	**-**	22.6
Inventories (Note 4)	**316.1**	395.4
Prepaid expenses	**13.6**	17.0
	601.2	727.2
Fixed assets (Note 5)		
Plants and properties	**3,925.6**	3,810.6
Timberlands	**152.5**	152.5
Less: Accumulated depreciation and depletion	**1,960.3**	1,890.8
	2,117.8	2,072.3
Other assets		
Investment in joint ventures (Notes 6 and 14)	**137.5**	141.7
Deferred items (Note 7)	**144.3**	23.8
	281.8	165.5
	$3,000.8	$2,965.0

December 31 (in millions of dollars)	**1992**	1991
Liabilities		
Current liabilities		
Bank indebtedness	**$ 7.6**	$ 25.3
Loans from an affiliate	**54.1**	5.6
Accounts payable and accrued charges	**289.4**	344.3
Income and other taxes payable	**11.2**	–
Dividends payable	**–**	4.4
Current portion of long-term debt	**26.3**	4.0
	388.6	383.6
Long-term debt, less current portion (Note 8)	**1,392.2**	1,216.7
Deferred income taxes	**196.8**	284.6
Other liabilities	**10.8**	18.8
Minority interest	**13.2**	13.7
	2,001.6	1,917.4
Shareholders' equity		
Common shares (Note 10)	**601.3**	376.0
Paid-in surplus	**515.9**	515.9
Retained earnings (deficit)	**(118.0)**	155.7
	999.2	1,047.6
	$3,000.8	$2,965.0

Approved by the Board,

Paul E. Gagné
Director

J. Ross LeMesurier
Director

Consolidated Statement of Changes in Cash Position

Year ended December 31 (in millions of dollars)	**1992**	1991
Cash provided by (used in)		
Operating activities		
Loss from continuing operations	**$(248.0)**	$(629.6)
Items not involving cash		
Depreciation and depletion	**153.3**	198.2
Deferred income taxes	**(132.8)**	(250.8)
Minority interest	**(0.5)**	(28.9)
Equity in losses of joint ventures	**79.8**	53.4
Unusual items	**-**	429.2
Other	**0.8**	1.7
	(147.4)	(226.8)
Change in non-cash working capital relating to continuing operations	**60.9**	83.6
Cash used in continuing operations	**(86.5)**	(143.2)
Cash from discontinued operations	**-**	8.3
Cash used in operations	**(86.5)**	(134.9)
Investing activities		
Additions to plants and properties	**(240.5)**	(349.9)
Investment in joint ventures	**(75.6)**	(98.8)
Sale of business	**-**	184.8
Other	**35.2**	7.6
	(280.9)	(256.3)
Financing activities		
Issuance of long-term debt	**272.1**	695.3
Repayment of long-term debt	**(170.5)**	(146.1)
Issuance of common shares, net of expenses	**217.8**	–
Proceeds from sale of non-capital tax losses	**58.0**	–
Other	**(15.4)**	(3.6)
	362.0	545.6
Other activities		
Dividends paid to common shareholders	**(25.4)**	(17.6)
Dividends paid to minority interest	**-**	(0.8)
	(25.4)	(18.4)
Increase (decrease) in cash position	**(30.8)**	136.0
Indebtedness at beginning of year	**(30.9)**	(166.9)
Indebtedness at end of year	**$ (61.7)**	$ (30.9)
Indebtedness consists of:		
Bank indebtedness	**$ (7.6)**	$ (25.3)
Loans from an affiliate	**(54.1)**	(5.6)
	$ (61.7)	$ (30.9)

1. Significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and all subsidiary companies. All significant inter-company transactions and balances have been eliminated.

The Corporation follows the equity method of accounting for its investment in joint ventures. Equity in losses of joint ventures is reduced by the portion of the interest earned on subordinated notes equal to the Corporation's equity share in the joint venture.

Foreign exchange

Monetary assets and liabilities are translated from foreign currencies into Canadian dollars at rates of exchange at the date of the balance sheet. The unrealized translation gains or losses on foreign currency denominated long-term debt are amortized over the remaining life of the debt. Non-monetary assets and liabilities are translated at historical rates.

Revenues and expenses (except depreciation and depletion which are translated at historical rates) are translated at average rates in effect during the month in which the transaction took place.

Inventories

Inventories of finished products are valued at the lower of average cost and net realizable value. Inventories of pulpwood, sawlogs, materials and supplies are valued at average cost.

Plants and properties

Plants and properties are stated at cost which is after the deduction of investment tax credits. The Corporation depreciates its plants and properties over their estimated useful lives using the unit of production method for its pulp and paper mills and the straight-line method for other plants and properties. The pulp and paper mills, which are the Corporation's principal fixed assets, are depreciated over a period of approximately 22 years. Accumulated depreciation and depletion includes write-downs of plants and properties.

During the construction period, interest is capitalized on major improvements and expansions.

No depreciation is charged on major improvements or expansions until construction is completed. Start-up costs incurred by newly constructed facilities are deferred until normal operation is achieved and amortized over a period of five years.

Environmental expenditures

Environmental expenditures related to current operations are expensed or capitalized as appropriate. Liabilities are provided for anticipated remedial action for which costs can be reasonably estimated.

1. Significant accounting policies (continued)

Pension costs and post-retirement benefits

Pension costs are determined annually in consultation with independent actuaries and include current service costs, a provision for the amortization of prior service costs and settlement costs related to special events. Pension costs for current services are charged to earnings in the year incurred. The pension plans deficit, which includes the liability for past service, is charged to earnings over the estimated remaining service lives of the employees.

In addition to pension benefits, the Corporation provides limited life insurance and health care benefits to eligible retired employees. The cost of providing these benefits is expensed as incurred.

Income taxes

Deferred income taxes are provided for all significant timing differences between the recognition of income and expenses for financial statement and tax purposes.

2. Discontinued operations

During August 1991, the Corporation sold its tissue business for cash proceeds of $184.8 million.

Results of the tissue business have been reclassified as Discontinued operations in 1991 and include the following amounts:

(in millions of dollars)	**1992**	1991
Net sales	**$ -**	$ 94.5
Operating earnings, net of income taxes of $ 3.0	**$ -**	$ 3.6
Gain from disposal, net of income taxes of $ 32.2	**-**	54.5
	$ -	$ 58.1

3. Unusual items

In 1991, the Corporation provided the following amounts for the permanent shutdown in 1992 of the Trois-Rivières, Quebec groundwood specialties mill, the downsizing of the operations in 1992 of the Dalhousie, New Brunswick newsprint mill and the write-down of the paperboard and packaging business:

(in millions of dollars)	**1992**	1991
Shutdown of the Trois-Rivières mill	**$ -**	$239.4
Downsizing of the Dalhousie mill	**-**	152.5
Write-down of the paperboard and packaging business	**-**	136.4
	$ -	$528.3

These amounts are based on estimates of costs some of which are yet to be incurred. Accordingly, adjustments may be required in the future when actual costs are determined.

4. Inventories

(in millions of dollars)	**1992**	1991
Raw materials	**$149.7**	$213.8
Repair materials and other operating supplies	**94.9**	103.2
Finished products	**71.5**	78.4
	$316.1	$395.4

5. Fixed assets

Plants and properties

(in millions of dollars)	**1992**			1991
	Cost	**Accumulated Depreciation**	**Net**	Net
Land	**$ 38.6**	**$ –**	**$ 38.6**	$ 39.0
Buildings and equipment	**3,887.0**	**1,896.1**	**1,990.9**	1,943.9
	$3,925.6	**$1,896.1**	**$2,029.5**	$1,982.9

Timberlands

(in millions of dollars)	**1992**				1991
	Square Kilometers	**Cost**	**Accumulated Depletion**	**Net**	Net
Owned in fee	**6,968**	**$139.2**	**$53.0**	**$86.2**	$87.1
Held under government licence	**110,593**	**13.3**	**11.2**	**2.1**	2.3
	117,561	**$152.5**	**$64.2**	**$88.3**	$89.4

The Corporation has timber harvesting licensing arrangements in the provinces of British Columbia, New Brunswick and Ontario, plus harvesting rights measured in wood volume in the provinces of Quebec and British Columbia. The Corporation has reforestation obligations which are associated with its harvesting activities. The costs of reforestation are included in the operating cost of wood harvested.

6. Investment in joint ventures

(in millions of dollars)	**1992**	1991
Ponderay Newsprint Company		
Investment using the equity method	**$ 8.3**	$ 18.0
Gold River Newsprint Limited Partnership		
Investment using the equity method	**(81.8)**	(13.2)
Subordinated notes	**185.0**	126.0
Accrued interest on subordinated notes	**26.0**	10.9
	129.2	123.7
	$137.5	$141.7

6. Investment in joint ventures (continued)

The Corporation has two principal investments in joint venture partnerships:

Ponderay Newsprint Company

The Ponderay Newsprint Company is a general partnership which operates a newsprint mill in the State of Washington.

The Corporation is the managing partner and has a 40% interest in the partnership. As of December 31, 1992, the Corporation has invested US$69.9 million as its equity in the partnership and has guaranteed US$50 million of the long-term debt of the partnership.

Gold River Newsprint Limited Partnership

The Gold River Newsprint Limited Partnership is a limited partnership which operates a newsprint mill adjacent to the Corporation's pulp mill in British Columbia.

The Corporation is the general partner and has an 83.77% interest (80.02% in 1991) in the partnership. As of December 31, 1992, the Corporation has invested $78 million in equity and $185 million in subordinated notes, with attached equity units, which earn interest at the prime rate of a major Canadian bank plus 1.5%. All of the partnership's long-term debt is non-recourse to the partners.

The following table shows the Corporation's share of the combined net assets, revenues, and expenses of the joint ventures:

(in millions of dollars)	**1992**	1991
Current assets	**$ 25.6**	$ 27.2
Fixed assets	**419.8**	404.7
Other assets	**16.6**	22.8
	462.0	454.7
Current liabilities	**23.9**	21.3
Other liabilities	**6.3**	6.6
Long-term debt	**314.5**	305.2
	344.7	333.1
Net assets	**$117.3**	$121.6
Sales	**$102.7**	$129.0
Costs and expenses	**127.8**	126.0
Depreciation	**27.2**	27.3
Interest	**39.8**	37.4
	194.8	190.7
Equity in losses of joint ventures before undernoted item	**(92.1)**	(61.7)
Less: interest income on subordinated notes	**12.3**	8.3
Equity in losses of joint ventures	**$ (79.8)**	$ (53.4)

The 1991 amounts have been reclassified to conform with the 1992 presentation.

7. Deferred items

(in millions of dollars)	**1992**	1991
Unrealized translation loss on U.S. dollar long-term debt	**$ 94.1**	$ –
Long-term receivables, nearly all due over a period not exceeding five years	**23.0**	2.0
Other	**27.2**	21.8
	$144.3	$23.8

Unrealized translation gains on U.S. dollar long-term debt at December 31, 1991 amounted to $5.8 million and were included in Other liabilities.

8. Long-term debt

(in millions of dollars)	**1992**	1991
Debentures		
10.85 % due 2014	**$ 125.0**	$ 125.0
9.25 % due 2002 (US$225.0 million)	**286.0**	–
Senior notes		
10.625 % Series A due 2010 (US$98.0 million)	**124.5**	113.2
10.50 % Series B (US$102.0 million)	**129.6**	117.9
10.60 % Series C due 2011 (US$70.0 million)	**89.0**	80.9
10.26 % Series D (US$22.0 million)	**28.0**	25.4
9.86 % Series E due 2001 (US$124.5 million)	**158.2**	143.9
9.58 % Series F due 1998 (US$60.5 million)	**76.9**	69.9
9.22 % Series G due 1996 (US$ 55.0 million)	**69.9**	63.6
Bank term loan maturing 1993 to 1996 (US$50.0 million)	**63.5**	57.7
Bank loans under revolving credit facilities expiring from 1993 to 1998	**123.7**	288.8
Syndicated loan at floating rates maturing 1999 (US$100.0 million)	**127.1**	115.6
Other long-term obligations maturing at various dates	**17.1**	18.8
	1,418.5	1,220.7
Less: Current portion	**26.3**	4.0
	$1,392.2	$1,216.7

During 1992, the Corporation filed a shelf prospectus with the U.S. Securities and Exchange Commission and Canadian securities regulators for offerings of debt securities in the United States of up to US$400 million. On June 25, 1992, the Corporation completed an issue of US$225 million. As at December 31, 1992, the Corporation has US$175 million of shelf capacity remaining. On January 21, 1993, the shelf capacity was reduced by US$75 million with the issue of debentures as described in Note 15.

The senior notes Series B are payable at the rate of US$10.2 million per year commencing 2001 with the final payment due 2010. The senior notes Series D are payable at the rate of US$2.2 million per year commencing 2002 with the final payment due 2011.

8. Long-term debt (continued)

The bank term loan and the bank loans have interest rates based on Canadian prime, Bankers' acceptances or US Libor. The revolving credit facilities for the bank loans expire from 1993 to 1998 in approximately equal semi-annual amounts. The Corporation has entered into several forward exchange contracts which have the effect of converting $78.2 million of the bank loans under revolving credit facilities into an equivalent US$60.7 million.

As at December 31, 1992, the Corporation has available unused long-term bank lines of credit of $345.9 million.

The Corporation has entered into an interest rate swap agreement with one of its bankers which converts the US$100 million syndicated loan to a fixed rate debt of 9.71% up to 1999. The Corporation has also entered into several interest rate swap agreements with its bankers which convert the US$225 million 9.25% debentures into floating rate debt until June 1995.

All of the Corporation's long-term debt is unsecured.

Repayments required on long-term debt over the next five years are as follows:

(in millions of dollars)	1993	1994	1995	1996	1997
	$ 26.3	$ 34.2	$ 32.7	$ 100.4	$ 49.1

9. Commitments

At December 31, 1992, the Corporation has commitments for major capital expenditures under purchase orders and contracts amounting to approximately $38.0 million.

The Corporation has entered into a twenty-year agreement, beginning in 1991, with an affiliate, Laidlaw Waste Systems Ltd., for minimum purchases of recyclable newspapers and magazines. The amounts purchased under this agreement are disclosed in Note 14.

The Corporation has entered into a fifteen-year lease with an affiliate, Marathon Realty Company Limited, for the rental of office space beginning in 1993. Minimum payments under this lease approximate $2.6 million per year.

10. Share capital

As at December 31, 1992, the Corporation's authorized common share capital is an unlimited number of shares of which 52,459,195 (1991 – 43,959,195) have been issued. On February 13, 1992, the Corporation issued and sold 8.5 million common shares at a price of $26.50 per share which resulted in net proceeds of $217.8 million. Of this share issue, Canadian Pacific Enterprises Limited purchased 1.7 million common shares and, as a result, its ownership in the Corporation changed to 70.01% from 79.68%.

10. Share capital (continued)

The Corporation has a stock option plan for key employees. The number of shares that may be issued under the plan is limited to 800,000. As at December 31, 1992, options to purchase 315,992 shares at a price averaging $32 have been granted with expiry dates from 1998 to 2002. No options have been exercised.

11. Pensions and post-retirement benefits

The Corporation's pension plans are principally defined benefit pension plans and cover substantially all employees. Benefits from these plans are based on years of service and either career earnings or final average earnings. The date of the most recent actuarial valuation for the defined benefit plans is December 31, 1991.

Pension expense and actuarial estimates of the financial position of the plans are itemized below:

(in millions of dollars)	**1992**	1991
Pension expense (including portion attributable to unusual items in 1991)	**$ 28.7**	$ 30.5
Present value of accrued pension benefits obligation	**$817.7**	$800.9
Pension fund assets at market related values	**750.6**	726.5
Deficit	**$ 67.1**	$ 74.4

In 1992, the cost of providing limited life insurance and health care benefits to eligible retired employees amounted to $1.5 million (1991 – $1.1 million).

12. Interest

Interest on long-term debt amounted to $117.4 million and on short-term indebtedness to $4.1 million in 1992 (1991 – $89.7 million and $17.9 million respectively and $1.7 million charged to discontinued operations). Of these amounts, $10.4 million in 1992 has been capitalized with respect to major improvements and expansions (1991 – $20.7 million).

13. Income taxes

(in millions of dollars)	**1992**	1991
Loss before income taxes and minority interest	**$(376.6)**	$(938.1)
Income taxes using combined statutory federal and provincial rates of 40.9% (40.9% for 1991)	**(154.0)**	(383.7)
Manufacturing and processing deduction	**16.8**	36.6
Large corporations tax	**6.2**	5.2
Effect of non-deductible portion of unusual and other items	**3.4**	73.3
Tax rate differential on reversal of deferred taxes	**-**	(12.7)
Net gain on sale of non-capital tax losses	**(2.7)**	-
Other items	**2.2**	1.7
Income taxes	**$(128.1)**	$(279.6)

14. Related party transactions

Canadian Pacific Entreprises Limited owns 70.01% of the common shares of the Corporation, and consequently, the many companies within the Canadian Pacific Limited organization are affiliates. The Corporation purchases at competitive prices from these affiliates transportation services, recyclable newspapers and magazines, and financial services.

Transactions with these companies were as follows:

(in millions of dollars)	**1992**	1991
Purchase of transportation services	**$53.0**	$70.4
Purchase of recyclable newspapers and magazines	**10.9**	–
Interest costs on borrowings	**3.1**	15.7
	$67.0	$86.1

During 1992, the Corporation entered into a fifteen-year lease with an affiliate, Marathon Realty Company Limited, for the rental of office space beginning in 1993.

On December 30, 1992, the Corporation sold $200 million of non-capital tax losses to an affiliate, PanCanadian Petroleum Limited, for $58 million. The difference between this amount and the benefit related to these tax losses previously recorded by the Corporation resulted in a net gain of $2.7 million which has been included in Income taxes.

The Corporation receives fees for the marketing of newsprint and management of its two joint ventures, Ponderay Newsprint Company and Gold River Newsprint Limited Partnership. It also recovers costs incurred directly for these joint ventures. These fees and recoveries amounted to $38.1 million in 1992 (1991 – $41.2 million). The Corporation supplies all of the wood chips and kraft pulp required by the Gold River Newsprint Limited Partnership and may occasionally supply kraft pulp to Ponderay Newsprint Company. All such supplies are sold to the joint ventures at market prices and in 1992 amounted to $26.9 million (1991 – $36.4 million). In 1992, the Corporation earned interest of $15.1 million on the subordinated notes invested in the Gold River Newsprint Limited Partnership (1991 – $10.8 million). Of this amount, $12.3 million (1991 – $8.3 million) reduced the Equity in losses of joint ventures. The amount of subordinated notes and accrued interest thereon is disclosed in Note 6. Accounts receivable includes an amount of $3.4 million (1991 – $4.0 million) owing by the two joint ventures.

15. Subsequent event

On January 21, 1993, the Corporation issued US$75 million of 10.25% Debentures due January 15, 2003 on the U.S. public market. The net proceeds realized by the Corporation from the sale of the debentures amounted to $95.4 million after conversion into Canadian dollars. Approximately $45 million of the net proceeds was used to repay short-term indebtedness. The balance will be used to fund general operations and to finance capital expenditures. The related indenture contains a covenant which limits the payment of cash dividends on common shares. A minimum of $75 million per year is available for payment without restrictions. The ability to pay cash dividends in excess of this amount will be based principally on the Corporation's profitability in future years.

16. Reclassification

Equity in losses of joint ventures for 1991 has been reclassified as a separate line item after Operating loss in the consolidated statement of earnings.

17. Segmented information

Geographic areas

All of the Corporation's manufacturing facilities are located in Canada, with the exception of the Ponderay Newsprint Company joint venture which is located in the United States.

In 1992, the Corporation had export sales of $841 million to the United States (1991 – $930 million) and $555 million to other countries (1991 – $573 million).

Inter-segment sales, excluding transfers within integrated facilities, are substantially all from the pulp segment and amounted to $66 million in 1992 (1991 – $92 million).

Industry segments

The Corporation's continuing operations and assets by industry segment are as follows:

1992 Business segments

(in millions of dollars)

Business Segment	Sales to Significant Geographic Segment		Sales to Customers	Deprecia-tion and Depletion	Operating Earnings (loss)	Additions to Fixed Assets	Total Assets
Newsprint	U.S.A.	66%	$ 563.8	$ 65.1	$(162.6)	$198.9	$1,400.2[2]
Pulp	U.S.A.	57%	458.3	35.0	(21.9)	22.7	729.0
White paper	U.S.A.	51%	188.3	23.1	(19.0)	4.0	279.2
	Canada	49%					
Paperboard and packaging	Canada	67%	337.6	7.8	(3.8)	5.1	122.3
Wood products	Japan	62%	226.9	17.9	17.7	8.7	286.0
Other			50.6	4.4	(0.1)	1.1	51.0
Corporate							133.1
Total			$1,825.5	$153.3	$(189.7)	$240.5	$3,000.8

1991 Business segments

(in millions of dollars)

Business Segment	Sales to Significant Geographic Segment		Sales to Customers	Deprecia-tion and Depletion	Operating Loss[1]	Additions to Fixed Assets	Total Assets
Newsprint	U.S.A.	66%	$ 824.4	$ 92.3	$(523.8)	$155.5	$1,360.1[2]
Pulp	U.S.A.	54%	397.0	38.9	(89.7)	155.1	715.9
White paper	Canada	54%	187.0	23.9	(13.5)	1.9	294.0
	U.S.A.	46%					
Paperboard and packaging	Canada	73%	327.0	19.6	(159.4)	9.8	216.1
Wood products	Japan	56%	190.2	18.2	(11.2)	15.6	269.2
Other			53.9	5.3	(2.7)	2.1	73.4
Discontinued operations (Note 2)			–	–	–	9.9	–
Corporate			–	–	–	–	36.3
Total			$1,979.5	$198.2	$(800.3)	$349.9	$2,965.0

[1] Operating loss in 1991 includes Unusual items referred to in Note 3 and has been restated to exclude Equity in losses of joint ventures (Note 16).
[2] Total assets for the Newsprint segment include the Investment in joint ventures.

Quarterly Financial Data

(in millions of dollars, except per share amounts)	Sales	Operating Loss*	Net Loss	Net Loss Per Share	Dividends Declared Per Share	Price Range Per Share on The Toronto Stock Exchange	
1992						High	Low
First Quarter	$ 429.7	$ (67.3)	$ (71.1)	$ (1.47)	$0.10	$27½	$24¼
Second Quarter	462.2	(52.8)	(59.5)	(1.13)	0.10	28½	24¼
Third Quarter	466.3	(33.3)	(57.9)	(1.10)	0.10	27¼	21½
Fourth Quarter	467.3	(36.3)	(59.5)	(1.13)	0.10	24½	20
	$1,825.5	$(189.7)	$(248.0)	$ (4.82)	$0.40		

1991						High	Low
First Quarter	$ 488.4	$ (51.7)	$ (50.1)	$ (1.14)	$0.10	$35	$27
Second Quarter	502.6	(56.2)	(56.4)	(1.28)	0.10	34⅜	29¼
Third Quarter	507.0	(62.3)	(1.0)	(0.02)	0.10	33⅛	29
Fourth Quarter	481.5	(630.1)	(464.0)	(10.56)	0.10	29¼	22
	$1,979.5	$(800.3)	$(571.5)	$(13.00)	$0.40		

*Operating loss for 1991 has been restated to exclude Equity in losses of joint ventures referred to in Note 16 to the consolidated financial statements and includes Unusual items referred to in Note 3 to the consolidated financial statements.

Seven-Year Financial and Statistical Data

(in millions of dollars)	**1992**	1991	1990	1989	1988	1987	1986
Operations							
Sales	**$1,825.5**	$1,979.5	$2,098.7	$2,643.9	$2,765.8	$2,526.3	$2,137.0
Operating earnings (loss)	**(189.7)**	(800.3)	73.5	367.9	574.8	464.7	200.5
Equity in losses of joint ventures	**(79.8)**	(53.4)	(71.8)	(4.0)	–	–	–
Interest expense	**111.1**	85.2	40.6	22.6	39.0	82.2	123.8
Earnings (loss) from continuing operations	**(248.0)**	(629.6)	(16.8)	213.0	316.9	212.6	26.4
Net earnings (loss)	**(248.0)**	(571.5)	(9.4)	220.1	323.4	217.9	33.3
Cash from (used in) operations	**(86.5)**	(134.9)	286.6	333.6	470.4	511.0	229.0
Dividends declared	**21.0**	17.6	50.5	114.3	96.6	28.3	7.8

(in dollars)	**1992**	1991	1990	1989	1988	1987	1986
Per share data							
Earnings (loss) from continuing operations	**$ (4.82)**	$ (14.32)	$ (0.38)	$ 4.85	$ 7.21	$ 4.84	$ 0.86
Net earnings (loss)	**(4.82)**	(13.00)	(0.21)	5.01	7.36	4.96	1.08
Cash from (used in) operations	**(1.68)**	(3.07)	6.52	7.59	10.70	11.62	7.42
Shareholders' equity	**19.05**	23.83	37.23	38.55	36.14	31.08	37.40
Price range							
The Toronto Stock Exchange							
High	**28½**	35	40	49½	54½	56⅛	33¾
Low	**20**	22	27½	35¾	39½	32	17⅝
Close	**22½**	24¼	28	39½	42	47	31¼
Dividends declared	**0.40**	0.40	1.15	2.60	2.50	1.45	0.40

(in millions of dollars)	**1992**	1991	1990	1989	1988	1987	1986
Other Data							
Investing activities	**$ 280.9**	$ 256.3	$ 470.9	$ 468.8	$ 277.8	$ 171.1	$ 170.4
Assets	**3,000.8**	2,965.0	3,263.3	3,071.1	2,774.4	2,669.4	2,542.7
Long-term debt	**1,392.2**	1,216.7	667.1	330.0	114.7	337.5	778.1
Shareholders' equity	**999.2**	1,047.6	1,636.7	1,694.6	1,588.8	1,366.2	1,154.6
Working capital	**212.6**	343.6	311.9	258.8	201.2	299.3	380.3
Ratio of total debt-to-equity	**59:41**	54:46	33:67	25:75	17:83	24:76	41:59
Return on average shareholders'equity	**(24.2)%**	(42.6)%	(0.6)%	13.4%	21.9%	17.3%	3.3%
Current ratio	**1.6**	1.9	1.8	1.5	1.3	1.5	2.1
Number of shareholders	**1,189**	1,243	1,250	1,285	1,306	1,355	1,521
Average number of employees	**10,774**	13,215	14,494	14,981	15,224	15,921	15,861

(in thousands of tonnes)	1992	1991	1990	1989	1988	1987	1986
Shipments							
Newsprint	**1,012**	1,309	1,173	1,492	1,560	1,522	1,411
Pulp	**736**	662	618	899	933	912	868
White paper	**230**	213	190	131	101	101	100
Paperboard and packaging	**431**	403	343	352	396	404	411
Lumber (millions of board feet)	**373**	382	388	428	484	490	389

(in millions of dollars)							
Sales							
Newsprint	**$ 563.8**	$ 824.4	$773.7	$1,017.5	$1,189.8	$1,085.5	$953.7
Pulp	**458.3**	397.0	550.0	849.2	790.9	676.3	515.7
White paper	**188.3**	187.0	201.5	149.0	115.6	105.6	100.3
Paperboard and packaging	**337.6**	327.0	317.2	348.0	387.0	375.2	359.1
Wood products	**226.9**	190.2	187.4	203.2	208.4	209.8	142.2

(in millions of dollars)							
Operating earnings (loss)*							
Newsprint	**$(162.6)**	$(523.8)	$ (43.7)	$ 22.1	$ 204.1	$ 155.4	$111.7
Pulp	**(21.9)**	(89.7)	118.8	304.2	253.2	187.5	22.3
White paper	**(19.0)**	(13.5)	8.6	14.0	20.6	14.7	14.3
Paperboard and packaging	**(3.8)**	(159.4)	8.3	30.5	57.4	43.4	31.0
Wood products	**17.7**	(11.2)	(13.2)	(0.8)	35.4	59.9	13.7

*Operating earnings (loss) in 1991 and prior years have been restated to exclude Equity in losses of joint ventures referred to in Note 16 to the consolidated financial statements.

Operating earnings (loss) in 1991 include Unusual items referred to in Note 3 to the consolidated financial statements.

Directors

Harold W. Andersen
Director and Contributing Editor
Omaha World-Herald Company

Michel Bélanger
Chairman of the Board
Canadian Pacific Forest
Products Limited

Hon. William R. Bennett, P.C.
Corporate Director

Robert W. Campbell
Corporate Director

L. Yves Fortier, Q.C.
Chairman
Ogilvy Renault

Paul E. Gagné
President and Chief Executive
Officer
Canadian Pacific Forest
Products Limited

James F. Hankinson
President and Chief Operating
Officer
Canadian Pacific Limited

W. Norman Kissick
Corporate Director

J. Ross LeMesurier
Corporate Director

E. Neil McKelvey, Q.C.
Counsel
Stewart McKelvey Stirling
Scales

Paul Paré
Corporate Director

William W. Stinson
Chairman and Chief Executive
Officer
Canadian Pacific Limited

Mr. Claude Pratte, Q.C.
resigned as a Director, effective
January 11, 1993, for health
reasons.

Committees of the Board

Executive Committee
Michel Bélanger (Chairman)
Paul E. Gagné
James F. Hankinson
Paul Paré
William W. Stinson

Management Development and Compensation Committee
Hon. William R. Bennett, P.C.
James F. Hankinson
Paul Paré (Chairman)
William W. Stinson

Audit Committee
L. Yves Fortier, Q.C.
J. Ross LeMesurier (Chairman)
E. Neil McKelvey, Q.C.
Paul Paré

Environment, Health and Safety Committee
L. Yves Fortier, Q.C.
Paul E. Gagné
W. Norman Kissick (Chairman)
E. Neil McKelvey, Q.C.

Pension Fund Review Committee
James F. Hankinson
W. Norman Kissick
J. Ross LeMesurier
Paul Paré (Chairman)

Mr. Claude Pratte, Q.C., served as Chairman of the Management Development and Compensation Committee and as a member of the Audit Committee during 1992. Upon Mr. Pratte's resignation, Mr. Paul Paré assumed these duties until the 1993 Annual Meeting of Shareholders.

Officers

Michel Bélanger
Chairman of the Board

Paul E. Gagné
President and Chief Executive Officer

Robert E. Chambers
Executive Vice-President

J. Hugh Whalen
Executive Vice-President, Marketing

Wayne B. Wolfe
Executive Vice-President, Manufacturing

Marc Régnier
Senior Vice-President and General Counsel

David G. Toole
Senior Vice-President and Chief Financial Officer

Denis Auclair
Vice-President, Marketing White Paper and Paperboard

Gaudry Delisle
Vice-President, Management Information Systems

Sandy M. Fulton
Vice-President, Wood Products

Joseph Gurandiano
Vice-President, Manufacturing Services and Special Projects

Roger Hébert
Vice-President, Administration

Norman W. Lord
Vice-President, Marketing Newsprint

Lawrence V. Mackisoc
Vice-President, Operations Planning and Logistics

John H. Sim
Vice-President, Marketing Pulp

Wallace M. Vrooman
Vice-President, Environment

Denis Aubin
Treasurer

Jacques Beauchamp
Secretary

Serge Bureau
Internal Auditor

Anthony Iasenza
Comptroller

Dennis Bibeau
Assistant-Comptroller

Sheila Britt MacKenzie
Assistant-Secretary

Maxim Broady
Assistant-Comptroller

Yvan Laniel
Assistant-Comptroller

Réjean St-Onge
Assistant-Treasurer

Additional Information

Annual Meeting
The annual meeting of shareholders of Canadian Pacific Forest Products Limited will be held on Tuesday, April 27, 1993 at 11:30 a.m. at the Waterfront Centre Hotel, 900 Canada Place Way, Vancouver, British Columbia, Canada.

Transfer Agents and Registrars
Montreal Trust Company, Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax, Canada. Bank of Montreal Trust Company, New York, United States.

Stock Exchanges
Common shares are listed on the Toronto and Montreal stock exchanges. The stock market symbol is PFP.

Currency
All amounts stated in this report are in Canadian dollars, unless otherwise specified.

Measurements
One tonne or metric ton equals 1,000 kilograms or 2,204.6 pounds. One hectare is equivalent to 2.471 acres.

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Pour obtenir la version française du présent rapport, veuillez en faire la demande par écrit au :
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H3B 2X1

The editorial and financial sections of this Annual Report were printed on Britewhite Opaque 140M produced at the Corporation's white paper mill in Dryden, Ontario.

Technical Glossary

Board foot:
one square foot one inch thick, also called foot board measure (fbm).

Containerboard:
linerboard and corrugating medium used primarily in the manufacture of corrugated containers.

Corrugating medium:
a sheet manufactured from hardwood chips and recycled paperboard used in the manufacture of corrugated containers.

Groundwood specialties:
paper mainly composed of mechanical pulp. Its surface characteristics differ from those of standard grade newsprint. It is used in colour printing, primarily for newspaper advertising inserts and Sunday magazines.

Kraft pulp:
wood pulp produced by a sulphate chemical process. The word "kraft" means "strength" in German.

Linerboard:
a type of kraft paperboard, generally unbleached, used to line or face corrugated containerboard (on both sides) to form shipping boxes and various types of containers.

Market pulp:
that portion of pulp production available for sale.

Newsprint:
printing paper used mainly for newspapers. It is manufactured largely from groundwood, mechanical or deinked pulp reinforced with chemical pulp.

Paperboard and packaging:
include linerboard and corrugating medium used to manufacture containerboard, and poly-coated boards used to produce milk cartons and other coated containers. Corrugated boxes are made from containerboard.

Post-consumer recycled-content newsprint:
newsprint manufactured using a combination of deinked pulp made from old magazines and newspapers and virgin fibre pulp.

Pulp:
the generic term describing the cellulose fibres derived from wood. Pulp can result from a variety of pulping processes including cooking, refining and grinding. Pulp can be stored either in a wet or dry state. Types of pulp include:

Chemical pulp – pulp obtained by cooking wood in solutions of various chemicals; the principal chemical processes are alkaline or acid-based, commonly described as kraft or sulphite, respectively;

Groundwood and mechanical pulp – pulp produced mechanically by grinding a log or chips with a stone or metal plate; other variations – various combinations of grinding, heat, chemicals and pressure are used to produce the following types of pulp:
TMP – thermomechanical pulp;
SCMP – sulphonated chemi-mechanical pulp;
CTMP – chemi-thermo-mechanical pulp.

Deinked pulp – papermaking fibre reclaimed through the removal of ink and other undesirable materials from waste paper by mechanical disintegration, chemical treatment, washing and bleaching.

Virgin fibre wood pulp – any pulp derived from wood that does not contain secondary fibre.

Secondary fibre:
fibre previously used in paper or paperboard production that is re-pulped and re-used.

Stud lumber:
nominally either two-by-four or two-by-six inches and eight feet long, used primarily in framing (residential construction).

Sustainability:
a forest management practice which balances growth and regeneration, thus assuring the availability of a continuous supply of wood fibre.

Silviculture:
the growing and tending of trees.

Tonne:
metric ton = 1,000 kilograms or 2,204.6 pounds.

Twin-wire process:
forming paper by passing the pulp between two surfaces, or wires. Traditional fourdrinier machines can be converted to twin-wire process through the addition of a second forming wire, referred to as a "top-wire" or "top former". Paper produced on twin-wire machines is more uniform and permits higher quality printing than paper produced with other processes.

White paper:
includes uncoated printing paper, copy and laser paper, register, bond, and envelope paper. It also includes a broad range of types of paper manufactured to suit a variety of specialty end uses.

Design: Gottschalk+Ash International
Principal photography: Ron Levine

Legal Deposit
1st Quarter 1993

The paper used for this report is recyclable.