Canadian Pacific Forest Products Limited

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Annual Report

1990

Corporate Profile

We are committed to leading in product quality and customer satisfaction. It is our belief that our success is directly linked to the success of our customers.

Canadian Pacific Forest Products Limited manufactures a wide range of products including newsprint and uncoated mechanical paper, pulp, paperboard and packaging, white paper, tissue and lumber. The Corporation's sales were $2.3 billion in 1990, and total assets at year-end were $3.3 billion.

The Corporation is one of the largest newsprint producers in the world, with mills supplying publishers in more than 30 countries. In market pulp production, it ranks first in Canada and is one of the largest producers in the world. With over 10 million hectares of forests, it is the largest holder of timber-cutting rights in Ontario and is a major land-owner in New Brunswick, Québec and British Columbia. The Corporation's primary mills are located in Dalhousie, New Brunswick; Gatineau, La Tuque, Matane and Trois-Rivières, Québec; Dryden and Thunder Bay, Ontario; Gold River, British Columbia; and Usk, Washington. In addition, the Corporation operates one tissue mill, nine converting plants and five sawmills, located across Canada.

The Corporation exports to customers in more than 40 countries. Its largest market is the United States. The Corporation has a network of offices providing marketing and customer services in Canada, the United States and abroad.

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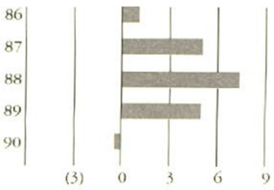
Financial Highlights

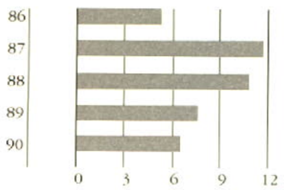
Canadian Pacific Forest Products Limited

(in millions of dollars, except per share amounts)	**1990**	1989	1988	1987	1986
Sales	**$2,313.4**	$2,876.4	$3,005.9	$2,764.7	$2,316.7
Operating earnings	**14.9**	377.1	587.4	476.6	215.6
Net earnings (loss)	**(9.4)**	220.1	323.4	217.9	33.3
Total assets	**3,263.3**	3,071.1	2,774.4	2,669.4	2,542.7
Long-term debt	**667.1**	330.0	114.7	337.5	778.1
Shareholders' equity	**1,636.7**	1,694.6	1,588.8	1,366.2	1,154.6
Net earnings (loss) per share	**(0.21)**	5.01	7.36	4.96	1.08
Cash flow per share	**6.52**	7.59	10.70	11.62	5.21
Return on equity	**(0.6)%**	13.4%	21.9%	17.3%	3.3%

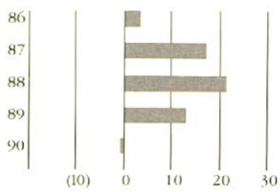
Net earnings (loss) per share
(in dollars)



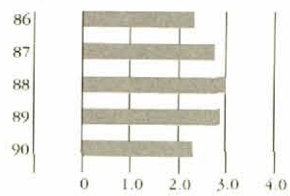
Cash flow per share
(in dollars)



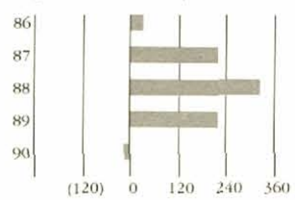
Return on shareholders' equity
(%)



Sales
(in billions of dollars)



Net earnings (loss)
(in millions of dollars)



The year 1990 proved to be one of considerable challenges for the Corporation. All business sectors experienced weak market conditions as pulp and paper markets entered a cyclical downturn. This resulted from a weakening economy, a strong Canadian dollar, high interest rates and increased capacity.

Financial Results

The Corporation reported a loss for 1990 of $9.4 million or $0.21 per share, compared with net earnings of $220.1 million or $5.01 per share in 1989. Sales were $2.3 billion, compared with $2.9 billion in the previous year.

The major reason for the decline in earnings was reduced shipment volumes in all business sectors, except for white paper. These reductions resulted from weak markets and from strike action at three of the Corporation's primary mills in the second half of the year. Weak markets resulted in lower selling prices for market pulp, uncoated mechanical paper, white paper and packaging products. The strength of the Canadian dollar, which reached a ten-year high in 1990 against the U.S. dollar, and high Canadian interest rates combined to affect results unfavourably.

The Corporation's equity in the losses of the two new joint-venture newsprint mills at Gold River, British Columbia and Usk, Washington also negatively affected earnings. The Gold River facility experienced a difficult start-up, lower production levels, higher unit operating costs and higher interest costs than were expected.

The Corporation reported a loss of $21.8 million or $0.49 per share in the fourth quarter. The loss was primarily attributable to the strike action at the primary mills.

As a result of declining operating results and reduced cash flow, a number of capital projects originally scheduled for 1990 were deferred. Capital expenditures for 1990 totalled $470.9 million. The Corporation continues to maintain a healthy balance sheet. Of particular note is the debt to equity ratio of 33:67 at the end of 1990.

Financing

On March 13, 1990, the Corporation completed a 10-year Libor-based syndicated loan of US$100 million, with a group of international banks. The interest rate on this loan was fixed at 9.7 percent by means of a swap agreement. On June 11 and November 14, 1990, the Corporation completed sales of 20-year senior notes, with a weighted average interest rate of 10.5 percent, to institutional investors in the United States for an aggregate amount of US$292 million. These placements are part of a plan to establish a core of long-term, fixed-rate financing which will be used to support the Corporation's ongoing capital expenditure program. During 1990, the Corporation raised some $450 million of fixed-rate debt with maturities ranging from 10 to 20 years.

Environment

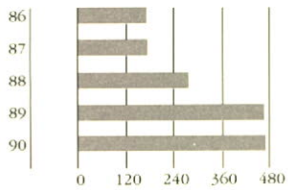
Environmental issues continue to be a high priority for the Corporation. We have made significant, steady progress in the past few years in making environmental improvements to our facilities and production processes. Over the next five years, more than $300 million is planned to be spent on environmental projects.

The Corporation will continue to encourage the formulation of sound, consistent environmental laws and regulations. We will work closely with our customers to ensure that the changes we initiate serve the evolving needs of both the public and the market-place.

Recycling

The Corporation is proud to be among the major North American newsprint producers to have commenced construction of facilities to allow us to provide our customers with recycled-fibre content newsprint. Our $175-million recycling projects at Gatineau, Québec and Thunder Bay, Ontario are scheduled to start up in the second half of 1991.

Capital expenditures
(in millions of dollars)



We are also pleased by the initial success of our new line of high-quality, 100%-recycled Facelle tissue products, "Royale Recycle • Recyclé", introduced to the market in late 1990.

With judicious, imaginative use of both natural and secondary resources, Canadian Pacific Forest Products intends to continue making meaningful contributions in the recycling area by providing high-quality products which correspond to our customers' needs.

Forest Management

Because of the growing public interest in forest management practices, a special section of this report has been devoted to this subject.

The Corporation's stewardship of over 10 million hectares of Canadian forest is an important responsibility. Hundreds of the Corporation's employees are devoted to the care and cultivation of forests. In May of 1990, the Corporation received the first "Distinguished Merit" award from the Québec government in recognition of its efforts in safeguarding the province's forest resource.

Labour Agreements

The past year was a major negotiating year for the Corporation's primary and woodlands operations in Eastern Canada. Although the first major industry agreement ratified with the Canadian Paperworkers Union was viewed as setting an acceptable pattern for our negotiations, difficulties were encountered and strike action occurred in the fall at three of the Corporation's primary mills, affecting both newsprint and pulp production. These strikes were settled in December 1990, in accordance with the pattern established for the industry.

Directors and Officers

After seven years of service as a Director, Mr. Stanley H. Stauffer, having reached the mandatory retirement age for Directors, will not stand for re-election at the Annual Meeting of Shareholders.

On April 17, 1990, Mr. F. D'Arcy Quinn, Vice-Chairman of the Corporation, retired after 32 years of service. Mr. William H. Martin, Vice-President, Corporate Affairs retired on October 1, 1990 after 43 years of service.

The following appointments have occurred since the Annual Meeting of Shareholders on April 17, 1990:

- Mr. Anthony Iasenza as Comptroller on May 18, 1990;
- Messrs. Dennis Bibeau, Frederick Holloway and Yvan Laniel as Assistant-Comptrollers, and Mr. Joseph Gurandiano as Assistant-Treasurer on June 5, 1990;
- Mr. Denis Auclair as Vice-President, Marketing – White Paper and Paperboard, Mr. Norman W. Lord as Vice-President, Marketing – Newsprint, Mr. John H. Sim as Vice-President, Marketing – Pulp, and Mr. Wallace M. Vrooman as Vice-President, Environment, on November 28, 1990.

Paul E. Gagné and Cecil S. Flenniken

Outlook

Economic difficulties will continue to exert a strong influence on our industry in the short term; nevertheless, we are confident that the Corporation's broad customer base and its proven ability to meet a wide range of customer needs will provide a continuing competitive advantage. The Corporation anticipates a rewarding, long-term economic return from its resources by increasing the efficiency of its operations, and the quality and cost competitiveness of its products.

We thank the employees of Canadian Pacific Forest Products whose skill, experience and dedication have helped us during our short-term difficulties and will be essential to the attainment of our long-term goals.

Cecil S. Flenniken
Chairman and
Chief Executive Officer

Paul E. Gagné
President and
Chief Operating Officer

March 12, 1991

Trees are legendary. They have inspired this country's artists and writers. They are part of the Canadian landscape and heritage. They form an essential part of the fabric of Canadian society.

The Canadian Forest Sector

The forest sector is Canada's largest industry and contributes more to the country's balance of trade than any industrial sector of the economy. One in ten Canadians is employed directly or indirectly in the industry.

Canada is at the forefront of modern forestry management and conservation practices, with a well-understood objective of providing an expanding resource for the benefit of this and future generations.

In Canada, the federal government provides national leadership in the development and coordination of forest policies and programs, but it is the provincial governments that have primary responsibility for publicly owned forests and establish social, environmental and economic rules and guidelines for their care.

Each province administers its forests in a slightly different manner. Renewable forest management agreements, contracts or licences are assigned to companies and provide harvesting rights, on an area or volume basis, coupled with reforestation responsibilities.

The best forest management plans result from a team approach whereby governments and the Corporation, both aided by public input, balance the different values placed on the forest by its professional, residential and recreational users.

While the stewardship of Canada's forests is the day-to-day responsibility of the Canadian forest industry, under the direction of the provincial governments, their care ultimately benefits every Canadian.

The Corporation's Woodlands

Canadian Pacific Forest Products Limited manages over 10 million hectares of forest in New Brunswick, Québec, Ontario and British Columbia.

Our foresters can now evaluate harvesting and silvicultural levels on a 70- to 100-year rotation, as well as examine computer-generated pictures of present and future forests. Tree species, age, volume, height and density as well as soil types, heritage sites, geographical particularities, fish and wildlife habitats all become part of the forest inventory data.

The Corporation's foresters work with woodlands employees to ensure the use of conservation techniques during harvesting operations. Properly executed harvesting simulates nature's own way of clearing old and less productive forest, replacing it with new and more vigorous growth. The Corporation plans its reforestation efforts to complement natural regeneration.

Reforestation and Silvicultural Activities

Canadian Pacific Forest Products was an early leader in modern forestry practices. In 1952, the Corporation opened its first forestry centre in Harrington, Québec and, in subsequent decades, produced millions of seedlings and pioneered important silvicultural activities such as genetics testing and development.

Today, the Harrington complex is one of the largest private seedling producers in Québec. The Corporation also has a forestry centre in Saanich, British Columbia. These centres produce millions of seeds and seedlings each year for planting on the private and public forests the Corporation manages. Trees cultivated by the Corporation include white pine, jack pine, grey pine, white spruce, black spruce, hemlock and Douglas fir. In 1990, Canadian Pacific Forest Products planted over 33 million seedlings across Canada to complement natural regeneration.

The Corporation's tree improvement program was initiated in 1965 and is dedicated to the development of faster-growing, stronger trees with superior form, high wood density and better resistance to insects and disease. The Corporation's foresters are devoted to year-round protection of the forest's life and their efforts benefit not only the Corporation's managed land but others' as well.

Community Activities

It is through ongoing, constructive interaction between industry, governments and the Canadian people that realistic long-term forest management practices will be effected which respect the needs and desires of all forest users.

For this reason, Canadian Pacific Forest Products participates in a broad range of community activities. In 1990, the Corporation took part in public meetings on its forest management practices and conducted countless tours of its woodlands operations and forestry centres for employees, the public and special visitors. Employees continued their participation in forestry education programs in local schools. To lend further support to educational efforts, a demonstration forest is being developed at Gold River, British Columbia.

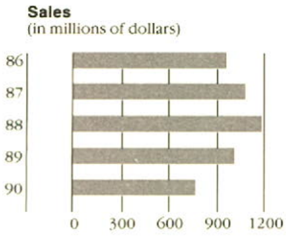
The Corporation also participated in public events including the Boy Scouts' Trees for Canada campaign, National Forest Week and Earth Day Canada.

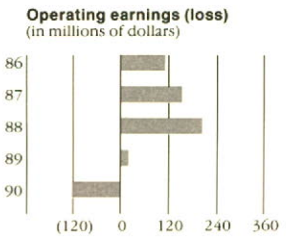
It is also notable that the more than 20,000 kilometres of logging roads which the Corporation has built provide increased access to Canada's forests and lakes for hunters, fishermen, hikers, nature lovers and other forest users.

The Future of Our Forests

The Corporation is devoted to the ongoing refinement and enhancement of its forestry activities. For Canadian Pacific Forest Products, establishing and maintaining healthy forests ensures that the practical and pleasurable benefits of Canadian trees exist for generations to come.

Newsprint





The year 1990 was a difficult one for the Corporation's newsprint business. Sales totalled \$773.7 million compared with \$1,017.5 million in 1989. The newsprint business incurred an operating loss of \$115.5 million in 1990 compared with 1989 earnings of \$18.1 million. The poor performance in 1990 was largely due to lower pricing which remains well below historic levels, labour difficulties, the higher value of the Canadian dollar, and the Corporation's equity in the losses of two joint-venture newsprint mills.

Operations

The Corporation's six newsprint mills operated at available capacity in 1990, except for the Gatineau, Québec mill where weak market demand required the temporary shutdown of an older machine in January. In the fall, labour difficulties caused temporary disruptions of production at three mills: Dalhousie, New Brunswick, Gatineau, Québec and Thunder Bay, Ontario.

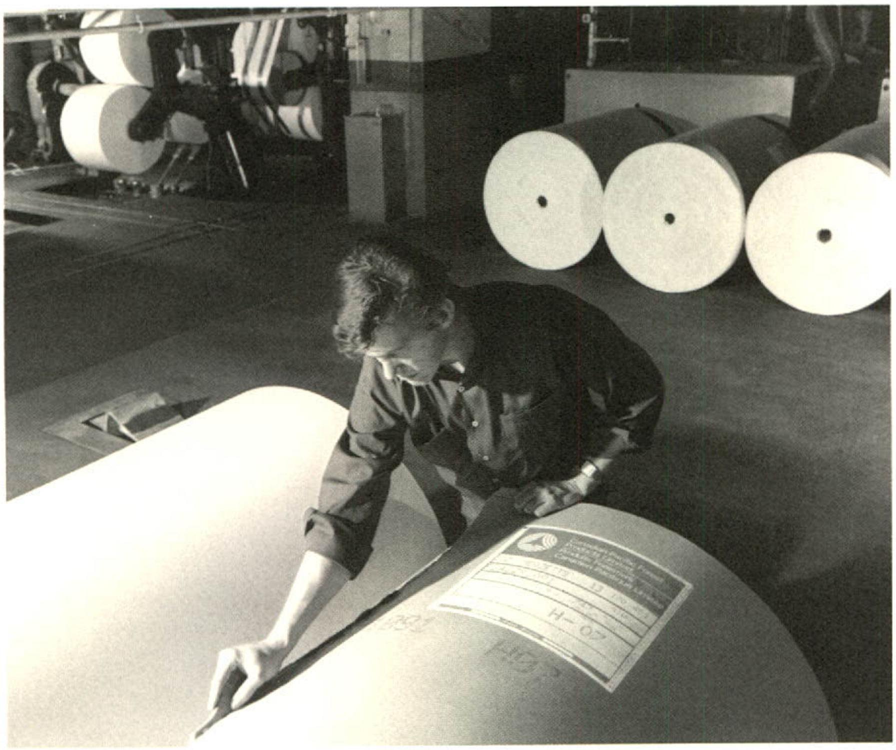
Modernization projects at the Thunder Bay mill were stalled during the summer because of a two-month Ontario construction trade union strike. The thermo-mechanical pulp mill started up in early 1991. Production from the new newsprint machine is scheduled to commence in the spring of 1991.

Construction of the Gatineau and Thunder Bay newsprint recycling facilities is underway and both plants are expected to start up in the second half of 1991.

The joint-venture mill in Usk, Washington had an excellent start-up and exceeded anticipated production levels. The joint-venture mill in Gold River, British Columbia had a slower ramp-up, due to initial production problems, but is now progressing satisfactorily. The excellent quality of the newsprint from both mills has been very well received by customers.

Markets

Demand for newsprint was weak in early 1990, as consumption was affected by soft retail sales and reduced advertising.
The market firmed in the second half, as publishers built their



The Corporation provides high-quality newsprint to the pressrooms of customers in more than 30 countries.

inventories in anticipation of labour negotiations. Prices were increased on June 1, 1990 and January 1, 1991.

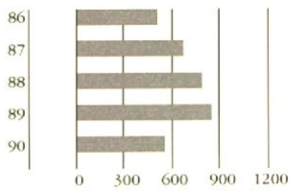
Demand for recycled-content newsprint grew in 1990, as legislation mandating its use and voluntary commitments increased in North America. Canadian Pacific Forest Products, working with Laidlaw Waste Systems, has obtained long-term contracts for old newspapers in many states, sourcing a majority of the waste paper for its new recycling facilities in markets where the Corporation's newsprint is sold.

Outlook

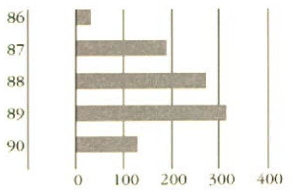
A weakening North American economy and the higher value of the Canadian dollar are expected to affect newsprint markets in 1991. Offshore markets are forecast to show continued strength. The 1991 start-up of two recycling facilities will place the Corporation among North American leaders in the production of recycled-content newsprint.

Pulp

Sales
(in millions of dollars)



Operating earnings
(in millions of dollars)



The Corporation's pulp business contributed significantly to operating earnings in 1990, despite difficult market conditions and labour disruptions. Sales in 1990 were $550.0 million compared with $849.2 in 1989. Operating earnings in 1990 totalled $129.3 million, compared with $316.2 in 1989. Volumes were substantially below 1989 levels. Production was curtailed during the year to adjust to lower market demand, largely due to substitution of northern bleached softwood kraft pulp with lower-priced pulp grades. Price reductions occurred in July and again in November of 1990. Earnings were adversely affected by the higher value of the Canadian dollar.

Operations

Weak market conditions in 1990 reduced production levels and increased operating costs. A pulp-drying machine at La Tuque, Québec has remained inactive since the spring of 1990. At the Gold River, British Columbia pulp mill, production levels were significantly reduced throughout the year, primarily due to changes in buying practices in markets in the Pacific Rim.

The availability of market pulp from the Dryden, Ontario mill has been reduced as was planned, to meet the requirements of the Corporation's new white paper machine which continued to progress along the start-up curve in 1990.

During the year, the Corporation completed the installation of chlorine dioxide generators at the Gold River and La Tuque mills in order to reduce the use of elemental chlorine. All four of the Corporation's kraft pulp mills now have the ability to produce pulp which does not contain any detectable dioxins.

In order to reduce chlorinated organics in mill effluent to meet current and proposed standards, three pulp facilities have replaced a minimum of 50 percent elemental chlorine in production processes with chlorine dioxide. The Dryden mill has reduced chlorinated organics through more efficient use of chemicals in the bleach plant and in secondary effluent treatment.

To achieve the elimination of dioxins, the Corporation is installing chlorine dioxide generators at all four kraft pulp facilities.

Markets

In North America, market pulp overcapacity, customer inventory reductions, substitution with lower-priced pulp grades and greater secondary fibre use contributed to reduced sales of northern bleached softwood kraft pulp.

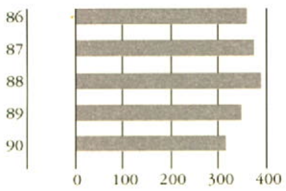
Similar pressures affected overseas markets where the Corporation's pulp sales decreased substantially.

In 1990, product developments included the introduction of low-chlorine content pulp and Novocell 30®. This latter pulp, produced at the La Tuque mill, has a 30-percent wood sawdust content and is an example of innovative use of the fibre resource.

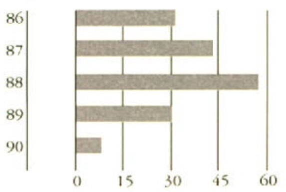
Outlook

It is expected that pulp overcapacity and moderate growth in the paper industry will slow the recovery of the pulp business in the short term. In the longer term, the northern bleached softwood kraft pulp sector continues to offer attractive prospects.

Sales
(in millions of dollars)



Operating earnings
(in millions of dollars)



The Corporation's paperboard and packaging business also experienced a difficult year in 1990. Results were weakest in the first and last quarters due to the seasonality of product demand. Total sales in 1990 were $317.2 million compared with $348.0 million in the prior year. Operating earnings for 1990 were $8.3 million compared with $30.5 million in 1989. Key factors affecting the Corporation's paperboard and packaging business were the weakening of the Canadian economy and a resulting decline in domestic demand, and increased competitive action resulting from integration within the North American packaging industry. Prices decreased in all markets.

Operations

Reduced market demand led to lower than full capacity production at the Corporation's paperboard mills in La Tuque and Matane, Québec during 1990.

In April of 1990, the Corporation sold its St. John's, Newfoundland container plant.

A new wide, high-speed, state-of-the-art corrugator has been installed at the Burlington, Ontario container plant and started commercial production in December. This new installation will allow the Corporation to consolidate its production of corrugated containers at five locations: Markham, London and Burlington, Ontario; Pointe-aux-Trembles and Vaudreuil, Québec. This consolidation will enable the Corporation to close its container plant in Rexdale, Ontario by March 29, 1991 with no impact on customer service.

Markets

The Corporation has a major presence in the Canadian paperboard and packaging industry and has a 53-percent share of the Canadian milk carton market. Total paperboard and packaging sales in Canada decreased slightly in 1990, due to weakening market demand and pricing pressures linked to the phase-out of tariffs on U.S. imports.

A new, state-of-the-art corrugator started up in December of 1990 at the Burlington, Ontario corrugated container plant.

The Corporation significantly increased its sales of paperboard and packaging in the United States in 1990. Approval by the U.S. Food and Drug Administration has been obtained for the Corporation's baconboard. This will provide new sales opportunities in the United States market.

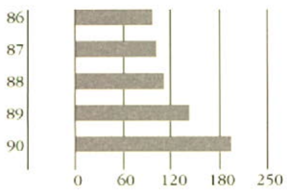
Because of the soft demand in North America, the Corporation sought an increased presence overseas in 1990, achieving considerable growth, primarily in Europe, the United Kingdom and the Middle East.

Outlook

While opportunities exist in U.S. markets, only limited market growth is anticipated for the Corporation's paperboard and packaging business in 1991. The trend to large-scale industry integration will continue. Operating rates of Canadian manufacturers are not expected to increase in 1991.

The new, state-of-the-art paper machine at Dryden, Ontario provided increased sales for the Corporation's white paper division in 1990. Total sales were $201.5 million in 1990 compared with $149.0 in 1989. However, operating earnings suffered due to higher production costs because of lower than anticipated production levels on the new machine during the first half of the year. Decreased prices and the higher value of the Canadian dollar also affected earnings. The white paper business' earnings of $8.6 million in 1990 were lower than 1989 earnings of $14.0 million.

Sales
(in millions of dollars)



Operating earnings
(in millions of dollars)

Operations

The new machine at Dryden increased the Corporation's white paper capacity by 54 percent in 1990. The machine is now operating at its expected production levels.

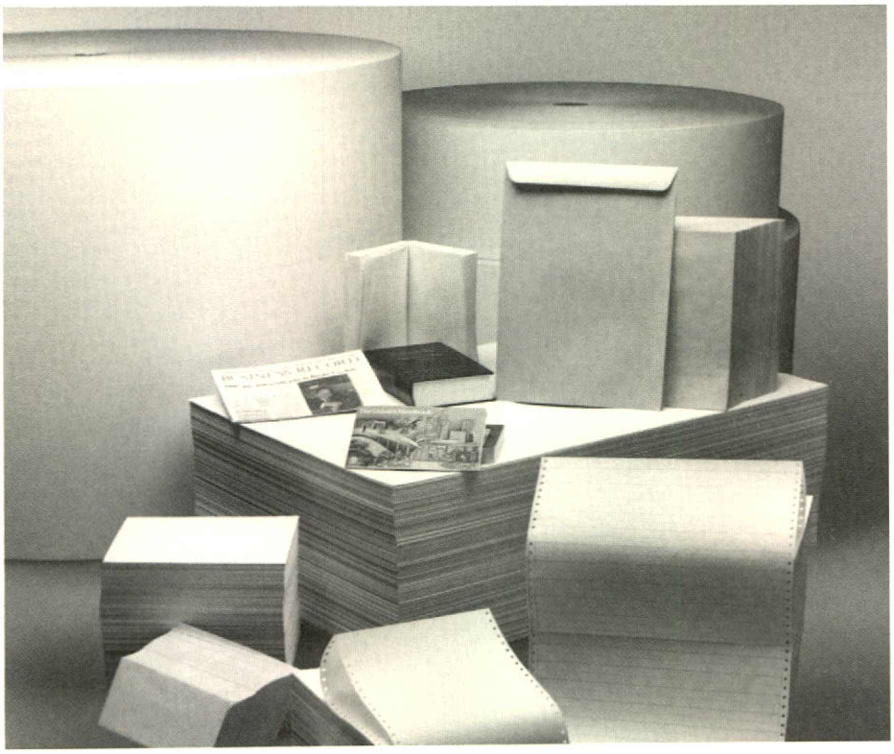
The production from the new machine has enhanced the white paper business' well-established reputation for product quality, consistency and reliability.

Markets

In 1990, the Corporation increased its sales in the Canadian white paper market by 20 percent.

Volume from the new machine at Dryden also allowed the Corporation to increase its sales in the north-central part of the United States, a market whose importance is growing due to Free Trade.

During the year, North American white paper shipments began to recover from the effects of a major inventory correction which took place in 1989. Prices in the first half of 1990 were below those of a year earlier; however, there were several price increases in the second half of the year.



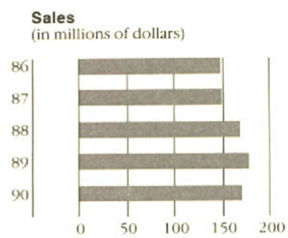
The Corporation produces a range of high-quality communication paper products including computer paper, copy paper, printing paper and envelopes.

In 1990, fine paper distributors in Canada presented the Corporation with the "Canadian Paper Trade Association Communication Award" in recognition of its excellent customer service and high-quality products.

Outlook

Moderate growth is anticipated in 1991 in North American white paper markets. However, there is now a potential for renewed competitive pressures resulting from significant capacity starting up in the United States, economic uncertainty and increased international competition.

Tissue



The Corporation's tissue business, Facelle Company Limited, remained stable during 1990, despite aggressive competitive activity, increased industry capacity and new competition from recycled products. Sales in 1990 totalled $170.5 million compared with $177.7 million in 1989. Reduced pulp prices and cost reduction programs helped to maintain operating earnings which were $13.4 million in 1990, essentially the same level as in 1989.

Operations

The tissue manufacturing plant, located in Toronto, Ontario, operated at capacity throughout the year.

Major capital projects completed in 1990 included the installation of an additional bathroom tissue production line, increased productivity for the facial tissue converting line and improvements to the wet-end operation of No.6 paper machine. Projects underway will increase the capacity of No.4 paper machine.

Markets

Facelle has a well-established consumer franchise, a national distribution network and strong relationships in the trade. In 1990, Facelle increased its market share in Canada, while consolidating its relatively small position in the United States. Ninety-five percent of the Company's business is in Canada, with the highest concentration of sales in Ontario and Québec. In the United States, Facelle markets its products primarily in the states of New York, Michigan and Ohio.

In 1990, the private label market segment increased significantly. There were also major capacity additions within the industry.

Consumer demand for recycled products has created a new and growing tissue products market sector. The new "Royale Recycle • Recyclé" line of high-quality, 100-percent recycled facial

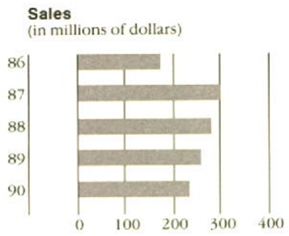
The "Royale Recycle·Recyclé" line of facial tissue, bathroom tissue and towels was successfully introduced in the fall of 1990.

tissue, bathroom tissue and towels has been well received by consumers across Canada, since its launch in September of 1990.

Facelle markets products under the following trademarks: Royale, Florelle, Pronto, Dove, Facettes and Festival.

Outlook

Facelle anticipates moderate growth in 1991 but expects continuing competitive pressure as a result of new and expanded industry capacity. Consumer demand for recycled products is expected to continue to grow.



The Corporation's lumber and wood products business was weak in 1990 as a result of softening markets due to high interest rates, low housing starts and high inventories. Sales totalled $231.6 million in 1990 compared with $258.0 million in 1989. In addition to weaker markets for lumber, lower log exports contributed to an operating loss of $23.7 million compared with the prior year's loss of $12.8 million.

Operations

The Corporation's sawmills in Ladysmith and Nanaimo, as well as the remanufacturing plant in Burnaby, British Columbia, operated at capacity in 1990. Stud mills in Thunder Bay and Dryden, Ontario experienced reduced production levels corresponding to reductions in market demand.

Production levels improved progressively over the course of the year at the newly renovated Tahsis sawmill in British Columbia.

The modernization of the Ladysmith sawmill commenced in 1990 with the installation of new log-breakdown equipment which allows improved lumber recovery yield and product value, while taking advantage of a smaller diameter log base.

Markets

Two thirds of the Corporation's lumber sales are concentrated in overseas markets which include Japan, the United Kingdom, North Africa, Europe, Australia and the Middle East. Products from the Dryden and Thunder Bay mills are marketed in North America.

In 1990, slow economic growth resulted in reduced housing starts in North America. World markets were also weak due to oversupply and high interest rates.

High-quality lumber from one of the Corporation's sawmills ready to be shipped overseas.

During the year, the lumber division expanded its market share of specialty products in the United Kingdom and Ireland.

Outlook

The lumber business is expected to remain stable in 1991. World economic growth rates will influence the growth in demand. If interest rates decline, a corresponding increase in housing starts is expected.

Environmental issues continue to be of major importance for the pulp and paper industry. Environmental groups, the general public and regulatory agencies are carefully following the performance of companies within the industry and demanding improved environmental records.

Overview

The Federal Government, along with the provinces of British Columbia and Québec, have tabled separate effluent regulations. Ontario is continuing with its Municipal and Industrial Strategy for Abatement program. Ontario and Québec have also proposed new regulations for air emissions.

Proposed changes to the federal and provincial Environmental Assessment Acts were also introduced in 1990. The full effect that these requirements will have upon modernization or expansion plans within the industry is not yet known.

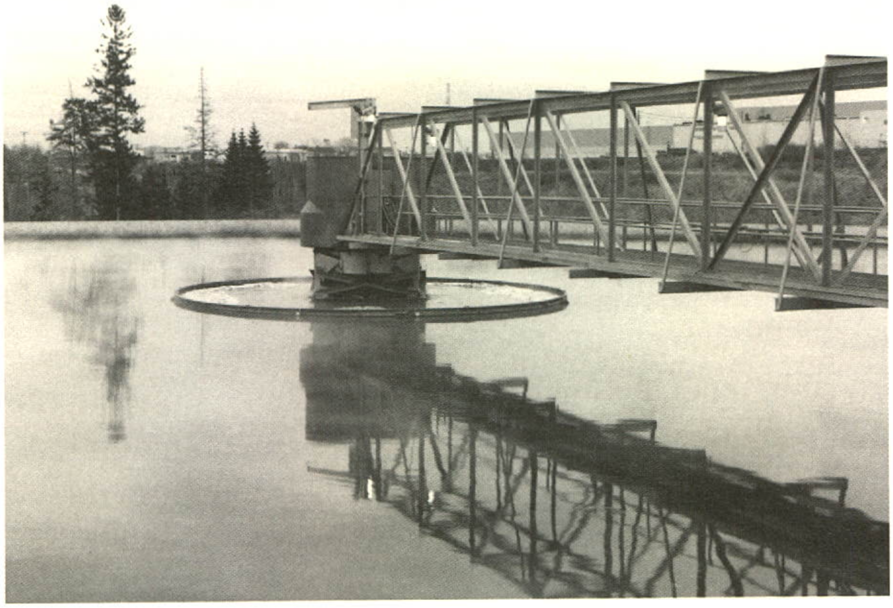
The Corporation favours the development of standardized regulations, approved by both the federal and provincial governments, which would be enforced by the regulatory agencies already in place in each province.

Current Status

Canadian Pacific Forest Products is committed to utilizing the best-available, cost-effective technology to minimize risk to the environment, as well as supporting research into new and improved production processes. Wherever possible, improvements are being made which take into account both known and anticipated environmental standards.

The Corporation's operating facilities are monitored constantly for environmental performance. This includes the individual air and water effluent streams, the waste generated in production processes, as well as the quality of the receiving environment.

Over $57 million was spent on environmental improvements during 1990.



This clarifier forms part of the effluent treatment system which purifies the water used in production processes.

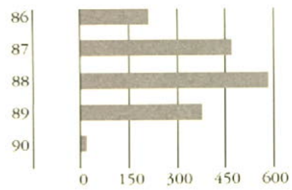
Outlook

Capital expenditures devoted to environmental improvements over the next five years are estimated to total more than $300 million, based on currently known requirements.

Environmental projects, either in progress or scheduled in the short term, include: improved suspended particulate collection on the recovery boiler, as well as a new secondary treatment system at Gold River, British Columbia; improved in-plant effluent controls at the Gatineau, Québec mill, as well as a new power boiler with an electrostatic precipitator which will incinerate sludge from the new recycling operation; a new secondary effluent treatment system at Thunder Bay, Ontario; and adjustments to meet reduced biological demand requirements at the Trois-Rivières and Matane, Québec mills. The Corporation is also in the process of examining improved effluent treatment and emission control options for the La Tuque, Québec and Dalhousie, New Brunswick mills.

The Corporation is committed to meeting all regulatory requirements. The environment remains a key consideration in the planning and execution of all major corporate activities.

Operating earnings
(in millions of dollars)



The year 1990 was one of cyclical downturn for the pulp and paper industry and for the Corporation. Increased capacity in a weakening economy resulted in lower operating rates and increased pricing pressures in all business segments. The strength of the Canadian dollar, the start-up of two new joint-venture newsprint mills and labour disruptions during the second half of the year also negatively affected the Corporation's earnings.

Operations–1990 vs. 1989

The loss for 1990 was $9.4 million, or $0.21 per share, compared with net earnings of $220.1 million or $5.01 per share earned in 1989. Sales at $2.3 billion were down 20 percent in 1990. Lower shipment volumes in all business sectors except for white paper, and lower transaction prices for market pulp, uncoated mechanical paper, white paper and packaging products contributed to the lower sales. The Canadian dollar, which averaged 86 cents U.S. compared with 85 cents U.S. in 1989, reduced sales by approximately $24 million.

The loss for the fourth quarter of 1990 was $21.8 million or $0.49 per share, compared with net earnings of $37.0 million or $0.84 per share in 1989. The loss was primarily attributable to the strike action at three of the Corporation's primary mills.

Total tonnage of all pulp and paper products in 1990 was down 19 percent to 2.4 million tonnes. Major factors adversely affecting volumes were the strikes at the Dalhousie, New Brunswick, Gatineau, Québec and Thunder Bay, Ontario facilities and the weak demand for market pulp primarily in Europe and Japan. Shipment volumes of white paper increased substantially over those of 1989 with the full-year production of the new white paper machine, which started up in June 1989.

The list price for newsprint increased by US$35 per tonne on June 1, 1990 and by an additional US$35 per tonne on January 1, 1991. Prices for northern bleached softwood kraft pulp were under pressure all year because of weak market conditions. As a result, prices were reduced from US$830 to US$800 per tonne on July 1, 1990, and subsequently to US$750 per tonne on November 1, 1990. Prices for the Corporation's paperboard and packaging, white paper and lumber also deteriorated in response to a general weakening of the economic environment.

Cost of sales was lower due to reduced shipment volumes. Most of the business segments experienced increases in operating costs at approximately the rate of inflation. In addition, lower operating levels at the three strikebound mills, production curtailments at the Gold River, British Columbia pulp mill, and market-related downtime at both the La Tuque and Matane, Québec paperboard and packaging mills contributed to higher operating costs.

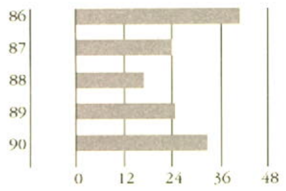
Depreciation and depletion totalled $141.0 million, essentially the same as in 1989.

The equity in the losses of the Corporation's joint ventures of $71.8 million reflected the difficult start-up experienced by the Gold River newsprint mill which resulted in lower production and higher operating costs. The current state of the newsprint market and its low margins, as well as high interest rates, also impaired the joint ventures' results.

Interest expense increased by $19.7 million to $43.1 million in 1990, due to the substantial increase in the level of borrowing to support the Corporation's capital expenditure program. Interest capitalized on major projects under construction amounted to $38.1 million, similar to the 1989 level.

Through its subsidiary as general contractor, a fee of approximately US$21 million was earned by the Corporation in 1990 in conjunction with the construction of the Ponderay joint-venture newsprint mill. This fee was based on the completion of the project within a specified budget and the mill's ability to sustain certain performance criteria. The 60-percent share of the fee, which represents the portion attributable to our partners' share in the joint venture, was included in the Corporation's other income.

Because of the large corporations tax, income taxes increased the Corporation's loss.



Operations–1989 vs. 1988

The affairs of the Corporation for 1989 as compared with those of 1988 were discussed in detail in the 1989 Annual Report made available to shareholders.

The principal matters discussed therein were that sales were down 4.3 percent in 1989 due to reduced shipment volumes for all products except white paper. Transaction prices decreased in the newsprint business because of discounting, but prices for pulp, bleached board, tissue and lumber improved. Exchange had a negative impact, as the Canadian dollar rose from an average of 81 cents U.S. in 1988 to 85 cents U.S. in 1989. Interest payments were higher because of the increased level of borrowing, but interest expense was lower because of higher capitalization of interest for major projects under construction. These factors resulted in a lower, but still substantial, level of earnings at $220.1 million, or $5.01 per share. Lower cash flow from operations and a higher level of capital spending and dividend payment increased borrowing to $579.3 million, resulting in a total debt to equity ratio of 25:75.

Financial Condition and Liquidity

Cash from operations amounted to $286.6 million in 1990, compared with $333.6 million in 1989. The reduction was due to earnings being lower by $229.5 million, of which $67.8 million, representing the increase in the equity in losses of joint ventures, did not involve cash. This was partially offset by a substantial reduction in working capital requirements due to temporarily lower accounts receivable resulting from the strikes at three primary mills during the latter part of the year.

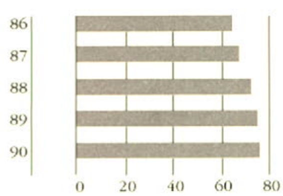
Capital spending in 1990 amounted to $470.9 million, compared with $468.8 million in 1989. Major expenditures for the year were $54.5 million on the thermo-mechanical pulp mill, $103.0 million on the new paper machine and $8.1 million on the recycling facility at Thunder Bay, Ontario; $28.4 million on the recycling facility and the refuse boiler at Gatineau, Québec; $5.5 million on the installation of soft-calendering equipment at Trois-Rivières, Québec; $15.0 million at La Tuque, Québec for a chlorine dioxide generator; and US$15.0 million of additional equity investment in the joint-venture newsprint mill at Usk, Washington and $43.0 million of subordinated note in the joint-venture newsprint mill in Gold River. The latter investment increased the Corporation's participation in this venture from 60.5 to 70.375 percent. Further investment is expected to be required in 1991.

Dividend payments to the Corporation's shareholders decreased $39.6 million to $74.7 million, due to a reduction in the quarterly dividend rate paid from 65 cents to 20 cents per share in the third quarter of 1990. A further reduction in the dividend rate to 10 cents per share was made with the dividend declared on October 17, 1990. This dividend was paid on January 3, 1991.

The lower cash flow from operations and the high level of capital spending resulted in an increase in borrowings in 1990. During the year, a Libor-based US$100 million loan was completed with a 10-year term swapped to a fixed interest rate of 9.7 percent. Twenty-year senior notes totalling US$292 million were also issued bearing interest at a weighted average rate of 10.5 percent. These placements at fixed rates will support the Corporation's ongoing capital expenditure program. At the end of 1990, long-term debt amounted to $667.1 million and short-term debt was $172.6 million for a total of $839.7 million. This compares with a total of $579.3 million at the end of 1989. Of the total debt as at December 31, 1990, $526.1 million was denominated in U.S. dollars. The unrealized exchange gain amounted to $11.2 million, of which $6.3 million was unamortized. Approximately 70 percent of the Corporation's total debt was at fixed rates at the end of 1990, compared with 50 percent at the end of 1989. In 1990, the rating of the Corporation's debentures was reduced to BBB (high) by DBRS Ltd. and to A by CBRS Inc. The ratio of total debt to equity at the end of 1990 was 33:67.

Future Events and Trends

The Corporation's two joint-venture newsprint mills are now completed and the modernization program at Thunder Bay, Average value of Canadian dollar



including the new recycling facility, will be completed during 1991. The modernization at Gatineau, involving the construction of a recycling facility and installation of a refuse boiler, will also be completed in 1991. The Corporation has made a clear commitment to environmental matters and is planning to spend over $300 million during the next five years on environment-related projects. The Corporation has capital commitments over the next three years for projects approved or underway totalling approximately $570 million. The Corporation recognizes that some of its older facilities could benefit from process changes and from technological advances. Those facilities which could benefit from the improved efficiency and quality resulting from such advances are currently under review to determine an appropriate course of action. The Corporation anticipates that it will be in a position to raise the required funds from internally generated cash flow and from outside sources. As at December 31, 1990, the Corporation had available unused long-term bank lines of credit of $566.8 million.

The year 1991 is expected to be another year of challenges. Newsprint, the Corporation's largest business segment, is expected to show only marginal improvement over the year 1990, as a result of further increases in industry capacity and a weak economy. The Corporation believes that its recycling projects and its joint-venture partnerships with publishers will provide competitive advantages and opportunities. In the market pulp sector, operating rates are expected to improve compared to 1990. However, prices for northern bleached softwood kraft pulp will probably remain under pressure, as substitution with lower-quality pulp grades is expected to continue.

The Corporation's earnings will continue to be impaired by the high value of the Canadian dollar compared with the U.S. dollar. Each U.S. one cent change in the value of the Canadian dollar, annualized, has an impact of approximately $13 million on the net earnings of the Corporation.

Cyclical downturns are an integral part of the pulp and paper industry. The Corporation sees them as a challenge, and as an opportunity for initiative and improved efficiency.

Canadian Pacific Forest Products Limited

Consolidated Financial Statements

December 31, 1990 and 1989

Management Report

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. 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 with management, the internal auditors and Price Waterhouse, the independent 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 examined by Price Waterhouse whose report is provided below.

Cecil S. Flenniken
Chairman and
Chief Executive Officer

Paul E. Gagné
President and
Chief Operating Officer

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, 1990 and 1989 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, 1990 and 1989 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
January 29, 1991

Consolidated Statement of Earnings

Year ended December 31 (in millions of dollars, except per share amounts)	1990	1989
Sales	$2,313.4	$ 2,876.4
Cost of delivery	179.7	225.4
Net sales	2,133.7	2,651.0
Cost of sales	1,809.0	2,031.6
Depreciation and depletion	141.0	140.4
Selling and administrative expenses	97.0	97.9
Equity in losses of joint ventures (Note 4)	71.8	4.0
	2,118.8	2,273 .9
Operating earnings	14.9	377.1
Interest expense (Note 9)	43.1	23.4
Other income	24.6	11.3
Earnings (loss) before income taxes and minority interest	(3.6)	365.0
Income taxes (Note 10)	7.9	141.7
Earnings (loss) before minority interest	(11.5)	223.3
Minority interest	(2.1)	3.2
Net earnings (loss)	$ (9.4)	$ 220.1
Net earnings (loss) per share	$ (0.21)	$ 5.01

Consolidated Statement of Retained Earnings

Year ended December 31 (in millions of dollars)	1990	1989
Balance at beginning of year		
As previously reported	$ 800.8	$ 695.0
Adjustment of prior years' taxes	3.9	3.9
As restated	804.7	698.9
Net earnings (loss)	(9.4)	220.1
Dividends declared	(50.5)	(114.3)
Balance at end of year	$ 744.8	$ 804.7

Consolidated Balance Sheet

December 31 (in millions of dollars)	1990	1989
Assets		
Current assets		
Accounts receivable (Note 11)	**$ 253.8**	$ 355.6
Income taxes recoverable	**28.9**	–
Inventories (Note 2)	**418.8**	415.4
Prepaid expenses	**9.1**	9.1
	710.6	780.1
Fixed assets (Note 3)		
Plants and properties	**3,677.1**	3,276.9
Timberlands	**152.5**	152.5
Less: Accumulated depreciation and depletion	**1,392.1**	1,274.9
	2,437.5	2,154.5
Other assets		
Subordinated note including accrued interest (Note 4)	**43.1**	–
Investment in joint ventures (Note 4)	**53.7**	117.1
Deferred items	**18.4**	19.4
	115.2	136.5
	$3,263.3	$3,071.1

December 31 (in millions of dollars)	1990	1989
Liabilities		
Current liabilities		
Bank indebtedness	**$ 23.7**	$ 25.0
Accounts payable and accrued charges	**221.7**	240.8
Loans from an affiliate	**143.2**	188.9
Income and other taxes payable	**–**	2.6
Dividend payable	**4.4**	28.6
Current portion of long-term debt	**5.7**	35.4
	398.7	521.3
Long-term debt, less current portion (Note 5)	**667.1**	330.0
Deferred income taxes	**503.1**	462.1
Other liabilities	**11.6**	10.6
Minority interest	**46.1**	52.5
	1,626.6	1,376.5
Shareholders' equity		
Common shares (Note 7)	**376.0**	376.0
Paid-in surplus	**515.9**	513.9
Retained earnings	**744.8**	804.7
	1,636.7	1,694.6
	$3,263.3	$ 3,071.1

Approved by the Board,

Cecil S. Flenniken, Director

Michel Bélanger, Director

Consolidated Statement of Changes in Cash Position

Year ended December 31 (in millions of dollars)	1990	1989
Cash provided by (used in)		
Operating activities		
Net earnings (loss)	$ (9.4)	$ 220.1
Items not involving cash		
Depreciation and depletion	141.0	140.4
Deferred income taxes	41.0	66.0
Minority interest	(2.1)	3.2
Equity in losses of joint ventures	71.8	4.0
Other	(3.5)	(8.6)
	238.8	425.1
Change in non-cash working capital relating to operations	47.8	(91.5)
Cash from operations	286.6	333.6
Financing activities		
Increase in long-term debt	310.8	159.0
Redemption of preferred shares of subsidiaries	(2.6)	(2.6)
Other	(2.6)	(1.4)
	305.6	155.0
Investing activities		
Additions to plants and properties	(426.3)	(398.3)
Investment in subordinated note	(43.1)	–
Investment in joint ventures	(9.0)	(66.7)
Other	7.5	(3.8)
	(470.9)	(468.8)
Other activities		
Dividends paid to common shareholders	(74.7)	(114.3)
Dividends paid to minority interest	(1.6)	(1.2)
Paid-in surplus contribution	2.0	–
	(74.3)	(115.5)
Increase (decrease) in cash position	47.0	(95.7)
Indebtedness at beginning of year	(213.9)	(118.2)
Indebtedness at end of year	$ (166.9)	$ (213.9)
Indebtedness consists of:		
Bank indebtedness	$ (23.7)	$ (25.0)
Loans from an affiliate	(143.2)	(188.9)
	$ (166.9)	$ (213.9)

Notes to Consolidated Financial Statements December 31, 1990

1. Significant Accounting Policies

• Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and all domestic and foreign subsidiary companies. All significant intercompany transactions and balances have been eliminated.

The Corporation follows the equity method of accounting for its investment in joint ventures.

• 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, depletion and amortization, 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.

During the construction period, interest is capitalized on major expansion projects and on the Corporation's investment in joint ventures.

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.

• 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. Inventories

(in millions of dollars)	1990	1989
Raw materials	$ 196.3	$ 224.5
Repair materials and other operating supplies	123.8	118.2
Finished products	98.7	72.7
	$ 418.8	$ 415.4

3. Fixed Assets

• Plants and properties

(in millions of dollars)

	1990			1989
	Cost	Accumulated Depreciation	Net	Net
Land	$ 60.1	$ –	$ 60.1	$ 59.8
Buildings and equipment	3,617.0	1,357.9	2,259.1	1,974.6
	$ 3,677.1	$1,357.9	$2,319.2	$2,034.4

• Timberlands

(in millions of dollars)

	1990				1989
	Square Kilometers	Cost	Accumulated Depletion	Net	Net
Owned in fee	6,949	$139.2	$23.5	$115.7	$117.2
Held under government licence	101,152	13.3	10.7	2.6	2.9
	108,101	$152.5	$34.2	$118.3	$120.1

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.

4. Investment in Joint Ventures

The Corporation has two principal investments in joint-venture partnerships:

• Ponderay Newsprint Company

A general partnership was formed to construct and operate a newsprint mill in the northeastern part of Washington State. The mill started production in November 1989.

The Corporation as the managing partner has a 40% interest in the partnership. As of December 31, 1990, the Corporation has invested US$47.2 million as its equity in the partnership, of which US$15.0 million was funded during 1990. The Corporation has guaranteed its 40% share, US$114 million, of the project finance loan to a syndicate of banks. Following the fulfillment of certain conditions, which are expected to be met, the Corporation's loan guarantee will be reduced to US$50 million.

• Gold River Newsprint Limited Partnership

A limited partnership was formed to construct and operate a newsprint mill adjacent to the Corporation's pulp mill on the west coast of Vancouver Island in British Columbia. The mill started production in November 1989.

The Corporation as the general partner had an initial interest of 60.5% in the limited partnership and had invested $78 million as its equity. On December 27, 1990, the Corporation invested an additional $43 million in the form of an interest-bearing subordinated note. Equity units attached to this note served to increase the Corporation's equity from 60.5% to 70.375%.

The Corporation's share of the combined net assets of the joint ventures is based on the percent ownership as at December 31, 1990 and 1989. The share of the revenues and expenses is based on the weighted average percent ownership for the years ended December 31, 1990 and 1989. The Corporation's share is as follows:

(in millions of dollars)	1990	1989
Current assets	$ 25.9	$ 12.4
Fixed assets	389.0	372.4
Other assets	29.0	27.0
	$ 443.9	$ 411.8
Current liabilities	$ 30.5	$ 34.4
Other liabilities	7.0	6.4
Long-term debt	347.8	253.9
	385.3	294.7
Net assets	58.6	117.1
Sales	$ 86.9	$ 10.5
Costs and expenses	101.4	12.0
Depreciation	23.1	1.0
Interest	34.2	1.5
	158.7	14.5
Equity in losses of joint ventures	$ (71.8)	$ (4.0)

5. Long-term Debt

(in millions of dollars)	1990	1989
10.85% Debentures due 2014	$ 125.0	$ 125.0
Senior notes		
10.625% Series A due 2010 (US$98 million)	113.6	–
10.50% Series B (US$102 million)	118.3	–
10.60% Series C due 2011 (US$70 million)	81.2	–
10.26% Series D (US$22 million)	25.6	–
Bank term loans at floating rates maturing 1995 (US$50 million)	58.0	57.9
Bank term loans at floating rates maturing from 1991 to 1997	21.2	125.7
Syndicated loan at floating rates maturing 1999 (US$100 million)	116.0	–
11.94% Term loan due 1990	–	29.0
8.3% Debenture due to an affiliated company maturing 1990 – 1993	1.6	1.8
Other long-term obligations maturing at various dates	12.3	26.0
	672.8	365.4
Less: Current portion	5.7	35.4
	$ 667.1	$330.0

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.

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 of 9.71% up to 1999.

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

As at December 31, 1990, the Corporation has available, unused long-term bank lines of credit of $566.8 million.

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

(in millions of dollars)		
	1991	$ 5.7
	1992	$16.3
	1993	$21.3
	1994	$20.6
	1995	$20.8

6. Commitments

At December 31, 1990, the Corporation has commitments for major capital expenditures under purchase orders and contracts amounting to approximately $99.3 million.

7. Share Capital

As at December 31, 1990, the Corporation's authorized common share capital is an unlimited number of shares of which 43,959,195 have been issued. 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, 1990, options to purchase 373,334 shares at prices approximating $33 have been granted. No options have been exercised.

8. Pensions

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 pension plans is December 31, 1988.

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

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

(in millions of dollars)	**1990**	1989
Pension expense	**$ 19.4**	$ 17.3
Pension fund assets at market related values	**$ 704.4**	$ 708.4
Present value of accrued pension benefits obligation	**$ 753.3**	$ 719.6
Deficit	**$ 48.9**	$ 11.2

9. Interest

Interest on long-term debt amounted to $55.3 million in 1990 and on short-term indebtedness to $25.9 million (1989 – $39.4 million and $21.1 million respectively). Of these amounts, $38.1 million in 1990 has been capitalized with respect to major projects under construction (1989 – $37.1 million).

10. Income Taxes

(in millions of dollars)	1990	1989
Earnings (loss) before income taxes and minority interest	$ **(3.6)**	$ 365.0
Income taxes using combined statutory federal and provincial rates of 40.5% (39.8% for 1989)	**(1.5)**	145.3
Manufacturing and processing deduction	**0.1**	(8.0)
Large corporations tax	**6.2**	2.5
Non-deductible expenses and other items	**3.1**	1.9
Income taxes	$ **7.9**	$ 141.7

11. Related Party Transactions

Canadian Pacific Enterprises Limited owns approximately 79.7% of the common shares of the Corporation, and consequently, the many companies within the Canadian Pacific organization are affiliates. The Corporation purchases from these affiliated companies transportation services and manufactured products at competitive prices. For 1990, these purchases amounted to $69.2 million (1989 – $97.6 million). Interest costs on borrowings from an affiliate during the year were $23.5 million (1989 – $29.0 million).

The Corporation receives fees for the marketing of newsprint and management of its two joint-venture partnerships, Ponderay Newsprint Company and Gold River Newsprint Limited Partnership. It also recovers costs incurred directly for these partnerships. These fees and recoveries amounted to $36.2 million in 1990 (1989 – $13.6 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 partnerships at market prices and in 1990 amounted to $25.5 million (1989 – $8.6 million).

Accounts receivable includes an amount of $34.4 million (1989 – $12.4 million) owing by the two joint ventures.

Through a wholly owned subsidiary, the Corporation, as general contractor, earned during 1990 a construction fee of approximately US$21 million from Ponderay Newsprint Company. The 60% share, which represents the portion attributable to our partners' share in the joint venture, has been recorded in the Corporation's results and included in Other income.

12. Segmented Information

• Geographic areas

All of the Corporation's manufacturing facilities consolidated within the financial statements are located in Canada. The Corporation's joint-venture interest in Ponderay Newsprint Company described in Note 4 is located in the United States.

In 1990, the Corporation had export sales of $1,074 million to the United States (1989 – $1,345 million) and of $486 million to other countries (1989 – $676 million).

• Industry segments

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

(in millions of dollars)		Sales to Significant Geographic Segment	Sales to Customers	Inter-segment Sales	Segment Sales	Deprecia-tion & Depletion	Operating Earnings (Loss)	Additions to Fixed Assets	Total Assets
• 1990 Business Segments									
Newsprint	U.S.A.	70%	$773.7	$ –	$773.7	$ 42.2	$(115.5)*	$297.6	$1,502.3*
Pulp	U.S.A.	64%	550.0	54.7	604.7	25.4	129.3	61.2	657.9
Paperboard & packaging	Canada	81%	317.2	171.0	488.2	16.2	8.3	26.9	320.5
White paper	Canada	53%	201.5	–	201.5	22.9	8.6	7.5	308.4
	U.S.A.	47%							
Tissue	Canada	90%	170.5	–	170.5	5.9	13.4	11.2	111.3
Lumber & wood products	Japan	41%	231.6	140.6	372.2	18.4	(23.7)	18.3	290.4
Other			68.9	–	68.9	10.0	(5.5)	3.5	31.7
Eliminations			–	(366.3)	(366.3)	–	–	–	–
Corporate			–	–	–	–	–	0.1	40.8
Total			$2,313.4	$ –	$2,313.4	$141.0	$ 14.9	$426.3	$3,263.3
• 1989 Business Segments									
Newsprint	U.S.A.	71%	$1,017.5	$ –	$1,017.5	$ 47.5	$ 18.1*	$199.1	$1,305.5*
Pulp	U.S.A.	56%	849.2	68.7	917.9	36.5	316.2	47.3	673.2
Paperboard & packaging	Canada	88%	348.0	180.8	528.8	16.1	30.5	24.2	314.9
White paper	Canada	67%	149.0	–	149.0	10.2	14.0	63.7	323.4
Tissue	Canada	88%	177.7	–	177.7	5.6	13.2	6.4	103.3
Lumber & wood products	Canada	36%	258.0	153.0	411.0	18.0	(12.8)	44.2	310.0
Other			77.0	–	77.0	6.5	(2.1)	2.2	29.0
Eliminations			–	(402.5)	(402.5)	–	–	–	–
Corporate			–	–	–	–	–	11.2	11.8
Total			$2,876.4	$ –	$2,876.4	$140.4	$377.1	$398.3	$3,071.1

*Includes joint ventures.

Quarterly Financial Data

(in millions of dollars except per share amounts)	Sales	Operating Earnings (Loss)	Net Earnings (Loss)	Net Earnings (Loss) Per Share	Dividends Declared Per Share	Price Range Per Share on The Toronto Stock Exchange	
1990						**High**	**Low**
First Quarter	**$ 642.1**	**$16.9**	**$ 4.8**	**$ 0.11**	**$0.65**	**$40**	**$32½**
Second Quarter	**650.6**	**21.5**	**6.6**	**0.15**	**0.20**	**35⅛**	**27½**
Third Quarter	**605.1**	**14.1**	**1.0**	**0.02**	**0.20**	**31**	**28**
Fourth Quarter	**415.6**	**(37.6)**	**(21.8)**	**(0.49)**	**0.10**	**30**	**27½**
	$2,313.4	**$14.9**	**$(9.4)**	**$(0.21)**	**$1.15**		

1989						High	Low
First Quarter	$ 711.0	$111.4	$ 65.1	$1.48	$0.65	$49½	$41½
Second Quarter	741.8	117.2	72.9	1.66	0.65	45½	42
Third Quarter	707.6	84.9	45.1	1.03	0.65	44	40½
Fourth Quarter	716.0	63.6	37.0	0.84	0.65	42	35¾
	$2,876.4	$377.1	$220.1	$5.01	$2.60		

Five-Year Financial and Statistical Data

(in millions of dollars)	1990	1989	1988	1987	1986
Operations					
Sales	**$2,313.4**	$2,876.4	$3,005.9	$2,764.7	$2,316.7
Operating earnings	**14.9**	377.1	587.4	476.6	215.6
Interest expense	**43.1**	23.4	40.5	85.4	128.8
Income taxes	**7.9**	141.7	220.9	175.2	49.0
Earnings (loss) before extraordinary items	**(9.4)**	220.1	323.4	217.9	31.6
Extraordinary items	**–**	–	–	–	1.7
Net earnings (loss)	**(9.4)**	220.1	323.4	217.9	33.3
Cash from operations	**286.6**	333.6	470.4	511.0	229.0
Dividends declared	**50.5**	114.3	96.6	28.3	7.8

(in dollars)					
Per share					
Earnings (loss) before extraordinary items	**$(0.21)**	$5.01	$7.36	$4.96	$1.04
Net earnings (loss)	**(0.21)**	5.01	7.36	4.96	1.08
Dividends declared	**1.15**	2.60	2.50	1.45	0.40

(in millions of dollars, except per share amounts)					
Other data					
Investing activities	**$ 470.9**	$ 468.8	$ 277.8	$ 171.1	$ 170.4
Assets	**3,263.3**	3,071.1	2,774.4	2,669.4	2,542.7
Shareholders' equity	**1,636.7**	1,694.6	1,588.8	1,366.2	1,154.6
Ratio of total debt to equity	**33:67**	25:75	17:83	24:76	41:59
Return on shareholders' equity	**(0.6)%**	13.4%	21.9%	17.3%	3.3%
Price range per share					
The Toronto Stock Exchange					
High	**40**	49½	54½	56⅛	33¾
Low	**27½**	35¾	39½	32	17⅝
Average number of employees	**14,494**	14,981	15,224	15,921	15,861

(in thousands of tonnes)	1990	1989	1988	1987	1986
Shipments					
Newsprint	**1,173**	1,492	1,560	1,522	1,411
Pulp	**618**	899	933	912	868
Paperboard and packaging	**343**	352	396	404	411
White paper	**190**	131	101	101	100
Tissue	**68**	71	75	68	71
Lumber (million board feet)	**388**	428	484	490	389

(in millions of dollars)					
Sales					
Newsprint	**$773.7**	$1,017.5	$1,189.8	$1,085.5	$953.7
Pulp	**550.0**	849.2	790.9	676.3	515.7
Paperboard and packaging	**317.2**	348.0	387.0	375.2	359.1
White paper	**201.5**	149.0	115.6	105.6	100.3
Tissue	**170.5**	177.7	167.9	148.0	146.6
Lumber and wood products	**231.6**	258.0	280.6	300.2	175.3

(in millions of dollars)					
Operating earnings (loss)					
Newsprint*	**$(115.5)**	$ 18.1	$ 204.1	$ 155.4	$111.7
Pulp	**129.3**	316.2	272.4	188.8	30.7
Paperboard and packaging	**8.3**	30.5	57.4	43.4	31.0
White paper	**8.6**	14.0	20.6	14.7	14.3
Tissue	**13.4**	13.2	12.6	11.9	16.8
Lumber and wood products	**(23.7)**	(12.8)	16.5	58.6	5.3

*Includes joint ventures.

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Assistant-Comptroller

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Assistant-Treasurer

Additional Information

Annual Meeting
The annual meeting of shareholders of Canadian Pacific Forest Products Limited will be held on Tuesday, April 16, 1991 at 11:30 a.m. at the Royal York Hotel, 100 Front Street West, Toronto, Ontario, 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 the Montréal 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.

Pour obtenir la version française du présent rapport, veuillez faire la demande par écrit au Secrétaire:
Produits Forestiers
Canadien Pacifique Limitée
1155, rue Metcalfe
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The editorial and financial sections of this Annual Report were printed on Dryden Offset 140M produced at the Corporation's white paper mill in Dryden, Ontario.

The paper used for this report is recyclable.

Legal Deposit
1st Quarter 1991

Printed in Canada

Canadian Pacific Forest
Products Limited