



THE COMPANY

Norske Skog Canada Limited, known as NorskeCanada, produces groundwood specialty papers, including newsprint, containerboard and pulp. Originally known as Fletcher Challenge Canada, the predecessor company was acquired in July 2000 by Norske Skogindustrier of Norway who then renamed the subsidiary Norske Skog Canada. In August 2001, NorskeCanada acquired Pacifica Papers and created the corporate entity that we see today.

FINANCIAL DATA

	2000	2001	2002
Earnings per Share (\$)	1.32	0.32	(0.64)
Price to Earnings (times)	3.0	12.5	N/M
Dividend (\$) *	0.60	12.30*	-
Dividend Yield (%)	15.00	307.50*	-
Book Value (\$)	17.43	5.93	5.46
Price to Book Value (times)	0.23	0.67	0.73

* A special dividend of \$12.00 per share was paid in 2001

HISTORICAL SHARE PRICES



WHY ABC FUNDS BOUGHT NORSKE SKOG

NorskeCanada, a deep cyclical stock, came under pressure as printers and publishers faced an extremely difficult environment in 2002 and 2003. A slowdown in advertising spending created excess capacity across the industry, depressed prices and forced the Company to take downtime. NorskeCanada reported a net loss of \$0.64 per share in 2002 and a net loss of \$0.35 per share in the first nine months of 2003. However, the Company is generating cash and recorded \$47.5 million of EBITDA in the first nine months of the current fiscal year. With the economic recovery well underway, we believe that it is only a matter of time before commodity prices improve and NorskeCanada returns to profitability.

Several key factors gave us the confidence to invest in NorskeCanada despite the difficulties of the past few years. First, NorskeCanada traded at, and still trades at, a discount to its book value of \$5.12. At \$4.00, the Company was priced at only 0.8 times book value. The stock eventually bottomed at 0.6 times book value in mid November 2003, a level that has traditionally provided strong support for the share price.

Next, we looked at historic levels of EBITDA to gauge the Company's upside given an economic recovery. When the stock bottomed in mid November, NorskeCanada traded at an enterprise value of less than 5 times 2000 EBITDA of \$304.4 million, which has typically been the low for the stock. Looking forward, EBITDA could improve significantly from the level last seen in 2000. Management has stated that of the \$115 million in synergies achieved from the Pacifica Papers acquisition in 2001, \$110 million was related to EBITDA improvements. Using an enterprise value to projected EBITDA multiple of only 5 times, the stock offered an attractive potential return.

Finally, we checked the Company's liquidity and financial flexibility in case the anticipated recovery takes longer than expected. As at September 30, 2003 NorskeCanada's net debt to capitalization was 45%. The Company had \$10.2 million of cash on hand and could access almost all of a \$350 million operating loan. Because the first senior debt repayment is not due until March 2009, we were satisfied that the Company could meet its obligations comfortably. Putting all of these pieces together, we believed that the stock had bottomed for the cycle and it was time to purchase some shares for our funds.

ABC Funds
January 9, 2004

UPDATE

In the midst of the recent stock market volatility, we sold our entire position in Norske Skog Canada. Although Norske reported its tenth consecutive quarterly loss on April 29, much of the loss could be attributed to the planned two-month shutdown of the Company's Crofton and Elk Falls kraft mills. This result was not unexpected and we were more interested in the Company's outlook for the pulp, paper and newsprint markets. On the conference call Norske's management noted stronger pulp prices, better fundamentals for most paper grades and outlined \$44 million of annual performance improvements. However, the Company acknowledged that increased economic activity has not translated into any meaningful recovery of the newsprint

UPDATE (cont'd)

market. In a nutshell, while we believe that the Company has worked through the trough of the commodity cycle, improved earnings performance remains somewhat uncertain and will be a function of a further improvement in commodity prices and a better economy.

While the stock market has anticipated improving conditions and Norske's shares rebounded from \$3.00 in mid November to trade in a range around the mid \$4 level, we are not so confident. Because the visibility of a recovery in the newsprint market is poor and we are seeing other more attractive opportunities, we decided to liquidate our position in Norske.

ABC Funds

May 14, 2004