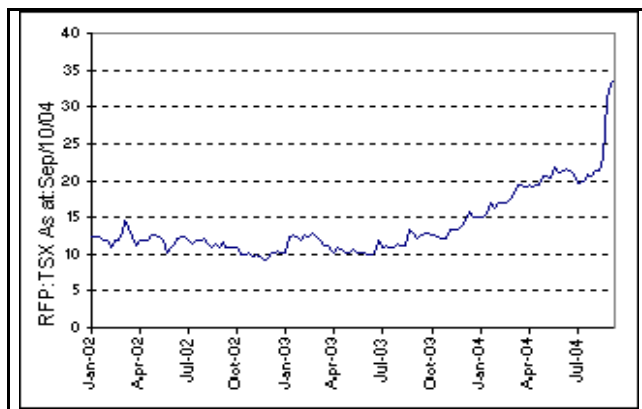


THE COMPANY

Riverside Forest Products Limited is a British Columbia-based producer of stud and random length lumber, softwood plywood, veneer and wood chips. The Company also produces finger-joint lumber and other value-added products such as treated railway ties, plywood bins and pallets. Riverside operates on over 2 million hectares of Crown land, with an allowable annual cut of approximately 2.5 million cubic meters, making the Company the seventh largest timber licensee in the Okanagan and Cariboo regions of British Columbia.

FINANCIAL DATA

	2001	2002	2003
Earnings per Share (\$)	0.90	1.17	(0.15)
Price to Earnings (times)	18.9	14.5	N/M
Dividend (\$)	0.12	0.12	0.12
Dividend Yield (%)	0.71	0.71	0.71
Book Value (\$)	18.99	20.05	19.51
Price to Book (times)	0.90	0.85	0.87

HISTORICAL SHARE PRICES

WHY ABC FUNDS BOUGHT RIVERSIDE FOREST

Despite a weakening economy, the residential housing sector in Canada has shown surprising strength in 2001, as new and existing homeowners took advantage of exceptionally low mortgage rates. However, new housing starts in the United States have declined since late summer, undoubtedly due to the sharp deterioration in the economic outlook and rising unemployment. Weakening construction demand has put pressure on lumber prices and, by extension, the forest products sector. The ongoing trade dispute with the United States and the announcement of both countervailing duties (CVD) and anti-dumping duties (ADD) has only heightened the sense of uncertainty surrounding Canadian lumber producers. Having said all of this, remember that the forest products sector is cyclical and typically performs well after a period of interest rate easing. Further, the Company's exposure to the pulp market through its wood chips business should prove accretive to earnings as pulp prices recover. Although the outlook is far from clear, value investors must purchase deep cyclicals before the stocks begin to appreciate in anticipation of an economic recovery.

Riverside Forest generated revenue of \$461.4 million in its 2001 fiscal year, a decline of 10.5% from the previous year, as both sales volume and prices fell. Nevertheless, reported earnings per share grew to \$0.90 for fiscal 2001 from \$0.16 in 2000 on margin improvements and growth in other income. Management, led by Gordon Steele (Chairman, President and CEO) and Gerald Raboch (COO) are cognizant of the importance of managing Riverside through the trough of the cycle in order to maximize profits during peak pricing periods. In pursuit of this goal, long-term debt as a percentage of long-term debt plus equity improved to 33% from 42% last year. Additionally, the small annual dividend of \$0.12, which currently yields approximately 1.3%, is sustainable over the entire business cycle. Like many of our Value Favourites, Riverside has filed a normal course issuer bid for up to 5% of the Company's shares outstanding. Down from a high of \$23 reached in March of 2000, Riverside is currently trading at approximately 10 times last years' earnings and at only 0.5 times its book value of \$18.99.

In the near term, the softwood lumber dispute is expected to create an exceptional level of uncertainty for lumber producers. This dispute has essentially existed since the beginning of the century and over the past twenty years the U.S. has initiated trade action on several different occasions. In this case, the U.S. Department of Commerce announced a retroactive CVD of 19.3% and an ADD of 12.6%, totaling 31.9% after the expiry of the Softwood Lumber Agreement on March 31, 2001. Similar U.S. protectionism has been overturned in the past, though in some cases a resolution has required the dispute settlement process as defined by NAFTA. Obviously, this is a highly politicized issue that harms Canadian lumber producers, U.S. homebuilders and U.S. homebuyers alike. Due to the magnitude of the potential impact of the duties and ongoing nature of the negotiations, it is difficult to provide forward earnings estimates for Riverside.

Aside from the trade dispute and the uncertain economic outlook, we find several company-specific factors intriguing. Steele and Raboch own over 20% of the outstanding common shares, which should provide ample incentive to create shareholder value. Interestingly, Tolko Industries, a privately owned forest products company, owns another 20% of Riverside's outstanding shares. Tolko has stated that the holding is for investment purposes only and has no intention to acquire additional shares but we believe that both companies would benefit from a closer business relationship. Also, Riverside owns land in the picturesque Okanagan region of British Columbia, which could be sold to reduce debt and strengthen the balance sheet. Ultimately, we believe that management's strategy of "continuing to manage (the) business positively to reduce costs to preserve cash and to position (the) assets for the turnaround when it occurs" should reward proactive but patient investors.

UPDATES

Since our original commentary on Riverside Forest Products, there have been several new developments. On a positive note, the stock has benefited from a recovery in the economy and sustained strength in the housing market. However, the news regarding the Softwood Lumber Agreement has not been so favourable. Instead of negotiating a mutually beneficial settlement, the U.S. Department of Commerce announced finalized countervailing and antidumping duties on March 22. The ultimate decision to proceed with the trade action lies in the hands of the United States Government International Trade Commission when they vote early in May. Should the duties be implemented, it is expected that Canada will appeal to NAFTA due to the punitive nature of the decision.

Despite the difficulties and uncertainties surrounding the SLA, Riverside recently reported decent second quarter results. The Company earned \$0.25 per share in the second quarter of this year compared to \$0.10 reported in the second quarter of 2001, on sales of \$114.8 million versus \$104.7 million respectively. Management has continued to focus on cash conservation and balance sheet stability. This is most evident since the percentage of long-term debt to long-term debt plus equity has declined from 40% to 29% year over year. Currently trading at only 0.65 times book value of \$18.58, Riverside remains deeply undervalued. Going forward, management's outlook is "cautiously optimistic", with the better economic outlook offsetting the uncertainty surrounding softwood lumber duties.

ABC Funds
April 19, 2002

We have previously discussed the softwood lumber agreement and the punitive and damaging nature of the countervailing and anti-dumping duties. Recently, the U.S. International Trade Commission has ruled that the provision for duties would not be payable. The required cash deposits on any shipments made prior to May 22, 2002 would therefore be refundable. For the third quarter ended June 30th, Riverside reported net earnings of \$14.6 million or \$1.65 per share compared to net earnings of \$6.6 million or \$0.75 per share in the comparable quarter last year. During the first nine months of fiscal 2002, Riverside has earned \$1.30 per share, generated \$35.3 million in cash from operations, repaid \$41.6 million in long-term debt and distributed \$0.8 million in dividends. Book value has grown to \$20.20 per share, which implies a price to book ratio of approximately 0.6 times. Riverside Forest is simply one of the cheapest stocks in the sector, something that its majority shareholder, Tolko Industries, has obviously recognized.

ABC Funds
August 16, 2002

Riverside Forest Products, the B.C. based producer of plywood, veneer and lumber, has faced strong, diametrically opposing forces in 2002. Countervailing and anti-dumping duties resulted in a combined tariff of 27% on Riverside's lumber shipments to the United States. Sadly, the softwood lumber dispute has persisted much longer than we had anticipated. However, the surprising strength of the North American housing market has created exceptional demand for wood products. This has mitigated some of the pain for cost-efficient, financially stable companies such as Riverside.

Riverside's financial results for fiscal 2002, ended September 30, are a testament to management's efforts in what was an extremely difficult year. Total sales reached \$469 million compared to \$461 in fiscal 2001, an increase of approximately 2%. Sales of plywood and veneer accounted for 33% of total sales or \$161 million. Lumber products accounted for 54% of total sales or \$260 million, before the punitive duties on exports to the United States. Earnings per share totaled \$1.17 in 2002, an increase of 30% from the \$0.90 earned in fiscal 2001. Riverside was able to report improving profits due to cost control, the reversal of a provision for duties on shipments made before May 22, 2002 and lower interest charges due to net debt reduction of approximately \$30 million.

At \$10.50, Riverside Forest Products is currently trading at only 0.5 times its book value of \$20.05 and 9 times fiscal 2002 earnings. Long-term debt to long-term debt plus equity remains at a manageable 35%. As the return on shareholders' equity improves from the 6% achieved in fiscal 2002, we would expect the discount to book value to narrow. Until then, Gordon Steele, President and CEO, is expected to continue to focus on streamlining operations, managing cash and paying down debt in order to position the Company for the future.

ABC Funds
January 3, 2003

UPDATES (cont'd)

Forest fires continue to burn across British Columbia and a Provincial State of Emergency remains in effect. A recent update from the Ministry of Forests stated that 3,500 firefighters are battling more than 800 active fires. Since April 1, more than 100,000 hectares have burned and 20,000 people have been evacuated from the most dangerous regions, with another 30,000 on alert. Cooler temperatures and calmer winds in the past few days have helped, but the situation remains extremely unpredictable.

With operations based in the Okanagan and Cariboo regions of British Columbia and headquarters in Kelowna, Riverside Forest Products has been extremely fortunate to escape any serious losses. After speaking with management, we were reassured to hear that the fires have not threatened any of the Company's properties. Tolko Industries, a privately held forest products company and a large shareholder of Riverside, was not so lucky. Tolko's Louis Creek sawmill has been destroyed and, although 200 people will be temporarily out of work, insurance is expected to cover the damages.

On a more positive note for investors, the threat of supply shortages, the record new home construction and the rebuilding of Iraq have pushed lumber and panel prices to new highs. Since the beginning of April, lumber prices have increased from \$200 to \$300 per thousand board feet, plywood prices have climbed from \$300 to \$460 per thousand square feet and OSB prices have skyrocketed from \$170 to \$395 per thousand square feet. Riverside has responded in a similar fashion and has moved from approximately \$10 to \$13.50 in a matter of a few months. However, we still believe that the stock is undervalued relative to the Company's book value of \$18.47 as at June 30, 2003.

ABC Funds
August 29, 2003

Riverside Forest Products has benefited greatly from the strong North American housing market. Demand for lumber and structural panels, such as plywood and OSB, has driven prices higher and the Company's earnings have followed suit. In the fourth quarter of fiscal 2003, ended September 30, EPS grew to \$1.04 from a net loss of \$0.39 a year ago. This positive trend continued into the first quarter of fiscal 2004, ended December 31, as EPS grew to \$1.36 from a net loss of \$0.60 in the comparable quarter last year. By generating solid earnings, Riverside has boosted book value to \$20.84 per share.

Amazingly, Riverside has put together two solid quarters despite a 27.2% combined duty rate on shipments of lumber to the United States. Since June of 2002, Riverside has made cash deposits of \$64.5 million as directed under the punitive US International Trade Commission's ruling. Should a settlement be reached, Riverside could potentially receive 50% to 100% of this cash back, which equates to \$3.66 to \$7.33 pre-tax per common share respectively.

In light of the improving conditions, management authorized payment of the \$0.03 quarterly dividend. In addition, the Company paid a \$0.03 special dividend to catch up on the missed payment for the June 2003 quarter. As at the end of December, Riverside had cash on hand of \$49.3 million and an undrawn operating line of credit of \$19.4 million. Long-term debt to long-term debt plus equity was a manageable 16% at the end of the first quarter of fiscal 2004.

On February 3, Riverside announced the intention to put some of this balance sheet strength to work by acquiring all of the shares of Lignum Limited, a privately owned lumber manufacturing, sales and distribution company based in British Columbia. It is no coincidence that Lignum operates a sawmill facility "immediately adjacent" to one of Riverside's mills. The purchase price was \$100 million, including \$30 million of working capital, with \$10 million of the total to be paid in common shares of Riverside and the remainder in debt. We like the transaction because it increases Riverside's scale to over 1 billion board feet of capacity and a total allowable annual cut of 3 million cubic metres. Riverside will also be able to take advantage of Lignum's wholesale distribution network, one of Canada's largest, with over 20 locations throughout Canada and the United States.

ABC Funds
February 6, 2004

Riverside's quarterly earnings streak has continued into the second quarter of fiscal 2004, which ended March 31. Riverside earned \$9.5 million or \$1.08 per share compared to \$0.2 million or \$0.03 per share in 2003. For the first six months of fiscal 2004, the Company has earned an amazing \$2.44 per share compared to a loss of \$0.57 for the same period one year ago. The Lignum acquisition will be included in the financial results effective April 1, which is the first day of the third quarter of fiscal 2004. If Lignum's results were included in the second quarter, pro forma earnings would have totaled \$1.63 per share. With the impressive earnings performance, book value has grown to \$21.46 per share.

Riverside is one of the most highly leveraged companies to the settlement of the soft wood lumber trade case. The Company

UPDATES (cont'd)

has accrued \$79.4 million dollars for the period from May 22, 2002 to March 31, 2004, representing a combined duty rate of 27.22%. This equates to more than \$5 per share of Riverside. As the case moves more and more in Canada's favour, the potential to receive some or all of this cash back increases, although the timing is, of course, uncertain.

ABC Funds
June 4, 2004

We have been bullish on the paper and forest products sector for some time now, with a 20% weighting in our ABC Funds compared to 2% in the TSX index. Our stance has been predicated on the housing boom, which has driven demand for lumber, OSB and plywood products. Also, the potential windfall from the settlement of the softwood lumber dispute and the refund of some or all of the duties paid is an added kicker for our investments. The cash could be returned to shareholders through dividends or could trigger a round of merger and acquisition activity, much like the Canfor - Slocan deal. Either event could act as a catalyst for the entire sector.

On August 25, Riverside Forest Products became the target of a buyout offer from one of its largest shareholders, Tolko Industries a privately held forest products company. Tolko offered \$29 per share of Riverside but the Company's Board of Directors and financial advisors suggested that the proposal "significantly undervalues Riverside and would not be in the best interests of the company or its shareholders". Perhaps the Board is mindful of the \$9 per share of cash from operations generated over the past 12 months or the \$100.9 million (approximately \$10.73 per share) of duties paid in their valuation of the business. In any case, Riverside's Board of Directors is now assessing "strategic alternatives for maximizing value to Riverside's shareholders". Essentially, this bid by Tolko has put Riverside in play. While a competing bid is possible, we expect that negotiations with Tolko will continue on good terms. Obviously, we are monitoring the situation closely and will report any further developments as they become publicly available.

ABC Funds
August 27, 2004

Although it has only been a week since our last comment on Riverside Forest, new developments have already materialized. As we discussed a week ago, the Company's Board of Directors had suggested that the \$29 takeout offer by Tolko "significantly undervalues Riverside". Riverside's significant cash flow from operations, cash on the balance sheet and the potential refund of the \$100.9 million of softwood lumber duties paid needs to be considered when evaluating a fair purchase price. A valuation based on a multiple of normalized earnings plus the net cash position would be a good starting point for interested parties.

The importance of the potential refund of the cash duties was highlighted on Tuesday, August 31 with the release of the NAFTA determination of injury comment. Once again NAFTA ruled unanimously in favour of Canadian producers. With the U.S. timber industry unable to prove that it faced threat of injury, duties should be rescinded and all taxes collected to date should be refunded. While the U.S. side is likely to file an "extraordinary challenge" they are running out of legal options. Stalling tactics aside, the NAFTA ruling is legally binding and assuming the ruling is unchanged, the cash will eventually have to be returned to Canadian companies.

On Wednesday, September 1, coincidentally or not, George Malpass resigned from Riverside's Board of Directors. That same day, Mr. Malpass also resigned as a director of International Forest Products Limited. Interfor then notified Riverside that "it could have an interest in considering a potential transaction involving Riverside". Mr. Malpass, a very knowledgeable and experienced saw miller who was the President and CEO of Primex Forest Products before it was bought by Interfor, wanted to avoid any potential conflicts of interest in the event of a competing offer.

The market is obviously anticipating a sweetened or competing bid for Riverside, with the stock closing at \$32.90 on Thursday. This price is 13% above the formal Tolko bid at \$29 per share. As a result, we will continue to work our valuation models, will monitor the situation closely and will again report back as new developments warrant.

ABC Funds
September 3, 2004

We have made the difficult decision to sell our entire stake in Riverside Forest Products, despite the potential for a sweetened or competing bid for the Company. With the illiquid stock trading \$4 or 13.8% above Tolko's initial bid, we were forced to examine various upside and downside scenarios. On one hand the stock may move higher, especially if a competing bid comes in. On the other, deal risk is always a factor in hostile situations. If Tolko refuses to boost the offer or even walks away,

UPDATES (cont'd)

the share price could fall significantly. At this point, we believe the risk/reward relationship is not in our favour.

Finding the courage to sell our position was not easy. Several other factors entered into the decision. First, we have a very low cost base on this investment so on a relative basis we are probably not leaving that much on the table. Our ABC Funds are also very overweight the paper and forestry sector, so we believe that it is prudent to take our profits when we can. Finally, we were interested to read in a national newspaper that a third potential suitor would be interested in Riverside because of the tremendous run in OSB prices. Unfortunately, Riverside does not produce any OSB. We are wary that unfounded speculation may be driving the stock at this point, as opposed to the economics of the underlying business. It was simply time to realize our gains and roll the cash into other investment opportunities.

ABC Funds
September 10, 2004