



Six months ended
30 September 2002

FINANCIAL HIGHLIGHTS

SALES:
\$241.6 million

NET INCOME:
\$6.6 million

EARNINGS
\$0.84 per share

EBITDA:
\$11.2 million

MANAGEMENT DISCUSSION AND ANALYSIS

QUARTERLY RESULTS FROM OPERATIONS

We are pleased to report that Taiga continued to generate strong sales results during our second quarter. For the three months ended September 30, 2002, Taiga recorded sales of \$241.6 million. This represents an increase of \$11.5 million, or 5.0%, over the same period last year. Consolidated earnings for the quarter were \$6.6 million, or \$0.84 per share, compared to earnings of \$1.1 million, or \$0.14 per share, for the same period last year. Quarterly cash flow from operations was \$7.2 million, or \$0.93 per share, compared to \$1.6 million, or \$0.20 per share, for the same quarter last year.

For the six months ended September 30, 2002, Taiga's sales were \$499.8 million. This represents an increase of \$34.2 million, or 7.4%, over the same period last year. Net earnings were \$8.1 million, or \$1.04 per share, compared to \$3.8 million, or \$0.48 per share, for the same period last year. Cash flow from operations was \$9.3 million, or \$1.20 per share, compared to \$4.7 million, or \$0.61 per share, for the first two quarters of fiscal 2001.

These results include the reversal of a countervailing and anti-dumping duty accrual in the amount of \$13.6 million, which was related to the prior fiscal year. Prior to the inclusion of the duty, consolidated earnings for the quarter were \$1.3 million, or \$0.16 per share, and earnings for the six months ended September were \$2.8 million, or \$0.36 per share. On a year-over-year basis, our quarterly expenses increased by \$7.6 million. Of this amount, \$6.0 million was directly related to the duty reversal and \$1.6 million was related to new operations.

SALES ANALYSIS - PRODUCT REVIEW

MARKET OVERVIEW

While the Bank of Canada's prime lending rate increased by 1/4% between July 1, 2002 and September 30, 2002, it remained at the comparatively low rate of 4.5% per annum throughout much of the second quarter. The low cost of borrowing continued to stimulate consumer spending on new housing, and repairs and renovations, driving strong demand for all Taiga's building products.

Quarterly highlights within our product mix include strong, profitable sales growth across a range of our product lines. Specifically, panelboard products, medium density fibre board (“MDF”) and pine mouldings, Emco’s line of ‘BP Roofing’ products, Johns Manville residential insulation, and polyethylene sheeting posted growth in sales and profits. In addition, we recorded solid market gains for Owens Corning rigid insulation, Trex® composite decking and fencing products, and our own line of Envirofor-brand preserved wood products.

Our line of engineered wood products (“EWP”) also performed very well. This lumber substitute is now widely accepted in all building products markets and demand for the product is rapidly escalating. In response, we recently reorganized our management team to reflect Taiga’s heightened focus on building EWP sales, particularly in Central and Eastern Canada.

Taiga’s lumber sales were mixed during the second quarter, depending on the destination market. For the three months ended September 30, 2002, our U.S. lumber sales decreased by \$17.5 million, or 41%, compared to the same quarter last year. In contrast, Canadian lumber sales, which make up the bulk of Taiga’s lumber market, grew by 10.4%. This increase largely offset the decline in U.S. sales. On a consolidated basis, Taiga’s combined Canadian / US lumber sales fell by only 14.5% for the quarter, and on a per unit basis, grew by 1.2%. The decrease in U.S. lumber sales is a direct result of the April 2002 imposition of the 27.2% countervailing and anti-dumping duties by the U.S. Department of Commerce. This trade barrier prevents wholesale distributors from exporting lumber profitably to the U.S. from Canadian distribution centres.

KEY DEVELOPMENTS

Our Board of Directors welcomes Arkadi Bykhovsky to his new position as Taiga’s President and Chief Executive Officer. Mr. Bykhovsky, whose appointment took effect October 1, 2002, brings more than 25 years of business experience in the forest products and building materials industries in Europe and North America to his new role. His past leadership positions include Senior Vice-President of Noranda Forest Inc., and President of Norbord Industries Inc., as well as Chairman and Chief Executive Officer of Hunter Timber Group Ltd. Most recently, Mr. Bykhovsky, who holds both an MBA and a Master of Science, was President and CEO of Vi-Lux Plastics Inc.

On July 24, 2002, at our Annual General Meeting, our shareholders approved a special resolution to subdivide Taiga’s issued common shares on a “two-new-for-one-old” basis. As a result of the share split, the issued and outstanding no-par-value common shares increased from 3,886,210 to 7,772,420. All earnings per share figures in this report are calculated using the post-split issued and outstanding share amount of 7,772,420.

FINANCING ACTIVITIES

Currently, we are in the midst of the annual process of renewing our bank credit arrangements with both the Bank of Nova Scotia and HSBC Bank Canada. At present, the two banks share our revolving operating credit facility of \$135.0 million equally. At September 30, 2002, Taiga was using \$63.5 million of the available credit, leaving \$71.5 million available for use subject to normal margin formulas.

We are also in the process of adding a third creditor to our informal banking group. In July 2002, the Bank of Montreal granted Taiga a \$25 million revolving credit facility, which we are now formalizing. We plan to use the funds to reduce our credit limits with our current lenders in order to provide flexibility for future growth.

In April 2002, Taiga acquired the outstanding 50% share of Envirofor Preservers (Alta) Ltd. from our former business partner, Millar Western. Following this acquisition, Taiga assumed Envirofor Alberta's existing long-term debt, which was utilized in 1999 to finance the purchase of land and the subsequent construction of our wood preservation facilities in Edmonton. Envirofor Alberta's outstanding loan balance at September 30, 2002 was \$5.0 million, bringing Taiga's consolidated term debt balance to \$15.9 million.

The current portion of long-term debt is \$11.6 million, including a balloon payment of \$9.1 million for which refinancing is pending. Provisions within our bank lending agreements allow us to refinance the outstanding long-term debt upon maturity, for terms which may extend beyond June 30, 2003.

INVESTING ACTIVITIES

Taiga's expenditures for property, plant, and equipment during the second quarter totalled \$216,000. Our total capital expenditure plan for the fiscal year ending March 31, 2003 is \$3.0 million, as previously reported.

FINANCIAL POSITION

At September 30, 2002, shareholder's equity had increased to \$69.8 million from \$63.2 million at March 31, 2002. Working capital at quarter-end was \$39.7 million, compared to \$40.7 million at March 31, 2002. Our current ratio is 1.32 to 1.0, compared to 1.28 to 1.0 at March 31, 2002.

RISK FACTORS

Taiga is subject to the usual business and financing risks associated with the wholesale distribution of building products. The reader is referred to our March 31, 2002 annual report, which describes these risk factors in more detail.

OUTLOOK

Within the residential construction industry, the key market indicators are housing starts, and home repairs and renovation spending. As we begin our third quarter, both sectors remain strong and the building products market is buoyant. Canada Mortgage and Housing Corporation ("CMHC") recently reported Canadian seasonally adjusted annual housing starts of 200,600 for September 2002. This number is down 6.6% from August 2002, but remains significantly above the 162,733 starts recorded for the 12 months ended December 31, 2001. CMHC is forecasting annual starts of 182,200 for the 12 months ending December 2002.

While the Bank of Canada may raise interest rates in the coming months, the Canadian prime rate currently stands at 4.5% per annum. We believe the low cost of borrowing will continue to stimulate spending in the new home and do-it-yourself markets in the near-term, and we expect to see healthy demand for all our products through December 2002.

Non-residential construction markets are also benefiting from the stimulative effect of low interest rates. As a result of heightened demand in these sectors, Taiga's sales to industrial manufacturers of furniture, cabinets, shelving and other specialty wood products are building momentum.

Our export sales group continues to generate positive results, with sales from this department growing by more than 26% during each of the past two years. Moving forward, our export sales team will maintain its focus on building market share for our preserved wood, dimension lumber and panel products in Asia and the Pacific Rim region. We also expect to increase our penetration of foreign markets, and to expand existing markets, for our value-added preserved wood products, following the conversion at both of our wood preservation plants to a more widely accepted chemical fixative. The conversion is currently underway.

In the U.S., the Federal Reserve has held its prime rate steady since January 2002. Consequently, U.S. mortgage rates remain at historically low levels and U.S. housing starts continue to be strong. Despite these positive market conditions, Canadian dimension lumber sales to the U.S. have declined, following the April 2002 imposition of a 27.2% softwood lumber duty. In response, we are pursuing niche opportunities within the U.S. marketplace.

We are also working to upgrade our distribution facilities in order to boost efficiency and reduce distribution and handling costs. Investment in our cross-Canada network of full-service distribution centres over the past five years has enabled us to warehouse a complete line of building products at each of our branches. This has enhanced customer service, facilitating 'just-in-time' mixed truckload delivery to all regions.

As we begin our third quarter, Taiga is actively looking for opportunities to build market share within all our areas of expertise and across all our market sectors. While winter weather conditions and the December holiday period mean our third quarter is typically the slowest of the year, we are confident we will remain profitable through the balance of fiscal 2002.

Approved on behalf of the Board,



Arkadi Bykhovsky,
President and
Chief Executive Officer

October 16, 2002





CONSOLIDATED INTERIM FINANCIAL STATEMENTS

TAIGA FOREST PRODUCTS LTD.

SECOND QUARTER, 2002

CONSOLIDATED BALANCE SHEETS

| <i>(in thousands of dollars) Unaudited</i> | As at | September 30 2002 | March 31 2002 |
|--|-------|----------------------|------------------|
| ASSETS | | | |
| CURRENT | | | |
| Accounts receivable | | \$ 87,036 | \$ 92,465 |
| Inventories (note 2) | | 70,841 | 88,571 |
| Prepaid expenses | | 1,771 | 899 |
| Income tax recoverable | | 168 | – |
| Future income taxes | | 4,939 | 4,939 |
| | | \$ 164,755 | \$ 186,874 |
| OTHER ASSETS AND INVESTMENTS | | 25 | 461 |
| FIXED ASSETS LESS DEPRECIATION | | 37,014 | 30,309 |
| | | \$ 201,794 | \$ 217,644 |
| LIABILITIES | | | |
| CURRENT | | | |
| Bank indebtedness | | \$ 69,621 | \$ 79,474 |
| Accounts payable | | 43,824 | 53,112 |
| Current portion of long-term debt | | 11,616 | 6,536 |
| Income taxes payable | | – | 7,088 |
| | | \$ 125,061 | \$ 146,210 |
| LONG-TERM DEBT | | 4,343 | 5,625 |
| FUTURE INCOME TAXES | | 2,617 | 2,617 |
| | | \$ 132,021 | \$ 154,452 |
| SHAREHOLDERS' EQUITY | | | |
| Capital stock | | 12,523 | 12,499 |
| Retained earnings | | 57,250 | 50,693 |
| Total shareholders' equity | | 69,773 | 63,192 |
| | | \$ 201,794 | \$ 217,644 |

On behalf of the Board



Director



Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

| <i>(in thousands of dollars) Unaudited</i> | For the 3 months ended September 30 | | For the 6 months ended September 30 | |
|---|--|------------|--|------------|
| | 2002 | 2001 | 2002 | 2001 |
| SALES | \$ 241,621 | \$ 230,111 | \$ 499,835 | \$ 465,600 |
| COST OF SALES | 212,019 | 216,442 | 453,946 | 432,362 |
| GROSS PROFIT | \$ 29,602 | \$ 13,669 | \$ 45,889 | \$ 33,238 |
| EXPENSES | | | | |
| Distribution, selling and administration | \$ 18,941 | \$ 11,286 | \$ 31,845 | \$ 24,863 |
| Interest | | | | |
| Current | 885 | 891 | 1,726 | 2,279 |
| Long-term | 242 | 266 | 546 | 535 |
| | \$ 20,068 | \$ 12,443 | \$ 34,117 | \$ 27,677 |
| OPERATING INCOME | 9,534 | 1,226 | 11,772 | 5,561 |
| NON-OPERATING EXPENSE (INCOME) | 154 | (19) | 184 | 24 |
| EARNINGS BEFORE INCOME TAXES | \$ 9,380 | \$ 1,245 | \$ 11,588 | \$ 5,537 |
| INCOME TAXES | 2,814 | 177 | 3,477 | 1,776 |
| NET EARNINGS | \$ 6,566 | \$ 1,068 | \$ 8,111 | \$ 3,761 |
| RETAINED EARNINGS, BEGINNING OF PERIOD | \$ 52,238 | \$ 48,695 | \$ 50,693 | \$ 46,002 |
| Net earnings for the period | 6,566 | 1,068 | 8,111 | 3,761 |
| Common share dividends | (1,554) | (1,553) | (1,554) | (1,553) |
| RETAINED EARNINGS, END OF PERIOD | \$ 57,250 | \$ 48,210 | \$ 57,250 | \$ 48,210 |
| Basic earnings per common share | \$ 0.84 | \$ 0.14 | \$ 1.04 | \$ 0.48 |
| Number of common shares outstanding | 7,772,420 | 7,772,420 | 7,772,420 | 7,772,420 |

CONSOLIDATED STATEMENTS OF CASH FLOWS

| <i>(in thousands of dollars) Unaudited</i> | For the 3 months ended September 30 | | For the 6 months ended September 30 | |
|---|--|-------------|--|-------------|
| | 2002 | 2001 | 2002 | 2001 |
| OPERATING ACTIVITIES | | | | |
| Net Earnings | \$ 6,566 | \$ 1,068 | \$ 8,111 | \$ 3,761 |
| Items not requiring an outlay of funds | | | | |
| Depreciation and amortization | 659 | 518 | 1,293 | 1,010 |
| Gain on sale of fixed assets | – | (14) | (70) | (30) |
| | 7,225 | 1,572 | 9,334 | 4,741 |
| Change in non-cash working capital | 8,978 | 22,060 | 5,794 | 29,215 |
| | 16,203 | 23,632 | 15,128 | 33,956 |
| FINANCING ACTIVITIES | | | | |
| Repayment of long-term debt | (773) | (607) | (1,878) | (1,214) |
| Dividends paid to common shareholders | (1,554) | (1,553) | (1,554) | (1,553) |
| Issuance of capital stock | – | 430 | 24 | 470 |
| | (2,327) | (1,730) | (3,408) | (2,297) |
| INVESTMENT ACTIVITIES | | | | |
| Proceeds on disposition of fixed assets | – | 16 | 88 | 39 |
| Purchase of fixed assets | (216) | (481) | (727) | (2,728) |
| Other assets and investments | – | (55) | (1,228) | (66) |
| | (216) | (520) | (1,867) | (2,755) |
| INCREASE IN CASH | 13,660 | 21,382 | 9,853 | 28,904 |
| BANK INDEBTEDNESS, BEGINNING OF PERIOD | (83,281) | (76,891) | (79,474) | (84,413) |
| BANK INDEBTEDNESS, END OF PERIOD | \$ (69,621) | \$ (55,509) | \$ (69,621) | \$ (55,509) |

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

These unaudited interim financial statements follow the same accounting policies and methods of computation as used in the audited consolidated statements of the previous fiscal year ending March 31, 2002. However, these interim statements do not include all disclosures typical to the annual financial statements and accordingly, should be read in conjunction with the annual audited financial statements and notes included in the Company's Annual Report for the year ended March 31, 2002.

2. INVENTORIES

| | As at | September 30 2002 | March 31 2002 |
|--------------------------|-------|----------------------|------------------|
| Lumber products | | \$ 45,984,807 | 59,934,815 |
| Panel products | | 12,375,721 | 16,481,660 |
| Allied building products | | 12,480,194 | 12,154,143 |
| | | \$ 70,840,722 | \$ 88,570,618 |

3. SEGMENTED INFORMATION

Taiga operates primarily in the wholesale products distribution industry segment. During the period April 1, 2002 to September 30, 2002, the Company had export sales of Cdn. \$ 78,716,055 (Cdn. \$114,147,070 for the corresponding period in the previous year), primarily to the United States.

BOARD OF DIRECTORS

J. Brian Aune
Montreal, Quebec

Jimmie Bradshaw
North Vancouver, B.C.

Arkadi Bykhovsky
Vancouver, B.C.

Douglas Morris
Toronto, Ontario

Saul Spears
Toronto, Ontario

Chee Fong (Paul) Yeong
Kuala Lumpur, Malaysia

Robert Yong Kuen Loke
Kuala Lumpur, Malaysia

Meng Kwong Lim
Kuala Lumpur, Malaysia

Kok Kay (Alain) Lee
Pompano Beach, Florida

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OFFICERS

Arkadi Bykhovsky
President, CEO

Jimmie Bradshaw
*Vice President, Building
Materials*

Douglas Morris
*Vice President, Eastern
Operations*

Lloyd R. Hansen
Chief Financial Officer

Pat Furlong
Secretary

TRANSFER AGENT

Computershare Trust
Company of Canada
Vancouver, B.C.

AUDITORS

Deloitte & Touche, LLP
Vancouver, B.C.

STOCK EXCHANGE

Toronto

TRADING SYMBOL

TFP

SOLICITORS

Davis & Company
Vancouver, B.C.

