



Nine months ended  
31 December 2002

## FINANCIAL HIGHLIGHTS

### SALES:

Q3 - \$203 million  
YTD - \$703 million

### NET INCOME:

Q3 - \$364,000  
YTD - \$8.5 million

### EARNINGS PER SHARE:

Q3 - \$0.05  
YTD - \$1.09

### EBITDA:

Q3 - \$2.4 million  
YTD - 17.6 million

## MANAGEMENT DISCUSSION AND ANALYSIS

### QUARTERLY RESULTS FROM OPERATIONS

We are pleased to report that Taiga continued to generate strong sales results during our third quarter. For the three months ended December 31, 2002, Taiga recorded consolidated sales of \$203 million. This represents an increase of \$21 million, or 11.4%, over the same quarter last year, when we recorded sales of \$182 million. Consolidated earnings for the quarter were \$364,000, or \$0.05 per share, compared to earnings of \$1.8 million, or \$0.23 per share, for the same three-month period last year. Quarterly cash flow from operations was \$1.1 million, or \$0.14 per share, up from \$789,000, or \$0.10 per share, during fiscal 2001.

Taiga's third quarter results for the previous year included the reversal of \$2.3 million in countervailing duty accruals made between April 2001 and December 2001. Assuming a 30% income tax rate, this accounts for \$0.21 of the \$0.23 earnings per share recorded for the three-month period ended December 31, 2001.

For the nine months ended December 31, 2002, Taiga's sales totalled \$703 million, up \$55 million, or 8.5%, from the same period last year. Net earnings were \$8.5 million, or \$1.09 per share, compared to \$5.5 million, or \$0.71 per share, the previous year. Cash flow was \$10.4 million, or \$1.34 per share, compared to \$5.5 million, or \$0.71 per share, for the first three quarters of fiscal 2001.

This year's results include the addition of two new operations, Envirofor Preservers (Alta) Ltd. and Taiga Forest Products Inc. This accounts for the \$7.4 million year-over-year increase in operating expense.

Current year and comparative per share amounts are calculated after the "two-for-one" share split which was approved by Taiga's shareholders in July 2002.

### MARKET OVERVIEW

Very low consumer borrowing rates across North America continued to spur strong demand in all our markets during the third quarter. Demand stemmed from near-record Canadian and U.S. residential housing starts, combined with growing residential repairs and renovation spending during the 12 months ended December 31, 2002.

The Bank of Canada did not increase the Canadian regulatory rate at its meeting on

January 21, 2003; the bank rate currently remains at 2.75%. There has not been a change in the Canadian bank rate since July 16, 2002, when it increased by .25% from 2.5% to 2.75%. The Canadian Bank's prime lending rate is currently 4.5%.

In the U.S., the Federal Open Market Committee of the Federal Reserve did not change the U.S. regulatory rate at their December 10, 2002 meeting; it remains at 1.25%. The U.S. Bank's prime lending rate remains at a very favourable 4.25%. We believe that low prime lending rates in Canada and the U.S. will keep residential mortgage rates down, which should spur new residential housing construction. Low interest rates may also stimulate industrial markets as more funds are accessible to manufacturers for growth and expansion.

The latest housing construction results clearly illustrate the impact of low interest rates on the housing market. Canada Mortgage and Housing Corporation ("CMHC") recently announced that "2002 ended on a high note, posting the highest level of yearly starts since 1989, thanks to low mortgage rates, growing employment and increasing incomes." CMHC further stated that "total housing starts for 2002 are an estimated 204,857, the highest annual growth rate since 1983."

In the U.S., the National Home Builders Association ("NHBA") announced that the housing industry provided even greater support than expected to the U.S. economy in 2002. Near the end of the year, builders ramped up production of new homes and apartments to finish with a total of 1.7 million new residential units. This is the greatest housing production figure recorded in 16 years and includes the largest number of single-family homes built in 24 years. The NHBA also stated that the record levels of building permits issued in the latter part of 2002 is a positive sign for building activity heading into 2003.

## **PRODUCT REVIEW**

Most of Taiga's product lines recorded profitable sales growth during the quarter. Specifically, engineered wood products, preserved wood, panel products, insulation and wood mouldings recorded significant volume growth compared to the same period last year. These results were partially offset by soft lumber markets.

While commodity consumption increased during 2002, Resource Information Systems, Inc. ("RISI") is forecasting continued overproduction of lumber during 2003. (RISI is globally recognized as the premier source of independent economic analysis for the international forest industry.) Prices are expected to rise during the first quarter of 2003, as lumber orders increase in preparation for the spring building season. The higher prices are expected to stimulate lumber production, which may push prices down during the second quarter. In general, we believe excess lumber capacity will continue to promote weak lumber prices and we are not expecting any significant price rallies during 2003.

Given the oversupplied commodity markets and the resulting price pressure during 2002, Taiga's financial performance was commendable. A strong Canadian building products

market and robust Canadian lumber sales were largely able to offset a marked decrease in our U.S. sales. While our overall dimension lumber sales declined by \$8.6 million, or 9.1%, during the three months ended December 31, 2002, gross profit on these sales increased by 3.3%. These numbers are encouraging, especially as our year-over-year U.S. lumber sales declined by 41.2% for the quarter, with a corresponding decrease of 48.3% in gross profit. We expect profits in North American commodity markets to continue to be challenged by excess global supply.

The decline in our U.S. lumber sales is directly related to a recently imposed 27.2% countervailing and anti-dumping duty. This duty prevents Taiga from selling softwood lumber into the U.S. market from Canadian distribution centres or reloads at competitive prices.

### **KEY DEVELOPMENTS**

During our third quarter, we made a significant strategic move into the U.S., with the purchase of the assets of Louisiana Pacific Corporation's Rocklin, California building products distribution centre. This marks Taiga's first investment in the U.S. Servicing Northern California and Western Nevada, the Rocklin facility comprises 15 acres of land and 100,000 square feet of warehouse and covered storage space. The centre has been operating successfully in Northern California since 1980, and is staffed by experienced and highly motivated management, sales and administration staff, and operating personnel. As Taiga and the Rocklin Centre share similar business models and operating philosophies, the transition has been smooth.

### **FINANCING ACTIVITIES**

During the third quarter, Taiga added the Bank of Montreal to its informal banking group, which also includes the Bank of Nova Scotia and HSBC Bank Canada. At present, the three banks provide a revolving operating credit facility of \$135 million to Taiga. HSBC Bank Canada and the Bank of Nova Scotia each provide \$55 million, and the Bank of Montreal provides \$25 million.

To finance the Rocklin, California operations, the Bank of America provides US \$4.5 million term financing and US \$8.0 million revolving financing, which is temporarily secured by a standby letter of credit from our Canadian banks.

The current portion of Taiga's long-term debt totals \$13.1 million. Of this, \$2.4 million represents the current portion of Taiga Forest Products Ltd. financing, \$ 2.1 million represents the current portion of the Taiga Rocklin financing, and a mortgage in the amount of \$668,235 represents the current portion of our subsidiary company, Envirofor Preservers (Alta) Ltd. The remaining \$7.9 million will be refinanced over a five- to seven-year term upon its maturity in 2003.

## **INVESTING ACTIVITIES**

Taiga's expenditure for property, plant and equipment during the third quarter totalled \$12 million. This includes the assets in the new businesses, and \$650,000 for capital maintenance in existing operations.

## **FINANCIAL POSITION**

At December 31, 2002, shareholders' equity had increased to \$70.1 million from \$63.2 million at March 31, 2002. Working capital at quarter-end was \$38.1 million, compared to \$40.7 million at March 31, 2002. Our current ratio is 1.26 to 1.00, compared to 1.28 to 1.00 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**

As we begin our fourth quarter, we are optimistic that the strength of the new home construction and renovation and repair markets will continue to positively affect Taiga's financial results. Accordingly, we are forecasting sales growth in all of our markets.

All market indicators for 2003 are positive. Housing construction is expected to remain close to the record levels attained in 2002 and low interest rates should continue to stimulate both residential and industrial building activity in Canada and the U.S. According to a recent survey conducted by CMHC in major Canadian urban centres, approximately 11% of households say they are in the market to buy a home. In the U.S., the NHBA's latest builder survey shows that the single family market remained strong in January. The NHBA is predicting that 2003 will be another excellent year for housing, with production slipping only slightly on the expectation that interest rates will firm up in the latter part of the year. If U.S. President George Bush's fiscal stimulus package is passed by Congress, the U.S. housing markets could surpass those of 2002. The NHBA concluded that the housing sector will provide solid support to the U.S. economy during 2003.

We expect our Rocklin distribution centre to continue to benefit from vibrant housing construction markets in Northern California and Nevada. Taiga also sells to the U.S. from a number of our Canadian distribution centres and from strategically located reload centres in Canada and the U.S. On January 17, 2003, the Bush administration set a February 14th deadline for the release of a final report spelling out what Canadian provinces must do to escape the punishing U.S. lumber duties. Although this has been delayed beyond February 14th, there appears to be a genuine desire from both U.S. and Canadian officials to resolve the softwood lumber trade dispute. If the duty is eliminated, Taiga will work to regain former market share.

Recent strength in the Canadian dollar, and the expectation that interest rates have bottomed out and may start to rise in 2003, may slow future growth in residential markets. Regardless, RISI is forecasting 3 – 4% overall growth in U.S. gross domestic product for 2003. Growth in the Canadian economy is expected to track U.S. growth fairly closely, but

may be slowed somewhat if the Canadian dollar continues to strengthen vis-a-vis the U.S. dollar. In its December 2002 Monthly Economic Commentary, RISI forecasts the Canadian dollar to end 2003 at \$0.70 US, or at an exchange rate of 1.4286. A stronger Canadian dollar makes our commodity products more expensive and less attractive to U.S. customers.

Oversupply in the commodity wood markets, and the resulting impact on profitability, is expected to be a lingering problem throughout the forthcoming year. The wood products industry remains fragmented, and supply is expected to exceed demand. This will continue to depress profitability in lumber and panel markets.

Global circumstances, such as a potential war in Iraq and international terrorist activities, are not expected to have a long-term effect on our business. However, the outcome of these threatened events is indeterminate.

As we begin our fourth quarter, we are actively looking for opportunities to create value within our areas of expertise and across all our market sectors. Our focus going forward is to strategically improve our balance sheet and build stronger cash flow, in order to prepare for future growth opportunities.

Approved on behalf of the Board,



Arkadi Bykhovsky,  
President and  
Chief Executive Officer

February 11, 2003





## CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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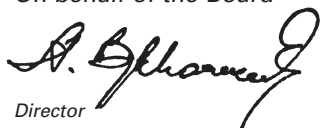
**TAIGA FOREST PRODUCTS LTD.**

**THIRD QUARTER, 2002**

**CONSOLIDATED BALANCE SHEETS**

<i>(in thousands of dollars) Unaudited</i>	As at	December 31 2002	March 31 2002
<b>ASSETS</b>			
<b>CURRENT</b>			
Accounts receivable		\$ 75,160	\$ 92,465
Inventories (note 2)		98,893	88,571
Prepaid expenses		1,238	899
Income tax recoverable		1,618	–
Future income taxes		4,939	4,939
		\$ 181,848	\$ 186,874
OTHER ASSETS AND INVESTMENTS		25	461
FIXED ASSETS LESS DEPRECIATION		48,275	30,309
		\$ 230,148	\$ 217,644
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Bank indebtedness		\$ 98,922	\$ 79,474
Accounts payable		31,758	53,112
Current portion of long-term debt		13,086	6,536
Income taxes payable		–	7,088
		\$ 143,766	\$ 146,210
LONG-TERM DEBT		13,623	5,625
FUTURE INCOME TAXES		2,617	2,617
		\$ 160,006	\$ 154,452
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock		12,523	12,499
Retained earnings		57,619	50,693
Total shareholders' equity		70,142	63,192
		\$ 230,148	\$ 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 December 31		For the 9 months ended December 31	
	2002	2001	2002	2001
SALES	\$ 203,025	\$ 182,206	\$ 702,860	\$ 647,805
COST OF SALES	190,663	170,234	644,609	602,595
GROSS PROFIT	\$ 12,362	\$ 11,972	\$ 58,251	\$ 45,210
EXPENSES				
Distribution, selling and administration	\$ 10,714	\$ 10,303	\$ 42,559	\$ 35,166
Interest				
Current	876	563	2,602	2,842
Long-term	275	266	821	801
	\$ 11,865	\$ 11,132	\$ 45,982	\$ 38,809
OPERATING INCOME	497	840	12,269	6,401
NON-OPERATING EXPENSE (INCOME)	(27)	(1,039)	157	(1,015)
EARNINGS BEFORE INCOME TAXES	\$ 524	\$ 1,879	\$ 12,112	\$ 7,416
INCOME TAXES	160	115	3,637	1,891
NET EARNINGS	\$ 364	\$ 1,764	\$ 8,475	\$ 5,525
RETAINED EARNINGS, BEGINNING OF PERIOD	\$ 57,250	\$ 48,210	\$ 50,693	\$ 46,002
Net earnings for the period	364	1,764	8,475	5,525
Currency translation gain on foreign subsidiary	5	–	5	–
Common share dividends	–	–	(1,554)	(1,553)
RETAINED EARNINGS, END OF PERIOD	\$ 57,619	\$ 49,974	\$ 57,619	\$ 49,974
Basic earnings per common share	\$ 0.05	\$ 0.23	\$ 1.09	\$ 0.71
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 December 31		For the 9 months ended December 31	
	2002	2001	2002	2001
<b>OPERATING ACTIVITIES</b>				
Net Earnings	\$ 364	\$ 1,764	\$ 8,475	\$ 5,525
Items not requiring an outlay of funds				
Depreciation and amortization	757	525	2,050	1,536
Gain on sale of fixed assets	–	(1,500)	(70)	(1,530)
	<b>1,121</b>	789	<b>10,455</b>	5,531
Change in non-cash working capital	<b>(29,160)</b>	(1,083)	<b>(23,366)</b>	28,132
	<b>(28,039)</b>	(294)	<b>(12,911)</b>	33,663
<b>FINANCING ACTIVITIES</b>				
Increase (decrease) in long-term debt	10,751	(532)	8,872	(1,746)
Dividends paid to common shareholders	–	–	(1,554)	(1,553)
Issuance of capital stock	–	–	24	470
	<b>10,751</b>	(532)	<b>7,342</b>	(2,829)
<b>INVESTMENT ACTIVITIES</b>				
Proceeds on disposition of fixed assets	–	2,860	88	2,898
Purchase of fixed assets	(12,013)	(319)	(12,740)	(3,047)
Other assets and investments	–	71	(1,227)	5
	<b>(12,013)</b>	2,612	<b>(13,879)</b>	(144)
<b>INCREASE (DECREASE) IN CASH</b>	<b>(29,301)</b>	1,786	<b>(19,448)</b>	30,690
<b>BANK INDEBTEDNESS, BEGINNING OF PERIOD</b>	<b>(69,621)</b>	(55,509)	<b>(79,474)</b>	(84,413)
<b>BANK INDEBTEDNESS, END OF PERIOD</b>	<b>\$ (98,922)</b>	<b>\$ (53,723)</b>	<b>\$ (98,922)</b>	<b>\$ (53,723)</b>

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 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	December 31 2002	March 31 2002
Lumber products		\$ 69,817,416	59,934,815
Panel products		15,354,611	16,481,660
Allied building products		13,721,365	12,154,143
		\$ 98,893,392	\$ 88,570,618

### 3. SEGMENTED INFORMATION

Taiga operates primarily in the wholesale products distribution industry segment. During the period April 1, 2002 to December 31, 2002, the Company had foreign sales, primarily in the United States, of Cdn. \$111,214,597 (Cdn. \$152,352,292 for the corresponding period in the previous year).

#### BOARD OF DIRECTORS

J. Brian Aune  
*Montreal, Quebec*

Jimmie Bradshaw  
*North Vancouver, British Columbia*

Arkadi Bykhovsky  
*Millbrook, Ontario*

Douglas Morris  
*Toronto, Ontario*

Saul Spears  
*Toronto, Ontario*

Chee Fong (Paul) Yeong  
*Kuala Lumpur, Malaysia*

Robert Yong Kuen Loke  
*Kuala Lumpur, Malaysia*

Foong (Albert) Yap  
*Richmond, British Columbia*

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.*

