

## MANAGEMENT'S DISCUSSION & ANALYSIS

### For the Nine Months Ended December 31, 2004

This management discussion and analysis is presented as at January 31, 2005. The financial information disclosed within this interim report has been prepared in accordance with Canadian generally accepted accounting principles and is presented in Canadian dollars. The following discussion and analysis should be read in conjunction with the interim financial statements included in this quarterly report as well as the Management's Discussion and Analysis included in the Company's annual report for the year ending March 31, 2004. All public filings made with the Canadian securities regulatory authorities and further information on Taiga, including Taiga's Annual Information Form for the year ended March 31, 2004, is available free of charge on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### Business Profile

Taiga Forest Products Ltd. ("Taiga") is Canada's largest independent wholesale building products distributor. Consequently, we warehouse and distribute a variety of structural and decorative building materials including:

- "Taiga Select" Treated Wood
- Dimension lumber and panel products
- GAF Materials Corporation roofing products
- Pine and MDF ("medium density fibreboard") mouldings
- JM – Johns Manville residential insulation
- Owens Corning rigid insulation
- Trex® composite decking
- Grace accessory roofing products
- Engineered Wood Products

Our subsidiary companies, Envirofor Preservers (BC) Ltd. and Envirofor Preservers (ALTA) Ltd., produce "Taiga Select" preserved wood product at two preservation plants located in Langley, BC, and Edmonton, AB. "Taiga Select" is an economical and decay-resistant product designed for durable outdoor applications such as fencing, landscaping, and decking. It is distributed in Canada and the US, through our international distribution network, and is sold to export markets in the Pacific Rim and South Pacific.

At our remanufacturing plant in Elmira, ON, Taiga produces value-added wood products, including good neighbor fence panels and custom-cut lumber for distribution throughout southern Ontario and US markets.

Our subsidiary company, Dynamic Forest Products Ltd., a wholesale building distributor that operates from offices in Concord, ON and Laval, PQ sells dimension lumber, panel boards and preserved wood products into Canadian and US markets. Additionally, our subsidiary company, Taiga Forest Products Inc., a building products distribution business in Rocklin, California, services the San Francisco Bay area through to Northwest Nevada.

A blue-tinted photograph of a construction worker wearing a hard hat and safety gear, working on a roof.

### FINANCIAL HIGHLIGHTS

#### SALES

Q2 \$277.9 million  
YTD \$1,045.8 million

#### NET INCOME

Q2 \$0.8 million  
YTD \$12.1 million

#### EARNINGS PER SHARE

Q2 \$0.10  
YTD \$1.52

#### EBITDA

Q2 \$3.4 million  
YTD \$25.8 million

## Results from Operations

### For the 3 months ended December 31, 2004

Consolidated sales were \$277.9 million, up \$33.8 million (14%) from the \$244.1 million reported for the same period last year. Consolidated earnings were \$0.8 million, or \$0.10 per share, compared to earnings of \$1.8 million, or \$0.23 per share, generated during the same quarter of the previous year.

Consolidated expenses, before interest, were \$16.0 million, an increase of \$1.9 million (13.2%) from the same period last year. This is comprised of an increase in incentive and bad debt accruals totaling \$2.8 million and a decrease of \$0.9 million in all other expenses.

Cash from operations was \$27.6 million, or \$3.47 per share, compared to \$23.6 million, or \$2.98 per share, the previous year. The major components include net earnings after income tax in the amount of \$0.8 million and the following non-cash items; amortization expense of \$0.7 million, \$0.3 million cumulative translation adjustment on our U.S. subsidiary Taiga Forest Products Inc., a \$0.07 million loss on disposal of assets and a \$26.4 million change in non-cash working capital.

Despite price volatility during the quarter, lumber sales increased substantially by \$36.7 million (33%). However, price erosion in the panel products sector resulted in a sales decrease of \$7.9 million (-8%) from the previous year. Allied products continued to trend upward again this quarter with sales increasing by \$5.0 million (16%).

### For the 9 months ended December 31, 2004

Consolidated sales were \$1,045.8 million, up \$237.1 million (29%) from the \$808.7 million reported for the same period last year. Consolidated earnings were \$12.1 million, or \$1.52 per share, compared to last year's earnings of \$6.8 million, or \$0.86 per share.

Consolidated expenses, before interest, were \$57.9 million compared to \$52.6 million last year. This 10% increase is primarily the result of incentive accruals which have been adjusted as a result of the strengthened earnings.

Cash from operations was \$50.9 million, or \$6.39 per share, compared to \$42.2 million, or \$5.31 per share, the previous year. The major components include net earnings after income tax in the amount of \$12.1 million, and the following non-cash items; amortization expense of \$2.2 million, \$0.6 million cumulative translation adjustment on our U.S. subsidiary Taiga Forest Products Inc., a \$0.2 million loss on disposal of assets and a \$37.1 million change in non-cash working capital.

Lumber sales increased by \$177.1 million (43%), panel products sales increased by \$49.0 million (16%) while our allied products sales increased \$11.1 million (11%) compared to the previous year.

## Summary of Quarterly Results

Following are selected financial data for the Company's eight most recently completed quarters:

	Quarters Ending							
(\$ in thousands)	Dec 31, 2004	Sept 30, 2004	June 30, 2004	March 31, 2004	Dec 31, 2003	Sept 30, 2003	June 30, 2003	March 31, 2003
Net Sales	\$ 277,909	\$ 383,485	\$ 384,388	\$ 273,906	\$ 244,080	\$ 306,210	\$ 258,373	\$ 209,880
Net Earnings (Loss) after Income Taxes	763	5,533	5,778	3,868	1,818	4,424	569	(646)
Basic and diluted earnings (Loss) per share	\$0.10	\$0.70	\$0.73	\$0.50	\$0.23	\$0.56	\$0.07	(\$0.08)

## Market Overview

Although demand in new housing construction and renovations remained strong this quarter, price volatility in the lumber and panel sectors was prevalent once again this quarter.

### Lumber

Louisiana Pacific "Solid Start" I-joist and laminated veneer lumber products performed well again this quarter. Sales were up 42% over last year's third quarter and made up 20% of our total lumber sales versus 19% last year.

Sales of dimension lumber continued to show strength this quarter, with an increase of 42% over the same quarter of the previous year. Lumber sales to destinations outside of Canada (primarily to the US) increased 34% this quarter over the previous year despite the continued strength in the Canadian dollar. Benchmark Western SPF 2 X 4 2&Btr started the quarter at US \$380 per Mfbm and ended the period at US \$358 per Mfbm. However, like the previous two quarters, prices were volatile during the period with a low of US \$306 per Mfbm seen in November.

Preserved wood made up 9% of our total lumber sales this quarter representing an 8% increase over the same quarter in the previous year.

### Panel Products

Once again this quarter, panel products continued to experience substantial price volatility and erosion. This was reflected in our results with sales of \$93.5 million for the quarter, down \$7.9 million or 8% from the same period of the prior year. Oriented strandboard ("OSB") sales decreased \$6.8 million (-12%) this quarter compared to the same quarter last year. The sales of other panel products (which includes spruce and fir plywood, engineered siding, pourform, and particle board) decreased \$1.1 million (-2%).

### Allied Products

Taiga's allied products generated sales of \$37.3 million this quarter, a 16% increase from the same period last year. Leading performers within this group are JM Johns Manville residential insulation which realized a sales increase this quarter of 27%, pine and MDF (medium density fibre board) mouldings increased 43% over the same quarter last year and, sales for Trex, a premium composite decking product, increased a substantial 77%.

### Financing Activities

Taiga utilizes three Canadian banks and one US bank to finance its operations.

Presently, the Canadian banks provide a maximum revolving credit facility in the amount of \$115 million from November 1 to February 28 and \$150 million from March 1 to October 31. At December 31, 2004, Taiga was utilizing \$70 million of the \$115 million facility. This facility is reviewed and renewed on or before November of each year.

The Company is exposed to interest rate fluctuations through their financing and cash management activities in the form of long-term debt. To manage this exposure, the Company has entered into the following interest rate swap arrangements.

Counterparty	Maturity Date	Notional Amount	Fixed Interest Rate
Bank of Nova Scotia	October 26, 2004	\$ 2,500,000	3.92
Bank of Nova Scotia	October 26, 2005	\$ 1,500,000	4.35
HSBC Bank Canada	October 26, 2004	\$ 2,500,000	3.84
HSBC Bank Canada	October 26, 2005	\$ 1,500,000	4.25
HSBC Bank Canada	August 27, 2007	\$ 10,000,000	3.90
HSBC Bank Canada	August 25, 2009	\$ 10,000,000	4.50

### Investing Activities

Taiga's expenditure for property, plant and equipment totaled \$4,278,450 for the quarter ended December 31, 2004. Of this total, \$3.7 million is related to the purchase of its leased distribution centre in Brampton Ontario. This facility has been leased by the Company since 1996 when it acquired certain assets of the business operating at this facility from Norbord Building Materials, the building products distribution division of Norbord Industries Inc. Prior to 1996, this business had operated under the Norbord banner since the mid 1980's. The facility consists of buildings totaling 39,521 sq. ft. situated on 5.3 acres with approximately 4.0 of these acres being paved. This location is an essential strategic link in our distribution chain. The remaining expenditures are primarily due to forklift and delivery truck replacements as well as yard paving. Additionally, the disposal of four forklifts generated a loss on disposal of \$66,756.

## Financial Position

At December 31, 2004, shareholders' equity was \$87.5 million, up from \$78.9 million at March 31, 2004 and working capital increased by \$3.7 million to \$60.5 million. Our current ratio is 1.42 : 1.0, compared to 1.29 : 1.0 at March 31, 2004.

## 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 annual report for the year ended March 31, 2004, which describes these risks in more detail.

## Critical Accounting Policies

Management has made estimates that affect the reported amounts and other disclosures contained in the financial statements.

### *Buildings, Equipment and Leaseholds*

Assets are recorded at cost and amortization is provided using the following methods and annual rates:

Buildings	4% - 8% Declining balance
Furniture and office equipment	8% - 30% Declining balance
Warehouse and manufacturing equipment	10% - 30% Declining balance
Condominium properties	2.5% Declining balance
Treating equipment	12 years Straight-line
Leasehold improvements	5 years Straight-line

The Company reviews the carrying values of its buildings and equipment on a regular basis by reference to estimated future operation results and undiscounted net cash flows. If the carrying value of these assets exceeds estimated net recoverable amounts, a provision for impairment will be made unless the decline is temporary.

### *Inventories*

Inventories are valued at the lower of cost and net realizable value.

### *Loss contingencies*

Our estimates of loss contingencies relating to legal proceedings and similar matters are based on various judgments and assumptions concerning the potential resolution of claims and associated costs.

## Related Party Transactions

During the quarter, the Company paid US \$42,453 to a subsidiary company of Berjaya Group Berhad. Berjaya Group Berhad's wholly-owned subsidiary, Berjaya Forest Products (Cayman) Limited, owns 39.8% of Taiga's outstanding voting securities. The payment was for purchases, made at fair market value, of building materials for resale within the Canadian market.

## Contractual Obligations

The following table outlines the timing of payments for which Taiga has contractual and legal obligations as at December, 2004:

Contractual Obligations	Total	Payment Due by Period (000's)			
		1 Year and less than	2 Years	3 Years	4 years and greater
Operating leases	\$ 4,756	\$ 604	\$ 1,741	\$ 1,152	\$ 1,259

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## Share Capital

Authorized: 53,886,210 Common shares

Issued and Fully Paid:

	Number of Shares	Amount
As at December 31, 2004	7,961,420	\$ 13,442,135
Shares Issued During the Quarter:	None	

## Stock Option Plan

Number of Shares Available for issue under the Plan as at December 31, 2004:	412,242
Options Granted During the Quarter:	None
Options Outstanding at end of the Quarter:	None

## Outlook

Taiga's financial performance is primarily dependent on the industrial and residential construction, renovation and repairs markets. These markets are affected by the strength or weakness in the general economy and as such are influenced by interest rates and other general market indicators. Ideal economic conditions for Taiga would include; reasonable levels of economic growth; moderate interest rates; and low unemployment. These conditions generally promote consumer confidence and spending on new housing, or renovation and repairs.

The Canada Mortgage and Housing Corporation (CMHC) forecasted a seasonally adjusted annual rate of housing starts across Canada of 234,400 units in December, up from 231,000 units reported at the end of the previous quarter. The construction of new homes experienced a 17-year high in 2004, but sales of existing homes in Canada have been experiencing a downward trend since March 2004. According to the CMHC, this trend supports their view that the level of activity in the housing market will slow in 2005. Consequently, they forecast housing starts will decrease 9.8% in 2005 to reach a historically robust 210,200 units.

In the US, housing starts in December posted the largest monthly gain since September 1997. The National Association of Home Builders (NAHB) seasonally adjusted overall housing starts for December is 2 million units and total housing starts for the year are up 5.7% from 2003. According to the NAHB "builders are geared up for another solid year and expect the demand from home buyers to remain resilient".

We are encouraged by the CMHC's and NAHB's projections of another strong year for the Canadian and US housing markets and remain optimistic about the outlook for Taiga in 2005.

**APPROVED ON BEHALF OF THE BOARD,**



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Dr. Kooi Ong Tong  
*Chairman*

## CONSOLIDATED BALANCE SHEET

(in Thousands of Dollars) Unaudited

	As at Dec 31, 2004	As at March 31, 2004
<b>ASSETS</b>		
<b>Current</b>		
Accounts receivable	\$ 84,808	\$ 125,106
Income taxes recoverable	1,710	4,268
Inventories (Note 2)	114,786	120,766
Prepaid expenses	1,809	1,633
Future income taxes	655	662
	<b>\$ 203,768</b>	<b>\$ 252,435</b>
<b>Other</b>		
Investments	25	25
Land, buildings, equipment and leaseholds	48,120	46,273
Future income taxes	5,007	5,007
	<b>\$ 256,920</b>	<b>\$ 303,740</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Bank indebtedness	\$ 12,290	\$ 8,580
Credit facilities	71,481	115,943
Accounts payable and accrued liabilities	56,243	67,851
Current portion of long-term debt	3,210	3,266
	<b>\$ 143,224</b>	<b>\$ 195,640</b>
<b>Long-Term Debt</b>	<b>26,161</b>	<b>29,209</b>
	<b>\$ 169,385</b>	<b>\$ 224,849</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	13,442	13,442
Cumulative translation adjustment	(867)	(224)
Retained earnings	74,960	65,673
<b>Total shareholders' equity</b>	<b>87,535</b>	<b>78,891</b>
	<b>\$ 256,920</b>	<b>\$ 303,740</b>

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

(in Thousands of Dollars) Unaudited

	for the 3 months ended Dec 31, 2004	for the 3 months ended Dec 31, 2003
<b>SALES</b>	<b>\$ 277,909</b>	<b>\$ 244,080</b>
Cost of sales	259,131	226,584
<b>Gross Profit</b>	<b>\$ 18,778</b>	<b>\$ 17,496</b>
<b>EXPENSES</b>		
Distribution	\$ 4,575	\$ 5,706
Selling and administration	11,391	8,402
Interest -		
Current	893	973
Long-term	459	326
	<b>\$ 17,318</b>	<b>\$ 15,407</b>
<b>Operating Income</b>	<b>1,460</b>	<b>2,089</b>
Non-operating expense	149	31
<b>Earnings before Income Taxes</b>	<b>\$ 1,311</b>	<b>\$ 2,058</b>
Income taxes	548	240
<b>NET EARNINGS</b>	<b>\$ 763</b>	<b>\$ 1,818</b>
<b>Retained Earnings, Beginning of Period</b>	<b>\$ 74,197</b>	<b>\$ 59,978</b>
<b>Net Earnings for the Period</b>	<b>763</b>	<b>1,818</b>
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>\$ 74,960</b>	<b>\$ 61,796</b>
<b>Basic and diluted earnings per share</b>	<b>\$ 0.10</b>	<b>\$ 0.23</b>
<b>Number of Common Shares Outstanding</b>	<b>7,961,420</b>	<b>7,937,420</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

(in Thousands of Dollars) Unaudited

	for the 3 months ended Dec 31, 2004	for the 3 months ended Dec 31, 2003
<b>Operating Activities:</b>		
Net income	\$ 763	\$ 1,818
Adjustments for -		
Amortization	740	775
Cumulative translation adjustment	(342)	(206)
Loss (Gain) on disposal of equipment	67	(6)
	<u>\$ 1,228</u>	<u>\$ 2,381</u>
Change in non-cash working capital	26,365	21,244
Cash flows from operating activities	<u>\$ 27,593</u>	<u>\$ 23,625</u>
<b>Investing Activities:</b>		
Purchase of land, buildings, equipment and leaseholds	\$ (4,278)	\$ (1,416)
Proceeds from disposition of equipment	48	12
Cash flows (used in) investment activities	<u>\$ (4,230)</u>	<u>\$ (1,404)</u>
<b>Financing Activities:</b>		
Net change in credit facilities	\$ (23,163)	\$ (32,858)
(Repayment) increase of long-term debt	(790)	11,411
Issuance of share capital	-	191
Cash flows (used in) financing activities	<u>\$ (23,953)</u>	<u>\$ (21,256)</u>
<b>Net (Decrease) Increase in Cash</b>	<b>\$ (590)</b>	<b>\$ 965</b>
<b>Bank Indebtedness, beginning</b>	<b>(11,700)</b>	<b>(9,298)</b>
<b>Bank Indebtedness, ending</b>	<b>\$ (12,290)</b>	<b>\$ (8,333)</b>

**CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS***(in Thousands of Dollars) Unaudited*

	for the 9 months ended Dec 31, 2004	for the 9 months ended Dec 31, 2003
<b>SALES</b>	<b>\$ 1,045,782</b>	<b>\$ 808,663</b>
Cost of sales	964,025	740,962
<b>Gross Profit</b>	<b>\$ 81,757</b>	<b>\$ 67,701</b>
<b>EXPENSES</b>		
Distribution	\$ 17,954	\$ 18,362
Selling and administration	\$ 39,967	\$ 34,285
Interest -		
Current	3,077	4,076
Long-term	1,224	953
	<b>\$ 62,222</b>	<b>\$ 57,676</b>
<b>Operating Income</b>	<b>19,535</b>	<b>10,025</b>
Non-operating expense	225	57
<b>Earnings before Income Taxes</b>	<b>\$ 19,310</b>	<b>\$ 9,968</b>
Income taxes	7,236	3,157
<b>NET EARNINGS</b>	<b>\$ 12,074</b>	<b>\$ 6,811</b>
<b>Retained Earnings, Beginning of Period</b>	<b>\$ 65,673</b>	<b>\$ 56,957</b>
Net Earnings for the Period	12,074	6,811
Common Share Dividends	(2,787)	(1972)
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>\$ 74,960</b>	<b>\$ 61,796</b>
<b>Basic Earnings per Common Share</b>	<b>\$ 1.52</b>	<b>\$ 0.86</b>
Number of Common Shares Outstanding	7,961,420	7,937,420

## CONSOLIDATED STATEMENT OF CASH FLOWS

(in Thousands of Dollars) Unaudited

	for the 9 months ended Dec 31, 2004	for the 9 months ended Dec 31, 2003
<b>Operating Activities:</b>		
Net income	\$ 12,074	\$ 6,811
Adjustments for -		
Amortization	2,193	2,296
Cumulative translation adjustment	(643)	(270)
Loss (Gain) on disposal of equipment	198	(39)
	<u>\$ 13,822</u>	<u>\$ 8,798</u>
Change in non-cash working capital	37,059	33,353
Cash flows from operating activities	<u>\$ 50,881</u>	<u>\$ 42,151</u>
<b>Investing Activities:</b>		
Purchase of land, buildings, equipment and leaseholds	(5,017)	(2,386)
Proceeds from disposition of equipment	93	53
Cash flows (used in) investment activities	<u>\$ (4,924)</u>	<u>\$ (2,333)</u>
<b>Financing Activities:</b>		
Net change in credit facilities	\$ (44,462)	\$ (42,273)
(Repayment) increase of long-term debt	(2,418)	9,917
Dividends paid to common shareholders	(2,787)	(1,972)
Issuance of share capital	-	779
Cash flows (used in) financing activities	<u>\$ (49,667)</u>	<u>\$ (33,549)</u>
Net (Decrease) Increase in Cash	\$ (3,710)	\$ 6,269
Bank Indebtedness, beginning	(8,580)	(14,602)
Bank Indebtedness, ending	<u>\$ (12,290)</u>	<u>\$ (8,333)</u>

## NOTES TO THE CONSOLIDATED INTERM FINANCIAL STATEMENTS

1. 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, 2004. 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, 2004. In management's opinion, these unaudited interim consolidated financial statements include all adjustments necessary to present fairly such information. The results of operations for the interim periods are not necessarily indicative of the results to be expected in future periods.

### 2. INVENTORIES

	As at Dec 31, 2004	As at March 31, 2004
Allied building products	\$ 17,645,221	\$ 13,472,916
Lumber products	74,175,190	76,448,519
Panel products	22,965,742	30,844,190
	<u>\$ 114,786,153</u>	<u>\$ 120,765,625</u>

### 3. SEGMENTED INFORMATION

The Company operates primarily in the wholesale products distribution industry segment. During the period April 1, 2004 to December 31, 2004, the Company had foreign sales, primarily in the United States, of Cdn. \$222,298,390 (Cdn.\$174,061,744 for the corresponding period in the previous year).

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## CORPORATE INFORMATION

### Board of Directors

Kooi Ong Tong (Chairman)  
Vancouver, BC

Rayvin Tan  
Kuala Lumpur, Malaysia

Kok Kay (Alain) Lee  
Pompano Beach, Florida

John Bell  
Vancouver, BC

Robert Yong Kuen Loke  
Kuala Lumpur, Malaysia

Sherwin John Y. Lim  
West Vancouver, BC

Albert Yap  
Richmond, BC

Cam White  
Calgary, AB

Doug Morris  
Toronto, ON

### Officers

Albert Yap  
VP, Finance & Administration

Cam White  
VP, Western Operations

Jimmie Bradshaw,  
VP, National Accounts  
& Supply Management

Doug Morris  
VP, Eastern Operations

Patrick J. Furlong  
Secretary

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### Transfer Agent

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Trust Company of Canada  
Vancouver, BC

### Auditors

Cinnamon Jang Willoughby  
Burnaby, BC

Stock Exchange TSX  
Trading Symbol: TFP

### Solicitors

Davis & Company  
Vancouver, BC

Borden Ladner Gervais LLP  
Vancouver, BC