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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of Taiga Building Products Ltd. "Taiga" or the "Company") has been prepared based on information available as at January 16, 2006 and should be read in conjunction with the consolidated financial statements and the corresponding notes thereto for the quarter ended December 31, 2005 and year ended March 31, 2005. This discussion and analysis provides an overview of significant developments that have affected Taiga's performance during the third quarter and year to date of 2005. Comparative information is not provided in the consolidated financial statements of Taiga, as Taiga did not exist for the comparative quarter of 2004. Consequently, the comparative figures presented are to the consolidated financial statements of Taiga Forest Products Ltd. (Taiga's predecessor company).

Taiga's unaudited interim consolidated financial statements and the accompanying notes included within this interim report include the accounts of Taiga and its subsidiaries. The unaudited financial information reported herein has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and is expressed in Canadian dollars. This MD&A complements and supplements the unaudited financial statements, but does not form part of the financial statements.

This discussion and analysis contains forward-looking statements concerning the future performance of our business, its operations, and its financial performance and condition. These forward-looking statements are based on our current expectations and judgment. These statements are subject to risks affected by known and unknown risks and uncertainties that may cause the actual future results of the Company to be materially different than those expressed or implied in this discussion. These risks and uncertainties are described herein and in the MD&A contained in Taiga Forest Products Ltd. Information circular dated May 27, 2005. No forward-looking statement is a guarantee of future results.

In this discussion, reference is made to EBITDA, which represents earnings before interest, taxes, depreciation and amortization. As there is no generally accepted method of calculating EBITDA, the measure as calculated by Taiga might not be comparable to similarly titled measures reported by other issuers. EBITDA is presented as Management believes it is a useful indicator of a company's ability to meet debt service and capital expenditure requirements and because we interpret trends in EBITDA as an indicator of relative operating performance. EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with GAAP.

Additional information relating to the Company including the Annual Information Form of Taiga Forest Products Ltd. can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

### FINANCIAL HIGHLIGHTS

#### SALES

Q3	\$257.4 million
YTD	\$898.3 million

#### NET INCOME

Q3	\$0.4 million
YTD	\$5.3 million

#### EARNINGS PER UNIT

Q3	\$0.01
YTD	\$0.16

#### EBITDA

Q3	\$8.4 million
YTD	\$24.1 million

## **BUSINESS OVERVIEW**

Taiga is the largest, by revenue, independent wholesale distributor of building products in Canada. Taiga distributes building products in Canada, the United States and elsewhere. As a wholesale distributor, Taiga maintains substantial inventories of building products at 15 strategically located distribution centres throughout Canada and one at a distribution centre in Northern California. In addition, Taiga regularly distributes through the use of third party reload centres. Taiga also owns and operates three wood preservation plants that produce pressure-treated wood products and one remanufacturing facility that produces building materials such as fence products and custom-cut lumber. Factors that affect Taiga's year-over-year profitability include sales levels, price fluctuations and product mix.

### **Sale and Leaseback Transaction**

On November 7, 2005 Taiga announced that it has signed an agreement with 603048 B.C. Ltd., an unrelated third party, for the sale and leaseback of 17 of Taiga's distribution and manufacturing facilities. Upon closing, Taiga will lease each of these facilities from the purchaser for initial periods of up to 20 years.

The aggregate purchase price to be paid to Taiga at closing is approximately \$52 million. The closing of the transaction is subject to Taiga and the purchaser settling the terms of the leases and other customary purchaser's due diligence conditions. The completion of the transaction is expected to occur in February, 2006. Taiga is exploring strategic alternatives for the use of net proceeds.

## **RESULTS OF OPERATIONS**

### **Comparison of the Quarters ended December 31, 2005 and December 31, 2004**

#### **Sales**

Taiga's sales for the quarter ended December 31, 2005 were \$257.4 million, down \$20.5 million or 7.4%, compared to \$277.9 million for the same period a year ago. Sales activities were affected by an abundant supply of products in the market resulting in lower prices for commodity products, in particular for lumber and plywood.

Dimension lumber sales decreased \$24.5 million (23.1%) over the prior year primarily due to declining commodity prices, particularly in November. The weekly average price for SPF 2 x 4, #2 and better delivered to Toronto (source: Random Length Weekly Report) was 7% lower during the current quarter compared to the same period a year ago as a result of increased supply and lower demand compared to the same quarter last year.

Treated wood sales increased \$2.0 million (15.5%) over the prior year due to exceptional weather in October and November 2005 in the Prairies compared to last year. Favorable weather extended the building season in the Prairies. Further, the addition of a new treating facility in Monetville in the spring of 2005 resulted in higher production capacity.

Panel products sales decreased \$11.5 million (12.3%) over the prior year mainly attributed to lower prices of plywood. The average weekly price for Canadian Softwood Plywood delivered to Toronto/Montreal decreased by 18% compared to the same period last year. (source: Crow's Canadian Panel Product).

Allied products sales increased \$12.2 million (18.1%) over last year. Within this category, insulation sales increased \$4.2 million, or 19.2% and GAF roofing products increased 44.6% as a result of higher demand and preference of product lines, in particular for Johns Manville insulation. Mouldings sales increased \$0.6 million, or 10.0%, over the same period last year. Taiga continues to increase allied products and has entered into agreement with a number of suppliers on Laminate Flooring products as part of Taiga's continued expansion into Allied products.

### **Gross Margin**

Gross margin was \$25.5 million, an increase of \$6.7 million (35.6%) from the prior year. Gross margin, as a percentage of sales, increased from 6.8% last year to 9.9% this year. The improvement in gross margin percentage is primarily a result of focused efforts in expanding sales in higher margin products and less volatility of lumber prices seen this quarter compared to the same period last year.

### **Expenses**

Total distribution, selling and administration expenses measured as a percent of sales increased from 5.7% to 6.9% this quarter. Total expenses increased by \$1.8 million to \$17.7 million over last year. Distribution expenses increased \$1.9 million (41.1%) over the prior year due to the addition of a new treating facility in Monetville, setting up a new Logistics division and higher delivery costs. Administration expenses decreased by \$0.1 million (1.0%) over the prior year mostly due to efficiencies in cost management of general office expenses such as stationary, postage and printing.

### **Interest Income and Expense**

Total interest expense increased \$5.3 million to \$6.7 million compared to \$1.4 million in the same period last year. The increase is primarily attributed to the interest portion of \$5.2 million on the subordinated note for monthly distribution to Stapled Unit holders for the quarter.

### **Operating Income**

Operating income for the quarter, before subordinated note interest for monthly distribution to Stapled Unit holders for the quarter of \$5.2 million, would have been \$5.6 million. However, operating income decreased \$1.1 million, to \$0.4 million or 0.2% of sales from \$1.5 million in the same period in 2004.

### **Net Income**

Net income for the quarter, before subordinated note indenture interest for monthly distribution to Stapled Unit holders for the quarter of \$5.2 million, would have been \$5.6 million. However, net income after subordinated note indenture interest decreased by \$0.4 million, to \$0.4 million or 0.2% of sales from \$0.8 million in the same period in 2004. This decrease is primarily the result of low commodity pricing this year for both lumber and panel products.

### **EBITDA**

EBITDA for the quarter has increased by \$5.0 million to \$8.4 million, from \$3.4 million in the prior year. The increase in EBITDA is mostly due to higher gross margins, as gross margins for the quarter was \$25.5 million or \$6.7 million higher than the prior year.

## Segmented Revenue

Taiga operates within one business segment and has two reportable geographic segments as follows:  
(in thousands of dollars)

	Quarters ended December 31			
	2005 Sales	%	2004 Sales	%
Canada	\$200,910	78.1	\$222,687	80.1
US	56,452	21.9	55,222	19.9

## Pay For Performance (“P4P”) Incentive Compensation

The company has a pronounced culture of motivating and rewarding its employees to deliver the most effective and efficient buying, logistical and sales performance. The incentive program pays for profit enhancing performance and accounts for approximately 33.1 % of total compensation costs.

## Distributable Cash

Distributable cash is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, the distributable cash of the Company is unlikely to be comparable to the distributable cash measures presented by other issuers. However, distributable cash is commonly used by Canadian open-ended trusts as an indicator of financial performance and we believe that distributable cash is a useful supplemental measure that may assist in assessing the potential return on an investment in our Stapled Units.

Our calculation of distributable cash is based on EBITDA adjusted for current and long term interest, income taxes and sustaining capital expenditures. Certain expenditures that are incurred as part of earnings-enhancing capital projects and acquisitions may be excluded from the determination of distributable cash flow if the project or acquisition is funded by term debt or equity financing.

On October 13, 2005 the company declared a monthly cash distribution for October, November and December, 2005 of \$0.0834 per Stapled Unit, comprised of a dividend of \$0.0213 per Common Share underlying the Stapled Unit and \$0.0621 in interest payable on the 14% Subordinated Note underlying the Stapled Unit.

### Statement of Distributable Cash

(in thousands of dollars except per Stapled Unit amounts)

(Unaudited)

	For the 3 months ended December 31	
	2005	2004
EBITDA	\$ 8,437	\$ 3,403
<i>Management believes the following adjustments are required to determine distributable cash:</i>		
Interest	(1,556)	(1,352)
Income taxes	(626)	(548)
Sustaining capital expenditures	(678)	(601)
Distributable cash	\$ 5,576	\$ 902
Distributable Cash per Stapled Unit- Dividend <sup>(1)</sup>	\$ 0.0213	-
Distributable Cash per Stapled Unit- Interest <sup>(1)</sup>	\$ 0.0621	-
Total Distributed <sup>(1)</sup>	\$ 0.0834	-

Notes:

- (1) Cash distributions declared for the months of October, November and December, 2005 of \$0.0834 per Stapled Unit, comprised of a dividend of \$0.0213 per Common Share underlying the Stapled Unit and \$0.0621 in interest payable on the 14% Subordinated Note underlying the Stapled Unit.

### Summary of Quarterly Results

(in thousands of dollars, except per share amount in dollars)

	March 2004	June 2004	Sept 2004	Dec 2004	March 2005	June 2005	Sep 2005	Dec 2005
Sales, reclassified <sup>(1)</sup>	\$274,309	\$385,386	\$383,998	\$277,909	\$282,440	\$324,945	\$315,961	\$257,362
Net income <sup>(2)</sup>	\$3,725	\$5,778	\$5,533	\$763	\$14,593	\$3,674	\$1,256	\$379
Earnings per share/per Stapled Unit – before interest distribution <sup>(3)</sup>	\$0.48	\$0.73	\$0.70	\$0.10	\$1.82	\$0.46	\$0.09	\$0.17
Earnings per share/per Stapled Unit – after interest distribution <sup>(3)</sup>	\$0.48	\$0.73	\$0.70	\$0.10	\$1.82	\$0.46	\$0.04	\$0.01

Notes:

(1) Impact of Accounting Policy Changes on Sales

Taiga contemplated revised Section 1100, Generally Accepted Accounting Principles of the CICA Handbook and determined that it was necessary to revise the presentation of antidumping and countervailing duties. These items are now recorded as an addition to cost of sales as opposed to a deduction from revenue.

(2) The amounts are derived from Taiga's audited historical financial statements which have been adjusted for a prior-period adjustment as a result of a tax audit conducted by the Canada Revenue Agency. For further information on the adjustment, see note 14 c) 'Subsequent Events' in the audited statements for the fiscal year ended March 31, 2005 included in Taiga Forest Ltd.'s 2005 annual report.

(3) This reflects the same for basic and fully-diluted per share basis.

Taiga operates in a seasonal industry that generally experiences higher sales in the first and second quarters and reduced sales in the late fall and winter during its third and fourth quarters of each fiscal year.

## LIQUIDITY AND CAPITAL REQUIREMENTS

### Summary of Financial Position

	Jun. 30, 2005	Sep. 30, 2005	Dec.31, 2005
Current Assets - \$ thousands .....	\$ 250,594	\$ 230,904	\$ 213,511
Current Liabilities - \$ thousands.....	183,032	186,546	170,820
Working Capital - \$ thousands.....	67,562	44,358	42,691
Subordinated notes owned by unitholders - \$ thousands .	-	171,334	171,334
Total Long Term Liabilities - \$ thousands .....	24,831	-	-
Total Assets - \$ thousands .....	306,084	286,203	268,793
Shareholders' Equity - \$ thousands <sup>(1)</sup> .....	98,221	(71,677)	(73,361)
<b>Ratios</b>			
Current Ratio .....	1.37:1	1.24:1	1.25:1
Total Liabilities to Shareholders' Equity <sup>(1)</sup> .....	2.12:1	(4.99):1	(4.66):1

Notes:

(1) Impact of Stapled Unit conversion

Pursuant to an Indenture dated September 1, 2005, the Company issued 32,205,680 Subordinated Notes (the "Notes") with a principal amount of \$5.32 for an aggregate carrying amount of \$171,334,217. Under the terms of the Indenture, the Notes are unsecured, bear interest at 14% per annum and mature on September 1, 2020. Interest on the Notes (except defaulted interest) at a rate of 14% per annum is payable monthly in arrears, and calculated as an annual interest sum divided by twelve, on or about the 15th day following the end of each month commencing October 17, 2005.

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The aggregate principal amount of Notes that may be issued under the Indenture is unlimited. The Notes are guaranteed by certain of the Company's subsidiary and affiliated companies.

As a result of the Stapled Unit conversion, the aggregate issue price of the Notes in the amount of \$171,334,217 is charged against Retained Earnings during the current period.

## **Assets**

Total assets were \$268.8 million as at December 31, 2005 and \$332.1 as at March 31, 2005. The decrease of \$63.3 million is primarily the result of decreased accountings receivables and inventories.

Accounts receivable decreased by \$37.7 million to \$89.6 million as at December 31, 2005, compared to \$127.3 million as at March 31, 2005.

Inventory decreased by \$28.6 million to \$116.6 million as at December, 2005, compared to \$145.2 million as at March 31, 2005 due to improved inventory management programs.

The net balance of land, buildings, equipment and leaseholds decreased for the quarter by \$0.02 million to \$49.18 million as at December 31, 2005. Purchases of land, buildings, equipment and leaseholds during the current quarter were \$0.68 million and amortization was \$0.7 million.

In connection with the purchase of fixed assets, \$0.1 million of the total amount purchased is related to the purchase of computer software and hardware. Taiga is currently upgrading its computer systems and anticipates that an additional \$1.0 million will be required to complete the upgrade, which should be completed in the third quarter of next fiscal year. Taiga also expended \$0.2 million on upgrades to the wood preservation plant in Ontario. The computer and treating plant upgrades are above typical maintenance capital expenditures. Annual maintenance capital expenditures average approximately \$1.0 million per year and management estimates that this amount represents the amount that Taiga will incur in each of the next three years. Capital expenditures are financed from operational cash flows.

Income taxes recoverable increased by \$2.9 million to \$5.5 million as at December 31, 2005, compared to \$2.6 million as at March 31, 2005.

## **Liabilities**

Total liabilities increased from \$231.0 million as at March 31, 2005 to \$342.2 million as at the end of December 31, 2005. The \$111.2 million increase is mainly the result of the addition of the subordinated note payable in the amount of \$171.3 million and is partially offset by repayment of all long-term debt.

Credit facilities and bank indebtedness decreased by \$15.0 million to \$117.0 million as at December 31, 2005, compared to \$132.0 million as at March 31, 2005 as a result of lower inventories and receivables.

Prior credit facilities consisting of long-term debt decreased by \$25.5 million from \$25.5 million as at March 31, 2005 to nil as at December 31, 2005 as a result of financing arrangements with GE Capital Markets ("GE") to refinance the Company's existing senior credit facilities.

Accounts payable and accrued liabilities decreased by \$16.5 million from \$66.6 million as at March 31, 2005 to \$50.1 million as at December 31, 2005 due to carrying lower inventory.

### Changes in Non Cash Working Capital Items

Changes in Non-cash Working Capital: (in thousands of dollars)	Three months ended December		Nine months ended December	
	2005	2004	2005	2004
(Increase) Decrease in accounts receivable	\$ 39,193	\$ 44,069	\$ 37,728	\$ 40,298
(Increase) Decrease in income taxes recoverable/payable	(6,247)	570	(2,867)	2,558
(Increase) Decrease in inventories	(20,275)	(14,199)	28,593	5,979
(Increase) Decrease in prepaid expenses	(267)	(3,192)	(214)	(168)
Increase (Decrease) in accounts payable and accrued liabilities	(9,787)	(7,267)	(16,446)	(11,608)
	\$ 2,617	\$ 26,365	\$ 46,794	\$ 37,059

### Working Capital

Working capital decreased by \$28.8 million to \$42.7 million as at December 31, 2005 compared to \$71.3 million as at March 31, 2005. The decrease was primarily due to lower inventories and accounts receivables being offset by a reduction in accounts payable, accrued liabilities, and bank indebtedness.

### Contractual obligations

There are no material changes to the contractual obligations except for the new GE credit facilities and Subordinated Notes as reported in the Management's Discussion and Analysis and audited consolidated financial statements and notes thereto included in the Company's 2005 annual report and information circular dated May 27, 2005.

### Financing

Taiga had utilized three Canadian banks and one US bank to finance its operations. As of September 1, 2005 the Company successfully secured up to CDN \$250 million senior secured revolving credit facility with GE to accommodate the Company's new corporate structure and payment of interest on the Subordinated Notes. The credit facility was fully syndicated during the quarter and members of the banking group include: GE Canada, HSBC – Canada, JP Morgan – Canada, Lasalle Bank – Canada, Bank of America – Canada and CIT Canada.

Under the new GE credit facility, the Company can obtain a maximum revolving loan commitment of \$200 million from April through September and \$160 million from October through March. The credit arrangement also has an accordion feature to permanently increase the maximum limit by an additional \$50 million. As at December 31, 2005, Taiga was utilizing \$113 million of the \$160 million facility. Taiga's main source of liquidity will come from cash provided by operations and the GE credit facilities. Management believes that such sources of liquidity will be sufficient to fund the new corporate structure, future working capital requirements, capital expenditures and Taiga's planned growth.

### **Outstanding Share Data**

The company has only one class of shares outstanding, its common shares without par value. Each common share is 'stapled' to a 14% subordinate note in the principle amount of \$5.32, to form a Stapled Unit. On December 31, 2005, there were 32,205,680 Stapled Units issued and outstanding. The Company declared on October 13, 2005, a monthly cash distribution for the months of October, November and December 2005 of \$0.0834 per Stapled Unit, comprised of a dividend of \$0.0213 per common share and \$0.0621 in interest payable on the 14% Subordinated Note to all holders of record. A monthly distribution payment totalling \$2,685,954 was paid on October 17, 2005, November 15, 2005 and December 15, 2005. The distribution to unitholders of record at the close of business on December 30, 2005 will be payable on January 16, 2005.

As a result of the reorganization, there are no outstanding options remaining to be exercised and no new options have been granted during the quarter.

### **Risks and Uncertainties**

The results of operations, business prospects and financial conditions of Taiga are subject to a number of risks and uncertainties, and are affected by a number of factors outside of Taiga's control.

#### **Dependence on Market Economic Conditions**

Demand for Taiga's products depends significantly upon the residential and commercial construction market, industrial manufacturing market and home improvement market. The level of activity in the residential construction market, industrial manufacturing market and home improvement market depends on many factors, including the general demand for housing, interest rates, availability of financing, housing affordability, levels of unemployment, shifting demographic trends, gross domestic product growth, consumer confidence, changes in the rate of housing starts, and other general economic conditions. The level of activity in the industrial commercial construction market depends largely on vacancy and absorption rates, interest rates, regional economic outlooks, the availability of financing and general economic conditions. Consequently, the level of activity in the home improvement, residential and commercial construction markets and the industrial manufacturing market is determined by factors that are not within Taiga's control. Also, since such markets are sensitive to cyclical changes in the economy, future downturns in the economy or lack of further improvement in the economy could have a material adverse effect on Taiga's financial condition and results of operations.

#### **Sales and Margin Risk and Fluctuations in Commodity Prices**

Taiga's profitability depends on its ability to maintain and grow sales to its customers and to sustain its profit margins. If Taiga's operating costs increase or if the prices for which Taiga is able to sell its products fall, its sales or margins, or both, would be adversely affected.

Taiga sales volumes are affected by general economic conditions impacting the housing industry, such as prevailing interest rates, competition and relationships with customers and suppliers. Adverse changes in any one of these factors can significantly reduce Taiga's sales volumes.

Taiga operates to a large extent in a commodities market in which it has no control over the market prices of its products. Commodity prices fluctuate with market supply and demand and other factors and these fluctuations can be volatile. Taiga's profitability depends on its ability to sell product at prices that are higher than their cost to Taiga. Cost controls are therefore critical to Taiga's profitability. Any failure in Taiga's

strategy for reducing its cost either by managing internal costs or by implementing effective purchasing initiatives would negatively affect its financial results. Taiga has implemented, and continues to focus on, cost controls but the success of its strategies cannot be assured.

Taiga's profitability is directly influenced by the cost of certain commodity products, such as plywood, oriented strand board, panel boards and dimension lumber. The prices of such commodity products are subject to significant volatility and are beyond the control of Taiga. There can be no assurance that Taiga's producers or manufacturers will continue to have these commodity products available to them at reasonable prices or that significant increases in the costs of such commodities will not materially adversely affect the operations of Taiga. Gross margins are dependent on the prices at which Taiga sells its products. Sudden changes in commodity prices may adversely impact Taiga's operating results.

#### Supply of Commodities

Dimension lumber and panel products are important components of Taiga's product mix. Due to political and environmental restrictions on logging in North America, the availability of adequate lumber supply in the future could adversely affect Taiga's growth. Taiga's policy of buying from as many established producers as possible, and its practice of establishing a number of supply arrangements, are designed to ensure continued supply, but there can be no assurance that such measures will reduce the risk of limited supply in the future.

#### Supply-Side Risks

Taiga distributes building products produced or supplied by a number of major suppliers. Taiga currently does not have long term contracts with any of its major suppliers and many of its arrangements with its suppliers are not contained in written agreements. Although Taiga believes that it has access to similar products from competing suppliers, any disruption in Taiga's sources of supply, or any material fluctuation in the quality, quantity or cost of such supply, could have a material adverse effect upon Taiga's results of operations and financial condition.

In addition, many of Taiga's suppliers and other service providers have unionized work forces. If one or more of Taiga's suppliers or service providers experience a material work stoppage or slow down, it could materially adversely affect Taiga's ability to secure sufficient inventory and therefore could materially adversely affect its business, financial condition, results of operations and cash flows. Also, supply shortages occur at times as a result of unanticipated demand, production difficulties or delivery delays. In such cases, building material and commodity suppliers often allocate products among distributors. Future supply shortages may occur from time to time and may have a short term material adverse effect on Taiga's results of operations and financial conditions.

#### Inventory Risk

The wholesale building products distribution industry is characterized by large sales volumes and low gross margins. It is highly sensitive to price, quality, timeliness of delivery and continuity of supply. In addition, the demand for some of Taiga's products is cyclical and prices can change rapidly.

Taiga's buying practices are designed to minimize the risk of rapidly changing prices, although there can be no assurance that such practices will actually reduce risk. Taiga does not generally hedge its inventory risk through the purchase of lumber futures contracts. Substantially all purchases are made based on current orders and anticipated sales, and most sales are made from inventory or against product on order. Inventory levels are monitored in an attempt to achieve balance between maximum inventory turnover and optimal customer

service. Although Taiga strives to reduce the risk associated with price changes by maximizing inventory turnover, Taiga maintains significant quantities of inventory, which is affected by fluctuating prices.

#### Currency Risk

The performance of the Canadian dollar compared to the US dollar presents a certain valuation risk for inventories purchased specifically for US markets. Taiga does not generally hedge these inventories with US exchange forwards, relying instead on rapid inventory turnover. Taiga continually monitors exchange trends and sells most US receipts into the spot market at the most advantageous rates possible. Taiga does make limited use of US exchange forward contracts to minimize currency volatility.

#### Credit Risk

Taiga extends to its customers credit, which is generally unsecured. Taiga has credit management procedures in place to mitigate the risk of losses due to the insolvency or bankruptcy of customers. However, risk exists that some customers may not be able to meet their obligations and the loss of a large receivable would have a significant negative impact on Taiga's profitability.

#### Interest Risk

Taiga utilizes significant leverage to finance day-to-day operations. The interest cost of Taiga's revolving credit facility is predominately prime-based. Increased interest rates will increase Taiga's operating costs and may reduce net profit after income tax. Taiga monitors current interest rates and selectively utilizes interest rate swap agreements to mitigate the risk. As at December 31, 2005, Taiga had the following interest rate swap arrangements.

<u>Counterparty</u>	<u>Maturity Date</u>	<u>Notional Amount</u>	<u>Fixed Interest Rate</u>
HSBC Bank Canada	August 27, 2007	\$10,000,000	3.90
HSBC Bank Canada	August 25, 2009	\$10,000,000	4.50

#### **RELATED PARTY TRANSACTIONS**

As at December 31, 2005, Taiga had a receivable balance of \$0.8 million (2004 - \$nil) from a subsidiary company of Berjaya Group Berhad. Berjaya Group Berhad's wholly-owned subsidiary, Berjaya Forest Products (Luxembourg) s.à.r.l., owns 39.8% of Taiga's outstanding voting securities. The payment was for withholding taxes paid to the CRA in respect to the deemed dividend paid to Berjaya Luxembourg on the Stapled Unit conversion which is being repaid through monthly holdback of monthly distributions which will be fully paid in February 2006.

Taiga intends to enter into transactions, from time to time, with affiliates of Berjaya Forest Products (Luxembourg) s.à.r.l. to purchase building materials inventory and for such affiliates to act as sales agents for Taiga entitling them to receive sales commissions. These transactions will be in the normal course of business and will be on the same terms as those accorded to non-related parties.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles (GAAP) requires management to make assumptions and estimates that affect the amounts reported in the financial statements and notes thereto. Financial results as determined by actual events could be different from those estimates. Significant areas requiring such estimates are accounting valuations, inventory, the composition of future income taxes, and volume rebates. Although management believes the estimates used while preparing its financial statements are reasonable, actual results may be different from these estimates.

The significant accounting policies of Taiga are described in Note 1 of the March 31, 2005 audited financial statements contained in the Taiga Forest Products Ltd. 2005 annual report. The policies which Taiga believes are the most critical to assist with understanding and evaluating its reported financial results include the following:

### **Revenue recognition**

Revenue is recognized at the time of shipment at agreed prices to credit-approved customers, consistent with common forest industry terms of trade. At the time of shipment, the significant risks and rewards of ownership have been transferred.

### **Valuation of long-lived assets**

Taiga 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.

### **Inventory valuation**

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

### **Foreign currency translation**

Transactions denominated in US dollars have been translated into Canadian dollars at the approximate rate of exchange prevailing at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the year-end exchange rate. Exchange gains and losses are included in earnings.

The accounts of the self-sustaining foreign operation are accounted for by the current rate method. Under this method, assets and liabilities are translated into Canadian dollars at prevailing rates of exchange at each balance sheet date, and revenue and expense items are translated at exchange rates prevailing when such items are recognized in the statement of operations. Foreign currency gains and losses are deferred as a component of additional paid-in capital as a cumulative translation adjustment.

## **FINANCIAL INSTRUMENTS**

Taiga has financial instruments which include accounts receivable, bank indebtedness, credit facilities, accounts payable and accrued liabilities, and long-term debt, the carrying values of which approximate fair values at December 31, 2005.

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## Hedging

The Company may enter into foreign exchange contracts with financial institutions to hedge the value of foreign currency denominated sales and purchases. Gains and losses arising from these contracts offset the gains and losses from the underlying foreign currency transactions. As at December 31, 2005 Taiga had an obligation to purchase \$2 million US dollars.

## Off-balance Sheet Arrangements

There are no material off-balance sheet arrangements.

For a detailed description of financial instruments and their associated risks, see Note 3 'Financial Instruments' in the audited statements for the fiscal year ended March 31, 2005 contained in the Taiga Forest Products Ltd. 2005 annual report.

## OUTLOOK

Taiga's financial performance is primarily dependent on the residential and industrial 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.

Nationally, Statistics Canada reported that non-residential construction broke the \$30 billion barrier for the first time ever, largely due to big gains in British Columbia and the oilsands fuelled Alberta gains. Industrial, commercial and institutional construction in Canada reached \$31.2 billion in 2005 up 7.7 percent from 2004, and was the fifth consecutive year of new records. In Canada, Canada Mortgage and Housing Corporation ("CMHC") reported the seasonally adjusted annual rate of housing starts was 227,700 units in December, up slightly from 225,000 units in November. For all of 2005, total starts were estimated at 223,900 units, down 4.1% compared to 2004 but still the second-highest annual level since 1988. CMHC estimated that 2006 starts would continue to ease to 207,200 units, but that this would be the fifth consecutive year in which starts topped 200,000 units.

U.S. housing starts in November were at a seasonally adjusted annual rate of 2.1 million units in November, 5.3% higher than the October rate and 17.5% higher than the November 2004 rate, according to the Census Bureau. The increase was the highest in seven months. Following strong growth over the past three years, home sales and housing production will ease back next year to around 2004's historically healthy levels, according to economists participating in a teleconference hosted by the National Association of Home Builders (NAHB) held in December.

## BY ORDER OF THE BOARD OF DIRECTORS



Kooi Ong Tong  
Executive Chairman and CEO

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102 “Continuous Disclosure Obligations”, Part 4, Subsection 4.3(3a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

Taiga's independent auditors, HLB Cinnamon Jang Willoughby, has not performed a review of these interim statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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**TAIGA BUILDING PRODUCTS LTD.**  
**CONSOLIDATED BALANCE SHEETS**

<i>(in thousands of Canadian dollars)</i>	December 31, 2005 (Unaudited)	March 31, 2005 (Audited)
<b>Assets</b>		
<b>Current assets:</b>		
Accounts receivable	\$89,562	\$127,293
Income taxes recoverable	5,504	2,637
Inventories (note 5)	116,607	145,201
Prepaid expenses	1,838	1,623
	<u>213,511</u>	<u>276,754</u>
<b>Other assets:</b>		
Investments	25	25
Land, buildings, equipment and leaseholds	49,178	49,293
Future income taxes	6,078	6,078
	<u>\$268,793</u>	<u>\$332,150</u>
<b>Liabilities and Unitholders' Equity</b>		
<b>Current liabilities:</b>		
Bank indebtedness	\$12,007	\$14,459
Credit facilities	105,008	117,578
Accounts payable and accrued liabilities	50,133	66,576
Future income taxes	3,618	3,618
Current portion of long-term debt	54	3,273
	<u>170,820</u>	<u>205,504</u>
Long-term debt	-	25,518
Subordinated Notes owned by unitholders (notes 3(a) and 4)	171,334	-
	<u>342,154</u>	<u>231,022</u>
<b>Unitholders' equity (deficiency):</b>		
Share capital (notes 2 and 4)	14,857	13,442
Cumulative translation adjustment	(1,288)	(841)
	<u>13,569</u>	<u>12,601</u>
Retained earnings before the undernoted	84,404	88,527
Issuance of Subordinated Notes (note 3(b))	(171,334)	-
(Deficit) / Retained earnings (note 3(b))	(86,930)	88,527
	<u>(73,361)</u>	<u>101,128</u>
	<u>\$268,793</u>	<u>\$332,150</u>

See accompanying notes to interim consolidated financial statements

**TAIGA BUILDING PRODUCTS LTD.**  
**CONSOLIDATED STATEMENTS OF EARNINGS**  
(Unaudited)

<i>(in thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	December 31,		December 31,	
	2005	2004	2005	2004
<b>Sales</b>	\$257,362	\$277,909	\$898,268	\$1,045,782
Cost of sales	231,897	259,131	816,563	964,025
<b>Gross Margin</b>	25,465	18,778	81,705	81,757
<b>Expenses:</b>				
Distribution	6,455	4,575	20,597	17,954
Selling and administration	11,279	11,391	39,254	39,967
Interest				
Current	1,488	893	4,099	3,077
Subordinated debt	5,173		6,898	
Long-term	68	459	1,010	1,224
	24,463	17,318	71,858	62,222
<b>Operating Income</b>	1,002	1,460	9,847	19,535
Non-operating expense (income)	(3)	149	(131)	225
<b>Earnings before income taxes</b>	1,005	1,311	9,978	19,310
Income taxes	626	548	4,670	7,236
<b>Net Earnings for the period</b>	379	763	5,308	12,074
<b>Retained Earnings, beginning of period</b>	(85,252)	74,197	88,527	65,673
Net Earnings for the period	379	763	5,308	12,074
Common share dividends	(2,058)	-	(9,432)	(2,787)
Retained Earnings before the undernoted	(86,930)	74,960	84,404	74,960
Issuance of Subordinated Notes (note 3(a))	-	-	(171,334)	-
<b>Retained Earnings, end of period</b>	\$(86,930)	\$74,960	\$(86,930)	\$74,960
<b>Basic and diluted earnings per common share</b>	\$0.01	\$0.02	\$0.16	\$0.37
Number of common shares outstanding (note 4(b))	32,205,680	32,205,680	32,205,680	32,205,680

See accompanying notes to interim consolidated financial statements

**TAIGA BUILDING PRODUCTS LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

<i>(in thousands of Canadian dollars)</i>	Three months ended December 31,		Nine months ended December 31,	
	2005	2004	2005	2004
<b>Cash provided by (used in):</b>				
<b>Operations:</b>				
Net income	\$379	\$763	\$5,308	\$12,074
Adjustments for -				
Amortization	704	740	2,089	2,193
Cumulative translation adjustment	6	(342)	(447)	(643)
Loss on disposal of equipment	-	67	57	198
	1,089	1,228	7,007	13,822
Change in non-cash working capital	2,617	26,365	46,794	37,059
Cash flows from operating activities	3,706	27,593	53,801	50,881
<b>Investments:</b>				
Purchase of land, buildings, equipment and leaseholds	(678)	(4,278)	(2,306)	(5,017)
Proceeds from disposition of equipment	-	48	10	93
Cash flows (used in) investment activities	(678)	(4,230)	(2,296)	(4,924)
<b>Financing:</b>				
Net change in credit facilities	(957)	(23,163)	(12,583)	(44,462)
Repayment of long-term debt	-	(790)	(28,452)	(2,418)
Dividends paid	(2,058)	-	(9,433)	(2,787)
Issuance of share capital	-	-	1,415	-
Cash flows (used in) financing activities	(3,015)	(23,953)	(49,053)	(49,667)
<b>Net Increase (Decrease) in Cash</b>	13	(590)	2,452	(3,710)
<b>Bank Indebtedness, beginning</b>	(12,020)	(11,700)	(14,459)	(8,580)
<b>Bank Indebtedness, ending</b>	<b>\$(12,007)</b>	<b>\$(12,290)</b>	<b>\$(12,007)</b>	<b>\$(12,290)</b>
<b>Supplemental information:</b>				
Non-cash financing activities				
Issuance of Subordinated Notes (note 3(a))	-	-	\$(171,334)	-

See accompanying notes to interim consolidated financial statements

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**TAIGA BUILDING PRODUCTS LTD.****NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2005 and 2004  
(Unaudited)

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**1. Significant accounting policies:**

These interim consolidated financial statements follow the same accounting policies and methods of application as our annual financial statements.

**(a) Basis of presentation:**

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, 2005. 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 Taiga Forest Products Ltd. Annual Report for the year ended March 31, 2005. 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.

On May 20, 2005, a new company named Taiga Building Products Ltd. (the "New Taiga") was incorporated as a wholly-owned subsidiary of Taiga Forest Products Ltd. ("Old Taiga"). Following completion of a plan of arrangement effective September 1, 2005 (see Note 2.), New Taiga amalgamated with Old Taiga, Envirofor Preservers (B.C.) Ltd., Envirofor Preservers (Alta.) Ltd.; 0732161 B.C. Ltd. (formerly, "Dynamic Forest Products Ltd."); Elmira Wood Products Ltd. and Taiga Logistics Ltd. pursuant to the Business Corporations Act and continued as Taiga Building Products Ltd. In addition, two new US entities were created, Taiga Holdings, Inc. and Taiga Building Products, LLC.

**(b) Distribution Policy:**

New Taiga will pay interest on the subordinated notes and dividends on common shares (if declared) to holders of record as of the close of business on the last business day of the preceding month. Interest on the subordinated notes and dividends on the common shares (if declared) will be paid on or about the 15th day of each month. New Taiga may make additional distributions in excess of monthly distributions during the year, as the Board of Directors may determine in its sole discretion.

**(c) Comparative Figures:**

The comparative figures presented are the same as those included in the previously issued consolidated financial statements of Old Taiga, except for adjustments relating to the new legal form of the equity interests.

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**TAIGA BUILDING PRODUCTS LTD.****NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2005 and 2004  
(Unaudited)

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**2. Reorganization:**

On September 1, 2005, Old Taiga converted to an income fund-like structure using Stapled Units. The transaction was effected through a plan of arrangement (the “reorganization”) approved by the shareholders of Old Taiga on June 27, 2005. Under the reorganization, the issued and outstanding common shares of Old Taiga were exchanged for Stapled Units of New Taiga on the basis of four Stapled Units for each Old Taiga common share. Each Stapled Unit consists of one common share and a 14% unsecured Subordinated Note of New Taiga in the principal amount of \$5.32. A total of 32,205,680 Stapled Units of New Taiga were issued. Stapled Units of New Taiga commenced trading on September 1, 2005 on the under the symbol “TBL.UN” on the Toronto Stock Exchange.

As the reorganization results in the shareholders of Old Taiga owning directly all of the equity interests of New Taiga, the reorganization does not result in any change in beneficial ownership of New Taiga.

**3. Subordinated Notes:**

## (a) Terms:

Pursuant to an Indenture dated September 1, 2005, New Taiga issued 32,205,680 Subordinated Notes (the “Notes”) with a principal amount of \$5.32 for an aggregate carrying amount of \$171,334,217. Under the terms of the Indenture, the Notes are unsecured, bear interest at 14% per annum and mature on September 1, 2020. Interest on the Notes (except defaulted interest) at a rate of 14% per annum is payable monthly in arrears, and calculated as an annual interest sum divided by twelve, on the 15th day following the end of each month commencing October 17, 2005. The aggregate principal amount of Notes that may be issued under the Indenture is unlimited. The Notes are guaranteed by certain of New Taiga’s subsidiary and affiliated companies.

## (b) Impact of conversion:

As a result of the Stapled Unit conversion, the aggregate issue price of the Notes in the amount of \$171,334,217 is charged against Retained Earnings during the current period.

This issuance of the Notes was a non-cash transaction and in accordance with the continuity of interest method of accounting, the carrying values of New Taiga's assets and liabilities are considered to be a continuation of Old Taiga. Accordingly, the contractual obligation of \$171,334,217 has been charged to Retained Earnings of Old Taiga.

**TAIGA BUILDING PRODUCTS LTD.****NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2005 and 2004  
(Unaudited)

**4. Stapled Units:**

- (a) Authorized share capital:

No maximum number of common shares

- (b) Stapled Units:

New Taiga issues equity by way of Stapled Units, each Stapled Unit consisting of one common share and one Subordinated Note with a principal amount of \$5.32. The securities comprising a Stapled Unit trade together as Stapled Units and the ratio of Common Shares to the principal amount of Subordinated Notes represented by a Stapled Unit is subject to change in the event of a stock split, consolidation or reclassification, or upon a partial redemption or repurchase of the Subordinated Notes.

At any time after 45 days from the date of original issuance or upon the occurrence of a change of control, holders of Stapled Units may separate their Stapled Units into the Common Shares and Subordinated Notes. Similarly, any holder of Common Shares and Subordinated Notes may recombine the applicable number of Common Shares and principal amount of Subordinated Notes to form Stapled Units at any time after 90 days from the issue date of the Subordinated Notes.

New Taiga issued 32,205,680 Stapled Units under the reorganization. As the reorganization did not result in any change in beneficial ownership of New Taiga, the 32,205,680 issued common shares have been recorded at \$13,442,135, being the previously stated value in Old Taiga.

**5. Inventories:**

(in thousands of Canadian dollars)	As at December 31, 2005	As at March 31, 2005
Allied building products	\$ 20,112	\$ 20,433
Lumber products	79,244	92,460
Panel products	17,251	32,308
Total Inventories	\$ 116,607	\$ 145,201

**6. Segmented information:**

New Taiga operates primarily in the wholesale building products distribution industry.

During the period April 1, 2005 to December 31, 2005, New Taiga had export sales of Cdn. \$99,314,745 (prior year Cdn.\$124,640,371) primarily to the United States.

## CORPORATE INFORMATION

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### **Board of Directors**

Kooi Ong Tong, Chairman  
Vancouver, BC

Rayvin Tan  
Kuala Lumpur, Malaysia

John Bell  
Vancouver, BC

Sherwin John Y. Lim  
West Vancouver, BC

Daniel McDonald  
Mission, BC

### **Officers**

Kooi Ong Tong  
Executive Chairman and CEO

Bill Kushlick  
President and COO

Albert Yap  
VP, Finance and Support Services

Cam White  
VP, Western Operations

Jimmie Bradshaw  
VP, National Accounts and Supply  
Management

Doug Morris  
VP, Eastern Operations

Patrick J. Furlong  
Corporate Secretary

### **Taiga Building Products Ltd. Executive Offices**

Suite 800 – 4710 Kingsway  
Burnaby, BC V5H 4M2

T. 604-438-1471

### **Postal Address**

PO Box 80329  
Burnaby, BC V5H 3X6

### **Transfer Agent**

Computershare  
Trust Company of Canada  
Vancouver, BC

### **Auditors**

Cinnamon Jang Willoughby  
Burnaby, BC

### **Stock Exchange TSX**

Trading Symbol: **TBL.UN**

### **Solicitors**

Davis and Company  
Vancouver, BC

Borden Ladner Gervais LLP  
Vancouver, BC



800 – 4710 Kingsway  
Burnaby, BC Canada V5H 4M2