

Management's Discussion and Analysis

For the three months ended June 30, 2006 and 2005

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 June 8, 2007 and should be read in conjunction with the consolidated financial statements and the corresponding notes thereto for the restated quarter ended June 30, 2006 and restated year ended March 31, 2006. This discussion and analysis provides an overview of significant developments that have affected Taiga's performance during the first quarter. 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 Building Products Ltd. Information circular dated May 18, 2006. 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 Building Products Ltd. can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Restatement of Financial Statements

The Company has determined that the future income taxes were calculated incorrectly with respect to the income tax effects of the sales - leaseback transaction consummated by the Company during the year ended March 31, 2006. As a result, the Company's annual financial statement for the year ended March 31, 2006 and the interim financial statements for the first three quarters of fiscal 2007 have been restated. The restated figures are reflected in this Management's Discussion and Analysis. For further information see Note 6 -Restatement.

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 14 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.

Un-stapling of the Stapled Unit Structure

On April 26, 2006 Taiga announced that it had received the requisite consents to its consent solicitation which sought to amend certain provisions of the indenture governing its outstanding 14% subordinated notes due 2020 (the "Notes"). The Company paid to each Noteholder, who validly consented to the solicitation, a fee (\$3.00 per \$1,000 principle amount of outstanding Notes), after effecting a supplemental indenture implementing the accepted amendments. The supplemental indenture caused the Stapled Units to automatically separate into their constituent Notes and common shares as of May 8, 2006 and trade on the TSX as TBL.NT and TBL, respectively.

Repurchase and Retirement of Subordinated Notes

Taiga purchased and retired \$42,500,000 of the 14% Notes at a purchase price of 105% of the principal amount outstanding per Note plus accrued and unpaid interest to the date of acceptance, leaving a principal value of \$128,834,217 of the Notes outstanding.

Results of Operations

Comparison of the Quarters ended June 30, 2006 (restated) and June 30, 2005

Sales

Taiga's sales for the quarter ended June 30, 2006 were \$328.1 million, up \$3.2 million or 1.0% compared to \$324.9 million over the prior year. Sales were mainly driven by treated wood and allied products.

Dimension lumber sales decreased by \$18.0 million, or 16.0% over the prior year, primarily due to declining lumber commodity prices. The weekly average price for SPF 2x4, #2 and better delivered to Toronto was approximately \$412 from April 1, 2006 to June 31, 2006 compared to \$463 for the same period last year, a drop of 11%.

Panel products sales decreased by \$2.5 million, or 2.9% over the prior year mainly attributed to lower prices in plywood and OSB. The average weekly price for OSB 7/16" delivered to Seattle/Vancouver BC was approximately \$280 from April 1, 2006 to June 31, 2006 compared to \$379, a drop of 26% over the prior year.

Engineered wood product sales decreased by \$2.5 million in fiscal year 2007, or 6.4% over the prior year. The decline in sales is partly attributed to a decline in prices over the prior year.

Treated wood sales increased by \$14.3 million, or 27.0% over the prior year due to a combination of higher sales volume and higher production capacity from the addition of a new treating facility in Ontario in the spring of 2005.

Allied products sales increased by \$12.2 million, or 35.5% over the prior year. Within this category, insulation sales increased \$3.1million, or 20.7% and mouldings sales increased by \$2.1 million, or 38.7% over the prior year. Flooring sales were 3.4 million, representing new sales under the allied category. Taiga continues to increase distribution of allied products and has entered into agreements with a number of suppliers on Laminate Flooring products.

Gross Margin

Gross margin increased to \$33.8 million, an increase of \$7.7 million, or 29.6% over the prior year. Although sales marginally increased by 1.0% in the first quarter of fiscal 2007, the Company was able to improve gross margin, as a percentage of sales, to 10.3% in fiscal 2007 from 8.0% in the prior year, reflecting the Company's effort to improve profitability. The improvement in gross margin percentage was driven by focused sales effort in expanding distribution of higher margin products.

Expenses

Total distribution, selling and administration expenses measured as a percent of sales increased from 5.6% to 6.6% this quarter. Total expenses increased by \$3.3 million to \$21.6 million over last year. Distribution expenses increased \$1.5 million (21.1%) over the prior year due to lease expense as a result of the sale and leaseback of company assets, the new Logistics division, and the new treating facility in Monetville. Administration expenses increased by \$1.8 million (16.5%) over the prior year mostly due to incentive accruals for the Company's Pay For Performance ("P4P") plan.

Interest and Subordinated Debt Interest

Interest expense increased by \$0.5 million to \$2.3 million compared to \$1.8 million in the same period last year. The increase is primarily attributed to the rise in the prime interest rate over the prior year. Subordinated debt interest increased by \$7.2 million to \$7.2 million compared to \$nil last year, as there were no monthly subordinated note debt interest expenses incurred in the same period last year. There was a one time subordinated note debt interest expense of \$2.6 million regarding consent fees and premiums paid for the repurchase and retirement of subordinated notes.

Net Income

Net income for the quarter, after income taxes and before interest on subordinated notes of \$7.2 million, was \$8.7 million. Net income after interest on subordinated notes decreased by \$2.1 million to \$1.6 million, or 0.5% of sales, from \$3.7 million in the prior year.

EBITDA

EBITDA for the quarter increased by \$4.5 million to \$13.0 million, from \$8.5 million in the prior year. The increase in EBITDA is mostly due to higher gross margins, as gross margins for the quarter were \$33.8 million or \$7.7 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 June 30			
	2006 Sales	%	2005 Sales	%
Canada	\$276,655	84.3	\$255,349	78.6
US	51,460	15.7	69,596	21.4

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% 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 April 17, 2006, the Company declared a monthly cash distribution for the period of April 1 to April 30, 2006 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% Notes underlying the Stapled Unit. On May 12, 2006 the Company completed its offer to purchase up to \$42.5 million of its outstanding 14% Notes due 2020 for a purchase price of 105% of the principal amount outstanding per Note plus accrued and unpaid interest to the date of acceptance, leaving principal value of \$128,834,217 of Notes outstanding. The offer constituted an Asset Sales Offer pursuant to the terms of the Indenture governing the subordinated notes. Stapled Units holders had to separate their units into subordinated notes and common shares in order to tender Notes to the offer. In connection with the offer, the Company solicited consents to amend certain provisions of the Indenture governing the Notes. The Company paid to each unitholder who so validly consented a fee of \$3.00 per \$1,000 principal amount of outstanding Notes. On May 17 and June 16, 2006 the Company declared a monthly dividend of \$0.0213 per Common Share and stipulated an interest payment of \$11.6667 per \$1,000 principal amount of subordinated notes.

Statement of Distributable Cash

(in thousands of dollars except per Stapled Unit amounts)

	Three Month Period Ended June 30, 2006
EBITDA	\$ 12,953
<i>Management believes the following adjustments are required to determine distributable cash:</i>	
Interest	(2,252)
Income taxes	(548)
Sustaining capital expenditures	(683)
Distributable cash	\$ 9,470
Distributions declared on Stapled Unit- Dividend	2,058
Interest ⁽¹⁾	7,152
Total Distributed	\$ 9,210

Monthly dividends declared and stipulated interest payments

Dividend per common share	\$ 0.0213
Interest per \$1,000 principal amount	\$ 11.6667

Notes:

- (1) Section 2.19 subject to provision of Note Indenture. Interest declared includes consent fee of \$447,156, 5% premium on the repurchase of subordinated notes of \$2,125,000 and accrued interest on subordinated notes repurchased of \$260,822.

Summary of Quarterly Results

	Sep-2004	Dec-2004	Mar-2005	Jun-2005	Sept-2005	Dec-2005	Mar-2006	Jun-2006
	(in thousands of dollars, except per share amount in dollars)							
							Restated	Restated
Sales, reclassified ⁽¹⁾	\$383,998	\$277,909	\$282,440	\$324,945	\$315,961	\$257,362	\$281,026	\$328,115
Net income ⁽²⁾	\$5,533	\$763	\$14,593	\$3,674	\$1,256	\$379	\$(1,707)	\$1,569
Earnings per share/per Stapled Unit – before interest distribution ⁽³⁾	\$0.17	\$0.02	\$0.46	\$0.12	\$0.09	\$0.17	\$0.11	\$0.27
Earnings per share/per Stapled Unit – after interest distribution ⁽³⁾	\$0.17	\$0.02	\$0.46	\$0.12	\$0.04	\$0.01	\$(0.05)	\$0.05

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 14c) '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. Earnings per unit/share is calculated using the weighted-average number of units/shares. The weighted number of units/shares outstanding as at June 30, 2006 and 2005 have been retroactively restated to reflect the 4 for 1 conversion of shares into units effective September 1, 2005

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

	<u>Jun. 30, 2005</u>	<u>Dec. 31, 2005</u>	<u>Mar. 31, 2006</u> Restated	<u>Jun. 30, 2006</u> Restated
Current Assets - \$ thousands	\$250,594	\$213,511	\$269,250	\$243,811
Current Liabilities - \$ thousands	183,032	170,820	183,605	198,560
Working Capital - \$ thousands	67,562	42,691	85,645	45,251
Subordinated notes owned by unitholders - \$ thousands	-	171,334	171,334	128,834
Total Long Term Liabilities - \$ thousands	24,831	-	29,292	28,972
Total Assets - \$ thousands	306,084	268,793	305,572	276,387
Unitholders' Equity - \$ thousands ⁽¹⁾	98,221	(73,361)	(78,659)	(79,979)
Ratios				
Current Ratio	1.37:1	1.25:1	1.47:1	1.23:1
Total Liabilities to Unitholders' Equity ⁽¹⁾	2.12:1	(4.66):1	(4.88):1	(4.46):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. 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 \$276.4 million as at June 30, 2006 and \$303.1 as at March 31, 2006. The decrease of \$26.7 million is primarily the result of decreased inventories, offset by an increase in accounts receivable.

Inventory decreased by \$25.5 million to \$110.4 million as at June 30, 2006, compared to \$135.9 million as at March 31, 2006 due to improved inventory management programs.

Accounts receivable increased by \$2.8 million to \$128.6 million as at June 30, 2006, compared to \$125.8 million as at March 31, 2006.

The net balance of land, buildings, equipment and leaseholds decreased for the quarter by \$0.1 million to \$27.2 million as at June 30, 2006. Purchases of land, buildings, equipment and leaseholds during the current quarter were \$0.68 million and amortization was \$0.48 million.

In connection with the purchase of fixed assets, \$0.4 million of the total amount purchased is related to the purchase of computer software and hardware. \$0.1 million is related to upgrades to the wood preservation plant in Ontario and \$0.18 million on forklifts and other maintenance. 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 two years. Capital expenditures are financed from operational cash flows.

Liabilities

Total liabilities decreased from \$384.2 million as at March 31, 2006 to \$356.4 million as at June 30, 2006. The \$27.8 million decrease is mainly the result of the repurchase of subordinated note debt in the amount of \$42.5 million and is offset by an increase in credit facilities.

Credit facilities and bank indebtedness increased by \$15.4 million to \$130.9 million as at June 30, 2006, compared to \$115.5 million as at March 31, 2006 as a result of funds used to repurchase subordinated notes, offset by a reduction in inventories.

Accounts payable and accrued liabilities increased by \$4.8 million from \$60.4 million as at March 31, 2006 to \$65.2 million as at June 30, 2006.

Changes in Non Cash Working Capital Items

Changes in Non-cash Working Capital:

(in thousands of dollars)

	Three months ended June 30	
	2006	2005
	Restated	
	\$	\$
(Increase) Decrease in accounts receivable	(3,093)	2,856
(Increase) Decrease in income taxes recoverable/payable	1,152	(670)
(Increase) Decrease in inventories	25,448	24,850
(Increase) Decrease in prepaid expenses	960	(875)
Increase (Decrease) in accounts payable and accrued liabilities	4,171	(17,739)
	28,638	8,422

Working Capital

Working capital decreased by \$40.3 million to \$45.3 million as at June 30, 2006 compared to \$85.6 million as at March 31, 2006. The decrease was primarily due to lower inventories, higher credit facilities, accounts payables and accrued liabilities.

Contractual obligations

There are no material changes to the contractual obligations as reported in the Management's Discussion and Analysis and audited consolidated financial statements and notes thereto included in the Company's 2006 annual report and information circular dated May 18, 2006.

Financing

Taiga utilizes GE to finance its operations. Under the 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 to a total of \$250 million. As at June 30, 2006, Taiga was utilizing \$132.9 million of the \$200 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. On June 30, 2006, there were 32,205,680 outstanding. The Company declared on March 9, 2006, a monthly cash dividend of \$0.0213 per share for the months of April, May and June 2006. Dividend payments totalling \$2,057,942.94 were paid in 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, will 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 not reducing its cost either by not managing internal costs or by not implementing effective purchasing initiatives will 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

During the current quarter, the Company paid \$933 (2005 - \$nil) to 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 purchases, made at fair market value, of building materials for resale within the Canadian market.

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, 2006 audited financial statements contained in the Taiga Building Products Ltd. 2006 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. Revenue is also recognized when reasonableness of collection is assured.

Valuation of long-lived assets

Taiga reviews the carrying values of its assets 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

Currency denominated in US dollars has been translated into Canadian dollars as follows:

- i) Transactions at the approximate rate of exchange prevailing at the time of the transaction;
- ii) Monetary assets and liabilities at the year-end exchange rate;
- iii) Exchange gains and losses are included in earnings;
- iv) The accounts of the self-sustaining foreign operation are accounted for by the current rate method under which assets and liabilities are translated at the prevailing rates of exchange at each balance sheet date;
- v) Revenue and expense items are translated at exchange rates prevailing when such items are recognized in the statement of earnings; and
- vi) Foreign currency gains and losses are deferred as a component of unitholders' equity.

FINANCIAL INSTRUMENTS

Taiga has financial instruments which include accounts receivable, bank indebtedness, credit facilities, accounts payable and accrued liabilities, the carrying values of which approximate fair values at June 30, 2006.

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 June 30, 2006 Taiga had no foreign exchange contracts.

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 2 'Financial Instruments' in the audited statements for the fiscal year ended March 31, 2006 contained in the Taiga Building Products Ltd. 2006 annual report.

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 the Company 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.

In Canada, Canada Mortgage and Housing Corporation (CMHC) has reported that the housing starts for year 2006 will remain very strong at 222,200 units, down 1.5% over last year. Nevertheless, 2006 will be the fifth consecutive year in which housing starts exceed the 200,000 unit threshold driven by continued strong demand in British Columbia and Alberta. New home construction in 2006 and 2007 will remain high by historical standards, reflecting continued strong employment and income growth in B.C. Alberta continues to show a strong job market and population growth. Residential construction will continue to slow next year. CMHC has forecasted housing starts to be at 204,100 units in 2007. Low historical mortgage rates, high employment levels and rising income will continue to support historically high level of new housing starts in 2006. However, a number of factors will cause construction activities to moderate in 2006 and 2007. Higher mortgage carrying costs due to increases in the mortgage rate and continued price increases will ease housing demand. The rising cost of homeownership relative to renting will also decrease first-time home buying activities. In the United States, the National Association of Home Builders (NAHB) reported that total housing starts are projected to decline in 2006 and 2007 when both prices and interest rates are up. Total housing starts are forecasted to be at 1.9 million units in 2006 and at 1.8 million units in 2007.