

Management's Discussion and Analysis

For the three and six months ended September 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 September 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 second quarter.

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 9 -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 fourteen strategically located distribution centres throughout Canada and two distribution centres in 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 of Emerwood Home Products Ltd.

On August 30, 2006 Taiga sold its 100% share ownership of Emerwood Home Products Ltd. for an aggregate purchase price of \$0.45 million. Emerwood Home Products Ltd. was a start-up business, selling to small contractors and retail end users.

Fresno County - Sanger, California Real Estate Purchase

On September 29, 2006 Taiga purchased a property containing a 109,250 sq. ft. warehouse and 12.6 acre yard in Sanger, California. This property will facilitate further growth in the western United States.

Results of Operations

Comparison of the Quarters ended September 30, 2006 (Restated) and September 30, 2005

Sales

Taiga's sales for the quarter ended September 30, 2006 were \$305.3 million, down \$10.7 million or 3.4% compared to \$316.0 million over the prior year.

Dimension lumber sales decreased by \$16.0 million, or 15.2% over the prior year. Panel products sales decreased by \$10.4 million, or 11.4% over the prior year. The average prices of commodity lumber and panel products continued the downward trend observed from the first quarter, with prices being lower in the quarter compared to the same period last year. The weekly average price for SPF 2x4, #2 and better delivered to Toronto was approximately \$384 from July 1, 2006 to September 30, 2006 compared to \$438 for the same period last year, a drop of 12%. The average weekly price for OSB 7/16" delivered to Seattle/Vancouver BC was approximately \$211 from July 1, 2006 to September 30, 2006 compared to \$359, a drop of 41% over the prior year.

Engineered wood product sales decreased by \$1.4 million, or 3.6% 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 \$10.7 million, or 27.1% 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 \$7.9 million, or 19.4% over the prior year.

Gross Margin

Gross margin increased to \$33.0 million, an increase of \$2.8 million, or 9.4% over the prior year. Although sales marginally decreased by 3.4% in the second quarter, the Company was able to improve gross margin, as a percentage of sales, to 10.8% from 9.5% in the prior year, up 13.3%, 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 and addition of new product lines.

Expenses

Distribution expenses increased by \$1.6 million, or 22.6% to \$8.6 million in the quarter compared to \$7.0 million in the same period last year. This increase was mainly due to increased lease expenses as a result of the sale and leaseback of company assets. The Logistics division increased operations in the quarter and as a result, incurred increases in salaries, lease truck payments, maintenance and fuel. The new treating facility in Monetville, ON also increased production and as result, incurred increases in salaries and chemicals that are used in the treating process.

Selling and administration expenses decreased by \$3.2 million, or 19.2% to \$13.7 million in the quarter compared to \$16.9 million last year. This is mainly due to higher professional fees incurred last year in the quarter, in regards to the conversion to a Stapled Unit Structure.

Interest and Subordinated Debt Interest

Interest expense increased by \$0.5 million, or 31.1% 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, which has increased by 175 basis points or 44.3%. Subordinated debt interest increased by \$2.2 million to \$3.9 million compared to \$1.7 million last year. There was only one month of subordinated note debt interest expense incurred in the same period last year, as the subordinated notes were issued in September 2005.

Net Income

Net income for the quarter, after income taxes and before interest on subordinated notes of \$3.9 million, was \$7.0 million. Net income after income taxes and interest on subordinated notes increased by \$1.8 million to \$3.1 million, or 1.0% of sales, from \$1.3 million in the prior year.

EBITDA

EBITDA for the quarter increased by \$4.8 million to \$11.9 million, from \$7.2 million in the prior year. The increase in EBITDA is mostly due to higher gross margins, as gross margins for the quarter were \$33.0 million or \$2.9 million higher than the same period last year.

Segmented Revenue

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

	Quarters ended September 30,			
	2006 Sales	%	2005 Sales	%
Canada	\$259,133	84.9	\$281,359	89.1
US	46,131	15.1	34,602	10.9

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.

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 July 17, August 17, and September 14, 2006, the Company declared a monthly dividend of \$0.0213 per Common Share and stipulated interest payment of \$11.6667 per \$1000 principal amount of subordinated notes.

Statement of distributable cash

(in thousands of dollars except per Stapled unit and per common share amounts)

(unaudited)

	Three Month Period Ended September 30, 2006	
EBITDA	\$	11,940
<i>Management believes the following adjustments are required to determine distributable cash:</i>		
Interest		(2,319)
Income taxes		(1,179)
Sustaining capital expenditures		(652)
Distributable cash	\$	7,790
Distributions declared on Stapled Unit-		
Dividend		2,058
Interest ⁽¹⁾		3,946
Total Distributed	\$	6,004

Monthly dividends declared and stipulated interest payments

Dividend per common share	\$	0.0621
Interest per \$1,000 principal amount	\$	11.6667

Notes:

(1) Section 2.19 subject to provision of Note Indenture.

Summary of Quarterly Results

	Dec-2004	Mar-2005	Jun-2005	Sep-2005	Dec-2005	Mar-2006	Jun-2006	Sep-2006
	(in thousands of dollars, except per share amount in dollars)							
						Restated	Restated	Restated
Sales, reclassified ⁽¹⁾	\$277,909	\$282,440	\$324,945	\$315,961	\$257,362	\$281,026	\$328,115	\$305,264
Net income ⁽²⁾	\$763	\$14,593	\$3,674	\$1,256	\$379	\$(1,707)	\$1,569	\$3,076
Earnings per share/per Stapled Unit – before interest distribution ⁽³⁾	\$0.02	\$0.46	\$0.12	\$0.09	\$0.17	\$0.11	\$0.27	\$0.22
Earnings per share/per Stapled Unit – after interest distribution ⁽³⁾	\$0.02	\$0.46	\$0.12	\$0.04	\$0.01	\$(0.05)	\$0.05	\$0.10

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. Earnings per unit/share is calculated using the weighted-average number of units/shares. The weighted number of units/shares outstanding as at September 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

(in thousands of dollars, except ratios)	<u>Sep. 30, 2005</u>	<u>Mar. 31, 2006</u>	<u>Jun. 30, 2006</u>	<u>Sep. 30, 2006</u>
		Restated	Restated	Restated
Current Assets	\$230,904	\$269,250	\$243,811	\$225,119
Current Liabilities	186,546	183,605	198,560	182,364
Working Capital	44,358	85,645	45,251	42,755
Subordinated notes owned by unitholders ⁽¹⁾	171,334	171,334	128,834	128,834
Total Long Term Liabilities	-	29,292	28,972	28,663
Total Assets	286,203	305,572	276,387	261,195
Unitholders' Equity ⁽¹⁾	(71,667)	(78,659)	(79,979)	(78,666)
Ratios				
Current Ratio	1.24:1	1.47:1	1.23:1	1.23:1

Total Liabilities to Unitholders' Equity ⁽¹⁾	(4.99):1	(4.88):1	(4.46):1	(4.32):1
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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.

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.

Assets

Total assets were \$261.2 million as at September 30, 2006 and \$305.6 million as at March 31, 2006. The decrease of \$44.4 million is primarily the result of decreased inventories and decreased accounts receivable.

Inventory decreased by \$32.7 million to \$103.2 million as at September 30, 2006, compared to \$135.9 million as at March 31, 2006 due to improved inventory management programs such as Vender Managed Inventory ("VMI").

Accounts receivable decreased by \$9.8 million to \$116.0 million as at September 30, 2006, compared to \$125.8 million as at March 31, 2006. Accounts receivable decreased as sales for the quarter decreased by \$10.7 million to \$305.3 million, compared to \$316.0 million in the prior year.

The net balance of land, buildings, equipment and leaseholds increased by \$3.5 million to \$30.8 million as at September 30, 2006. Purchases of land, buildings, equipment and leaseholds during the current quarter were \$4.1 million and amortization was \$0.5 million. Taiga purchased real state of \$3.4 million in Sanger, California.

Liabilities

Total liabilities decreased from \$384.2 million as at March 31, 2006 to \$339.9 million as at September 30, 2006. The \$44.3 million decrease is mainly the result of the repurchase of subordinated note debt in the amount of \$42.5 million.

Credit facilities and bank indebtedness decreased by \$9.4 million to \$106.1 million as at September 30, 2006, compared to \$115.5 million as at March 31, 2006. This is a result from improved cash flow management and accounts receivable measures.

Accounts payable and accrued liabilities increased by \$10.8 million from \$60.4 million as at March 31, 2006 to \$71.2 million as at September 30, 2006. The increase is due to P4P accruals and rebate accruals. These accruals build up throughout the fiscal year and get paid out in the fourth quarter.

Changes in Non-Cash Working Capital Items

Changes in Non-Cash Working Capital:

	<i>(in thousands of dollars)</i>			
	Three months ended		Six months ended	
	September		September	
	2006 Restated \$	2005 \$	2006 Restated \$	2005 \$
(Increase) Decrease in accounts receivable	12,543	(4,318)	9,724	(1,459)
(Increase) Decrease in income taxes recoverable/payable	481	4,048	1,632	3,372
(Increase) Decrease in inventories	7,204	24,020	32,652	48,874
(Increase) Decrease in prepaid expenses	85	928	114	52
Increase (Decrease) in accounts payable and accrued liabilities	6,807	11,077	11,411	(6,662)
	27,120	35,755	55,533	44,177

Working Capital

Working capital decreased by \$42.8 million to \$42.8 million as at September 30, 2006 compared to \$85.6 million as at March 31, 2006. The decrease was due to lower inventories, accounts receivables and credit facilities, offset by higher 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 September 30, 2006, Taiga was utilizing \$106.1 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 September 30, 2006, there were 32,205,680 outstanding. Dividend payments totalling \$2.06 million were paid in the quarter and \$4.12 million were paid fiscal year to date September 30, 2006.

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.

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 products 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 September 30, 2006, Taiga had the following interest rate swap arrangements.

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

Contingent Liability –

Canada Revenue Agency (“CRA”) and the Ontario Ministry of Finance are auditing the 2002, 2003, and 2004 taxation years for Taiga Building Products Ltd. (formerly Taiga Forest Products Ltd.) and the formation and financing of Taiga Building Products General Partnership (formerly Taiga Forest Products General Partnership). They have questioned the provincial income tax payable as a result of the financing structure, as well as the provincial abatement deducted by the financing subsidiary. Taiga Building Products Ltd. and its subsidiary have proposal letters in which the CRA is proposing to increase the provincial income tax payable and related arrears interest as a result of the financing. The CRA has indicated to the company and other taxpayers in similar financing structures that it will accept a settlement which would disallow any benefits from the financing. Given the settlement offer made by the CRA to Taiga Building Products Ltd and to other taxpayers in similar situations, Taiga considers the proposal letters punitive in nature and intends to fully dispute the proposal made by the CRA. At present, it is not known what final judgement, if any, CRA will propose with respect to the audit, and as such, the amount of the potential liability, if any, cannot be determined.

RELATED PARTY TRANSACTIONS

There were no related party transaction in the current quarter and none in the same quarter last year. 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 building products 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 September 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 September 30, 2006 Taiga had an obligation to purchase \$0.62 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 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 227,900 units, down 1% 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 209,100 units in 2007. Low historical mortgage rates,

high employment levels and rising income will continue to support high levels 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 mortgage rates 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, BMO Capital Markets 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 1.84 million units in 2006 and at 1.65 million units in 2007.