

# Management's Discussion and Analysis

**For the three and nine months ended September 30, 2018 and 2017**

*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 November 8, 2018 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and the corresponding notes thereto for the three and nine months ended September 30, 2018 and 2017. This discussion and analysis provides an overview of significant developments that have affected Taiga's performance during the three and nine months ended September 30, 2018.*

*The financial information reported herein has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises, and is expressed in Canadian dollars.*

*Taiga's consolidated financial statements and the accompanying notes included within this report include the accounts of Taiga and its subsidiaries. Unless otherwise noted, all references in this MD&A to "dollars" or "\$" are to Canadian dollars.*

*Unless otherwise noted, there are no material changes to the Company's contractual obligations and risks and uncertainties as described in its management's discussion and analysis for the year ended December 31, 2017.*

*Additional information relating to the Company including the Company's Annual Information Form dated February 23, 2018 can be found on SEDAR at [www.sedar.com](http://www.sedar.com).*

**Forward-Looking Information:**

*This MD&A contains certain forward-looking information relating, but not limited, to future events or performance and strategies and expectations of Taiga. Forward-looking information typically contains statements with words such as "consider", "anticipate", "believe", "expect", "plan", "intend", "likely", "may", "will", "should", "predict", "potential", "continue" or similar words suggesting future outcomes or statements regarding expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Examples of such forward-looking information within this document include statements relating to: the Company's perception of the building products industry and markets in which it participates and anticipated trends in such markets in any of the countries in which the Company does business; the Company's anticipated business operations, inventory levels and ability to meet order demand; the Company's anticipated ability to procure products and its relationship with suppliers; sufficiency of cash flows; and the anticipated outcome of legal and regulatory proceedings. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking information. Forward-looking information reflects management's current expectations or beliefs and is based on information currently available to Taiga and although Taiga believes it has a reasonable basis for providing the forward-looking information included in this document, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, the forward-looking information of Taiga involves numerous assumptions and inherent risks and uncertainties, both general and specific that contribute to the possibility that the predictions, forecasts and other forward-looking information will not occur. These factors include, but are not limited to: changes in business strategies; the effects of legal or regulatory proceedings, competition and pricing pressures; changes in operational costs; changes in laws and regulations, including tax, environmental, employment, competition, anti-terrorism and trade laws and Taiga's anticipation of and success in managing the risks associated with the foregoing; and other risks detailed in this MD&A and Taiga's filings with the Canadian securities regulatory authorities available at [www.sedar.com](http://www.sedar.com). Forward-looking information speaks only as of the date of this discussion and analysis. Taiga does not undertake, and specifically disclaims, any obligation to update or revise any forward-looking information, whether as a result of new information, future developments or otherwise, except as required by applicable law.*

**Non-IFRS Financial Measure:**

*In this MD&A, reference is made to EBITDA, which represents earnings before interest, taxes, 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 the Company's ability to meet debt service and capital expenditure requirements and because management interprets 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 IFRS. Reconciliations of EBITDA to net earnings reported in accordance with IFRS are included in this MD&A.*

**Market and Industry Data:**

*Unless otherwise indicated, the market and industry data contained in this MD&A is based upon information of independent industry and government publications and management's knowledge of, and experience in, the markets in which the Company operates. While management believes this data to be reliable, market and industry data is subject to variation and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. The Company has not independently verified any of the data from third party sources referred to in this MD&A and no representation is given as to the accuracy of any of the data referred to in this MD&A obtained from third party sources.*

## 1. Business Overview

Taiga is the largest independent wholesale distributor of building products in Canada. Taiga distributes building products in Canada, the United States and overseas. As a wholesale distributor, Taiga maintains substantial inventories of building products at fifteen 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. Factors that affect Taiga's year-over-year profitability include, among others, sales levels, price fluctuations and product mix.

Taiga's primary market is Canada. Taiga expects the Canadian housing market in calendar year 2018 to taper off slightly compared to calendar year 2017.

Taiga's secondary market is the United States. Taiga expects the United States housing market to continue to improve in the 2018 calendar year compared to calendar year 2017. See Item 11 "Outlook".

## 2. Business Acquisition

On July 31, 2018, the Company completed the acquisition (the "Acquisition") of all the shares of Exterior Wood, Inc. ("Exterior Wood"), a wood treatment facility and distribution centre in Washougal, Washington. Total purchase consideration was \$56,040,000 cash in exchange for all the issued and outstanding common shares of Exterior Wood. The acquisition will expand Taiga's existing wood treatment operations with additional penetration into the United States market. The consideration transferred to the vendors was satisfied primarily through the Company's revolving credit facility (the "Facility") and additional term loans included in the Facility. The foreign exchange rate used to translate cash purchase consideration and fair value of assets acquired and liabilities assumed was based on the exchange rate published by the Bank of Canada as at the date of the Acquisition.

Details of the fair value of the aggregate consideration transferred and the fair value of the identifiable assets and liabilities acquired at the date of the above noted acquisition were as follows:

<i>(in thousands of dollars)</i>	<b>2018</b>
<b>Fair value of purchase consideration</b>	
Cash	56,040
<b>Consideration</b>	<b>56,040</b>
<b>Fair value of assets acquired and liabilities assumed</b>	
Current assets	34,066
Current liabilities	(10,687)
Property, plant and equipment	6,019
Intangibles	23,518
Goodwill	11,468
Deferred tax liabilities	(8,344)
<b>Consideration</b>	<b>56,040</b>

The goodwill recognized was primarily attributed to the expected synergies arising from the Acquisition and the expertise and reputation of the assembled management and workforce. The intangible assets consisted primarily of customer relationships as well as trademarks registered by Exterior Wood. This allocation of the purchase consideration and valuation of the assets and liabilities acquired is preliminary and subject to change for a period of one year from the date of acquisition. The Company is in the process of finalizing the fair value determination.

From the date of the Acquisition, the acquired business contributed \$18.2 million of revenue and \$61,000 of the net earnings. If the Acquisition had taken place at the beginning of the year, consolidated revenue for the nine months period ended September 30, 2018 would have been \$1,212.0 million and net earnings of the Company would have been \$21.3 million. During the three and nine months ended September 30, 2018, directly attributable acquisition-related costs of approximately \$0.5 million have been expensed and are included in Selling and Administration Expenses on the unaudited Interim Condensed Consolidated Statement of Earnings and Comprehensive Income.

### 3. Results of Operations

#### Sales

The Company's consolidated net sales for the quarter ended September 30, 2018 were \$399.6 million compared to \$396.6 million over the same period last year. The increase in sales by \$3.0 million or 1% was largely due to higher selling prices for commodity products.

Consolidated net sales for the nine months ended September 30, 2018 were \$1,147.1 million compared to \$1,062.4 million over the same period last year. The increase in sales by \$84.7 million or 8% was largely due to higher selling prices for commodity products.

Sales by segments are as follows:

	Revenue by Point of Sale							
	Three months ended September 30,				Nine months ended September 30,			
	2018		2017		2018		2017	
	\$000's	%	\$000's	%	\$000's	%	\$000's	%
Canada	331,101	82.9	349,532	88.1	984,918	85.9	683,281	88.0
United States	68,533	17.1	47,097	11.9	162,188	14.1	93,109	12.0

For the quarter ended September 30, 2018, export sales totalled \$61.3 million compared to \$71.2 million in the same quarter last year. For the nine month period ended September 30, 2018, export sales were \$189.1 million (2017 - \$220.0 million). These export sales were primarily to the United States and Asia, and are included as part of the Canadian segment in the table above.

The Company's sales of dimension lumber and panel, as a percentage of total sales, was 61.4% for the quarter ended September 30, 2018 and 68.0% over the same period last year. Allied, engineered and treated wood product sales, as a percentage of total sales, was 38.6% for 2018 and 32.0% over the same period last year.

The Company's sales of dimension lumber and panel, as a percentage of total sales, was 64.3% for the nine months ended September 30, 2018, compared to 66.6% over the same period last year. Allied, engineered and treated wood product sales, as a percentage of total sales, was 35.7% for the nine month period ended September 30, 2018, compared to 33.4% over the same period last year.

#### Gross Margin

Gross margin for the quarter ended September 30, 2018 decreased to \$27.9 million from \$37.8 million over the same period last year. Gross margin percentage decreased to 7.0% in the current quarter compared to 9.5% in the same quarter last year.

Gross margin for the nine months ended September 30, 2018 increased to \$98.0 million from \$95.7 million over the same period last year. Gross margin percentage was 8.5% for the nine months ended September 30, 2018 compared to 9.0% in the same period last year. The increase in gross margin was primarily due to increased sales in the current period.

## Expenses

Distribution expense for the quarter ended September 30, 2018 was \$6.8 million compared to \$5.8 million over the same period last year. For the nine month period ended September 30, 2018, distribution expenses increased to \$18.7 million compared to \$17.0 million over the same period last year. The increases were due primarily to increased compensation costs for warehouse and delivery staff.

Selling and administration expense for the quarter ended September 30, 2018 decreased to \$13.5 million compared to \$17.0 million over the same period last year. Selling and administration expense for the nine months ended September 30, 2018 increased to \$46.7 million compared to \$44.2 million over the same period last year. These increases were primarily due to higher compensation costs.

Finance expense for the quarter ended September 30, 2018 was \$2.1 million compared to \$1.6 million over the same period last year. Finance expense for the nine month period ended September 30, 2018 increased to \$5.1 million compared to \$4.5 million for the same period last year. Higher borrowing levels led to increased interest costs.

Subordinated debt interest expense for the quarter ended September 30, 2018 was \$0.2 million compared to \$4.5 million over the same period last year. Subordinated debt interest expense was \$0.6 million for the nine months period ended September 30, 2018 compared to \$13.5 million over the same period last year. The decrease is because currently there are \$12.5 million of notes paying 7% interest as opposed to \$128.8 million of notes paying 14% interest in the same period last year.

Other income was \$0.1 million for the quarter ended September 30, 2018 and 2017. Other income was \$0.3 million for the nine months ended September 30, 2018 compared to \$0.5 million over the same period last year.

## Net Earnings

Net earnings for the quarter ended September 30, 2018 decreased to \$5.6 million compared to \$6.0 million for the same period last year primarily due to decreased gross margin. Net earnings for the nine month period ended September 30, 2018 were \$18.7 million compared to \$11.3 million over the same period last year.

## EBITDA

EBITDA for the quarter ended September 30, 2018 was \$9.2 million compared to \$16.2 million for the same period last year. For the nine months ended September 30, 2018, EBITDA was \$36.9 million compared to \$38.3 million over the same period last year.

Reconciliation of net earnings to EBITDA:

<i>(in thousands of dollars)</i>	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net earnings	5,579	5,980	18,727	11,260
Income taxes	(273)	3,081	8,518	5,739
Finance and subordinated debt interest expense	2,310	6,083	5,724	17,987
Amortization	1,612	1,098	3,906	3,321
EBITDA	9,228	16,242	36,875	38,307

## 4. Cash Flows

### Operating Activities

Cash flows from operating activities provided cash of \$50.9 million for the quarter ended September 30, 2018 compared to \$55.1 million for the same period last year. Cash flows from operating activities used cash of \$29.3 million for the nine months ended September 30, 2018 compared to generating \$1.5 million of cash for the same period last year. Changes between the comparative periods were primarily due to the acquisition of Exterior Wood, Inc.

### Investing Activities

Investing activities used cash of \$56.7 million for the quarter ended September 30, 2018 compared to cash used of \$1.3 million over the same period last year. Investing activities used cash of \$58.4 million for the nine months ended September 30, 2018 compared to \$1.5 million for the same period last year. The reason for the increase was the acquisition of Exterior Wood, Inc.

### Financing Activities

Financing activities provided cash of \$5.9 million for the quarter ended September 30, 2018 compared to using \$53.8 million for the same period last year. Financing activities provided cash of \$87.8 million during the nine months ended September 30, 2018 compared to cash used of \$0.1 million during the same period last year. The major cause for the change was increased cash from additional term loans used to fund the acquisition of Exterior Wood, Inc.

## 5. Summary of Quarterly Results

<i>(in thousands of dollars, except per share amount in dollars)</i>	Fiscal year December 31, 2018			Fiscal year December 31, 2017		
	Q3	Q2	Q1	Q3	Q2	Q1
Sales	399,634	422,875	324,597	329,821	396,629	379,761
Net earnings (loss)	5,579	6,358	6,790	(15,195)	5,980	5,029
Net earnings (loss) per share <sup>(1)</sup>	0.05	0.05	0.06	(0.20)	0.18	0.16
EBITDA	9,228	16,128	11,519	(9,142)	16,242	14,280

Notes:

- (1) The amounts are identical on a basic and fully-diluted per share basis. Earnings per share is calculated using the weighted-average number of shares.

### Seasonality

Taiga's sales are subject to seasonal variances that fluctuate in accordance with the normal home building season. Taiga generally experiences higher sales in the quarters ended June 30 and September 30 and reduced sales in the late fall and winter during its quarters ended December 31 and March 31 of each fiscal year.

## 6. Liquidity and Capital Resources

### Revolving Credit Facility

On June 28, 2018, the Company renewed its senior credit facility with a syndicate of lenders led by JPMorgan Chase Bank (the "Facility"). The Facility was increased from \$225 million to \$250 million, with an option to increase the limit by up to \$50 million. The Facility also features an ability to draw on additional term loans in an aggregate amount of approximately \$23 million at favourable rates, which Taiga utilized for the Business Acquisition referred to in Note 4 of the Notes to the Unaudited Condensed Interim Consolidated Financial Statements. The Facility continues to bear interest at variable rates plus variable margins, is secured by a first perfected security interest in all personal property of the Company and certain of its subsidiaries, and will mature on June 28, 2023. Taiga's ability to borrow under the Facility is based upon a defined percentage of accounts receivable and inventories. The terms, conditions, and covenants of the Facility have been met as at September 30, 2018.

### Working Capital

Working capital as at September 30, 2018 increased to \$103.4 million from \$96.3 million as at December 31, 2017 due to increased current assets offset by increased current liabilities primarily as a result of the acquisition of Exterior Wood, Inc.. Taiga believes that current levels are adequate to meet its working capital requirements.

### Summary of Financial Position

<i>(in thousands of dollars)</i>	<b>September 30, 2018</b>	<b>September 30, 2017</b>	<b>December 31, 2017</b>
Current Assets	292,603	267,125	232,331
Current Liabilities (excluding Revolving Credit Facility)	(100,522)	(97,854)	(81,300)
Revolving Credit Facility	(88,731)	(62,514)	(54,723)
<b>Working Capital</b>	<b>103,350</b>	<b>106,757</b>	<b>96,308</b>
Long Term Assets	77,883	41,096	38,498
Long Term Liabilities (excluding Subordinated Notes)	(53,076)	(28,026)	(26,468)
Subordinated Notes	(12,500)	(128,834)	(12,500)
<b>Shareholders' Equity (Deficiency)</b>	<b>115,657</b>	<b>(9,007)</b>	<b>95,838</b>

### Assets

Total assets were \$370.5 million as at September 30, 2018 compared to \$270.8 million as at December 31, 2017. The increase was primarily the result of increased inventories, increased accounts receivable and the addition of goodwill and intangible assets as the result of the acquisition of Exterior Wood, Inc.

Inventories increased to \$140.2 million as at September 30, 2018 compared to \$123.3 million as at December 31, 2017 due primarily to higher commodity prices at the end of the period.

Property, plant and equipment was \$43.7 million as at September 30, 2018 compared to \$38.3 million as at December 31, 2017. The increase was due to the acquisition of Exterior Wood, Inc.

### Liabilities

Total liabilities increased to \$254.8 million as at September 30, 2018 from \$175.0 million as at December 31, 2017. The increase was due to increased revolving credit facility balance, increased accounts payable and accrued

liabilities as well as additional deferred tax liabilities and additional long-term debt as a result of the acquisition of Exterior Wood, Inc.

## **Outstanding Share Data**

The Company has only one class of shares outstanding, its common shares without par value. On October 8th, 2018, there were 116,823,109 shares issued and 116,322,809 common shares outstanding.

On April 27, 2018, the Company commenced a Normal Course Issuer Bid (“NCIB”) for its common shares. Under the terms of the NCIB, the Company may purchase up to 5,841,155 of its 116,823,109 outstanding Common Shares, representing 5% of the outstanding Common Shares. During the three months ended September 30, 2018, the Company did not purchase any of its Common Shares. During the nine months ended September 30, 2018, the Company purchased 500,300 of its Common shares for cash payments of \$750,435. These Common Shares purchased by the Company are being held as Treasury Stock. As of September 30, 2018, there were 5,340,855 remaining Common Shares permitted to be purchased by the Company per the terms of the NCIB.

## **7. Commitments and Contingencies**

### Canada Revenue Agency Reassessment

During the year ended March 31, 2017, Taiga received a notice of reassessment from the Canada Revenue Agency in the amount of approximately \$42,000,000 (which includes interest) relating to the years from 2005 to 2013. The reassessment related to the amount of taxes withheld, by Taiga, on dividends paid or deemed to have been paid to what were then the Company’s two largest shareholders in connection with and subsequent to Taiga’s corporate reorganization in 2005 involving a swap of then outstanding common shares for stapled units. Taiga paid the full amount of the reassessment on January 31, 2017 using proceeds provided by its two former major shareholders. The Company, and the two former major shareholders, had previously entered into agreements whereby the shareholders agreed to fully indemnify the Company from this potential liability, including related liabilities. The indemnity agreements remain in effect and would apply in the event that CRA issues further reassessments relating to the amount of taxes withheld. The Company intends to challenge the reassessment and vigorously defend its tax filings and to seek a resolution as soon as practically possible. Taiga’s two former major shareholders may elect to assume any action or defense of Taiga in connection with the foregoing pursuant to the terms of the indemnity agreements with Taiga.

## **8. Critical Accounting Policies and Estimates**

The significant accounting policies of Taiga are described in Note 3 to the Consolidated Financial Statements for the year ended December 31, 2017.

The preparation of financial statements in conformity with IFRS 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. These estimates are described in the management’s discussion and analysis for the year ended December 31, 2017 and there have been no material changes to such policies and estimates since that time.

## **9. Off-Balance Sheet Arrangements**

Taiga does not have off-balance sheet arrangements except for commitments under operating leases as discussed under “Commitments and Contingencies” in this Management’s Discussion and Analysis for the fiscal year ended December 31, 2017.

For a detailed description of financial instruments and their associated risks, see Note 20 to the Company’s audited consolidated financial statements for the fiscal year ended December 31, 2017.

## **10. Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

Taiga's management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS.

The CEO and CFO of Taiga acknowledge responsibility for the design of ICFR and confirm that there were no changes in these controls that occurred during the quarter ended September 30, 2018 which materially affected, or are reasonably likely to materially affect the Company's ICFR.

## **11. Outlook**

Taiga's financial performance is primarily dependent on the 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.

In Canada, according to the Canada Mortgage and Housing Corporation ("CMHC") Housing Market Outlook, Canadian Edition for the fourth quarter 2017, housing starts are forecasted to range from 192,200 to 203,000 units in the 2018 calendar year. CMHC is reporting that housing starts will range from 192,300 to 203,800 units in the 2019 calendar year.

In the United States, the National Association of Home Builders reported in July 2018 that housing starts are forecasted to total 1,317,000 units in the 2018 calendar year and 1,344,000 units in the 2019 calendar year.

# **Taiga Building Products Ltd.**

Condensed Interim Consolidated Financial Statements  
(Unaudited)

For the three months and nine months ended September 30, 2018 and 2017  
(in Canadian dollars)

## **NOTICE TO SHAREHOLDERS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), 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.

The accompanying unaudited interim consolidated financial statements of Taiga Building Products Ltd. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

# TAIGA BUILDING PRODUCTS LTD.

## Condensed Consolidated Balance Sheets (Unaudited)

<i>(in thousands of Canadian dollars)</i>	September 30, 2018	September 30, 2017	December 31, 2017
<b>Assets</b>			
<b>Current:</b>			
Accounts receivable	\$ 150,334	\$ 147,616	\$ 106,839
Inventories (Note 5)	140,172	117,967	123,288
Prepaid expenses	2,097	1,542	2,204
	292,603	267,125	232,331
Property, plant and equipment	43,747	39,287	38,324
Intangible Assets	22,863	-	-
Goodwill	11,273	-	-
Deferred tax assets	-	1,809	174
	\$ 370,486	\$ 308,221	\$ 270,829
<b>Liabilities and Shareholders' Equity</b>			
<b>Current:</b>			
Revolving credit facility (Note 6)	\$ 88,731	\$ 62,514	\$ 54,723
Accounts payable and accrued liabilities	81,417	90,461	73,578
Income taxes payable	9,372	4,893	4,365
Current portion of long-term debt	7,329	243	1,019
Current portion of finance lease obligation	2,404	2,257	2,338
	189,253	160,368	136,023
Long-term debt (Note 7)	21,834	831	-
Finance lease obligation	20,850	22,838	22,380
Deferred gain	2,815	3,197	3,102
Deferred tax liabilities	6,883	-	199
Provisions	694	1,160	787
Subordinated notes (Note 9)	12,500	128,834	12,500
	254,829	317,228	174,991
<b>Shareholders' Equity:</b>			
Share capital (Note 10)	132,340	13,229	133,090
Accumulated other comprehensive income (Note 10)	6,586	4,565	4,744
	138,926	17,794	137,834
Deficit	(23,269)	(26,801)	(41,996)
	115,657	(9,007)	95,838
	\$ 370,486	\$ 308,221	\$ 270,829

The accompanying notes are an integral part of these consolidated financial statements.

# TAIGA BUILDING PRODUCTS LTD.

## Condensed Consolidated Statements of Earnings and Comprehensive Income (Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
<i>(in thousands of Canadian dollars, except per share amounts)</i>	2018	2017	2018	2017
<b>Sales</b>	\$ 399,634	\$ 396,629	\$ 1,147,106	\$ 1,062,442
<b>Cost of sales</b>	371,777	358,808	1,049,063	966,780
<b>Gross margin</b>	27,857	37,821	98,043	95,662
Expenses:				
Distribution	6,817	5,781	18,712	16,981
Selling and administration	13,520	17,042	46,658	44,167
Finance (Note 11)	2,091	1,574	5,106	4,460
Subordinated debt interest (Note 9)	219	4,509	618	13,528
Other income	(96)	(146)	(296)	(471)
	22,551	28,760	70,798	78,665
<b>Earnings before income tax</b>	5,306	9,061	27,245	16,997
Income tax expense (recovery) (Note 8)	(273)	3,081	8,518	5,739
<b>Net earnings for the period</b>	\$ 5,579	\$ 5,980	\$ 18,727	\$ 11,258
<b>Other comprehensive income (loss) for the period (Item that may be reclassified to net earnings)</b>				
Exchange differences on translating foreign controlled entities	\$ (711)	\$ (1,316)	\$ 1,842	\$ (2,468)
<b>Total comprehensive income for the period</b>	\$ 4,868	\$ 4,664	\$ 20,569	\$ 8,790
Basic and diluted net earnings per common share	\$ 0.05	\$ 0.18	\$ 0.16	\$ 0.10
Weighted average number of common shares outstanding	116,323	32,414	116,323	32,414

The accompanying notes are an integral part of these consolidated financial statements.

# TAIGA BUILDING PRODUCTS LTD.

## Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

For the nine months ended September 30, 2017

<i>(in thousands of Canadian dollars)</i>	Share Capital	Deficit	Accumulated Other Comprehensive Income	Total
<b>Balance at December 31, 2016</b>	\$ 13,229	\$ (38,059)	\$ 7,033	\$ (17,797)
Net earnings	-	11,258	-	11,258
Other comprehensive loss	-	-	(2,468)	(2,468)
<b>Balance at September 30, 2017</b>	<b>\$ 13,229</b>	<b>\$ (26,801)</b>	<b>\$ 4,565</b>	<b>\$ (9,007)</b>

For the nine months ended September 30, 2018

<i>(in thousands of Canadian dollars)</i>	Share Capital	Deficit	Accumulated Other Comprehensive Income	Total
<b>Balance at December 31, 2017</b>	\$ 133,090	\$ (41,996)	\$ 4,744	\$ 95,838
Net earnings	-	18,727	-	18,727
Treasury Stock	(750)	-	-	(750)
Other comprehensive income	-	-	1,842	1,842
<b>Balance at September 30, 2018</b>	<b>\$ 132,340</b>	<b>\$ (23,269)</b>	<b>\$ 6,586</b>	<b>\$ 115,657</b>

The accompanying notes are an integral part of these consolidated financial statements.

# TAIGA BUILDING PRODUCTS LTD.

## Condensed Consolidated Statements of Cash Flows (Unaudited)

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<b>Cash provided by (used in):</b>				
<b>Operating:</b>				
Net earnings	\$ 5,579	\$ 5,980	\$ 18,727	\$ 11,258
Adjustments for non-cash items				
Amortization	1,612	1,098	3,906	3,321
Income tax expense	(273)	3,081	8,518	5,739
Mark-to-market adjustment on financial instruments	(654)	307	(519)	236
Change in provisions	(22)	(49)	(93)	(325)
Gain on asset disposal	-	(39)	(9)	(185)
Amortization of deferred gain	(95)	(107)	(287)	(287)
Finance and subordinated debt interest expense	2,459	6,083	5,724	17,988
Interest paid	(1,935)	(1,702)	(5,015)	(4,334)
Income tax paid	(106)	(3,988)	(3,167)	(5,652)
Changes in non-cash working capital (Note 14)	44,292	44,447	(57,110)	(26,218)
<b>Cash flows from operating activities</b>	<b>50,857</b>	<b>55,111</b>	<b>(29,325)</b>	<b>1,541</b>
<b>Investing:</b>				
Purchase of property, plant and equipment	(669)	(1,326)	(2,421)	(2,413)
Proceeds from disposition of property, plant and equipment	-	42	18	948
Business Acquisition	(56,040)	-	(56,040)	-
<b>Cash flows used in investing activities</b>	<b>(56,709)</b>	<b>(1,284)</b>	<b>(58,443)</b>	<b>(1,465)</b>
<b>Financing:</b>				
Increase (Decrease) in revolving credit facility	(21,816)	(48,702)	62,578	15,271
Advance (Repayment) of long-term debt	28,269	(61)	28,144	(191)
Repayment of obligations under finance leases	(601)	(555)	(1,770)	(1,628)
Subordinated notes interest paid	-	(4,509)	(434)	(13,528)
Purchase of treasury stock	-	-	(750)	-
<b>Cash flows used from financing activities</b>	<b>5,852</b>	<b>(53,827)</b>	<b>87,768</b>	<b>(76)</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes are an integral part of these consolidated financial statements.

## 1. Nature of Operations

Taiga Building Products Ltd. ("Taiga" or the "Company") is an independent wholesale distributor of building products in Canada and the United States. Taiga operates within two reportable geographic areas, Canada and the United States. The Company's shares are listed for trading on the Toronto Stock Exchange.

Taiga is a Canadian corporation and its registered and records office is located at 1000 Cathedral Place, 925 West Georgia Street, Vancouver, British Columbia, Canada V6C 3L2.

## 2. Basis of Preparation

### (a) Statement of Compliance

These condensed interim consolidated financial statements (the "Financial Statements") are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Therefore, these financial statements comply with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*.

These Financial Statements follow the same accounting policies and methods of application as our most recent annual financial statements, save for the adoption of IFRS 9 and 15 for the 2018 fiscal year starting on January 1, 2018. The adoption of these IFRS and their impact on these Financial Statements are covered in Note 3. Accordingly, they should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

These Financial Statements were authorized for issue on November 8, 2018 by the board of directors of the Company.

### (b) Basis of Consolidation

These consolidated financial statements include the accounts of Taiga Building Products Ltd. and its subsidiaries. Subsidiaries are those entities which the Company controls by having the power to govern the financial and operational policies of the entity. Inter-company transactions and balances have been eliminated.

### (c) Basis of Measurement

These consolidated financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable.

### (d) Revolving Credit Facility

Previously, the Company reflected the revolving credit facility (Note 6) as part of cash and cash equivalents as it forms an integral part of Taiga's cash management and fluctuates directly as a result of cash flows from operating, investing and financing activities. In response to an agenda decision issued by the IFRS Interpretations Committee, Taiga has revised this presentation and now includes cash flows resulting from changes in the revolving credit facility balance within financing activities. Comparative information has been adjusted accordingly.

## 3. Significant Accounting Policies

The significant accounting policies that have been used in the preparation of these condensed consolidated interim financial statements are summarized in the Company's annual audited consolidated financial statements for the year ended December 31, 2017.

## Taiga Building Products Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2018 and 2017 (in Canadian dollars)

### (a) Changes in Accounting Policies – Financial Instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments (“IFRS 9”) as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company’s accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company’s new accounting policy for financial instruments under IFRS 9:

#### (i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

<b>Financial assets/liabilities</b>	<b>Original classification IAS 39</b>	<b>New classification IFRS 9</b>
Revolving credit facility	Amortized cost	Amortized cost
Accounts receivables	Amortized cost	Amortized cost
Lumber futures	FVTPL	FVTPL
Interest swap	FVTPL	FVTPL
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Finance lease obligation	Amortized cost	Amortized cost
Long-term debt	Amortized cost	Amortized cost
Subordinated notes	Amortized cost	Amortized cost

The Company did not restate prior periods as it recognized the effects of retrospective application to shareholders’ equity at the beginning of the 2018 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on January 1, 2018.

#### (ii) Measurement

##### Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

##### Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of net (loss) income. Realized and unrealized gains and losses

## Taiga Building Products Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2018 and 2017 (in Canadian dollars)

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arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net (loss) income in the period in which they arise.

### (iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

### (iv) Derecognition

#### Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of net (loss) income.

### (b) Changes in Accounting Policies – Revenue from Contracts with Customers

The Company adopted all of the requirements of IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) as of January 1, 2018. IFRS 15 utilizes a methodical framework for entities to follow in order to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The change did not impact the cumulated revenue recognized or the related assets and liabilities on the transition date.

The following is the Company’s new accounting policy for revenue from contracts with customers under IFRS 15:

The Company distributes building products to supply yards, building product retailers and industrial manufacturers. Sales are recognised when control of the products has transferred to the Company’s customers, being when the products are shipped to the customer in instances where the customer arranges for shipment or upon delivery for instances in which the Company arranges for shipment. The customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer’s acceptance of the products. Once products are delivered to the Company’s customers, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales order, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied. A portion of the Company’s sales take place on a consignment basis, where the Company will deliver inventory to customer locations that has not yet been purchased. The revenue from these sales is recognized when the customer purchases the inventory.

The Company’s products are sold with volume discounts based on aggregate sales over set periods. Revenue from these sales is recognised based on the price agreed upon for each order, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A liability is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

## Taiga Building Products Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2018 and 2017 (in Canadian dollars)

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No element of financing is deemed present as the sales are made with credit terms standard for the market. The Company's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision. Historically, the Company's annual returns for products sold have been negligible. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Company did not restate prior periods as it recognized the effects of retrospective application to shareholders' equity at the beginning of the 2018 annual reporting period, which also includes the date of initial application. The adoption of IFRS 15 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on January 1, 2018.

### (c) Accounting Standards Issued not yet Applied

#### *Leases*

On January 13, 2016, the IASB published a new standard, IFRS 16, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The main provision of IFRS 16 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. Under IFRS 16, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; and (ii) recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant, as the right-of-use asset is depreciated and the lease liability is accreted using the effective interest method. The new standard also requires qualitative disclosures along with specific quantitative disclosures. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. Upon adoption of IFRS 16, the Company's operating leases, which are principally comprised of its warehouse facilities and select equipment, will be recorded in the statement of financial position with a corresponding lease obligation. The Company continues to assess the impact of adopting this standard on its consolidated financial statements.

Other accounting pronouncements with future effective dates are either not applicable or are not expected to have a material impact on the Company's consolidated financial statements.

## 4. **Business Acquisition**

On July 31, 2018, the Company completed the acquisition (the "Acquisition") of all the shares of Exterior Wood, Inc. ("Exterior Wood"), a wood treatment facility and distribution centre in Washougal, Washington. Total purchase consideration was \$56,040,000 cash in exchange for all the issued and outstanding common shares of Exterior Wood. The acquisition will expand Taiga's existing wood treatment operations with additional penetration into the United States market. The consideration transferred to the vendors was satisfied primarily through the Company's revolving credit facility (the "Facility") and additional term loans included in the Facility. The foreign exchange rate used to translate cash purchase consideration and fair value of assets acquired and liabilities assumed was based on the exchange rate published by the Bank of Canada as at the date of the Acquisition.

Details of the fair value of the aggregate consideration transferred and the fair value of the identifiable assets and liabilities acquired at the date of the above noted acquisition were as follows:

## Taiga Building Products Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2018 and 2017 (in Canadian dollars)

<i>(in thousands of dollars)</i>	<b>2018</b>
<b>Fair value of purchase consideration</b>	
Cash	56,040
<hr/>	
Consideration	56,040
<hr/>	
<b>Fair value of assets acquired and liabilities assumed</b>	
Current assets	34,066
Current liabilities	(10,687)
Property, plant and equipment	6,019
Intangibles	23,518
Goodwill	11,468
Deferred tax liabilities	(8,344)
<hr/>	
Consideration	56,040

The goodwill recognized was primarily attributed to the expected synergies arising from the Acquisition and the expertise and reputation of the assembled management and workforce. The intangible assets consisted primarily of customer relationships as well as trademarks registered by Exterior Wood. This allocation of the purchase consideration and valuation of the assets and liabilities acquired is preliminary and subject to change for a period of one year from the date of acquisition. The Company is in the process of finalizing the fair value determination.

From the date of the Acquisition, the acquired business contributed \$18.2 million of revenue and \$61,000 of the net earnings. If the Acquisition had taken place at the beginning of the year, consolidated revenue for the nine months period ended September 30, 2018 would have been \$1,212.0 million and net earnings of the Company would have been \$21.3 million. During the three and nine months ended September 30, 2018, directly attributable acquisition-related costs of approximately \$0.5 million have been expensed and are included in Selling and Administration Expenses on the unaudited Interim Condensed Consolidated Statement of Earnings and Comprehensive Income.

## 5. Inventories

<i>(in thousands of dollars)</i>	<b>September 30, 2018</b>	<b>September 30, 2017</b>	<b>December 31, 2017</b>
Allied building products	27,835	25,560	24,935
Lumber products	86,048	67,379	73,694
Panel products	26,457	24,350	24,290
Production consumables	758	718	568
Inventory provision	(926)	(40)	(199)
Total	140,172	117,967	123,288

All of the Company's inventories are pledged as security for the revolving credit facility.

## 6. Revolving Credit Facility

<i>(in thousands of dollars)</i>	<b>September 30, 2018</b>	<b>September 30, 2017</b>	<b>December 31, 2017</b>
Revolving credit facility	87,287	62,859	54,995
Financing costs, net of amortization	(1,444)	(345)	(272)
Total	88,731	62,514	54,723

## Taiga Building Products Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2018 and 2017 (in Canadian dollars)

On June 28, 2018, the Company renewed its senior credit facility with a syndicate of lenders led by JPMorgan Chase Bank (the "Facility"). The Facility was increased from \$225 million to \$250 million, with an option to increase the limit by up to \$50 million. The Facility also features an ability to draw on additional term loans in an aggregate amount of approximately \$23 million at favourable rates, which Taiga utilized for the Business Acquisition referred to in Note 4. The Facility continues to bear interest at variable rates plus variable margins, is secured by a first perfected security interest in all personal property of the Company and certain of its subsidiaries, and will mature on June 28, 2023. Taiga's ability to borrow under the Facility is based upon a defined percentage of accounts receivable and inventories. The terms, conditions, and covenants of the Facility have been met as at September 30, 2018.

## 7. Long-term Debt

On June 28, 2018, the Company renewed its senior credit facility with a syndicate of lenders led by JPMorgan Chase Bank (the "Facility"). As part of the Facility, additional term loans were authorized and the Company drew upon two separate term loans (Term A and Term B) to fund the Business Acquisition in Note 4. The long-term debt bears interest at variable base rates plus variable margins tied to the Company's existing Facility (Note 6). The long-term debt is secured partially by the real property of one of the Company's US subsidiaries.

The Term A loan is for \$7.5 million USD and matures on August 31, 2033. The monthly principal installment is US\$41,778.

The Term B loan is for \$15.5 million USD and matures on August 31, 2021. The monthly principal instalment is US\$430,000.

## 8. Income Taxes

Income tax expense (recovery) is comprised of:

<i>(in thousands of dollars)</i>	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Current	(951)	2,581	9,511	4,291
Future	678	500	(993)	1,448
Total	(273)	3,081	8,518	5,739

## 9. Subordinated Notes

Per the Trust Indenture dated November 17, 2017 (the "Indenture") the Company's Subordinated Notes are unsecured, bear interest at 7% per annum and mature on November 17, 2022. The Subordinated Notes are not listed on any stock exchange. Interest on the Notes is payable on May 17 and November 17 of each year. The aggregate principal amount of the New Notes that may be issued under the Indenture is unlimited. The terms, conditions, and covenants of the Indenture have been met during the quarter ended September 30, 2018.

## 10. Shareholders' Equity

### (a) Authorized Share Capital

Unlimited common shares without par value, unlimited class A common shares without par value, and unlimited class A and class B preferred shares without par value.

## Taiga Building Products Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2018 and 2017 (in Canadian dollars)

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(b) Normal Course Issuer Bid

On April 27, 2018, the Company commenced a Normal Course Issuer Bid ("NCIB") for its common shares. Under the terms of the NCIB, the Company may purchase up to 5,841,155 of its 116,823,109 outstanding Common Shares, representing 5% of the outstanding Common Shares. For the nine months ended September 30, 2018, the Company purchased 500,300 of its Common shares for cash payments of \$750,435. These Common Shares purchased by the Company are being held as Treasury Stock. At September 30, 2018 there were 5,340,855 remaining Common Shares permitted to be purchased by the Company per the terms of the NCIB.

(c) Common Shares Issued

<i>(in thousands of dollars, except number of shares)</i>	<b>Number of Shares</b>	<b>Amount</b>
Balance, September 30, 2017	32,414,278	13,229
Issue of new shares as a result of the Exchange Offer	84,408,831	119,861
Balance, December 31, 2017	116,823,109	133,090
Shares purchased under NCIB and held as Treasury Stock	500,300	750
Balance, September 30, 2018	116,322,809	132,340

(d) Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of exchange differences arising on translation of entities that have a functional currency other than the Canadian dollar.

(e) Stock Options and Warrants

Taiga does not have stock options or warrants outstanding and has not granted or cancelled options or warrants during the current or prior period.

(f) Exchange Offer

On November 17, 2017, the Company completed an exchange offer (the "Exchange Offer"). Pursuant to the terms and conditions set forth in the Company's Exchange Offer and Consent Solicitation Statement dated September 29, 2017 (the "Exchange Offer Circular"), to purchase any and all of its outstanding 14% subordinated unsecured notes (the "Existing Notes") in exchange for new 7% senior notes of Taiga (the "New Notes") due five years from the date of issuance, common shares of Taiga ("Common Shares") at a rate of 833.33 Common Shares for each \$1,000 principal amount of Existing Notes, or any combination of the foregoing at the option of the holder. As a result of the Exchange Offer, the Company exchanged an aggregate of \$113,791,000 principal amount of Existing Notes, representing approximately 88.4% of the Existing Notes outstanding. Holders of Existing Notes who participated in the Exchange Offer elected to exchange their Existing Notes for an aggregate of \$12,500,000 principal amount of New Notes and 84,408,831 Common Shares.

(g) Major Shareholder

On January 31, 2017, Taiga paid the full amount owing to the CRA (The Reassessment) in relation to Note 12 through the use of proceeds provided by its two former major shareholders. The Reassessment Amount was fully funded by the two former major shareholders in accordance with their obligations under their indemnity agreements with Taiga. The payment of the Reassessment Amount was made in connection with two transactions (the "Transactions") involving Taiga's two former major shareholders, and Avarga Limited and certain of its affiliates and subsidiaries (collectively, "Avarga"), which resulted in Avarga holding approximately 58% of the issued and outstanding common shares of the Company. As a result of the Exchange Offer described at Note 10(f), Avarga's ownership interest decreased to 49% of the common shares of Taiga. On

## Taiga Building Products Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2018 and 2017 (in Canadian dollars)

September 28, 2018 Avarga completed the acquisition of 18,460,759 additional common shares of Taiga, bringing their stake to 65.1% and 75,708,814 total common shares. Taiga's current chairman, Ian Tong, is a director of Avarga. Another of Taiga's directors, Dr. Kooi Ong Tong is also Avarga's executive chairman, chief executive officer and a significant shareholder. Avarga is an investment holding company listed on the Singapore Exchange.

## 11. Finance Expense

The finance expense is comprised of:

<i>(in thousands of dollars)</i>	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Interest on revolving credit facility and other short term liabilities	1,096	1,052	3,118	2,874
Interest on finance leases and long-term debt	893	445	1,739	1,358
Amortization of financing costs	102	77	249	228
Total	2,091	1,574	5,106	4,460

## 12. Commitments and Contingencies

### Canada Revenue Agency Reassessment

During the year ended March 31, 2017, Taiga received a notice of reassessment from the Canada Revenue Agency in the amount of approximately \$42,000,000 (which includes interest) relating to the years from 2005 to 2013. The reassessment related to the amount of taxes withheld, by Taiga, on dividends paid or deemed to have been paid to what were then the Company's two largest shareholders in connection with and subsequent to Taiga's corporate reorganization in 2005 involving a swap of then outstanding common shares for stapled units. Taiga paid the full amount of the reassessment on January 31, 2017 using proceeds provided by its two former major shareholders. The Company, and the two former major shareholders, had previously entered into agreements whereby the shareholders agreed to fully indemnify the Company from this potential liability, including related liabilities. The indemnity agreements remain in effect and would apply in the event that CRA issues further reassessments relating to the amount of taxes withheld. The Company intends to challenge the reassessment and vigorously defend its tax filings and to seek a resolution as soon as practically possible. Taiga's two former major shareholders may elect to assume any action or defense of Taiga in connection with the foregoing pursuant to the terms of the indemnity agreements with Taiga.

## 13. Financial Instruments

### (a) Accounting for financial instruments

The carrying amounts of accounts receivable and accounts payable approximate their fair values due to the short term to maturity of these instruments. The carrying amounts of the revolving credit facility and long-term debt approximate their fair values as these liabilities bear interest at variable market rates.

The fair values of finance lease obligations are as follows:

<i>(in thousands of dollars)</i>	September 30, 2018	September 30, 2017
Fair value	23,213	25,013

The fair value of the finance lease obligations was determined using current borrowing rates for similar debt instruments.

Taiga Building Products Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2018 and 2017 (in Canadian dollars)

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The fair value of the 7% subordinated notes are as follows:

<i>(in thousands of dollars)</i>	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Fair value	12,500	-

The fair value of the 7% subordinated notes was determined using current borrowing rates for similar debt instruments.

The carrying amount of derivative financial instrument assets and liabilities are equal to their fair values as these instruments are re-measured to their fair values at each reporting date as follows:

<i>(in thousands of dollars)</i>	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Lumber futures	484	225

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – based on quoted prices in active markets for identical assets or liabilities;

Level 2 – based on inputs other than quoted prices that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or

Level 3 – applies to assets and liabilities for inputs that are not based on observable market data, which are unobservable inputs.

Derivative financial instrument assets and liabilities are classified as level 2.

Taiga Building Products Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2018 and 2017 (in Canadian dollars)

The following table summarizes the classification and carrying values of the Company's financial instruments at September 30, 2018 and 2017:

*(in thousands of dollars)*

<b>At September 30, 2018</b>	<b>Amortized Cost</b> (Financial assets)	<b>FVTPL</b>	<b>Amortized Cost</b> (Financial liabilities)	<b>Total</b>
<b>Financial assets:</b>				
Accounts receivable	150,334	-	-	150,334
<b>Total financial assets:</b>	<b>150,334</b>	<b>-</b>	<b>-</b>	<b>150,334</b>
<b>Financial liabilities:</b>				
Revolving credit facility	-	-	88,731	88,731
Accounts payable & accrued liabilities	-	-	81,417	81,417
Lumber futures <sup>1</sup>	-	(484)	-	(484)
Current portion of long-term debt	-	-	7,329	7,329
Non-current portion of long-term debt	-	-	21,834	21,834
Current portion of financial lease obligation	-	-	2,404	2,404
Non-current portion of financial lease obligation	-	-	20,850	20,850
Subordinates notes	-	-	12,500	12,500
<b>Total financial liabilities:</b>	<b>-</b>	<b>(484)</b>	<b>235,065</b>	<b>234,581</b>

*(in thousands of dollars)*

<b>At September 30, 2017</b>	<b>Amortized Cost</b> (Financial assets)	<b>FVTPL</b>	<b>Amortized Cost</b> (Financial liabilities)	<b>Total</b>
<b>Financial assets:</b>				
Accounts receivable	147,616	-	-	147,616
<b>Total financial assets:</b>	<b>147,616</b>	<b>-</b>	<b>-</b>	<b>147,616</b>
<b>Financial liabilities:</b>				
Revolving credit facility	-	-	62,514	62,514
Accounts payable & accrued liabilities	-	-	90,461	90,461
Lumber futures <sup>1</sup>	-	(225)	-	(225)
Current portion of long-term debt	-	-	243	243
Non-current portion of long-term debt	-	-	831	831
Current portion of financial lease obligation	-	-	2,257	2,257
Non-current portion of financial lease obligation	-	-	22,838	22,838
Subordinates notes	-	-	128,834	128,834
<b>Total financial liabilities:</b>	<b>-</b>	<b>(225)</b>	<b>307,978</b>	<b>307,753</b>

<sup>(1)</sup>Included with accounts payable and accrued liabilities on the statement of financial position

## 14. Changes in Non-Cash Working Capital

<i>(in thousands of dollars)</i>	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Decrease (Increase) in accounts receivable	50,878	19,224	(42,580)	(52,979)
Decrease (Increase) in inventories	5,017	18,381	(22,788)	(18,532)
Decrease (Increase) in prepaid expenses and other	983	1,139	(79)	1,845
Effect of foreign exchange on working capital	(665)	(1,907)	2,508	(2,921)
Increase (Decrease) in AP & accrued liabilities	(11,921)	7,610	5,829	29,840
<b>Total</b>	<b>44,292</b>	<b>44,447</b>	<b>(57,110)</b>	<b>(5,683)</b>

## 15. Seasonality

Taiga's sales are subject to seasonal variances that fluctuate in accordance with the normal home building season. Taiga generally experiences higher sales in the quarters ended June 30 and September 30 and reduced sales in the late fall and winter during its quarters ended December 31 and March 31 of each fiscal year.

## 16. Segmented Information

Taiga operates within one business segment and has two reportable geographic areas as follows:

	Revenue by Point of Sale							
	Three months ended September 30,				Nine months ended September 30,			
	2018		2017		2018		2017	
	\$000's	%	\$000's	%	\$000's	%	\$000's	%
Canada	331,101	82.9	349,532	88.1	984,918	85.9	936,119	88.1
United States	68,533	17.1	47,097	11.9	162,188	14.1	126,323	11.9

During the three months ended September 30, 2018, Taiga's Canadian operations had export sales of \$61.3 million (2017 - \$71.2 million). For the nine month period ended September 30, 2018, export sales were \$189.2 million (2017 - \$220.0 million). These export sales were primarily to the United States and Asia, and are included as part of the Canadian segment in the table above.