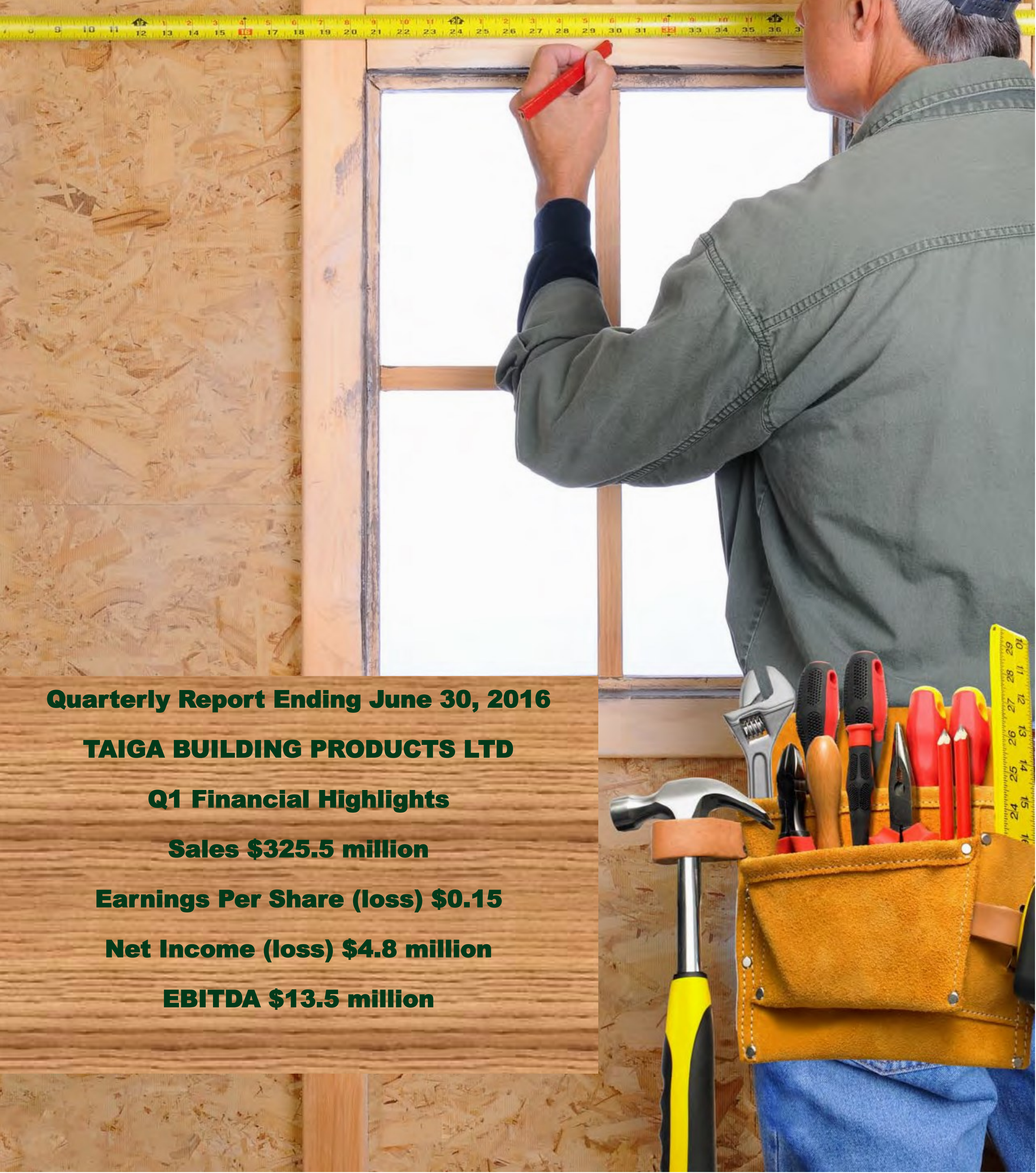
taiga building products



Quarterly Report Ending June 30, 2016

TAIGA BUILDING PRODUCTS LTD

Q1 Financial Highlights

Sales $325.5 million

Earnings Per Share (loss) $0.15

Net Income (loss) $4.8 million

EBITDA $13.5 million

Management's Discussion and Analysis

For the three months ended June 30, 2016 and 2015

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 July 29, 2016 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and the corresponding notes thereto for the three months ended June 30, 2016 and 2015. This discussion and analysis provides an overview of significant developments that have affected Taiga's performance during the three months ended June 30, 2016.

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 March 31, 2016.

Additional information relating to the Company including the Company's Annual Information Form dated June 17, 2016 can be found on SEDAR at 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 outcome of litigation or other 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 litigation, 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. 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 2016 to decline compared to calendar year 2015.

Taiga's secondary market, the United States, continues to show signs of recovery from the US housing depression. The Company expects the United States housing market to continue to improve in the 2016 calendar year. See Item 10 "Outlook".

2. Results of Operations

Sales

The Company's consolidated net sales for the quarter ended June 30, 2016 were $325.5 million compared to $404.0 million over the same period last year. The decrease in sales by $78.5 million or 19.4% was largely due to the ceased operations relating to one of the Company's business units.

Sales by segments are as follows; revenue by point of sale:

	Three months ended June 30,			
	2016		2015	
	$000's	%	$000's	%
Canada	288,298	88.6	372,016	92.1
United States	37,168	11.4	31,957	7.9

For the quarter ended June 30, 2016, export sales totalled $65.1 million compared to $68.8 million over the same period last year. 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 62.8% for the quarter ended June 30, 2016 compared to 54.9% over the same period last year. Allied, engineered and treated wood product sales, as a percentage of total sales, was 37.2% for 2016 compared to 45.1% over the same period last year.

Gross Margin

Gross margin for the quarter ended June 30, 2016 decreased to $31.4 million from $34.5 million over the same period last year, representing an increase in gross margin percentage to 9.7% in the quarter compared to 8.5% over the same period last year. The increase in gross margin percentage was primarily due to improved margins in several product lines and higher commodity prices in the current quarter compared to the same quarter last year. The decrease in gross margin dollars of $3.1 million was due primarily to the ceased operations relating to one of the Company's business units.

Expenses

Distribution expense for the quarter ended June 30, 2016 was $5.4 million compared to $5.2 million over the same period last year.

Selling and administration expense for the quarter ended June 30, 2016 decreased to $13.6 million compared to $14.5 million over the same period last year primarily due to lower compensation costs.

Finance expense for the quarter ended June 30, 2016 decreased to $1.3 million compared to $1.6 million over the same period last year. Lower borrowing levels helped to reduce interest costs.

Subordinated debt interest expense was $4.1 million for both quarters ended June 30, 2016 and 2015.

Other income was $0.1 million for both quarters ended June 30, 2016 and 2015.

Net Earnings

Net earnings for the quarter ended June 30, 2016 decreased to $4.8 million from $6.4 million for the same period last year primarily due to decreased gross margin dollars.

EBITDA

EBITDA for the quarter ended June 30, 2016 was $13.5 million compared to $15.9 million for the same period last year.

Reconciliation of net earnings to EBITDA:

	Three Months Ended June 30,	
(in thousands of dollars)	**2016**	**2015**
Net earnings	4,762	6,440
Income tax expense	2,305	2,751
Finance and subordinated debt interest expense	5,406	5,677
Amortization	1,018	1,042
EBITDA	13,491	15,910

3. Cash Flows

Operating Activities

Operating activities provided cash of $4.6 million during the three months ended June 30, 2016 compared to $10.1 million during the same period last year. Changes between the comparative periods were primarily due to changes in non-cash working capital and lower earnings.

Investing Activities

Investing activities used cash of $0.3 million during both periods ended June 30, 2016 and 2015.

Financing Activities

Financing activities used cash of $4.8 million during both periods ended June 30, 2016 and 2015.

4. Summary of Quarterly Results

	Fiscal 2017	Fiscal 2016				Fiscal 2015		
(in thousands of dollars, except per share amount in dollars)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	325,466	279,882	292,476	387,991	403,973	294,321	296,072	383,559
Net earnings (loss)	4,762	715	(53)	4,618	6,440	(566)	408	5,660
Earnings (loss) per share(1)	0.15	(0.02)	0.00	0.14	0.20	(0.02)	0.01	0.17
EBITDA	13,491	8,566	7,656	12,903	15,910	6,703	7,504	13,679

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 first and second quarters and reduced sales in the late fall and winter during its third and fourth quarters of each fiscal year.

5. Liquidity and Capital Resources

Revolving Credit Facility

On November 25, 2013, the Company renewed its senior credit facility with a syndicate of lenders led by JPMorgan Chase Bank (the "Facility"). The Facility was increased from $200 million to $225 million, with an option to increase the limit by up to $50 million. The Facility continues to charge 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 November 25, 2018. 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 June 30, 2016.

Taiga expects to meet its future cash requirements through a combination of cash generated from operations and its credit facilities. However, any severe weakening of the Canadian housing market driving reduced product demand or a significant increase in bad debts in accounts receivable could adversely impact the Company's liquidity in the short term.

Working Capital

Working capital as at June 30, 2016 increased to $94.3 million from $89.5 million as at March 31, 2016 due to a decreased in current liabilities. Taiga believes that current levels are adequate to meet its working capital requirements.

Summary of Financial Position

(in thousands of dollars)	**June 30, 2016**	**June 30, 2015**	**March 31, 2016**
Current Assets	260,924	306,856	261,153
Current Liabilities (excluding Revolving Credit Facility)	(84,822)	(100,011)	(90,305)
Revolving Credit Facility	(81,771)	(122,227)	(81,346)
Working Capital	**94,331**	**84,618**	**89,502**
Long Term Assets	43,346	45,120	44,459
Long Term Liabilities (excluding Subordinated Notes)	(30,817)	(33,783)	(31,670)
Subordinated Notes	(128,834)	(128,834)	(128,834)
Shareholders' Deficiency	**(21,974)**	**(32,879)**	**(26,543)**

Assets

Total assets were $304.3 million as at June 30, 2016 compared to $305.6 million as at March 31, 2016. The decrease was primarily the result of decreased inventories, partially offset by increased accounts receivable.

Accounts receivable increased to $144.0 million as at June 30, 2016 from $135.7 million as at March 31, 2016 primarily due to higher quarterly sales.

Inventories decreased to $115.4 million as at June 30, 2016 compared to $124.1 million as at March 31, 2016 primarily due to seasonal drawdown of products.

Liabilities

Total liabilities decreased to $326.2 million as at June 30, 2016 from $332.2 million as at March 31, 2016. The decrease was primarily the result of decreased accounts payable offset by increased income taxes payable.

Outstanding Share Data

The Company has only one class of shares outstanding, its common shares without par value. On July 28, 2016, there were 32,414,278 common shares outstanding.

Dividend Policy

In accordance with Taiga's dividend policy set on October 15, 2008, the Company generally intends to pay dividends each year on its common shares equal to 25% of the prior fiscal year's net earnings. These dividends would be payable in two instalments of 12.5% on each July 15 (or first business day thereafter) and each January 15 (or first business day thereafter) to the shareholders of record on June 30 and December 31 (or first business day thereafter). The payment of any dividends by the Company is subject to the discretion of its board of directors and subject to its determination of the Company's capital and operational requirements, adequacy of reserves and compliance with contractual and legal requirements.

History of Retained Earnings (Deficit)

The following table shows Taiga's history of net earnings, dividends payouts, the impact of transition to IFRS, and the impact of the Stapled Unit conversion since fiscal year 2006:

(in thousands of dollars)	**June 30, 2016 IFRS**	**FY2016 IFRS**	**FY2015 IFRS**	**FY2014 IFRS**	**FY2013 IFRS**	**FY2012 IFRS**	**FY2011 IFRS**	**FY2006 to FY2010 CGAAP**
Retained earnings (deficit), beginning	(45,800)	(57,520)	(68,600)	(73,676)	(83,180)	(86,904)	(90,590)	88,527
Net earnings	4,762	11,720	11,080	5,076	10,434	3,724	4,001	22,054
Common share dividends	-	-	-	-	(930)	-	(2,995)	(29,837)
Transition to IFRS	-	-	-	-	-	-	2,680	-
Issuance of Subordinated Notes	-	-	-	-	-	-	-	(171,334)
Deficit, ending	(41,038)	(45,800)	(57,520)	(68,600)	(73,676)	(83,180)	(86,904)	(90,590)

6. Commitments and Contingencies

Canada Revenue Agency Proposal Letter

Taiga has received a proposal letter from Canada Revenue Agency (CRA) indicating its intention to reassess for withholding taxes in relation to dividends paid or deemed to have been paid to 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. The proposed reassessment for withholding taxes is up to approximately $23 million, excluding interest and penalties, which amount is in dispute and subject to variation based on submissions to the CRA which have not yet been made. The Company has not received a notice of reassessment from CRA and has not recorded a provision for any amounts related to the potential reassessment.

The Company has formal written agreements with its two major shareholders that fully indemnify it from such potential liability and as a consequence, any such potential liability is not expected to have any impact on the Company's financial condition, results of operations or cash flows. The Company disagrees with CRA's proposal and intends to challenge any potential reassessment and vigorously defend its tax filings. Pursuant to the terms of the indemnities, the shareholders may elect to assume any action or defence of Taiga in connection with the foregoing.

7. Critical Accounting Policies and Estimates

The significant accounting policies of Taiga are described in Note 3 to the Company's audited consolidated financial statements for the fiscal year ended March 31, 2016.

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 March 31, 2016 and there have been no material changes to such policies and estimates since that time.

8. 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 the Management's Discussion and Analysis for the fiscal year ended March 31, 2016.

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 March 31, 2016.

9. 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 June 30, 2016 which materially affected, or are reasonably likely to materially affect the Company's ICFR.

10. 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 second quarter 2016, housing starts are forecasted to range from 172,600 to 183,000 units in the 2017 calendar year. CMHC is reporting that housing starts will range from 181,300 to 192,300 units in the 2016 calendar year.

In the United States, the National Association of Home Builders reported in June 2016 that housing starts are forecasted to total 1,176,000 units in the 2016 calendar year compared to 1,108,000 units in calendar year 2015. NAHB expects housing starts to continue to improve to 1,310,000 in calendar year 2017.

Taiga Building Products Ltd.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three months ended June 30, 2016 and 2015
(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)

(in thousands of Canadian dollars)	**June 30, 2016**	**June 30, 2015**	**March 31, 2016**
Assets			
Current:			
Accounts receivable	$ 144,047	$ 163,203	$ 135,746
Inventories (Note 3)	115,428	142,235	124,090
Prepaid expenses	1,449	1,418	1,317
	260,924	306,856	261,153
Property, plant and equipment	40,667	42,484	41,400
Long-term receivable	666	701	680
Deferred tax assets	2,013	1,935	2,379
	$ 304,270	$ 351,976	$ 305,612
Liabilities and Shareholders' Deficiency			
Current:			
Revolving credit facility (Note 4)	$ 81,771	$ 122,227	$ 81,346
Accounts payable and accrued liabilities	70,570	88,078	77,483
Income taxes payable	11,551	9,133	10,130
Current portion of long-term debt	252	244	253
Current portion of finance lease obligation	2,449	2,556	2,439
	166,593	222,238	171,651
Long-term debt	1,175	1,380	1,245
Finance lease obligation (Note 10)	24,384	26,392	25,024
Deferred gain	3,676	4,059	3,772
Provisions	1,582	1,952	1,629
Subordinated notes (Note 6)	128,834	128,834	128,834
	326,244	384,855	332,155
Shareholders' Deficiency:			
Share capital (Note 7)	13,229	13,229	13,229
Accumulated other comprehensive income (Note 7)	5,835	4,972	6,028
	19,064	18,201	19,257
Deficit	(41,038)	(51,080)	(45,800)
	(21,974)	(32,879)	(26,543)
	$ 304,270	$ 351,976	$ 305,612

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)

(in thousands of Canadian dollars, except per share amounts)	Three months ended June 30, 2016	2015
Sales	$ 325,466	$ 403,973
Cost of sales	294,058	369,498
Gross margin	31,408	34,475
Expenses:		
Distribution	5,431	5,200
Selling and administration	13,619	14,532
Finance (Note 8)	1,319	1,590
Subordinated debt interest (Note 6)	4,087	4,087
Other income	(115)	(125)
	24,341	25,284
Earnings before income tax	7,067	9,191
Income tax expense (Note 5)	2,305	2,751
Net earnings for the period	$ 4,762	$ 6,440
Other comprehensive loss for the period		
(Item that may be reclassified to net earnings)		
Exchange differences on translating foreign controlled entities	$ (193)	$ (399)
Total comprehensive income for the period	$ 4,569	$ 6,041
Basic and diluted net earnings per common share	$ 0.15	$ 0.20
Weighted average number of common shares outstanding	32,414	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' Deficiency (Unaudited)

For the three months ended June 30, 2015

(in thousands of Canadian dollars)	Share Capital	Deficit	Accumulated Other Comprehensive Income	Total
Balance at March 31, 2015	$ 13,229	$ (57,520)	$ 5,371	$ (38,920)
Net earnings	-	6,440	-	6,440
Other comprehensive income	-	-	(399)	(399)
Balance at June 30, 2015	$ 13,229	$ (51,080)	$ 4,972	$ (32,879)

For the three months ended June 30, 2016

(in thousands of Canadian dollars)	Share Capital	Deficit	Accumulated Other Comprehensive Income	Total
Balance at March 31, 2016	$ 13,229	$ (45,800)	$ 6,028	$ (26,543)
Net earnings	-	4,762	-	4,762
Other comprehensive income	-	-	(193)	(193)
Balance at June 30, 2016	$ 13,229	$ (41,038)	$ 5,835	$ (21,974)

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

TAIGA BUILDING PRODUCTS LTD.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in thousands of Canadian dollars)	Three months ended June 30, 2016	2015
Cash provided by (used in):		
Operating:		
Net earnings	$ 4,762	$ 6,440
Adjustments for non-cash items		
Amortization	1,018	1,042
Income tax expense	2,305	2,751
Mark-to-market adjustment on financial instruments	(277)	122
Change in provisions	(47)	(44)
Loss (gain) on asset disposal	(20)	10
Amortization of deferred gain	(96)	(95)
Finance and subordinated debt interest expense	5,406	5,677
Interest paid	(1,245)	(1,515)
Income tax paid	(485)	(181)
Changes in non-cash working capital (Note 11)	(6,681)	(4,149)
Cash flows from operating activities	4,640	10,058
Investing:		
Purchase of property, plant and equipment	(283)	(318)
Proceeds from disposition of property, plant and equipment	19	26
Cash flows used in investing activities	(264)	(292)
Financing:		
Repayment of long-term debt	(63)	(60)
Repayment of obligations under finance leases	(684)	(672)
Subordinated notes interest paid	(4,087)	(4,087)
Cash flows used in financing activities	(4,834)	(4,819)
Effect of changes in foreign currency on Revolving Credit Facility	33	201
Net (increase) decrease in Revolving Credit Facility	(425)	5,148
Revolving Credit Facility, beginning	(81,346)	(127,375)
Revolving Credit Facility, ending	$ (81,771)	$ (122,227)

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 and subordinated notes (the "Notes") 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. Accordingly, they should be read in conjunction with the annual consolidated financial statements for the year ended March 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB. These Financial Statements were authorized for issue on July 28, 2016 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

Revolving credit facility consists of cash on hand less cheques issued and the Company's outstanding revolving credit facility balance. Taiga's cash flow statement reflects the net change in its revolving credit facility. The revolving credit facility forms an integral part of Taiga's cash management and fluctuates directly as a result of cash flows from operating, investing and financing activities.

3. Inventories

(in thousands of dollars)	**June 30, 2016**	**June 30, 2015**	**March 31, 2016**
Allied building products	28,703	39,930	31,547
Lumber products	63,583	78,263	70,019
Panel products	22,614	23,390	21,639
Production consumables	774	775	980
Inventory provision	(246)	(123)	(95)
Total	115,428	142,235	124,090

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

4. Revolving Credit Facility

(in thousands of dollars)	**June 30, 2016**	**June 30, 2015**	**March 31, 2016**
Revolving credit facility	82,490	123,239	82,140
Financing costs, net of amortization	(719)	(1,012)	(794)
Total	81,771	122,227	81,346

On November 25, 2013, the Company renewed its senior credit facility with a syndicate of lenders led by JPMorgan Chase Bank (the “Facility”). The Facility was increased from $200 million to $225 million, with an option to increase the limit by up to $50 million. 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 November 25, 2018. 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 June 30, 2016.

5. Income Taxes

Income tax expense is comprised of:

	Three months ended June 30,	
(in thousands of dollars)	**2016**	**2015**
Current	1,913	5,067
Deferred	392	(2,316)
Total	2,305	2,751

6. Subordinated Notes

Under the terms of a notes indenture dated September 1, 2005 (the “Indenture”) the Company’s Notes are unsecured, bear interest at 14% per annum and mature on September 1, 2020. Interest on the Notes is payable on the 15th day following the end of each month as an annual interest sum divided by twelve. The aggregate principal amount of the Notes that may be issued under the Indenture is unlimited. The terms, conditions, and covenants of the Indenture have been met during the period ended June 30, 2016.

A company that is a significant shareholder holds 35.71% (2015 – 35.71%) of the outstanding Notes at June 30, 2016. An executive of this company is also a member of Taiga’s Board of Directors. A discretionary trust whose beneficiary is a Taiga director indirectly holds 17.20% (2015 - 17.20%) of the outstanding Notes of Taiga at June 30, 2016.

During the three months ended June 30, 2016, the amount of interest incurred for these related parties was $1,188,572 (2015 - $1,188,572) and $775,392 (2015 - 775,392), respectively.

7. Shareholders’ Deficiency

(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.

(b) Common Shares Issued

(in thousands of dollars, except number of shares)	**Number of Shares**	**Amount**
Balance, June 30, 2016, June 30, 2015 and March 31, 2016	32,414,278	13,229

(c) 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.

(d) 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.

(e) Dividends

In accordance with Taiga's dividend policy set on October 15, 2008, the Company generally intends to pay dividends each year on its common shares equal to 25% of the prior fiscal year's net earnings. These dividends would be payable in two instalments of 12.5% on each July 15 (or first business day thereafter) and each January 15 (or first business day thereafter) to the shareholders of record on June 30 and December 31 (or first business day thereafter). The payment of any dividends by the Company is subject to the discretion of its board of directors and subject to its determination of the Company's capital and operational requirements, adequacy of reserves and compliance with contractual and legal requirements.

8. Finance Expense

The finance expense is comprised of:

	Three months ended June 30,	
(in thousands of dollars)	**2016**	**2015**
Interest on revolving credit facility and other short term liabilities	760	998
Interest on finance leases and long-term debt	484	516
Amortization of financing costs	75	76
Total	1,319	1,590

9. Commitments and Contingencies

Canada Revenue Agency Proposal Letter

Taiga has received a proposal letter from Canada Revenue Agency (CRA) indicating its intention to reassess for withholding taxes in relation to dividends paid or deemed to have been paid to 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. The proposed reassessment for withholding taxes is up to approximately $23 million, excluding interest and penalties, which amount is in dispute and subject to variation based on submissions to the CRA which have not yet been made. The Company has not received a notice of reassessment from CRA and has not recorded a provision for any amounts related to the potential reassessment.

The Company has formal written agreements with its two major shareholders that fully indemnify it from such potential liability and as a consequence, any such potential liability is not expected to have any impact on the Company's financial condition, results of operations or cash flows. The Company disagrees with CRA's proposal and intends to challenge any potential reassessment and vigorously defend its tax filings. Pursuant to the terms of the indemnities, the shareholders may elect to assume any action or defence of Taiga in connection with the foregoing.

10. Financial Instruments

Accounting for financial instruments

The following table summarizes the carrying values of the Company's financial instruments:

(in thousands of dollars)	**June 30, 2016**	**March 31, 2016**
Held for trading	(103)	(379)
Loans and receivables	144,713	136,426
Other financial liabilities	(309,332)	(316,245)

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 carrying amount and fair values of finance lease obligations are as follows:

(in thousands of dollars)	**June 30, 2016**	**March 31, 2016**
Carrying amount	26,833	27,463
Fair value	26,700	27,317

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

The carrying amount and fair values of the subordinated notes are as follows:

(in thousands of dollars)	**June 30, 2016**	**March 31, 2016**
Carrying amount	128,834	128,834
Fair value	144,616	140,442

The fair value of the subordinated notes was determined based on closing price of the notes which are traded on the Toronto Stock Exchange.

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:

(in thousands of dollars)	**June 30, 2016**	**March 31, 2016**
Lumber futures	(14)	(270)
Interest swap	(89)	(109)

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.

11. Changes in Non-Cash Working Capital

	Three months ended June 30,	
(in thousands of dollars)	**2016**	**2015**
Increase in Accounts receivable	(8,024)	(28,928)
Decrease in Inventories	8,662	24,272
Increase in Prepaid expenses and other	(29)	(92)
Effect of foreign exchange on working capital	(270)	(514)
(Decrease) increase in Accounts payable and accrued liabilities	(7,020)	1,113
Total	(6,681)	(4,149)

12. Seasonality

The Company 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.

13. Segmented Information

Taiga operates within one business segment and has two reportable geographic areas as follows; revenue by point of sale:

	Three months ended June 30,			
	2016		2015	
(in thousands of dollars except %)	**Sales**	**%**	**Sales**	**%**
Canada	288,298	88.6	372,016	92.1
United States	37,168	11.4	31,957	7.9

During the three months ended June 30, 2016, Taiga's Canadian operations had export sales of $65.1 million (2015 - $68.8 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.