

# Management's Discussion and Analysis

**For the years ended December 31, 2019 and 2018**

*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 February 21, 2020 and should be read in conjunction with the audited consolidated financial statements and the corresponding notes thereto for the years ended December 31, 2019 and 2018. This discussion and analysis provides an overview of significant developments that have affected Taiga's performance during the fiscal year.*

*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.*

*Additional information relating to the Company including the Company's Annual Information Form dated February 21, 2020 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 and one in Washington. In addition, Taiga regularly distributes through the use of third party reload centres. Taiga also owns and operates four 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 2020 to improve compared to calendar year 2019. Taiga's secondary market, the United States, is expected to improve in 2020 compared to calendar year 2019. See Item 12 "Outlook".

### Selected Financial Information

<i>(in millions of dollars, except for share amounts and per share amounts in dollars)</i>	Fiscal Year Ended	Fiscal Year Ended	Fiscal Period Ended <sup>(1)</sup>
	December 31, 2019	December 31, 2018	December 31, 2017
<b>Income Statement Data:</b>			
Sales	1,299	1,451	1,106
Gross Margin	129.5	122.0	98.9
Net Earnings (loss)	25.9	20.3	(4.2)
Net Earnings (loss) per Share (Basic and Fully Diluted) <sup>(2)</sup>	0.23	0.17	(0.09)
Weighted Average Number of Shares Outstanding	114,477,411	116,254,818	46,226,632
EBITDA <sup>(3)(4)</sup>	57.7	42.7	21.3
<b>Balance Sheet Data:</b>			
Working Capital <sup>(5)</sup>	114.0	108.4	96.3
Total Assets	395.0	326.0	270.8
Total Long-Term Financial Liabilities <sup>(6)</sup>	121.4	66.5	35.9

Notes:

- (1) The fiscal year end of the Company was changed from March 31 to December 31 in 2017. Accordingly, the fiscal period financial information was prepared for the 9 month transition year ended December 31, 2017.
- (2) Net earnings per share is calculated using the weighted-average number of shares.
- (3) Reconciliation of net earnings to EBITDA:

<i>(in millions of dollars)</i>	Fiscal Year Ended	Fiscal Year Ended	Fiscal Period Ended	Fiscal Year Ended March 31,	
	December 31, 2019	December 31, 2018	December 31, 2017	2017	2016
Net earnings	25.9	20.3	(4.2)	8.0	11.7
Income tax expense	9.9	8.7	6.6	5.8	7.3
Finance and subordinated debt interest expense	11.0	8.0	15.6	21.9	21.8
Amortization	10.8	5.7	3.3	4.3	4.2
EBITDA <sup>(7)</sup>	57.7	42.7	21.3	40.0	45.0

- (4) There was an \$18.6 million non-cash loss on the settlement of debt due to the Exchange Offer. If this unusual item is excluded for the period ended December 31, 2017 than the EBITDA results would be:

<i>(in millions of dollars)</i>	<b>Fiscal Year ended</b>
	<b>December 31, 2017</b>
Net earnings (adjusted for loss on the settlement of debt)	14.4
Income tax expense	6.6
Finance and subordinated debt interest expense	15.6
Amortization	3.3
Adjusted EBITDA	39.9

- (5) Working capital is the excess of current assets over current liabilities.  
(6) Total long-term financial liabilities are the total liabilities less current liabilities and deferred gain.  
(7) Management estimates that if IFRS 16 were not taken into effect as of January 1, 2019 that EBITDA would have been \$6.7 million lower, or \$51.0 million for the year ended December 31, 2019.

## 2. Results of Operations

### Sales

The Company's consolidated net sales for the year ended December 31, 2019 were \$1,299.1 million compared to \$1,451.0 million for the last fiscal year. The decrease in sales by \$151.9 million or 10% was largely due to decreased selling prices for commodity products; this was offset by the inclusion of Exterior Wood Inc.'s results, which was acquired in July of 2018.

Sales by segments are as follows:

	<b>Years ended December 31,</b>			
	<b>2019</b>		<b>2018</b>	
	<b>\$000's</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>
Canada	1,045,264	80.5	1,229,164	84.7
United States	253,858	19.5	221,821	15.3

For the fiscal year, export sales totalled \$183.0 million compared to \$238.6 million in the previous 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 56.4% for the fiscal year ended December 31, 2019 and 63.4% for 2018. Allied, engineered and treated wood product sales, as a percentage of total sales, was 43.6% for 2019 and 36.6% for 2018.

### Gross Margin

Gross margin for the fiscal year ended December 31, 2019 increased to \$129.5 million from \$122.0 million in the previous year. Gross margin percentage increased to 10.0% in the current year compared to 8.4% in the previous year.

### Expenses

Distribution expense for the fiscal year ended December 31, 2019 increased to \$25.8 million from \$25.5 million last year primarily due to the addition of Exterior Wood's delivery expenses. The increase was offset by the adoption of IFRS 16 and the reclassification of a portion of rent expense to finance expense.

Selling and administration expense for the year ended December 31, 2019 decreased to \$56.9 million compared to \$59.9 million in the previous year.

Finance expense for the year ended December 31, 2019 increased to \$10.2 million compared to \$7.2 million for the last year. The increase was due to the adoption of IFRS 16 as well as more interest expenses on additional long term debt.

Other income for the year ended December 31, 2019 was \$0.2 million compared to \$0.4 million last year.

## Net Earnings

Net earnings for the year ended December 31, 2019 increased to \$25.9 million from \$20.3 million last year primarily due to the foregoing.

## EBITDA

EBITDA for the year ended December 31, 2019 was \$57.7 million compared to \$42.7 million last year.

## 3. Quarter Ended December 31<sup>st</sup> Results

A summary of the results for the three months ended December 31, 2019 and 2018 is as follows:

<i>(in thousands of dollars except per share amount in dollars)</i>	Three months ended December 31,	
	2019	2018
Sales	298,125	303,879
Gross margin	30,592	23,988
Distribution expense	6,223	6,826
Selling and administration expense	14,066	13,234
Finance expense	2,702	2,087
Subordinated debt interest expense	219	219
Other income	(81)	(105)
Earnings (loss) before income tax	7,462	1,727
Income tax expense	1,699	187
Net earnings (loss)	5,763	1,540
Net earnings (loss) per share	0.05	0.01
EBITDA <sup>(1)</sup>	12,874 <sup>(1)</sup>	5,795 <sup>(1)</sup>

Note:

(1) See the reconciliation of net earnings to EBITDA below.

## Sales

The Company's consolidated net sales for the quarter ended December 31, 2019 were \$298.1 million compared to \$303.9 million in the same quarter last year. The decrease in sales by \$5.8 million or 2% was largely due to lower commodity prices.

The Company's sales of dimension lumber and panel, as a percentage of total sales, decreased to 59.5% for the quarter ended December 31, 2019 compared to 60.1% for the same quarter last year. Allied, engineered and treated wood product sales, as a percentage of total sales, increased to 40.5% this quarter from 39.9% during the same quarter last year.

Sales by segments are as follows:

	<b>Revenue by Point of Sale</b>			
	<b>Three months ended December 31,</b>		<b>Three months ended December 31,</b>	
	<b>2019</b>		<b>2018</b>	
	<b>\$000's</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>
Canada	238,728	80.1	244,246	80.3
United States	59,397	19.9	59,633	19.7

During the quarter ended December 31, 2019, Taiga's Canadian operations had export sales of \$48.7 million compared to \$46.8 million in the same quarter 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.

## Gross Margin

Gross margin for the quarter ended December 31, 2019 increased to \$30.6 million from \$24.0 million over the same quarter last year. Gross margin percentage increased to 10.3% in the current quarter compared to 7.9% in the same quarter last year.

## Expenses

Distribution expense for the fourth quarter decreased to \$6.2 million compared to \$6.8 million in the same quarter last year. The decrease was primarily due to a component of lease expense being reclassified to interest expense as a result of the adoption of IFRS 16.

Selling and administration expense for the quarter ended December 31, 2019 increased to \$14.1 million compared to \$13.2 million over the same quarter last year due to increased compensation costs.

Finance expense for the quarter ended December 31, 2019 increased to \$2.7 million compared to \$2.1 million for the same quarter last year.

Other income for the year ended December 31, 2019 was \$0.08 million compared to \$0.1 million last year.

## Net Earnings

Net earnings for the quarter ended December 31, 2019 increased to \$5.8 million from \$1.5 million last year primarily due to the foregoing.

## EBITDA

EBITDA for the quarter ended December 31, 2019 was \$12.9 million compared to \$5.8 million for the same quarter last year.

Reconciliation of net earnings to EBITDA:

<i>(in thousands of dollars)</i>	<b>Three months ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Net earnings	5,763	1,540
Income tax expense	1,699	187
Finance and subordinated debt interest expense	2,921	2,306
Amortization	2,491	1,762
EBITDA <sup>(1)</sup>	12,874	5,795

Note:

- (1) Management estimates that if IFRS 16 were not taken into effect as of January 1, 2019 that EBITDA would have been \$1.7 million lower, or \$11.2 million for the quarter ended December 31, 2019.

## 4. Summary of Quarterly Results

<i>(in thousands of dollars, except per share amount in dollars)</i>	Year ended December 31, 2019				Year ended December 31, 2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	298,125	358,875	354,723	287,399	303,879	399,634	422,875	324,597
Net earnings	5,763	8,373	7,071	4,697	1,540	5,579	6,358	6,790
Net earnings per share <sup>(1)</sup>	0.05	0.07	0.06	0.04	0.01	0.05	0.05	0.06
EBITDA	12,874	17,272	16,412	11,116	5,795	9,228	16,128	11,519

Note:

- (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.

## 5. Liquidity and Capital Resources

### Revolving Credit Facility

On June 28, 2019, 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 5 of the Notes to the Audited 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 December 31, 2019.

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 December 31, 2019 increased to \$114.0 million from \$108.4 million as at December 31, 2018 due to increased assets. Taiga believes that current levels are adequate to meet its working capital requirements.

## Summary of Financial Position

<i>(in thousands of dollars)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Current Assets	245,407	246,923
Current Liabilities (excluding Revolving Credit Facility)	(90,411)	(73,942)
Revolving Credit Facility	(40,968)	(64,551)
<b>Working Capital</b>	<b>114,028</b>	<b>108,430</b>
Long Term Assets	149,615	79,078
Long Term Liabilities (excluding Subordinated Notes)	(111,459)	(56,702)
Subordinated Notes	(12,500)	(12,500)
<b>Shareholders' Equity</b>	<b>139,684</b>	<b>118,306</b>

### Assets

Total assets were \$395.0 million as at December 31, 2019 compared to \$326.0 million as at December 31, 2018. The increase was primarily the result of increased inventories and property plant and equipment offset by decreased accounts receivable. The overall increase in assets was primarily the result of the adoption of IFRS 16.

Inventories increased to \$157.3 million as at December 31, 2019 compared to \$149.5 million as at December 31, 2018 primarily due to greater inventories on hand.

Property, plant and equipment increased to \$123.4 million as at December 31, 2019 compared to \$50.3 million as at December 31, 2018 primarily due to adoption of IFRS 16

### Liabilities

Total liabilities increased to \$255.3 million as at December 31, 2019 from \$207.7 million as at December 31, 2018. The increase was primarily the result of increased lease obligation primarily due to adoption of IFRS 16

### Contractual Obligations

<i>(in thousands of dollars)</i>	<b>Right-of-use leases</b>	<b>Operating leases<sup>(1)</sup></b>
No later than one year	9,299	294
Later than one year, but not later than five years	32,594	219
Later than five years	114,980	6

Note:

(1) The operating leases relate to leases with a lease term of less than 12 months and low value assets.

### Outstanding Share Data

The Company has only one class of shares outstanding, its common shares without par value. On February 21st, 2020, there were 111,520,583 common shares issued and outstanding.

On August 8, 2019, 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 5,778,181 of its 115,563,638 outstanding Common Shares, representing 5% of the outstanding Common Shares. For the year ended December 31, 2019, the Company purchased 4,043,055 of its Common shares for cash payments of \$4,153,903. These Common Shares purchased

by the Company have been cancelled. At December 31, 2019 there were 1,735,126 remaining Common Shares permitted to be purchased by the Company per the terms of the NCIB.

## 6. Commitments and Contingencies

### (a) Contractual Commitments

The Company has obligations under various operating leases for occupied premises and equipment. For further discussion, refer to Note 21 to the Audited Consolidated Financial Statements for the Year ended December 31, 2019.

## 7. Risks and Uncertainties

The results of operations, business prospects and financial conditions of Taiga are subject to a number of risks and uncertainties, and are affected by a number of factors outside Taiga's control. Any of these risks and uncertainties could have a material adverse effect on the Company's operations, financial conditions and cash flow and, accordingly, should be carefully considered in evaluating Taiga's business. A comprehensive discussion of risk factors is included in Taiga's Annual Information Form dated February 21, 2020, available on SEDAR at [www.sedar.com](http://www.sedar.com).

## 8. Critical Accounting Policies and Estimates, and Future Accounting Changes

The significant accounting policies of Taiga are described in Note 3 to the Consolidated Financial Statements for the year ended December 31, 2019.

In preparing these consolidated financial statements, Taiga's management was required to make estimates and assumptions that affect the amounts recorded. Financial results as determined by actual events could differ from such estimates. The estimates and assumptions of the Company's management are based on historical experience and other factors management considers to be reasonable, including expectations of future events. The estimates and assumptions that could result in a material impact to the carrying amounts of assets and liabilities are outlined below.

### **Allowance for Doubtful Accounts**

While significant bad debts have not been experienced in prior years the provision is based on the Company's knowledge of the financial condition of its customers, the aging of the receivables, the current business environment and historical experience. A change in one or more of these factors could impact the estimated allowance and provision for bad debts. Taiga's allowance for doubtful accounts as at December 31, 2019 was \$1.0 million (2018 – \$2.7 million).

### **Valuation of Inventories**

Inventories are valued at the lower of average cost and net realizable value. Taiga evaluates inventory balances at each balance sheet date and records a provision as necessary for slow moving or obsolete inventory. Additionally, Taiga records a provision if the cost of inventories exceeds net realizable value based on commodity prices. Inventory provision as at December 31, 2019 was \$0.2 million (2018 – \$0.8 million).

### **Valuation and Estimated Life of Long-Lived Assets**

An impairment test is performed by comparing the carrying amount of the asset or its cash generating unit to the recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs to

sell and its value in use. Value in use is calculated based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates and future growth rates.

The estimated useful lives and recoverable amounts of long-lived assets are based on the judgment of management and the best currently available information. Changes in circumstances can result in the actual useful lives differing from management's estimates.

## **Customer Rebates**

Customer rebates are commonly offered as industry practice and are generally based on achievement of specified volume sales levels. Taiga accrues for the payment of customer rebates as a reduction of revenue based on management's estimates.

## **Valuation of Warranty Provisions**

A provision for future potential warranty costs is calculated using historical trends and future expectations of future claims. Adjustments to the warranty provision are included in cost of sales. Actual future warranty costs may differ from those estimates.

## **Current and Deferred Taxes**

The Company calculates current and deferred tax provisions for each of the jurisdictions in which it operates. Actual amounts of income tax expense are not final until tax returns are filed and accepted by the relevant authorities. This occurs subsequent to the issuance of financial statements. Therefore, results in subsequent periods will be affected by the amount that estimates differ from the final tax return.

Judgment is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet. Taiga also evaluates the recoverability of deferred tax assets based on an assessment of the likelihood of using the underlying future tax deductions against future taxable income before they expire. Deferred tax liabilities arising from temporary differences on investments in subsidiaries, joint ventures and associates are recognized unless the reversal of the temporary differences is not expected to occur in the foreseeable future and can be controlled. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future sales volumes and housing starts, commodity prices, operating costs, capital expenditures, dividends and other capital transactions. Judgment is also required about the application of income tax legislation. These estimates and judgments are subject to risk and uncertainty, which could result in an adjustment to the deferred tax provision and a corresponding credit or charge to income.

## **Goodwill**

Management uses judgment in determining the fair value of the acquired net identifiable tangible and intangible assets at the date of a business combination. Any resulting goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill at December 31, 2019 relates to the Company's acquisition of Exterior Wood, Inc. Goodwill is not amortized, but is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. Goodwill impairment is assessed based on a comparison of the recoverable amount of a cash-generating unit to the underlying carrying value of that cash-generating unit's net assets, including goodwill. Significant estimates are required in determining the recoverable amount of each cash-generating unit, including a discount rate, a growth rate and revenue projections. When the carrying amount of the cash-generating unit exceeds its recoverable amount, the higher of the fair value less cost of disposal and the value-in-use related to the cash-generating unit is compared to its carrying value and excess of carrying value is recognized as an impairment loss (Note 10).

## Accounting Changes

### IFRS 16

In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the lessee and the lessor. Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach under which the cumulative effect of initial application was recognized in retained earnings at January 1, 2019. The impact of this change in accounting policy is noted below.

For contracts entered into before January 1, 2019, the Company determined whether the arrangement contained a lease under IAS 17 and IFRIC 4. Prior to the adoption of IFRS 16, these leases were classified as operating or finance leases based on an assessment of whether the lease transferred significantly all the risks and rewards of ownership of the underlying asset. The Company leases warehouse locations, office space, land, equipment, and trucks.

On transition, the Company elected to apply the practical expedient to grandfather the determination of which contract was or contained a lease and applied IFRS 16 to those contracts that were previously identified as leases. Upon transition to the new standard, lease liabilities were measured at the present value of the remaining lease payments discounted by the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets and lease liabilities were recognized on the statement of financial position with the cumulative difference recognized in retained earnings.

For contracts entered into subsequent to January 1, 2019 at inception of the contract, the Company assessed whether a contract was, or contained, a lease by evaluating if the contract conveyed the right to control the use of an identified asset. For contracts that contained a lease, the Company recognized a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset was initially measured at cost, which comprised the initial amount of the lease liability adjusted by any initial direct costs, and costs to dismantle and remove the underlying asset less any lease incentives. The right-of-use asset was subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term. Per IFRS 16, right-of-use assets were tested for impairment in accordance with IAS 36 Impairment of assets. This replaced the previous requirement to recognize a provision for onerous lease contracts.

The lease liability was initially measured at the present value of lease payments to be paid subsequent to the commencement date of the lease, discounted either at the interest rate implicit in the lease or the Company's incremental borrowing rate. The lease payments measured in the initial lease liability included payments for an optional renewal period, if any, if the Company was reasonably certain that it will exercise a renewal extension option. The liability was measured at amortized cost using the effective interest method and remeasured when there was a change in either the future lease payments or assessment of whether an extension or other option will be exercised. The lease liability was subsequently adjusted for interest and lease payments. Interest expenses were included in the consolidated statement of earnings.

The Company elected not to recognize right-of-use assets and lease liabilities for leases with a lease term of less than 12 months and low value assets and continues to recognize the lease payments associated with these leases as an expense on a straight-line basis over the lease term, as permitted by IFRS 16.

## 9. Related Party Transactions

In accordance with IFRS requirements, related party transactions consist of remuneration of directors and other key management personnel with whom Taiga has entered into employment agreements. Further information is contained in our most recent Management Information Circular available on SEDAR at [www.sedar.com](http://www.sedar.com) and Note 26 to the Company's audited consolidated financial statements for the year ended December 31, 2019. The remuneration for key management, which includes the Company's directors and officers, were as follows:

<i>(in thousands of dollars)</i>	Year ended December 31, 2019	Year ended December 31, 2018
Salaries and other benefits	1,935	3,796

An amount of \$1,103,696 is included in accounts payable and accrued liabilities relating to bonuses to key management.

## 10. 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 a detailed description of financial instruments and their associated risks, see Note 23 to the Company's audited consolidated financial statements for the year ended December 31, 2019.

## 11. 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 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS.

In accordance with the requirements of National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, Taiga's management, including the Chief Executive Officer and Chief Financial Officer, evaluated the Company's disclosure controls and procedures and internal controls over financial reporting. Based on the evaluation, Taiga's CEO and CFO concluded that these controls were effective for the Year ended December 31, 2019.

The CEO and CFO of Taiga acknowledge responsibility for the design of internal controls over financial reporting and confirm that there were no changes in these controls that occurred during the year ended December 31, 2019 which materially affected, or are reasonably likely to materially affect the Company's ICFR.

## 12. 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 Fall 2019, housing starts are forecasted to range from 194,000 to 204,300 units in the 2020 calendar year. CMHC is reporting that housing starts will stabilize by the end of 2020 compared to 2019.

In the United States, the National Association of Home Builders reported in January 2020 that housing starts are forecasted to total 1,303,000 units in the 2020 calendar year compared to 1,266,000 units in calendar year 2019.

# **Taiga Building Products Ltd.**

Consolidated Financial Statements

For the years ended December 31, 2019 and 2018  
(in Canadian dollars)



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Taiga Building Products Ltd.

### Opinion

We have audited the consolidated financial statements of Taiga Building Products Ltd. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of earnings and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter – Comparative Information

We draw attention to Note 3 in the financial statements which describes that the Company adopted IFRS 16 *Leases* with a transition date of January 1, 2019. This standard was applied by management using the modified retrospective approach. Accordingly, the comparative figures for the year ended December 31, 2018 have not been restated and continue to be reported under IAS 17 *Leases*. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Matthew Gosden.

*DMCL*

**DALE MATHESON CARR-HILTON LABONTE LLP**  
**CHARTERED PROFESSIONAL ACCOUNTANTS**

Vancouver, BC

February 20, 2020



An independent firm  
associated with Moore  
Global Network Limited

# TAIGA BUILDING PRODUCTS LTD.

## Consolidated Balance Sheets

<i>(in thousands of Canadian dollars)</i>	December 31, 2019	December 31, 2018
<b>Assets</b>		
<b>Current:</b>		
Accounts receivable (Note 6)	\$ 85,334	\$ 94,514
Inventories (Note 7)	157,259	149,485
Prepaid expenses	2,814	2,924
	<u>245,407</u>	<u>246,923</u>
Property, plant and equipment (Note 8)	123,431	50,326
Intangible Assets (Note 9)	15,836	17,813
Goodwill (Note 10)	10,158	10,669
Deferred tax assets (Note 14)	190	270
	<u>\$ 395,022</u>	<u>\$ 326,001</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current:</b>		
Revolving credit facility (Note 11)	\$ 40,968	\$ 64,551
Accounts payable and accrued liabilities (Note 13)	64,650	59,374
Income taxes payable	13,977	4,352
Current portion of long-term debt (Note 12)	7,353	7,723
Current portion of lease obligations (Note 15)	4,431	2,493
	<u>131,379</u>	<u>138,493</u>
Long-term debt (Note 12)	10,524	21,079
Lease obligations (Note 15)	92,036	20,446
Deferred gain	2,600	2,719
Deferred tax liabilities (Note 14)	5,727	11,790
Provisions (Note 16)	572	668
Subordinated notes (Note 17)	12,500	12,500
	<u>255,338</u>	<u>207,695</u>
<b>Shareholders' Equity:</b>		
Share capital (Note 18)	127,278	131,432
Accumulated other comprehensive income (Note 18)	5,522	8,603
Retained Earnings (deficit)	6,884	(21,729)
	<u>139,684</u>	<u>118,306</u>
	<u>\$ 395,022</u>	<u>\$ 326,001</u>

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

Approved by the Directors

/s/ Ian Tong

Chairman

/s/ Brian Flagel

Director

# TAIGA BUILDING PRODUCTS LTD.

## Consolidated Statements of Earnings and Comprehensive Income

<i>(in thousands of Canadian dollars, except per share amounts)</i>	For the year ended	
	2019	2018
	December 31,	
<b>Sales</b>	\$ 1,299,122	\$ 1,450,985
<b>Cost of sales (Note 19)</b>	1,169,666	1,328,954
<b>Gross margin</b>	129,456	122,031
Expenses:		
Distribution (Note 19)	25,835	25,538
Selling and administration (Note 19)	56,940	59,892
Finance (Note 20)	10,157	7,193
Subordinated debt interest (Note 17)	875	837
Other income	(202)	(401)
	93,605	93,059
<b>Earnings before income tax</b>	35,851	28,972
Income tax expense (Note 14)	9,946	8,705
<b>Net earnings for the year</b>	\$ 25,905	\$ 20,267
<b>Other comprehensive income (loss)</b>		
Exchange differences on translating foreign controlled entities	\$ (3,081)	\$ 3,859
<b>Total comprehensive income for the year</b>	\$ 22,824	\$ 24,126
Basic and diluted net earnings per common share	\$ 0.23	\$ 0.17
Weighted average number of common shares outstanding	114,477	116,255

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

# TAIGA BUILDING PRODUCTS LTD.

## Consolidated Statements of Changes in Shareholders' Equity

### For the year ended December 31, 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	-	20,267	-	20,267
Shares purchased under the NCIB and cancelled (Note 18)	(1,658)	-	-	(1,658)
Other comprehensive income	-	-	3,859	3,859
<b>Balance at December 31, 2018</b>	<b>\$ 131,432</b>	<b>\$ (21,729)</b>	<b>\$ 8,603</b>	<b>\$ 118,306</b>

### For the year ended December 31, 2019

<i>(in thousands of Canadian dollars)</i>	Share Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
<b>Balance at December 31, 2018</b>	\$ 131,432	\$ (21,729)	\$ 8,603	\$ 118,306
Net earnings	-	25,905	-	25,905
IFRS 16 adoption adjustment (Note 3)	-	2,708	-	2,708
Shares purchased under the NCIB and cancelled (Note 18)	(4,154)	-	-	(4,154)
Other comprehensive loss	-	-	(3,081)	(3,081)
<b>Balance at December 31, 2019</b>	<b>\$ 127,278</b>	<b>\$ 6,884</b>	<b>\$ 5,522</b>	<b>\$ 139,684</b>

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

# TAIGA BUILDING PRODUCTS LTD.

## Consolidated Statements of Cash Flows

<i>(in thousands of Canadian dollars)</i>	For the years ended	
	2019	2018
<b>Cash provided by (used in):</b>		
<b>Operating:</b>		
Net earnings	\$ 25,905	\$ 20,267
Adjustments for non-cash items		
Amortization	10,791	5,668
Income tax expense	9,946	8,705
Mark-to-market adjustment on financial instruments	188	(91)
Change in provisions	(96)	(119)
Loss (Gain) on asset disposal	1	(14)
Amortization of deferred gain	(119)	(383)
Finance and subordinated debt interest expense	11,032	8,030
Interest paid	(9,306)	(6,543)
Income tax paid	(6,351)	(3,168)
Changes in non-cash working capital (Note 24)	233	1,911
<b>Cash flows from operating activities</b>	<b>42,224</b>	<b>34,263</b>
<b>Investing:</b>		
Purchase of property, plant and equipment	(1,840)	(4,430)
Proceeds from disposition of property, plant and equipment	175	69
Acquisition of Exterior Wood, net of cash received	-	(53,445)
<b>Cash flows used in investing activities</b>	<b>(1,665)</b>	<b>(57,806)</b>
<b>Financing:</b>		
Increase (Decrease) in revolving credit facility	(21,135)	1,726
Advance (Repayment) of long-term debt	(9,750)	26,731
Repayment of lease obligations	(4,645)	(2,381)
Subordinated notes interest paid	(875)	(875)
Repurchase of common shares	(4,154)	(1,658)
<b>Cash flows from (used in) financing activities</b>	<b>(40,559)</b>	<b>23,543</b>
<b>Cash and cash equivalents - end of year</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 20<sup>th</sup> floor, 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8.

## 2. Basis of Preparation

### (a) Statement of Compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements were authorized for issue on February 20, 2020 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.

## 3. Significant Accounting Policies

### (a) Inventories

Inventories consist of allied building products, lumber products, panel products and production consumables. Inventories include other costs, such as transportation and processing that are directly incurred to bring the inventories to their present location and condition. The cost of treated wood includes the cost of lumber, direct labour and an allocation of fixed and variable overhead expenses. Inventories are stated at the lower of average cost and net realizable value, except for production consumables which are recorded at the lower of cost and replacement cost which approximates net realizable value.

### (b) Property, Plant and Equipment

The following assets are recorded at cost and amortization is provided using the following methods and annual rates:

#### Declining Balance Method

Buildings	4% - 10%
Furniture and office equipment	8% - 30%
Warehouse equipment	10% - 30%

#### Straight-line Method

Leasehold improvements	Over term of lease
Treating equipment	20 - 25 Years
Computer system and license	3 - 10 Years

## Taiga Building Products Ltd.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018 (in Canadian dollars)

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The carrying values of the buildings and equipment are reviewed for indicators of impairment on a regular basis by reference to their estimated recoverable amount. Assets that are not yet available for use are not being amortized.

(c) Deferred Gain

The deferred gain relates to proceeds in excess of the net book value of certain buildings sold in the sale and leaseback transactions completed during the years ended March 31, 2014 and 2006. The deferred gain is amortized over the lease terms of the buildings, which were being accounted for as finance leases. Amortization is included in other income.

(d) Business Combinations and Goodwill

Business combinations are accounted for by applying the acquisition method, whereby assets obtained, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquired business are measured at fair value at the date of acquisition. The acquired business' identifiable assets, liabilities and contingent liabilities that meet the recognition criteria under IFRS 3, Business Combinations are recognized at their fair values at the acquisition date, except for deferred tax assets and liabilities which are measured in accordance with IAS 12, Income Taxes, and non-current assets which are classified as held-for-sale in accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, and are recognized and measured at fair value, less costs to sell. To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, goodwill is recognized. To the extent the fair value of consideration paid is less than the fair value of net identifiable tangible and intangible assets, the difference is recognized in income immediately as a gain on bargain purchase. Goodwill is subsequently measured at cost less accumulated impairment losses. Acquisition costs associated with business combination activities are expensed in the period incurred.

(e) Intangible assets

All intangible assets acquired by the Company through business acquisitions are recorded at fair value on the date of acquisition. Intangible assets that have indefinite lives are measured at cost less accumulated impairment losses. Intangible assets that have finite useful lives are subsequently measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets are comprised of brand recognition and customer relationships, which are amortized on a straight-line basis over 15 years. Amortization rates are reviewed annually to ensure they are aligned with estimates of the remaining economic useful lives of the associated intangible assets.

(f) Income Taxes

*Current income tax:*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the relevant taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the jurisdictions where the Company operates and generates taxable income. Current income taxes relating to items recognized directly in other comprehensive income or equity are recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

*Deferred income tax:*

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or

part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(g) Foreign Currency Translation

The functional currency of each of the Company's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the parent company's functional currency. The functional currency of controlled entities that have operations in the United States is the United States dollar.

*Transactions and balances:*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of earnings and comprehensive income in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of earnings and comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

The financial position and results of foreign operations whose functional currency is different from the Company's presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at the reporting date; and
- income and expenses are translated at monthly average exchange rates for the period.

Exchange differences arising on translation of foreign operations are recorded in accumulated other comprehensive income in the statement of earnings and comprehensive income. These differences are recognized in profit or loss in the period in which the operation is disposed.

(h) Earnings Per Share

Earnings per share is calculated using the weighted-average number of shares outstanding for the period. The weighted-average number of common shares is determined by reference to the portion of time during the reporting period that the shares have been outstanding to the total time in the period.

Diluted earnings per share is calculated based on the weighted-average number of common shares outstanding during the period including, if applicable, the effects of potentially dilutive common share equivalents. Taiga's basic and diluted earnings per share are equal as Taiga has no potentially dilutive instruments.

(i) Accounting for Certain Consideration Received from a Vendor

Consideration received from a vendor, that represents a reduction in the purchase price, is recorded as a reduction in cost of sales.

(j) Impairment of Assets

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset, or its cash generating unit, is estimated in order to determine the extent of impairment. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of earnings and comprehensive income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Reversals cannot increase the carrying value of an asset to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. An impairment loss for goodwill is ever reversed.

(k) Provisions

Provisions are recognized when a present legal or constructive obligation exists, as a result of past events, and it is probable that an outflow of resources, that can be reliably estimated, will be required to settle the obligation. Where the effect is material, the provision is discounted using an appropriate current market-based pre-tax discount rate.

(l) Financial Instruments

(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 following table shows the classification of the Company's financial instruments under IFRS 9:

<b>Financial assets/liabilities</b>	<b>Classification</b>
Revolving credit facility	Amortized cost
Accounts receivable	Amortized cost
Lumber futures	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Subordinated notes	Amortized cost

(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 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.

(m) Revenue Recognition

The Company follows the requirements of IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) as follows:

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.

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.

(n) Changes in Accounting Policies – Leases

Effective January 1, 2019, the Company adopted IFRS 16, Leases, which specifies how to recognize, measure, present and disclose leases. The standard introduces a single lessee accounting model and requires a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company's accounting policy under IFRS 16 is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, and estimate of costs to dismantle and remove or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use assets are subsequently amortized from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term using the straight-line method. The lease term includes consideration of an option to renew or to terminate if the Company is reasonably certain to exercise that option. Lease terms, including options to renew for which the Company is reasonably certain to exercise, range from 1 to 25 years for facilities, automotive equipment and other equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising mainly from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, renewal or termination option due to a significant event or change in circumstances.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Under IAS 17, Leases ("IAS 17"), the Company's accounting policy was as follows:

The determination of whether an arrangement was (or contained) a lease was based on the substance of the arrangement at the inception of the lease. The arrangement was, or contained, a lease if fulfilment of the arrangement was dependent on the use of a specific asset and the arrangement conveyed a right to use the

asset, even if that asset was not explicitly specified in an arrangement. A lease was classified at the inception date as a finance lease or an operating lease. A lease that transferred substantially all the risks and rewards incidental to ownership to the Company was classified as a finance lease.

Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges were recognized in net finance expenses (income) in net loss. A leased asset was depreciated over the term of the lease.

An operating lease was a lease other than a finance lease. Operating lease payments were recognized in net loss on a straight-line basis over the lease term. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

#### Impact of transition to IFRS 16

Effective January 1, 2019 the Company adopted IFRS 16 using the modified retrospective approach. Accordingly, comparative figures as at and for the year ended December 31, 2018 have not been restated and continue to be reported under IAS 17 and IFRIC 4, determining whether an arrangement contains a lease ("IFRIC 4").

On initial application for leases previously classified as operating leases under IAS 17, the Company has elected to record right-of-use assets based on the corresponding lease liability, adjusted for any deferred lease inducements and any lease payments made at or before the commencement date that were recorded in other non-current liabilities and other current assets and other assets, on the statement of financial position as at December 31, 2018. For moveable equipment leases previously classified as finance leases under IAS 17, the Company measured the right-of-use asset and lease liability as previously accounted for without adjustment.

For recording new right-of-use assets under IFRS 16, the Company discounted future lease payments using its incremental borrowing rate as at January 1, 2019. The rates applied were 5.1% for Canadian land and buildings, 5.6% for American land and buildings and 4.8% for moveable equipment.

The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019. The Company has also elected to apply the practical expedient on facility leases, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Under IAS 17, the Company's had previously accounted for the building component of certain warehouse leases as finance leases and the land component as operating leases. On adoption, the Company derecognized the amounts previously recognized as leased assets (\$17.2 million) and finance lease obligations (\$20.9 million) with the difference of \$3.7 million being credited to deficit as a result of the adoption of IFRS 16, offset by an increase in deferred tax liabilities of \$1.0 million. New right-of-use assets were recorded for the entire single lease component of each warehouse location leased by the Company, resulting in the recognition of new right-of-use assets along with a corresponding lease liability. The increase was due to adopting the policy of recognizing the lease as a single component along with including renewal terms determined by management to be reasonably certain to be exercised.

On the December 31, 2018 audited consolidated financial statements, the Company disclosed operating lease commitments of \$27.1 million. Of these operating lease commitments, \$1.8 million did not meet the requirements to be recognized as right-of-use assets. However, the lease liability recognized on the adoption of IFRS 16 was significantly higher than this amount as the Company determined that renewal options of between 2 and 10 years were reasonably certain to be exercised on several warehouse leases. These

renewal options had not been included in the minimum operating lease commitments that had been previously disclosed.

<i>(in thousands of dollars)</i>	<b>January 1, 2019</b>
Minimum operating lease commitment at December 31, 2018	27,104
Short-term leases not recognized under IFRS 16	(1,800)
Effect of extension options reasonably certain to be exercised	94,506
Undiscounted lease payments	119,810
Effect of discounting using the increment borrowing rate as at the date of initial application	(43,635)
Lease liabilities for leases classified as operating under IAS 17	76,175
Leases previously classified as finance leases under IAS 17	22,939
<b>Total lease liability as at January 1, 2019</b>	<b>99,114</b>

The recognized right-of-use assets relate to the following types of assets which are included under property, plant and equipment on the statement of financial position:

<i>(in thousands of dollars)</i>	<b>December 31, 2019</b>	<b>January 1, 2019</b>
Buildings	90,571	95,878
Warehouse and treating equipment	3,708	2,558
<b>Total</b>	<b>94,279</b>	<b>98,436</b>

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

- property, plant and equipment – decreased by \$17.2 million;
- right-of-use assets – increased by \$98.4 million;
- deferred tax liabilities – increased by \$1.0 million; and
- lease liabilities – increased by \$76.2 million.

The net impact to deficit on January 1, 2019 was a credit of \$2.7 million.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

## 4. Critical Accounting Estimates, Assumptions and Judgements

### (a) Significant Estimates and Assumptions

In preparing these consolidated financial statements, the Company makes estimates and assumptions concerning the future that affect the amounts recorded. Actual results could differ from these estimates. Estimates and assumptions are based on historical experience, expectations of future events and other factors considered by management to be reasonable. The estimates and assumptions that could result in a material impact to the carrying amounts of assets and liabilities are outlined below.

*Allowance for doubtful accounts:*

While significant bad debts have not been experienced in prior years the allowance is based on the Company's knowledge of the financial condition of its customers, the aging of the receivables, the current business environment and historical experience. A change in one or more of these factors could impact the estimated allowance for bad debts.

*Valuation of inventories:*

Inventories are valued at the lower of average cost and net realizable value. Taiga evaluates inventory balances at each balance sheet date and records an allowance as necessary for slow moving or obsolete inventory. Additionally, Taiga records an allowance if the cost of inventories exceeds net realizable value based on commodity prices.

*Valuation and estimated life of long-lived assets:*

An impairment test is performed by comparing the carrying amount of the asset or its cash generating unit to the recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Value in use is calculated based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates and future growth rates. The Company performs an impairment test at least annually for goodwill and for other assets if indicators exist

The estimated useful lives and recoverable amounts of long-lived assets are based on judgement and the best currently available information. Changes in circumstances can result in the actual useful lives differing from the current estimates.

*Customer rebates:*

Customer rebates are commonly offered as industry practice and are generally based on achievement of specified volume sales levels. Taiga accrues for the payment of customer rebates as a reduction of revenue based on management's estimates.

*Valuation of warranty provisions:*

A provision for future potential warranty costs is calculated using historical trends and future expectations of future claims. Adjustments to the warranty provision are included in cost of sales. Actual future warranty costs may differ from those estimates.

*Current and deferred taxes:*

The Company calculates current and deferred tax provisions for each of the jurisdictions in which it operates. Actual amounts of income tax expense are not final until tax returns are filed and accepted by the relevant authorities and ultimately until they are statute barred from reassessment. This occurs subsequent to the issuance of financial statements. Therefore, results in subsequent periods will be affected by the amount that estimates differ from the final tax filings, resolution of uncertain tax positions, open years or tax disputes that may arise.

The Company must make estimates and assumptions when assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet. Taiga also evaluates the recoverability of deferred tax assets based on an assessment of the likelihood of using the underlying future tax deductions against future taxable income before they expire. Deferred tax liabilities arising from temporary differences on investments in subsidiaries are recognized unless the reversal of the temporary differences is not expected to occur in the foreseeable future and can be controlled. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future sales volumes and housing starts, commodity prices, operating costs, capital expenditures, dividends and other capital

transactions. These estimates and judgments are subject to risk and uncertainty and could result in an adjustment to the deferred tax provision and a corresponding credit or charge to income.

*Goodwill:*

Management uses judgment in determining the fair value of the acquired net identifiable tangible and intangible assets at the date of a business combination. Any resulting goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill at December 31, 2019 relates to the Company's acquisition of Exterior Wood, Inc. Goodwill is not amortized, but is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. Goodwill impairment is assessed based on a comparison of the recoverable amount of a cash-generating unit to the underlying carrying value of that cash-generating unit's net assets, including goodwill. Significant estimates are required in determining the recoverable amount of each cash-generating unit, including a discount rate, a growth rate and revenue projections. When the carrying amount of the cash-generating unit exceeds its recoverable amount, the higher of the fair value less cost of disposal and the value-in-use related to the cash-generating unit is compared to its carrying value and excess of carrying value is recognized as an impairment loss (Note 10).

(b) Significant Judgements in Applying Accounting Policies

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's consolidated financial statements include:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the determination if the Company is reasonably certain to exercise its renewal options on its leases
- the determination of the functional currency of the parent company and its controlled entities;
- the identification of cash generating units for the purpose of performing impairment tests of goodwill; and
- the assessment of continually changing tax interpretations, regulations and legislation, to ensure that deferred income tax assets and liabilities are complete and fairly stated.

## 5. 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 \$56,355,000 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>Notes</b>	
<b>Fair value of purchase consideration</b>		
Cash		56,355
<hr/>		
Consideration		56,355
<hr/>		
<b>Fair value of assets acquired and liabilities assumed</b>		
Current assets		34,066
Current liabilities		(10,113)
Property, plant and equipment	8	7,769
Construction in progress	8	3,123
Intangible assets (customer relationships and brand)	9	17,671
Deferred tax liabilities	14	(6,528)
<hr/>		
Total identifiable net assets		46,656
Goodwill	10	10,367
<hr/>		
Consideration		56,355

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 the brand of Exterior Wood.

From the date of the Acquisition, the acquired business contributed \$35.7 million of revenue and a net loss of \$1.8 million. If the Acquisition had taken place at the beginning of the year, unaudited consolidated revenue for the year ended December 31, 2018 would have been \$1,513 million and unaudited net earnings of the Company would have been \$25.3 million. During the year ended December 31, 2018, directly attributable acquisition-related costs of approximately \$0.8 million have been expensed and are included in selling and administration expenses.

## 6. Accounts Receivable

<i>(in thousands of dollars)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Current	83,131	91,340
Past due over 60 days	756	2,259
Trade accounts receivable	83,887	93,599
Other receivables	2,473	3,599
Allowance for doubtful accounts	(1,026)	(2,684)
Total	85,334	94,514

All of the Company's trade accounts receivables are pledged as security for the revolving credit facility.

## 7. Inventories

<i>(in thousands of dollars)</i>	December 31, 2019	December 31, 2018
Allied building products	28,041	27,716
Lumber products	100,913	95,166
Panel products	27,575	26,085
Production consumables	885	1,302
Inventory allowance	(155)	(784)
<b>Total</b>	<b>157,259</b>	<b>149,485</b>

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

## 8. Property, Plant and Equipment

<i>(in thousands of dollars)</i>	Land and Buildings	Furniture and office equipment	Warehouse and treating equipment	Leasehold improvements	Computer system and license	Total
<b>Cost</b>						
Balance, December 31, 2017	48,699	3,246	15,680	8,083	8,532	84,240
Additions	150	457	2,094	1,217	1,137	5,055
Additions arising upon acquisition	-	369	4,872	5,651	-	10,892
Disposals	-	(238)	(262)	(78)	-	(578)
Exchange effect	1,128	72	321	315	16	1,852
<b>Balance, December 31, 2018</b>	<b>49,977</b>	<b>3,906</b>	<b>22,705</b>	<b>15,188</b>	<b>9,685</b>	<b>101,461</b>
Additions	11	486	2,070	194	593	3,354
Impact of Adoption of IFRS 16	59,710	-	2,452	-	-	63,162
Disposals	-	-	(404)	(58)	-	(462)
Exchange effect	(883)	(54)	(338)	(278)	(15)	(1,568)
<b>Balance, December 31, 2019</b>	<b>108,815</b>	<b>4,338</b>	<b>26,485</b>	<b>15,046</b>	<b>10,263</b>	<b>164,947</b>
Balance, December 31, 2017	(21,884)	(2,477)	(11,904)	(5,317)	(4,334)	(45,916)
Amortization	(2,106)	(266)	(1,458)	(405)	(960)	(5,195)
Disposals	-	197	249	77	-	523
Exchange effect	(454)	(33)	(25)	(31)	(3)	(546)
<b>Balance, December 31, 2018</b>	<b>(24,444)</b>	<b>(2,579)</b>	<b>(13,139)</b>	<b>(5,676)</b>	<b>(5,297)</b>	<b>(51,135)</b>
Amortization	(340)	(371)	(1,137)	(552)	(1,009)	(3,409)
Amortization of ROUs	(4,830)	-	(1,473)	-	-	(6,303)
Impact of Adoption of IFRS 16	18,657	-	-	-	-	18,657
Disposals	-	-	286	-	-	286
Exchange effect	295	23	48	21	1	388
<b>Balance, December 31, 2019</b>	<b>(10,662)</b>	<b>(2,927)</b>	<b>(15,415)</b>	<b>(6,207)</b>	<b>(6,305)</b>	<b>(41,516)</b>
<b>Carrying amounts</b>						
Balance, December 31, 2018	25,533	1,327	9,566	9,512	4,388	50,326
<b>Balance, December 31, 2019</b>	<b>98,153</b>	<b>1,411</b>	<b>11,070</b>	<b>8,839</b>	<b>3,958</b>	<b>123,431</b>

The carrying amount of the Company's ROU assets included in the above table are as follows:

<b>Carrying amounts of Right of Use Assets</b>	Land and Buildings	Furniture and office equipment	Warehouse and treating equipment	Leasehold improvements	Computer system and license	Total
Balance, December 31, 2019	90,571	-	3,708	-	-	94,279

Depreciation expense of \$6.3 million was recognized on the right-of-use assets during the year ended December 31, 2019.

As of December 31, 2019, the development costs of computer systems projects that are not ready for use were \$147,979 (December 31, 2018 - \$426,034). No amortization has been recognized on the components not ready for use.

Included in warehouse and treating equipment is the balance of the construction fund that was recognized on the acquisition of Exterior Wood, which at December 31, 2019 was \$639,136 (December 31, 2018 - \$2,240,707). This amount, plus other construction-in-progress of \$4,961,106, is not yet subject to amortization.

## 9. Intangible Assets

<i>(in thousands of dollars)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Balance, beginning	17,813	-
Additions arising upon acquisition	-	17,671
Amortization	(1,140)	(472)
Exchange effect	(837)	614
Balance, ending	15,836	17,813

Intangible assets consist of the brand name and customer relationships recognized on the Company's acquisition of Exterior Wood, Inc. during the year ended December 31, 2018.

## 10. Goodwill

<i>(in thousands of dollars)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Balance, beginning	10,669	-
Additions arising upon acquisition	-	10,367
Exchange effect	(511)	302
Balance, ending	10,158	10,669

Goodwill relates to the Company's acquisition of Exterior Wood, Inc. during the year ended December 31, 2018.

The Company performed its annual test for goodwill impairment as at October 31, 2019. The Company did so by comparing the carrying value of the cash generating unit against its value-in-use.

The value-in-use of the cash-generating unit requires the use of assumptions. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated terminal growth rate of 3%. The value-in-use calculation includes cash flows relating to sustaining capital expenditures and working capital based on historical activity. Cash flows are discounted using an after-tax discount rate of 11%.

The value-in-use of the Exterior Wood, Inc. cash generating unit was determined to be higher than its carrying amount and therefore no impairment was recorded.

## 11. Revolving Credit Facility

<i>(in thousands of dollars)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Revolving credit facility	42,126	66,008
Financing costs, net of amortization	(1,158)	(1,457)
<b>Total</b>	<b>40,968</b>	<b>64,551</b>

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. 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 December 31, 2019.

## 12. Long-term Debt

<i>(in thousands of dollars)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Long-term debt	17,877	28,802
Less: Current portion	(7,353)	(7,723)
<b>Non-Current portion</b>	<b>10,524</b>	<b>21,079</b>

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 5. The long-term debt bears interest at variable base rates plus variable margins tied to the Company's existing Facility (Note 11). 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.

A continuity of long-term debt is as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Balance, beginning	28,802	1,019
New loans	-	30,286
Repayments	(9,750)	(3,555)
Foreign exchange	(1,175)	1,052
<b>Balance, ending</b>	<b>17,877</b>	<b>28,802</b>

## 13. Accounts Payable and Accrued Liabilities

<i>(in thousands of dollars)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Trade payables and accrued liabilities	53,922	49,223
Payroll related liabilities	10,026	9,678
Provisions (Note 16)	570	473
Financial instrument liabilities (Note 23)	132	-
<b>Total</b>	<b>64,650</b>	<b>59,374</b>

## 14. Income Taxes

Income tax expense is comprised of:

<i>(in thousands of dollars)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Current:</b>		
Current taxes for the year	16,873	3,971
Adjustments to tax provisions recorded in prior periods	38	(23)
<b>Total current tax expense</b>	<b>16,911</b>	<b>3,948</b>
<b>Deferred:</b>		
Origination and reversal of temporary differences	(7,279)	4,431
Adjustments to tax provisions recorded in prior periods	312	114
Effect of change in tax rates	(34)	57
Other taxes	36	145
Change in valuation allowance	-	10
<b>Total deferred tax expense</b>	<b>(6,965)</b>	<b>4,757</b>
<b>Income tax expense</b>	<b>9,946</b>	<b>8,705</b>

A reconciliation of the income taxes calculated at the statutory rate to the actual income tax expense is as follows:

<i>(in thousands of dollars)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Net earnings before income tax</b>	<b>35,851</b>	<b>28,972</b>
Statutory income tax rate	26.94%	27.00%
Expected income tax expense based on statutory rate	9,658	7,822
Tax effect of:		
Non-deductible interest and other permanent differences	1	437
Difference in foreign tax rates	(65)	75
Adjustments to tax provisions recorded in prior periods	350	90
Other taxes	36	214
Effect of change in tax rate	(34)	57
Change in valuation allowance	-	10
<b>Income tax provision</b>	<b>9,946</b>	<b>8,705</b>

For the year ended December 31, 2019, income tax credited to other comprehensive income was \$448,008 (year ended December 31, 2018 – charged \$621,659).

Deferred income taxes result principally from temporary differences in the recognition of certain revenue and expense items for financial and income tax reporting purposes and differences between the carrying amount and tax basis of assets recognized on the acquisition of Exterior Wood, Inc. Significant components of the deferred tax assets and liabilities are as follows:

Deferred tax assets (liabilities):

<i>(in thousands of dollars)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Other reserves	(836)	(499)
Deferred gain on sale and leaseback	611	623
Property, plant and equipment	(1,379)	(171)
Intangible assets	(3,934)	(4,425)
Non-capital losses	1	518
Deferred income from partnership	-	(7,566)
<b>Net deferred tax asset (liability)</b>	<b>(5,537)</b>	<b>(11,520)</b>

Deferred income tax assets and liabilities are offset to the extent that they relate to the same taxable entity and the same jurisdiction as follows:

<i>(in thousands of dollars)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Deferred tax assets	190	270
Deferred tax liabilities	(5,727)	(11,790)
<b>Net deferred tax asset (liability)</b>	<b>(5,537)</b>	<b>(11,520)</b>

The movement on the net deferred income tax assets and liabilities is as follows:

<i>(in thousands of dollars)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Beginning	(11,520)	(25)
Deferred tax expense recorded in profit or loss	6,965	(4,757)
Acquisition of Exterior Wood in 2018	-	(6,528)
Movement recognized in other comprehensive income	(982)	(210)
Ending	(5,537)	(11,520)

The Company, in the normal course of business, is subject to ongoing examination by tax authorities in each jurisdiction in which it has operations. The Company regularly assesses the status of these examinations and the potential for adverse outcomes to determine the adequacy of the provision for current and deferred income taxes, as well as the provision for indirect, withholding and other taxes and related penalties and interest. This assessment relies on estimates and assumptions, which involves judgments about future events. It also relies on interpretations of tax law, including general anti-avoidance provisions (GAAR), and prior experience. New information may become available that causes the Company to change its judgment and estimates regarding the adequacy of provisions related to income and other taxes. Any changes will be recorded prospectively in the period that such determinations are made.

## 15. Leases

A summary of the right-of-use lease obligations is as follows:

<i>(in thousands of dollars)</i>	<b>December 31, 2019 (with adoption of IFRS 16)</b>	<b>December 31, 2018 (before adoption of IFRS 16)</b>
Total minimum lease payments payable	156,873	31,824
Portion representing interest to be expensed over the remaining term of the leases	60,406	8,885
Principal Outstanding	96,467	22,939
Less: Current portion	(4,431)	(2,493)
Non-Current portion	92,036	20,446

Right of use asset leases include buildings and operating equipment. Lease payments represent blended payments consisting of principal and interest based on interest rates ranging from 4.8% to 5.6%.

For the year ended December 31, 2019 expenses for short term leases that were not capitalized as right-of-use assets totalled \$527,000. These and future payments are not included in the lease obligations above.

Some of the Company's equipment leases include variable charges based on usage. These variable components are expensed as they are incurred and are not included in the lease obligations.

Some of the Company's land and building leases that were capitalized as right-of-use assets include incremental lease payment increases based on the Consumer Price Index (CPI). T

The following is a schedule of future minimum lease payments over the lives of the right-of-use leases:

(in thousands of dollars)

	<b>Year ended December 31, 2019</b>
2020	9,299
2021	8,506
2022	8,232
2023	7,995
2024	7,861
2025 and thereafter	114,980
Total	156,873
Less: Unearned interest	(60,406)
	<b>96,467</b>

A summary of changes in the period follows:

(in thousands of dollars)

	<b>Year ended December 31, 2019 (with adoption of IFRS 16)</b>	<b>Year ended December 31, 2018 (before adoption of IFRS 16)</b>
Balance, beginning	-	24,718
Lease liability recognized upon adoption of IFRS 16	99,114	-
Additions	2,593	602
Payments made	(9,235)	(4,008)
Interest expense	4,590	1,627
Exchange impact	(595)	-
Balance, ending	<b>96,467</b>	<b>22,939</b>

## 16. Provisions

*Continuity of Provisions:*

The following table summarizes the movement in this provision for the year ended December 31, 2019:

<i>(in thousands of dollars)</i>	<b>Lease provision</b>	<b>Other</b>	<b>Total</b>
Balance, beginning	668	382	1,050
Additions to provisions during the year	-	559	559
Used during the year	(128)	(371)	(499)
Unwinding of discount	32	-	32
Total	572	570	1,142
Included in accounts payable and accrued liabilities (Note 12)	-	(570)	(570)
Non-current provisions	<b>572</b>	<b>-</b>	<b>572</b>

*Lease Provision:*

During September 2009, the Company consolidated its warehouse operations in the Greater Toronto Area by closing a warehouse in Brampton and migrating this operation into its warehouse in Milton. The Brampton warehouse was a leased property, and the land component was accounted for as an operating lease. The Company recorded a provision relating to this property, being the present value of the unavoidable net costs to the Company of exiting the lease. The final transaction to exit the lease was completed on May 31, 2012; however, there is a requirement to make ongoing payments to the lessor relating to this transaction which is reflected in the provision. The present value was determined using a pre-tax discount rate of 5.14%.

## 17. Subordinated Notes

Per the Trust Indenture dated November 17, 2017, 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 year ended December 31, 2019.

## 18. 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.

### (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 year ended December 31, 2018, the Company purchased 1,259,471 of its Common shares for cash payments of \$1,658,175. These Common Shares purchased by the Company were cancelled.

On August 8, 2019, 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 5,778,181 of its 115,563,638 outstanding Common Shares, representing 5% of the outstanding Common Shares. For the year ended December 31, 2019, the Company purchased 4,043,055 of its Common shares for cash payments of \$4,153,903. These Common Shares purchased by the Company have been cancelled. At December 31, 2019 there were 1,735,126 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, December 31, 2017	116,823,109	133,090
Shares purchased under NCIB and cancelled	1,259,471	1,658
Balance, December 31, 2018	115,563,638	131,432
Shares purchased under NCIB and cancelled	4,043,055	4,154
Balance, December 31, 2019	111,520,583	127,278

### (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.

### (g) Major Shareholder

Taiga's major shareholder is Avarga Limited, holding 67.9% or 75,708,814 of the issued and outstanding common shares of the Company. 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.

## 19. Expenses by Nature

<i>(in thousands of dollars)</i>	Year ended December 31, 2019	Year ended December 31, 2018
Product and treating costs	1,126,444	1,285,323
Freight costs	31,669	32,598
Inventory write down	2,377	2,138
Warehouse costs	11,640	15,648
Salaries and benefits	57,959	57,221
Employee reimbursements and general office expenses	11,519	10,669
Foreign exchange expense (recovery)	(1,252)	1,447
Other miscellaneous costs	1,921	3,672
Amortization	10,164	5,668
<b>Total</b>	<b>1,252,441</b>	<b>1,414,384</b>

## 20. Finance Expense

The finance expense is comprised of:

<i>(in thousands of dollars)</i>	Year ended December 31, 2019	Year ended December 31, 2018
Interest on revolving credit facility and other short term liabilities	2,906	4,151
Interest on right-of-use asset leases and long-term debt	6,919	2,709
Amortization of financing costs	332	333
<b>Total</b>	<b>10,157</b>	<b>7,193</b>

## 21. Commitments and Contingencies

### (b) Other Outstanding Legal Matters

The Company is involved in various non-material legal actions and claims arising in the course of its business. The financial impact individually or in aggregate resulting from these actions and claims is not expected to be significant. The individual and aggregate outcomes cannot be determined at this time.

### (c) 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.

## 22. Capital Disclosures

The Company's objectives for managing capital are to safeguard Taiga's ability to operate and grow its business, to provide a sufficient return to its shareholders, and to meet internal capital expenditure requirements and credit facility covenants. The revolving credit facilities and share capital are considered as the Company's capital.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, or sell assets or consider other strategies to reduce debt.

The Company manages its capital by monitoring the balance between working capital and the revolving credit facility's borrowing base, which is a combination of accounts receivable and inventories less certain provisions. If the Company's borrowing availability falls below a certain percentage of the borrowing base, the Company is then required to maintain a certain interest coverage ratio. At December 31, 2019, the Company was in compliance with this requirement.

## 23. Financial Instruments

### (a) Nature and extent of risks arising from financial instruments

The Company's activities result in exposure to a variety of financial risks, including risks related to credit, market, interest, currency, liquidity, and commodity prices.

#### (i) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Taiga is exposed to credit risk on accounts receivable from customers. Taiga extends to its customers credit, which is generally unsecured. Taiga has credit management procedures in place to mitigate the risk of losses due to the insolvency or bankruptcy of customers. Taiga regularly reviews customer credit limits, monitors the financial status of customers and assesses the collectability of accounts receivable. However, risk exists that some customers may not be able to meet their obligations and the loss of a large receivable could have a significant negative impact on Taiga's profitability.

The Company is also exposed to credit risk from the potential default by any of its counterparties on lumber futures contracts ((iv) below). The Company mitigates this credit risk by dealing with counterparties that are established major financial institutions. Taiga evaluates potential counterparties in advance of entering into such agreements and deals only with parties it anticipates will satisfy their obligations under the contracts.

#### (ii) Market risk

Market risk refers to the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Taiga utilizes significant leverage to finance day-to-day operations. The interest cost of Taiga's revolving credit facility is predominately based on the prime rate. For the year ended December 31, 2019, if interest rates had been 100 basis points higher, based on the Company's average borrowing level related to its Facility, interest expense would have increased by approximately \$724,000.

Foreign exchange risk refers to the risk that the fair value or future cash flow of a financial instrument denominated in a currency other than the functional currency in which they are measured will fluctuate because of changes in foreign exchange rates. Taiga does not hedge its foreign exchange risk. Financial instruments denominated in US dollars subject to foreign exchange risk are as follows:

<i>(in thousands of dollars)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Accounts Receivable	958	1,173
Accounts Payable	(6,782)	(5,035)
Revolving Credit Facility	(1,863)	(1,867)
<b>Total</b>	<b>(7,687)</b>	<b>(5,729)</b>

As at December 31, 2019, with other variables unchanged, a one percentage point decline in the year end value of the Canadian dollar would have decreased the foreign exchange gain by \$77,000 (December 31, 2018 – increased loss by \$57,000).

(iii) Liquidity risk

Liquidity risk arises through the excess of financial obligations over financial assets due at any point in time. Taiga's ability to make scheduled payments or refinance its obligations depends on Taiga's successful financial and operating performance, cash flows and capital resources, which in turn depend upon prevailing economic conditions and certain financial, business and other factors.

Taiga's ability to maintain compliance with certain of its debt covenants under the Facility depends on meeting the required interest coverage ratio, which is subject to the Company's future financial and operating performance. The Company's ability to repay or refinance its indebtedness will also depend on its future financial and operating performance. The Company's performance, in turn, will be subject to prevailing economic and competitive conditions, as well as financial, business, legislative, regulatory, industry and other factors, many of which are beyond Taiga's control. The Company's ability to meet its future debt service and other obligations may depend in significant part on the extent to which the Company can implement successfully its business growth and cost reduction strategies. The Company cannot provide any assurance that it will be able to implement its strategy fully or that the anticipated results of its strategy will be realized.

(iv) Commodity Price risk

Taiga does not generally hedge its commodity price risk through the purchase of lumber futures contracts. Substantially all purchases are made based on current orders and anticipated sales, and most sales are made from inventory or against product on order. Inventory levels are monitored in an attempt to achieve balance between maximum inventory turnover and anticipated customer demand. Although Taiga strives to reduce the risk associated with price changes by maximizing inventory turnover, Taiga maintains significant quantities of inventory, which is affected by fluctuating prices.

Taiga selectively utilizes Chicago Mercantile Exchange Random Length lumber futures contracts. Each contract calls for mill delivery of 110,000 board feet (plus or minus 5000 board feet) of random length 8-foot to 20-foot nominal 2-inch x 4-inch pieces. The contracts can be settled in cash or by delivery of a commodity. These positions are immaterial relative to the Company's consolidated inventories.

(b) Fair value of 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 carrying amount of the subordinated notes approximates fair value as these notes bear interest at a rate that is consistent with a market rate.

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>December 31, 2019</b>	<b>December 31, 2018</b>
Lumber futures	(132)	56

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.

## 24. Changes in Non-Cash Working Capital

<i>(in thousands of dollars)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
(Increase) decrease in accounts receivable	9,821	21,787
(Increase) decrease in inventories	(7,774)	(5,401)
(Increase) decrease in prepaid expenses	1,613	(3,026)
Effect of foreign exchange on working capital	(7,899)	7,727
(Decrease) increase in accounts payable and accrued liabilities	4,472	(19,176)
<b>Total</b>	<b>233</b>	<b>1,911</b>

## 25. Segmented Information

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

### **Year ended December 31, 2019**

*(in thousands of dollars)*

	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Revenue	1,045,264	253,858	1,299,122
Property, plant and equipment	95,517	27,914	123,431
Goodwill	-	10,158	10,158
Intangible Assets	-	15,836	15,836

### **Year ended December 31, 2018**

*(in thousands of dollars)*

	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Revenue	1,229,164	221,821	1,450,985
Property, plant and equipment	29,735	20,591	50,326
Goodwill	-	10,669	10,669
Intangible Assets	-	17,813	17,813

During the year ended December 31, 2019, Taiga's Canadian operations had export sales of \$183.0 million (period ended December 31, 2018 - \$238.6 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.

## 26. Management Compensation

Compensation of key management is recorded on the accrual basis of accounting consistent with the amounts recognized in the consolidated statements of earnings and comprehensive income. Compensation expenses for key management, which includes the Company's Board of Directors and Officers, were as follows:

<i>(in thousands of dollars)</i>	<b>Year ended December 31, 2019</b>	<b>Year ended December 31, 2018</b>
Salaries and other benefits	1,935	3,796

An amount of \$1,103,696 is included in accounts payable and accrued liabilities relating to bonuses to key management.