



Three months ended  
30 June 2002

## FINANCIAL HIGHLIGHTS

SALES:  
\$258.2 million

NET INCOME:  
\$1.6 million

EARNINGS  
\$0.40 per share

EBITDA:  
\$4.0 million

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### QUARTERLY RESULTS FROM OPERATIONS

We are pleased to report that Taiga achieved a new sales record for the three-month period ended June 30, 2002. During the first quarter of fiscal 2002, our consolidated sales totalled \$258.2 million. This represents an increase of \$22.7 million, or 9.6%, compared to the same quarter last year, when we recorded consolidated sales of \$235.5 million. Our excellent sales results are largely attributable to continued strong demand for building products across Canada.

Consolidated earnings were \$1.6 million, or \$0.40 per share, compared to the \$2.7 million, or \$0.69 per share, we recorded during the same quarter last year. Cash flow from operations was \$2.1 million, or \$0.54 per share, for the quarter, compared to \$3.2 million, or \$0.82 per share, for the same three-month period last year.

Our total expense during the first quarter decreased by \$1.2 million, or 8%. Compensation expense was down by \$1.8 million, but this was partially offset by higher foreign exchange expense and the incremental cost of new operations.

### SALES ANALYSIS - PRODUCT REVIEW

#### MARKET OVERVIEW

Low interest rates and a vibrant Canadian economy boosted demand for building products during our first quarter, creating a hot new home construction market. The Canadian Mortgage and Housing Corporation ("CMHC") reported the June seasonally adjusted annual rate of housing starts at 202,100, which is down 0.6% from May 2002. The CMHC expects to record housing starts of 182,200 for the 12 months ended December 2002, up 12% from 162,700 housing starts for the 2001 calendar year.

The Bank of Canada increased its regulatory interest rate by 25 basis points in April 2002 and by a further 25 basis points in June and July 2002, raising the bank rate from a recent low of 2% in March 2002 to 2.75% at the end of July. Despite recent increases in interest rates, the low cost of borrowing continues to stimulate new residential housing construction and repairs and renovation spending in Canada.

Traditionally, up to 30% of Taiga's total sales are destined for U.S. markets. This year, with the expiration of the Softwood Lumber Agreement on March 31, 2001, and a combined anti-dumping and countervailing duty of approximately 27.2% taking effect on May 22, 2002, Taiga's U.S. sales of dimension lumber have declined. In total, our U.S. dimension lumber sales volumes for the quarter are down by 28%, or approximately 33 million board feet, compared to the same period last year. Canadian sales of dimension lumber, however, are very strong. In fact, the combined Canadian and U.S. dimension lumber sales volume is only down by approximately 2.0%, or 6 million board feet, due principally to reduced U.S. sales.

On a comparative basis, U.S. dimension lumber sales are down by CAD \$17 million for the three months ended June 30, 2002, over the same period last year. Again, this reduction has been significantly offset by strong Canadian lumber sales, resulting in an overall decline in consolidated dimension lumber sales of CAD \$3.2 million.

Random Lengths, an industry price reporter, recently noted that the average weekly price for Western, Spruce Pine Fir, Kiln Dried, Random Length, 2 x 4, Standard and Better during the three months ended June 30, 2002, was US \$262 per thousand board feet, compared to an average weekly price of US \$294 during the same period last year. As a stocking distributor, Taiga's lumber and panel products profitability varies in tandem with fluctuating market prices. Last year's higher lumber prices partially explain the higher profitability we recorded for the quarter ended June 30, 2001.

Quarter-over-quarter, Taiga's panel sales volumes increased by 25%. As a commodity product, panel profits also vary with market pricing. For the three months ended June 30, 2002, the weekly average price for oriented strandboard, as reported in Crows Canadian Panel Report, was CAD \$274 per thousand square feet (7/16ths inch basis delivered Toronto) compared to CAD \$316 during the same period last year. As a result, our profitability for panel products declined.

Taiga's lumber product class includes engineered wood and preserved wood products, which both recorded significant growth and continued strong profit performance during our first quarter. Sales of the two products increased by 54% and 24% respectively.

Allied product sales also continued to perform well during the three months ended June 30, 2002. Most notably, sales of JM Johns Manville residential insulation, Emco's line of 'BP Roofing Products', Owens Corning 'Celfort' rigid insulation, Trex® composite decking, and wood mouldings realized increased sales and continued to post strong profits.

## **KEY DEVELOPMENTS**

In April 2002, we increased our ownership of Envirofor Preservers (Alta) Ltd. from 50% to 100% by acquiring the remaining common share from the other shareholder. The purchase price was \$425,000, plus the assumption of outstanding long-term debt.

## **FINANCING ACTIVITIES**

There have been no changes in our banking arrangements. In October 2001, Taiga renewed our existing credit agreements with both the Bank of Nova Scotia and HSBC Bank Canada. The banks provide a maximum revolving operating credit facility of \$135 million and a non-revolving term debt facility of \$20 million. All of the term debt facility has been drawn down in previous years, and the current balance outstanding on this facility is \$11.5 million. At June 30, 2002, Taiga was using \$97 million of the available \$135 million revolving credit facility, leaving \$38 million available for use, subject to normal margin formulas.

As we noted in the "Key Developments" section, Taiga acquired our former business partner's share of Envirofor Preservers (Alta) Ltd. in April 2002. As a result, Taiga has assumed Envirofor (Alta)'s existing long-term debt, which was utilized in 1999 to finance the purchase of land and the construction of the Edmonton, Alberta-based wood preservation plant facilities. The balance outstanding on the Envirofor (Alta) loan at June 30, 2002 was \$5.2 million, which brings Taiga's consolidated term debt balance to \$16.7 million.

The current portion of long-term debt is \$12.2 million, which includes a balloon payment of \$9.1 million. Provisions within our bank lending agreements allow us to refinance the outstanding long-term debt upon maturity, for terms which may extend beyond June 30, 2003.

## **INVESTING ACTIVITIES**

Expenditures for property, plant, and equipment for the quarter ended June 30, 2002, total \$512,000. Our total capital expenditure plan for the fiscal year ending March 31, 2003 is \$3 million. Major capital projects planned include the installation of the latest wood preservation technology at both our Langley, B.C., and Edmonton, Alberta wood preservation plants. Additional capital projects include laying pavement at a number of our distribution branches and the renovation of our offices in Edmonton, Alberta, and Brampton, Ontario. The remaining capital expenditures will be for the replacement of material handling equipment in selected branches.

## **FINANCIAL POSITION**

At June 30, 2002, shareholders' equity had increased to \$64.8 million, up from \$63.2 million at March 31, 2002. Working capital at quarter-end was \$34.4 million, or \$43.5 million before recognition of the current liability status of the \$9.1 million balloon payment due within the current period on long-term debt. Working capital at March 31, 2002 was \$40.7 million (\$44.8 million before balloon payments) and the current ratio is 1.22 to 1.0 (1.30 to 1.0 before balloon payments) compared to 1.28 to 1.0 (1.31 to 1.0 before balloon payments) at March 31, 2002.

## **RISK FACTORS**

Taiga is subject to the usual business and financing risks associated with the wholesale distribution of building products. The reader is referred to our March 31, 2002 annual report, which describes these risk factors in more detail.

## **U.S. SOFTWOOD LUMBER DUTY**

On March 21, 2002 (and further adjusted on April 25, 2002) the U.S. Department of Commerce ("USDOC") issued a final determination in its countervailing and anti-dumping investigations. The USDOC's final determination in the countervailing investigation resulted in a duty rate of 18.79%, to be posted by cash deposits from the effective date of a Final Order (May 22, 2002 as discussed below). The USDOC's final determination in the anti-dumping investigation resulted in company-specific duty rates ranging from 2.18% to 12.44% on the six companies investigated and an "all other" rate of 8.43% for all other companies, including Taiga.

On May 16, 2002, the U. S. International Trade Commission ("USITC") published its final written determination, which stated that Canadian softwood lumber threatens material injury to the U.S. industry. As a result, cash deposits will be required for shipments at the rates determined by the USDOC effective from a Final Order date of May 22, 2002. All bonds or cash deposits posted prior to May 22, 2002 will be refunded. As of the date of printing, no prior bonds have been released.

The final amount and effective date of countervailing and anti-dumping duties that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on appeals of the final determinations to any reviewing courts, NAFTA or WTO panels.

Starting May 22, 2002, Taiga made cash payments for countervailing and anti-dumping duties charged for shipments to the U.S. at the combined final countervailing and anti-dumping rate of 27.2%.

Taiga had accrued \$6,501,530 for the period from August 17, 2001 to December 15, 2001, which represented the final USDOC countervailing duty rate of 19.34%, and \$7,688,632 for the period from November 6, 2001 to May 6, 2002, which represented the final USDOC

anti-dumping duty rate of 8.43%. During the three months ended March 31, 2002, Taiga reversed \$312,510 of the accrual, which represented a reduction in the anti-dumping rate from 12.48% to 8.43%, a reduction in the countervailing duty rate from 19.31% to 18.79%, and changes in the estimate of lumber volumes shipped during the period. Taiga expects to reverse the remaining duty accrual in the second quarter ended September 30, 2002. The reversal, when recorded, will be credited to cost of sales. If the reversal had been recorded during the first quarter of fiscal 2002, \$14.2 million, less related expenses, would have been credited to cost of sales. This duty accrual was deducted from sales from August 17, 2001 to May 6, 2002, and all but \$573,121 of the \$14.2 million relates to sales for the fiscal year ended March 31, 2002. Any further adjustments resulting from a change in the countervailing and anti-dumping duty rates will be made prospectively.

Taiga and other Canadian forest product companies, the federal government and the Canadian provincial governments ("Canadian Interests") categorically deny the U.S. allegations and strongly disagree with the final countervailing and dumping determinations made by the USITC and USDOC. Canadian Interests continue to aggressively defend the Canadian industry in this U.S. trade dispute. Canadian Interests may appeal the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO. Notwithstanding the rates established in the investigations, the final liability for the assessment of countervailing and anti-dumping duties will not be determined until each annual administrative review process is complete.

## **OUTLOOK**

When Taiga last reported to our shareholders, in May 2002, the economic outlook in Canada was good. All market indicators pointed toward strong Canadian building product sales for the remainder of the current year, with low residential mortgage interest rates, strong housing and renovation and repairs spending, and forecast economic growth expected to continue throughout the busy summer season. For the most part, the outlook has not significantly changed.

While the Bank of Canada overnight borrowing rate has increased to 2.75% from the low of 2% in March 2002, mortgage rates still remain historically low, with posted rates for conventional uninsured residential five-year mortgages at 7.25%. Due to continued strength in the Canadian economy, and reported core inflation rates which currently exceed the 2% target, we anticipate additional increases in both the overnight borrowing rate and the chartered bank prime interest rates later in the year. At some point, rising interest rates will deter spending on residential construction and repairs and renovations. However, we do not expect this to significantly affect our sales for the current year.

Last year, the Canadian economy grew at an annual rate of 1.5%. For the 12 months ending December 31, 2002, the Bank of Canada is forecasting growth in excess of 4%, as reported in their most recent economic policy statement. In addition, real Canadian GDP grew at an annual rate of 6% during the first three months of 2002. In summary, a strong economy and low interest rates have buoyed the demand for housing and durable goods in Canada, and we expect strong building product sales to continue through the upcoming summer and autumn seasons.

While it appears that the demand for building products in Canada will remain strong for the foreseeable future, the commodity lumber markets have been experiencing pricing pressure in recent months, due to an increased supply of dimension lumber in the Canadian markets. Due to the 27.2% countervailing and anti-dumping duties imposed by the U.S. in May 2002, lumber normally destined for the U.S. is remaining in Canada. This has negatively affected Taiga's lumber profit margins for the three months ended June 2002, and we expect this situation to continue into our second quarter.

More positively, our export sales of preserved wood, dimension lumber and panel products to Asia and the Pacific Rim countries are growing and recording strong profits. We expect Taiga's export business to expand, as new markets open up following our conversion to a more widely accepted chemical fixative at both of our wood preservation plants.

The U.S. Census Bureau recently reported that U.S. housing starts were growing at a seasonally adjusted annual rate of 1.73 million units, compared to an annual rate of 1.6 million units recorded for the 12 months ending December 31, 2001. Since 1987, U.S. housing starts have exceeded 1.6 million units only three times.

In recent years, as much as 30% of Taiga's sales have been destined for U.S. markets. However, while the U.S. building products market currently remains strong, the recent imposition of the 27.2% softwood lumber duty has resulted in declining U.S. sales of dimension lumber from Canadian distribution centres. At the same time, Canadian access to the U.S. lumber market continues to be thwarted by pricing turmoil created by the trade barrier.

Operationally, Taiga continues to plan for future growth. This year, we are focused on integrating new preservation processes and chemical fixatives at our two lumber preservation plants. This will help us expand existing markets and open up new markets for these consistently profitable, value-added products. In addition, we are working to increase our efficiency and reduce our distribution and handling costs by paving several of our distribution yards.

We believe our strategic, balanced and narrowly focused product mix is a key reason for our ongoing success. Accordingly, we have expanded and strengthened our distribution network during the past few years so that all of our 15 Canadian distribution centres have the space to warehouse our complete line of building products. This facilitates the 'just-in-time' mixed truckload delivery service our customers have come to rely on.

As we move forward, Taiga continues to be growth-oriented. Currently, we are reviewing potential acquisitions and business opportunities in order to increase our share of the markets in which we operate. This is consistent with our goal of increasing the value of shareholder investment.

Approved on behalf of the Board,



Patrick E. Hamill,  
President and Chief Executive Officer  
Taiga Forest Products Ltd.

July 24, 2002





## **CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**TAIGA FOREST PRODUCTS LTD.**

**FIRST QUARTER, 2002**

**CONSOLIDATED BALANCE SHEETS**

<i>(in thousands of dollars) Unaudited</i>	As at	June 30 2002	March 31 2002
<b>ASSETS</b>			
<b>CURRENT</b>			
Accounts receivable	\$	105,573	\$ 92,465
Inventories (note 2)		75,136	88,571
Prepaid expenses		1,213	899
Income tax recoverable		864	–
Future income taxes		4,939	4,939
	\$	187,725	\$ 186,874
OTHER ASSETS AND INVESTMENTS		624	461
FIXED ASSETS LESS DEPRECIATION		36,860	30,309
	\$	225,209	\$ 217,644
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Bank indebtedness	\$	83,281	\$ 79,474
Accounts payable		57,818	53,112
Current portion of long-term debt		12,222	6,536
Income taxes payable		–	7,088
	\$	153,321	\$ 146,210
LONG-TERM DEBT		4,510	5,625
FUTURE INCOME TAXES		2,617	2,617
	\$	160,448	\$ 154,452
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock		12,523	12,499
Retained earnings		52,238	50,693
Total shareholders' equity		64,761	63,192
	\$	225,209	\$ 217,644

On behalf of the Board



Director



Director

## CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

For the 3 months ended June 30 <i>(in thousands of dollars) Unaudited</i>	2002	2001
SALES	\$ 258,215	\$ 235,489
COST OF SALES	241,928	215,920
GROSS PROFIT	\$ 16,287	\$ 19,569
EXPENSES		
Distribution, selling and administration	\$ 12,905	\$ 13,577
Interest		
Current	841	1,388
Long-term	304	269
	\$ 14,050	\$ 15,234
OPERATING INCOME	2,237	4,335
NON-OPERATING EXPENSE	30	43
EARNINGS BEFORE INCOME TAXES	\$ 2,207	\$ 4,292
INCOME TAXES	662	1,600
NET EARNINGS	\$ 1,545	\$ 2,692
RETAINED EARNINGS, BEGINNING OF PERIOD	\$ 50,693	\$ 46,003
Net earnings for the period	1,545	2,692
RETAINED EARNINGS, END OF PERIOD	\$ 52,238	\$ 48,695
Basic earnings per common share	\$ 0.40	\$ 0.69
Number of common shares outstanding	3,886,210	3,886,210

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the 3 months ended June 30 <i>(in thousands of dollars) Unaudited</i>	2002	2001
<b>OPERATING ACTIVITIES</b>		
Net Earnings	\$ 1,545	\$ 2,692
Items not requiring an outlay of funds		
Depreciation and amortization	635	492
Gain on sale of fixed assets	(70)	(16)
	<b>2,110</b>	<b>3,168</b>
Change in non-cash working capital	<b>(3,184)</b>	<b>7,155</b>
	<b>(1,074)</b>	<b>10,323</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of long-term debt	<b>(1,105)</b>	(607)
Issuance of capital stock	24	40
	<b>(1,081)</b>	<b>(567)</b>
<b>INVESTMENT ACTIVITIES</b>		
Proceeds from disposition of fixed assets	88	23
Purchase of fixed assets	(512)	(2,246)
Other	(1,228)	(11)
	<b>(1,652)</b>	<b>(2,234)</b>
(DECREASE) INCREASE IN CASH	<b>(3,807)</b>	7,522
BANK INDEBTEDNESS, BEGINNING OF PERIOD	<b>(79,474)</b>	(84,413)
BANK INDEBTEDNESS, END OF PERIOD	\$ <b>(83,281)</b>	\$ (76,891)

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

These unaudited interim financial statements follow the same accounting policies and methods of computation as used in the audited consolidated statements of the previous fiscal year ending March 31, 2002. However, these interim statements do not include all disclosures typical to the annual financial statements and accordingly, should be read in conjunction with the annual audited financial statements and notes included in Taiga's Annual Report for the year ended March 31, 2002, with the following exception. In April 2002, Taiga increased its ownership in Envirofor Preservers (Alta) Ltd. to 100% from 50% by acquiring the remaining common share from the other shareholder. The acquisition was accounted for using the purchase method of accounting. As a result, the earnings of Envirofor Alberta for the period April 1, 2002 to June 30, 2002 are included in the Consolidated Statements of Earnings and Retained Earnings. In prior periods, Taiga's 50% investment in Envirofor Alberta was accounted for using the equity method, whereby the investment is initially recorded at cost and is adjusted to recognize Taiga's share of earnings or losses and reduced by dividends and distributions received.

### 2. INVENTORIES

	As at	June 30 2002	March 31 2002
Lumber		\$ 49,745,907	59,934,815
Panel		12,725,299	16,481,660
Other		12,665,108	12,154,143
		\$ 72,136,314	\$ 88,570,618

### 3. SEGMENTED INFORMATION

Taiga operates primarily in the wholesale products distribution industry segment.

During the period April 1, 2002 to June 30, 2002, we had export sales of Cdn. \$ 48,837,920 (Cdn. \$64,848,267 for the corresponding period in the previous year), primarily to the United States.

#### BOARD OF DIRECTORS

J. Brian Aune  
*Montreal, Quebec*

Jimmie Bradshaw  
*North Vancouver, B.C.*

Patrick E. Hamill  
*Burnaby, B.C.*

Douglas Morris  
*Toronto, Ontario*

Saul Spears  
*Toronto, Ontario*

Chee Fong (Paul) Yeong  
*Kuala Lumpur, Malaysia*

Robert Yong Kuen Loke  
*Kuala Lumpur, Malaysia*

Meng Kwong Lim  
*Kuala Lumpur, Malaysia*

Kok Kay (Alain) Lee  
*Pompano Beach, Florida*

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#### OFFICERS

Patrick E. Hamill  
*President, CEO*

Jimmie Bradshaw  
*Vice President, Building  
Materials*

Douglas Morris  
*Vice President, Eastern  
Operations*

Lloyd R. Hansen  
*Chief Financial Officer*

Pat Furlong  
*Secretary*

#### TRANSFER AGENT

Computershare Trust  
Company of Canada  
*Vancouver, B.C.*

#### AUDITORS

Deloitte & Touche, LLP  
*Vancouver, B.C.*

#### STOCK EXCHANGE

Toronto

#### TRADING SYMBOL

TFP

#### SOLICITORS

Davis & Company  
*Vancouver, B.C.*

