



Nine months ended  
December 31, 2003

## FINANCIAL HIGHLIGHTS

### SALES:

Q3 - \$244.1 million  
YTD - \$808.7 million

### NET INCOME:

Q3 - \$1.8 million  
YTD - \$6.8 million

### EARNINGS

#### PER SHARE:

Q3 - \$0.23  
YTD - \$0.86

### EBITDA:

Q3 - \$4.1 million  
YTD - \$17.3 million

## MANAGEMENT'S DISCUSSION & ANALYSIS

### Results from Operations

We are pleased to announce that Taiga recorded year-over-year gains in consolidated sales, net earnings and cash flow for the third quarter of fiscal 2003. During the three months ended December 31, 2003, Taiga recorded consolidated sales of \$244.1 million, up \$41.1 million, or 20.2%, over sales of \$203.0 million for the same quarter last year. Consolidated earnings for the quarter totaled \$1.8 million, or \$0.23 per share, compared to \$364,000, or \$0.05 per share, last year. Quarterly cash flow from operations was \$2.4 million, or \$0.30 per share, compared to \$1.1 million, or \$0.14 per share last year.

For the nine months ended December 31, 2003, Taiga's sales were \$808.7 million, up \$106 million, or 15%, from the same period last year. Net earnings were \$6.8 million, or \$0.86 per share, compared to \$8.5 million, or \$1.07 per share, last year and cash flow totaled \$8.8 million, or \$1.11 per share, compared to \$10.5 million, or \$1.32 per share, for the first three quarters of fiscal 2002.

Results for the nine months ended December 31, 2002 include the September 2002 reversal of a \$13.6 million countervailing duty liability, which had been accrued between November 2001 and April 2002.

For the nine months ended December 31, 2003, operating costs increased by \$11.7 million, compared to the same period last year. Of this, \$6.7 million, or 57%, is attributable to our Rocklin, California distribution centre, which we acquired in November 2002. Other significant increases are due to a panel product inventory reserve, which we accumulated in response to pricing volatility in the panel markets; an adjustment of our "allowance for doubtful accounts receivable" to reflect business growth; and a rise in interest expense and professional fees.

### Market Overview

Despite the war in Iraq, SARS, mad cow disease, and wild fires in south central British Columbia and Southern California, building material markets have been active and profitable throughout the first three quarters of this fiscal year. Taiga's busy and successful summer extended into October and November, with a vibrant building products market driving strong, consistent demand for all our products. We believe this is due to the ongoing presence of historically low interest rates in Canada and the US, which spurred near-record new residential construction in North America, as well as increased residential repairs and renovation spending.

The Bank of Canada's key policy rate has fluctuated slightly throughout the year, reaching a high of 3.25% on June 3, 2003 before dropping again. Since September 3, 2003 it has remained at 2.75%. The Canadian Chartered Bank prime interest rate started the year at 4.5%, hit a high of 5.0% in April 2003 and has remained at 4.5% since September 2003.

On January 9, 2004, Canadian Mortgage and Housing Corporation ('CMHC') reported seasonally adjusted annual housing starts for December 2003 of 217,600. This represents a 6.2% increase over 2002 and is the highest level of new home construction recorded in Canada since 1988.

In the US, the target rate for federal funds, as regulated by the Federal Open Market Committee of the US Federal Reserve, is currently 1%. The US bank prime rate is currently 4.1%, down from 4.7% in 2002. For the 12 months ended December 31, 2003, the National Association of Home Builders reported seasonally adjusted annual housing starts of 1.84 million, which represents an increase of 7.5% over 2002 housing starts.

These strong industry fundamentals, together with significant price increases in commodity markets, enabled Taiga to realize profitable growth in many of our major lines. Third quarter sales of Louisiana Pacific 'Solid Start' engineered wood products, for example, increased by 79% compared to the same period last year, with a similar relative increase in gross profit. Sales of our treated wood products, which remains one of our most profitable lines, were also up compared to the previous year, growing by approximately 30%. JM Johns Manville residential insulation, Owens Corning 'Celfort' rigid insulation, and Trex® composite decking products also recorded significant sales increases.

## **Commodity Products**

Perhaps the most notable success story for the year-to-date is the performance of our commodity panel products, which received a significant boost in profitability due to escalating prices. Panel product sales for the fiscal year-to-date totaled \$300 million, which represents an increase of \$110.0 million, or 58%, over the same nine-month period last year. Panel products account for 37% of our total consolidated sales for the year-to-date, and have generated strong, consistent profits. Our line of panel products include Oriented Strandboard ('OSB'), fir and spruce plywood, balsam and poplar plywood, hardwood plywood products, engineered plywood siding, pourform (a concrete forming panel product) and particleboard.

As noted in our quarterly report for the period ended September 30, 2003, OSB prices increased from approximately Cdn \$290 per thousand square feet in May 2003 to Cdn \$700 per thousand square feet in September. Prices remained high throughout October and most of November, before a correction in December pushed them down. Following the correction, the average weekly price for a representative panel product (7/16ths, OSB, delivered Toronto) fell to Cdn \$388 for the month of December, after three consecutive months at a weekly average price in excess of Cdn \$655 per thousand square feet. This affected our December 2003 profitability and trading profits.

While we've also seen strong commodity lumber prices throughout most of the year, our commodity dimension lumber sales are down by about \$66 million, or 21%, for the nine months ended December 31, 2003, compared to the same period last year. This follows the 9% year-over-year reduction in dimension lumber sales recorded for the same nine-month period in 2002. Lumber sales to the US have declined following the May 2002 imposition of a 27.2% combined countervailing and anti-dumping duty by the US Department of Commerce on shipments of Canadian softwood lumber into the US. Although government and industry representatives from Canada and the US continue working to resolve this trade dispute, there does not appear to be a solution in sight.

## **Key Developments**

We are pleased to report the election of Mr. Kooi Ong Tong as Chair of its Board of Directors. Mr. Tong represents a privately owned Cayman Islands corporation which recently acquired approximately 20% of the current issued and outstanding shares of Taiga.

We also marked the first anniversary of the acquisition of our Rocklin, California distribution centre during the quarter. This centre was previously owned by Louisiana Pacific Corporation, and has been operating in Rocklin for about 20 years. It has proven a strong addition to our distribution network, setting a number of all time sales and profitability records this summer.

## **Financing Activities**

Taiga currently utilizes three Canadian banks and one US bank to finance its business operations.

The Canadian banks provide a maximum revolving credit facility in the amount of \$135.0 million, with the Bank of Nova Scotia and HSBC Bank Canada committing \$55.0 million each, and BMO Bank of Montreal providing the remaining \$25.0 million revolving loan commitment. At December 31, 2003, Taiga was utilizing approximately \$70.0 million of the \$135.0 million credit facility.

The Canadian banks also share Taiga's term loan in the amount of \$25.0 million. The HSBC Bank Canada and the Bank of Nova Scotia each provide \$10.0 million, with the remaining \$5.0 million term facility provided by BMO Bank of Montreal.

The term loans were renewed for a 10-year term on June 30, 2003. The current portion of long-term debt totaled \$3.3 million at December 31, 2003.

In the US, HSBC Bank USA provides up to US \$9.0 million revolving credit and a US \$7.2 million term loan to finance Taiga's Rocklin, California distribution centre.

## **Investing Activities**

Taiga's expenditure for property, plant and equipment totaled \$1.4 million during the third quarter and \$2.4 million for the nine months ended December 31, 2003. The largest single project to-date is the paving of about 11 acres at our Milton, Ontario distribution yard for \$1.1 million. This is expected to result in considerable cost savings in the maintenance of forklift equipment, and increased efficiency in material handling. The Milton, Ontario property has been owned by Taiga since 1986.

During the current year, approximately \$218,000 was expended towards the completion of the conversion of our two wood treating plants to handle alternative chemicals. Effective December 31, 2003, the incumbent chemical preservative, Copper Chromium Arsenate ('CCA') can no longer be used in Canada to treat wood that will be employed in residential applications. The new accepted chemical is ACQ ('Alkaline Copper Quarternary') which meets current standards throughout North America and the Pacific Rim countries.

In May 2000, Taiga purchased approximately 3.5 acres adjacent to the 16 acres occupied by our Langley, BC distribution centre and wood treating plant. This year, the 3.5 acres was paved and fenced and will be used to store inventory from the wood treatment facility. The total cost of this project was \$693,000.

Other capital additions include leasehold improvements, and equipment replacement at various locations.

## Financial Position

At December 31, 2003, shareholders' equity had increased to \$74.9 million from \$69.5 million at March 31, 2003. Working capital at quarter-end was \$57.4 million, compared to \$33.2 million at March 31, 2003. Our current ratio is 1.46 to 1.00, compared to 1.18 to 1.00 at March 31, 2003.

## 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, 2003 annual report, which describes these risk factors in more detail.

## Outlook

Taiga's success is directly linked to activity in the construction markets, low interest rates, active renovation and repairs spending, and general economic strength and growth in the economy. Therefore, evaluating our future business prospects requires a review of these building material market indicators.

In Canada, CMHC is forecasting housing starts to exceed 204,000 for the calendar year ending December 2004. Although this would be a 6% decrease in new home construction over 2003, it still represents strong Canadian building activity on a historical basis. Currently, interest rates remain at 40- or 50-year lows, with five-year posted mortgage rates between 6% and 7%. At the same time, renovation and repairs spending continues to increase, growing from \$24 billion in 2000 to \$32.1 billion in 2003.

Similarly in the US, the National Association of Home Builders is forecasting housing starts for 2004 to decrease only marginally to 1.774 million starts, from 1.840 million starts in 2003. In addition, there is no significant change in mortgage borrowing rates forecast.

In summary, the general market outlook remains favourable. Specifically, after significant market price corrections in both lumber and panel markets during the last quarter, market activity picked up again in January 2004. OSB has rebounded from a low of Cdn \$305 per thousand square feet on December 17, 2003 to Cdn \$490 per thousand square feet on January 21, 2004.

Dimension lumber prices are also recovering some lost ground. After hitting US \$330 per thousand board feet in September 2003, lumber prices for SPF, Western, 2 x 4, Standard & Better, Random began to drop, falling to a low of US \$265 per thousand square feet by December 24, 2003. On January 16, 2004, Random Lengths Lumber Report quoted a price of US \$301 per thousand square feet for this benchmark product - a 13.6% price recovery. These price improvements are expected to positively impact results during the next three months.

During our third quarter, the Canadian dollar strengthened by approximately 14% vis-à-vis the US dollar, moving from US 1.3552 at September 30, 2003 to US 1.3040 at December 31, 2003. While these gains are expected to negatively affect sales of Canadian dimension lumber to the US, we do not expect the impact of the strengthening dollar to be significant. This is because the May 2002 imposition of countervailing and anti-dumping duties has reduced our lumber sales to the US from Canada, as noted above. Although significant interest rate increases are not expected in the short-term, we believe rate increases over the long-term will result in a weaker Canadian currency. This may lead to some growth in our sales to the US from Canada.

Conversely, at our Rocklin, California operation we are expecting continued growth in sales and a strong performance overall, as we work to meet the demand driven by buoyant residential building markets in Northern California and Western Nevada.

In our export markets, we continue to look for new opportunities and expect to increase our sales of preserved wood products into China and Korea. We are also working to develop our treated wood business and specialty-grade lumber sales to Japan, in a bid to capture a larger portion of the wood frame housing construction market there.

Moving forward, Taiga will continue to take advantage of strong markets in Canada and the US, while recognizing recurring cyclical volatility in some of our markets. We will also continue to work on our cost structure, focus on maximizing inventory turns, and maintain the diversity of our product line with value-added items such as our own Envirofor brand treated wood, custom-cut lumber products, and other complementary allied products.

As we begin our fourth quarter, we are actively looking for opportunities to build value within our areas of expertise and across all our market sectors. Our focus is to continue building on realized profits to-date, working to be a low cost distributor of building materials in our markets, and to strategically improve our balance sheet and build stronger cash flow.

### **Management's Responsibility**

The information and representations in this report were prepared by Taiga Forest Products Ltd. management. The financial statements were prepared in conformity with accounting principles generally accepted in Canada and, where necessary, reflect management's best estimates and judgements. The financial information presented throughout this report is consistent with that contained in the financial statements.

The Company maintains systems of internal accounting controls, policies and procedures to provide reasonable assurance as to the reliability of the financial records and safeguarding of its assets.

The Board of Directors is responsible for overseeing management in the performance of its responsibilities for financial reporting. The Board exercises its responsibilities through the Audit Committee comprised of three Directors, two of whom are not officers of the Company. The Committee meets from time to time with management and the Company's auditors to review the financial statements and matters relating to the audit. The Company's auditors have full and free access to the Audit Committee. The financial statements have been reviewed by the Audit Committee which recommended their approval by the Board of Directors.

Approved on behalf of the Board,



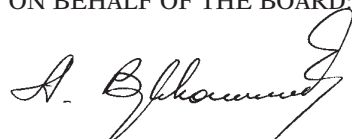
Arkadi Bykhovsky,  
President and  
Chief Executive Officer

January 27, 2004

**CONSOLIDATED BALANCE SHEETS***(in thousands of dollars) Unaudited*

	<b>As at December 31, 2003</b>	As at March 31, 2003
<b>ASSETS</b>		
CURRENT		
Accounts receivable	\$ 78,480	\$ 90,485
Inventories (Note 2)	93,631	117,012
Prepaid expenses	1,711	1,130
Income tax recoverable	4,117	—
Future income tax asset	5,150	5,150
	<u>\$ 183,089</u>	<u>\$ 213,777</u>
OTHER ASSETS AND INVESTMENTS	25	25
FIXED ASSETS LESS DEPRECIATION	46,707	47,807
FUTURE INCOME TAX ASSET	660	660
TOTAL ASSETS	<u>\$ 230,481</u>	<u>\$ 262,269</u>
<b>LIABILITIES</b>		
CURRENT		
Bank indebtedness	\$ 8,333	\$ 14,602
Credit facilities	73,954	116,227
Accounts payable	40,108	36,996
Current portion of long-term debt	3,258	12,335
Income taxes payable	—	446
	<u>\$ 125,653</u>	<u>\$ 180,606</u>
LONG-TERM DEBT	29,972	12,159
	<u>\$ 155,625</u>	<u>\$ 192,765</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	13,326	12,547
Retained earnings	61,530	56,957
TOTAL SHAREHOLDERS' EQUITY	<u>74,856</u>	<u>69,504</u>
	<u>\$ 230,481</u>	<u>\$ 262,269</u>

ON BEHALF OF THE BOARD:



Arkadi Bykhovskiy, Director



Albert Foong Yap, Director

**CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS***(in thousands of dollars) Unaudited*

	<b>For the 3 months ended December 31, 2003</b>	For the 3 months ended December 31, 2002
<b>SALES</b>	\$ 244,080	\$ 203,025
Cost of sales	226,584	190,663
<b>GROSS PROFIT</b>	<b>\$ 17,496</b>	<b>\$ 12,362</b>
<b>EXPENSES</b>		
Distribution, selling and administration	\$ 14,108	\$ 10,714
Interest		
Current	973	876
Long-term	326	275
	<b>\$ 15,407</b>	<b>\$ 11,865</b>
OPERATING INCOME	2,089	497
Non-operating expense (income)	31	(27)
EARNINGS BEFORE INCOME TAXES	\$ 2,058	\$ 524
Income taxes	240	160
<b>NET EARNINGS</b>	<b>\$ 1,818</b>	<b>\$ 364</b>
<b>RETAINED EARNINGS, BEGINNING OF PERIOD</b>	<b>\$ 59,918</b>	<b>\$ 57,250</b>
Net earnings for the period	1,818	364
Cumulative translation adjustment	(206)	5
RETAINED EARNINGS, END OF PERIOD	<b>\$ 61,530</b>	<b>\$ 57,619</b>
Basic earnings per common share	\$ 0.23	\$ 0.05
Number of common shares outstanding	7,937,420	7,937,420

**CONSOLIDATED STATEMENTS OF CASH FLOWS***(in thousands of dollars) Unaudited*

	<b>For the 3 months ended December 31, 2003</b>	For the 3 months ended December 31, 2002
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 1,818	\$ 364
Items not requiring an outlay of funds		
Depreciation and amortization	775	757
Cumulative translation adjustment	(206)	—
Gain on sale of fixed assets	(6)	—
	<u>2,381</u>	<u>1,121</u>
Change in non-cash working capital	<u>21,244</u>	<u>(29,160)</u>
	<u>23,625</u>	<u>(28,039)</u>
<b>FINANCING ACTIVITIES</b>		
Increase in long-term debt	11,411	10,751
Issuance of capital stock	191	—
Net change in credit facilities	<u>(32,858)</u>	<u>29,056</u>
	<u>(21,256)</u>	<u>39,807</u>
<b>INVESTMENT ACTIVITIES</b>		
Proceeds on disposition of fixed assets	12	—
Purchase of fixed assets	<u>(1,416)</u>	<u>(12,013)</u>
	<u>(1,404)</u>	<u>(12,013)</u>
INCREASE (DECREASE) IN CASH	965	(245)
BANK INDEBTEDNESS, BEGINNING OF PERIOD	<u>(9,298)</u>	<u>(11,901)</u>
BANK INDEBTEDNESS, END OF PERIOD	<u>\$ (8,333)</u>	<u>\$ (12,146)</u>

**CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS***(in thousands of dollars) Unaudited*

	<b>For the 9 months ended December 31, 2003</b>	For the 9 months ended December 31, 2002
<b>SALES</b>	\$ 808,663	\$ 702,860
Cost of sales	740,962	644,609
<b>GROSS PROFIT</b>	<b>\$ 67,701</b>	<b>\$ 58,251</b>
<b>EXPENSES</b>		
Distribution, selling and administration	\$ 52,647	\$ 42,559
Interest		
Current	4,076	2,602
Long-term	953	821
	<b>\$ 57,676</b>	<b>\$ 45,982</b>
<b>OPERATING INCOME</b>	<b>10,025</b>	<b>12,269</b>
Non-operating expense	57	157
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>\$ 9,968</b>	<b>\$ 12,112</b>
Income taxes	3,157	3,637
<b>NET EARNINGS</b>	<b>\$ 6,811</b>	<b>\$ 8,475</b>
<b>RETAINED EARNINGS, BEGINNING OF PERIOD</b>	<b>\$ 56,957</b>	<b>\$ 50,693</b>
Net earnings for the period	6,811	8,475
Cumulative translation adjustment	(266)	5
Common share dividends	(1,972)	(1,554)
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>\$ 61,530</b>	<b>\$ 57,619</b>
Basic earnings per common share	\$ 0.86	\$ 1.07
Number of common shares outstanding	7,937,420	7,937,420

**CONSOLIDATED STATEMENTS OF CASH FLOWS***(in thousands of dollars) Unaudited*

	<b>For the 9 months ended December 31, 2003</b>	For the 9 months ended December 31, 2002
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 6,811	\$ 8,475
Items not requiring an outlay of funds		
Depreciation and amortization	2,296	2,050
Cumulative translation adjustment	(270)	-
Gain on sale of fixed assets	(39)	(70)
	<u>8,798</u>	<u>10,455</u>
Change in non-cash working capital	33,353	(23,366)
	<u>42,151</u>	<u>(12,911)</u>
<b>FINANCING ACTIVITIES</b>		
Increase in long-term debt	9,917	8,872
Dividends paid to common shareholders	(1,972)	(1,554)
Issuance of capital stock	779	24
Net change in credit facilities	(42,273)	16,706
	<u>(33,549)</u>	<u>24,048</u>
<b>INVESTMENT ACTIVITIES</b>		
Proceeds on disposition of fixed assets	53	88
Purchase of fixed assets	(2,386)	(12,740)
Other assets and investments	-	(1,227)
	<u>(2,333)</u>	<u>(13,879)</u>
INCREASE (DECREASE) IN CASH	6,269	(2,742)
BANK INDEBTEDNESS, BEGINNING OF PERIOD	(14,602)	(9,404)
BANK INDEBTEDNESS, END OF PERIOD	<u>\$ (8,333)</u>	<u>\$ (12,146)</u>

## 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, 2003. 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 the Company's Annual Report for the year ended March 31, 2003.

### 2. INVENTORIES

	<b>As at December 31, 2003</b>	As at March 31, 2003
Lumber	\$ 64,886,390	\$ 80,884,354
Panel	18,237,080	22,483,877
Other	10,507,265	13,643,812
	<b>\$ 93,630,735</b>	<b>\$ 117,012,043</b>

### 3. SEGMENTED INFORMATION

The Company operates primarily in the wholesale products distribution industry segment. During the period April 1, 2003 to December 31, 2003, the Company had foreign sales, primarily in the United States, of Cdn \$174,061,744 (Cdn \$152,352,292 for the corresponding period in the previous year).

## Corporate Information

### Board of Directors

John Peter Bell  
*Vancouver, British Columbia*

Jimmie Bradshaw  
*North Vancouver, British Columbia*

Arkadi G. Bykhovsky  
*Millbrook, Ontario*

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

Robert Yong Kuen Loke  
*Kuala Lumpur, Malaysia*

Douglas Morris  
*Toronto, Ontario*

Tong Kooi Ong  
*Vancouver, British Columbia*

Chee Yioun (Vincent) Tan  
*Kuala Lumpur, Malaysia*

Albert Foong Yap  
*Richmond, British Columbia*

### Officers

Arkadi G. Bykhovsky  
*President,  
Chief Executive Officer*

Jimmie Bradshaw  
*Vice President,  
National Accounts &  
Supply Management*

Douglas Morris  
*Vice President,  
Eastern Operations*

Cam White  
*Vice President,  
Western Operations*

Lloyd R. Hansen  
*Chief Financial Officer*

Patrick J. Furlong  
*Secretary*

### Taiga Forest Products Ltd.

#### *Executive Offices*

Suite 800  
4710 Kingsway  
Burnaby, BC  
V5H 4M2

(604) 438-1471

#### *Postal Address*

P.O. Box 80329  
Burnaby, BC  
V5H 3X6

### Transfer Agent

Computershare  
Trust Company of Canada  
*Vancouver, BC*

### Auditors

Cinnamon Jang Willoughby and Co.  
*Burnaby, BC*

### Stock Exchange

TSX

Trading Symbol : **TFP**

### Solicitors

Davis & Company  
*Vancouver, BC*