

Management's Discussion and Analysis

For the three and nine months ended December 31, 2006 and 2005

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 June 8, 2007 and should be read in conjunction with the consolidated financial statements and the corresponding notes thereto for the restated quarter ended December 31, 2006 and restated year ended March 31, 2006. This discussion and analysis provides an overview of significant developments that have affected Taiga's performance during the third quarter.

Taiga's unaudited interim consolidated financial statements and the accompanying notes included within this interim report include the accounts of Taiga and its subsidiaries. The unaudited financial information reported herein has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and is expressed in Canadian dollars. This MD&A complements and supplements the unaudited financial statements, but does not form part of the financial statements.

This discussion and analysis contains forward-looking statements concerning the future performance of our business, its operations, and its financial performance and condition. These forward-looking statements are based on our current expectations and judgment. These statements are subject to risks affected by known and unknown risks and uncertainties that may cause the actual future results of the Company to be materially different than those expressed or implied in this discussion. These risks and uncertainties are described herein and in the MD&A contained in Taiga Building Products Ltd. Information circular dated May 18, 2006. No forward-looking statement is a guarantee of future results.

In this discussion, reference is made to EBITDA, which represents earnings before interest, taxes, depreciation 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 a Company's ability to meet debt service and capital expenditure requirements and because we interpret 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 GAAP.

Additional information relating to the Company including the Annual Information Form of Taiga Building Products Ltd. can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Restatement of Financial Statements

The Company has determined that the future income taxes were calculated incorrectly with respect to the income tax effects of the sales - leaseback transaction consummated by the Company during the year ended March 31, 2006. As a result, the Company's annual financial statement for the year ended March 31, 2006 and the interim financial statements for the first three quarters of fiscal 2007 have been restated. The restated figures are reflected in this Management's Discussion and Analysis. For further information see Note 7 -Restatement.

Business Overview

Taiga is the largest, by revenue, independent wholesale distributor of building products in Canada. Taiga distributes building products in Canada, the United States and elsewhere. As a wholesale distributor, Taiga maintains substantial inventories of building products at fourteen strategically located distribution centres throughout Canada and two distribution centres in California. In addition, Taiga regularly distributes through the use of third party reload centres. Taiga also owns and operates three wood preservation plants

that produce pressure-treated wood products and one remanufacturing facility that produces building materials such as fence products and custom-cut lumber. Factors that affect Taiga's year-over-year profitability include sales levels, price fluctuations and product mix.

Results of Operations

Comparison of the Quarters ended December 31, 2006 (Restated) and December 31, 2005

Sales

Taiga's sales for the quarter ended December 31, 2006 were \$232.2 million, down \$25.2 million or 9.8% compared to \$257.4 million over the prior year. December 2006 turned out to be a particular weak month in terms of sales and gross margin across almost all product categories compared to the same month last year.

Dimension lumber sales decreased by \$10.7 million, or 13.1% over the prior year. Panel products sales decreased by \$14.9 million, or 18.2% over the prior year. The average prices of commodity lumber and panel products continued the downward trend observed from the first quarter, with prices being lower in the quarter compared to the same period last year. The weekly average price for SPF 2x4, #2 and better delivered to Toronto was approximately \$336 from October 1, 2006 to December 31, 2006 compared to \$425 for the same period last year, a drop of approximately 21%. The average weekly price for OSB 7/16" delivered to Seattle/Vancouver BC was approximately \$174 from October 1, 2006 to December 31, 2006 compared to \$398, a drop of approximately 56% over the prior year. Reduced commodity prices coupled with weak December results had a negative impact on the Company's sales and gross margin of dimension lumber and panel products.

Engineered wood product sales decreased by \$5.0 million, or 14.2% over the prior year. The decline in sales is partly attributed to a decline in prices over the prior year and lower sales volume generated by our US distribution centre.

Treated wood sales increased by \$2.4 million, or 16.5% over the prior year due to a combination of higher sales volume and higher production capacity from the addition of a new Ontario treating facility in the spring of 2005.

Allied products sales increased by \$3.6 million, or 8.2% over the prior year.

Gross Margin

Gross margin decreased by \$3.0 million to \$22.5 million, or 11.6% over the prior year. This was a result of declining gross margin of lumber and panel products and a relatively weak increase in gross margin of allied products. Gross margin as a percentage of sales decreased slightly to 9.7% from 9.9% in the prior year, down 2.0%.

Expenses

Distribution expenses increased by \$0.9 million, or 14.6% to \$7.4 million in the quarter compared to \$6.5 million in the same period last year. This increase was mainly due to increased lease expenses as a result of the sale and leaseback of Company assets.

Selling and administration expenses decreased by \$1.0 million, or 8.8% to \$10.3 million in the quarter compared to \$11.3 million last year. This is mainly due to a reduction in the provision for the profit sharing scheme, as sales were lower this quarter compared to the same quarter last year.

Interest and Subordinated Debt Interest

Interest expense increased by \$0.1 million, or 6.3% to \$1.7 million compared to \$1.6 million in the same period last year. The increase is primarily attributed to the rise in the prime interest rate over the prior year, which has increased by 150 basis points or 35.7%. Subordinated debt interest decreased by \$1.2 million, or 23.1% to \$3.9 million compared to \$5.2 million last year. This is due to the repurchase and retirement of \$42.5 million of subordinated notes in the first quarter of the current fiscal year.

Net Income

Net income for the quarter, after income taxes and before interest on subordinated notes of \$3.9 million, was \$6.1 million. Net income after income taxes and interest on subordinated notes increased by \$1.7 million to \$2.1 million, or 0.9% of sales, from \$0.4 million in the prior year.

EBITDA

EBITDA for the quarter increased by \$1.5 million to \$9.9 million, from \$8.4 million in the prior year. The increase in EBITDA is mostly due to the Company recognizing a one time non-operating refund of \$4.2 million net of accrued provisions, as a result of the Canadian Softwood Lumber Agreement settlement.

Segmented Revenue

Taiga operates within one business segment and has two reportable geographic segments as follows:
(in thousands of dollars)

	Quarters ended December 31,			
	2006		2005	
	Sales	%	Sales	%
Canada	\$195,280	84.0	\$200,910	78.1
US	36,877	16.0	56,452	21.9

Pay For Performance (“P4P”) Incentive Compensation

The Company has a pronounced culture of motivating and rewarding its employees to deliver the most effective and efficient buying, logistical and sales performance.

Summary of Quarterly Results

	Mar-2005	Jun-2005	Sep-2005	Dec-2005	Mar-2006	Jun-2006	Sep-2006	Dec-2006
	(in thousands of dollars, except per share amount in dollars)							
					Restated	Restated	Restated	Restated
Sales, reclassified	\$282,440	\$324,945	\$315,961	\$257,362	\$281,026	\$328,115	\$305,264	\$232,157
Net income ⁽¹⁾	\$14,593	\$3,674	\$1,256	\$379	\$(1,707)	\$1,569	\$3,076	\$2,136
Earnings per share— before interest distribution ⁽²⁾	\$0.46	\$0.12	\$0.09	\$0.17	\$0.11	\$0.27	\$0.22	\$0.19
Earnings per share – after interest distribution ⁽²⁾	\$0.46	\$0.12	\$0.04	\$0.01	\$(0.05)	\$0.05	\$0.10	\$0.07

Notes:

- (1) The amounts are derived from Taiga’s audited historical financial statements which have been adjusted for a prior-period adjustment as a result of a tax audit conducted by the Canada Revenue Agency. For further information on the adjustment,

see note 14(c) 'Subsequent Events' in the audited statements for the fiscal year ended March 31, 2005 included in Taiga Forest Ltd.'s 2005 annual report.

- (2) This reflects the same for basic and fully-diluted per share basis. Earnings per share is calculated using the weighted-average number of units/shares.

Taiga operates in a seasonal industry that generally experiences higher sales in the first and second quarters and reduced sales in the late fall and winter during its third and fourth quarters of each fiscal year.

LIQUIDITY AND CAPITAL REQUIREMENTS

Summary of Financial Position

(\$ thousands)	<u>Dec. 31, 2005</u>	<u>Jun. 30, 2006</u> Restated	<u>Sep. 30, 2006</u> Restated	<u>Dec. 31, 2006</u> Restated
Current Assets	\$213,511	\$243,811	\$225,119	\$204,672
Current Liabilities	170,820	198,560	182,364	159,191
Working Capital	42,691	45,251	42,755	45,481
Subordinated notes owned by noteholders ⁽¹⁾	171,334	128,834	128,834	128,834
Total Long Term Liabilities	-	28,972	28,663	31,106
Total Assets	268,793	276,387	261,195	241,335
Shareholders' Equity ⁽¹⁾	(73,361)	(79,979)	(78,666)	(77,796)
Ratios				
Current Ratio	1.25:1	1.23:1	1.23:1	1.29:1
Total Liabilities to Shareholders' Equity ⁽¹⁾	(4.66):1	(4.46):1	(4.32):1	(4.10):1

Notes:

- (1) Impact of Stapled Unit conversion.

Pursuant to an Indenture dated September 1, 2005, the Company issued 32,205,680 Subordinated Notes (the "Notes") with a principal amount of \$5.32 for an aggregate carrying amount of \$171,334,217. Under the terms of the Indenture, the Notes are unsecured, bear interest at 14% per annum and mature on September 1, 2020. Interest on the Notes (except defaulted interest) at a rate of 14% per annum is payable monthly in arrears, and calculated as an annual interest sum divided by twelve, on or about the 15th day following the end of each month commencing October 17, 2005. The aggregate principal amount of Notes that may be issued under the Indenture is unlimited. The Notes are guaranteed by certain of the Company's subsidiary and affiliated companies. As a result of the Stapled Unit conversion, the aggregate issue price of the Notes in the amount of \$171,334,217 is charged against Retained Earnings during the current period.

On May 12, 2006 the Company completed its offer to purchase up to \$42.5 million of its outstanding 14% Notes due 2020 for a purchase price of 105% of the principal amount outstanding per Note plus accrued and unpaid interest to the date of acceptance, leaving principal value of \$128,834,217 of Notes outstanding. The offer constituted an Asset Sales Offer pursuant to the terms of the Indenture governing the subordinated notes.

Assets

Total assets were \$241.3 million as at December 31, 2006 and \$305.6 million as at March 31, 2006. The decrease of \$64.3 million is primarily the result of decreased inventories and decreased accounts receivable.

Inventory decreased by \$17.2 million to \$118.7 million as at December 31, 2006, compared to \$135.9 million as at March 31, 2006 due to improved inventory management programs such as Vendor Managed Inventory ("VMI").

Accounts receivable decreased by \$48.0 million to \$77.8 million as at December 31, 2006, compared to \$125.8 million as at March 31, 2006. Accounts receivable decreased as sales for the quarter decreased by \$25.2 million to \$232.2 million, compared to \$257.4 million in the prior year.

The net balance of land, buildings, equipment and leaseholds increased by \$0.7 million in the current quarter.

Liabilities

Total liabilities decreased from \$384.2 million as at March 31, 2006 to \$319.1 million as at December 31, 2006. The \$65.1 million decrease is mainly the result of the repurchase of subordinated note debt in the amount of \$42.5 million.

Credit facilities and bank indebtedness decreased by \$28.0 million to \$87.5 million as at December 31, 2006, compared to \$115.5 million as at March 31, 2006. This is a result of lower inventory levels and accounts receivables.

Accounts payable and accrued liabilities increased by \$2.9 million from \$60.4 million as at March 31, 2006 to \$63.3 million as at December 31, 2006. The increase is due to P4P accruals and rebate accruals. These accruals build up throughout the fiscal year and get paid out in the fourth quarter.

Changes in Non-Cash Working Capital Items

Changes in Non-Cash Working Capital:

	<i>(in thousands of dollars)</i>			
	Three months ended		Nine months ended	
	December	December	December	December
	2006	2005	2006	2005
	Restated		Restated	
	\$	\$	\$	\$
(Increase) Decrease in accounts receivable	38,242	39,193	47,966	37,728
(Increase) Decrease in income taxes recoverable/payable	1,087	(6,247)	1,625	(2,867)
(Increase) Decrease in inventories	(15,440)	(20,275)	17,212	28,593
(Increase) Decrease in prepaid expenses	1	(267)	115	(214)
Increase (Decrease) in accounts payable and accrued liabilities	(8,256)	(9,787)	4,248	(16,446)
	15,634	2,617	71,166	46,794

Working Capital

Working capital decreased by \$40.1 million to \$45.5 million as at December 31, 2006 compared to \$85.6 million as at March 31, 2006. The decrease was due to lower inventories, accounts receivables and credit facilities, offset by higher accounts payable and accrued liabilities.

Contractual obligations

There are no material changes to the contractual obligations as reported in the Management's Discussion and Analysis and audited consolidated financial statements and notes thereto included in the Company's 2006 annual report and information circular dated May 18, 2006.

Financing

Taiga utilizes GE to finance its operations. Under the GE credit facility, the Company can obtain a maximum revolving loan commitment of \$200 million from April through September and \$160 million from October through March. The credit arrangement also has an accordion feature to permanently increase the maximum limit by an additional \$50 million to a total of \$250 million. As at December 31, 2006, Taiga was utilizing \$87.5 million of the \$200 million facility. Taiga's main source of liquidity will come from cash provided by operations and the GE credit facilities. Management believes that such sources of liquidity will be sufficient to fund the new corporate structure, future working capital requirements, capital expenditures and Taiga's planned growth.

Outstanding Share Data

The Company has only one class of shares outstanding, its common shares without par value. On December 31, 2006, there were 32,205,680 outstanding. Dividend payments totalling \$2.06 million were paid in the quarter and \$6.17 million were paid fiscal year to date December 31, 2006.

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 of Taiga's control.

Dependence on Market Economic Conditions

Demand for Taiga's products depends significantly upon the residential and commercial construction market, industrial manufacturing market and home improvement market. The level of activity in the residential construction market, industrial manufacturing market and home improvement market depends on many factors, including the general demand for housing, interest rates, availability of financing, housing affordability, levels of unemployment, shifting demographic trends, gross domestic product growth, consumer confidence, changes in the rate of housing starts, and other general economic conditions. The level of activity in the industrial commercial construction market depends largely on vacancy and absorption rates, interest rates, regional economic outlooks, the availability of financing and general economic conditions. Consequently, the level of activity in the home improvement, residential and commercial construction markets and the industrial manufacturing market is determined by factors that are not within Taiga's control. Also, since such markets are sensitive to cyclical changes in the economy, future downturns in the economy or lack of further improvement in the economy could have a material adverse effect on Taiga's financial condition and results of operations.

Sales and Margin Risk and Fluctuations in Commodity Prices

Taiga's profitability depends on its ability to maintain and grow sales to its customers and to sustain its profit margins. If Taiga's operating costs increase or if the prices for which Taiga is able to sell its products fall, its sales or margins, or both, will be adversely affected.

Taiga sales volumes are affected by general economic conditions impacting the housing industry, such as prevailing interest rates, competition, and relationships with customers and suppliers. Adverse changes in any one of these factors can significantly reduce Taiga's sales volumes.

Commodity prices fluctuate with market supply and demand and other factors and these fluctuations can be volatile. Taiga's profitability depends on its ability to sell products at prices that are higher than their cost to Taiga. Cost controls are therefore critical to Taiga's profitability. Any failure in Taiga's strategy for not reducing its cost either by not managing internal costs or by not implementing effective purchasing initiatives will negatively affect its financial results. Taiga has implemented, and continues to focus on, cost controls but the success of its strategies cannot be assured.

Taiga's profitability is directly influenced by the cost of certain commodity products, such as plywood, oriented strand board, panel boards and dimension lumber. The prices of such commodity products are subject to significant volatility and are beyond the control of Taiga. There can be no assurance that Taiga's producers or manufacturers will continue to have these commodity products available to them at reasonable prices or that significant increases in the costs of such commodities will not materially adversely affect the operations of Taiga. Gross margins are dependent on the prices at which Taiga sells its products. Sudden changes in commodity prices may adversely impact Taiga's operating results.

Supply of Commodities

Dimension lumber and panel products are important components of Taiga's product mix. Due to political and environmental restrictions on logging in North America, the availability of adequate lumber supply in the future could adversely affect Taiga's growth. Taiga's policy of buying from as many established producers as possible, and its practice of establishing a number of supply arrangements, are designed to ensure continued supply, but there can be no assurance that such measures will reduce the risk of limited supply in the future.

Supply-Side Risks

Taiga distributes building products produced or supplied by a number of major suppliers. Taiga currently does not have long term contracts with any of its major suppliers and many of its arrangements with its suppliers are not contained in written agreements. Although Taiga believes that it has access to similar products from competing suppliers, any disruption in Taiga's sources of supply, or any material fluctuation in the quality, quantity or cost of such supply, could have a material adverse effect upon Taiga's results of operations and financial condition.

In addition, many of Taiga's suppliers and other service providers have unionized work forces. If one or more of Taiga's suppliers or service providers experience a material work stoppage or slow down, it could materially adversely affect Taiga's ability to secure sufficient inventory and therefore could materially adversely affect its business, financial condition, results of operations and cash flows. Also, supply shortages occur at times as a result of unanticipated demand, production difficulties or delivery delays. In such cases, building material and commodity suppliers often allocate products among distributors. Future supply shortages may occur from time to time and may have a short term material adverse effect on Taiga's results of operations and financial conditions.

Inventory Risk

The wholesale building products distribution industry is characterized by large sales volumes and low gross margins. It is highly sensitive to price, quality, timeliness of delivery and continuity of supply. In addition, the demand for some of Taiga's products is cyclical and prices can change rapidly.

Taiga's buying practices are designed to minimize the risk of rapidly changing prices, although there can be no assurance that such practices will actually reduce risk. Taiga does not generally hedge its inventory 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 optimal customer service. 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.

Currency Risk

The performance of the Canadian dollar compared to the US dollar presents a certain valuation risk for inventories purchased specifically for US markets. Taiga does not generally hedge these inventories with US exchange forwards, relying instead on rapid inventory turnover. Taiga continually monitors exchange trends and sells most US receipts into the spot market at the most advantageous rates possible. Taiga does make limited use of US exchange forward contracts to minimize currency volatility.

Credit Risk

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.

However, risk exists that some customers may not be able to meet their obligations and the loss of a large receivable would have a significant negative impact on Taiga's profitability.

Interest Risk

Taiga utilizes significant leverage to finance day-to-day operations. The interest cost of Taiga's revolving credit facility is predominately prime-based. Increased interest rates will increase Taiga's operating costs and may reduce net profit after income tax. Taiga monitors current interest rates and selectively utilizes interest rate swap agreements to mitigate the risk. As at December 31, 2006, Taiga had the following interest rate swap arrangements.

<u>Counterparty</u>	<u>Maturity Date</u>	<u>Notional Amount</u>	<u>Fixed Interest Rate</u>
HSBC Bank Canada	August 27, 2007	\$10,000,000	3.90
HSBC Bank Canada	August 25, 2009	\$10,000,000	4.50

Commitments and Contingences

a) Countervailing and Anti-Dumping Duties

The U.S. Department of Commerce ("USDOC") has conducted countervailing and anti-dumping investigations against Canadian interests on softwood lumber. The USDOC's investigations have resulted in a countervailing duty ("CVD") and an anti-dumping duty ("ADD") on U.S. imports of Canadian lumber, both to be posted by cash deposits.

On April 27, 2006, Canada and the United States reached a framework agreement which called for the U.S. to return about 80% or \$4 billion of the \$5 billion of countervailing duties and dumping fees on Canadian lumber collected since May 2002. Under the terms of the agreement, no border measures would be imposed on Canadian lumber shipments when the Random Lengths Framing Lumber Composite Price is higher than \$355 per 1000 board feet. If price falls below \$355 per 1000 board feet, a tiered export tax would be imposed.

On October 12, 2006, the 2006 Canada-US Softwood Lumber Agreement ("SLA") entered into force, which govern the shipment of Canadian softwood lumber into the United States. The agreement provided for approximately 81% of the deposits paid since May 2002 to be refunded with interests to Canadian companies. In connection with the SLA, the Government of Canada has designated Export Development Canada ("EDC") as its agent to facilitate a deposit refund mechanism in order to accelerate the return of duties and interest owed to Canadian companies by the U.S. Government.

As a result of the SLA settlement and the Company's participation through EDC, the Company recognized a one time non-operating refund of \$4.2 million net of accrued provisions.

b) Contingent Liability

Canada Revenue Agency ("CRA") and the Ontario Ministry of Finance are auditing the 2002, 2003, and 2004 taxation years for Taiga Building Products Ltd. (formerly Taiga Forest Products Ltd.) and the formation and financing of Taiga Building Products General Partnership (formerly Taiga Forest Products General Partnership). They have questioned the provincial income tax payable as a result of the financing structure, as well as the provincial abatement deducted by the financing subsidiary. Taiga Building Products Ltd. and its subsidiary have proposal letters in which the CRA has proposed to increase the provincial income tax payable and related arrears interest as a result of the financing. The CRA has indicated to the Company and other taxpayers in similar financing structures that it will accept a settlement which would disallow any benefits

from the financing. Given the settlement offer made by the CRA to Taiga Building Products Ltd. and to other taxpayers in similar situations, Taiga considers the proposal letters punitive in nature and intends to fully dispute the proposal made by the CRA. At present, it is not known what final judgments, if any, CRA will propose with respect to the audit, and as such, the amount of the potential liability, if any, cannot be determined at this time.

RELATED PARTY TRANSACTIONS

There were no related party transaction in the current quarter and none in the same quarter last year. Taiga intends to enter into transactions, from time to time, with affiliates of Berjaya Forest Products (Luxembourg) s.à.r.l. to purchase building materials inventory and for such affiliates to act as sales agents for Taiga entitling them to receive sales commissions. These transactions will be in the normal course of business and will be on the same terms as those accorded to non-related parties.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles (GAAP) requires management to make assumptions and estimates that affect the amounts reported in the financial statements and notes thereto. Financial results as determined by actual events could be different from those estimates. Significant areas requiring such estimates are accounting valuations, inventory, the composition of future income taxes, and volume rebates. Although management believes the estimates used while preparing its financial statements are reasonable, actual results may be different from these estimates.

The significant accounting policies of Taiga are described in Note 1 of the March 31, 2006 audited financial statements contained in the Taiga Building Products Ltd. 2006 annual report. The policies which Taiga believes are the most critical to assist with understanding and evaluating its reported financial results include the following:

Revenue recognition

Revenue is recognized at the time of shipment at agreed prices to credit-approved customers, consistent with common building products industry terms of trade. At the time of shipment, the significant risks and rewards of ownership have been transferred. Revenue is also recognized when reasonableness of collection is assured.

Valuation of long-lived assets

Taiga reviews the carrying values of its assets on a regular basis by reference to estimated future operation results and undiscounted net cash flows. If the carrying value of these assets exceeds estimated net recoverable amounts, a provision for impairment will be made unless the decline is temporary.

Inventory valuation

Inventories are valued at the lower of average cost and net realizable value.

Foreign currency translation

Currency denominated in US dollars has been translated into Canadian dollars as follows:

- i) Transactions at the approximate rate of exchange prevailing at the time of the transaction;
- ii) Monetary assets and liabilities at the year-end exchange rate;
- iii) Exchange gains and losses are included in earnings;
- iv) The accounts of the self-sustaining foreign operation are accounted for by the current rate method under which assets and liabilities are translated at the prevailing rates of exchange at each balance sheet date;

- v) Revenue and expense items are translated at exchange rates prevailing when such items are recognized in the statement of earnings; and
- vi) Foreign currency gains and losses are deferred as a component of equity.

FINANCIAL INSTRUMENTS

Taiga has financial instruments which include accounts receivable, bank indebtedness, credit facilities, accounts payable and accrued liabilities, the carrying values of which approximate fair values as at December 31, 2006.

Hedging

The Company may enter into foreign exchange contracts with financial institutions to hedge the value of foreign currency denominated sales and purchases. Gains and losses arising from these contracts offset the gains and losses from the underlying foreign currency transactions. The Company did not have any foreign exchange contracts outstanding to purchase or to sell foreign currencies as at December 31, 2006.

Off-Balance Sheet Arrangements

There are no material off-balance sheet arrangements.

For a detailed description of financial instruments and their associated risks, see Note 2 'Financial Instruments' in the audited statements for the fiscal year ended March 31, 2006 contained in the Taiga Building Products Ltd. 2006 annual report.

OUTLOOK

Taiga's financial performance is primarily dependent on the industrial and 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. Ideal economic conditions for the Company would include reasonable levels of economic growth, moderate interest rates and low unemployment. These conditions generally promote consumer confidence and spending on new housing, or renovation and repairs.

In Canada, the Canada Mortgage and Housing Corporation (CMHC) has reported that housing starts for the year 2006 will come in at 227,900 units, the fifth consecutive year in which housing starts exceed the 200,000 unit threshold. This was driven by strong demand in British Columbia and Alberta as workers from other parts of the country were attracted by strong job growth in these provinces. New home construction in 2007 will remain high by historical standards, exceeding the 200,000 unit threshold. However, residential construction will continue to slow in 2007 with housing starts moving to a more balanced level over the coming few years. CMHC has forecasted national housing starts to decline to 210,900 units in 2007, down 7.5%. Although low historical mortgage rates, high employment levels and rising income will provide a solid base for strong housing markets, more balanced demand, rising cost of homeownership compared to renting for first time buyers and higher mortgage carrying costs due to continued price growth will ease housing demand. In the United States, the National Association of Home Builders (NAHB) reported that total housing starts are projected to decline in 2006 and 2007 when both prices and interest rates are up. Total housing starts are forecasted to arrive at 1.8 million units in 2006 and 1.6 million units in 2007.