CanWel®

# CanWel Building Materials Group Ltd.
# 2017 ANNUAL REPORT

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HONSADOR
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**Honsador Building Products is now a valued member of CanWel Building Materials Group Ltd.**

CanWel

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## 2017 Letter to Shareholders

Following a strong finish to 2016 fueled by strong organic growth and strategic acquisitions, in 2017, we maintained our focus and disciplined approach in the continued pursuit of growth, profitability and shareholder value creation. Nearly all of the key financial metrics of your Company including revenues, gross margin and Adjusted EBITDA(x) approached or exceeded record levels. Despite some softness in the Canadian economy, and the impact of external factors such as a weak Canadian dollar and only slowly improving oil prices, CanWel continued to deliver robust financial results in 2017 as a result of the resilient business foundation we have been building for our shareholders since 1999. We further strengthened this foundation in the third quarter with CanWel's entry in the Hawaii building materials market through the acquisition of Honsador Building Products Group ("Honsador"), which ultimately expanded the geographic footprint of the Company on the west coast of the United States. The acquisition of Honsador contributed greatly to our success in late 2017, while complementing our California Cascade operations: annual revenues, gross margin, and adjusted EBITDA(x) approached or exceeded record levels at $1.1 billion, $149.0 million, and $63.7 million, respectively. These improvements are mainly attributable to our continued focus on operational efficiencies, gross margin protection, overall cost management, and notably the impact of our strategic acquisitions which have demonstrated tangible positive impact to CanWel's overall results in 2017.



While there is always more work to do, we are pleased with the net impact of our acquisitions to date, which have provided us the foundation for these improved returns, a vaster footprint and deeper brand awareness in many parts of Canada, and now in the U.S. We expect the impact of these acquisitions to meaningfully reduce our dividend payout ratio on a go forward basis.

During the year, we successfully concluded two bought deal equity financings totaling $97.2 million, with the proceeds being used to fund much of the acquisition of Honsador and also to reduce the balance on the Company's revolving credit facility earlier in the year. The recent financings which have helped fund a series of accretive acquisitions and strengthen the balance sheet, have also significantly improved the liquidity profile of the Company's listed shares, with average daily trading volumes steadily improving when compared to previous years.

We remain very enthusiastic and confident about the growth prospects ahead, and look forward to further demonstrating the strength and leverage available in our business model as we continue to take advantage of all sensible organic growth opportunities as well as strategic scenarios where we can accelerate growth.

I would like to take this opportunity to extend my appreciation to our employees. customers, suppliers and shareholders and our Board of Directors for their continued wisdom and stewardship, and for your ongoing support and loyalty. And for those who joined us in 2017, I welcome you all to the CanWel family and I look forward to further solidifying our position as the premier brand in building materials distribution in North America.

Sincerely,

Amar S. Doman
Chairman and CEO

# CanWel Building Materials Group Ltd.

## Management's Discussion and Analysis

### March 8, 2018

*This Management's Discussion and Analysis ("MD&A") provides a review of the significant developments that have impacted CanWel Building Materials Group Ltd. (the "Company") in the quarter and year ended December 31, 2017 relative to 2016. This discussion of the financial condition and results of operations of the Company should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2017 (the "2017 Consolidated Financial Statements"). The financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to the preparation of financial statements.*

*This MD&A, the associated 2017 Consolidated Financial Statements and the 2017 Letter to Shareholders (the "2017 Reporting Documents") contain historical information, descriptions of current circumstances and statements about potential future developments and anticipated financial results, performance or achievements of the Company and its subsidiaries. The latter statements, which are forward-looking statements, are presented to provide guidance to the reader but their accuracy depends on a number of assumptions and are subject to various known and unknown risks and uncertainties. Forward-looking statements are included under the headings "Business Overview", "Outlook", "Commitments and Contingencies", "Sales and Gross Margin", "Dividend Policy" and "Liquidity and Capital Resources". When used in this MD&A, such statements may contain such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the inverse or negative of these terms or other similar terminology. Forward-looking information in the 2017 Reporting Documents includes, without limitation, statements regarding funding requirements or dividends. These statements are based on management's current expectations regarding future events and operating performance, are based on information currently available to management, speak only as of the date of the 2017 Reporting Documents and are subject to risks which are described in the Company's current Annual Information Form dated March 30, 2017 ("AIF") and the Company's public filings on the Canadian Securities Administrators' website at www.sedar.com ("SEDAR") and as updated from time to time, and would include, but are not limited to, dependence on market economic conditions, sales and margin risk, acquisition and integration risks, competition, information system risks, availability of supply of products, risks associated with the introduction of new product lines, product design risk, product liability risk, environmental risks, volatility of commodity prices, inventory risks, customer and vendor risks, contract performance risk, availability of credit, credit risks, performance bond risk, currency risks, interest rate risks, tax risks, risks of legislative changes, international trade and tariff risks, resource industry risks, resource extraction risks, risks relating to remote operations, forestry management and silviculture risks, fire and natural disaster risks, key executive risk and litigation risks. In addition, there are numerous risks associated with an investment in the Company's common shares, which are also further described in the "Risks and Uncertainties" section in this MD&A and in the "Risk Factors" section of the Company's AIF, and as updated from time to time, the Company's other public filings on SEDAR. These risks and uncertainties may cause actual results to differ materially from those contained in the statements. Such statements reflect management's current views and are based on certain assumptions. Some of the key assumptions include, but are not limited to, assumptions regarding the performance of the Canadian and the United States economies, interest rates, exchange rates, capital and loan availability, commodity pricing, the Canadian and the US housing and building materials markets; international trade matters; post acquisition operation of a business; the amount of the Company's cash flow from operations; tax laws; laws and regulations relating to the protection of the environment and natural resources; and the extent of the Company's future acquisitions and capital spending requirements or planning in respect thereto, including but not limited to the performance of any such business and its operation. They are, by necessity, only estimates of future developments and actual developments may differ materially from these statements due to a number of known and unknown factors. Investors are cautioned not to place undue reliance on these forward-looking statements. All forward-looking information in the 2017 Reporting Documents is qualified by these cautionary statements. Although the forward-looking information contained these 2017 Reporting Documents is based on upon what management believes are reasonable assumptions, there can be no assurance that actual results will be* *consistent with these forward-looking statements. Certain statements included in the 2017 Reporting Documents may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than these 2017 Reporting Documents.*

*The forward-looking statements contained in the 2017 Reporting Documents are made as of the date of this report, and should not be relied upon as representing management's views as of any date subsequent to the date of this report. Except as required by applicable law, the Company undertakes no obligation to publicly update or otherwise revise any forward-looking statement, whether as a result of new information, future events, or otherwise.*

*The information in this report is as at March 8, 2018, unless otherwise indicated. All amounts are reported in Canadian dollars.*

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1. In the discussion, reference is made to EBITDA, which represents earnings from continuing operations before interest, including amortization of deferred financing costs, provision for income taxes, depreciation and amortization, asset impairment losses (if applicable) and share-based compensation. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, and therefore the measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. EBITDA is presented as we believe 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 earnings or cash flows as determined in accordance with IFRS. For a reconciliation of EBITDA to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) and Adjusted EBITDA".

2. In the discussion, reference is made to Adjusted EBITDA, which is EBITDA as defined above, before certain non-recurring or unusual items. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, The measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. Adjusted EBITDA is presented as we believe it is a useful indicator of the Company's ability to meet debt service and capital expenditure requirements from its regular business, before non-recurring items. Adjusted EBITDA should not be considered by an investor as an alternative to net earnings or cash flows as determined in accordance with IFRS. For a reconciliation from Adjusted EBITDA to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA)and Adjusted EBITDA".

3. Reference is also made to free cash flow of the Company. This is a non-IFRS measure generally used by Canadian companies as an indicator of financial performance. The measure as calculated by the Company might not be comparable to similarly-titled measures reported by other companies. Management believes that this measure provides investors with an indication of the cash available for distribution to shareholders of the Company. We define free cash flow as cash flow from operating activities excluding changes in non-cash working capital and bonding obligations, and after maintenance of business capital expenditures and funds received from other assets.



# Business Overview

The Company is a leading wholesale distributor of building materials and home renovation products and provider of wood pressure treating services in Canada, and regionally in the Western United States and Hawaii. The Company services the new home construction, home renovation and industrial markets by supplying the retail and wholesale lumber and building materials industry, hardware stores, industrial and furniture manufacturers and similar concerns. On May 13, 2016, the Company acquired Jemi Fibre Corp. ("Jemi"), as described below, expanding its operations to timber ownership and management of private timberlands and Crown forest licenses, full service logging and trucking operations, and post-peeling and pressure treating for the agricultural market. On October 2, 2017, the Company acquired Honsador Building Products group of companies ("Honsador"), as described below, with an incumbent position in the State of Hawaii, further expanding its presence in the US building distribution and treating markets.

# Business Acquisitions (the "Acquisitions")

## Purchase of Honsador Building Products Group

On October 2, 2017, the Company completed the acquisition of all issued and outstanding shares of Honsador Acquisition Corp., the parent company of Honsador (the "Honsador Acquisition"), a leading distributor of building products and electrical supplies, and the largest producer of pressure-treated wood in Hawaii. The Honsador Acquisition is expected to expand the Company's presence in the United States building distribution and treating markets, and provide an incumbent position in the State of Hawaii.

Total purchase consideration comprised of US$81.3 million, including certain preliminary post-closing adjustments. 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 Honsador Acquisition.

Further information regarding the preliminary purchase price allocation is contained in Note 7 of the 2017 Consolidated Financial Statements.

## Purchase of Jemi Fibre Corp.

On May 13, 2016, the Company completed the acquisition of all issued and outstanding shares of Jemi (the "CFC Acquisition"), a vertically integrated forest products company that operates primarily in British Columbia and Saskatchewan. On May 10, 2017, Jemi was renamed CanWel Fibre Corp. ("CFC"). The CFC Acquisition has diversified the Company's operations and revenue streams, providing vertical integration via a sustained source of fibre supply, as well as further expanded the Company's wood treatment operations by adding two specialty treating plants and a specialty sawmill, with limited product overlap.

The CFC Acquisition was completed by way of a share exchange by a plan of arrangement, pursuant to which the Company issued 2,529,405 common shares in exchange for all issued and outstanding common shares of Jemi, with an acquisition date fair value of $13.2 million.

The fair value of the common shares issued as consideration was determined with reference to the quoted price of shares of the Company as at the date of the CFC Acquisition.

The fair values of assets acquired and liabilities assumed recognized in the 2016 Consolidated Financial Statements were based on a provisional assessment of fair values while the Company completed the finalization of fair value determinations during the measurement period of up to one year after the acquisition date, in accordance with IFRS 3, Business Combinations ("IFRS 3"). The final assessment had not been completed by the date the 2016 Consolidated Financial Statements were approved for issue by management. During the second quarter of 2017, the provisional fair values were finalized taking into consideration all new information obtained during the one year measurement period, resulting in a revised gain on bargain purchase of $24.2 million. The comparative information contained in the 2017 Consolidated Financial Statements reflects this revision.

Pursuant to IFRS 3, circumstances leading up to the sale of a business may result in recognition of a bargain purchase gain if the fair value of assets acquired and liabilities assumed exceeds the amount of consideration transferred. The resulting gain is recognized in net earnings of the acquirer on the acquisition date.

The CFC Acquisition resulted in a bargain purchase gain, mainly due to the purchase price reflecting the on-going difficulties of Jemi in its ability to continue as a going concern, including its recurring working capital deficit, history of sustained losses, difficulty servicing existing high-interest senior loans, impending scheduled maturity of such senior loans, breach of certain banking covenants, and its inability to pay off or refinance senior loans, the cumulative effect of which effectively forced the sale of Jemi. Through the CFC Acquisition, as part of a larger organization, Jemi gained the ability to recapitalize and refinance certain obligations with more favourable terms, realizing immediate synergy savings and operationally therefore, having the ability to expand its market reach.

Concurrent with the CFC Acquisition, Jemi's senior loans were repaid in full using the funds raised from the Company's private placement (see "2016 Private Placement" below), and additional financing provided by the Company's lead syndicate lender under the existing credit facility.

Further information regarding the revised purchase price allocation, along with the revisions thereto, and the recognition of the bargain purchase gain is contained in Note 7 of the 2017 Consolidated Financial Statements.

## Purchase of Assets of Total Forest Industries Ltd.

On September 6, 2016, the Company completed the acquisition of certain assets and the business of Total Forest Industries Ltd. (now doing business as Total Forest Industries Limited Partnership ("TFI")) (the "TFI Acquisition") (collectively with the CFC Acquisition, the "2016 Acquisitions"), a lumber pressure treating plant in Hagersville, Ontario. The TFI Acquisition is expected to solidify the Company's presence in Ontario, complementing its existing treating facilities in Cambridge and Combermere.

The consideration transferred to the vendors was satisfied through:

a) $8.3 million cash; and

b) the issuance of a $2.4 million promissory note payable to the vendors of Total Forest Industries Ltd.'s assets, payable annually in three equal instalments commencing on August 31, 2017 and maturing on August 31, 2019.



Further information regarding the purchase price allocation is contained in Note 7 of the 2017 Consolidated Financial Statements.

## Issuance of Shares

### 2017 Private Placement

On October 2, 2017, and concurrent with the Honsador Acquisition, the Company completed a private placement of 9,832,500 subscription receipts at a price of $5.85 each, resulting in gross proceeds of $57.5 million (the "2017 Private Placement"), including subscription receipts to certain insiders[1] for proceeds of $5.6 million. The 2017 Private Placement is pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and included National Bank Financial Inc., Canaccord Genuity Corp., Raymond James Ltd., Cormark Securities Inc. and Haywood Securities Inc.

Cash proceeds raised from the 2017 Private Placement, net of issuance costs, were used as partial consideration for the Honsador Acquisition. Upon the closing of the Honsador Acquisition, the subscription receipts issued were converted into a total of 9,832,500 common shares in accordance with their terms.

### 2017 Public Offering

On April 18, 2017, the Company completed a public offering of 6,598,470 common shares, by way of prospectus, at a price of $6.10 each, resulting in gross proceeds of $40.3 million (the "2017 Public Offering"). The 2017 Public Offering was pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and included National Bank Financial Inc., Canaccord Genuity Corp., Haywood Securities Inc., Raymond James Ltd., and Cormark Securities Inc.

Cash proceeds raised from the 2017 Public Offering, net of issuance costs, were used for reducing the Company's existing revolving loan facility, which was drawn on October 2, 2017, as partial consideration for the Honsador Acquisition, and for general corporate purposes.

[1] For further details, see www.sedi.ca.

## 2016 Public Offering

On September 1, 2016, the Company completed a public offering of 9,091,000 common shares, by way of prospectus, at a price of $6.60 each, resulting in gross proceeds of $60.0 million (the "2016 Public Offering"). The 2016 Public Offering was pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and included Canaccord Genuity Corp., Raymond James Ltd., Haywood Securities Inc., Cormark Securities Inc., and Paradigm Capital Inc. Cash proceeds raised from the 2016 Public Offering, net of issuance costs, were used to redeem all of the Company's outstanding convertible debentures, provide partial consideration for the TFI Acquisition, repay a portion of the revolving loan facility, and for general corporate purposes.

## 2016 Private Placement

On May 13, 2016, and concurrent with the CFC Acquisition, the Company completed a private placement of 6,100,750 subscription receipts at a price of $4.10 each, resulting in gross proceeds of $25.0 million (the "2016 Private Placement"), including a non-brokered private placement of subscription receipts to certain insiders(1) for proceeds of $14.6 million. The 2016 Private Placement was pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and included Raymond James Ltd., Canaccord Genuity Corp., Cormark Securities Inc., Haywood Securities Inc., and Paradigm Capital Inc. Cash proceeds raised from the 2016 Private Placement, net of issuance costs, were used for reducing Jemi's senior loans, the Company's revolving loan facility and for general corporate purposes. Upon the closing of the CFC Acquisition, the subscription receipts issued were converted into a total of 6,100,750 common shares of the Company in accordance with their terms.

## Annuity Contract

During the fourth quarter of 2017, the Company purchased an annuity for $36.0 million through its defined benefit pension plan in order to mitigate its exposure to potential future volatility fluctuations in the related pension obligations and plan assets. Upon closing of the annuity purchase, non-cash actuarial based transaction costs of $4.4 million were recognized in other comprehensive income (loss), reflecting the difference in the annuity rate (which is comparable to solvency rates) as compared to the discount rate used to value the pension obligations on a going concern basis. Further information regarding the Company's pension plan and this transaction is included under the headings "Employee Future Benefits" and "Significant Accounting Judgments and Estimates", and Note 23 of the 2017 Consolidated Financial Statements.

## Foreign Exchange Forward Contracts

In order to reduce exposure to fluctuations in the United States - Canada dollar exchange rate with respect to the Honsador Acquisition, the Company entered into various foreign exchange contracts: to purchase US$40.0 million at an exchange rate of 1.2402, US$20.0 million at an exchange rate of 1.2213, US$10.0 million at an exchange rate of 1.2154, and US$10.0 million at an exchange rate of 1.2437. Realized gains totaling $1.4 million were recorded in Other income. Upon the closing of the Honsador Acquisition, the total purchased funds of US$80.0 million were used as partial consideration for the acquisition.

# Redemption of Convertible Debentures

On September 30, 2016, the Company completed an early redemption of all $43.7 million of its outstanding convertible debentures in accordance with the terms of the trust indenture governing the terms of the debentures, resulting in the payment of $44.7 million, including accrued interest.

The terms and conditions of the convertible debentures were consistent with those disclosed in Note 16 to the 2016 Consolidated Financial Statements, otherwise having a full term with a maturity date of April 30, 2017.

## Revolving Loan Facility and Non-Revolving Term Loan

The Company's revolving loan facility is provided by a lending syndicate and matures on July 10, 2021. On May 13, 2016, the lead syndicate lender provided $26.0 million in additional financing under the existing credit facility with the Company, which was subsequently amended as described below.

On July 14, 2016, the Company further amended its existing loan facilities (the "Amendment"), and syndicate participant allocations under the revolving loan facility were adjusted, and one of the syndicate participants converted $40.0 million of its allocation within the revolving loan facility to a term basis ("Timberlands Facility") while maintaining its overall existing facility commitment, and the other participants increased their revolving facility allocations by $40.0 million.

The interest rate charged on the Timberlands Facility is based on the Canadian prime rate or the Canadian Banker's Acceptance rate. The principal amount will be amortized over 15 years and is payable in quarterly instalments commencing December 31, 2016, with maturity on July 10, 2021.

The Timberlands Facility is secured by a first charge against the Company's timberlands and certain other assets, and a subordinated charge over the Company's remaining assets, and, consistent with the Company's existing facilities, requires that certain covenants be met by the Company.



Concurrent with the Honsador Acquisition, the maximum credit available under the Company's revolving loan facility was increased from $275.0 million to $300.0 million. All other material terms under the facility remained consistent with those described in Note 17 of the 2017 Consolidated Financial Statements.

Additional information regarding these transactions is contained in Note 17 of the 2017 Consolidated Financial Statements.

## Equipment Term Loan and Equipment Line

Concurrent with the Amendment, the Company entered into a revised financing agreement with Business Development Bank of Canada ("BDC"), an existing Jemi lender, to:

a) consolidate existing equipment financing arrangements with multiple lenders under a single, consolidated term loan in the amount of $17.0 million, with the principal amount amortized over 5 years and payable in monthly instalments, commencing on August 1, 2016, with maturity on July 1, 2021; and

b) establish a non-revolving equipment line in the amount of $8.0 million, available to fund future equipment purchases, with the principal amount amortized over 15 years and payable in monthly instalments, commencing on August 1, 2019, with maturity on July 1, 2025.

Pursuant to this revision, the interest rate charged is based on BDC's Floating Base Rate. The loans are secured by a first charge against the specific equipment being financed under this arrangement, and a subordinated charge over the Company's other assets, and requires that certain existing covenants be met by the Company.

Additional information regarding these transactions is contained in Note 20 of the 2017 Consolidated Financial Statements.

## Debt Exchange Agreement

On June 30, 2016, the Company entered into a debt exchange agreement with certain related parties to Jemi. Pursuant to this agreement, the previously outstanding balance of related party debt of $4.5 million was satisfied in full through the issuance of 955,414 common shares of the Company at a price of $4.71 each.

Additional information regarding this transaction is contained in Note 24 of the 2017 Consolidated Financial Statements.

## Seasonality

The Company's sales are subject to seasonal variances that fluctuate in accordance with the normal home building season, particularly in the Canadian market. The Company generally experiences higher sales in the second and third quarters compared to the first and fourth quarters. In addition, forestry operations and harvesting activities can be compromised by inaccessibility to some sites during wet seasons and extreme winter weather conditions, resulting in decreased harvest and customer delivery levels. This creates a timing difference between free cash flow earned and dividends paid. While the Company has leveled dividends to provide a regular income stream to shareholders over the course of a year, the second and third quarters have historically been the Company's most profitable.



## Results of Operations

### Selected Annual Information

| | Fiscal Year Ended December 31, | | |
|---|---|---|---|
| **(in $ millions, per share in dollars)** | **2017** | **2016** | **2015** |
| Sales | **1,136.0** | 978.3 | 824.7 |
| Earnings before income taxes | **35.8** | 51.9 | 17.0 |
| Net earnings | **28.8** | 44.2 | 12.3 |
| Net earnings before non-recurring items (1) | **31.6** | 21.8 | 13.2 |
| Net earnings per share (basic and diluted) | **0.42** | 0.86 | 0.35 |
| Net earnings per share (basic and diluted), before non-recurring items (1) | **0.46** | 0.40 | 0.37 |
| Total assets | **723.5** | 563.7 | 400.1 |
| Long-term debt (2) | **207.4** | 183.2 | 153.8 |
| Total debt | **218.3** | 192.7 | 156.0 |
| Dividends declared to shareholders | **38.4** | 30.3 | 19.9 |
| Dividends declared to shareholders (per share) | **0.56** | 0.56 | 0.56 |
| Weighted average basic shares outstanding | **68,271,808** | 51,409,974 | 35,551,386 |
| Total shares outstanding | **77,659,655** | 61,152,898 | 42,414,598 |

1. Net earnings before gain on bargain purchase relating to the CFC Acquisition, restructuring costs and directly attributable acquisition related costs.
2. Excludes current portion of long-term debt.

# Comparison of the Year Ended December 31, 2017 and December 31, 2016

## Overall Performance

The following table shows the Company's segmented results for the year ended December 31, 2017:

| (in $ thousands) | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Building Materials Distribution $ | Forestry $ | Adjustments and eliminations[1] $ | Consolidated $ | Building Materials Distribution $ | Forestry[2] $ | Adjustments and eliminations[1] $ | Consolidated $ |
| **Revenue** | | | | | | | | |
| External customers | 1,080,289 | 55,661 | - | **1,135,950** | 937,876 | 40,420 | - | **978,296** |
| Inter-segment | - | 882 | (882) | **-** | - | 633 | (633) | **-** |
| | 1,080,289 | 56,543 | (882) | **1,135,950** | 937,876 | 41,053 | (633) | **978,296** |
| **Specified income (expenses)** | | | | | | | | |
| Depreciation and amortization | (9,039) | (5,719) | - | **(14,758)** | (8,946) | (3,469) | - | **(12,415)** |
| Restructuring costs | - | (834) | - | **(834)** | - | - | - | **-** |
| Finance costs | (5,876) | (2,394) | - | **(8,270)** | (6,621) | (1,727) | - | **(8,348)** |
| Fair value adjustments | - | 7,925 | - | **7,925** | - | 1,072 | - | **1,072** |
| Gain on bargain purchase | - | - | - | **-** | - | - | 24,249 | **24,249** |
| **Net earnings** | 28,133 | 672 | - | **28,805** | 19,222 | 730 | 24,249 | **44,201** |

1. Includes inter-segment eliminations and income and expenses that are not allocated to reportable business segments.
2. Forestry business segment was added through the CFC Acquisition, and these results are for period commencing May 13, 2016.

## Sales and Gross Margin

Sales for the year ended December 31, 2017 were $1,136.0 million, which compares to $978.3 million in 2016, an increase of $157.7 million or 16.1%, due to the factors discussed below.

Sales for the Building Materials Distribution segment increased by $142.4 million or 15.2%, largely due to the Company's continuing focus on its product mix strategies and target customer base, continued strengthening of US housing markets, the results from the Honsador and TFI Acquisitions, as well as an upward trend in construction material pricing.

Sales for the Forestry segment increased by $15.2 million or 37.7%. The Forestry segment commenced operations on May 13, 2016 and therefore accounted for only seven and a half months of activity in the comparative prior year versus the full year in 2017. Sales for the segment were negatively affected by adverse weather conditions in the first and second quarters of 2017 and did not recover to seasonal expectations until mid-point of the second quarter. In addition, third quarter sales were negatively affected by wild fires throughout British Columbia, with harvesting activities temporarily halted due to forest area closures, resulting in decreased harvest and customer delivery levels. Direct damage to the Company's forest lands was minimal.

The seasonally adjusted annual housing start rate for the year was approximately 11% higher than last year[1]. The Company's sales for the year were made up of 61% construction materials, consistent with 2016, with the remaining balance of sales resulting from specialty and allied products of 33% (2016 - 35%), and forestry and other of 6% (2016 - 4%).

Gross margin dollars increased to $152.2 million in the year compared to $124.5 million in 2016, an increase of $27.7 million or 22.2%. Gross margin percentage was 13.4%, an increase from the 12.7% achieved in 2016. The increase in margin dollars and percentage is mainly due to the results from the Acquisitions, the aforementioned upward trend in construction material pricing, and a change in the Company's sales mix within general categories of construction materials and specialty and allied products.

## Expenses

Expenses for the year ended December 31, 2017 were $105.8 million as compared to $85.9 million in 2016, an increase of $19.9 million or 23.2%, due to the factors discussed below. As a percentage of sales, expenses were 9.3% for the year ended December 31, 2017, compared to 8.8% in 2016.

Distribution, selling and administration expense increased by $16.7 million, or 22.7%, to $90.2 million from $73.5 million in 2016. The increase is mainly due to the additional expenses from the operations of the Acquisitions. As a percentage of sales, these expenses were 7.9% in the year, compared to 7.5% in 2016.



Depreciation and amortization expenses increased by $2.3 million, or 18.9%, from $12.4 million in 2016 to $14.8 million in 2017. Depreciation and amortization expense for the Building Materials Distribution segment increased by $93,000, mainly due to the depreciation and amortization resulting from the Honsador Acquisition, and partially offset by certain equipment becoming fully depreciated. Depreciation and amortization for the Forestry segment increased by $2.3 million, which was largely a function of the 2016 comparative period beginning in May 13, 2016 with only seven and a half months of operations versus the full year in 2017.

Non-recurring restructuring costs for the year ended December 31, 2017 of $834,000 related to the closure of certain non-core Forestry segment operations were also incurred during the period.

## Operating Earnings

For the year ended December 31, 2017, operating earnings were $46.4 million compared to $38.6 million in 2016, an increase of $7.8 million or 20.2%, due to the foregoing factors.

## Finance Costs

Finance costs for the year were $8.3 million, consistent with 2016. Finance costs for the Building Materials Distribution segment were $745,000 lower than in 2016, mainly due to the aforementioned redemption of the Company's convertible debentures in September 2016 and the 2017 Public Offering, which reduced the revolving loan facility during the second and third quarters of 2017, and the resulting interest savings. This decrease was largely offset by an increase in finance costs within the Forestry segment of $667,000, which was a function of the 2016 comparative period beginning in May 13, 2016 with only seven and a half months of operations versus the full year in 2017.

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1. As reported by CMHC. For further information, see "Outlook".

## Acquisition Costs

Acquisition costs during the year were $3.0 million, compared to $2.6 million in 2016, and increase of $396,000 or 15.4%. These costs include management resources as well as legal, environmental, financial and other advisory services directly attributable to acquisitions. In 2016, these costs were primarily attributable to the 2016 Acquisitions, while in 2017 they primarily related to the Honsador Acquisition.

## Gain on Bargain Purchase

The year ended December 31, 2016 included the aforementioned finalization of the previously provisional gain on bargain purchase in the amount of $24.2 million relating to the CFC Acquisition.

## Earnings before Income Taxes

For the year ended December 31, 2017, earnings before income taxes were $35.8 million, compared to $51.9 million in 2016, a decrease of $16.1 million or 31.0% due to the foregoing factors, and largely as a result of the aforementioned non-recurring gain on bargain purchase relating to the CFC Acquisition. Excluding the impact of the aforementioned gain on bargain purchase, directly attributable acquisition costs and restructuring costs, earnings before income taxes for 2017 would have been $39.6 million, compared to $30.2 million in 2016, an increase of $9.4 million or 31.1% due to the foregoing factors.



## Provision for Income Taxes

For the year ended December 31, 2017, the provision for income taxes was $7.0 million compared to $7.7 million in 2016, a decrease of $730,000 or 9.5%. This amount is mainly a function of pre-tax earnings generated in the period, excluding the aforementioned gain on bargain purchase in 2016, which was non-taxable. The provision for income taxes during the year was also impacted by the US tax reform, which was substantially enacted in December 2017, resulting in a revaluation of the Company's deferred income tax assets and liabilities and a further recovery in deferred income taxes. During the year ended December 31, 2017, the Company began to utilize tax loss carry-forwards available for deduction by certain subsidiaries of the Company.

## Net Earnings

As a result of the foregoing factors, net earnings for year ended December 31, 2017 were $28.8 million compared to $44.2 million in the same period of 2016, a decrease of $15.4 million or 34.8% due to the foregoing factors impacting the overall financial performance of the Company. Excluding the impact of the aforementioned gain on bargain purchase, directly attributable acquisition costs and restructuring costs, net earnings for 2017 would have been $31.6 million, compared to $21.8 million in 2016, with an increase of $9.8 million or 45.0% due to the foregoing factors.

# Fourth Quarter Results

A summary of the unaudited results for the three months ended December 31, 2017 and 2016 is as follows:

| (in $ thousands, per share in dollars) | Three months ended December 31, 2017 | 2016[(1)] |
|---|---|---|
| Sales | **$276,220** | $214,360 |
| Gross margin | **43,126** | 26,435 |
| *Gross margin %* | ***15.6%*** | *12.3%* |
| Distribution, selling and administration expenses | **30,185** | 17,097 |
| Depreciation and amortization | **4,643** | 3,353 |
| Expenses | **34,828** | 20,450 |
| Operating earnings | **8,298** | 5,985 |
| Finance costs | **(2,358)** | (1,660) |
| Acquisition costs | **(1,806)** | (818) |
| Other loss | **(625)** | - |
| Gain on bargain purchase | **-** | 2,060 |
| Earnings before income taxes | **3,509** | 5,567 |
| (Recovery of) Provision for income taxes | **(2,248)** | 429 |
| Net earnings | **$5,757** | $5,138 |
| Net earnings per share | **0.07** | 0.08 |

1. Adjusted to reflect the measurement period finalized purchase price allocation with respect to the CFC Acquisition, and the resulting adjustments to depreciation of property, plant and equipment and the corresponding provision for income tax.

# Overall Performance

The following table shows the Company's segmented results for the quarter ended December 31, 2017:

| (in $ thousands) | Three months ended December 31, 2017 | | | | Three months ended December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Building Materials Distribution $ | Forestry $ | Adjustments and eliminations[(1)] $ | Consolidated $ | Building Materials Distribution $ | Forestry $ | Adjustments and eliminations[(1)] $ | Consolidated $ |
| **Revenue** | | | | | | | | |
| External customers | 261,441 | 14,779 | - | **276,220** | 202,844 | 11,516 | - | **214,360** |
| Inter-segment | - | 199 | (199) | **-** | - | 107 | (107) | **-** |
| | 261,441 | 14,978 | (199) | **276,220** | 202,844 | 11,623 | (107) | **214,360** |
| **Specified income (expenses)** | | | | | | | | |
| Depreciation and amortization | (3,212) | (1,431) | - | **(4,643)** | (2,032) | (1,321) | - | **(3,353)** |
| Finance costs | (1,705) | (653) | - | **(2,358)** | (978) | (682) | - | **(1,660)** |
| **Net earnings (loss)** | 5,340 | 417 | - | **5,757** | 4,198 | 940 | - | **5,138** |

1. Includes inter-segment eliminations and income and expenses that are not allocated to reportable business segments.

## Sales and Gross Margin

Sales for the quarter ended December 31, 2017 were $276.2 million compared to $214.4 million in the same period in 2016, representing an increase of $61.9 million or 28.9%, due to the factors discussed below.

Sales for the Building Materials Distribution segment increased by $58.6 million or 28.9%. The increase in this segment is mainly attributable to the Honsador Acquisition, the Company's continuing focus on its product mix strategies and target customer base, as well as an upward trend in construction material pricing.

Sales for the Forestry segment increased by $3.3 million or 28.3%. The increase is largely due to sales within the comparative quarter of 2016 being negatively impacted by adverse weather conditions across British Columbia and Saskatchewan, restricting access to certain terrain and resulting in temporarily reduced harvest and customer delivery levels.

The seasonally adjusted annual housing start rate in the quarter was approximately 16.2% higher than the rate in the same period last year[(1)]. The Company's sales for the quarter were made up of 61% construction materials, compared to 58% in 2016, with the remaining balance of sales resulting from specialty and allied products of 31% (2016 - 36%), and forestry and other of 8% (2016 - 6%).



Gross margin was $43.1 million in the quarter compared to $26.4 million in the same period in 2016, an increase of $16.7 million or 63.1%. Gross margin percentage was 15.6% in the quarter, an increase from 12.3% achieved in the fourth quarter of 2016. This increase in margin percentage is mainly due to positive contributions from the Honsador Acquisition, as well as the aforementioned upward trend in construction material pricing.

## Expenses

Expenses for the fourth quarter were $34.8 million as compared to $20.5 million for the same period in 2016, an increase of $14.4 million or 70.3%, due to the factors discussed below.

Distribution, selling and administration expenses increased by $13.1 million or 76.6%, to $30.2 million from $17.1 million in the same period in 2016. The increase is primarily due to additional expenses resulting from the Honsador Acquisition. As a percentage of sales, these expenses were 10.9% in the quarter, compared to 8.0% in the same quarter in 2016.

Depreciation and amortization expense was $4.6 million, compared to $3.4 million in the same period in 2016, an increase of $1.3 million or 38.5%. Depreciation and amortization expense for the Building Materials Distribution segment was $3.2 million, compared to $2.0 million in the same quarter last year, an increase of $1.2 million or 58.1%, mainly resulting from additional assets related to the Honsador Acquisition. Depreciation and amortization expense for the Forestry segment was $1.4 million, compared to $1.3 million in the same quarter in 2016, a slight increase of $110,000 or 8.3%.

## Operating Earnings

For the fourth quarter of 2017, operating earnings were $8.3 million compared to $6.0 million for the same period in 2016, an increase of $2.3 million or 38.6%, due to the foregoing factors.

1. As reported by CMHC. For further information, see "Outlook".

## Finance Costs

Finance costs for the quarter increased to $2.4 million from $1.7 million in the same period in 2016, an increase of $698,000 or 42.0%. Finance costs for the Building Materials Distribution segment were $1.7 million, compared to $978,000 in the same period in 2016, an increase of $727,000 or 74.3%, mainly due to higher average borrowings on the Company's revolving loan facility. Finance costs for the Forestry segment were $653,000, largely in line with $682,000 in the same period in 2016.

## Acquisition Costs

Directly attributable acquisition costs during the quarter were $1.8 million, compared to $818,000 in the same period in 2016, an increase of $988,000 or 120.8%. These costs include management resources as well as legal, environmental, financial and other advisory services directly attributable to acquisitions. In the fourth quarter of 2016, these costs were primarily attributable to the 2016 Acquisitions, while in the fourth quarter of 2017 they primarily related to the Honsador Acquisition.

## Earnings before Income Taxes

For the fourth quarter of 2017, earnings before income taxes were $3.5 million, compared to $5.6 million in the same period in 2016, a decrease of $2.1 million, due to the foregoing factors, and largely as a result of an adjustment to the non-recurring gain on bargain purchase relating to the CFC Acquisition. Excluding the impact of the aforementioned gain on bargain purchase and directly attributable acquisition costs, earnings before income taxes for the fourth quarter of 2017 would have been $5.3 million, compared to $4.3 million in 2016, an increase of $1.0 million or 23.3% due to the foregoing factors.

## (Recovery of) Provision for Income Taxes

For the fourth quarter of 2017, the recovery of income taxes was $2.2 million, compared to the provision for income taxes of $429,000 in the same quarter of 2016. This amount is mainly a function of earnings before income taxes, however, was also largely impacted by the US tax reform, which was substantially enacted in December 2017, resulting in a revaluation of the Company's deferred income tax assets and liabilities, and a further recovery in deferred income taxes.

## Net Earnings

Net earnings for the fourth quarter were $5.8 million, compared to $5.1 million in the fourth quarter of 2016, an increase of $619,000 or 12.0%, due to the foregoing factors impacting the overall financial performance of the Company. Excluding the impact of the aforementioned gain on bargain purchase and directly attributable acquisition costs, net earnings for the fourth quarter of 2017 would have been $7.1 million compared to $3.5 million in 2016, an increase of $3.4 million or 91.9% due to the forgoing factors.

## Summary of Quarterly Results

### For the Quarters ended:

| ($ and shares millions, per share in dollars) | 2017 31 - Dec | 2017 30 - Sep | 2017 30 - Jun | 2017 31 - Mar | 2016 31 - Dec | 2016 30 - Sep | 2016 30 - Jun | 2016 31 - Mar |
|---|---|---|---|---|---|---|---|---|
| Sales | **276.2** | 316.8 | 320.0 | 222.8 | 214.4 | 276.1 | 290.1 | 197.6 |
| EBITDA(1) | **11.5** | 21.3 | 18.9 | 8.2 | 10.6 | 16.0 | 40.7 | 5.4 |
| Adjusted EBITDA(1) (2) | **13.4** | 21.7 | 20.5 | 8.2 | 9.3 | 16.8 | 19.5 | 5.4 |
| Adjusted EBITDA % of sales(1) (2) | **4.9** | 6.8 | 6.4 | 3.7 | 4.4 | 6.1 | 6.7 | 2.7 |
| Earnings before income taxes(1) | **3.5** | 16.0 | 13.8 | 2.4 | 5.6 | 9.9 | 35.2 | 1.3 |
| Net earnings(1) | **5.8** | 11.6 | 9.8 | 1.7 | 5.1 | 6.9 | 31.2 | 0.9 |
| Net earnings before non-recurring items(3) | **7.1** | 12.0 | 11.0 | 1.7 | 3.7 | 7.7 | 9.7 | 0.9 |
| Net earnings per share(4) | **0.07** | 0.17 | 0.15 | 0.03 | 0.08 | 0.12 | 0.66 | 0.02 |
| Net earnings per share, before non-recurring items(3)(4) | **0.09** | 0.17 | 0.17 | 0.03 | 0.06 | 0.14 | 0.21 | 0.02 |
| Dividends declared per share | **0.14** | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 |
| Outstanding shares(4) | **77.4** | 67.8 | 66.5 | 61.2 | 61.2 | 59.6 | 47.0 | 42.4 |

1. Revised, as applicable, to reflect the measurement period finalized gain on bargain purchase and the resulting adjustments to depreciation of property, plant and equipment and the corresponding provision for income tax in the third and fourth quarters of 2016.
2. Adjusted EBITDA refers to EBITDA before the following non-recurring items: gain on bargain purchase relating to the CFC Acquisition, restructuring costs and directly attributable acquisition related costs.
3. Net earnings before gain on bargain purchase relating to the CFC Acquisition, restructuring costs and directly attributable acquisition related costs.
4. Weighted average basic shares outstanding in the period.

## EBITDA and Adjusted EBITDA

### Reconciliation of Net Earnings to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) and Adjusted EBITDA:

| (in thousands of dollars) | Three months ended December 31 2017 | Three months ended December 31 2016 | Year ended December 31 2017 | Year ended December 31 2016 |
|---|---|---|---|---|
| Net earnings | **$5,757** | $5,138 | **$28,805** | $44,201 |
| (Recovery of) Provision for income taxes | **(2,248)** | 429 | **6,977** | 7,707 |
| Finance costs | **2,358** | 1,660 | **8,270** | 8,348 |
| Depreciation of property, plant and equipment | **3,010** | 2,605 | **10,909** | 9,435 |
| Amortization of intangible assets | **1,633** | 748 | **3,849** | 2,980 |
| Impairment loss on property, plant and equipment | **1,039** | - | **1,039** | - |
| Share-based compensation | **-** | - | **29** | 20 |
| EBITDA | **11,549** | 10,580 | **59,878** | 72,691 |
| Acquisition costs | **1,806** | 818 | **2,964** | 2,568 |
| Restructuring costs | **-** | - | **834** | - |
| Gain on bargain purchase | **-** | (2,060) | **-** | (24,249) |
| Adjusted EBITDA | **$13,355** | $9,338 | **$63,676** | $51,010 |

EBITDA for the three months ended December 31, 2017 was $11.5 million compared to $10.6 million in the same quarter of 2016, an increase of $969,000 or 9.2%. EBITDA for the fourth quarter of 2017 was impacted by the aforementioned non-recurring directly attributable acquisition related costs of $1.8 million, compared to $818,000 of acquisition related costs and an adjustment to the aforementioned gain on bargain purchase of $2.1 million in the same quarter of 2016. Adjusted EBITDA before these non-recurring costs was $13.4 million, compared to $9.3 million in the same period in 2016, an increase of $4.0 million or 43.0% compared to the same quarter in 2016. The increase in Adjusted EBITDA relates largely to the results from the Honsador Acquisition, as well as the aforementioned improvements in the quarter.

EBITDA for the year ended December 31, 2017 was $59.9 million compared to $72.7 million in 2016, a decrease of $12.8 million or 17.6%. EBITDA for 2017 was impacted by one-time directly attributable acquisition related costs of $3.0 million, compared to $2.6 million in 2016, and $834,000 in restructuring costs, and EBITDA for 2016 was impacted by the aforementioned gain on bargain purchase of $24.2 million. Adjusted EBITDA before these one-time items was $63.7 million in 2017 compared to $51.0 million in 2016, an increase of $12.7 million or 24.8% compared to 2016. The increase in Adjusted EBITDA relates primarily to the results of the Acquisitions.

# Financial Condition



## Liquidity and Capital Resources

During the year ended December 31, 2017, the Company generated $2.7 million in cash, compared to consuming $128,000 in 2016. The following activities during the year were responsible for the change in cash.

Operating activities generated $32.9 million in cash, before non-cash working capital changes, compared to $28.8 million in 2016, a year-over-year increase of $4.1 million. This improvement is primarily a result of the aforementioned year-over-year increase in net earnings, when factoring out 2016's non-cash gain on bargain purchase.

During the year ended December 31, 2017, changes in non-cash working capital items consumed $2.2 million in cash, compared to $25.6 million in 2016. The change in working capital in the year was comprised of an increase in trade and other receivables of $3.5 million, an increase in inventory of $9.3 million, an increase in prepaid expenses of $186,000, and an increase in trade and other payables of $10.8 million. The year-over-year $16.6 million variance in cash consumed by changes in non-cash working capital is driven by this year's increased business activity levels in the Company's legacy business units and recently acquired entities.

During the year ended December 31, 2017, financing activities generated $75.9 million of cash, compared to $10.0 million in 2016. Shares issued, net of issuance costs, generated $91.9 million of cash compared to $78.9 million in 2016, relating to this year's aforementioned 2017 Public Offering and 2017 Private Placement, compared to last year's 2016 Public Offering and the 2016 Private Placement included last year.

Dividends paid to shareholders amounted to $36.1 million, compared to $27.7 million in 2016. The increase in dividends paid was due to the aforementioned 2017 Public Offering, 2016 Public Offering, 2016 Private Placement, shares issued pursuant to the CFC Acquisition and the debt exchange agreement resulting in a higher weighted average number of shares in the current year.

The annual scheduled installment payments of promissory notes consumed $2.7 million of cash, compared with $1.9 million in 2016. Payment of finance lease liabilities consumed $654,000 of cash compared to $6.8 million in 2016, mainly due to CFC's activities. Financing costs on borrowings consumed $1.2 million, compared to $2.0 million during 2016. The revolving loan facility increased by $31.0 million, compared to $25.8 million in 2016. The Company was not in breach of any of its covenants during the year ended December 31, 2017.

Repayments of the non-revolving term loan consumed $2.7 million, compared to net funds received of $39.3 million in 2016 and used to pay a portion of Jemi's callable loan, which consumed a total of $52.2 million of cash. Repayments of equipment term loans consumed $3.5 million, compared to net funds received of $5.4 million in 2016, due to CFC's activities.

During the comparative year ended December 31, 2016, repayment of demand loans consumed $3.2 million of cash, and repayment of convertible debentures and interest on convertible debentures consumed a combined $45.6 million of cash, due to the aforementioned early redemption of convertible debentures. There were no such transactions during 2017.

Investing activities consumed $103.9 million of cash, compared to $13.3 million in 2016. Cash purchases of property, plant and equipment relating to the Building Materials Distribution segment were $2.4 million, compared to $1.5 million in 2016. Cash purchases of property, plant and equipment relating to the Forestry segment were $4.1 million, compared to $3.4 million in 2016. Proceeds from disposition of property, plant and equipment were $3.7 million, largely related to equipment sold with respect to the closure of certain non-core Forestry segment operations, compared to $535,000 in 2016. Investing activities in 2017 included the Honsador Acquisition and the related bank indebtedness acquired, whereas 2016 included the TFI Acquisition and bank indebtedness acquired through the CFC Acquisition.

The Company's cash flows from operations and credit facilities are expected to be sufficient to meet operating requirements, capital expenditures and anticipated dividends. The Company's lease obligations require monthly installments and these payments are all current.



## Total Assets

Total assets of the Company were $723.5 million at December 31, 2017, versus $563.7 million at December 31, 2016, an increase of $159.8 million. Current assets increased by $85.4 million, largely due to receivables, inventory and prepaid expenses from the Honsador Acquisition. In addition, increased business activity towards the end of 2017, driven by the Company's legacy business units and recently acquired entities, resulted in higher receivables and inventory levels as at December 31, 2017. Timber increased by $5.3 million, mainly as a result of fair value adjustments recognized during the year relating to standing timber, which is carried at fair value less cost to sell, and is a function of estimated growth and harvest rates, costs of sustainable forest management, log pricing assumptions and the discount rate used. Intangible assets increased by $30.4 million and goodwill increased by $38.6 million, mainly due to the Honsador Acquisition.

Long-term assets within the Building Materials Distribution segment were $248.7 million as at December 31, 2017, compared to $175.8 million as at December 31, 2016, an increase of $72.9 million mainly due to the addition of property, plant and equipment, intangible assets and goodwill as a result of the Honsador Acquisition. Long-term assets within the Forestry segment were $132.0 million as at December 31, 2017, compared to $130.5 million, an increase of $1.5 million, mainly due the aforementioned increase in the value of standing timber and purchases of property, plant and equipment, and partially offset by depreciation.

## Total Liabilities

Total liabilities were $363.3 million at December 31, 2017, versus $285.0 million at December 31, 2016, an increase of $78.3 million. The increase in current liabilities was $47.8 million, largely as a result of the Honsador Acquisition, as well as increased business activity towards the end of 2017, driven by the Company's legacy business units and recently acquired entities, which resulted in higher trade and other payables as at December 31, 2017.

The increase in long-term liabilities was $30.5 million, mainly related to the increase in the revolving loan facility in order to finance the working capital requirements commensurate with the business activities of the Company. Deferred income tax liabilities increased by $8.9 million, mainly due to the Honsador Acquisition. These increases were partially offset by decreases in post-retirement benefits of $2.5 million, largely as a result of the aforementioned annuity buy-in, and the settlement of a provision for onerous operating leases of $1.5 million.

### Outstanding Share Data

As at March 8, 2018, there were 77,693,735 common shares issued and outstanding.

### Dividends

During the year ended December 31, 2017, the Company declared quarterly dividends to shareholders of $0.14 per share, resulting in aggregate dividends of $38.4 million. A dividend was declared on December 15, 2017, to shareholders of record on December 29, 2017, and was paid on January 15, 2018.

| Record date | Amount<br>$ | Per share<br>$ |
|---|---|---|
| March 31, 2017 | **8,566** | 0.14 |
| June 30, 2017 | **9,490** | 0.14 |
| September 30, 2017 | **9,496** | 0.14 |
| December 29, 2017 | **10,872** | 0.14 |
| | **38,424** | 0.56 |



## Dividend Policy

The Board of Directors reviews the Company's dividend policy periodically in the context of the Company's overall profitability, free cash flow, capital requirements and other business needs.

Looking forward, the Company is continually assessing its dividend policy based on the considerations outlined above as well as other possible factors that may become relevant in the future and, accordingly, there can be no assurance that the current quarterly dividend of $0.14 per share will be maintained. Furthermore, the Company may not use future growth in its profitability or free cash flow, if any, to increase its dividend in the near or medium term, but may focus on reducing the ratio of its dividends paid to its net earnings or free cash flow and using any additional cash to pay down debt, fund business acquisitions, capital projects or such other uses as determined by the Board of Directors.

## Hedging

The Company undertakes sale and purchase transactions in foreign currency as part of its Canadian operations and therefore, is subject to gains and losses due to fluctuations in foreign exchange rates.

The Company at times uses derivative financial instruments for economic hedging purposes in managing lumber price risk and foreign currency risk through the use of futures contracts and options. These derivative financial instruments are designated as held for trading with changes in fair value being recorded in Other income (loss) in net earnings.

At December 31, 2017, the Company held various outstanding foreign exchange contracts to purchase an aggregate of US$1.9 million at exchange rates ranging between 1.2258 and 1.2888 (2016 - $nil) for economic hedging purposes, and unrealized gains totaling $27 (2016 - $nil) were recorded in Other income. When held by the Company, foreign currency and lumber derivative instruments are traded through well-established financial services firms with a long history of providing trading, exchange and clearing services for commodities and currencies. As trading activities are closely monitored by senior management, the risk of credit loss on these financial instruments is considered low.

# Related Party Transactions

The Company has transactions with related parties in the normal course of operations at agreed amounts between the related parties.

Certain distribution facilities used by the Company to store and process inventory are leased from a company in which Amar Doman, a director and officer, and Rob Doman, an officer of the Company, have a minority interest and the land and buildings of certain of the treatment plants are leased from entities solely controlled by Amar Doman. All lease rates were market tested in advance of the signing of the lease agreements and were determined to be at market rates. Lease payments to such related parties were $3.2 million in the year ended December 31, 2017, consistent with 2016. The minimum payments under the terms of these leases are as follows: $3.5 million in 2018, $3.5 million in 2019, $2.4 million in 2020, $2.1 million in 2021, $1.6 million in 2022, and $14.9 million thereafter.

During the year ended December 31, 2017, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of $559,000 (2016 - $981,000) by a company owned by Rob Doman. As at December 31, 2017, payables to this related party were $133,000 (2016 - $532,000). Additionally, fees of $1.2 million (2016 - $1.3 million) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman. As at December 31, 2017, payables to this related party were $55,000 (2016 - $48,000).



During the year the Company purchased $2.6 million (2016 - $2.9 million) of product from a public company in which Amar Doman has an ownership interest and is also a director and officer. These purchases are in the normal course of operations and are recorded at exchange amounts. As at December 31, 2017, payables to this related party were $99,000 (2016 - $76,000).

During the year subscriptions received from certain insiders of the Company for proceeds of $5.6 million (2016 - $14.6 million), as discussed above, including $5.0 million in subscription receipts from Amar Doman (2016 - $6.0 million), $nil from Rob Doman (2016 - $1.9 million) and $472,000, in aggregate, from several members of key management personnel, directors and officers of the Company (2016 - $567,000)[1]. The balance of subscriptions were received from other non-management insiders.

Additional information regarding these related party transactions is contained in Note 29 of the 2017 Consolidated Financial Statements.

In addition to the aforementioned related party transactions, certain subsidiaries of the Company have entered into leases for various facilities and equipment, with entities affiliated with individuals who are directors and officers of such subsidiaries, in connection with the Acquisitions. During the year ended December 31, 2017, such lease payments totaled $1.2 million (2016 - $1.3 million), and trucking services and other related services paid totaled $70,000 (2016 - $573,000).

# Commitments and Contingencies

## Future and Contractual Obligations

In addition to various debt facilities, an earn-out commitment and finance leases covering certain transportation equipment, the Company has operating lease commitments for the rental of most of its distribution centres and treatment plant properties in Canada and the United States, and for vehicles, warehouse equipment, and a computer hosting contract.

1. For further details, see www.sedi.ca.

The following table shows, as at December 31, 2017, the Company's contractual obligations within the periods indicated:

| Contractual Obligations | Total | 2018 | 2019-2020 | 2021-2022 | Thereafter |
|---|---|---|---|---|---|
| (in thousands of dollars) | $ | $ | $ | $ | $ |
| Revolving loan facility[1] | 176,249 | 5,278 | 10,555 | 160,416 | - |
| Non-revolving term loan[2] | 42,190 | 4,374 | 8,365 | 29,451 | - |
| Promissory notes[3] | 4,566 | 3,743 | 823 | - | - |
| Equipment term loan[4] | 13,034 | 3,813 | 7,282 | 1,939 | - |
| Equipment line[5] | 3,013 | 87 | 415 | 474 | 2,037 |
| Earn-out commitment[6] | 2,065 | - | - | 2,065 | - |
| Finance leases[7] | 2,716 | 980 | 1,077 | 577 | 82 |
| Operating leases[7] | 133,080 | 20,560 | 36,075 | 23,589 | 52,856 |
| Total contractual obligations | 376,913 | 38,835 | 64,592 | 218,511 | 54,975 |

1. Interest has been calculated based on the average borrowing under the facility for the year ended December 31, 2017 utilizing the interest rate payable under the terms of the facility at December 31, 2017. This facility matures on July 10, 2021.
2. Annual principal payments are amortized over 15 years beginning on December 31, 2016, with interest payable quarterly. For additional information, see Note 17 of the 2017 Consolidated Financial Statements.
3. Additional information is contained in Note 18 of the 2017 Consolidated Financial Statements.
4. Monthly principal repayments are amortized over 5 years, with interest payable monthly. Additional information is contained in Note 20 of the 2017 Consolidated Financial Statements.
5. Monthly principal repayments amortized over 15 years, commencing on August 1, 2019, with maturity on July 1, 2025.
6. Additional information is contained in Note 22 of the 2017 Consolidated Financial Statements.
7. Additional information is contained in Note 30 of the 2017 Consolidated Financial Statements.



## Claims

During the normal course of business, certain product liability and other claims have been brought against the Company and, where applicable, its suppliers. While there is inherent difficulty in predicting the outcome of such matters, management has vigorously contested the validity of these claims, where applicable, and, based on current knowledge, believes that they are without merit and does not expect that the outcome of any of these matters, in consideration of insurance coverage maintained, or the nature of the claims, individually or in the aggregate, would have a material adverse effect on the consolidated financial position, results of operations or future earnings of the Company.

## Guarantees

The Company has issued letters of credit totaling $1.5 million (2016 - $1.6 million) in respect of historical obligations, pre-dating 1999, for a non-registered executive pension plan for former executives.

## Significant Accounting Judgments and Estimates

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. Significant areas requiring estimates are goodwill and related impairment testing, inventory valuation and obsolescence, deferred tax assets and liabilities valuation, recoverability of trade and other receivables, certain actuarial and economic assumptions used in the determination for the cost and accrued benefit obligations of employee future benefits, classification of lease agreements, valuation of timber, determination of reforestation provision and judgments regarding aggregation of reportable segments.

## 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, 2017 relates to the Company's acquisitions of various businesses. 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 fair value 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 fair value of each cash-generating unit, including a discount rate, a growth rate and after-tax cash flows. When the carrying amount of the cash-generating unit exceeds its fair value, the fair value of goodwill related to the cash-generating unit is reduced by the excess of this carrying value and recognized as an impairment loss.

## Timber

At each reporting date, timber is valued at fair value less costs to sell with any change therein, including the impact of growth and harvest, recognized in net earnings for the period. Significant judgment is used in determining the fair value with reference to independent third party valuators and recent comparatives of standing timber sales, costs of sustainable forest management, log pricing and harvest volume assumptions, the discount rate used, and the resulting net present value of future cash flows for standing timber.



## Reforestation Provision

Management uses judgment in determining the value of the reforestation provision. Due to the general long-term nature of the liability, the most significant areas of uncertainty in estimating the provision are the future costs that will be incurred, the inflation rate, and the risk-adjusted discount rate.

## Employee Future Benefits

The cost of defined benefit pension plans and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future.

i. **Discount rate**
The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have maturity profiles that are similar to the underlying cash flows of the defined benefit obligation.

ii. **Other assumptions**
The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates.

## Inventory Valuation

Under IFRS, inventories must be recognized at the lower of cost or their Net Realizable Value ("NRV"), which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. IFRS requires that the estimated NRV be based on the most reliable evidence available at the time the estimates are made of the amounts that inventories are expected to realize. The measurement of an inventory write-down to NRV is based on the Company's best estimate of the NRV and of the Company's expected future sale or consumption of the Company's inventories. Due to the economic environment and continued volatility in the homebuilding market, there is uncertainty as to whether the NRV of the inventories will remain consistent with those used in the Company's assessment of NRV at period end. As a result there is the risk that a write-down of on hand and unconsumed inventories could occur in future periods. Also, a certain portion of inventory may become damaged or obsolete. A slow moving reserve is recorded, as required, based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence.

Inventory includes harvested timber, the cost of which is based on its fair value less costs to sell, and forms a component of the carrying value of log inventory. Harvested timber is subsequently processed into logs and carried at the lower of cost or NRV. Significant judgment is used in determining the fair value of timber with reference to independent third party valuators and recent comparatives of standing timber sales.

## Allowance for Doubtful Accounts

It is possible that certain trade receivables may become uncollectible, and as such an allowance for these doubtful accounts is maintained. The allowance is based on the estimated recovery of trade receivables and incorporates current and expected collection trends. These estimates will change, as necessary, to reflect market or specific industry risks, as well as known or expected changes in the customers' financial position.

## Income Taxes

At each reporting date, a deferred income tax asset may be recognized for all tax deductible temporary differences, unused tax losses and income tax reductions, to the extent that their realization is probable. The determination of this requires significant judgment. This evaluation includes review of the ability to carry-back operating losses to offset taxes paid in prior years; the carry-forward periods of the losses; and an assessment of the excess of fair value over the tax basis of the Company's net assets. If based on this review, it is not probable such assets will be realized then no deferred income tax asset is recognized.



Management believes the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results may differ from these estimates.

## Leases

When assessing the classification of a lease agreement between finance and operating, certain estimates and assumptions need to be made and applied, which include, but are not limited to, the determination of the expected lease term and minimum lease payments, the assessment of the likelihood of exercising options and estimation of the fair value of the lease property.

## Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the Chief Executive Officer.

The Company is managed as two reportable business segments which offer different products, require different production processes, and are based on how financial information is produced internally for the purposes of making operating decisions. The following summary describes the operations of each of the Company's reportable segments:

a) *Building Materials Distribution* – wholesale distribution of building materials and home renovation products, including value-added services such as lumber pressure treating; and

b) *Forestry* – timber ownership and management of private timberlands and Crown forest licenses, logging and trucking operations, and value-added services such as post-peeling and post and pole pressure treating operations.

## Changes in Accounting Standards

There have been amendments to existing standards under IAS 7, *Statement of Cash Flows*, and IAS 12, *Income Taxes*.

Amendment IAS 7, *Statement of Cash Flows*, clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendment to IAS 12, *Income Taxes*, clarifies that:

a) The carrying amount of an asset does not limit the estimation of probable future taxable profits;

b) When comparing deductible temporary differences with future taxable profits, the future taxable profits exclude tax deductions resulting from the reversal of those deductible temporary differences; and

c) In circumstances in which tax laws restrict the utilization of tax losses in such a way that they may be deducted only against income of a specified type, one should assess whether a deferred tax asset can be recognized in combination with deferred taxes resulting from deductible temporary differences of the same type.



The Company has adopted these amendments effective January 1, 2017. The adoption of these amendments did not result in any adjustments.

### New Accounting Pronouncements Issued but not yet Applied

The International Accounting Standards Board ("IASB") periodically issues new standards and amendments or interpretations to existing standards. The new pronouncements listed below are those that we consider the most significant. They are not intended to be a complete list of new pronouncements that may affect the Company's financial statements.

### IFRS 9 – Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39, *Financial Instruments: Recognition and Measurement*, to be subsequently measured at amortized cost or fair value. Specifically, financial assets that are held with a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payment of principal and interest on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods.

Requirements for classification and measurement of financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in OCI.

The IASB issued a new impairment model for financial assets based on expected credit losses in July 2014. The new standard requires entities to account for expected credit losses from when financial instruments are first recognized and it lowers the threshold for recognition of full lifetime expected losses.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company will not adopt this standard before the effective date. The Company will continue to evaluate the impact of this standard on its audited annual consolidated financial statements.

### IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which is a replacement of IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations. IFRS 15 provides a single, principles-based five-step model that will apply to all contracts with customers with limited exceptions. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. IFRS 15 requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities.

IFRS 15 will be applied to fiscal years beginning on or after January 1, 2018. Earlier application is permitted. The Company will not adopt this standard before the effective date. The Company will continue to evaluate the impact of this standard on its audited annual consolidated financial statements.

### IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, *Leases*, replacing IAS 17, *Leases*, and related interpretations. IFRS 16 sets out principles of recognition, measurement, presentation and disclosure of leases for both parties to a contract, the lessee and the lessor.



IFRS 16 will be applied to fiscal years beginning on or after January 1, 2019. Earlier application is permitted. The Company will not adopt this standard before the effective date. The Company will continue to evaluate the impact of this standard on its audited annual consolidated financial statements.

## Disclosure Controls and Internal Controls over Financial Reporting

### Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to: (a) provide reasonable assurance that material information required to be disclosed by us is accumulated and communicated to management to allow timely decisions regarding required disclosure; and (b) ensure that information required to be disclosed by us is recorded, processed, summarized, and reported within the time periods specified in applicable securities legislation. The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2017. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosure in the Issuer's Annual and Interim Filings, with the exception of the following limitation of scope, are effective for the purposes set out above.

### Limitations on Scope of Design

The scope of design and operating effectiveness over disclosure controls and internal controls over financial reporting has been limited to exclude control, policies and procedures of Honsador, which was acquired on October 2, 2017, consistent with past Company practices. The summary financial information of Honsador is presented below.

| **(in thousands of dollars)** | **2017** |
|---|---|
| Revenue | 40,948 |
| Net loss | (596) |

| **(in thousands of dollars)** | **2017** |
|---|---|
| Current assets | 65,842 |
| Long-term assets | 79,656 |
| Current liabilities | 33,693 |
| Long-term liabilities | 11,456 |

The scope limitation is in accordance with section 3.3(1)(b) of National Instrument 52-109, which allows an issuer to limit the assessment of the design of disclosure and control procedures and internal control over financial reporting to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days after the acquisition date.

As at December 31, 2016, the scope of the assessment of design and operating effectiveness over disclosure controls and internal controls over financial reporting had been limited to exclude control, policies and procedures of CFC, which was acquired on May 13, 2016. During the year ended December 31, 2017, and within 365 days after the acquisition date, management has designed, established and maintained an adequate system of internal control over CFC's financial reporting.

### Internal Control over Financial Reporting

Management is responsible for designing, establishing and maintaining an adequate system of internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS.



Management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017 based on the provisions of Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, management concluded that its internal control over financial reporting, as defined by National Instrument 52-109, with the exception of the aforementioned limitation of scope, is effective and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

### Changes in Internal Control over Financial Reporting

There were no material changes in design of the Company's internal controls over financial reporting for the quarter and year ended December 31, 2017 that have affected, or are reasonably likely to affect, the Company's internal control over financial reporting.

## Risks and Uncertainties

The Company is subject to normal business risks associated with similar firms operating within the building materials industry in Canada, which are described in greater detail in the Company's AIF dated March 30, 2017, and the Company's public filings on www.sedar.com, which the reader is encouraged to review, and which are, or may be, updated from time to time, after the date therein.

## Outlook

The Canadian economy is expected to grow by 2.2% in 2018, before slowing to 1.6% in 2019, according to the most recent estimates published by the Bank of Canada ("BoC"). The BoC also reported that recent indicators have bolstered their confidence in the economic outlook, with inflation close to target and the economy operating close to capacity. Based on this improving outlook, the BoC raised its key short-term lending rate by 0.25% in January 2018 to 1.25%, which is the third such increase since July 2017. Despite this optimism, the BoC did stress that the uncertainty surrounding the future of the North American Free Trade Agreement (NAFTA) is clouding the economic outlook.

The Company's focus in the near term remains to improve sales with its target customer base while continuing to optimize gross margins, integrate recent acquisitions and maintain tight controls over expenses, including those relating to the operations of the CFC Acquisition and the recent Honsador Acquisition. The Company is committed to enhancing its offering of specialty and allied products to the Canadian and Unites States markets. Management's focus on cash flow, primarily consisting of the management of inventory and trade receivables, remains paramount, and such discipline was introduced to the operations of the forestry operating segment, including in respect of its capital expenditure plans.



According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for Canadian housing starts was 219,763 in 2017, compared to 197,915 in 2016. CMHC forecasts housing starts for the year 2018 to be in the range from 192,200 units to 203,000 units, and in the range from 192,300 units to 203,800 units for 2019. The Canadian Real Estate Association reports 516,267 existing homes changed hands in Canada in 2017, but expects a decrease to 486,600 in 2018. The recent introduction of stricter federal mortgage rules, the introduction of British Columbia and Ontario foreign buyers' and speculation taxes, foreign exchange fluctuations and overall affordability issues, may affect the housing market, although any potential impact is not predictable.

According to the US Census Bureau, US housing starts have been growing steadily over the past four years, reaching 1,264,100 units in 2017, and, according to the Federal Home Mortgage Corporation (Freddie Mac) Economic & Housing Research Group, are estimated to continue the current trend and reach 1,300,000 units for the 2018 year and 1,400,000 units for the 2019 year. The US economy has been expanding at a robust pace and is expected to average about 2.5% over the 2018-2019 period. US housing construction has experienced a strong start to 2018, with housing starts exceeding expectations by 9.7% and building permits in January 2018 soaring to their highest level since 2007.

Sawlog prices have experienced an upward trend in pricing largely attributable to ongoing log supply constraints, particularly in British Columbia, where the situation had been exacerbated by the 2017 wild fire activity. Prices are expected to remain strong in 2018 as the demand from the US continues to be high due to supply shortfalls and the expected increase in US housing starts in 2018. There can be no assurance, however, these pricing trends will be sustainable, resulting in potential adverse impacts on the Company's forestry segment.

The Softwood Lumber Agreement with the US expired in October 2015 and as anticipated, the US Department of Commerce introduced both countervailing and anti-dumping duties on Canadian softwood lumber imports. The Company will continue to carefully manage the business to minimize any potential impacts these newly implemented duties. The Company does not export softwood lumber from Canada to the US.

Management will continue to closely monitor legacy customers, those relating to the CFC Acquisition, its operations and potential seasonal weather impacts, as well as focus on operations relating to the Honsador Acquisition, so that the Company can be appropriately positioned to participate in a continuing economic recovery and be ready to work hard to translate revenue gains into higher earnings.

# CanWel Building Materials Group Ltd.

## Consolidated Financial Statements

December 31, 2017 and 2016
(in thousands of Canadian dollars)

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of **CanWel Building Materials Group Ltd.**

We have audited the accompanying consolidated financial statements of **CanWel Building Materials Group Ltd.**, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of earnings and comprehensive earnings, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

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

**Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **CanWel Building Materials Group Ltd.** as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants

Vancouver, Canada
March 8, 2018

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT DECEMBER 31

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

| (in thousands of Canadian dollars) | Notes | 2017<br>$ | 2016<br>(Note 7)<br>$ |
|---|---|---|---|
| **Assets** | 17 | | |
| **Current assets** | | | |
| Cash | 15 | **6,744** | - |
| Trade and other receivables | 8 | **104,505** | 85,467 |
| Income taxes receivable | 27 | **2,605** | 1,214 |
| Inventories | 9 | **221,495** | 165,437 |
| Prepaid expenses and deposits | | **7,387** | 5,225 |
| | | **342,736** | 257,343 |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **93,586** | 95,336 |
| Timber | 11 | **64,249** | 58,905 |
| Deferred income tax assets | 27 | **4,429** | 3,658 |
| Intangible assets | 12 | **50,195** | 19,792 |
| Goodwill | 13 | **164,807** | 126,217 |
| Other assets | | **3,496** | 2,454 |
| | | **380,762** | 306,362 |
| **Total assets** | | **723,498** | 563,705 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Bank indebtedness | 15 | **9,755** | 6,277 |
| Trade and other payables | | **83,620** | 53,935 |
| Performance bond obligations | 16 | **14,101** | - |
| Dividends payable | 24 | **10,872** | 8,561 |
| Income taxes payable | 27 | **-** | 1,048 |
| Current portion of non-current liabilities | 17-21 | **11,438** | 10,689 |
| Provision for onerous operating leases | 14 | **-** | 1,500 |
| | | **129,786** | 82,010 |
| **Non-current liabilities** | | | |
| Revolving loan facility | 17 | **159,468** | 129,451 |
| Non-revolving term loan | 17 | **33,554** | 36,300 |
| Leasehold inducements | | **1,202** | 1,503 |
| Promissory notes | 18 | **802** | 4,378 |
| Finance lease liabilities | 19 | **2,524** | 857 |
| Equipment term loan and equipment line | 20 | **11,099** | 12,197 |
| Reforestation and environmental | 21 | **1,057** | 958 |
| Earn-out commitment | 22 | **1,448** | 1,328 |
| Deferred income tax liabilities | 27 | **18,615** | 9,746 |
| Retirement benefit obligations | 23 | **3,708** | 6,256 |
| | | **233,477** | 202,974 |
| **Total liabilities** | | **363,263** | 284,984 |
| **Equity** | | | |
| Common shares | 24 | **498,639** | 405,048 |
| Contributed surplus | | **10,769** | 10,769 |
| Foreign currency translation | | **(49)** | 4,335 |
| Deficit | | **(149,124)** | (141,431) |
| | | **360,235** | 278,721 |
| **Total liabilities and equity** | | **723,498** | 563,705 |
| Commitments and contingencies | 30 | | |

**Approved by the Board of Directors**

(signed) "Amar S. Doman" Director

(signed) "Sam Fleiser" Director

CanWel®

## CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS FOR THE YEARS ENDED DECEMBER 31

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

| (in thousands of Canadian dollars, except per share amounts) | Notes | 2017 $ | 2016 (Note 7) $ |
|---|---|---|---|
| **Revenue** | 34,35 | **1,135,950** | 978,296 |
| **Cost of sales** | 25 | **983,777** | 853,828 |
| **Gross margin from operations** | | **152,173** | 124,468 |
| **Expenses** | | | |
| Distribution, selling and administration | 26 | **90,198** | 73,478 |
| Depreciation of property, plant and equipment | 10 | **10,909** | 9,435 |
| Amortization of intangible assets | 12 | **3,849** | 2,980 |
| Restructuring costs | | **834** | - |
| | | **105,790** | 85,893 |
| **Operating earnings** | | **46,383** | 38,575 |
| Finance costs | 28 | **(8,270)** | (8,348) |
| Acquisition costs | 7 | **(2,964)** | (2,568) |
| Other income | | **633** | - |
| Gain on bargain purchase | 7 | **-** | 24,249 |
| **Earnings before income taxes** | | **35,782** | 51,908 |
| **Provision for income taxes** | 27 | **6,977** | 7,707 |
| **Net earnings** | | **28,805** | 44,201 |
| **Other comprehensive (loss) income** | | | |
| Exchange differences on translation of foreign operations (1) | | **(4,384)** | (1,875) |
| Actuarial gain (loss) from pension and other benefit plans, net of tax of $707 (2016 - tax recovery of $200)(2) | 23,27 | **1,926** | (568) |
| **Comprehensive earnings** | | **26,347** | 41,758 |
| **Net earnings per share** | | | |
| Basic and diluted | | **0.42** | 0.86 |
| **Weighted average number of shares** | | | |
| Basic and diluted | | **68,271,808** | 51,409,974 |

1. Item that may be reclassified to earnings in subsequent periods.
2. Item will not be reclassified to earnings.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31

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

| (in thousands of Canadian dollars, except share amounts) | Common shares | | Contributed surplus | Foreign currency translation | Deficit | Total |
|---|---|---|---|---|---|---|
| | # | $ | $ | $ | $ | $ |
| As at December 31, 2015 | 42,414,598 | 306,663 | 10,769 | 6,210 | (154,716) | 168,926 |
| Shares issued pursuant to: | | | | | | |
| Public offering | 9,091,000 | 60,001 | - | - | - | 60,001 |
| Private placement | 6,100,750 | 25,013 | - | - | - | 25,013 |
| Business acquisition | 2,529,405 | 13,205 | - | - | - | 13,205 |
| Debt exchange | 955,414 | 4,500 | - | - | - | 4,500 |
| Conversion of convertible debentures | 781 | 10 | - | - | - | 10 |
| Restricted Equity Common Share Plan | 3,802 | 20 | (20) | - | - | - |
| Employee Common Share Purchase Plan | 57,148 | 251 | - | - | - | 251 |
| Transaction costs on issue of shares, net of deferred income tax | | (4,615) | - | - | - | (4,615) |
| Share-based compensation charged to operations | | - | 20 | - | - | 20 |
| Dividends | | - | - | - | (30,348) | (30,348) |
| Comprehensive earnings for the year | | - | - | (1,875) | 43,633 | 41,758 |
| As at December 31, 2016 | **61,152,898** | **405,048** | **10,769** | **4,335** | **(141,431)** | **278,721** |
| Shares issued pursuant to: | | | | | | |
| Public offering | 6,598,470 | 40,251 | - | - | - | 40,251 |
| Private placement | 9,832,500 | 57,520 | - | - | - | 57,520 |
| Restricted Equity Common Share Plan | 4,832 | 29 | (29) | - | - | - |
| Employee Common Share Purchase Plan | 70,955 | 384 | - | - | - | 384 |
| Transaction costs on issue of shares, net of deferred income tax | | (4,593) | - | - | - | (4,593) |
| Share-based compensation charged to operations | | - | 29 | - | - | 29 |
| Dividends | | - | - | - | (38,424) | (38,424) |
| Comprehensive earnings for the year | | - | | (4,384) | 30,731 | 26,347 |
| **As at December 31, 2017** | **77,659,655** | **498,639** | **10,769** | **(49)** | **(149,124)** | **360,235** |

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31

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

| (in thousands of Canadian dollars) | Notes | 2017 $ | 2016 $ |
|---|---|---|---|
| **Operating activities** | | | |
| Net earnings | | **28,805** | 44,201 |
| Items not affecting cash | | | |
| Depreciation of property, plant and equipment | 10 | **10,909** | 9,435 |
| Provision for income taxes | 27 | **6,977** | 7,707 |
| Amortization of: | | | |
| Intangible assets | 12 | **3,849** | 2,980 |
| Leasehold inducements | | **(301)** | (210) |
| Fair value adjustments | 11 | **(7,925)** | (1,072) |
| Gain on bargain purchase | 7 | **-** | (24,249) |
| Gain on other assets | | **(578)** | (589) |
| Other | | **1,134** | (173) |
| Income taxes paid | | **(10,660)** | (12,134) |
| Interest paid on loan facilities, bank indebtedness and other | 28 | **(6,861)** | (4,649) |
| Payment of reforestation and environmental | 21 | **(1,247)** | (821) |
| Settlement of onerous operating leases | | **(1,153)** | - |
| Net receipts on bonding obligations | | **1,708** | - |
| Finance costs | 28 | **8,270** | 8,348 |
| | | **32,927** | 28,774 |
| Changes in non-cash working capital | 33 | **(2,181)** | (25,626) |
| **Net cash flows provided by operating activities** | | **30,746** | 3,148 |
| **Financing activities** | | | |
| Shares issued | 24 | **98,155** | 85,265 |
| Transaction costs on issue of shares | 24 | **(6,293)** | (6,321) |
| Dividends paid | 24 | **(36,113)** | (27,725) |
| Repayment of promissory notes | 18 | **(2,702)** | (1,900) |
| Payment of finance lease liabilities | | **(654)** | (6,825) |
| Financing costs on borrowings | | **(1,249)** | (1,989) |
| Increase in revolving loan facility | | **30,959** | 25,784 |
| (Repayment of) Net funds received from non-revolving term loan | 17 | **(2,666)** | 39,330 |
| (Repayment of) Net funds received from equipment term loan | | **(3,546)** | 5,378 |
| Repayment of demand loan payable | | **-** | (3,217) |
| Repayment of callable loan | 7 | **-** | (52,201) |
| Repayment of convertible debentures | | **-** | (43,679) |
| Interest paid on convertible debentures | 28 | **-** | (1,916) |
| **Net cash flows provided by financing activities** | | **75,891** | 9,984 |
| **Investing activities** | | | |
| Business acquisition | 7 | **(101,685)** | (8,262) |
| Bank indebtedness acquired | 7 | **(1,306)** | (1,041) |
| Purchase of property, plant and equipment | 10 | **(6,471)** | (4,885) |
| Proceeds from disposition of property, plant and equipment | | **3,537** | 535 |
| Funds received from other investment activities | | **2,022** | 393 |
| **Net cash flows used in investing activities** | | **(103,903)** | (13,260) |
| **Net decrease (increase) in bank indebtedness** | | **2,734** | (128) |
| **Foreign exchange difference** | | **532** | 74 |
| **Bank indebtedness - Beginning of year** | | **(6,277)** | (6,223) |
| **Bank indebtedness (net of cash) - End of year** | 15 | **(3,011)** | (6,277) |

## 1. NATURE OF OPERATIONS

CanWel Building Materials Group Ltd. (the "Company") was incorporated in 2009 under the Business Corporations Act (British Columbia). On May 11, 2010, the Company was continued under the laws of Canada pursuant to section 187 of the Canada Business Corporations Act with its current name. The Company has limited liability, with its shares publicly listed on the Toronto Stock Exchange ("TSX"). The Company's head office is located at Suite 1100 – 1055 West Georgia Street, Vancouver, BC. The Company's Canadian operations commenced in 1989.

The Company operates through its wholly owned subsidiaries as a distributor of building materials and home renovation products and as a provider of wood pressure treating services in Canada nationally and regionally in the Western United States and Hawaii. Additionally, the Company has operations in timber ownership and management of private timberlands and Crown forest licenses, full service logging and trucking, and post peeling and pressure treating in British Columbia and Saskatchewan for the North American agricultural market.



## 2. BASIS OF PRESENTATION

### a) Statement of compliance

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

These consolidated financial statements were authorized for issuance on March 8, 2018 by the Board of Directors of the Company.

### b) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except per share amounts.

### c) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the following items in the Consolidated Statements of Financial Position:

(i) Standing timber on privately held forest land is characterized as a biological asset and is measured at fair value less costs to sell;

(ii) Derivative financial instruments are measured at fair value; and

(iii) Employee benefit plan assets and liabilities, are recognized as the net of the fair value of the plan assets and the present value of the defined benefit obligations on a plan by plan basis.

### d) Principles of consolidation

The consolidated financial statements of the Company include the financial statements of the Company 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. All intercompany transactions and balances have been eliminated.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### a) 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 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.

### b) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the spot rate prevailing at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate at the reporting date. Foreign exchange gains and losses that relate to the Company's revolving loan facility and bank indebtedness are recognized in earnings within finance costs. All other foreign exchange gains and losses relate to product purchases and are accordingly presented within cost of sales.

For each foreign operation, the Company determines the functional currency, and items included in the financial statements of each entity are measured using that functional currency. The Company's foreign operations are in the Western United States and Hawaii, and have the US dollar as the functional currency. The Company uses direct method of consolidation and on disposal of a foreign operation.

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars using the rate of exchange in effect at the reporting date, and their statements of earnings and comprehensive earnings are translated using exchange rates in effect at the dates of the transactions.

The exchange differences arising on translation for consolidation are recognized in other comprehensive income ("OCI"). On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in net earnings.

**c) Property, plant and equipment**

Property, plant and equipment ("PPE") are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Repairs and maintenance costs are expensed as incurred.
Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings | 3% |
| Leasehold improvements | based on lease term |
| Machinery and equipment | 10% to 33% |
| Automotive equipment | 30% |
| Computer equipment and systems development | 20% to 33% |



Depreciation begins when an asset is placed in use. Land is not depreciated.

An item of PPE is derecognized upon disposal when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in earnings.

The Company conducts an annual assessment of the residual balances, useful lives, depreciation methods being used for PPE and impairment losses (as applicable), and any changes arising from the assessment are applied by the Company prospectively.

**d) Timber**

Standing timber on privately held forest land that is managed for timber production is characterized as a biological asset. At each reporting date, the biological asset is valued at its fair value less costs to sell with any change therein, including the impact of growth and harvest, recognized in cost of sales for the period. Costs to sell include all costs that would be necessary to sell the assets. The valuation model is performed with reference to independent third party valuators and recent comparatives of standing timber sales, costs of sustainable forest management, log pricing and harvest volume assumptions, and the resulting net present value of future cash flows for standing timber. Harvested timber is transferred to inventory at its fair value less costs to sell at the date the timber is harvested.

Land under the standing timber is measured at cost and included in property, plant and equipment.

In 2017, the Company changed its classification of the change in fair value resulting from growth and pricing on the consolidated statement of earnings. Previously, this change was a separate line item in the consolidated statement of earnings. This amount is now included as a reduction to cost of sales. Amounts for 2016 have been changed respectively.

**e) Reforestation**

The Company has opted into the *Private Managed Forest Land Act* (British Columbia) in relation to operations on its private timberlands which requires reforestation to occur within five years of harvest. Accordingly, the Company records a provision for the costs of reforestation in the period in which the timber is harvested. In periods subsequent to the initial measurement, changes in the provision resulting from the passage of time and revisions to management's estimates are recognized in net earnings as they occur. Reforestation provisions are discounted using a risk-adjusted rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**f) Leases**

Finance leases that transfer substantially all of the risks and benefits of ownership to the Company are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are 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 are recognized in earnings within finance costs.



A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense on a straight-line basis over the lease term.

Leasehold inducements arising from rent-free inducements and tenant improvement allowances received from a landlord are being amortized over the term of the lease on a straight-line basis.

**g) 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 comprise of brand recognition and customer relationships, which are amortized on a straight-line basis over 10 years. Amortization rates are reviewed annually to ensure they are aligned with estimates of remaining economic useful lives of the associated intangible assets.

**h) Pension and other post-employment benefits**

For defined benefit pension plans and other post-retirement benefits, the net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation and the expected health care cost trend rate. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results will differ from results that are estimated based on assumptions. All past service costs arising from plan amendments are recognized immediately in earnings when the plan amendment occurs or when related restructuring costs are recognized, if earlier.

The asset or liability recognized in the statement of financial position is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for asset ceiling impairment or additional liabilities due to onerous minimum funding requirement under International Financial Reporting Interpretations Committee ("IFRIC") 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, International Accounting Standard ("IAS") 19, *The Limit on a Defined Benefit Asset*. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the value of the defined benefit obligation. The remeasurement of fair value of plan assets compared to expected values, together with remeasurements on plan obligations from assumption changes or experience adjustments are recognized immediately in OCI. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.



Payments to defined contribution plans are expensed as incurred.

**i) Share-based payments**

Certain employees (including directors and senior executives) of the Company may receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted. The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date and reflects the Company's best estimate, at such time, of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for the period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in net earnings as share-based compensation and the corresponding amount is recognized in contributed surplus.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

**j) Finance costs**

The Company's borrowings are recorded net of financing costs, which are deferred at inception and subsequently amortized over the term of the debt. Interest expense is calculated using the effective interest rate method.

**k) Inventories**

Inventories are stated at the lower of cost and net realizable value (“NRV”). Cost is determined using the weighted average cost method, net of vendor rebates, and includes materials, freight and, where applicable, treatment and processing costs, chemicals, direct labour and overhead. NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

The cost of logs transferred from standing timber to inventory is its fair value less costs to sell at the date of harvest.

**l) Vendor rebates**

The Company records cash consideration received from vendors as a reduction in the price of vendors’ products and reflects it as a reduction to inventory and related cost of sales.



**m) Performance bonds**

Certain subsidiaries of the Company issue bonds to guarantee performance and payment by certain contractors to whom the Company may supply materials. The bonds require cash to be periodically remitted to the Company from project owners or their lenders, upon satisfaction that the bonded contractor has met certain conditions of the related construction contract. The funds are disbursed to the project’s contractor subject to the Company’s satisfaction as to the progression and completion of the contracted work. Proceeds received by the Company in excess of funds disbursed are recorded in liabilities until such time as the related project is completed.

**n) Income tax**

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in net earnings for the year. Deferred tax relating to items recognized outside of net earnings is recognized in correlation to the underlying transaction, either in OCI or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the temporary differences from the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. At each reporting period, temporary differences are evaluated. A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. The recognized deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**o) Earnings per share**

Basic earnings per share are computed by dividing the net earnings for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution of common share equivalents, such as outstanding stock options and restricted equity common shares, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options that are used to purchase common shares at the average market price during the year.

**p) Financial instruments**

*(i) Non-derivative financial instruments*

The Company's non-derivative financial instruments are comprised of trade and other receivables, bank indebtedness, trade and other payables, performance bonds, dividends payable, revolving loan facility, non-revolving term loan, promissory notes, finance lease liabilities, equipment term loan and earn-out commitment.



Financial instruments are initially recognized at fair value plus, for instruments not measured at fair value on an ongoing basis, any directly attributable transaction costs. Subsequent to the initial recognition, financial instruments are measured as follows:

- Held for trading financial assets and liabilities are measured at fair value with the resulting gains and losses recognized in net earnings for the year.
- Available for sale financial assets measured at fair value with unrealized gains and losses recognized in OCI except for losses in value that are considered other than temporary. Realized gains and losses are recognized in net earnings.
- Loans and receivables and held to maturity financial assets are measured at amortized cost, using the effective interest rate method less impairment losses.
- Other financial liabilities are measured at amortized cost, using the effective interest rate method.

The Company has classified or designated its financial instruments as follows:

- Trade and other receivables as loans and receivables.
- Bank indebtedness, trade and other payables, performance bonds, dividends payable, revolving loan facility, non-revolving term loan, promissory notes, finance lease liabilities, equipment term loan and equipment line and earn-out commitment as other financial liabilities.

*(ii) Derivative financial instruments*

The Company at times uses derivative financial instruments for economic hedging purposes in managing lumber price risk and foreign exchange risk through the use of futures contracts and options. These derivative financial instruments are designated as held for trading with changes in fair value being recorded in other income (loss) in net earnings.

**q) Fair value measurement**

The Company measures derivative financial instruments at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 31.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(i) In the principal market for the asset or liability, or
(ii) In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.



**r) Equity**

Share capital represents the amount received for shares issued. When shares are issued on a business acquisition, the amount recognized is the fair value at the acquisition date.

Contributed surplus includes the compensation cost relating to the Company's share-based payment transactions. It also includes the difference between the cost of repurchased shares and the average book value.
Dividends on common shares attributable to shareholders are presented in current liabilities when approved prior to the reporting date.

**s) Revenue recognition**

Revenue from the sale of products is recognized, net of discounts and customer rebates, at the time the transfer of significant risks and rewards of ownership of the related goods and services has taken place, and collectability is reasonably assured.

**t) Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

A provision for an onerous contract is recognized when the economic benefits to be received under the contract are less than the unavoidable costs of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating or performing the contract. Before establishing a provision, the Company recognizes any impairment loss that has occurred on the assets dedicated to that contract.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as finance costs.

Provisions are reviewed at the end of each reporting period and are adjusted to reflect the best estimates at that date.

**u) Impairment**

***Financial assets***

The Company assesses at each statement of financial position date whether a financial asset is impaired. If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in net earnings.



If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. For financial assets measured at amortized cost, any subsequent reversal of an impairment loss is recognized in net earnings.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in earnings when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

***Non-financial assets***

The carrying amounts of the Company's property, plant and equipment and intangible assets that have a finite life are reviewed at each reporting date to determine whether there is any indication of impairment. Goodwill is reviewed for impairment annually or more frequently if certain impairment indicators arise. The Company's annual impairment testing date for goodwill is December 31.

If any such indication exists or when annual impairment testing for an asset is required, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit (the lowest level of identifiable cash inflows) is the greater of its value in use and its fair value less costs to sell. 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 the risks specific to the asset group or cash-generating unit. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in net earnings for the year.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**v) Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.



## 4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. Significant areas requiring estimates are goodwill and related impairment testing, valuation of timber, determination of reforestation provision, certain actuarial and economic assumptions used in the determination for the cost and accrued benefit obligations of employee future benefits, inventory valuation and obsolescence, recoverability of trade receivables, deferred tax assets and liabilities valuation, classification of lease agreements and judgments regarding the determination of reportable segments.

**a) 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, 2017 relates to the Company's acquisitions of various businesses. 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 fair value 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 fair value 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 fair value, the fair value of goodwill related to the cash-generating unit is compared to its carrying value and excess of carrying value is recognized as an impairment loss (Note 13).

**b) Timber**

At each reporting date, timber is valued at fair value less costs to sell with any change therein, including the impact of growth and harvest, recognized in net earnings for the period. Significant judgment is used in determining the fair value with reference to independent third party valuators and recent comparatives of standing timber sales, costs of sustainable forest management, log pricing and harvest volume assumption, the discount rate used, and the resulting net present value of future cash flows for standing timber.

**c) Reforestation provision**

Management uses judgment in determining the value of the reforestation provision. Due to the general long-term nature of the liability, the most significant areas of uncertainty in estimating the provision are the future costs that will be incurred, the inflation rate, and the risk-adjusted discount rate.



**d) Employee future benefits**

The cost of defined benefit pension plans and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future (Note 23).

i. **Discount rate**
The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have maturity profiles that are similar to the underlying cash flows of the defined benefit obligation.

ii. **Other assumptions**
The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates.

**e) Inventory valuation**

Under IFRS, inventories must be recognized at the lower of cost or their NRV, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. IFRS requires that the estimated NRV be based on the most reliable evidence available at the time the estimates are made of the amounts that inventories are expected to realize. The measurement of an inventory write-down to NRV is based on the Company's best estimate of the NRV and expected future sale or consumption of inventories. Due to the economic environment and continued volatility in the home-building market, there is uncertainty as to whether the NRV of the

inventories will remain consistent with those used in our assessment of NRV at period end. As a result there is the risk that a write-down of on-hand and unconsumed inventories could occur in future periods. Also, a certain portion of inventory may become damaged or obsolete. A slow moving reserve is recorded, as required, based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence (Note 25).

Inventory includes harvested timber, the cost of which is based on its fair value less costs to sell, and forms a component of the carrying value of log inventory. Harvested timber is subsequently processed into logs and carried at the lower of cost or NRV. Significant judgment is used in determining the fair value of timber with reference to independent third party valuators and recent comparatives of standing timber sales.

**f) Allowance for doubtful accounts**

It is possible that certain trade receivables may become uncollectible, and as such, an allowance for these doubtful accounts is maintained. The allowance is based on the estimated recovery of trade receivables and incorporates current and expected collection trends. These estimates will change, as necessary, to reflect market or specific industry risks, as well as known or expected changes in the customers' financial position (Note 8).

**g) Income taxes**

At each statement of financial position date, a deferred income tax asset may be recognized for all deductible temporary differences, unused tax losses and income tax reductions, to the extent that their realization is probable. The determination of this requires significant judgment. This evaluation includes review of the ability to carryback operating losses to offset taxes paid in prior years; the carryforward periods of the losses; and an assessment of the excess of fair value over the tax basis of the Company's net assets. If based on this review it is not probable such assets will be realized, then no deferred income tax asset is recognized (Note 27).



**h) Leases**

When assessing the classification of a lease agreement, certain estimates and assumptions need to be made and applied, which include, but are not limited to, the determination of the expected lease term and minimum lease payments, the assessment of the likelihood of exercising options and estimation of the fair value of the lease property (Note 10).

**i) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the Chief Executive Officer.

The Company is managed as two reportable business segments which offer different products, require different production processes, and are based on how financial information is produced internally for the purposes of making operating decisions. The following summary describes the operations of each of the Company's reportable segments:

a) *Building Materials Distribution* – wholesale distribution of building materials and home renovation products, including value-added services such as lumber pressure treating; and

b) *Forestry* – timber ownership and management of private timberlands and Crown forest licenses, logging and trucking operations, and value-added services such as post-peeling and post and pole pressure treating operations.

## 5. CHANGES IN ACCOUNTING STANDARDS

There have been amendments to existing standards under IAS 7, *Statement of Cash Flows*, and IAS 12, *Income Taxes*.

IAS 7 clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The IAS 12 amendment clarifies that:

a) The carrying amount of an asset does not limit the estimation of probable future taxable profits;

b) When comparing deductible temporary differences with future taxable profits, the future taxable profits exclude tax deductions resulting from the reversal of those deductible temporary differences; and

c) In circumstances in which tax laws restrict the utilization of tax losses in such a way that they may be deducted only against income of a specified type, an entity should assess whether a deferred tax asset can be recognized in combination with deferred taxes resulting from deductible temporary differences of the same type.



The Company has adopted these amendments effective January 1, 2017. The adoption of these amendments did not result in any adjustments.

## 6. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The following is an overview of accounting standard changes the Company will be required to adopt in future years.

**IFRS 9 - Financial Instruments**

IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39, *Financial Instruments: Recognition and Measurement*, to be subsequently measured at amortized cost or fair value.

Specifically, financial assets that are held with a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payment of principal and interest on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods.

Requirements for classification and measurement of financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in OCI.
The IASB issued a new impairment model for financial assets based on expected credit losses in July 2014. The new standard requires entities to account for expected credit losses from when financial instruments are first recognized and it lowers the threshold for recognition of full lifetime expected losses.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company will not adopt this standard before the effective date. The Company continues to evaluate the impact of this standard on its audited annual consolidated financial statements and will finalize this analysis before the end of the first quarter of 2018.

**IFRS 15 - Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which is a replacement of IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations. IFRS 15 provides a single, principles-based five-step model that will apply to all contracts with customers with limited exceptions. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. IFRS 15 requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities.

IFRS 15 will be applied to fiscal years beginning on or after January 1, 2018. Earlier application is permitted. The Company will not adopt this standard before the effective date. The Company continues to evaluate the impact of this standard on its audited annual consolidated financial statements and will finalize this analysis before the end of the first quarter of 2018.



**IFRS 16 - Leases**

In January 2016, the IASB issued IFRS 16, *Leases*, replacing IAS 17, *Leases,* and related interpretations. IFRS 16 sets out principles of recognition, measurement, presentation and disclosure of leases for both parties to a contract, the lessee and the lessor.

IFRS 16 will be applied to fiscal years beginning on or after January 1, 2019. Earlier application is permitted. The Company will not adopt this standard before the effective date. The Company will continue to evaluate the impact of this standard on its audited annual consolidated financial statements.

## 7. BUSINESS ACQUISITIONS

**2017 Acquisition**

***Honsador Acquisition***

On October 2, 2017, the Company completed the acquisition of all issued and outstanding shares of Honsador Acquisition Corp., the parent company of Honsador Building Products group of companies ("Honsador") (the "Honsador Acquisition"), a leading distributor of building products and electrical supplies, and the largest producer of pressure-treated wood in Hawaii. The Honsador Acquisition is expected to expand the Company's presence in the United States building distribution and treating markets, and provide an incumbent position in the State of Hawaii.

Total purchase consideration comprised of US$81,315, including certain post-closing adjustments. 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 Honsador 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 (in thousands of Canadian dollars):

| | Notes | October 2, 2017 (Provisional)[1] $ |
|---|---|---|
| **Fair value of purchase consideration** | | |
| Cash | | 101,685 |
| **Fair value of assets acquired and liabilities assumed** | | |
| Non-cash working capital | | 47,185 |
| Property, plant and equipment | 10 | 3,785 |
| Intangible assets (customer lists and brand) | 12 | 35,014 |
| Other assets | | 1,544 |
| Bank indebtedness | | (1,306) |
| Leasehold inducements | | (1,733) |
| Performance bonds | | (12,409) |
| Finance lease liabilities | | (311) |
| Deferred income tax liabilities | | (10,236) |
| Total identifiable net assets at fair value | | 61,533 |
| Goodwill arising on acquisition | 13 | 40,152 |
| Consideration | | 101,685 |

1. The provisional purchase price allocation determined at the Honsador Acquisition date is preliminary and subject to change up to a period of one year from October 2, 2017, upon finalization of fair value determinations.

The values of assets acquired and liabilities assumed are based on preliminary fair values, which are subject to change, including possible erosion, which may be material, upon finalization of a complete valuation.

The goodwill recognized was primarily attributed to the expected synergies arising from the Honsador Acquisition and the expertise and reputation of the assembled management and workforce. Goodwill is not expected to be deductible for U.S. income tax purposes.

From the date of the Honsador Acquisition, the acquired business contributed $40,948 of revenue and $596 of net losses. If the Honsador Acquisition had taken place at the beginning of 2017, unaudited consolidated revenue for the year ended December 31, 2017 would have been $1,276,605 and unaudited net earnings of the Company would have been $30,700.

During the year ended December 31, 2017, directly attributable acquisition-related costs of $1,860 have been expensed and are included in net earnings on the 2017 consolidated statement of earnings.

**2016 Acquisitions**

***Purchase of Jemi Fibre Corp.***

On May 13, 2016, the Company completed the acquisition of all issued and outstanding shares of Jemi (the “CFC Acquisition”), a vertically integrated forest products company that operates primarily in British Columbia and Saskatchewan. On May 10, 2017, Jemi was renamed CanWel Fibre Corp. (“CFC”). The CFC Acquisition has diversified the Company’s operations and revenue streams, providing vertical integration via a sustained source of fibre supply, as well as further expanded the Company’s wood treatment operations by adding two treating plants and a specialty sawmill, with limited product overlap.

The CFC Acquisition was completed by way of a share exchange by a plan of arrangement, pursuant to which the Company issued 2,529,405 common shares in exchange for all issued and outstanding common shares of Jemi, with the acquisition date fair value of $13,205.

The fair value of the common shares issued as consideration was determined with reference to the quoted price of shares of the Company as at the date of the CFC Acquisition.



The fair values of assets acquired and liabilities assumed recognized in the 2016 audited annual consolidated financial statements were based on a provisional assessment of fair values while the Company completed the finalization of fair value determinations during the measurement period of up to one year after the acquisition date, in accordance with IFRS 3, *Business Combinations*. The final assessment had not been completed by the date the 2016 audited annual consolidated financial statements were approved for issue by management.

During the second quarter of 2017, the provisional fair values have been finalized taking into consideration all of new information obtained during the one year measurement period. Details of the fair value of the aggregate consideration transferred and the revised fair values of the identifiable assets and liabilities acquired at the date of the CFC Acquisition were as follows:

| | May 13, 2016 (Provisional)[1] $ | Revision $ | May 13, 2016 (Revised) $ |
|---|---|---|---|
| **Fair value of purchase consideration** | | | |
| Share consideration | 13,205 | - | 13,205 |
| **Fair value of assets acquired and liabilities assumed** | | | |
| Non-cash working capital | (916) | (2,343) | (3,259) |
| Property, plant and equipment | 72,060 | (4,807) | 67,253 |
| Timber | 59,545 | - | 59,545 |
| Other long-term assets | 2,195 | - | 2,195 |
| Bank indebtedness | (1,041) | - | (1,041) |
| Demand loans payable | (3,217) | - | (3,217) |
| Finance lease liabilities | (4,321) | - | (4,321) |
| Provision for onerous operating lease costs | - | (1,500) | (1,500) |
| Reforestation and environmental | (2,517) | - | (2,517) |
| Related party debt[2] | (4,500) | - | (4,500) |
| Earn-out commitment | (1,256) | - | (1,256) |
| Equipment term loans | (10,065) | - | (10,065) |
| Deferred income tax liability | (9,924) | 2,262 | (7,662) |
| Senior loans[3] | (52,201) | - | (52,201) |
| Total identifiable net assets at fair value | 43,842 | (6,388) | 37,454 |
| Gain on bargain purchase | (30,637) | 6,388 | (24,249) |
| Consideration | 13,205 | - | 13,205 |

1. Based on the provisional purchase price allocation recognized in the 2016 audited annual consolidated financial statements. The amount of the gain on bargain purchase originally reported in the second quarter of 2016 was $32,183, which was revised down by $1,546 during the fourth quarter of 2016, based on information available at that time.
2. Subsequent to the CFC Acquisition date, the debt owing to certain related parties of CFC was satisfied in full through the Debt exchange agreement (Note 24).
3. Concurrent with the CFC Acquisition, these loans were repaid in full from the funds raised from the 2016 Private Placement (Note 24) and subsequently the non-revolving term loan (Note 17).

As a result of the foregoing revisions, depreciation of property, plant and equipment decreased by $917 and provision for deferred income tax increased by $237.

The 2016 comparative information herein was revised to reflect the adjustments to the provisional amounts.

The fair value of assets acquired and liabilities assumed exceeded the fair value of consideration transferred, resulting in a bargain purchase. The gain on bargain purchase in the amount of $24,249 was recognized in net earnings as at the date of the CFC Acquisition on May 13, 2016.

The bargain purchase is the result of the purchase price reflecting previous on-going difficulties of Jemi in its ability to continue as a going concern, including the recurring working capital deficit, history of sustained losses, difficulty servicing existing high-interest senior loans, impending scheduled maturity of such senior loans, breach of certain banking covenants, and the inability to pay off or refinance senior loans, the cumulative effect on which effectively forced the sale of Jemi.

As a result of the circumstances leading up to the sale of Jemi, the purchase price consideration is less than the fair value of assets acquired and liabilities assumed.

From the date of the CFC Acquisition, for the period commencing May 13, 2016, the acquired business contributed $97,596 of revenue and $1,402 of net earnings. If the CFC Acquisition had taken place at the beginning of 2016, unaudited consolidated revenue for the Company for the year ended December 31, 2016 would have been approximately $1,007,000 and unaudited net earnings of the Company would have been approximately $41,000.

During the year ended December 31, 2016, acquisition-related costs directly attributable to the CFC Acquisition of $1,962 were expensed and included in net earnings. There were no CFC Acquisition costs expensed during the year ended December 31, 2017.

***TFI Acquisition***

On September 6, 2016, the Company completed the acquisition of certain assets and the business of Total Forest Industries Ltd. (now doing business as Total Forest Industries Limited Partnership "TFI") (the "TFI Acquisition"), a lumber pressure treating plant in Hagersville, Ontario. The TFI Acquisition is expected to solidify the Company's presence in Ontario, complementing its existing treating facilities in Cambridge and Combermere.



Details of the fair value of the aggregate consideration transferred and the fair value of the identifiable assets acquired at the date of the TFI Acquisition were as follows:

| | **September 6, 2016**[(1)] **$** |
|---|---|
| **Fair value of purchase consideration** | |
| Cash | 8,262 |
| Promissory note | 2,405 |
| Consideration | 10,667 |
| **Fair value of assets acquired** | |
| Non-cash working capital | 5,607 |
| Property, plant and equipment | 1,269 |
| Total identifiable net assets at fair value | 6,876 |
| Goodwill arising on acquisition | 3,791 |
| Consideration | 10,667 |

1. The provisional purchase price allocation determined at the TFI Acquisition date was preliminary and subject to change up to a period of one year from September 6, 2016, upon finalization of fair value determinations, which were finalized during the year ended December 31, 2017 with no changes to the provisional amounts.

The goodwill recognized was primarily attributed to the expected synergies arising from the TFI Acquisition and the expertise and reputation of the assembled management and workforce. Goodwill is expected to be deductible for income tax purposes.

From the date of the TFI Acquisition, for the period commencing September 6, 2016, the acquired business contributed $55,213 of revenue and $3,156 of the net earnings.

During the year ended December 31, 2016, acquisition-related costs directly attributable to the TFI Acquisition of $249 have been expensed and are included in net earnings. There were no TFI Acquisition costs expensed during the year ended December 31, 2017.

It is impracticable for the Company to disclose gross revenues and net earnings as though the TFI Acquisition had taken place at the beginning of 2016, as audited financial information is not available for the TFI Acquisition prior to the acquisition date, and management does not believe these amounts to be material.

## 8. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables arise primarily from sales of building materials to customers. These are broken down as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Trade receivables | **96,553** | 81,905 |
| Allowance for doubtful accounts | **(896)** | (644) |
| Net trade receivables | **95,657** | 81,261 |
| Other receivables | **8,848** | 4,206 |
| Total trade and other receivables | **104,505** | 85,467 |



The aging analysis of trade and other receivables is as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Neither past due nor impaired | **89,802** | 76,842 |
| Past due but not impaired: | | |
| Less than 1 month | **8,336** | 6,601 |
| 1 to 3 months | **4,171** | 1,642 |
| 3 to 6 months | **2,196** | 382 |
| Total trade and other receivables | **104,505** | 85,467 |

Activity in the Company's provision for doubtful accounts is as follows:

| | $ |
|---|---|
| Balance at January 1, 2016 | 439 |
| Accruals during the year | 55 |
| Additions arising on acquisition | 207 |
| Accounts written off | (48) |
| Foreign exchange difference | (9) |
| Balance at December 31, 2016 | 644 |
| Reversals during the year | (55) |
| Additions arising on acquisition | 855 |
| Accounts written off and recoveries | (539) |
| Foreign exchange difference | (9) |
| **Balance at December 31, 2017** | **896** |

The Company holds no collateral for any receivable amounts outstanding as at December 31, 2017.

## 9. INVENTORIES

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Inventories held for resale | **173,680** | 131,613 |
| Inventories held for processing | **47,815** | 33,824 |
| | **221,495** | 165,437 |

## 10. PROPERTY, PLANT AND EQUIPMENT

| | Land<br>$ | Buildings, leasehold improvements and roads<br>$ | Machinery, automotive and other equipment<br>$ | Computer equipment and systems development<br>$ | Equipment under finance leases<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Cost at January 1, 2016 | 894 | 8,203 | 36,664 | 4,409 | 1,740 | 51,910 |
| Additions | 120 | 833 | 3,785 | 147 | 2,463 | 7,348 |
| Additions arising on acquisition (Note 7) | 35,744 | 5,826 | 21,931 | 36 | 4,985 | 68,522 |
| Disposals | - | - | (1,822) | - | - | (1,822) |
| Finance lease buyouts | - | - | 6,905 | - | (6,905) | - |
| Foreign exchange difference | - | - | (204) | - | (41) | (245) |
| Cost at December 31, 2016 | 36,758 | 14,862 | 67,259 | 4,592 | 2,242 | 125,713 |
| Additions | - | 1,776 | 7,385 | 174 | 2,653 | 11,988 |
| Additions arising on acquisitions (Note 7) | - | - | 3,424 | - | 361 | 3,785 |
| Disposals | (75) | (380) | (6,603) | (74) | (543) | (7,675) |
| Impairment losses | (1,039) | - | - | - | - | (1,039) |
| Foreign exchange difference | - | (23) | (306) | (8) | (177) | (514) |
| **Cost at December 31, 2017** | **35,644** | **16,235** | **71,159** | **4,684** | **4,536** | **132,258** |
| **Accumulated depreciation** | | | | | | |
| Accumulated depreciation at January 1, 2016 | - | 2,085 | 18,786 | 1,033 | 317 | 22,221 |
| Depreciation | - | 541 | 7,581 | 855 | 458 | 9,435 |
| Disposals | - | - | (1,287) | - | - | (1,287) |
| Finance lease buyouts | - | - | 199 | - | (199) | - |
| Foreign exchange difference | - | - | 3 | - | 5 | 8 |
| Accumulated depreciation at December 31, 2016 | - | 2,626 | 25,282 | 1,888 | 581 | 30,377 |
| Depreciation | - | 815 | 8,619 | 810 | 665 | 10,909 |
| Disposals | - | (187) | (2,109) | (70) | (129) | (2,495) |
| Foreign exchange difference | - | (2) | (61) | (1) | (55) | (119) |
| **Accumulated depreciation at December 31, 2017** | **-** | **3,252** | **31,731** | **2,627** | **1,062** | **38,672** |
| Net book value at December 31, 2016 | 36,758 | 12,236 | 41,977 | 2,704 | 1,661 | 95,336 |
| **Net book value at December 31, 2017** | **35,644** | **12,983** | **39,428** | **2,057** | **3,474** | **93,586** |

## 11. TIMBER

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Balance at January 1 | **58,905** | - |
| Additions arising on acquisition (Note 7) | **-** | 59,545 |
| Reforestation provision on harvested land | **662** | 389 |
| Harvested timber transferred to inventory in the year | **(3,243)** | (2,101) |
| Change in fair value resulting from growth and pricing | **7,925** | 1,072 |
| Balance at December 31 | **64,249** | 58,905 |

The Company's private timberlands comprised an area of approximately 53,525 hectares ("ha") of land as at December 31, 2017 and 40,825 ha of the land was unharvested with standing timber consisting of mixed-species softwood forests.



During the year ended December 31, 2017, the Company harvested approximately 319,563 cubic metres ("$m^3$") from its private timberlands (2016 - 215,002 $m^3$). [1]

**Measurement of fair values**

The table above reconciles the opening balances to the closing balances for Level 3 fair values (as defined in Note 32). For the years ended December 31, 2017 and 2016, the fair value measurements for the Company's standing timber, as disclosed above, have been categorized as Level 3 fair values, and were based on the inputs to the valuation technique discussed below.

| | |
|---|---|
| Valuation Technique | Discounted cash flow analysis: The valuation model considers the present value of the net cash flows expected to be generated by the private timberlands over a period of 20 years with a reversion in year 21. The expected net cash flows are discounted using a risk-adjusted discount rate. |
| Significant Unobservable Inputs in future periods | Estimated log prices of $75[2] per $m^3$ (weighted average sawlog and pulpwood prices)<br>Estimated total costs, including harvest costs, of $49[2] per $m^3$<br>Estimated harvest annual volume of 173,913 - 450,000 $m^3$ (20-year average 271,732 $m^3$ (2016 - 278,163 $m^3$))<br>Risk-adjusted discount rate of 8.50% |
| Inter-relationship between key unobservable inputs and fair value measurement | The estimated fair value would increase (decrease) if:<br>- the estimated log prices per $m^3$ were higher (lower);<br>- the estimated stewardship and harvest costs per $m^3$ were lower (higher);<br>- the estimated harvest volumes were higher (lower); and<br>- the risk-adjusted discount rate were lower (higher). |

1. Timberlands were acquired through the CFC Acquisition, and comparative 2016 results are for the period commencing May 13, 2016.
2. In whole dollars, not thousands.

## 12. INTANGIBLE ASSETS

| | Core business $ | US operations $ | Value-added services $ | Total $ |
|---|---|---|---|---|
| **Cost** | | | | |
| Cost at January 1, 2016 | 10,000 | 18,972 | 1,633 | 30,605 |
| Foreign exchange difference | - | (566) | - | (566) |
| Cost at December 31, 2016 | 10,000 | 18,406 | 1,633 | 30,039 |
| Additions arising on acquisition (Note 7) | - | 35,014 | - | 35,014 |
| Foreign exchange difference | - | (1,001) | - | (1,001) |
| **Cost at December 31, 2017** | **10,000** | **52,419** | **1,633** | **64,052** |
| **Accumulated amortization** | | | | |
| Accumulated amortization at January 1, 2016 | 5,917 | 948 | 407 | 7,272 |
| Amortization | 1,000 | 1,816 | 164 | 2,980 |
| Foreign exchange difference | - | (5) | - | (5) |
| Accumulated amortization at December 31, 2016 | 6,917 | 2,759 | 571 | 10,247 |
| Amortization | 1,000 | 2,686 | 163 | 3,849 |
| Foreign exchange difference | - | (239) | - | (239) |
| **Accumulated amortization at December 31, 2017** | **7,917** | **5,206** | **734** | **13,857** |
| Net intangible assets at December 31, 2016 | 3,083 | 15,647 | 1,062 | 19,792 |
| **Net intangible assets at December 31, 2017** | **2,083** | **47,213** | **899** | **50,195** |

Intangible assets at December 31, 2017 relate to Building Materials Distribution business segment, as described in Note 35.

## 13. GOODWILL

| | Core business $ | US operations $ | Value-added services $ | Total $ |
|---|---|---|---|---|
| Balance at January 1, 2016 | 62,624 | 29,440 | 31,285 | 123,349 |
| Additions arising on acquisition (Note 7) | - | - | 3,791 | 3,791 |
| Foreign exchange difference | - | (923) | - | (923) |
| Balance at December 31, 2016 | 62,624 | 28,517 | 35,076 | 126,217 |
| Additions arising on acquisition (Note 7) | - | 40,152 | - | 40,152 |
| Foreign exchange difference | - | (1,562) | - | (1,562) |
| Balance at December 31, 2017 | **62,624** | **67,107** | **35,076** | **164,807** |

Goodwill at December 31, 2017 relates to the Company's Building Materials Distribution business segment, as described in Note 35.

The Company performed its annual test for goodwill impairment as at December 31, 2017. The recoverable amount of each of the cash-generating units has been determined using fair value less costs to sell. To determine fair value less costs to sell, the Company utilized five-year cash flow forecasts using the annual budget approved by the Board of Directors as a basis for such forecasts. Cash flow forecasts beyond that of the budget were prepared using a stable growth rate for future periods. These forecasts were based on historical data and future trends expected by the Company. To adjust the forecasts to consider selling costs, management estimated that disposition costs would be 1% of enterprise value.

The Company's valuation model also takes into account working capital and capital investments required to maintain the condition of the assets.



Forecasted cash flows were discounted using after-tax rates of approximately 9.0% in all cash-generating units for the purpose of the annual impairment test.

Based on the impairment tests, the fair value of each of the cash-generating units exceeded their carrying amounts. As a result, no provision for impairment of goodwill was provided.

There is a material degree of uncertainty with respect to the estimates of the recoverable amounts of the cash-generating units' net assets given that these estimates involve making key assumptions about the future. In making such assumptions, management has given its best estimate of future economic and market conditions.

## 14. PROVISION FOR ONEROUS OPERATING LEASES

As a result of the CFC Acquisition (Note 7), a provision was recognized for the fact that the agreed lease payments on certain operating leases exceeded the market lease rates as at the acquisition date. The provision has been calculated based on the difference between the market rate and the rate paid.

Activity in the Company's provision for onerous operating leases is as follows:

| | $ |
|---|---|
| Balance at January 1, 2016 | - |
| Additions arising on acquisition (Note 7) | 1,500 |
| Balance at December 31, 2016 | 1,500 |
| Settled in the year | (1,500) |
| Balance at December 31, 2017 | - |

## 15. CASH AND BANK INDEBTEDNESS

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Cash | **6,744** | - |
| Cheques issued in excess of cash on hand | **(9,755)** | (6,277) |
| | **(3,011)** | (6,277) |

## 16. PERFORMANCE BOND OBLIGATIONS

As a result of the Honsador Acquisition (Note 7), the Company assumed certain performance bond obligations. Proceeds received by the Company in excess of funds disbursed with respect to its performance bonds are outlined below.



| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Funds received on bonding obligations | **79,329** | - |
| Payments made on bonding obligations | **(65,637)** | - |
| Receipts in excess of payments | **13,692** | - |
| Provision for loss on bonds | **409** | - |
| Performance bonding obligations | **14,101** | - |

Activity in the Company's performance bond obligations was as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Balance at January 1 | **-** | - |
| Additions arising on acquisition (Note 7) | **12,409** | - |
| Net receipts on bonding obligations during the year | **1,708** | - |
| Change in provision for loss on bonds | **(65)** | - |
| Foreign exchange difference | **49** | - |
| Balance at December 31 | **14,101** | - |

Total gross bonding contracts on all outstanding projects at December 31, 2017 were $137,124 (2016 - $nil).

The Company manages risk associated with exposure to loss on these performance bonds through rigorous underwriting practices which include reviewing construction estimates, evaluating contractors' experience and financial condition, managing bond proceeds assigned to the Company, and obtaining security or personal guarantees from contracted parties for certain performance bonds.

## 17. LOAN FACILITIES

The Company's loan facilities are provided by a lending syndicate ("Syndicate Lender") and mature on July 10, 2021. The loan facilities are outlined below.

### Revolving loan facility

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Revolving loan facility | **162,168** | 131,789 |
| Financing costs, net of amortization | **(2,700)** | (2,338) |
| | **159,468** | 129,451 |

The Company's revolving loan facility with the Syndicate Lender has a maturity date of July 10, 2021.



Concurrent with the Honsador Acquisition on October 2, 2017, the maximum credit available under the Company's revolving loan facility increased from $275,000 to $300,000, with an additional $50,000 accordion facility, which may be borrowed for operating requirements in Canadian and US currency. Interest on Canadian dollar advances is charged based on the Canadian prime rate and Canadian Dollar Offered Rate, and US dollar advances is charged based on the US prime rate and London Interbank Offered Rate. The amount advanced under the facility at any time is limited to a defined percentage of inventories and trade receivables, less certain reserves. The facility is secured by a first charge over the Company's assets and an assignment of trade receivables and requires that certain covenants be met by the Company. The Company was not in breach of any of its covenants during the years ended December 31, 2017 and 2016.

### Non-revolving term loan

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Non-revolving term loan | **36,667** | 39,333 |
| Financing costs, net of amortization | **(446)** | (366) |
| Less: current portion | **(2,667)** | (2,667) |
| | **33,554** | 36,300 |

On May 13, 2016, the lead Syndicate Lender provided $26,000 in additional financing under the existing credit facility with the Company, which was subsequently amended as described below.

On July 14, 2016, the Company further amended its existing loan facilities (the "Amendment"), and syndicate participant allocations under the revolving loan facility were adjusted, and one of the lending syndicate participants converted $40,000 of its allocation within the revolving loan facility to a term basis ("Timberlands Facility") while maintaining its overall existing facility commitment, and the other participants increased their revolving facility allocations by $40,000.

The interest rate charged on the Timberlands Facility is based on the Canadian prime rate or the Canadian Banker's Acceptance rate. The principal amount will be amortized over 15 years and is payable in quarterly instalments, commencing no later than December 31, 2016, with maturity on July 10, 2021.

The Timberlands Facility is secured by a first charge against the Company's timberlands and certain other assets, and a subordinated charge over the Company's remaining assets, and, consistent with the Company's existing loan facilities, requires that certain covenants be met by the Company.

The Company was not in breach of any of its covenants during the year ended December 31, 2017.

## 18. PROMISSORY NOTES

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Promissory notes | **3,503** | 6,205 |
| Accrued interest | **979** | 885 |
| Less: current portion | **(3,680)** | (2,712) |
| | **802** | 4,378 |



On September 6, 2016, the Company issued a $2,405 promissory note in connection with the TFI Acquisition (Note 7). The principal amount of the promissory note is payable annually in three equal instalments of $802 commencing on August 31, 2017 and maturing on August 31, 2019. The promissory note bears simple interest which is paid semi-annually. As at December 31, 2017, the outstanding principal and accrued interest is $1,603 and $14, respectively.

The principal amount of the remaining promissory note is payable annually in five equal instalments of $1,900 commencing on July 2, 2014 and maturing on July 2, 2018. The promissory note bears simple interest and is payable as a lump sum on the maturity date.

## 19. FINANCE LEASE LIABILITIES

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Finance lease liabilities | **3,559** | 1,506 |
| Less: current portion | **(1,035)** | (649) |
| | **2,524** | 857 |

The Company leases certain transportation equipment, which has been classified as finance leases. Future minimum lease payments with respect to these leases are disclosed in Note 30.

## 20. EQUIPMENT TERM LOAN AND EQUIPMENT LINE

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Equipment term loan | **12,117** | 15,583 |
| Equipment line | **2,461** | - |
| Other loans | **120** | 242 |
| Financing costs, net of amortization | **(167)** | (154) |
| Less: current portion | **(3,432)** | (3,474) |
| | **11,099** | 12,197 |

Concurrent with the Amendment (Note 17), the Company entered into a revised financing agreement with Business Development Bank of Canada ("BDC"), an existing CFC lender, to:

a) consolidate existing equipment financing arrangements with multiple lenders under a single, consolidated term loan in the amount of $17,000, with the principal amount amortized over 5 years and payable in monthly instalments, commencing on August 1, 2016, with maturity on July 1, 2021; and

b) establish a non-revolving equipment line (the "Equipment Line") in the amount of $8,000, available to fund future equipment purchases, with the principal amount amortized over 15 years and payable in monthly instalments, commencing on August 1, 2019, with maturity on July 1, 2025.

Pursuant to this revision, the interest rate charged is based on BDC's Floating Base Rate. The loans are secured by a first charge against the specific equipment being financed under this arrangement, and a subordinated charge over the Company's other assets, and requires that certain existing covenants be met by the Company.

The Company was not in breach of any of its covenants during the year ended December 31, 2017.

## 21. REFORESTATION AND ENVIRONMENTAL

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Balance at January 1 | **2,145** | - |
| Additions arising on acquisition (Note 7) | **-** | 2,517 |
| Paid during the year | **(1,247)** | (821) |
| Reforestation provision on harvested land | **662** | 389 |
| Changes in fair value resulting from estimates | **121** | 60 |
| Balance at December 31 | **1,681** | 2,145 |
| Less: current portion | **(624)** | (1,187) |
| | **1,057** | 958 |

## 22. EARN-OUT COMMITMENT

As a result of the CFC Acquisition (Note 7), subject to certain minimum obligations, the Company assumed Jemi's liability to pay additional amounts ("Earn-out") from proceeds of the sale of certain specified lands to third parties for a period of seven years beginning September 15, 2014. The total net remaining undiscounted minimum amount payable with respect to the Earn-out is $2,065 (2016 - $2,100), with an additional 25% of the gross proceeds on any amounts above a certain price per hectare sold.

## 23. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

***Defined benefit pension plans***

The Company sponsors two non-contributory defined benefit pension plans: one a registered pension plan for salaried employees and the other a non-registered historical pension plan for certain retired executives. Both plans provide benefits based on years of service and historical highest average salary. The plans were closed to new participants effective August 1, 2000. The Company amended the registered defined benefit pension plan effective January 1, 2005 to reduce the benefit formula for future years of service and to allow members of the defined benefit pension plan to participate in the defined contribution plan. In respect of the non-registered historical executive pension plan, the Company has issued letters of credit amounting to $1,485 (2016 - $1,581) based on annual actuarial estimates.



The most recent actuarial valuation of the registered pension plan for funding purposes was as of December 31, 2016. The next actuarial valuation for the registered pension plan is required to be performed at December 31, 2019.

***Annuity contract***

The Company purchased an annuity buy-in for plan retirees for $36,009 through its defined benefit pension plan (2016 - $nil), representing total annuities purchased to date. Future cash flows from the annuity will match the amount and timing of benefits payable under the plan, substantially mitigating the exposure to future volatility in the related pension obligation. Actuarial based transaction costs of $4,380 relating to the purchase were recognized in other comprehensive income (loss), reflecting the difference between the annuity buy-in rate (which is comparable to solvency rates) compared to the discount rate used to value the obligations on a going concern basis.

At December 31, 2017, reflecting the buy-in annuity, 66% (2016 - nil) of the defined benefit pension plan obligation was fully hedged against changes in future discount rates and longevity risk (potential increases in life expectancy of plan members).

***Defined contribution plans***

The Company sponsors defined contribution plans for eligible employees. Pension expense for the defined contribution plans for the year ended December 31, 2017 amounted to $1,029 (2016 - $882) and is included in distribution, selling and administration expenses.

***Post-retirement benefits other than pensions***

The Company provides extended health care benefits and pays provincial medical plan premiums on behalf of qualifying employees. The Company also pays for the dental benefits of certain retirees who had been employed at a predecessor company.

***Total cash payments***

Total cash payments for employee future benefits for 2017, consisting of cash contributed by the Company to defined benefit plans, defined contribution plans, and other post-retirement benefits, were $1,788 (2016 - $1,599), with no solvency deficiency contributions.

Included in total cash payments, based on 2017 experience, the Company expects the 2018 contributions for its defined benefit plans to be approximately $415, including solvency deficiency contributions of $49.

The status of the defined benefit pension and post-retirement benefit plans is as follows:

| | Pension benefit plan | | Other benefit plans | |
|---|---|---|---|---|
| | **2017 $** | **2016 $** | **2017 $** | **2016 $** |
| **Net benefit expense** | | | | |
| Current service cost | **502** | 462 | **-** | - |
| Non-investment expenses | **126** | - | **-** | - |
| Interest cost on benefit obligation | **1,728** | 1,827 | **177** | 192 |
| Interest on effect of asset ceiling impairment at beginning of year | **103** | - | **-** | - |
| Expected return on plan assets | **(1,792)** | (1,800) | **-** | - |
| Net benefit expense | **667** | 489 | **177** | 192 |
| **Defined benefit obligation** | | | | |
| Defined benefit obligation at January 1 | **48,856** | 47,732 | **5,071** | 5,084 |
| Current service cost | **502** | 462 | **-** | - |
| Interest cost on benefit obligation | **1,728** | 1,827 | **177** | 192 |
| Benefits paid | **(2,805)** | (2,704) | **(240)** | (272) |
| Actuarial losses (gains) on obligation | **742** | 1,539 | **(2,500)** | 67 |
| Defined benefit obligation at December 31 | **49,023** | 48,856 | **2,508** | 5,071 |
| **Plan assets** | | | | |
| Fair value of plan assets at January 1 | **50,545** | 47,262 | **-** | - |
| Expected return on plan assets | **1,792** | 1,800 | **-** | - |
| Employer contributions | **519** | 475 | **240** | 272 |
| Non-investment expenses | **(126)** | - | **-** | - |
| Benefits paid | **(2,805)** | (2,704) | **(240)** | (272) |
| Actuarial (losses) gains on plan assets | **(2,079)** | 3,712 | **-** | - |
| Fair value of plan assets at December 31 | **47,846** | 50,545 | **-** | - |
| **Net benefit liability** | | | | |
| Fair value of plan assets at December 31 | **47,846** | 50,545 | **-** | - |
| Accrued benefit obligation at December 31 | **(49,023)** | (48,856) | **(2,508)** | (5,071) |
| | **(1,177)** | 1,689 | **(2,508)** | (5,071) |
| Asset ceiling impairment | **(23)** | (2,874) | **-** | - |
| **Net benefit liability** | **(1,200)** | (1,185) | **(2,508)** | (5,071) |

The Company has recorded net benefit expense and actuarial gains (losses) as follows:

| | Pension benefit plan | | Other benefit plans | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$** | **$** | **$** | **$** |
| **Distribution, selling and administration** | | | | |
| Current service cost | **502** | 462 | **-** | - |
| Non-investment expenses | **126** | - | **-** | - |
| | **628** | 462 | **-** | - |
| **Finance costs** | | | | |
| Interest cost on benefit obligation | **1,728** | 1,827 | **177** | 192 |
| Interest on effect of asset ceiling impairment at beginning of year | **103** | - | **-** | - |
| Expected return on plan assets | **(1,792)** | (1,800) | **-** | - |
| | **39** | 27 | **177** | 192 |
| **Other comprehensive income (loss)** | | | | |
| Actuarial (losses) gains on obligation due to changes in financial assumptions | **(1,494)** | (1,539) | **14** | (67) |
| Actuarial gains on obligation due to changes in experience | **752** | - | **131** | - |
| Actuarial gains on obligation due to changes in demographic assumptions | **-** | - | **2,355** | - |
| Actuarial (losses) gains on plan assets | **(2,079)** | 3,712 | **-** | - |
| Net change in effect of asset ceiling | **2,954** | (2,874) | **-** | - |
| | **133** | (701) | **2,500** | (67) |

**Assets**

The weighted average asset allocation of the defined benefit plan consists of:

| | **2017** | **2016** |
|---|---|---|
| | **%** | **%** |
| Equity securities | **2** | 35 |
| Debt securities | **28** | 58 |
| Annuity | **67** | - |
| Short-term securities | **3** | 7 |
| | **100** | 100 |

The major categories of plan assets of the fair value of the total plan assets are as follows:

| | 2017 % | 2016 % |
|---|---|---|
| Investments quoted in active markets | **2** | 28 |
| Unquoted investments (pooled funds) | **31** | 72 |
| Annuity | **67** | - |
| | **100** | 100 |

**Significant assumptions**

The significant weighted average assumptions used are as follows:

| | Pension benefit plan | | Other benefit plans | |
|---|---|---|---|---|
| | 2017 % | 2016 % | 2017 % | 2016 % |
| Accrued benefit obligation as of December 31 | | | | |
| Discount rate | **3.30** | 3.60 | **3.30** | 3.60 |
| Rate of compensation increase | **3.25** | 3.25 | | |
| Benefit costs for year ended December 31 | | | | |
| Discount rate | **3.60** | 3.90 | **3.60** | 3.90 |
| Rate of compensation increase | **3.25** | 3.25 | | |

Assumed health care cost trend rates at December 31 are as follows:

| | 2017 % | 2016 % |
|---|---|---|
| Health care initial cost trend rate | **8.0** | 6.0 |
| Heal care ultimate cost trend date | **3.5** | 6.0 |
| Year that the rate reaches the ultimate trend rate | **2027** | 2016 |

The mortality assumptions are based on the 2014 Canadian Pensioners Mortality Private table with generational projection using mortality improvement scale CPM-B and adjusted for size of pensions.

### Sensitivity analysis

A one-percentage point change in the assumed rate of increase in health care costs would have the following effects:

| | Other benefit plans | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Increase $ | Decrease $ | Increase $ | Decrease $ |
| Effect on the defined benefit obligation | **213** | **(188)** | 533 | (482) |
| Effect on the aggregate current service cost and interest cost | **7** | **(7)** | 19 | (17) |

A one-percentage point change in the assumed discount rate would have the following effects:

| | Pension benefit plan | | Other benefit plans | |
|---|---|---|---|---|
| | Increase $ | Decrease $ | Increase $ | Decrease $ |
| **2017** | | | | |
| Effect on the defined benefit obligation | **(4,911)** | **6,037** | **(179)** | **206** |
| Effect on the aggregate current service cost and interest cost for the next year | **234** | **(228)** | **16** | **(20)** |
| **2016** | | | | |
| Effect on the defined benefit obligation | (4,817) | 5,793 | (375) | 415 |
| Effect on the aggregate current service cost and interest cost for the next year | 179 | (231) | 32 | (38) |

The average duration of the defined benefit plan obligation at December 31, 2017 is 10.8 years.

## 24. SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of common and preferred shares with no par value.

### 2017 Private Placement

On October 2, 2017, and concurrent with the Honsador Acquisition (Note 7), the Company completed a private placement of 9,832,500 subscription receipts at a price of $5.85 each, resulting in gross proceeds of $57,520 (the “2017 Private Placement”), including subscription receipts to certain insiders for proceeds of $5,618. The 2017 Private Placement is pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and included National Bank Financial Inc., Canaccord Genuity Corp., Raymond James Ltd., Cormark Securities Inc. and Haywood Securities Inc.

Cash proceeds raised from the 2017 Private Placement, net of issuance costs, were used to partially finance the Honsador Acquisition. Upon the closing of the Honsador Acquisition, the subscription receipts issued were converted into a total of 9,832,500 common shares.

**2017 Public offering**

On April 18, 2017, the Company completed a public offering of 6,598,470 common shares, by way of prospectus, at a price of $6.10 each, resulting in gross proceeds of $40,251 (the “2017 Public Offering”). The 2017 Public Offering was pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and included National Bank Financial Inc., Canaccord Genuity Corp., Haywood Securities Inc., Raymond James Ltd., and Cormark Securities Inc.

Cash proceeds raised from the 2017 Public Offering, net of issuance costs, were used for reducing the Company’s existing revolving loan facility, which was re-drawn during the fourth quarter of 2017 to partially fund the Honsador Acquisition, and for general corporate purposes.

**2016 Public offering**



On September 1, 2016, the Company completed a public offering of 9,091,000 common shares, by way of prospectus, at a price of $6.60 each, resulting in gross proceeds of $60,001 (the “2016 Public Offering”). The 2016 Public Offering was pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and included Canaccord Genuity Corp., Raymond James Ltd., Haywood Securities Inc., Cormark Securities Inc., and Paradigm Capital Inc.

Cash proceeds raised from the 2016 Public Offering, net of issuance costs, were used to redeem all of the Company’s outstanding convertible debentures, provide partial consideration for the TFI Acquisition (Note 7), repay a portion of the revolving loan facility, and for general corporate purposes.

**2016 Private placement**

On May 13, 2016, and concurrent with the CFC Acquisition (Note 7), the Company completed a private placement of 6,100,750 subscription receipts at a price of $4.10 each, resulting in gross proceeds of $25,013 (the “2016 Private Placement”), including subscription receipts to certain insiders for proceeds of $14,600. The 2016 Private Placement was pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and included Raymond James Ltd., Canaccord Genuity Corp., Cormark Securities Inc., Haywood Securities Inc., and Paradigm Capital Inc.

Cash proceeds raised from 2016 Private Placement, net of issuance costs, were used for reducing Jemi’s senior loans, the Company’s revolving loan facility, and for general corporate purposes.

Upon the closing of the CFC Acquisition, the subscription receipts issued were converted into a total of 6,100,750 common shares.

**Debt exchange**

On June 30, 2016, the Company entered into a debt exchange agreement with certain related parties to CFC. Pursuant to this agreement, the previously outstanding balance of related party debt of $4,500 was satisfied in full through the issuance of 955,414 common shares of the Company at a price of $4.71 each.

**Restricted Equity Common Share Plan ("RECSP")**

The Company's Restricted Equity Common Share Plan provides for an allotment of Restricted Equity Common Shares ("RSUs") to designated directors, officers and employees of the Company (each a "Member") at the discretion of the compensation committee.

RSUs generally vest one-third on the date of grant and one-third on each of the first and second anniversary of the date of the grant. However, vesting may be accelerated, or different vesting schedules may be implemented, at the discretion of the compensation committee. RSUs shall, within 30 days of vesting and, in any event, by no later than December 31 following the vesting date, be satisfied by the Company issuing to the holder that number of shares equal to the number of vested RSUs then credited to the holder. The RSUs earn additional RSUs for the dividends that would otherwise have been paid on the RSUs as if they had been issued as of the date of the grant. The number of additional RSUs is calculated using the average market price of the Company's shares in the five days immediately preceding each distribution.



RSUs granted are considered to be in respect of future services and are recognized in share-based compensation costs over the vesting period. Compensation cost is measured based on the market price of the Company's shares on the date of granting of the RSUs.

The Company's obligation to issue shares on the vesting of RSUs is an unfunded and unsecured obligation of the Company.

The plan authorizes a maximum of 1,500,000 of the Company's issued and outstanding common shares to be reserved for issuance.

Outstanding Restricted Stock Units ("RSUs") pursuant to the RECSP are as follows:

| | **2017**<br>**#** | **2016**<br>**#** |
|---|---|---|
| Balance at January 1 | **-** | - |
| Granted | **4,832** | 3,802 |
| Vested and converted to common shares during the period | **(4,832)** | (3,802) |
| Balance at December 31 | **-** | - |

Compensation expense in respect of RSUs for the year ended December 31, 2017 was $29 (2016 - $20).

**Employee Common Share Purchase Plan ("ECSPP")**

For the year ended December 31, 2017, the Company has issued 70,955 (2016 - 57,148) common shares from treasury for gross proceeds of $384 (2016 - $251) from employees, pursuant to this plan.

The plan authorizes a maximum of 1,000,000 of the Company's issued and outstanding common shares to be reserved for issuance.

### Dividends

The amounts and record dates of dividends declared were as follows:

| Record date | Amount<br>$ | Per share<br>$ |
|---|---|---|
| March 31, 2017 | **8,566** | 0.14 |
| June 30, 2017 | **9,490** | 0.14 |
| September 29, 2017 | **9,496** | 0.14 |
| December 29, 2017 | **10,872** | 0.14 |
| | **38,424** | 0.56 |

On December 15, 2017, the Company declared a dividend of $0.14 per share, totaling $10,872 to shareholders of record on December 29, 2017, which was paid on January 15, 2018.



On December 15, 2016, the Company declared a dividend of $0.14 per share, totaling $8,561 to shareholders of record on December 30, 2016, which was paid on January 13, 2017.

## 25. COST OF SALES

Cost of sales includes the following costs:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Purchased and treated building materials | **908,897** | 813,338 |
| Logging, trucking and timber | **30,107** | 12,812 |
| Salaries and benefits | **29,092** | 20,055 |
| Peeled and treated posts | **13,628** | 5,411 |
| Inventory provisions | **1,155** | 1,042 |
| Other | **898** | 1,170 |
| | **983,777** | 853,828 |

## 26. DISTRIBUTION, SELLING AND ADMINISTRATION COSTS

Distribution, selling and administration costs include the following:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Salaries and benefits | **51,782** | 41,702 |
| Building rent and occupancy costs | **23,043** | 19,073 |
| Office and miscellaneous | **7,216** | 5,682 |
| Travel, promotion and entertainment | **5,636** | 5,054 |
| Professional and management fees | **2,521** | 1,967 |
| | **90,198** | 73,478 |

## 27. INCOME TAXES

Income tax for the Company consists of the following:

***Consolidated Statements of Earnings***

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Current income tax expense | **8,172** | 8,704 |
| Deferred income tax recovery | **(1,195)** | (997) |
| | **6,977** | 7,707 |

***Consolidated Statements of Comprehensive Earnings***

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Deferred tax (recovery) related to items recorded in OCI during the year | | |
| Actuarial gains | **707** | (200) |

The Company's effective income tax rate differs from the statutory income tax rate. The difference arises from the following items:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Earnings before income taxes | **35,782** | 51,908 |
| Income tax at statutory rates | **10,986** | 14,626 |
| Adjustment to deferred tax assets related to changes in tax rates | **(3,325)** | 16 |
| Gain on bargain purchase | **-** | (6,522) |
| Amounts not deductible for tax and other | **(684)** | (413) |
| Income tax expense | **6,977** | 7,707 |

Temporary differences that give rise to deferred income tax assets and liabilities are as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Deferred income tax (liabilities) assets: | | |
| Property, plant and equipment | **(8,312)** | (8,851) |
| Timber | **(12,283)** | (10,185) |
| Pensions and other post-retirement benefits | **(960)** | 1,684 |
| Non-capital losses | **9,483** | 8,127 |
| Non-deductible reserves | **2,580** | 2,313 |
| Intangible assets and goodwill | **(6,614)** | 824 |
| | **(14,186)** | (6,088) |

At December 31, 2017, the Company has approximately $49,442 of Canadian non-capital losses that may be available for deduction against taxable income in future years. These losses expire as follows:

| | $ |
|---|---|
| 2025 | **1,241** |
| 2026 | **2,148** |
| 2027 | **1,111** |
| 2028 | **1,090** |
| 2029 | **3,713** |
| Thereafter | **40,139** |
| | **49,442** |

At December 31, 2017, approximately $15,000 of these non-capital losses have not been recognized as deferred income tax assets.



## 28. FINANCE COSTS

Finance costs for the Company are broken down as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Loan facilities | **6,111** | 4,564 |
| Equipment term loan and equipment line | **444** | 309 |
| Promissory notes | **157** | 187 |
| Finance lease liabilities | **81** | 255 |
| Bank indebtedness and other | **306** | 85 |
| Convertible debentures | **-** | 1,916 |
| Net cash interest | **7,099** | 7,316 |
| Amortization of financing costs | **835** | 741 |
| Accretion of earn-out commitment | **120** | 72 |
| Interest expense on net defined benefit liability | **216** | 219 |
| | **8,270** | 8,348 |

## 29. RELATED PARTY TRANSACTIONS

### Transactions

The Company has transactions with related parties in the normal course of operations at amounts as agreed between the related parties as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Land and building lease payments for distribution facilities paid to a company in which a member of key management personnel who is a director and officer of the Company has an interest and lease payments for certain treatment plant facilities to a company solely controlled by a director and officer of the Company | **3,223** | 3,223 |
| Purchase of product from a public company that a member of key management personnel who is a director and officer of the Company has an ownership interest in | **2,620** | 2,918 |
| Fees for management services and other charges paid to a company controlled by one of key management personnel who is also a director and officer of the Company | **1,208** | 1,321 |
| Fees for professional services and other charges paid to a company controlled by an officer of the Company | **559** | 981 |



### Commitments with related parties

The minimum payments under the terms of the leases with companies, in which a member of key management personnel who is also a director and officer of the Company has an interest in, are as follows:

| | $ |
|---|---|
| Year ending December 31 | |
| 2018 | **3,539** |
| 2019 | **3,478** |
| 2020 | **2,428** |
| 2021 | **2,070** |
| 2022 | **1,557** |
| Thereafter | **14,925** |
| | **27,997** |

**Subscription receipts issued to related parties**

During the year ended December 31, 2017, subscriptions were received from certain insiders of the Company for proceeds of $5,618 (2016 - $14,600) (Note 24), including the following:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| A company controlled by one of key management personnel who is also a director and officer of the Company | **5,000** | 6,000 |
| A company in which members of key management personnel who are directors and/or officers of the Company have an interest in | **-** | 1,902 |
| Several members of key management personnel, directors and officers of the Company | **472** | 567 |

**Payable to related parties**

As at December 31, 2017, trade and other payables include amounts due to related parties as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| A public company in which a member of key management personnel who is a director and officer of the Company has an ownership interest in | **99** | 76 |
| A company controlled by one of key management personnel who is also a director and officer of the Company | **55** | 48 |
| A company controlled by an officer of the Company | **133** | 532 |

**Compensation of key management personnel**

Compensation of key management is reported on the accrual basis of accounting consistent with the amounts recognized on the consolidated statement of earnings. Key management includes the Company's Board of Directors, the Chief Executive Officer, the President, and the Chief Financial Officer. Compensation awarded to key management is summarized as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Salaries and other benefits | **3,369** | 3,217 |
| Share-based compensation | **29** | 20 |
| | **3,398** | 3,237 |

## 30. COMMITMENTS AND CONTINGENCIES

### Lease commitments

The Company has lease commitments as follows:

a. real estate operating leases with third parties and related parties covering the head office, as well as many of the distribution centre properties and treatment plant properties;

b. operating leases covering certain vehicles, computer equipment and warehouse equipment; and

c. finance leases covering certain transportation equipment.

Future minimum payments due under the terms of these leases, including those amounts disclosed in Note 29, are as follows:



| | $ |
|---|---|
| Year ending December 31 | |
| 2018 | **21,540** |
| 2019 | **20,362** |
| 2020 | **16,790** |
| 2021 | **12,980** |
| 2022 | **11,186** |
| Thereafter | **52,938** |
| | **135,796** |

As at December 31, 2017 present value of minimum lease payments relating to the finance leases was $3,140 (2016 - $934).

### Claims

During the normal course of business, certain product liability and other claims have been brought against the Company and, where applicable, its suppliers. While there is inherent difficulty in predicting the outcome of such matters, management has vigorously contested the validity of these claims, where applicable, and, based on current knowledge, believes that they are without merit and does not expect that the outcome of any of these matters, in consideration of insurance coverage maintained, or the nature of the claims, individually or in the aggregate, would have a material adverse effect on the consolidated financial position, results of operations or future earnings of the Company.

## 31. FINANCIAL INSTRUMENTS

### Non-derivative financial instruments

The carrying amounts and fair values of non-derivative financial instruments were as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Carrying amount $ | Fair value $ | Carrying amount $ | Fair value $ |
| Cash | **6,744** | **6,744** | - | - |
| Trade and other receivables | **104,505** | **104,505** | 85,467 | 85,467 |
| Bank indebtedness | **9,755** | **9,755** | 6,277 | 6,277 |
| Trade and other payables | **83,620** | **83,620** | 53,935 | 53,935 |
| Performance bonds | **14,101** | **14,101** | - | - |
| Dividends payable | **10,872** | **10,872** | 8,561 | 8,561 |
| Revolving loan facility | **159,468** | **162,168** | 129,451 | 131,789 |
| Non-revolving term loan | **36,221** | **36,667** | 38,967 | 39,333 |
| Promissory notes | **4,482** | **4,482** | 7,090 | 7,090 |
| Finance lease liabilities | **3,559** | **3,559** | 1,506 | 1,506 |
| Equipment term loan and equipment line | **14,531** | **14,698** | 15,671 | 15,825 |
| Earn-out commitment | **1,448** | **1,448** | 1,328 | 1,328 |

The following methods and assumptions were used to determine the estimated fair value of each class of financial instrument:

- The fair values of cash, trade and other receivables, bank indebtedness, trade and other payables, performance bonds and dividends payable is comparable to their carrying amount, given the short maturity periods.

- The fair values of the Company's revolving loan facility, non-revolving term loan, and equipment term loan and equipment line approximate their carrying values as they bear interest at variable rates based on current market rates. The fair values have been estimated as the carrying values excluding unamortized financing costs.

- The fair values of the Company's promissory notes and finance lease liabilities approximate their carrying values as they bear interest that approximates current market rates.

- The fair value of the earn-out commitment is equal to the discounted amount of the Earn-out Payment.

The expenses resulting from financial assets and liabilities recorded in net earnings were as disclosed in Note 28.

**Derivative financial instruments**

The Company uses derivative financial instruments for economic hedging purposes in managing lumber price risk and foreign exchange risk through the use of futures contracts and options. Derivative instruments were designated as held for trading with changes in fair value recorded in other income (loss).

At December 31, 2017, the Company held various outstanding foreign exchange contracts to purchase an aggregate of US$1,891 at exchange rates ranging between 1.2258 and 1.2888 (2016 - $nil) for economic hedging purposes, and unrealized gains totaling $27 (2016 - $nil) were recorded in Other income.

When held by the Company, these derivative financial instruments are traded through well-established financial services firms with a long history of providing trading, exchange and clearing services for commodities and currencies. As trading activities are closely monitored and restricted by senior management, including limits for a maximum number of outstanding contracts at any point in time, the risk of credit loss on these financial instruments is considered low.



**Financial risk management**

The Company's activities result in exposure to a variety of financial risks from its financial assets and financial liabilities, including risks related to credit, interest rates, currency, liquidity and wood product prices.

Financial assets include trade and other receivables, which are measured at amortized cost. Financial liabilities include bank indebtedness, trade and other payables, performance bonds, dividends payable, revolving loan facility, non-revolving term loan, promissory notes, finance lease liabilities, equipment term loan and equipment line, and earn-out commitment. All financial liabilities are measured at amortized cost.

The Board of Directors has overall responsibility for establishment and oversight of the Company's risk management, which seeks to minimize any potential adverse effects on the Company's financial performance.

**Credit risk**

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations, and arises primarily from the Company's trade and other receivables. The Company grants credit to its customers in the normal course of operations. To limit its exposure to credit risk, the Company performs ongoing evaluations of the credit quality of its customers and follows diligent credit granting and collection procedures. Purchase limits are established for each customer and are reviewed regularly.

The Company regularly reviews the collectability of its trade accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts.

As at December 31, 2017, trade accounts receivable, excluding other receivables, were as follows:

| | $ |
|---|---|
| Current | 94,205 |
| Past due over 60 days | 2,348 |
| Trade receivables | 96,553 |
| Less: Allowance for doubtful accounts | (896) |
| | 95,657 |

As at December 31, 2017, the maximum exposure to credit risk is $104,505 (2016 - $85,467), which represents the carrying value amount of financial instruments classified as trade and other receivables.

**Interest rate risk**



The Company is exposed to interest rate risk through its variable rate revolving loan facility, non-revolving term loan (Note 17), and equipment term loan and equipment line (Note 20). Based on the Company's average loan facilities and equipment term loan balance during 2017, the sensitivity of a 1% increase in interest rates would result in an approximate decrease of $1,596 in net annual earnings.

**Currency risk**

Currency risk is the risk that changes in market prices of foreign exchange rates will affect the Company's earnings or the value of its holdings of financial instruments. The Company is exposed to currency risk on the United States dollar component of its revolving loan facility, as well as sales and purchase transactions that are denominated in United States dollars.

As at December 31, 2017, a $0.05 increase in the United States dollar versus the Canadian dollar would have an insignificant impact on net earnings and other comprehensive earnings.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or at a reasonable cost. The Company manages liquidity risk by having appropriate credit facilities available at all times. In addition, the Company continuously monitors and reviews both actual and forecasted cash flows. The Company is exposed to refinancing risks as there can be no assurance that the Company will be able to secure credit on the same terms or amount when the facility expires.

**Other price risk**

Other price risk is defined as the potential adverse impact on earnings and economic value due to price movement and volatilities. The Company is exposed to other price risk with respect to certain wood products. The Company closely monitors wood product prices.

## 32. FAIR VALUE MEASUREMENT

IFRS 13, *Fair Value Measurement* requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset and liability, either directly or indirectly;
Level 3 – Inputs that are not based on observable market data.

The following table summarizes the fair value measurement hierarchy of the Company's assets and liabilities at December 31, 2017.

| | Total<br>$ | Level 1<br>$ | Level 2<br>$ | Level 3<br>$ |
|---|---|---|---|---|
| **Non-financial assets measured at fair value** | | | | |
| Timber | **64,249** | - | - | 64,249 |
| **Financial assets for which fair values are disclosed** | | | | |
| Trade and other receivables | **104,505** | - | - | 104,505 |
| **Financial liabilities for which fair values are disclosed** | | | | |
| Trade and other payables | **83,620** | - | - | 83,620 |
| Performance bonds | **14,101** | - | - | 14,101 |
| Dividends payable | **10,872** | - | 10,872 | - |
| Revolving loan facility | **162,168** | - | - | 162,168 |
| Non-revolving term loan | **36,667** | - | - | 36,667 |
| Promissory notes | **4,482** | - | - | 4,482 |
| Finance lease liabilities | **3,559** | - | - | 3,559 |
| Equipment term loan and equipment line | **14,698** | - | - | 14,698 |
| Earn-out commitment | **1,448** | - | - | 1,448 |

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## 33. CHANGES IN NON-CASH WORKING CAPITAL

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Trade and other receivables | **(3,505)** | (5,378) |
| Inventories | **(9,322)** | (11,292) |
| Prepaid expenses and deposits | **(186)** | 798 |
| Trade and other payables | **10,832** | (9,754) |
| | **(2,181)** | (25,626) |

## 34. FOREIGN SALES AND SIGNIFICANT CUSTOMERS

During the year ended December 31, 2017, the Company had sales outside of Canada of $199,853 (2016 - $133,103).



The Company has sold products to certain customers who comprise greater than 10% of its sales. During the year ended December 31, 2017, two customers individually accounted for sales in excess of 10%, purchasing an aggregate of $357,446 (2016 - $322,313, representing two customers).

## 35. SEGMENTED INFORMATION

The Company operates in two reportable business segments and two geographic areas.

The two reportable business segments offer different products, require different production processes, and are based on how financial information is produced internally for the purposes of making operating decisions. The following summary describes the operations of each of the Company's reportable business segments:

- *Building Materials Distribution* – wholesale distribution of building materials and home renovation products, including value-added services such as lumber pressure treating; and
- *Forestry* – timber ownership and management of private timberlands and Crown forest licenses, logging and trucking operations, and value-added services such as post-peeling and post and pole pressure treating operations.

Sales between segments are accounted for at prices that approximate fair value. No business segments have been aggregated to form the above reportable business segments.

| | Year ended December 31, 2017 | | | | Year ended December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Building Materials Distribution $ | Forestry $ | Adjustments and eliminations[1] $ | Consolidated $ | Building Materials Distribution $ | Forestry[2] $ | Adjustments and eliminations[1] $ | Consolidated $ |
| **Revenue** | | | | | | | | |
| External customers | 1,080,289 | 55,661 | - | **1,135,950** | 937,876 | 40,420 | - | **978,296** |
| Inter-segment | - | 882 | (882) | **-** | - | 633 | (633) | **-** |
| | 1,080,289 | 56,543 | (882) | **1,135,950** | 937,876 | 41,053 | (633) | **978,296** |
| **Specified income (expenses)** | | | | | | | | |
| Depreciation and amortization | (9,039) | (5,719) | - | **(14,758)** | (8,946) | (3,469) | - | **(12,415)** |
| Restructuring costs | - | (834) | - | **(834)** | - | - | - | **-** |
| Finance costs | (5,876) | (2,394) | - | **(8,270)** | (6,621) | (1,727) | - | **(8,348)** |
| Fair value adjustments | - | 7,925 | - | **7,925** | - | 1,072 | - | **1,072** |
| Gain on bargain purchase (Note 7) | - | - | - | **-** | - | - | 24,249 | **24,249** |
| **Net earnings** | 28,133 | 672 | - | **28,805** | 19,222 | 730 | 24,249 | **44,201** |
| **Purchase of property, plant and equipment** | 4,335 | 7,653 | - | **11,988** | 1,461 | 5,887 | - | **7,348** |
| **Long-term assets** | 248,721 | 132,041 | - | **380,762** | 175,816 | 130,546 | - | **306,362** |

1. Includes inter-segment eliminations and income and expenses that are not allocated to reportable business segments.
2. Forestry segment was added through the CFC Acquisition (Note 7), and these results are for period commencing May 13, 2016.

The percentage of total revenue from external customers and long-term assets by geographic area are as follows:

| | 2017 % | 2016 % |
|---|---|---|
| **Revenue** | | |
| Canada | **83** | 87 |
| US | **17** | 13 |
| | **100** | 100 |

| | 2017 % | 2016 % |
|---|---|---|
| **Long-term assets** | | |
| Canada | **67** | 85 |
| US | **33** | 15 |
| | **100** | 100 |

The percentage of total revenue from external customers from product groups is as follows:

| | 2017 % | 2016 % |
|---|---|---|
| Construction materials | **61** | 61 |
| Specialty and allied | **33** | 35 |
| Forestry and other | **6** | 4 |
| | **100** | 100 |



## 36. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide dividends to shareholders and benefits for other stakeholders. The Company includes debt and equity, comprising shareholders' capital, contributed surplus, deficit and cumulative dividends on shares, in the definition of capital.

The Company seeks to maintain a balance between the higher returns that might be possible with the leverage afforded by higher borrowing levels and the security afforded by a sound capital structure. It does this by maintaining appropriate debt levels in relation to its working capital and other assets in order to provide the maximum dividends to shareholders commensurate with the level of risk. Also, the Company utilizes its debt capabilities to buy back shares, where appropriate, in order to maximize cash distribution rates for remaining shareholders.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase shares in the market, issue new shares, or sell assets to reduce debt.

The Company's policy is to dividend all available cash from operations to shareholders after provision for cash required for maintenance of capital expenditures and other reserves considered advisable by the Company's directors. The Company has eliminated the impact of seasonal fluctuations by equalizing quarterly dividends.

There are no externally imposed capital requirements and the Company's loan agreements do not contain any capital maintenance covenants.

There were no changes to the Company's approach to capital management during the current year.

## 37. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

CanWel®

# CORPORATE INFORMATION

## Directors

**Ian M. Baskerville**
Toronto, Ontario

**Amar S. Doman**
West Vancouver, British Columbia

**Tom Donaldson**
Saint John, New Brunswick

**Kelvin Dushnisky**
Toronto, Ontario

**Sam Fleiser**
Toronto, Ontario

**Stephen W. Marshall**
Vancouver, British Columbia

**Harry Rosenfeld**
West Vancouver, British Columbia

**Marc Seguin**
Vancouver, British Columbia

**Siegfried J. Thoma**
Portland, Oregon

## Auditors

**Ernst & Young LLP**
Vancouver, British Columbia

## Solicitors

**Goodmans LLP**
Toronto, Ontario

**DLA Piper (Canada) LLP**
Vancouver, British Columbia

## Officers

**Amar S. Doman**
Chairman and CEO

**James Code**
Chief Financial Officer

**R.S. (Rob) Doman**
Corporate Secretary

## CanWel Building Materials

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## Stock Exchange

**Toronto Stock Exchange**

## Trading Symbol:

CWX