CanWel®

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 $	2016 (Note 7) $
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

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.

	Common shares		Contributed surplus	Foreign currency translation	Deficit	Total
(in thousands of Canadian dollars, except share amounts)	**#**	**$**	**$**	**$**	**$**	**$**
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 $	2016 $
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 $	2016 $
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 **$**	**2016** **$**
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 **$**	**Buildings, leasehold improvements and roads** **$**	**Machinery, automotive and other equipment** **$**	**Computer equipment and systems development** **$**	**Equipment under finance leases** **$**	**Total** **$**
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 $	2016 $
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) Estimated total costs, including harvest costs, of $49[2] per m^3 Estimated harvest annual volume of 173,913 - 450,000 m^3 (20-year average 271,732 m^3 (2016 - 278,163 m^3)) 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: - the estimated log prices per m^3 were higher (lower); - the estimated stewardship and harvest costs per m^3 were lower (higher); - the estimated harvest volumes were higher (lower); and - 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 $	2016 $
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 $	2016 $
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 $	2016 $
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 $	2016 $
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 $	2016 $
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 $	2016 $
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 $	2016 $
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 $	2016 $
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 $	2016 $
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 **#**	**2016** **#**
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 $	Per share $
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 $	2016 $
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 $	2016 $
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 **$**	**2016** **$**
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 **$**	**2016** **$**
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 **$**	**2016** **$**
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 **$**	**2016** **$**
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 **$**	**2016** **$**
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 $	2016 $
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 $	2016 $
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 $	2016 $
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 $	2016 $
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	**Level 1**	**Level 2**	**Level 3**
	$	**$**	**$**	**$**
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 **$**	2016 $
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®

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