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CanWel Building Materials Group Ltd.

2017 MANAGEMENT'S DISCUSSION AND ANALYSIS

CanWel Building Materials Group Ltd.

Management's Discussion and Analysis

March 8, 2018

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

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

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

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

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1. In the discussion, reference is made to EBITDA, which represents earnings from continuing operations before interest, including amortization of deferred financing costs, provision for income taxes, depreciation and amortization, asset impairment losses (if applicable) and share-based compensation. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, and therefore the measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. EBITDA is presented as we believe it is a useful indicator of a Company's ability to meet debt service and capital expenditure requirements and because we interpret trends in EBITDA as an indicator of relative operating performance. EBITDA should not be considered by an investor as an alternative to net earnings or cash flows as determined in accordance with IFRS. For a reconciliation of EBITDA to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) and Adjusted EBITDA".

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

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

Business Overview

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

Business Acquisitions (the "Acquisitions")

Purchase of Honsador Building Products Group

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

Total purchase consideration comprised of US$81.3 million, including certain preliminary post-closing adjustments. The foreign exchange rate used to translate cash purchase consideration and fair value of assets acquired and liabilities assumed was based on the exchange rate published by the Bank of Canada as at the date of the Honsador Acquisition.

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

Purchase of Jemi Fibre Corp.

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

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

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

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

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

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

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

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

Purchase of Assets of Total Forest Industries Ltd.

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

The consideration transferred to the vendors was satisfied through:

a) $8.3 million cash; and

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

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

Issuance of Shares

2017 Private Placement

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

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

2017 Public Offering

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

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

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

2016 Public Offering

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

2016 Private Placement

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

Annuity Contract

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

Foreign Exchange Forward Contracts

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

Redemption of Convertible Debentures

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

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

Revolving Loan Facility and Non-Revolving Term Loan

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

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

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

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

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

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

Equipment Term Loan and Equipment Line

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

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

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

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

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

Debt Exchange Agreement

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

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

Seasonality

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

Results of Operations

Selected Annual Information

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

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

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

Overall Performance

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

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

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

Sales and Gross Margin

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

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

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

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

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

Expenses

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

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

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

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

Operating Earnings

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

Finance Costs

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

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

Acquisition Costs

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

Gain on Bargain Purchase

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

Earnings before Income Taxes

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

Provision for Income Taxes

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

Net Earnings

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

Fourth Quarter Results

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

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

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

Overall Performance

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

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

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

Sales and Gross Margin

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

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

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

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

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

Expenses

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

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

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

Operating Earnings

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

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

Finance Costs

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

Acquisition Costs

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

Earnings before Income Taxes

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

(Recovery of) Provision for Income Taxes

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

Net Earnings

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

Summary of Quarterly Results

For the Quarters ended:

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

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

EBITDA and Adjusted EBITDA

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

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

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

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

Financial Condition

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

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

Total Assets

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

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

Total Liabilities

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

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

Outstanding Share Data

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

Dividends

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

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

Dividend Policy

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

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

Hedging

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

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

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

Related Party Transactions

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

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

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

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

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

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

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

Commitments and Contingencies

Future and Contractual Obligations

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

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

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

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

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

Claims

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

Guarantees

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

Significant Accounting Judgments and Estimates

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

Goodwill

Management uses judgment in determining the fair value of the acquired net identifiable tangible and intangible assets at the date of a business combination. Any resulting goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill at December 31, 2017 relates to the Company's acquisitions of various businesses. Goodwill is not amortized, but is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. Goodwill impairment is assessed based on a comparison of the fair value of a cash-generating unit to the underlying carrying value of that cash-generating unit's net assets, including goodwill. Significant estimates are required in determining the fair value of each cash-generating unit, including a discount rate, a growth rate and after-tax cash flows. When the carrying amount of the cash-generating unit exceeds its fair value, the fair value of goodwill related to the cash-generating unit is reduced by the excess of this carrying value and recognized as an impairment loss.

Timber

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

Reforestation Provision

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

Employee Future Benefits

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

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

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

Inventory Valuation

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

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

Allowance for Doubtful Accounts

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

Income Taxes

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

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

Leases

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

Segment Reporting

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

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

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

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

Changes in Accounting Standards

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

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

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

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

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

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

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

New Accounting Pronouncements Issued but not yet Applied

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

IFRS 9 – Financial Instruments

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

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

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

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

IFRS 15 – Revenue from Contracts with Customers

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

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

IFRS 16 - Leases

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

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

Disclosure Controls and Internal Controls over Financial Reporting

Disclosure Controls and Procedures

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

Limitations on Scope of Design

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

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

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

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

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

Internal Control over Financial Reporting

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

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

Changes in Internal Control over Financial Reporting

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

Risks and Uncertainties

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

Outlook

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

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

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

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

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

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

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

CORPORATE INFORMATION

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