CanWel Building Materials Group Ltd.

Consolidated Financial Statements

December 31, 2018 and 2017
(in thousands of Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of CanWel Building Materials Group Ltd.

Opinion

We have audited the consolidated financial statements of CanWel Building Materials Group Ltd. (the "Company"), which comprise:

– the consolidated statement of financial position as at December 31, 2018;

– the consolidated statement of earnings and comprehensive earnings for the year then ended;

– the consolidated statement of changes in equity for the year then ended;

– the consolidated statement of cash flows for the year then ended; and

– notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter - Comparative Information

The financial statements for the year ended December 31, 2018, excluding the adjustments of $ Nil as described in Note 5, were audited by another auditor who expressed an unmodified opinion on those financial statements on March 8, 2018.

As part of our audit of the financial statements for the year ended December 31, 2018, we also audited the adjustments of $ Nil described in Note 5. In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments of $ Nil described in Note 5, we were not engaged to audit, review or apply any procedures to the financial statements as at and for the year ended December 31, 2017. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

KPMG

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"*Auditors' Responsibilities for the Audit of the Financial Statements*"** section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to or audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

– the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
– the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Annual Report filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Andrew James.

Vancouver, Canada
March 5, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT DECEMBER 31

(in thousands of Canadian dollars)	Notes	2018 $	2017 (Note 7) $
Assets	16		
Current assets			
Cash	14	**488**	6,744
Trade and other receivables	8	**101,797**	104,505
Income taxes receivable	24	**4,796**	2,605
Inventories	9	**284,388**	221,495
Prepaid expenses and deposits		**5,774**	7,387
		397,243	342,736
Non-current assets			
Property, plant and equipment	10	**108,242**	93,586
Timber	11	**62,659**	64,249
Deferred income tax assets	24	**2,641**	4,429
Intangible assets	12	**47,263**	50,195
Goodwill	13	**181,157**	164,129
Other assets		**4,564**	3,496
		406,526	380,084
Total assets		**803,769**	722,820
Liabilities			
Current liabilities			
Cheques issued in excess of cash on hand	14	**9,701**	9,755
Trade and other payables		**80,808**	83,620
Performance bond obligations	15	**13,507**	14,101
Dividends payable	21	**10,884**	10,872
Income taxes payable	24	**169**	-
Current portion of non-current liabilities	16-18	**11,063**	11,438
		126,132	129,786
Non-current liabilities			
Loans and borrowings	16	**283,471**	204,923
Finance lease liabilities	17	**4,140**	2,524
Reforestation and environmental	18	**1,724**	1,057
Other liabilities	19	**2,578**	2,650
Deferred income tax liabilities	24	**19,307**	17,937
Retirement benefit obligations	20	**3,290**	3,708
		314,510	232,799
Total liabilities		**440,642**	362,585
Equity			
Common shares	21	**499,154**	498,639
Contributed surplus		**10,769**	10,769
Foreign currency translation		**15,654**	(49)
Deficit		**(162,450)**	(149,124)
		363,127	360,235
Total liabilities and equity		**803,769**	722,820
Commitments and contingencies	27		

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

(in thousands of Canadian dollars, except per share amounts)	Notes	2018 $	2017 (Note 7) $
Revenue	31,32	**1,291,295**	1,135,950
Cost of sales	22	**1,098,365**	983,777
Gross margin from operations		**192,930**	152,173
Expenses			
Distribution, selling and administration	23	**120,937**	90,198
Depreciation of property, plant and equipment	10	**11,709**	10,909
Amortization of intangible assets	12	**6,713**	3,849
Restructuring costs		**-**	834
		139,359	105,790
Operating earnings		**53,571**	46,383
Finance costs	25	**(11,672)**	(8,270)
Acquisition costs	7	**(753)**	(2,964)
Other income		**-**	633
Earnings before income taxes		**41,146**	35,782
Provision for income taxes	24	**11,131**	6,977
Net earnings		**30,015**	28,805
Other comprehensive income (loss)			
Exchange differences on translation of foreign operations(1)		**15,703**	(4,384)
Actuarial gain from pension and other benefit plans, net of tax of $64 (2017 - $707)(2)	20,24	**182**	1,926
Comprehensive earnings		**45,900**	26,347
Net earnings per share			
Basic and diluted		**0.39**	0.42
Weighted average number of shares			
Basic and diluted		**77,713,148**	68,271,808

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

(in thousands of Canadian dollars, except share amounts)	Common shares #	Common shares $	Contributed surplus $	Foreign currency translation $	Deficit $	Total $
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**
Shares issued pursuant to:						
Restricted Equity Common Share Plan	3,726	25	(25)	-	-	-
Employee Common Share Purchase Plan	81,217	490	-	-	-	490
Share-based compensation charged to operations		-	25	-	-	25
Dividends		-	-	-	(43,523)	(43,523)
Comprehensive earnings for the year		-	-	15,703	30,197	45,900
As at December 31, 2018	**77,744,598**	**499,154**	**10,769**	**15,654**	**(162,450)**	**363,127**

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31

(in thousands of Canadian dollars)	Notes	2018 $	2017 $
Operating activities			
Net earnings		**30,015**	28,805
Items not affecting cash			
Provision for income taxes	24	**11,131**	6,977
Depreciation and amortization of:			
Property, plant and equipment	10	**11,709**	10,909
Intangible assets	12	**6,713**	3,849
Leasehold inducements		**(315)**	(301)
Fair value adjustments	11	**(2,393)**	(7,925)
Timber harvested	11	**4,851**	3,243
Other		**(827)**	556
Income taxes paid		**(10,579)**	(10,660)
Interest paid on loans and borrowings and other	25	**(9,119)**	(6,861)
Payment of reforestation and environmental	18	**(1,421)**	(1,247)
Finance costs	25	**11,672**	8,270
Settlement of onerous operating leases		**-**	(1,153)
Cash flows from operating activities before changes in non-cash working capital		**51,437**	34,462
Changes in non-cash working capital	30	**(55,467)**	(3,716)
Net cash flows (used in) provided by operating activities		**(4,030)**	30,746
Financing activities			
Shares issued	21	**490**	98,155
Transaction costs on issue of shares	21	**-**	(6,293)
Dividends paid	21	**(43,511)**	(36,113)
Repayment of promissory notes	16	**(3,699)**	(2,702)
Payment of finance lease liabilities		**(1,689)**	(654)
Repayment of non-revolving term loan	16	**(2,667)**	(2,666)
Net repayment of equipment term loan and equipment line	16	**(1,540)**	(3,546)
Financing costs on borrowings		**(3,557)**	(1,249)
Increase in revolving loan facility	16	**21,543**	30,959
Issuance of unsecured notes	16	**60,000**	-
Net cash flows provided by financing activities		**25,370**	75,891
Investing activities			
Business acquisitions	7	**(18,224)**	(101,685)
Purchase of property, plant and equipment	10	**(10,212)**	(6,471)
Proceeds from disposition of property, plant and equipment		**502**	3,537
Bank indebtedness acquired	7	**-**	(1,306)
Funds received from other investment activities		**-**	2,022
Net cash flows used in investing activities		**(27,934)**	(103,903)
Net (decrease) increase in cash and cash equivalents		**(6,594)**	2,734
Foreign exchange difference		**392**	532
Cash and cash equivalents - Beginning of year		**(3,011)**	(6,277)
Cash and cash equivalents - End of year	14	**(9,213)**	(3,011)

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").

These consolidated financial statements were authorized for issuance on March 5, 2019 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 loans and borrowings 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.

e) Reforestation

The Company has voluntarily 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) Financing 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, trade and other payables, performance bonds, dividends payable, senior unsecured notes, 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 at fair value or amortized cost.

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

- Trade and other receivables are subsequently measured at amortized cost.
- Trade and other payables, performance bonds, dividends payable, senior unsecured notes, revolving loan facility, non-revolving term loan, promissory notes, finance lease liabilities, equipment term loan and equipment line and earn-out commitment are subsequently measured at amortized cost.

(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 fair value through profit and loss, 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 29.

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

The Company recognizes revenue from the sale of building products from its network of distribution centers across Canada nationally and regionally in the Western United States and Hawaii, as well as, from the sale of timber products harvested in British Columbia and Saskatchewan as products in the sales category. The Company owns wood treatment and processing facilities that produce specialty products for sale through its distribution network that also generate revenue through the provision of these services to external customers. Provisions of services from the Company's facilities to external customers are presented as services in the sales category.

Revenue from the sale of products and services is recognized, net of discounts and customer rebates, at the point in time the transfer of control of the related products has taken place (based on shipping or delivery terms as specified in the sales contract), 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. For all other trade receivables, the Company records an allowance using expected credit loss model based on historical bad debts. 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, 2018 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 value in-use 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 value in-use, the value in-use 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 20).

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 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 (Note 22).

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 24).

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 27).

i) Revenue recognition

Areas of significant judgement and estimation related to point in time revenue recognition include the estimation of the expected value of consideration to be received from customers, who may be subsequently impacted by volume discounts, manufacturer rebates and other incentives offered. The Company applies judgement in using weight scale readings and the application of conversion factors to determine the volume of forestry products sold. The Company also applies judgements in identifying performance obligations and determining the costs associated with the acquisition of contracts, which are recognized as they occur, unless the contract has a performance obligation that extends beyond one year.

j) 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

Effective January 1, 2018, the Company adopted IFRS 9 *Financial Instruments* ("IFRS 9") and IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15").

a) IFRS 9 – Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 was applied retrospectively and did not have an impact on these audited Annual Consolidated Financial Statements.

b) IFRS 15 – Revenue from Contracts with Customers

IFRS 15 replaces IAS 11 *Construction Contracts* and IAS 18 *Revenue* and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In accordance with the transition provisions in IFRS 15, the Company has adopted the new rules retrospectively and has presented comparatives for the year ended December 31, 2017. The new standard did not result in any change to the timing of revenue recognition for the Company for previously reported periods and did not have a significant impact on the financial results of the Company but did, however, result in more extensive disclosures on the Company's revenue transactions (Note 31).

The Company applied the following practical expedient upon adoption of the new revenue standard: IFRS 15(94) Costs of obtaining a contract. The application of this practical expedient did not have a material impact on the financial results of the Company.

The Company incurs costs related to obtaining of certain contracts that would not have been incurred if the contract had not been obtained. Upon adoption of IFRS 15, the Company has applied the practical expedient in IFRS 15(94) and recognizes these costs as expenses when incurred, as the contract asset that would otherwise be recognized have amortization periods of one year or less.

6. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"), replacing IAS 17, *Leases* ("IAS 17"), 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 is effective January 1, 2019 and the Company has not early adopted this standard. The Company expects to use the modified retrospective approach which recognizes the cumulative effect of applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other components of equity, as appropriate) at the date of initial application.

The Company has completed the scoping and review of its outstanding lease agreements and continues to evaluate the impact that this new standard will have, but expects that IFRS 16 will have a material impact on the Company's Consolidated Statement of Financial Position, stemming from the recognition of new right-of-use assets and lease liabilities for leases with lease terms that are greater than twelve months, which are currently accounted for as operating leases.

The Company expects to utilize certain practical expedients available under IFRS 16, including:

a) recognition exemptions under IFRS 16 (5a) and (5b) for short-term and low-value leases;

b) an election under IFRS 16 (C11), which allows a Company the choice to not reassess contracts which were previously identified as leases under IAS 17; and

c) an option under IFRS 16 (B1) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Company estimates that effective January 1, 2019, it will recognize right-of-use assets and corresponding lease liabilities in the range of $115,000 to $130,000 in its Consolidated Statement of Financial Position, with no restatement of comparative periods' results. The Company is in the process of finalizing its IFRS 16 transition impact calculations, lease accounting procedures and policies, expecting to be complete during the first quarter of 2019.

Application of the new standard is not anticipated to impact compliance with any of the Company's debt covenants.

7. BUSINESS ACQUISITIONS

2018 Acquisitions

On June 12, 2018, the Company acquired certain assets and the business of Superior Forest Products, Inc. (now doing business as Oregon Cascade Building Materials "OCBM") (the "OCBM Acquisition"). Based in Junction City, Oregon, OCBM will provide lumber pressure treating services for customers predominantly based in Oregon and Washington. The OCBM Acquisition is expected to complement the Company's existing treated lumber and specialty wood products business in the United States. The plant is currently undergoing testing and completion of permitting, and is expected to commence customer shipments in 2019.

On December 3, 2018, the Company acquired certain assets and the business of Western Wood Treating, Inc. (now doing business as Woodland Wood Preservers, Ltd. "Woodland") (the "Woodland Acquisition"). Based in Woodland, California, Woodland specializes in pressure treated wood products. The Woodland Acquisition is expected to expand the Company's presence in the United States treating markets.

The foreign exchange rates used to translate purchase price consideration and fair values of assets acquired were based on the exchange rates published by the Bank of Canada as at the date of the above noted acquisitions (collectively the OCBM and Woodland Acquisitions hereafter, the "2018 Acquisitions").

Details of the allocation of the purchase price to the fair values of the identifiable assets acquired at the date of the 2018 Acquisitions are as follows (in thousands of Canadian dollars):

	Notes	2018 $
Fair value of purchase consideration		
Cash consideration		18,224
Promissory note	**16**	4,617
Consideration		22,841
Fair value of assets acquired(1)		
Non-cash working capital		386
Property, plant and equipment	**10**	11,673
Total identifiable net assets at fair value		12,059
Goodwill arising on acquisitions		10,782
Consideration		22,841

1. The purchase price allocation is preliminary and is subject to change up to a period of one year from the acquisition date upon finalization of fair value determinations.

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

During the year ended December 31, 2018, directly attributable acquisition costs of $753 have been expensed and are included in net earnings on the Consolidated Statement of Earnings.

The acquirees' gross revenues and net earnings during the year ended December 31, 2018 were nominal.

2017 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 allocation of the purchase price to 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):

	2017 Provisional(1) $	Revision $	2017 Revised(1) $
Fair value of purchase consideration			
Cash	101,685	-	101,685
Fair value of assets acquired and liabilities assumed			
Non-cash working capital	47,185	-	47,185
Property, plant and equipment	3,785	-	3,785
Intangible assets (customer lists and brand)	35,014	-	35,014
Other assets	1,544	-	1,544
Bank indebtedness	(1,306)	-	(1,306)
Leasehold inducements	(1,733)	-	(1,733)
Performance bond obligations	(12,409)	-	(12,409)
Finance lease liabilities	(311)	-	(311)
Deferred income tax liabilities	(10,236)	678	(9,558)
Total identifiable net assets at fair value	61,533	678	62,211
Goodwill arising on acquisition	40,152	(678)	39,474
Consideration	101,685	-	101,685

1. The provisional purchase price allocation determined at the Honsador Acquisition date was preliminary and subject to change up to a period of one year from October 2, 2017, upon finalization of fair value determinations, which were finalized during the year ended December 31, 2018.

The fair value of the identifiable assets and liabilities acquired in the Honsador acquisition were revised, with Goodwill and Deferred income tax liabilities, each reduced by $678, reflecting the deferred income tax impact of an inventory reserve which was not previously recognized. 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. The 2017 comparative statement of financial position herein has been revised to reflect the adjustments to the provisional amounts.

From the date of the Honsador acquisition until December 31, 2018, the acquired business contributed $225,619 of revenue and $6,554 of net earnings. 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 $35,700.

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:

	2018 $	2017 $
Trade receivables	**92,398**	96,553
Allowance for doubtful accounts	**(871)**	(896)
Net trade receivables	**91,527**	95,657
Other receivables	**10,270**	8,848
Total trade and other receivables	**101,797**	104,505

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

	2018 $	2017 $
Neither past due nor impaired	**85,607**	89,802
Past due but not impaired:		
Less than 1 month	**7,232**	8,336
1 to 3 months	**6,967**	4,171
3 to 6 months	**1,991**	2,196
Total trade and other receivables	**101,797**	104,505

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

	$
Balance at January 1, 2017	644
Reversals during the year	(55)
Additions arising on acquisition	855
Accounts written off	(539)
Foreign exchange difference	(9)
Balance at December 31, 2017	896
Accruals during the year	61
Accounts written off	(137)
Foreign exchange difference	51
Balance at December 31, 2018	**871**

The Company holds no collateral for any receivable amounts outstanding as at December 31, 2018.

9. INVENTORIES

	2018 $	2017 $
Inventories held for resale	**223,109**	173,680
Inventories held for processing	**61,279**	47,815
	284,388	221,495

The expenses related to the sale of inventories are recorded in cost of sales, as described in Note 22.

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, 2017	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 acquisition (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
Additions	-	2,353	7,348	511	3,544	13,756
Additions arising on acquisitions (Note 7)	-	-	11,673	-	-	11,673
Disposals	-	-	(946)	(5)	(400)	(1,351)
Foreign exchange difference	-	78	1,413	15	378	1,884
Cost at December 31, 2018	**35,644**	**18,666**	**90,647**	**5,205**	**8,058**	**158,220**
Accumulated depreciation						
Accumulated depreciation at January 1, 2017	-	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
Depreciation	-	989	9,162	870	688	11,709
Disposals	-	-	(471)	(2)	(257)	(730)
Foreign exchange difference	-	14	211	5	97	327
Accumulated depreciation at December 31, 2018	**-**	**4,255**	**40,633**	**3,500**	**1,590**	**49,978**
Net book value at December 31, 2017	35,644	12,983	39,428	2,057	3,474	93,586
Net book value at December 31, 2018	**35,644**	**14,411**	**50,014**	**1,705**	**6,468**	**108,242**

11. TIMBER

	2018 $	2017 $
Balance at January 1	**64,249**	58,905
Reforestation provision on harvested land	**868**	662
Harvested timber transferred to inventory in the year	**(4,851)**	(3,243)
Change in fair value resulting from growth and pricing	**2,393**	7,925
Balance at December 31	**62,659**	64,249

The Company's private timberlands comprised an area of approximately 53,525 hectares ("ha") of land as at December 31, 2018, with standing timber consisting of mixed-species softwood forests.

During the year ended December 31, 2018, the Company harvested approximately 409,917 cubic metres ("m^3") from its private timberlands (2017 - 319,563 m^3).

Measurement of fair values

The table above reconciles the opening balances to the closing balances for Level 3 fair values (as defined in Note 29). For the years ended December 31, 2018 and 2017, the fair value measurement for the Company's standing timber, as disclosed above, has been categorized as Level 3 fair value, and was 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. The expected net cash flows are discounted using a risk-adjusted discount rate.
Significant Unobservable Inputs in future periods	Estimated log prices of $36[(1)] per m^3 (weighted average sawlog and pulpwood prices) plus harvest and delivery charges of $50[(1)] (where applicable) Estimated total costs, including harvest, delivery (where applicable) and stewardship cost, of $53[(1)] per m^3 Estimated harvest annual volume of 173,913 - 450,000 m^3 (20-year rolling average 256,789 m^3 (2017 - 271,732 m^3)) Risk-adjusted discount rate of 9.50%
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 harvest, delivery and stewardship costs per m^3 were lower (higher); - the estimated harvest volumes were higher (lower); and - the risk-adjusted discount rate was lower (higher).

1. In whole dollars, not thousands.

12. INTANGIBLE ASSETS

	Canadian operations $	US operations $	Value-added services $	Total $
Cost				
Cost at January 1, 2017	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
Foreign exchange difference	-	4,479	-	4,479
Cost at December 31, 2018	**10,000**	**56,898**	**1,633**	**68,531**
Accumulated amortization				
Accumulated amortization at January 1, 2017	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
Amortization	1,000	5,549	164	6,713
Foreign exchange difference	-	698	-	698
Accumulated amortization at December 31, 2018	**8,917**	**11,453**	**898**	**21,268**
Net intangible assets at December 31, 2017	2,083	47,213	899	50,195
Net intangible assets at December 31, 2018	**1,083**	**45,445**	**735**	**47,263**

Intangible assets at December 31, 2018 relate to Building Materials Distribution business segment, as described in Note 32, and include purchased customer lists and trade names.

13. GOODWILL

	Canadian operations $	US operations[(1)] $	Value-added services $	Total $
Balance at January 1, 2017	62,624	28,246	35,347	126,217
Additions arising on acquisition (Note 7)	-	39,474	-	39,474
Foreign exchange difference	-	(1,562)	-	(1,562)
Balance at December 31, 2017	62,624	66,158	35,347	164,129
Additions arising on acquisition (Note 7)	-	10,782	-	10,782
Foreign exchange difference	-	6,246	-	6,246
Balance at December 31, 2018	**62,624**	**83,186**	**35,347**	**181,157**

1. US operations Goodwill reflects the revision to the Honsador preliminary purchase price allocation (Note 7).

Goodwill at December 31, 2018 relates to the Company's Building Materials Distribution business segment, as described in Note 32.

The Company performed its annual test for goodwill impairment as at December 31, 2018. The recoverable amount of each of the cash-generating units has been determined using value in-use less costs to sell. To determine the value in-use 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 8% in all cash-generating units for the purpose of the annual impairment test.

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

14. CASH AND CASH EQUIVALENTS

	2018 $	**2017** $
Cash	**488**	6,744
Cheques issued in excess of cash on hand	**(9,701)**	(9,755)
	(9,213)	(3,011)

15. PERFORMANCE BOND OBLIGATIONS

The Company assumes performance bond obligations related to certain construction projects. Proceeds temporarily received by the Company in excess of payments with respect to outstanding projects' performance bonds are outlined below.

	2018 $	2017 $
Funds received on bonding obligations[1]	**95,488**	79,329
Payments made on bonding obligations[1]	**(82,385)**	(65,637)
Receipts in excess of payments	**13,103**	13,692
Provision for loss on bonds	**404**	409
Performance bonding obligations	**13,507**	14,101

1. Funds received and payments made, from contract commencement to reporting date.

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

	2018 $	2017 $
Balance at January 1	**14,101**	-
Additions arising on acquisition (Note 7)	**-**	12,409
Net (payments) receipts on bonding obligations during the year	**(1,698)**	1,708
Change in provision for loss on bonds	**(40)**	(65)
Foreign exchange difference	**1,144**	49
Balance at December 31	**13,507**	14,101

Total gross bonding contracts on all outstanding projects at December 31, 2018 were $149,462 (2017 - $137,124).

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.

16. LOANS AND BORROWINGS

	2018 $	2017 $
Non-current portion of loans and borrowings[1]		
Unsecured notes	**56,756**	-
Revolving loan facility	**184,102**	159,468
Non-revolving term loan	**30,913**	33,554
Promissory notes	**3,184**	802
Equipment term loan, equipment line and other loans	**8,516**	11,099
Total non-current portion of loans and borrowings	**283,471**	204,923
Current portion of loans and borrowings		
Non-revolving term loan	**2,667**	2,667
Promissory notes	**2,400**	3,680
Equipment term loan, equipment line and other loans	**3,639**	3,432
Total current portion of loans and borrowings	**8,706**	9,779
Total loans and borrowings	**292,177**	214,702

1. Net of unamortized financing costs

On October 9, 2018, the Company completed an offering of senior unsecured notes (the “Unsecured Notes”) denominated in principal amounts of one thousand dollars, resulting in gross proceeds of $60,000. The offering was underwritten by a syndicate of underwriters led by National Bank Financial Inc., and including GMP Securities L.P., Canaccord Genuity Corp., CIBC World Markets Inc., Raymond James Ltd., RBC Dominion Securities Inc., and Haywood Securities Inc. The Unsecured Notes trade on the Toronto Stock Exchange under the symbol CWX.NT.A. The net proceeds of the Unsecured Notes were used for repayment of bank debt and for general corporate purposes.

Terms and repayment schedule

The terms and conditions of the outstanding loans and borrowings are as follows:

				December 31, 2018		December 31, 2017	
	Currency	Nominal interest rate %	Maturity	Face value $	Carrying amount $	Face value $	Carrying amount $
Unsecured notes[1]	CDN	6.375	October 9, 2023	**60,000**	**56,756**	-	-
Revolving loan facility[2]	CDN	Based on Canadian prime rate or Canadian Offered Rate	July 10, 2021	**150,213**	**148,376**	153,561	151,093
Revolving loan facility[2]	USD	Based on US prime rate or London Interbank Offered Rate	July 10, 2021	**35,937**	**35,726**	8,607	8,375
Non-revolving term loan[3]	CDN	Based on Canadian prime rate or Canadian Banker's Acceptance Rate	July 10, 2021	**34,000**	**33,580**	36,667	36,221
Promissory note[4]	USD	Based on US Prime Rate	December 3, 2021	**4,775**	**4,775**	-	-
Promissory notes[5]	CDN	2.100-3.000	July 2, 2018 - August 31, 2019	**809**	**809**	4,482	4,482
Equipment term loan[6]	CDN	Based on Business Development Bank of Canada Floating Base Rate	July 1, 2021	**8,128**	**8,007**	12,117	11,950
Equipment line[6]	CDN	Based on Business Development Bank of Canada Floating Base Rate	July 1, 2025	**4,063**	**4,063**	2,461	2,461
Other	CDN	5.000	December 2020	**85**	**85**	120	120
Total loans and borrowings				**298,010**	**292,177**	218,015	214,702

1. Includes a non-call protection of three years with a declining call schedule thereafter; interest is payable semi-annually.
2. Maximum credit available is $300,000, with an additional $25,000 accordion facility. 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.
3. Principal is amortized over 15 years and is payable in quarterly instalments. The loan 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 requires that certain covenants be met by the Company.
4. An unsecured note was issued as partial consideration for an acquisition (Note 7). Principal is payable in three equal annual instalments, plus annual interest, starting December 3, 2019.
5. Various promissory notes in connection with prior business acquisitions.
6. 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.

The Company was not in breach of any of its covenants during the years ended December 31, 2018 and 2017.

17. FINANCE LEASE LIABILITIES

	2018 **$**	**2017** **$**
Finance lease liabilities	**5,760**	3,559
Less: current portion	**(1,620)**	(1,035)
	4,140	2,524

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 27.

18. REFORESTATION AND ENVIRONMENTAL

	2018 **$**	**2017[1]** **$**
Balance at January 1	**3,159**	3,623
Paid during the year	**(1,421)**	(1,247)
Reforestation provision on harvested land	**963**	662
Changes in fair value	**(240)**	121
Balance at December 31	**2,461**	3,159
Less: current portion	**(737)**	(624)
	1,724	2,535

1. At December 31, 2017, $1,478 is included in trade and other payables.

19. OTHER LIABILITIES

Earn-out commitment

Subject to certain minimum obligations, the Company has a liability to pay additional amounts (“Earn-out”) from proceeds of sale of certain 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 (December 31, 2017 - $2,065), with an additional 25% of the gross proceeds on any amounts above a certain price per hectare sold. The total discounted amount payable with respect to the Earn-out is $1,691 (December 31, 2017 - $1,448), and is included in other liabilities.

20. 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 $1,405 (2017 - $1,485) 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 as at December 31, 2019.

Annuity contract

During the comparative year ended December 31, 2017, the Company purchased an annuity buy-in for plan retirees for $36,009 through its defined benefit pension plan, 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, 2018, reflecting the buy-in annuity, 64% (2017 - 66%) 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, 2018 amounted to $1,050 (2017 - $1,029) 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 2018, consisting of cash contributed by the Company to defined benefit plans, defined contribution plans, and other post-retirement benefits, were $1,794 (2017 - $1,788), with no solvency deficiency contributions.

Included in total cash payments, based on 2018 experience, the Company expects the 2019 contributions for its defined benefit plans to be approximately $350, 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	
	2018 $	2017 $	2018 $	2017 $
Net benefit expense				
Current service cost	**368**	502	**-**	-
Non-investment expenses	**80**	126	**-**	-
Interest cost on benefit obligation	**1,584**	1,728	**79**	177
Interest on effect of asset ceiling impairment at beginning of year	**1**	103	**-**	-
Expected return on plan assets	**(1,540)**	(1,792)	**-**	-
Net benefit expense	**493**	667	**79**	177
Defined benefit obligation				
Defined benefit obligation at January 1	**49,023**	48,856	**2,508**	5,071
Current service cost	**368**	502	**-**	-
Interest cost on benefit obligation	**1,584**	1,728	**79**	177
Benefits paid	**(2,838)**	(2,805)	**(222)**	(240)
Actuarial (gains) losses on obligation	**(2,476)**	742	**(167)**	(2,500)
Defined benefit obligation at December 31	**45,661**	49,023	**2,198**	2,508
Plan assets				
Fair value of plan assets at January 1	**47,846**	50,545	**-**	-
Expected return on plan assets	**1,540**	1,792	**-**	-
Employer contributions	**522**	519	**222**	240
Non-investment expenses	**(80)**	(126)	**-**	-
Benefits paid	**(2,838)**	(2,805)	**(222)**	(240)
Actuarial losses on plan assets	**(1,529)**	(2,079)	**-**	-
Fair value of plan assets at December 31	**45,461**	47,846	**-**	-
Net benefit liability				
Fair value of plan assets at December 31	**45,461**	47,846	**-**	-
Accrued benefit obligation at December 31	**(45,661)**	(49,023)	**(2,198)**	(2,508)
	(200)	(1,177)	**(2,198)**	(2,508)
Asset ceiling impairment	**(892)**	(23)	**-**	-
Net benefit liability	**(1,092)**	(1,200)	**(2,198)**	(2,508)

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

	Pension benefit plan		Other benefit plans	
	2018 $	**2017 $**	**2018 $**	**2017 $**
Distribution, selling and administration				
Current service cost	**368**	502	**-**	-
Non-investment expenses	**80**	126	**-**	-
	448	628	**-**	-
Finance costs				
Interest cost on benefit obligation	**1,584**	1,728	**79**	177
Interest on effect of asset ceiling impairment at beginning of year	**1**	103	**-**	-
Expected return on plan assets	**(1,540)**	(1,792)	**-**	-
	45	39	**79**	177
Other comprehensive income (loss)				
Actuarial gains (losses) on obligation due to changes in financial assumptions	**2,496**	(1,494)	**172**	14
Actuarial (losses) gains on obligation due to changes in experience	**(20)**	752	**(5)**	131
Actuarial gains on obligation due to changes in demographic assumptions	**-**	-	**-**	2,355
Actuarial losses on plan assets	**(1,529)**	(2,079)	**-**	-
Net change in effect of asset ceiling	**(868)**	2,954	**-**	-
	79	133	**167**	2,500

Assets

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

	2018 %	**2017 %**
Equity securities	**1**	2
Debt securities	**31**	28
Annuity	**64**	67
Short-term securities	**4**	3
	100	100

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

	2018 %	2017 %
Investments quoted in active markets	**1**	2
Unquoted investments (pooled funds)	**35**	31
Annuity	**64**	67
	100	100

Significant assumptions

The significant weighted average assumptions used are as follows:

	Pension benefit plan		Other benefit plans	
	2018 %	2017 %	2018 %	2017 %
Accrued benefit obligation as of December 31				
Discount rate	**3.80**	3.30	**3.80**	3.30
Rate of compensation increase	**3.25**	3.25		
Benefit costs for year ended December 31				
Discount rate	**3.30**	3.60	**3.30**	3.60
Rate of compensation increase	**3.25**	3.25		

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

	2018 %	2017 %
Health care initial cost trend rate	**8.0**	8.0
Heal care ultimate cost trend date	**3.5**	3.5
Year that the rate reaches the ultimate trend rate	**2027**	2027

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			
	2018		2017	
	Increase $	Decrease $	Increase $	Decrease $
Effect on the defined benefit obligation	**207**	**(184)**	213	(188)
Effect on the aggregate current service cost and interest cost	**8**	**(7)**	7	(7)

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 $
2018				
Effect on the defined benefit obligation	**(4,314)**	**5,213**	**(145)**	**166**
Effect on the aggregate current service cost and interest cost for the next year	**184**	**(228)**	**14**	**(16)**
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)

The average duration of the defined benefit plan obligation at December 31, 2018 is 10.1 years.

21. SHARE CAPITAL

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

Normal Course Issuer Bid

On November 22, 2018 the Company commenced a Normal Course Issuer Bid (“NCIB”) with respect to its common shares. Under the terms of the NCIB, the Company may purchase for cancellation up to 6,085,605 of its common shares at market prices. At December 31, 2018 the Company had not repurchased and cancelled any of its common shares.

2017 Private Placement

On October 2, 2017, and concurrent with the Honsador Acquisition (Note 4), 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.

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:

	2018 **#**	2017 **#**
Balance at January 1	**-**	-
Granted	**3,726**	4,832
Vested and converted to common shares during the year	**(3,726)**	(4,832)
Balance at December 31	**-**	-

Compensation expense in respect of RSUs for the year ended December 31, 2018 was $25 (2017 - $29).

Employee Common Share Purchase Plan ("ECSPP")

For the year ended December 31, 2018, the Company has issued 81,217 (2017 - 70,955) common shares from treasury for gross proceeds of $490 (2017 - $384) 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 following dividends were declared and paid by the Company:

	2018				2017			
	Declared				Declared			
	Record date	Per share	Amount	Paid	Record date	Per share	Amount	Paid
Quarter 1 dividend	March 29, 2018	0.14	**10,877**	April 13, 2018	March 31, 2017	0.14	8,566	April 14, 2017
Quarter 2 dividend	June 29, 2018	0.14	**10,878**	July 13, 2018	June 30, 2017	0.14	9,490	July 14, 2017
Quarter 3 dividend	September 28, 2018	0.14	**10,884**	October 15, 2018	September 29, 2017	0.14	9,496	October 13, 2017
Quarter 4 dividend	December 31, 2018	0.14	**10,884**	January 15, 2019	December 29, 2017	0.14	10,872	January 15, 2018
		0.56	**43,523**			0.56	38,424	

22. COST OF SALES

Cost of sales includes the following costs:

	2018 $	2017 $
Purchased and treated building materials	**1,041,615**	925,972
Salaries and benefits	**29,190**	29,092
Logging, harvesting and hauling	**17,064**	23,911
Peeled and treated posts	**5,146**	7,170
Timber harvested and sold	**4,679**	3,504
Fair value adjustments	**(2,393)**	(7,925)
Inventory provisions	**1,776**	1,155
Other	**1,288**	898
	1,098,365	983,777

23. DISTRIBUTION, SELLING AND ADMINISTRATION COSTS

Distribution, selling and administration costs include the following:

	2018 $	2017 $
Salaries and benefits	**66,729**	51,782
Building rent and occupancy costs	**31,954**	23,043
Office and miscellaneous	**9,400**	7,216
Travel, promotion and entertainment	**8,334**	5,636
Professional and management fees	**4,520**	2,521
	120,937	90,198

24. INCOME TAXES

Income tax for the Company consists of the following:

Consolidated Statements of Earnings

	2018 $	2017 $
Current income tax expense	**8,632**	8,172
Deferred income tax expense (recovery)	**2,499**	(1,195)
	11,131	6,977

Consolidated Statements of Comprehensive Earnings

	2018 $	2017 $
Deferred tax related to items recorded in OCI during the year		
Actuarial gains	**64**	707

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

	2018 $	2017 $
Earnings before income taxes	**41,146**	35,782
Income tax at statutory rates	**11,667**	10,986
Adjustment to deferred tax assets related to changes in tax rates	**2**	(3,325)
Amounts not deductible for tax and other	**(538)**	(684)
Income tax expense	**11,131**	6,977

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

	2018 $	2017 $
Deferred income tax (liabilities) assets:		
Property, plant and equipment	**(10,701)**	(8,312)
Timber	**(12,349)**	(12,283)
Pensions and other post-retirement benefits	**892**	960
Non-capital losses	**9,089**	9,483
Non-deductible reserves	**4,108**	3,258
Intangible assets and goodwill	**(7,705)**	(6,614)
	(16,666)	(13,508)

At December 31, 2018, the Company has approximately $49,127 of Canadian non-capital losses that may be available for deduction against taxable income in future years. These losses expire as follows:

	$
2026	**698**
2027	**1,111**
2028	**1,090**
2029	**3,590**
2030	**4,403**
Thereafter	**38,235**
	49,127

At December 31, 2018, approximately $15,000 of these non-capital losses have not been recognized as deferred income tax assets.

25. FINANCE COSTS

Finance costs for the Company are broken down as follows:

	2018 $	2017 $
Loans and borrowings	**9,898**	6,555
Finance lease liabilities	**193**	81
Other	**158**	463
Net cash interest	**10,249**	7,099
Amortization of financing costs	**1,056**	835
Accretion of earn-out commitment	**243**	120
Interest expense on net defined benefit liability	**124**	216
	11,672	8,270

26. 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:

	2018 $	2017 $
Leased facilities: distribution[(1)] and treatment plants[(2)]	**3,317**	3,223
Purchase of product[(3)(4)]	**4,664**	2,620
Management fees and other[(5)]	**1,098**	1,208
Professional fees and other[(6)]	**645**	559

1. Paid to a company in which a member of key management personnel who is a director and officer of the Company has an interest.
2. Paid to a company solely controlled by a director and officer of the Company.
3. Paid to a public company that a member of key management personnel who is a director and officer of the Company has an ownership interest in: $3,627 (2017 - $2,620).
4. Paid to a company owned by a director of the Company: $1,037 (2017 - $nil).
5. Paid to a company controlled by a member of key management personnel who is also a director and officer of the Company.
6. Paid to a company controlled by an officer of the Company.

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	$
2019	**3,352**
2020	**2,307**
2021	**1,944**
2022	**1,557**
2023	**1,589**
Thereafter	**14,072**
	24,821

Payable to related parties

As at December 31, 2018, trade and other payables include amounts due to related parties as follows:

	2018 $	2017 $
Purchase of product[(1)]	**38**	99
Management fees and other[(2)]	**59**	55
Professional fees and other[(3)]	**282**	133

1. Owing to 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. Owing to a company controlled by a member of key management personnel who is also a director and officer of the Company.
3. Owing to a company controlled by an officer of the Company.

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:

	2018 $	2017 $
Salaries and other benefits	**3,397**	3,369
Share-based compensation	**25**	29
	3,422	3,398

27. 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 26, are as follows:

Years ending December 31	$
2019	**23,968**
2020	**19,778**
2021	**15,787**
2022	**13,518**
2023	**12,064**
Thereafter	**63,187**
	148,302

As at December 31, 2018 present value of minimum lease payments relating to the finance leases was $5,242 (2017 - $3,140).

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.

28. FINANCIAL INSTRUMENTS

Non-derivative financial instruments

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

	2018		2017	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Cash	**488**	**488**	6,744	6,744
Trade and other receivables	**101,797**	**101,797**	104,505	104,505
Cheques issued in excess of cash on deposit	**9,701**	**9,701**	9,755	9,755
Trade and other payables	**80,808**	**80,808**	83,620	83,620
Performance bonds	**13,507**	**13,507**	14,101	14,101
Dividends payable	**10,884**	**10,884**	10,872	10,872
Unsecured notes	**56,756**	**57,594**	-	-
Revolving loan facility	**184,102**	**186,150**	159,468	162,168
Non-revolving term loan	**33,580**	**34,000**	36,221	36,667
Promissory notes	**5,584**	**5,584**	4,482	4,482
Finance lease liabilities	**5,760**	**5,760**	3,559	3,559
Equipment term loan, equipment line and other	**12,155**	**12,276**	14,531	14,698
Earn-out commitment	**1,691**	**1,691**	1,448	1,448

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, cheques issued in excess of cash on deposit, trade and other payables, performance bonds and dividends payable is comparable to their carrying amount, given the short maturity periods.

- The fair value of the Company's unsecured notes was based on the quoted active market price at December 31, 2018.

- The fair values of the Company's revolving loan facility, non-revolving term loan, and equipment term loan, equipment line and other 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 25.

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 fair value through profit and loss, with changes in fair value recorded in other income (loss).

At December 31, 2018, the Company held various outstanding foreign exchange contracts to purchase an aggregate of US$9,020 at exchange rates ranging between 1.3175 and 1.3225 (2017 - $1,891) for economic hedging purposes, and unrealized gains totaling $400 (2017 - $27) 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 cheques issues in excess of cash on deposit, trade and other payables, performance bond obligations, dividends payable, unsecured notes, 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, 2018, trade accounts receivable, excluding other receivables, were as follows:

	$
Current	89,206
Past due over 60 days	3,192
Trade receivables	92,398
Less: Allowance for doubtful accounts	(871)
	91,527

As at December 31, 2018, the maximum exposure to credit risk is $101,797 (2017 - $104,505), 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, and equipment term loan and equipment line (Note 16). Based on the Company's average revolving loan facility, non-revolving term loan and equipment term loan balance during 2018, the sensitivity of a 1% increase in interest rates would result in an approximate decrease of $2,051 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 components of its revolving loan facility, as well as sales and purchase transactions that are denominated in United States dollars.

As at December 31, 2018, a $0.05 increase in the United States dollar versus the Canadian dollar would have an insignificant impact on net earnings, and an increase in other comprehensive earnings of approximately $9,700.

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.

29. 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, 2018.

	Total $	Level 1 $	Level 2 $	Level 3 $
Non-financial assets measured at fair value				
Timber	**62,659**	-	-	62,659
Financial assets measured at fair value				
Derivative financial instruments	**400**	-	400	-
Financial assets for which fair values are disclosed				
Trade and other receivables	**101,797**	-	-	101,797
Financial liabilities for which fair values are disclosed				
Trade and other payables	**80,808**	-	-	80,808
Performance bonds	**13,507**	-	-	13,507
Dividends payable	**10,884**	-	10,884	-
Unsecured notes	**57,594**	57,594	-	-
Revolving loan facility	**186,150**	-	-	186,150
Non-revolving term loan	**34,000**	-	-	34,000
Promissory notes	**5,584**	-	-	5,584
Finance lease liabilities	**5,760**	-	-	5,760
Equipment term loan and equipment line	**12,276**	-	-	12,276
Earn-out commitment	**1,691**	-	-	1,691

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.

30. CHANGES IN NON-CASH WORKING CAPITAL

	2018 $	2017 $
Trade and other receivables	**5,314**	(3,505)
Inventories	**(54,945)**	(9,322)
Prepaid expenses and deposits	**1,791**	(186)
Trade and other payables	**(5,892)**	7,589
Performance bond obligations	**(1,735)**	1,708
	(55,467)	(3,716)

31. REVENUE

The following table presents disaggregated revenues from contracts for the Company in categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

	2018			2017		
	Distribution $	Forestry $	Total $	Distribution $	Forestry $	Total $
Primary geographic markets						
Canada	903,895	42,338	**946,233**	893,765	42,333	936,098
United States	336,870	8,192	**345,062**	186,524	13,328	199,852
	1,240,765	50,530	**1,291,295**	1,080,289	55,661	1,135,950
Sales categories						
Products	1,236,428	50,530	**1,286,958**	1,075,871	53,662	1,129,533
Services	4,337	-	**4,337**	4,418	1,999	6,417
	1,240,765	50,530	**1,291,295**	1,080,289	55,661	1,135,950

Certain customers elect to prepay for goods and services, for which the Company has recorded a contract liability of $2,924 as at December 31, 2018 (December 31, 2017 - $3,184), related to these unsatisfied performance obligations (unearned revenues). These amounts are included in Trade and other payables in the Consolidated Statement of Financial Position.

The Company has sold products to certain customers who comprise greater than 10% of its sales. During the year ended December 31, 2018, two customers individually accounted for sales in excess of 10%, purchasing an aggregate of $383,821 (2017 - $357,446, representing two customers).

32. 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:

- *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.

	2018				2017			
	Distribution $	Forestry $	Adjustments and eliminations[1] $	Consolidated $	Distribution $	Forestry $	Adjustments and eliminations[1] $	Consolidated $
Revenue								
External customers	1,240,765	50,530	-	**1,291,295**	1,080,289	55,661	-	**1,135,950**
Inter-segment	-	1,594	(1,594)	**-**	-	882	(882)	**-**
	1,240,765	52,124	(1,594)	**1,291,295**	1,080,289	56,543	(882)	**1,135,950**
Specified income (expenses)								
Depreciation and amortization	(13,411)	(5,011)	-	**(18,422)**	(9,039)	(5,719)	-	**(14,758)**
Restructuring costs	-	-	-	**-**	-	(834)	-	**(834)**
Finance costs	(9,160)	(2,512)	-	**(11,672)**	(5,876)	(2,394)	-	**(8,270)**
Fair value adjustments	-	2,393	-	**2,393**	-	7,925	-	**7,925**
Net earnings	26,289	3,726	-	**30,015**	28,133	672	-	**28,805**
Purchase of property, plant and equipment	8,048	5,708	-	**13,756**	4,335	7,653	-	**11,988**

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

	December 31, 2018				December 31, 2017			
	Distribution $	Forestry $	Percent %	Consolidated $	Distribution $	Forestry $	Percent %	Consolidated $
Canada	118,774	131,679	**62**	**250,453**	123,173	132,041	67	255,214
United States	156,073	-	**38**	**156,073**	124,870	-	33	124,870
Long-term assets	274,847	131,679	**100**	**406,526**	248,043	132,041	100	380,084

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

	2018 %	2017 %
Construction materials	**58**	61
Specialty and allied	**34**	33
Forestry and other	**8**	6
	100	100

33. 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.

34. COMPARATIVE FIGURES

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

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Trading Symbols:

CWX, CWX.NT.A