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CanWel Building Materials Group Ltd.
2018 Management's Discussion and Analysis

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March 5, 2019

This Management's Discussion and Analysis ("MD&A") provides a review of the significant developments that have impacted CanWel Building Materials Group Ltd. (the "Company"), in the quarter and year ended December 31, 2018 relative to 2017. This discussion of the financial condition and results of operations of the Company should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2018 (the "2018 Consolidated Financial Statements"). The financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to the preparation of financial statements.

This MD&A, the associated 2018 Consolidated Financial Statements and the 2018 Letter to Shareholders (the "2018 Reporting Documents") contain historical information, descriptions of current circumstances and statements about potential future developments and anticipated financial results, performance or achievements of the Company and its subsidiaries. The latter statements, which are forward-looking statements, are presented to provide guidance to the reader but their accuracy depends on a number of assumptions and are subject to various known and unknown risks and uncertainties. Forward-looking statements are included under the headings "Business Overview", "Outlook", "Commitments and Contingencies", "Sales and Gross Margin", "Dividend Policy" and "Liquidity and Capital Resources". When used in this MD&A, such statements may contain such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the inverse or negative of these terms or other similar terminology. Forward-looking information in the 2018 Reporting Documents includes, without limitation, statements regarding funding requirements, dividends, commodity pricing, interest rates, economic data and housing starts. These statements are based on management's current expectations regarding future events and operating performance, are based on information currently available to management, speak only as of the date of the 2018 Reporting Documents and are subject to risks which are described in the Company's current Annual Information Form dated March 29, 2018 ("AIF") and the Company's public filings on the Canadian Securities Administrators' website at www.sedar.com ("SEDAR") and as updated from time to time, and would include, but are not limited to, dependence on market economic conditions, sales and margin risk, acquisition and integration risks and operational risks related thereto, competition, information system risks, availability of supply of products, risks associated with the introduction of new product lines, product design risk, product liability risk, environmental risks, volatility of commodity prices, inventory risks, customer and vendor risks, contract performance risk, availability of credit, credit risks, performance bond risk, currency risks, interest rate risks, tax risks, risks of legislative changes, international trade and tariff risks, resource industry risks, resource extraction risks, risks relating to remote operations, forestry management and silviculture, fire and natural disaster risks, key executive risk and litigation risks. These risks and uncertainties may cause actual results to differ materially from those contained in the statements. Such statements reflect management's current views and are based on certain assumptions. Some of the key assumptions include, but are not limited to, assumptions regarding the performance of the Canadian and the United States economies, interest rates, exchange rates, capital and loan availability, commodity pricing, the Canadian and the US housing and building materials markets; international trade matters; post acquisition operation of a business; the amount of the Company's cash flow from operations; tax laws; laws and regulations relating to the protection of the environment and natural resources; and the extent of the Company's future acquisitions and capital spending requirements or planning in respect thereto, including but not limited to the performance of any such business and its operation. They are, by necessity, only estimates of future developments and actual developments may differ materially from these statements due to a number of known and unknown factors. Investors are cautioned not to place undue reliance on these forward-looking statements. All forward-looking information in the 2018 Reporting Documents is qualified by these cautionary statements. Although the forward-looking information contained in these 2018 Reporting Documents is based on upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements included in the 2018 Reporting Documents may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than these 2018 Reporting Documents. In addition, there are numerous risks associated with an investment in the Company's common shares and senior unsecured notes, which are also further described in the "Risks and Uncertainties" section in these 2018 Reporting Documents and in the "Risk Factors" section of the Company's AIF, and as updated from time to time in the Company's other public filings on SEDAR.

The forward-looking statements contained in the 2018 Reporting Documents are made as of the date of this report, and should not be relied upon as representing the Company's views as of any date subsequent to the date of this report. Except as required by applicable law, the Company undertakes no obligation to publicly update or otherwise revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

The information in this report is as at March 5, 2019, unless otherwise indicated. All amounts are reported in Canadian dollars.

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1. In the discussion, reference is made to EBITDA, which represents earnings from continuing operations before interest, including amortization of deferred financing costs, provision for income taxes, depreciation and amortization. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, and therefore the measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. EBITDA is presented as management believes it is a useful indicator of a Company's ability to meet debt service and capital expenditure requirements and because the Company interprets trends in EBITDA as an indicator of relative operating performance. EBITDA should not be considered by an investor as an alternative to net earnings or cash flows as determined in accordance with IFRS. For a reconciliation of EBITDA to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) and Adjusted EBITDA".
2. In the discussion, reference is made to Adjusted EBITDA, which is EBITDA as defined above, before certain non-recurring or unusual items. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, The measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. Adjusted EBITDA is presented as management believes it is a useful indicator of the Company's ability to meet debt service and capital expenditure requirements from its regular business, before non-recurring items. Adjusted EBITDA should not be considered by an investor as an alternative to net earnings or cash flows as determined in accordance with IFRS. For a reconciliation from Adjusted EBITDA to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) and Adjusted EBITDA".
3. Reference is also made to free cash flow of the Company. This is a non-IFRS measure generally used by Canadian companies as an indicator of financial performance. The measure as calculated by the Company might not be comparable to similarly-titled measures reported by other companies. Management believes that this measure provides investors with an indication of the cash available for distribution to shareholders of the Company. The Company defines free cash flow as cash flow from operating activities excluding changes in non-cash working capital, and after maintenance of business capital expenditures.

Business Overview

The Company is a leading wholesale distributor of building materials and home renovation products and provider of wood pressure treating services in Canada and regionally in the Western United States and Hawaii. The Company services the new home construction, home renovation and industrial markets by supplying the retail and wholesale lumber and building materials industry, hardware stores, industrial and furniture manufacturers and similar concerns. The Company's operations also includes timber ownership and management of private timberlands and Crown forest licenses, full service logging and trucking operations, and post-peeling and pressure treating for the agricultural market through CanWel Fibre Corp. ("CFC"). On October 2, 2017, the Company acquired the Honsador Building Products group of companies ("Honsador"), as described below, with an incumbent position in the State of Hawaii, further expanding the Company's presence in the US building distribution and treating markets. In 2018, the Company continued with its expansion and growth plans, completing the purchase of a partially constructed lumber pressure treating plant near Portland, Oregon on June 12, 2018 and a lumber pressure treating plant in Woodland, California on December 3, 2018.

Offering of Senior Unsecured Notes

On October 9, 2018, the Company completed a bought deal prospectus offering of senior unsecured notes (the "Unsecured Notes") denominated in principal amounts of one thousand dollars, resulting in gross proceeds of $60.0 million. 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 Unsecured Notes accrue interest at the rate of 6.375% per annum, payable on a semi-annual basis, maturing on October 9, 2023. While the net proceeds of the offering were initially used for the repayment of bank debt, the Unsecured Notes provide the Company with readily available growth capital at an attractive locked-in cost, in a rising interest rate environment.

Purchase of Superior Forest Products, Inc. and Western Wood Treating, Inc.

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 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, "2018 Acquisitions").

Further information regarding the preliminary purchase price allocation is contained in Note 7 of the 2018 Consolidated Financial Statements.

Purchase of Honsador Building Products Group

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

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

Further information regarding the purchase price allocation is contained in Note 7 of the 2018 Consolidated Financial Statements.

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 any of its common shares. Subsequent to the end of the year, on January 3, 2019, the Company cancelled 142,200 of its common shares purchased pursuant to the NCIB.

2017 Private Placement

On October 2, 2017, and concurrent with the Honsador Acquisition, the Company completed a private placement of 9,832,500 subscription receipts at a price of $5.85 each, resulting in gross proceeds of $57.5 million (the "2017 Private Placement"), including subscription receipts to certain insiders(1) for proceeds of $5.6 million. The 2017 Private Placement 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., Raymond James Ltd., Cormark Securities Inc. and Haywood Securities Inc.

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

2017 Public Offering

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

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

Annuity Contract

During the fourth quarter of 2017, the Company purchased an annuity for $36.0 million through its defined benefit pension plan in order to mitigate its exposure to potential future volatility fluctuations in the related pension obligations and plan assets. Upon closing of the annuity purchase, non-cash actuarial based transaction costs of $4.4 million were recognized in other comprehensive income (loss), reflecting the difference in the annuity rate (which is comparable to solvency rates) as compared to the discount rate used to value the pension obligations on a going concern basis. Further information regarding the Company's pension plan and this transaction is included under the headings "Employee Future Benefits" and "Significant Accounting Judgments and Estimates", and Note 20 of the 2018 Consolidated Financial Statements.

Foreign Exchange Forward Contracts

At December 31, 2018, the Company held various outstanding foreign exchange contracts to purchase an aggregate of US$9.0 million at exchange rates ranging between 1.3175 and 1.3225 for economic hedging purposes, and unrealized gains totaling $400,000 were recorded in Other income.

During the year ended December 31, 2017, in order to reduce exposure to fluctuations in the United States - Canada dollar exchange rate with respect to the Honsador Acquisition, the Company entered into various foreign exchange contracts: to purchase US$40.0 million at an exchange rate of 1.2402, US$20.0 million at an exchange rate of 1.2213, US$10.0 million at an exchange rate of 1.2154, and US$10.0 million at an exchange rate of 1.2437. Upon settlements, realized gains totaling $1.4 million were recorded in Other income in the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2017. Upon the closing of the Honsador Acquisition, the Company used the total purchased funds of US$80.0 million as partial consideration for the acquisition.

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

Seasonality

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

Housing Starts

The seasonally adjusted annualized rate for overall Canadian housing starts was 212,843 in 2018 versus 219,763 in 2017, a decrease of 3.1%. The seasonally adjusted annualized rate for single detached units, a more relevant indicator for the Company, amounted to 62,520 for the fourth quarter of 2018 versus 73,668 in the same period of 2017, a decrease of 15.1%[(1)].

The seasonally adjusted annualized rate for overall US housing starts reached 1,256,000 units in the fourth quarter of 2018 versus 1,192,000 in 2017[(2)].

Construction Materials Pricing

After experiencing approximately eighteen months of generally increasing prices since the beginning of 2017, lumber, plywood and oriented strand board ("OSB") prices[(3)] peaked in June 2018, then experienced significant declines towards the end of the third quarter of 2018, and continued to decline into the fourth quarter of 2018.

1. As reported by CMHC. For further information, see "Outlook".
2. As reported by the US Census Bureau.
3. As reported by Natural Resources Canada.

Results of Operations

Selected Annual Information

(in $ millions, per share in dollars)	Fiscal Year Ended December 31, 2018	2017	2016
Sales	**1,291.3**	1,136.0	978.3
Earnings before income taxes	**41.1**	35.8	51.9
Net earnings	**30.0**	28.8	44.2
Net earnings before non-recurring items (1)	**30.6**	31.6	21.8
Net earnings per share (basic and diluted)	**0.39**	0.42	0.86
Net earnings per share (basic and diluted), before non-recurring items (1)	**0.39**	0.46	0.40
Total assets	**803.8**	722.8	563.7
Long-term debt (2)	**287.6**	207.4	183.2
Total debt	**298.7**	218.3	192.7
Dividends declared to shareholders	**43.5**	38.4	30.3
Dividends declared to shareholders (per share)	**0.56**	0.56	0.56
Weighted average basic shares outstanding	**77,713,148**	68,271,808	51,409,974
Total shares outstanding	**77,744,598**	77,659,655	61,152,898

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

Comparison of the Year Ended December 31, 2018 and December 31, 2017

Overall Performance

The following table shows the Company's segmented results for the year ended December 31, 2018:

(in $ thousands)	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 expenses								
Depreciation and amortization	13,411	5,011	-	**18,422**	9,039	5,719	-	**14,758**
Finance costs	9,160	2,512	-	**11,672**	5,876	2,394	-	**8,270**
Net earnings	26,289	3,726	-	**30,015**	28,133	672	-	**28,805**
Purchase of property, plant and equipment [(2)]	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.
2. Includes property, plant and equipment acquired through finance leases as well as the purchase of the partially completed treating plant in Oregon in June of 2018.

Sales and Gross Margin

Sales for the year ended December 31, 2018 were $1,291.3 million versus $1,136.0 million in 2017, representing an increase of $155.3 million or 13.7%, due to the factors discussed below.

Sales for the Distribution segment increased by $160.5 million or 14.9%, largely due to the inclusion of the results from the Honsador Acquisition, higher construction materials pricing earlier in 2018, and the Company's continuing focus on its product mix strategies and target customer base.

Sales for the Forestry segment decreased by $4.4 million or 7.8%, inclusive of inter-segment sales. The decrease in sales relative to 2017 is largely due to the elimination of non-profitable sales from the since closed non-core Forestry segment operations, which were partially offset by an increase in sales due to comparatively more favorable pricing and weather conditions for harvesting during 2018. As was the case in 2017, third quarter 2018 sales however were negatively affected by wildfires in British Columbia, with Company harvesting activities temporarily halted due to forest area closures, resulting in decreased harvest and customer delivery levels. Direct impact to the Company's forest lands from the wildfires was minimal.

The Company's sales by product group in the year were made up of 58% construction materials, compared to 61% last year, with the remaining balance resulting from specialty and allied products of 34% (2017 - 33%), and forestry and other of 8% (2017 - 6%).

Gross margin dollars increased to $192.9 million in the current year, versus $152.2 million in 2017, an increase of $40.7 million or 26.7%. Gross margin percentage was 14.9% during the year, an increase from the 13.4% that was achieved in 2017. This increase in margin dollars and margin percentage reflects the positive impacts from the Honsador Acquisition, as well as higher construction materials pricing earlier in the current year.

Expenses

Expenses for the year ended December 31, 2018 were $139.4 million versus $105.8 million in 2017, an increase of $33.6 million or 31.8% due to the factors discussed below. As a percentage of sales, expenses were 10.8%, versus 9.3% in 2017.

Distribution, selling and administration expenses were $120.9 million, versus $90.2 million in 2017, an increase of $30.7 million or 34.0%. The increase is primarily due to expenses relating to the Honsador operations. As a percentage of sales, these expenses were 9.4%, versus 7.9% in 2017.

In the year ended December 31, 2018, depreciation and amortization expenses were $18.4 million, compared with $14.8 million in 2017, an increase of $3.6 million or 24.3%. Depreciation and amortization expense for the Building Materials Distribution segment increased by $4.4 million or 48.4%, mainly due to the depreciation and amortization resulting from the Honsador Acquisition. Depreciation and amortization for the Forestry segment decreased by $708,000 or 12.4%, mainly due to certain equipment becoming fully depreciated.

Restructuring Costs

Restructuring costs for the year ended December 31, 2017 of $834,000 were related to a closure of non-core Forestry segment operations.

Operating Earnings

For the year ended December 31, 2018, operating earnings were $53.6 million versus $46.4 million in 2017, an increase of $7.2 million or 15.5%, due to the foregoing factors.

Finance Costs

Finance costs for the year ended December 31, 2018 were $11.7 million versus $8.3 million in 2017, an increase of $3.4 million or 41.0%. Finance costs for the Distribution segment were $3.3 million higher than in 2017, mainly due to higher average borrowings, higher interest rates on the Company's variable rate revolving loan facility, and the issuance of Unsecured Notes in the fourth quarter of 2018. The increase in the average balance of the revolving loan facility was primarily driven by the Honsador operations and higher construction material prices earlier in the year. Finance costs for the Forestry segment were largely in line with 2017, with a slight increase of $119,000.

Acquisition Costs

Acquisition costs during the year were $753,000, compared to $3.0 million in 2017, a decrease of $2.2 million or 74.9%. These costs include management resources as well as legal, environmental, financial and other advisory services directly attributable to acquisitions. In 2017, these costs were primarily attributable the Honsador Acquisition, and in 2018, these were attributable to the 2018 Acquisitions.

Earnings before Income Taxes

For the year ended December 31, 2018, earnings before income taxes were $41.1 million versus earnings of $35.7 million in 2017, an increase of $5.4 million or 15.1% due to the foregoing factors.

Provision for Income Taxes

For the year ended December 31, 2018, the provision for income taxes was $11.1 million compared with $7.0 million in 2017, an increase of $4.1 million or 58.6%. This provision is a function of pre-tax earnings generated during the year. Additionally, the comparative prior year includes a tax recovery reflecting US tax reform enacted in December 2017, necessitating a partial reversal of previously recognized tax provisions.

Net Earnings

As a result of the foregoing factors, net earnings for the year ended December 31, 2018 were $30.0 million versus $28.8 million in 2017, an increase of $1.2 million or 4.2% as discussed above.

Fourth Quarter Results

A summary of the unaudited results for the three months ended December 31, 2018 and 2017 is as follows:

	Three months ended December 31,	
(in $ thousands, per share in dollars)	**2018**	**2017**
Sales	**$264,040**	$276,220
Gross margin	**38,603**	43,126
Gross margin %	**14.6%**	15.6%
Distribution, selling and administration expenses	**29,745**	30,185
Depreciation and amortization	**5,040**	4,643
Expenses	**34,785**	34,828
Operating earnings	**3,818**	8,298
Finance costs	**(3,134)**	(2,358)
Acquisition costs	**(753)**	(1,806)
Other loss	**-**	(625)
(Loss) Earnings before income taxes	**(69)**	3,509
Recovery of income taxes	**(439)**	(2,248)
Net earnings	**$370**	$5,757
Net earnings per share	**0.00**	0.07

Overall Performance

The following table shows the Company's segmented results for the quarter ended December 31, 2018:

	Three months ended December 31, 2018				Three months ended December 31, 2017			
	Distribution $	Forestry $	Adjustments and eliminations(1) $	Consolidated $	Distribution $	Forestry $	Adjustments and eliminations(1) $	Consolidated $
Revenue								
External customers	251,614	12,426	-	**264,040**	261,441	14,779	-	276,220
Inter-segment	-	84	(84)	**-**	-	199	(199)	-
	251,614	12,510	(84)	**264,040**	261,441	14,978	(199)	276,220
Specified expenses								
Depreciation and amortization	3,494	1,546	-	**5,040**	3,212	1,431	-	4,643
Finance costs	2,356	778	-	**3,134**	1,705	653	-	2,358
Net earnings	72	298	-	**370**	5,340	417	-	5,757
Purchase of property, plant and equipment (2)	5,185	1,250	-	**6,435**	1,389	896	-	2,285

1. Includes inter-segment eliminations and income and expenses that are not allocated to reportable business segments.
2. Includes property, plant and equipment acquired through finance leases.

Sales and Gross Margin

Sales for the three month period ended December 31, 2018 were $264.0 million versus $276.2 million in 2017, a decrease of $12.2 million or 4.4%, due to the factors discussed below.

Sales for the Distribution segment decreased by $9.8 million or 3.8% compared to the same period in 2017, largely due to the impact of a significant fall in construction materials pricing in the second half of 2018. This decrease was partially offset by the results for the Company's US operations due to more favorable market conditions, and continuing focus on product mix strategies and target customer base.

Sales for the Forestry segment decreased by $2.5 million or 16.5%, inclusive of inter-segment sales. The decrease was largely due to wet weather conditions followed by heavy snowfall, with harvesting activities temporarily halted, resulting in decreased harvest and customer delivery levels. This segment was operating in line with seasonal expectations in the comparative 2017 period.

The Company's sales by product group in the quarter were made up of 52% construction materials, compared to 61% during the same quarter last year, with the remaining balance of sales resulting from specialty and allied products of 39% (2017 - 33%) and forestry and other of 9% (2017 - 6%).

Gross margin dollars decreased to $38.6 million in the quarter compared to $43.1 million in the comparative quarter of 2017, a decrease of $4.5 million or 10.5%. Gross margin percentage was 14.6% in the quarter, a decrease from the 15.6% achieved in the same quarter of 2017. This decrease in margin percentage and dollars is mainly due to the aforementioned impact of the decrease in construction materials pricing.

Expenses

Expenses for the three month period ended December 31, 2018 were $34.8 million, consistent with the same quarter of 2017. As a percentage of sales, expenses were 13.2% in the quarter, versus 12.6% during the comparative quarter in 2017.

Distribution, selling and administration expenses decreased by $440,000 or 1.5%, to $29.7 million in the fourth quarter of 2018, from $30.2 million in the same period of 2017. The decrease is primarily due to lower personnel costs reflecting the decreased sales activity. As a percentage of sales these expenses were 11.3% in the quarter, compared to 10.9% in the comparative period in 2017.

In the three month period ended December 31, 2018, depreciation and amortization expenses were $5.0 million, versus $4.6 million in the comparative period, an increase of $397,000 or 8.6%, mainly due to regular maintenance of capital expenditures and depreciation thereof of the Company`s operating equipment. Depreciation and amortization expense for the Building Materials Distribution segment increased by $282,000 or 8.8%. The Forestry segment experienced a slight increase in depreciation and amortization of $115,000 or 8.0%.

Operating Earnings

For the quarter ended December 31, 2018, operating earnings were $3.8 million, versus $8.3 million in the comparative quarter in 2017, a decrease of $4.5 million or 54.0%, due to the foregoing factors.

Finance Costs

Finance costs for the fourth quarter of 2018 were $3.1 million, an increase of $776,000 or 32.9% from $2.4 million in the same period in 2017. Finance costs for the Distribution segment were $651,000 or 38.2% higher than the same quarter in 2017, mainly due to the issuance of the aforementioned Unsecured Notes, which were used for repayment of the Company`s secured bank debt, resulting in a higher blended interest rate. Finance costs for the Forestry segment were similar with the comparative period of 2017, with a slight increase of $125,000.

Acquisition Costs

Acquisition costs during the fourth quarter were $753,000, compared to $1.8 million in 2017, a decrease of $1.1 million or 58.3%. These costs include management resources as well as legal, environmental, financial and other advisory services directly attributable to acquisitions. In the fourth quarter of 2017, these costs were primarily attributable the Honsador Acquisition, and in 2018, these were attributable to the 2018 Acquisitions.

(Loss) Earnings before Income Taxes

For the quarter ended December 31, 2018, loss before income taxes was $69,000, compared to earnings of $3.5 million in the comparative quarter of 2017, a decrease in earnings of $3.6 million or 102.0% due to the factors discussed above.

Recovery of Income Taxes

For the quarter ended December 31, 2018, the recovery of income taxes was $439,000, compared with $2.2 million in the same quarter of 2017, a decrease in the recovery of $1.8 million or 80.5%. This provision is a function of the pre-tax earnings generated in the quarter. The recovery in the fourth quarter of 2017 reflects the US tax reform enacted in December 2017, necessitating a partial reversal of previously recognized tax provisions.

Net Earnings

Net earnings for the quarter ended December 31, 2018 were $370,000 compared to $5.8 million for the period in 2017, a decrease of $5.4 million or 93.6% due to the foregoing factors.

Summary of Quarterly Results

For the Quarters ended:

	2018				2017			
($ and shares millions, per share in dollars)	31 - Dec	30 - Sep	30 - Jun	31 - Mar	31 - Dec	30 - Sep	30 - Jun	31 - Mar
Sales	**264.0**	350.2	382.1	295.0	276.2	316.8	320.0	222.8
EBITDA	**8.1**	20.1	27.5	15.6	10.5	21.3	18.9	8.2
Adjusted EBITDA(1)	**8.9**	20.1	27.5	15.6	13.4	21.7	20.4	8.2
Adjusted EBITDA % of sales (1)	**3.4**	5.7	7.2	5.3	4.8	6.9	6.4	3.7
(Loss) Earnings before income taxes	**(0.1)**	12.5	19.9	8.8	3.5	16.0	13.8	2.4
Net earnings	**0.4**	8.5	14.7	6.5	5.8	11.6	9.8	1.7
Net earnings before non-recurring items(2)	**0.9**	8.5	14.7	6.5	7.8	12.0	11.0	1.7
Net earnings per share (3)	**0.00**	0.11	0.19	0.08	0.07	0.17	0.15	0.03
Net earnings per share, before non-recurring items(2)(3)	**0.01**	0.11	0.19	0.08	0.09	0.17	0.17	0.03
Dividends declared per share	**0.14**	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Outstanding shares(3)	**77.7**	77.7	77.7	77.7	77.4	67.8	66.5	61.2

1. Adjusted EBITDA refers to EBITDA before the following non-recurring items: restructuring costs, directly attributable acquisition related costs and impairment loss on property, plant and equipment.
2. Net earnings before restructuring costs, directly attributable acquisition related costs and impairment loss on property, plant and equipment.
3. Weighted average basic shares outstanding in the period.

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

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
(in thousands of dollars)	$	$	$	$
Net earnings	**370**	5,757	**30,015**	28,805
(Recovery of) Provision for income taxes	**(439)**	(2,248)	**11,131**	6,977
Finance costs	**3,134**	2,358	**11,672**	8,270
Depreciation of property, plant and equipment	**3,340**	3,010	**11,709**	10,909
Amortization of intangible assets	**1,700**	1,633	**6,713**	3,849
EBITDA	**8,105**	10,510	**71,240**	58,810
Acquisition costs	**753**	1,806	**753**	2,964
Restructuring costs	**-**	-	**-**	834
Impairment loss on property, plant and equipment	**-**	1,039	**-**	1,039
Adjusted EBITDA	**8,858**	13,355	**71,993**	63,647

EBITDA and Adjusted EBITDA

EBITDA for the three month period ended December 31, 2018 was $8.1 million versus $10.5 million in the comparative quarter of 2017, a decrease of $2.4 million or 22.9% largely due to the impact of a significant fall in construction materials pricing, on both sales and gross margin. EBITDA for the fourth quarter of 2018 was impacted by acquisition costs of $753,000, compared to $1.8 million in acquisition costs and $1.0 million in impairment loses for the comparative period of 2017. Adjusted EBITDA before these non-recurring items was $8.9 million compared to $13.4 million in the same quarter of 2017, a decrease of $4.5 million or 33.7% compared to the same quarter in 2017.

EBITDA for the year ended December 31, 2018 was $71.2 million compared to $58.8 million in 2017, an increase of $12.4 million or 21.1%, largely due to the inclusion of the results from the Honsador operations for the full year. Adjusted EBITDA for 2018 was also impacted by acquisition costs of $753,000, compared to $3.0 million, restructuring costs of $834,000 and impairment losses of $1.0 million in 2017. Adjusted EBITDA before these non-recurring items was $72.0 million compared to $63.6 million in 2017, an increase of $8.4 million or 13.1%.

Financial Condition

Liquidity and Capital Resources

During the year ended December 31, 2018, the Company consumed $6.6 million in cash, versus generating $2.7 million in 2017. The following activities during the year were responsible for the change in cash.

Operating activities generated $51.4 million in cash, before non-cash working capital, versus $34.5 million in 2017. This increase in cash generated is primarily a result of the inclusion of the Honsador operations and the positive impact of higher construction materials pricing earlier in the year.

During the year ended December 31, 2018, changes in non-cash working capital items consumed $55.5 million in cash, versus $3.7 million in 2017. The increase in the changes in non-cash working capital is primarily driven by a significant increase in inventory levels, built up to address a strong order backlog with treated lumber customers and to take advantage of favorable buying conditions in the fourth quarter of 2018. The change in working capital in the year was comprised of a decrease in trade and other receivables of $5.3 million, an increase in inventory of $54.9 million, a decrease in prepaid expenses of $1.8 million, a decrease in trade and other payables and income taxes payable of $5.9 million and a decrease in performance bond obligations (Honsador) of $1.7 million.

During the year ended December 31, 2018, financing activities generated $25.4 million of cash, versus $75.9 million in 2017. The issuance of the aforementioned Unsecured Notes resulted in gross proceeds $60.0 million of cash, which were applied against the revolving loan facility. Shares issued during the year generated $490,000 of cash, compared to $98.2 million (net of issuance costs of $6.3 million) in 2017 due to the 2017 Private Placement and 2017 Public Offering. Scheduled repayments related to the non-revolving term loan consumed $2.7 million, consistent with 2017. Payment of finance lease liabilities consumed $1.7 million of cash in the current year versus $654,000 in 2017. Net repayments on the equipment term loan and equipment line amounted to $1.5 million compared to $3.5 million in 2017, including scheduled repayments, which were partially offset by funds drawn to purchase certain equipment. Scheduled repayments of promissory notes consumed $3.7 million of cash in the year, compared to $2.7 million in 2017.

The Company incurred $3.6 million in financing costs in respect to the issuance of the Unsecured Notes, compared to $1.2 million in financing costs on borrowings in 2017.

Dividends paid to shareholders amounted to $43.5 million, versus $36.1 million in 2017. The increase in dividends paid reflects the greater number of shares outstanding in during 2018 resulting from the 2017 Private Placement and 2017 Public Offering. The dividends declared and paid on a per share basis were unchanged from 2017.

The revolving loan facility increased by $21.5 million, versus $31.0 million in 2017 due to the increased working capital needs of the Company. The Company was not in breach of any of its covenants during the year ended December 31, 2018.

Investing activities in the year ended December 31, 2018 consumed $27.9 million of cash, compared to $103.9 million in 2017. Cash purchases of property, plant and equipment relating to the Distribution segment were $4.5 million, versus $2.4 million in 2017. Cash purchases of property, plant and equipment relating to the Forestry segment were $5.7 million, versus $4.1 million in 2017. Proceeds from disposition of property, plant and equipment were $502,000, versus $3.7 million in 2017. Investing activities in 2018 included the 2018 Acquisitions, whereas 2017 included the Honsador Acquisition and the related bank indebtedness acquired.

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

Total Assets

Total assets of the Company were $803.8 million as at December 31, 2018, versus $722.8 million as at December 31, 2017, an increase of $81.0 million. Current assets increased by $54.5 million, mainly due to significantly higher inventory balances, built up to address the aforementioned strong order backlog with treated lumber customers and to take advantage of favorable buying conditions in the fourth quarter of 2018.

Long-term assets within the Distribution segment were $274.8 million as at December 31, 2018, compared to $248.0 million as at December 31, 2017, an increase of $26.8 million mainly due to the 2018 Acquisitions and purchases of property, plant and equipment in the normal course of operations, partially offset by depreciation. Long-term assets within the Forestry segment were consistent with prior year, at $131.7 million in 2018 versus $132.0 million in 2017.

Total Liabilities

Total liabilities were $440.6 million as at December 31, 2018, versus $362.6 million at December 31, 2017, an increase of $78.0 million. This increase was mainly as a result of increases in the loan facilities of $78.6 million which was used to finance the working capital requirements of the Company, and mainly reflecting the aforementioned higher inventory balances at December 31, 2018.

Outstanding Share Data

As at March 5, 2019, there were 77,686,260 common shares issued and outstanding.

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	

Dividend Policy

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

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

Hedging

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

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

At December 31, 2018, the Company held various outstanding foreign exchange contracts to purchase an aggregate of US$9.0 million at exchange rates ranging between 1.3175 and 1.3225 (2017 - $1.9 million) for economic hedging purposes, and unrealized gains totaling $400,000 (2017 - $27,000) were recorded in Other income.

Related Party Transactions

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

Certain distribution facilities used by the Company to store and process inventory are leased from a company in which Amar Doman, a director and officer, and Rob Doman, an officer of the Company, have a minority interest and the land and buildings of certain of the treatment plants are leased from entities solely controlled by Amar Doman. All lease rates were market tested in advance of the signing of the lease agreements and were determined to be at market rates. Lease payments to such related parties were $3.3 million in the year ended December 31, 2018, versus $3.2 million in 2017. The minimum payments under the terms of these leases are as follows: $3.3 million in 2019, $2.3 million in 2020, $1.9 million in 2021, $1.6 million in 2022, $1.6 million in 2023 and $14.1 million for years thereafter.

During the year ended December 31, 2018, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of $645,000 (2017 - $559,000) by a company owned by Rob Doman. As at December 31, 2018, payables to this related party were $282,000 (December 31, 2017 - $133,000). Additionally, fees of $1.1 million (2017 - $1.2 million) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman. As at December 31, 2018, payables to this related party were $59,000 (December 31, 2017 - $55,000).

During the year ended December 31, 2018, the Company purchased $3.6 million (2017 - $2.6 million) of product from a public company in which Amar Doman has an ownership interest and is also a director and officer. These purchases were in the normal course of operations and are recorded at exchange amounts. As at December 31, 2018, payables to this related party were $38,000 (December 31, 2017 - $99,000).

During the year ended December 31, 2018, the Company purchased $1.0 million (December 31, 2017 - $nil) of product from a company controlled by Siegfried Thoma, a director of the Company. These purchases were made in the normal course of operations and are recorded at exchange amounts.

In the comparative 2017 fiscal year, subscriptions were received from certain insiders of the Company for proceeds of $5.6 million, including $5.0 million in subscription receipts from Amar Doman and $472,000, in aggregate, from several members of key management personnel, directors and officers of the Company(1). The balance of subscriptions were received from other non-management insiders. There were no subscriptions received from insiders of the Company during the year ended December 31, 2018.

Additional information regarding these related party transactions is contained in Note 26 of the 2018 Consolidated Financial Statements.

In addition to the aforementioned related party transactions, certain subsidiaries of the Company had entered into leases for various facilities and equipment, with entities affiliated with individuals who are directors and officers of such subsidiaries, in connection with prior acquisitions. During the year ended December 31, 2018, such lease payments totaled $nil (2017 - $1.2 million), and trucking services and other related party services paid totaled $nil (2017 - $70,000). These arrangements were terminated during the second quarter of 2017.

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

Commitments and Contingencies

Future and Contractual Obligations

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

The following table shows, as at December 31, 2018, the Company's contractual obligations inclusive of estimated interest within the periods indicated:

Contractual Obligations (in thousands of dollars)	**Total**	**2019**	**2020-2021**	**2022-2023**	**Thereafter**
Revolving loan facility(1)	207,755	8,642	199,113	-	-
Non-revolving term loan(2)	38,154	4,386	33,768	-	-
Unsecured notes(3)	79,145	3,835	7,660	67,650	-
Promissory notes(4)	6,032	2,669	3,363	-	-
Equipment term loan and line(5)	13,157	4,121	9,036	-	-
Earn-out commitment(6)	2,065	-	2,065	-	-
Finance leases(7)	5,392	1,718	2,408	1,200	66
Operating leases(7)	142,910	22,250	33,157	24,382	63,121
Total contractual obligations	494,610	47,621	290,570	93,232	63,187

1. Interest has been calculated based on the average borrowing under the facility for the year ended December 31, 2018 utilizing the interest rate payable under the terms of the facility at December 31, 2018. This facility matures on July 10, 2021.
2. Annual principal payments are amortized over 15 years, with interest payable quarterly.
3. Interest has been calculated at 6.375%, payable semi-annually. The notes mature on October 9, 2023.
4. Additional information is contained in Note 16 of the 218 Consolidated Financial Statements.
5. Monthly principal repayments amortize over 5 years, interest is payable monthly. Equipment line principal repayments commence on August 1, 2019, with maturity on December 1, 2021.
6. Additional information is contained in Note 27 of the 2018 Consolidated Financial Statements.
7. Additional information is contained in Note 27 of the 2018 Consolidated Financial Statements.

Claims

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

Guarantees

The Company has issued letters of credit totaling $1.4 million as at December 31, 2018 (December 31, 2017 - $1.5 million) in respect of historical obligations, pre-dating 1999, for a non-registered executive pension plan for former executives.

Significant Accounting Judgments and Estimates

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

Goodwill

Management uses judgment in determining the fair value of the acquired net identifiable tangible and intangible assets at the date of a business combination. Any resulting goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill at December 31, 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 after tax cash flows. 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 reduced by the excess of this carrying value and recognized as an impairment loss.

Timber

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

Reforestation Provision

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

Employee Future Benefits

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

i. Discount rate

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

ii. Other assumptions

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

Inventory Valuation

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

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

Allowance for Doubtful Accounts

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

Income Taxes

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

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

Leases

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

Segment Reporting

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

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

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

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

Changes in Accounting Standards

The significant accounting policies as disclosed in Note 3 of the 2018 Consolidated Financial Statements have been applied consistently in the preparation of these financial statements, except as stated below.

IFRS 9 – Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* ("IFRS 9") replacing IAS 39*, Financial Instruments: Recognition and Measurement*. The adoption of IFRS 9 was applied retrospectively and did not have a material impact on the 2018 Consolidated Financial Statements and did not result in any adjustments.

IFRS 15 - Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted IFRS 15*, Revenue from Contracts with Customers* ("IFRS 15"), replacing IAS 11, *Construction Contracts*, IAS 18, *Revenue*, as well as several revenue-related interpretations. The adoption of IFRS 15 did not have a material impact on the 2018 Consolidated Financial Statements and did not result in any adjustments. The adoption of this standard did; however, result in more detailed disclosure in the Company's financial statements related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Further information about changes to the Company's accounting policies resulting from the adoption of these new standards can be found in Note 5 to the 2018 Consolidated Financial Statements.

New Accounting Pronouncements Issued but not yet Applied

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

IFRS 16 – Leases

In January 2016, the International Accounting Standards Board issued IFRS 16, *Leases* ("IFRS 16"), replacing IAS 17, *Leases,* and related interpretations. IFRS 16 sets out principles of recognition, measurement, presentation and disclosure of leases for both parties to a contract, the lessee and the lessor. IFRS 16 is effective January 1, 2019 and the Company does not intend to early adopt this standard. The Company expects that it will 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 million to $130 million 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.

The Company leases (rents) distribution and wood treatment facilities, along with equipment used in the operation of the business. Upon adoption of this new accounting standard, these lease (rental) payments will be presented as interest and depreciation expenses on the Company's Consolidated Statement of Earnings rather than distribution, selling and administration expenses. Financial statement users that calculate EBITDA for the Company will observe a resulting increase in EBITDA due to the required presentation change under IFRS 16.

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

Disclosure Controls and Internal Controls over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to: (a) provide reasonable assurance that material information required to be disclosed by the Company is accumulated and communicated to management to allow timely decisions regarding required disclosure; and (b) ensure that information required to be disclosed by the Company is recorded, processed, summarized, and reported within the time periods specified in applicable securities legislation. The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2018. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosure in the Issuer's Annual and Interim Filings are effective for the purposes set out above. The Company's management, including the Chief Executive Officer and Chief Financial Officer, acknowledges responsibility for the design and operation of disclosure controls and procedures and internal control over financial reporting, and the requirement to evaluate the effectiveness of these controls on an annual basis.

Internal Control over Financial Reporting

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

Management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 based on the provisions of Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, management concluded that its internal control over financial reporting, as defined by National Instrument 52-109, is effective and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

Changes in Internal Control over Financial Reporting

There were no material changes in the design of the Company's internal controls over financial reporting during the year ended December 31, 2018 that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risks and Uncertainties

The Company is subject to normal business risks associated with similar firms operating within the building materials industry in Canada, which are described in greater detail in the Company's AIF dated March 29, 2018, and the Company's public filings on www.sedar.com, which the reader is encouraged to review, and which are or may be, updated from time to time, after the date therein. Except as required by applicable law, the Company undertakes no obligation to publicly update or otherwise revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Outlook

Pricing for lumber, plywood and OSB experienced significant declines from June 2018 through to the end of 2018. Management will continue to employ mitigation strategies to minimize the potential impacts of future commodity price volatility. These strategies include the use of vendor managed inventories, direct shipments from the manufacturer to the customer, and the Company`s internal policy of matching inventory levels to maintain its high standard of customer service levels, minimalizing excess inventory otherwise exposed to market fluctuations. The Company is also continuing to execute on its strategy to increase the proportion of value added products, such as pressure treated wood, in its overall sales.

The Canadian economy is forecast to grow by 1.7% in 2019, before increasing to 2.0% in 2020, according to the most recent revised estimates published by the Bank of Canada ("BoC"). The BoC also reported that recent indicators have bolstered their confidence in their economic outlook, with inflation close to target and the economy operating close to capacity. Based on this improving outlook, the BoC raised its key short-term lending rate by 0.25% on October 24, 2018 to 1.75%, which is the fifth such increase since July 2017. On September 26, 2018, the US Federal Reserve raised its benchmark interest rate to 2.25%, which was the third rate increase in 2018. This may signal that both economies are returning to a more solid footing, with unemployment rates falling and economies performing in line with expectations. However, there remains uncertainty stemming from international relations, trade disputes and geo-political uncertainty, potentially impacting economic activity and growth, interest rates and foreign exchange.

According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for Canadian housing starts was 212,843 in 2018 compared to 219,763 in 2017. CMHC forecasts annual housing starts for the years 2019 and 2020 to be in the range from 193,700 units to 204,500 units. Historically, strong housing starts have positively impacted the Company's business and the volume of building materials that it sells. The recent introduction of stricter federal mortgage rules, the introduction of British Columbia and Ontario foreign buyers' and speculation taxes, increased lending rates, foreign exchange fluctuations and overall affordability issues, may affect the housing market, although any potential impact is unpredictable.

According to the US Census Bureau, seasonally-adjusted housing starts reached 1,256,000 units in the fourth quarter of 2018 compared to 1,303,000 units in the same period last year. According to the Federal Home Mortgage Corporation (Freddie Mac) Economic & Housing Research Group, housing starts are estimated to reach 1,290,000 units for 2019 and 1,360,000 for 2020. The US economy has been expanding at a robust pace, and according to the BoC, is expected to average about 2.0% growth over the 2019-2020 period.

A tentative new trilateral trade deal was announced in the second half of 2018 between the United States, Mexico and Canada to replace NAFTA. The new trade agreement, once ratified, is expected to add a measure of certainty to trade between the countries, which in turn should have a positive impact on consumer confidence. That said, there is still no visibility on the timing of such ratification, nor any agreement on the ongoing softwood lumber dispute. The Softwood Lumber Agreement with the US expired in October 2015 and as anticipated, the US Department of Commerce introduced both countervailing and anti-dumping duties on Canadian softwood lumber imports. The Company will continue to carefully manage its business to minimize any potential impacts of these trade dispute duties. The Company does not export softwood lumber from Canada to the US and the Company's US distribution operations sell wood products sourced in the US. Despite ongoing talks, there is no visibility as to the resolution of this trade dispute.

The Company's focus in the near term remains to grow sales with its target customer base while continuing to optimize gross margins, integrate recent acquisitions and maintain tight controls over expenses, including those relating to the 2018 Acquisitions. The Company is committed to enhancing its offering of specialty and allied products to the Canadian and Unites States markets. Management's focus on cash flow, primarily consisting of the management of inventory and trade receivables, remains paramount.

The proceeds from the Company's offering of the Unsecured Notes in the fourth quarter were applied against the revolving loan facility, providing greater financial flexibility for the Company and readily available growth capital at an attractive locked-in cost by freeing up credit availability in a rising interest rate environment.

Sawlog prices have experienced an upward trend in pricing largely attributable to ongoing log supply constraints, particularly in British Columbia, where the situation has been further impacted by the 2018 wildfire activity. Regional sawlog prices in the East Kootenay's of British Columbia, the Company's primary base of forestry operations, are expected to remain strong due to ongoing local log supply shortfalls and expected continuing growth in US demand. There can be no assurance, however, these pricing trends will be sustainable, which may result in potential adverse impacts on the Company's forestry segment.

Management will continue to closely monitor the Company's operations, legacy customers, and potential seasonal weather impacts, so that the Company will be appropriately positioned to participate in a continuing economic recovery and be ready to work hard to translate revenue gains into higher earnings for the Company and its shareholders.

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