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## Letter to Shareholders

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Following an extended period of pricing pressure on building material products which began in the second half of 2018 and lasted well into 2019, I am pleased and encouraged to see some measure of stability and strength in pricing come back to the lumber, OSB and plywood markets in the latter part of the year. While pricing levels are nowhere near the peaks of 2018, the combination of an improved pricing environment on lumber, our actions towards executing our strategic growth objectives, managing costs, and optimizing operational efficiencies resulted in strong financial results as we closed out 2019. Exiting the year, all of our key financial metrics including revenues, gross margin, EBITDA and net income were inline, and in some instances exceeded our expectations in the last quarter of the year, while paying our shareholders a quarterly dividend of \$0.14 per common share, or \$0.56 per common share, on an annual basis.

The unprecedented reversal and decline in the pricing in the lumber, OSB and plywood markets which started in the second half of 2018 impacted the better part of our full year 2019 results. Despite, the severity of the pricing volatility we experienced during the year, I am once again pleased with the resilience of our diversified business model withstanding these macroeconomic cycles resulting in annual revenues, gross margin, Adjusted EBITDA, and net earnings totaling \$1.3 billion, \$191.9 million, \$85.8 million, and \$17.2 million, respectively in 2019.

Our ability to withstand market and pricing volatilities of the past year and a half can be primarily credited to the successful acquisitions we completed throughout the years, which have and continue to diversify our business model, and enhance shareholder value. In addition to our successful acquisition program, the business continues to demonstrate robust results and contribute towards diversity with growth in the specialty and allied products category. The credit markets also noticed this and I am very proud that we were able to renew and extend our main credit facilities for a further five years in December.

Despite, the pricing headwinds of late 2018 and 2019, and at times volatile market conditions, we remain very enthusiastic and confident about the growth prospects ahead. We look forward to further demonstrating the strength and leverage available in our business model as we continue to take advantage of sensible organic growth opportunities, as well as strategic scenarios where we can accelerate growth. Our balance sheet remains growth friendly, and we continue to diligently use leverage and our cost of capital to plan for the future growth and success of the business.

I would like to take this opportunity to extend my appreciation to the Board of Directors for their continued wisdom and stewardship. I would also like to thank our employees, customers, suppliers and our shareholders for your ongoing support and loyalty.

Sincerely,

**Amar S. Doman**

Chairman and CEO

# CanWel Building Materials Group Ltd.

## Management's Discussion and Analysis

March 11, 2020

*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, 2019 relative to 2018. 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, 2019 (the "2019 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 2019 Consolidated Financial Statements and the 2019 Letter to Shareholders (the "2019 Reporting Documents") contains 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 2019 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 2019 Reporting Documents and are subject to risks which are described in the Company's current Annual Information Form dated March 29, 2019 ("AIF") and the Company's public filings on the Canadian Securities Administrators' website at [www.sedar.com](http://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, insurance risks, risks related to climate change, risks related to the impact of local, national, and international health concerns, 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 2019 Reporting Documents is qualified by these cautionary statements. Although the forward-looking information contained in the 2019 Reporting Documents is based on 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 2019 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 the 2019 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 2019 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.*

## Management's Discussion and Analysis

*The forward-looking statements contained in the 2019 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 11, 2020, 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 payment of lease liabilities and 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 mainland 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 include timber ownership and management of private timberlands and Crown forest licenses, full service harvesting 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. On April 1, 2019, the Company completed the acquisition of Lignum Forest Products LLP ("Lignum") (the "Lignum Acquisition"), a well-established brand in the lumber and forestry distribution market in Western Canada and the United States.

## Purchase of Lignum Forest Products LLP

On April 1, 2019, the Company completed the acquisition of all issued and outstanding partnership interests of Lignum, a well-established brand in the lumber and forestry distribution market in Western Canada and the United States. This acquisition further solidifies and complements the Company's North American distribution capabilities and reach with existing and new customers.

Further information regarding this acquisition is contained in Note 6 of the 2019 Consolidated Financial Statements.

## 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, Inc. "OCBM") (the "OCBM Acquisition"). Based in Junction City, Oregon, OCBM provides 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.

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 as at the date of the above noted acquisitions (collectively, "2018 Acquisitions").

Further information regarding the preliminary purchase price allocation is contained in Note 6 of the 2019 Consolidated Financial Statements.

## Increase of Revolving Loan Facility

On April 3, 2019, the maximum credit available under the Company's revolving loan facility was temporarily increased from \$300 million to \$325 million, with an additional \$25 million accordion facility, for a total loan limit of \$350 million, in order to address seasonal working capital requirements and the Company's ongoing growth and expansion. This loan limit was in effect for a period of 120 days commencing on April 3, 2019.

On December 6, 2019, the Company amended its existing revolving loan facility. The maximum credit available has been increased from \$300 million to \$360 million with a revised maturity date of December 6, 2024. Concurrent with the amendment to the revolving loan facility, the maturity date of the non-revolving term loan was also extended to December 6, 2024.

## Normal Course Issuer Bid

On November 22, 2019, the Company renewed the Normal Course Issuer Bid ("NCIB"). Under the terms of the renewed NCIB, the Company may purchase for cancellation up to 5,995,340 of its common shares at market prices. At December 31, 2019, the Company had not repurchased any of its common shares under the renewed NCIB.

## Annuity Contract

During the fourth quarter of 2017, the Company purchased an annuity for \$36 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 18 of the 2019 Consolidated Financial Statements.

## 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 million. The offering was underwritten by a syndicate of underwriters led by National Bank Financial Inc., and including GMP Securities L.P. (now doing business as Stifel Nicolaus Canada Inc.), 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 an environment expected to have increasing rates over the term of the Unsecured Notes.

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## Foreign Exchange Forward Contracts

At December 31, 2019, the Company held an outstanding foreign exchange contract to purchase US\$3.1 million for economic hedging purposes.

## 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 201,288 in 2019 versus 218,964 in 2018, a decrease of 8.1%. The seasonally adjusted annualized rate for single detached units, a more relevant indicator for the Company, amounted to 56,869 at December 31, 2019 versus 62,520 in 2018, a decrease of 9.0%<sup>(1)</sup>.

The seasonally adjusted annualized rate for overall US housing starts reached 1,290,000 units in 2019 versus 1,250,000 units in 2018, an increase of 3.2%<sup>(2)</sup>.

Housing starts showed increasing strength in the latter part of 2019, according to the US Census Bureau, seasonally-adjusted annualized housing starts reached a 13-year high of 1,626,000 units in the fourth quarter of 2019 compared to 1,280,000 units in the same period last year.

1. As reported by CMHC. For further information, see "Outlook".  
2. As reported by the US National Mortgage Association (Fannie Mae).

## Construction Materials Pricing

The following table provides average quarterly pricing for lumber, plywood and oriented strand board ("OSB") as reported by Natural Resources Canada:

(In Canadian \$)	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Lumber	538	509	480	513	481	697	788	685
Plywood	421	452	454	507	464	527	632	569
OSB	271	258	262	285	323	464	529	465

After decreasing in the second half of 2018, lumber, plywood and OSB prices generally remained relatively flat for most of 2019 with lumber experiencing small increases in latter half of the year.

The Company generally prices its products in the competitive construction materials market so that the Company's profitability is based on cost plus value-added services such as wood pressure treating, distribution and other services provided. As a result, the Company's sales levels are impacted by the construction materials costs of its products.

The Company's gross margins are impacted by the relative level of construction materials pricing (such as whether prices are higher or lower compared to other periods), as well as the trend in pricing (such as whether the price is increasing or decreasing within a period). Depending on whether the product is sold at a fixed price or is tied to the current market, the impact of pricing levels and pricing trends will have differing effects on each category of product.

Management employs mitigation strategies to minimize the potential impacts of future construction materials 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, minimizing excess inventory otherwise exposed to market fluctuations.

## Results of Operations

### Selected Annual Information

(in \$ millions, per share in dollars)	Fiscal Years Ended December 31,		
	2019 <sup>(3)</sup>	2018	2017
Sales	1,334.2	1,291.3	1,136.0
Earnings before income taxes	22.1	41.1	35.8
Net earnings	17.2	30.0	28.8
Adjusted net earnings <sup>(1)</sup>	17.5	30.6	31.6
Net earnings per share (basic and diluted)	0.22	0.39	0.42
Adjusted net earnings per share (basic and diluted) <sup>(1)</sup>	0.22	0.39	0.46
Total assets	894.4	803.3	722.8
Long-term debt <sup>(2)</sup>	401.4	287.6	207.4
Total debt	428.1	297.9	218.3
Dividends declared to shareholders	43.5	43.5	38.4
Dividends declared to shareholders (per share)	0.56	0.56	0.56
Weighted average basic shares outstanding	77,714,660	77,713,148	68,271,808
Total shares outstanding	77,765,329	77,744,598	77,659,655

1. Net earnings before restructuring costs and directly attributable acquisition related costs.

2. Excludes current portion of debt.

3. The Company adopted IFRS 16 Leases on January 1, 2019. Comparative periods have not been restated.

## Comparison of the Year Ended December 31, 2019 and December 31, 2018

### Overall Performance

The following table shows the Company's segmented results for the years ended December 31:

(in thousands of dollars)	Year Ended December 31, 2019				Year Ended December 31, 2018 <sup>(1)</sup>			
	Distribution	Forestry	Adjustments and eliminations <sup>(2)</sup>	Consolidated	Distribution	Forestry	Adjustments and eliminations <sup>(2)</sup>	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b>								
External customers	1,285,780	48,421	-	1,334,201	1,240,765	50,530	-	1,291,295
Inter-segment	-	2,142	(2,142)	-	-	1,594	(1,594)	-
	1,285,780	50,563	(2,142)	1,334,201	1,240,765	52,124	(1,594)	1,291,295
<b>Specified expenses</b>								
Depreciation and amortization	34,288	7,523	-	41,811	13,411	5,011	-	18,422
Finance costs	19,132	2,736	-	21,868	9,160	2,512	-	11,672
<b>Net earnings (loss)</b>	17,981	(762)	-	17,219	26,289	3,726	-	30,015
<b>Purchase of property, plant and equipment</b>	3,943	3,373	-	7,316	8,048	5,708	-	13,756

1. Effective January 1, 2019, the Company adopted IFRS 16, *Leases*, with the ongoing impact of this standard included in the Company's results prospectively from that date. The Company's comparative 2018 results have not been restated. See "Changes in Accounting Standards" section in this MD&A.
2. Includes inter-segment eliminations and income and expenses that are not allocated to reportable business segments.

The Company adopted IFRS 16, *Leases* ("IFRS 16") effective January 1, 2019, and prior year comparative results have not been restated. The adoption of IFRS 16 resulted in the following estimated variances relative to non-restated comparative year:

(in thousands of dollars)	Increase (Decrease)		
	Distribution	Forestry	Consolidated
	\$	\$	\$
Distribution, selling and administration expenses	(20,163)	(104)	(20,267)
EBITDA and Adjusted EBITDA	20,163	104	20,267
Amortization of right-of-use assets	20,595	1,021	21,616
Depreciation of property, plant and equipment	(376)	(312)	(688)
Finance costs	4,454	11	4,465
<b>Net earnings before tax</b>	<b>(4,510)</b>	<b>(616)</b>	<b>(5,126)</b>

## Sales and Gross Margin

Sales for the year ended December 31, 2019 were \$1.33 billion versus \$1.29 billion in 2018, representing an increase of \$42.9 million or 3.3%, due to the factors discussed below.

Sales for the Distribution segment increased by \$45.0 million or 3.6%, largely due to the inclusion of the results from the Lignum Acquisition and the 2018 Acquisitions, as well as the Company's continuing focus on its product mix strategies and target customer base.

Sales for the Forestry segment decreased by \$1.6 million or 3.0%. The decrease in sales relative to 2018 was largely driven by decreased demand for timber from regional sawmill customers, reflecting production curtailments experienced across the industry during 2019, relative to 2018.

The Company's sales by product group in the year were made up of 58% construction materials, which is comparable to last year, with the remaining balance resulting from specialty and allied products of 35% (2018 - 34%), and forestry and other of 7% (2018 - 8%).

Gross margin dollars decreased to \$191.9 million in the current year, versus \$192.9 million in 2018, a decrease of \$1.0 million or 0.5%. Gross margin percentage was 14.4% during the year, a decrease from the 14.9% achieved in 2018. This decrease in margin dollars and margin percentage reflects the negative impacts from lower construction material pricing levels and pricing trends relative to 2018. This negative impact was partially offset by the inclusion of results from the 2018 and 2019 Acquisitions.

## Expenses

Expenses for the year ended December 31, 2019 were \$147.6 million versus \$139.4 million in 2018, an increase of \$8.2 million or 5.9% due to the factors discussed below. As a percentage of sales, 2019 expenses were 11.1%, versus 10.8% in 2018.

Distribution, selling and administration expenses decreased by \$15.1 million, or 12.5%, to \$105.8 million, versus \$120.9 million in 2018. Excluding the impact of the IFRS 16 adoption, distribution selling and administration expenses increased by \$5.1 million or 4.2%, largely due to additional expenses relating to the Lignum Acquisition and the 2018 Acquisitions' operations. As a percentage of sales, these expenses were 7.9% in the year, compared to 9.4% in 2018.

Depreciation and amortization expenses increased by \$23.4 million, from \$18.4 million to \$41.8 million. Depreciation and amortization expenses for the Distribution segment increased by \$20.9 million, largely due to the impact of the adoption of IFRS 16. Depreciation and amortization expense for the Forestry segment increased by \$2.5 million.

## Fair Value Adjustments

Fair value adjustments recognized at the year ended December 31, 2019 and 2018 relate to standing timber, which is carried at fair value less cost to sell, and is a function of estimated growth and harvest rates, costs of sustainable forest management, log pricing assumptions, timing of harvest and the discount rate used.

## Operating Earnings

For the year ended December 31, 2019, operating earnings were \$44.3 million versus \$53.6 million in 2018, a decrease of \$9.3 million or 17.4%, due to the foregoing factors.

## Finance Costs

Finance costs for the year ended December 31, 2019 were \$21.9 million, versus \$11.7 million in 2018, an increase of \$10.2 million. Finance costs for the Distribution segment were \$10.0 million higher than in 2018, partly due to the impact of the adoption of IFRS 16, and partly due to higher average borrowings in order to finance the Company's working capital requirements and higher rates resulting from the Unsecured Notes. Finance costs for the Forestry segment remained largely in line with 2018.

## Acquisition Costs

Acquisition costs during the year were \$415,000, compared to \$753,000 in 2018, a decrease of \$338,000 or 44.9%. These costs include management resources as well as legal, environmental, financial and other advisory services directly attributable to acquisitions. In 2018, these costs were primarily attributable to the OCBM Acquisition and Woodland Acquisition, and in 2019, the costs were attributable to the Lignum Acquisition.

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## Earnings before Income Taxes

For the year ended December 31, 2019, earnings before income taxes were \$22.1 million versus \$41.1 million in 2018, a decrease of \$19.0 million or 46.2% due to the foregoing factors.

## Provision for Income Taxes

For the year ended December 31, 2019, the provision for income taxes was \$4.8 million compared to \$11.1 million in 2018, a decrease of \$6.3 million or 56.8%. This amount is a function of the pre-tax earnings generated during the year and the expected taxes payable on these earnings.

## Net Earnings

As a result of the foregoing factors, net earnings for the year ended December 31, 2019 were \$17.2 million versus \$30.0 million in 2018, a decrease of \$12.8 million or 42.7% as discussed above.

## Fourth Quarter Results

A summary of the unaudited results for the quarter ended December 31, 2019 and 2018 is as follows:

<b>(in \$ thousands, per share in dollars)</b>	<b>Three months ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Sales	<b>\$293,351</b>	\$264,040
Gross margin	<b>44,173</b>	38,603
Gross margin %	<b>15.1 %</b>	14.6 %
Distribution, selling and administration expenses	<b>25,831</b>	29,745
Depreciation and amortization	<b>10,513</b>	5,040
Expenses	<b>36,344</b>	34,785
Operating earnings	<b>7,829</b>	3,818
Finance costs	<b>(4,992)</b>	(3,134)
Acquisition costs	<b>-</b>	(753)
Earnings (loss) before income taxes	<b>2,837</b>	(69)
Recovery of income taxes	<b>535</b>	439
Net earnings	<b>\$3,372</b>	\$370
Net earnings per share	<b>0.04</b>	0.00

## Overall Performance

The following table shows the Company's segmented results for the quarters ended December 31:

<b>(in thousands of dollars)</b>	<b>Three months ended December 31, 2019</b>				<b>Three months ended December 31, 2018<sup>(1)</sup></b>			
	<b>Distribution</b>	<b>Forestry</b>	<b>Adjustments and eliminations<sup>(2)</sup></b>	<b>Consolidated</b>	<b>Distribution</b>	<b>Forestry</b>	<b>Adjustments and eliminations<sup>(2)</sup></b>	<b>Consolidated</b>
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b>								
External customers	284,427	8,924	-	<b>293,351</b>	251,614	12,426	-	264,040
Inter-segment	-	516	(516)	-	-	84	(84)	-
	<b>284,427</b>	<b>9,440</b>	<b>(516)</b>	<b>293,351</b>	<b>251,614</b>	<b>12,510</b>	<b>(84)</b>	<b>264,040</b>
<b>Specified expenses</b>								
Depreciation and amortization	8,561	1,952	-	<b>10,513</b>	3,494	1,546	-	5,040
Finance costs	4,439	553	-	<b>4,992</b>	2,356	778	-	3,134
<b>Net earnings (loss)</b>	<b>3,108</b>	<b>264</b>	<b>-</b>	<b>3,372</b>	<b>(432)</b>	<b>802</b>	<b>-</b>	<b>370</b>

1. Effective January 1, 2019, the Company adopted IFRS 16, *Leases*, with the ongoing impact of this standard included in the Company's results prospectively from that date. The Company's comparative 2018 results have not been restated. See "Changes in Accounting Standards" section in this MD&A.

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

Management's Discussion and Analysis

The Company adopted IFRS 16, *Leases* ("IFRS 16") effective January 1, 2019, and prior year comparative results have not been restated. The adoption of IFRS 16 resulted in the following estimated variances relative to the non-restated comparative quarter:

(in thousands of dollars)	Increase (Decrease)		
	Distribution \$	Forestry \$	Consolidated \$
Distribution, selling and administration expenses	(4,981)	(34)	(5,015)
EBITDA and Adjusted EBITDA	4,981	34	5,015
Amortization of right-of-use assets	5,070	334	5,404
Depreciation of property, plant and equipment	(118)	(127)	(245)
Finance costs	1,096	2	1,098
Net earnings before tax	(1,067)	(175)	(1,242)

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## Sales and Gross Margin

Sales for the three month period ended December 31, 2019 were \$293.4 million versus \$264.0 million in 2018, representing an increase of \$29.3 million or 11.1%, due to the factors discussed below.

Sales for the Distribution segment increased by \$32.8 million or 13.0%, compared to the same period in 2018, largely due to the inclusion of the results from the Lignum Acquisition in 2019, the 2018 Acquisitions, and the Company's continuing focus on its product mix strategies and target customer base.

Sales for the Forestry segment decreased by \$3.1 million or 24.5%. The decrease in sales relative to the same quarter of 2018 was largely driven by reduced demand for timber from regional sawmill customers, reflecting production curtailments experienced across the industry.

The Company's sales by product group in the quarter were made up of 55% of construction materials, compared to 52% during the same quarter last year, with the remaining balance of sales resulting from specialty and allied products of 37% (2018 - 39%) and forestry and other of 8% (2018 - 9%).

Gross margin dollars were \$44.2 million in the three month period versus \$38.6 million in the comparative quarter of 2018, an increase of \$5.6 million or 14.5%. Gross margin percentage was 15.1% in the quarter, an increase from 14.6% achieved in the same quarter of 2018. This increase in margin dollars is mainly attributable to the inclusion of the results from the Lignum Acquisition in 2019 and the 2018 Acquisitions as well as more favourable trends in construction material pricing compared to 2018.

## Expenses

Expenses for the three month period ended December 31, 2019 were \$36.3 million as compared to \$34.8 million for the comparative quarter in 2018, an increase of \$1.5 million or 4.3%, due to the factors discussed below. As a percentage of sales, expenses were 12.4% in the quarter, compared to 13.2% during the comparative quarter in 2018.

Distribution, selling and administration expenses decreased by \$3.9 million, or 13.1%, to \$25.8 million in the fourth quarter of 2019, from \$29.7 million in the same period of 2018. Excluding the impact of the IFRS 16 adoption, distribution, selling and administration expenses increased by \$1.1 million or 3.7%, largely due to additional expenses relating to the Lignum Acquisition in 2019 and the 2018 Acquisitions' operations. As a percentage of sales, these expenses were 8.8% in the quarter, compared to 11.3% in the same quarter in 2018.

Depreciation and amortization expenses increased by \$5.5 million, from \$5.0 million to \$10.5 million. Depreciation and amortization expenses for the Distribution segment increased by \$5.1 million, largely due to the impact of the adoption of IFRS 16. Depreciation and amortization expense for the Forestry segment increased by \$406,000.

## Fair Value Adjustments

Fair value adjustments recognized for the quarter ended December 31, 2019 and the comparative period in 2018 relate to standing timber, which is carried at fair value less cost to sell, and is a function of estimated growth and harvest rates, costs of sustainable forest management, log pricing assumptions, timing of harvest and the discount rate used.

## Operating Earnings

For the quarter ended December 31, 2019, operating earnings were \$7.8 million compared to \$3.8 million in the comparative period of 2018, an increase of \$4.0 million or 105.3%, due to the foregoing factors.

## Finance Costs

Finance costs for the fourth quarter of 2019 were \$5.0 million, compared to \$3.1 million for the same period in 2018, an increase of \$1.9 million. Finance costs for the Distribution segment were \$2.1 million higher than the same quarter in 2018, partly due to the impact of the adoption of IFRS 16, and partly due to higher average borrowings in order to finance the Company's working capital requirements and higher overall rates resulting from the Unsecured Notes. Finance costs for the Forestry segment remained largely in line with the fourth quarter of 2018.

## Acquisition Costs

There were no acquisition costs in the quarter ended December 31, 2019 versus \$753,000 in the comparative fourth quarter in 2018. The 2018 costs were primarily attributable the 2018 Acquisitions.

## Earnings (Loss) before Income Taxes

For the quarter ended December 31, 2019, earnings before income taxes were \$2.8 million, compared to a loss of \$69,000 in the comparative quarter of 2018, an increase in earnings of \$2.9 million due to the foregoing factors.

## Recovery of Income Taxes

For the quarter ended December 31, 2019, recovery of income taxes was \$535,000 compared to a \$439,000 recovery of income taxes in the same quarter of 2018, an increase of \$96,000. This amount is a function of the pre-tax earnings generated in the quarter and the expected taxes payable on these earnings.

## Net Earnings

Net earnings for the quarter ended December 31, 2019 were \$3.4 million compared to \$370,000 for the period in 2018, an increase of \$3.0 million, due to the foregoing factors impacting the overall financial performance of the Company.

## Summary of Quarterly Results

### For the Quarters ended:

(\$ and shares millions, per share in dollars)	2019 <sup>(4)</sup>				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	293.4	373.2	385.7	281.9	264.0	350.2	382.1	295.0
EBITDA	18.4	25.0	27.3	15.1	8.1	20.1	27.5	15.6
Adjusted EBITDA <sup>(1)</sup>	18.4	25.3	27.5	15.1	8.9	20.1	27.5	15.6
Adjusted EBITDA % of sales <sup>(1)</sup>	6.3	6.8	7.1	5.4	3.4	5.7	7.2	5.3
Earnings (Loss) before income taxes	2.8	9.0	10.7	(0.5)	(0.1)	12.5	19.9	8.8
Net earnings (loss)	3.4	6.4	7.8	(0.4)	0.4	8.5	14.7	6.5
Adjusted net earnings (loss) <sup>(1)</sup>	3.4	6.7	7.9	(0.4)	0.9	8.5	14.7	6.5
Net earnings (loss) per share <sup>(3)</sup>	0.04	0.08	0.10	(0.0)	0.00	0.11	0.19	0.08
Adjusted net earnings per share <sup>(2)(3)</sup>	0.04	0.09	0.10	(0.0)	0.01	0.11	0.19	0.08
Dividends declared per share	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Outstanding shares <sup>(3)</sup>	77.8	77.7	77.7	77.7	77.7	77.7	77.7	77.7

- Adjusted EBITDA refers to EBITDA before directly attributable acquisition related costs.
- Net earnings before directly attributable acquisition related costs.
- Weighted average basic shares outstanding in the period.
- The Company adopted IFRS 16 Leases on January 1, 2019. Comparative periods have not been restated.

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

(in thousands of dollars)	Three months ended December 31,		Years ended December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Net earnings	3,372	370	17,219	30,015
(Recovery of) provision for income taxes	(535)	(439)	4,841	11,131
Finance costs	4,992	3,134	21,868	11,672
Depreciation of property, plant and equipment	3,388	3,340	13,350	11,709
Amortization of right-of-use assets	5,404	-	21,616	-
Amortization of intangible assets	1,721	1,700	6,845	6,713
Share-based compensation	10	-	29	25
EBITDA	18,352	8,105	85,768	71,265
Acquisition costs	-	753	415	753
Adjusted EBITDA	18,352	8,858	86,183	72,018

## EBITDA and Adjusted EBITDA

For the three month period ended December 31, 2019, EBITDA and Adjusted EBITDA were \$18.4 million, versus Adjusted EBITDA of \$8.9 million in the comparative quarter of 2018. Current quarter EBITDA and Adjusted EBITDA were positively impacted by the adoption of IFRS 16, in the amount of \$5.0 million. Excluding the impact of IFRS 16 adoption, Adjusted EBITDA increased by \$4.5 million.

For the year ended December 31, 2019, EBITDA was \$85.8 million and Adjusted EBITDA was \$86.2 million, compared to EBITDA of \$71.1 million and Adjusted EBITDA of \$72.0 million for 2018, an increase in Adjusted EBITDA of \$14.2 million or 19.7%. Current year EBITDA and Adjusted EBITDA were positively impacted by the adoption of IFRS 16, in the amount of \$20.3 million. Excluding the impact of IFRS 16 adoption, Adjusted EBITDA for the year ended December 31, 2019 decreased by \$6.1 million or 8.5%, largely due to the aforementioned decrease in construction materials pricing levels and trends as well as weather conditions during the first quarter of 2019 impacting construction activities, which was partially offset by the inclusion of the results from the Lignum Acquisition in 2019 and the 2018 Acquisitions.

## Financial Condition

### Liquidity and Capital Resources

During the year ended December 31, 2019, the Company generated \$1.0 million in cash, versus consuming \$6.6 million in 2018. The following activities during the year were responsible for the change in cash.

Operating activities generated cash of \$60.7 million, before non-cash working capital changes, compared to \$51.4 million in 2018.

During the year ended December 31, 2019, changes in non-cash working capital items generated \$7.2 million in cash, compared to consuming cash of \$55.5 million in 2018. The Company experienced a significant increase in inventory towards the end of the fourth quarter of 2018, built up to address a strong order backlog with treated lumber customers and to take advantage of favorable buying conditions. This resulted in a positive year over year variance in cash consumed of \$62.7 million driven by reduced inventory stocking during the first and second quarters of 2019 relative to 2018.

The Company generally experiences higher levels of non-cash working capital during the first and second quarters, and a decrease in non-cash working capital during the third and fourth quarters, due to ordinary seasonal factors relating to the Company's business cycle. The change in working capital in the year was comprised of a decrease in trade and other receivables of \$4.5 million, a decrease in inventory of \$5.8 million, an increase in prepaid expenses and deposits of \$2.9 million, and a net increase in trade and other payables and performance bond obligations of \$199,000.

During the year ended December 31, 2019, financing activities used \$56.5 million of cash, compared to generating \$25.4 million in 2018. Repayments related to the non-revolving term loan consumed \$11.2 million, versus \$2.7 million in 2018. Payment of lease liabilities, including interest, consumed \$23.1 million of cash compared to \$1.7 million in 2018, mainly due to the impact of adopting IFRS 16, which is offset by a corresponding increase in cash from operating activities. Repayment during 2019 of certain promissory notes consumed \$2.4 million, compared to \$3.7 million in 2018.

Shares issued during the year generated \$630,000 of cash, compared to \$490,000. Net repayments of the equipment term loan and equipment line amounted to \$2.9 million, including scheduled repayments, which were partially offset by funds drawn to purchase certain equipment, compared to \$1.5 million in 2018.

Dividends paid to shareholders amounted to \$43.5 million, consistent with 2018. The dividends declared and paid on a per share basis were unchanged from 2018.

The revolving loan facility increased by \$27.8 million in 2019 compared to an increase of \$21.5 million in 2018. The Company was not in breach of any of its covenants at the year ended December 31, 2019.

Investing activities consumed \$10.4 million of cash, compared to \$27.9 million during 2018. Cash purchases of property, plant and equipment relating to the Distribution segment were \$3.9 million compared to \$8.0 million in 2018. Cash purchases of property, plant and equipment relating to the Forestry segment were \$3.4 million, compared to \$5.7 million in 2018. Investing activities in 2019 included the Lignum Acquisition and the related cash and cash equivalents acquired, whereas 2018 included the 2018 Acquisitions.

In October 2019, the Company completed the sale of a 7,542 hectare parcel of private timberlands (approximately 14% of total holdings) to a coal mining entity that held an option, which pre-dated the Company's acquisition of the forestry segment, to purchase the subject lands. Gross proceeds of \$12.2 million were used to partially pay down the non-revolving term loan (\$8.5 million) with the balance paid to satisfy outstanding contractual obligations to Tembec Inc. (now Rayonier Advanced Materials Inc.), a former owner of the lands. The net cash proceeds available to repay these existing obligations resulted in a positive cash impact in investing activities of \$10.6 million, with a corresponding use of cash in financing activities. The Company retained the rights to harvest remaining timber on the subject lands for a period of 13 years. The retention of these harvesting rights resulted in a reclassification of the subject timber to intangible assets.

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

## Total Assets

Total assets of the Company were \$894.4 million as at December 31, 2019, versus \$803.3 million as at December 31, 2018, an increase of \$91.1 million. Current assets increased by \$6.0 million.

Long-term assets within the Distribution segment were \$374.7 million as at December 31, 2019, compared to \$274.8 million as at December 31, 2018, an increase of \$99.9 million, mainly due to the recognition of right-of-use assets in accordance with IFRS 16 on January 1, 2019 in the amount of \$119.0 million, and partially offset by depreciation and amortization taken during the year. Long-term assets within the Forestry segment were \$117.0 million as at December 31, 2019, compared to \$131.7 million as at December 31, 2018, a decrease of \$14.7 million, mainly due to depreciation taken on property, plant and equipment as well as the aforementioned sale of private timberlands. IFRS 16 implementation had minimal impact on the Forestry segment, as the majority of its lease arrangements were already classified as finance leases under the previous standard.

## Total Liabilities

Total liabilities were \$567.6 million as at December 31, 2019, versus \$440.2 million at December 31, 2018, an increase of \$127.4 million. This increase was largely as a result of the recognition of lease liabilities in accordance with IFRS 16 on January 1, 2019 in the amount of \$119.0 million, as well as a seasonal increase in trade and other payables of \$1.7 million, and an increase in the revolving loan facility of \$27.8 million in order to finance the working capital requirements of the Company, partially offset by various repayments of the Company's loans and borrowings.

## Outstanding Share Data

As at March 11, 2020 there were 77,833,133 common shares issued and outstanding.

## Dividends

The following dividends were declared and paid by the Company:

(in \$ thousands, per share in dollars)	2019				2018			
	Declared			Payment Date	Declared			Payment date
	Record date	Per share	Amount		Record date	Per share	Amount	
		\$	\$		\$	\$		
Quarter 1	Mar 29, 2019	0.14	10,876	Apr 15, 2019	Mar 29, 2018	0.14	10,877	Apr 13, 2018
Quarter 2	Jun 28, 2019	0.14	10,877	Jul 15, 2019	Jun 29, 2018	0.14	10,878	Jul 13, 2018
Quarter 3	Sep 30, 2019	0.14	10,887	Oct 15, 2019	Sep 28, 2018	0.14	10,884	Oct 15, 2018
Quarter 4	Dec 31, 2019	0.14	10,887	Jan 15, 2020	Dec 31, 2018	0.14	10,884	Jan 15, 2019
<b>Year ended</b>								
<b>December 31</b>		<b>0.56</b>	<b>43,527</b>			<b>0.56</b>	<b>43,523</b>	

## 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, 2019, the Company held an outstanding foreign exchange contract to purchase US\$3.1 million (2018 - US\$9.0 million) for economic hedging purposes. When held by the Company, foreign currency and lumber derivative instruments are traded through well-established financial services firms with a long history of providing trading, exchange and clearing services for commodities and currencies. As trading activities are closely monitored 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.

## 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 \$3.6 million in the year ended December 31, 2019, versus \$3.3 million in 2018. The minimum payments under the terms of these leases are as follows: \$3.9 million in 2020, \$3.6 million in 2021, \$3.2 million in 2022, 2023, 2024 respectively and \$20.0 million thereafter.

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During the year ended December 31, 2019, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of \$542,000 (2018 - \$645,000) by a company owned by Rob Doman. As at December 31, 2019 payables to this related party were \$159,000 (2018 - \$282,000). Additionally, fees of \$1.3 million (2018 - \$1.1 million) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman. As at December 31, 2019, payables to this related party were \$96,000 (2018 - \$59,000).

During the year the Company purchased \$3.4 million (2018 - \$3.9 million) of product from a public company in which Amar Doman has an ownership interest and is also a director and officer. These purchases are in the normal course of operations and are recorded at exchange amounts. As at December 31, 2019, payables to this related party were \$18,000 (2018 - \$38,000).

During the year the Company purchased \$395,000 (2018 - \$1.0 million) 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.

Additional information regarding these related party transactions is contained in Note 24 of the 2019 Consolidated Financial Statements.

In addition to the aforementioned related party transactions, certain subsidiaries of the Company had entered into a facilities lease with entities affiliated with individuals who are directors or officers of such subsidiaries, in connection with prior acquisitions. During the year ended December 31, 2019, such lease payments totaled \$262,000 (2018 - \$129,000).

## Commitments and Contingencies

### Future and Contractual Obligations

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

**Management's Discussion and Analysis**

The following table shows, as at December 31, 2019 the Company's contractual obligations, including estimated interest, within the periods indicated:

<b>Contractual Obligations (in thousands of dollars)</b>	<b>Total \$</b>	<b>2020 \$</b>	<b>2021-2022 \$</b>	<b>2023-2024 \$</b>	<b>Thereafter \$</b>
Revolving loan facility <sup>(1)</sup>	254,788	8,297	16,593	229,898	-
Non-revolving term loan <sup>(2)</sup>	27,129	3,825	7,225	16,079	-
Unsecured notes <sup>(3)</sup>	75,310	3,835	7,650	63,825	-
Promissory notes <sup>(4)</sup>	3,278	1,676	1,602	-	-
Equipment term loan and line <sup>(5)</sup>	10,089	4,187	3,836	1,620	446
Leases <sup>(6)</sup>	166,676	24,428	42,621	34,075	65,552
<b>Total contractual obligations</b>	<b>537,270</b>	<b>46,248</b>	<b>79,527</b>	<b>345,497</b>	<b>65,998</b>

1. Interest has been calculated based on the average borrowing under the facility for the year ended December 31, 2019 utilizing the interest rate payable under the terms of the facility at December 31, 2019. This facility matures on December 6, 2024.
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 15 of the Consolidated Financial Statements for the year ended December 31, 2019.
5. Monthly principal repayments amortize over 5 years, interest is payable monthly. Equipment line principal repayments commenced on August 1, 2019, with maturity on July 1, 2025.
6. Additional information is contained in Note 10 the Consolidated Financial Statements for the year ended December 31, 2019.

### 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, 2019 (2018 - \$1.4 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, assessing whether an arrangement contains a lease, determining the lease term, determining the discount rate to value the lease, 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, 2019 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 recoverable amount 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 valuers and recent comparatives of standing timber sales, costs of sustainable forest management, log pricing, timing of harvest 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 valuers 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.

## 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 are disclosed in Note 3 of the 2019 Consolidated Financial Statements.

### IFRS 16 – Leases

Effective January 1, 2019, the Company adopted 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 was applied using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019, with no restatement of comparative figures, which continue to be reported under IAS 17. The Company elected to measure its right-of-use assets at amounts equal to the corresponding lease liabilities, which resulted in no adjustment to retained earnings on transition.

#### As a Lessee

The Company identified agreements in both the United States and Canada related to the rental of distribution and wood treatment facilities, forklifts, light vehicles and other equipment, which were previously treated as operating leases under IAS 17.

Judgement was applied adopting IFRS 16 to determine contracts within the scope of IFRS 16, evaluating lease renewal terms and determining the discount (incremental borrowing rate) used to present value the lease arrangements. At transition, lease liabilities were measured at the present value of the remaining lease payments under the agreement term. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments and this approach was applied to all leases.

The Company applied the following practical expedients when applying IFRS 16 to leases, which had been classified as operating leases under IAS 17:

- a. recognition exemptions under IFRS 16 for short-term and low-value leases;
- b. an election under IFRS 16, 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 to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. Forklifts, light vehicle leases and computer equipment were identified as separate portfolios, having similar characteristics.

#### As a Lessor

The Company was not impacted by the adoption of IFRS 16 for transactions in which it acts as a lessor, as the treatment is the same as under the previous standard. These transactions primarily occur in the Company's Forestry segment and relate to access to and use of Company owned lands by third parties and are not a significant source of revenue. The Company applies IFRS 15, *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

### Summary of the financial statement impact of the adoption of IFRS 16

The new leasing standard had a significant impact on the financial statements of the Company and how lease related transactions are accounted for; however, there has been no change to how the Company conducts its business.

Area	Summarized impact
Statement of financial position	<p>The new leasing standard resulted in an increase in the value of both right-of-use assets and lease liabilities of approximately <b>\$119.0 million</b> and the reclassification of approximately <b>\$5.8 million</b> of lease liabilities that were accounted for as finance leases under the previous standard and were included in property, plant and equipment. The finance leases previously included in property, plant and equipment are now included as part of the new financial statement line item, right-of-use assets.</p> <p>Note 5 of the 2019 Consolidated Financial Statements summarizes the overall impact of adoption of IFRS 16, and Note 10 summarizes the activity related to the leasing transactions that occurred during the year ended December 31, 2019.</p>
Statement of earnings and comprehensive earnings (loss)	<p>The new leasing standard resulted in a change in the amount, presentation and timing related to the recognition of lease related expenses.</p> <p>Under the previous lease standard (IAS 17), certain rental and lease payments were included in distribution, selling and administration expenses as incurred (approximately <b>\$20.3 million</b> in 2018); whereas the new standard replaces these expenses with an amortization expense on the right-of-use assets and a finance cost based on the Company's incremental borrowing rate (<b>\$21.6 million</b> and <b>\$4.7 million</b>, respectively, in 2019). When payments are made, this is reflected as a reduction in the lease liabilities on the statement of financial position.</p> <p>The total expense over the lifetime of a lease has not changed under the new leasing standard. However, the expense associated with the lease is front-loaded due to the finance costs on the lease liability, compared to the previous straight-line methodology for recording rent expenses. The result is higher overall expenses and lower net earnings in the year of adoption of IFRS 16 or upon entering into a new lease. Depreciation on the right-of-use assets is straight-line over the term of the lease, and finance costs on lease liabilities decline over the life of the lease as the liability is repaid.</p>
Statement of cash flows	<p>Under the previous leasing standard, payments related to operating leases with respect to rental and leasing arrangements were presented as part of net cash flows provided by <b>operating activities</b> (approximately <b>\$20.5 million</b> in 2018), and payments related to finance leases were presented as part of net cash flows provided by <b>financing activities</b> (<b>\$1.7 million</b> in 2018).</p> <p>Under IFRS 16, lease payments include cash payments for the interest portion of lease liabilities and repayment of principal, and are all presented within net cash flows provided by <b>financing activities</b> (<b>\$23.1 million</b> in 2019).</p>
EBITDA and Adjusted EBITDA	<p>Amortization charges on the newly recorded right-of-use assets are excluded from EBITDA and Adjusted EBITDA, along with the finance cost on lease liabilities. Previously, expenses related to these leasing and rental activities were included in distribution, selling and administration expenses and were included in the calculation of EBITDA.</p> <p>For the year ended December 31, 2019, approximately <b>\$20.3 million</b> of distribution, selling and administration expenses were excluded from EBITDA, and were instead re-categorized as <b>\$21.6 million</b> of amortization of right-of-use assets and <b>\$4.5 million</b> of interest, with the difference applied against the right-of-use assets and lease liabilities, as applicable.</p>

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 Company's 2019 Consolidated Financial Statements for the year ended December 31, 2019.

## Disclosure Controls and Internal Controls over Financial Reporting

### Disclosure Controls and Procedures

In accordance with the requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, 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.

### 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, 2019 that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## 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, 2019, the Company's MD&A contained in the 2019 annual consolidated financial report and the Company's public filings on [www.sedar.com](http://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. Prices for all three categories generally stabilized for the majority of 2019 with the exception of lumber, which showed a slight recovery during latter half of the year. Management will continue to attempt to employ mitigation strategies to minimize the potential impacts of future construction materials 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, minimizing 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.

According to the Bank of Canada, the Canadian economy has been operating relatively close to potential, with a healthy labour market and inflation near 2 percent. Growth is expected to be 1.6% in both 2019 and 2020 and the pace of activity is anticipated to strengthen to 2.0% in 2021. Despite this outlook, economic activity in Canada slowed in the last quarter of 2019, and recent data suggest that some of this loss of momentum will spill over into early 2020. Recent protest-based rail and shipping blockades in Canada have the potential to further disrupt economic performance. Additionally, the potential impact of the COVID 19 virus on the North American economy, although uncertain at this time, is a serious concern.

According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for overall Canadian housing starts in 2019 was 201,288 compared to 218,964 in 2018. CMHC expects that housing starts for both single-detached and multi-unit housing will stabilize in 2020 and 2021 after declining in 2018 and 2019 and reach somewhere between 194,000 and 204,300.

The seasonally adjusted annualized rate for single detached units, a more relevant indicator for CanWel, amounted to 56,869 for Q4 2019, compared to 62,520 in the same period last year. The latest CMHC Housing Market Outlook report forecasts that this would range between 60,400 and 63,100 for 2020 and 2021.

Management's Discussion and Analysis

According to the US Census Bureau, seasonally-adjusted annualized housing starts reached a 13-year high of 1,626,000 units in the fourth quarter of 2019 compared to 1,280,000 units in the same period last year.

According to the National Mortgage Association (Fannie Mae) housing starts are forecast to continue to grow, reaching 1,383,000 units for 2020 and 1,412,000 units for 2021, versus 1,290,000 units in 2019.

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

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 and be ready to work hard to translate revenue into higher earnings for the Company and its shareholders.



**CanWel Building Materials Group Ltd.**  
**Consolidated Financial Statements**

**December 31, 2019 and 2018**  
**(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 statements of financial position as at December 31, 2019 and December 31, 2018;
- the consolidated statements of earnings and comprehensive earnings for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years 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, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### **Basis for Opinion**

We conducted our audits 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 our 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, included in the Annual Report filed with the relevant Canadian Securities Commissions.

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 for the financial statements 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 for the financial statements 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 for the financial statements 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 Company (which is the group entity) 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 11, 2020

**Consolidated Statements of Financial Position as at December 31**

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

(in thousands of Canadian dollars)	Notes	2019 \$	2018 \$
<b>Assets</b>			
<b>Current assets</b>			
Trade and other receivables	7	98,420	99,572
Income taxes receivable	22	8,934	4,796
Inventories	8	284,655	284,388
Prepaid expenses and deposits		10,752	7,999
		<b>402,761</b>	<b>396,755</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	90,472	108,242
Right-of-use assets	10	121,498	-
Timber	11	48,800	62,659
Deferred income tax assets	22	2,861	2,641
Intangible assets	12	46,709	49,354
Goodwill	13	178,421	181,157
Other assets		2,901	2,473
		<b>491,662</b>	<b>406,526</b>
<b>Total assets</b>		<b>894,423</b>	<b>803,281</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Cheques issued in excess of cash on hand		8,000	9,213
Trade and other payables		82,553	80,808
Performance bond obligations	14	12,778	13,507
Dividends payable	19	10,887	10,884
Income taxes payable	22	1,651	169
Current portion of non-current liabilities	10,15,16	28,075	11,063
		<b>143,944</b>	<b>125,644</b>
<b>Non-current liabilities</b>			
Loans and borrowings	15	296,076	283,471
Lease liabilities	10	105,311	4,140
Reforestation and environmental	16	1,239	1,724
Deferred income tax liabilities	22	16,802	19,307
Retirement benefit obligations	18	3,705	3,290
Other liabilities	17	572	2,578
		<b>423,705</b>	<b>314,510</b>
<b>Total liabilities</b>		<b>567,649</b>	<b>440,154</b>
<b>Equity</b>			
Common shares	19	498,891	499,154
Contributed surplus		11,066	10,769
Foreign currency translation		5,940	15,654
Deficit		(189,123)	(162,450)
		<b>326,774</b>	<b>363,127</b>
<b>Total liabilities and equity</b>		<b>894,423</b>	<b>803,281</b>
Commitments and contingencies	10,25		

**Approved by the Board of Directors**

(signed) "Amar S. Doman" Director

(signed) "Sam Fleiser" Director

Consolidated Statements of Earnings and Comprehensive Earnings for the years ended December 31

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

(in thousands of Canadian dollars, except per share amounts)	Notes	2019 \$	2018 \$
<b>Revenue</b>	29,30	<b>1,334,201</b>	1,291,295
<b>Cost of sales</b>	20	<b>1,142,255</b>	1,098,365
<b>Gross margin from operations</b>		<b>191,946</b>	192,930
<b>Expenses</b>			
Distribution, selling and administration	21	105,792	120,937
Depreciation of property, plant and equipment	9	13,350	11,709
Amortization of right-of-use assets	10	21,616	-
Amortization of intangible assets	12	6,845	6,713
		<b>147,603</b>	139,359
<b>Operating earnings</b>		<b>44,343</b>	53,571
Finance costs	23	21,868	11,672
Acquisition costs		415	753
Earnings before income taxes		<b>22,060</b>	41,146
<b>Provision for income taxes</b>	22	<b>4,841</b>	11,131
<b>Net earnings</b>		<b>17,219</b>	30,015
<b>Other comprehensive income (loss)</b>			
Exchange differences on translation of foreign operations <sup>(1)</sup>		(9,714)	15,703
Actuarial (loss) gain from pension and other benefit plans <sup>(2)</sup>	18,22	(365)	182
<b>Comprehensive earnings</b>		<b>7,140</b>	45,900
<b>Net earnings per share</b>			
Basic and diluted		<b>0.22</b>	0.39
<b>Weighted average number of shares</b>			
Basic and diluted		<b>77,714,660</b>	77,713,148

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

**Consolidated Statements of Changes in Equity for the years ended December 31**

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

(in thousands of Canadian dollars except share amounts)	Common shares		Contributed surplus	Foreign currency translation	Deficit	Total
	#	\$	\$	\$	\$	\$
<b>As at December 31, 2017</b>	<b>77,659,655</b>	<b>498,639</b>	<b>10,769</b>	<b>(49)</b>	<b>(149,124)</b>	<b>360,235</b>
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
<b>As at December 31, 2018</b>	<b>77,744,598</b>	<b>499,154</b>	<b>10,769</b>	<b>15,654</b>	<b>(162,450)</b>	<b>363,127</b>
Shares issued pursuant to:						
Restricted Equity Common Share Plan	5,852	29	(29)	-	-	-
Employee Common Share Purchase Plan	157,079	630	-	-	-	630
Repurchase of common shares	(142,200)	(913)	297	-	-	(616)
Transaction costs on repurchase of shares		(9)	-	-	-	(9)
Share-based compensation charged to operations		-	29	-	-	29
Dividends		-	-	-	(43,527)	(43,527)
Comprehensive earnings for the year		-	-	(9,714)	16,854	7,140
<b>As at December 31, 2019</b>	<b>77,765,329</b>	<b>498,891</b>	<b>11,066</b>	<b>5,940</b>	<b>(189,123)</b>	<b>326,774</b>

Consolidated Statements of Cash Flows for the years ended December 31

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

(in thousands of Canadian dollars)	Notes	2019 \$	2018 \$
<b>Operating activities</b>			
Net earnings		17,219	30,015
Items not affecting cash			
Provision for income taxes	22	4,841	11,131
Depreciation and amortization of:			
Property, plant and equipment	9	13,350	11,709
Right-of-use assets	10	21,616	-
Intangible assets	12	6,845	6,713
Fair value adjustments	11	231	(2,393)
Timber harvested	11	3,557	4,851
Other		(2,158)	(1,142)
Income taxes paid		(9,562)	(10,579)
Interest paid on loans and borrowings and other	23	(16,217)	(9,119)
Payment of reforestation and environmental	16	(891)	(1,421)
Finance costs	23	21,868	11,672
Cash flows from operating activities before changes in non-cash working capital		60,699	51,437
Changes in non-cash working capital	28	7,203	(55,467)
<b>Net cash flows provided by (used in) operating activities</b>		<b>67,902</b>	<b>(4,030)</b>
<b>Financing activities</b>			
Shares issued	19	630	490
Transaction costs on issue of shares	19	(9)	-
Repurchase of common shares		(616)	-
Dividends paid	19	(43,524)	(43,511)
Net advances of loans and borrowings	15	13,076	13,637
Payment of lease liabilities, including interest	10	(23,101)	(1,689)
Payment of earn-out	17	(2,065)	-
Financing costs on borrowings		(851)	(159)
Issuance of unsecured notes	15	-	60,000
Bond issuance costs		-	(3,398)
<b>Net cash flows (used in) provided by financing activities</b>		<b>(56,460)</b>	<b>25,370</b>
<b>Investing activities</b>			
Business acquisitions	6	(15,335)	(18,224)
Cash and cash equivalents in business acquisitions	6	1,129	-
Purchase of property, plant and equipment	9	(7,316)	(10,212)
Proceeds from disposition of property, plant and equipment	11	11,261	502
Other		(167)	-
<b>Net cash flows used in investing activities</b>		<b>(10,428)</b>	<b>(27,934)</b>
<b>Net decrease (increase) in cheques issued in excess of cash</b>		<b>1,014</b>	<b>(6,594)</b>
<b>Foreign exchange difference</b>		<b>199</b>	<b>392</b>
<b>Cheques issued in excess of cash - Beginning of year</b>		<b>(9,213)</b>	<b>(3,011)</b>
<b>Cheques issued in excess of cash - End of year</b>		<b>(8,000)</b>	<b>(9,213)</b>

## 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 1600 – 1100 Melville 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 mainland 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 11, 2020 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;
- (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; and
- (iv) Reforestation obligations are measured at the discounted value of expected future cash flows.

#### 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.

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#### 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's identifiable assets, liabilities and contingent liabilities that meet the recognition criteria under IFRS 3, *Business Combinations* are recognized at their fair values at the acquisition date, except for non-current assets which are classified as held-for-sale in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, and are recognized and measured at fair value, less costs to sell.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, goodwill is recognized. To the extent the fair value of consideration paid is less than the fair value of net identifiable tangible and intangible assets, the difference is recognized in income immediately as a gain on bargain purchase. Goodwill is subsequently measured at cost less accumulated impairment losses.

Acquisition costs associated with business combination activities are expensed in the period incurred.

#### b) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the spot rate prevailing at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate at the reporting date. Foreign exchange gains and losses that relate to the Company's revolving loan facility and bank overdraft are recognized in earnings within finance costs. All other foreign exchange gains and losses that relate to product purchases 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 primarily in the Western United States mainland 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 valuers 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 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****IFRS 16, Leases (“IFRS 16”)**

As a result of the adoption of IFRS 16, the Company has amended its accounting policy for Leases, from that disclosed in the Company’s audited 2018 Annual Consolidated Financial Statements.

*(i) Lessees*

This policy is applied to contracts entered into, or modified, on or after January 1, 2019 and is as follows for instances where the Company is a lessee.

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At inception of a contract, an assessment is made as to whether a contract is, or contains a lease. A contract is, or contains a lease if the contract offers the right to control the use of a specific asset, for a period of time, in exchange for consideration. To determine whether a contract conveys the right to control the use of an identified asset, the following criteria are considered:

- The contract involves the use of an identified asset that is physically distinct or represents substantially all of the capacity of a physically distinct asset. No asset is identified if the supplier of the asset has substantive substitution rights;
- Whether the Company has the right to obtain substantially all of the economic benefits from the asset throughout the agreement term; and
- Whether the Company has the right to direct the use of the asset and change how and for what purpose the asset is used.

A right-of-use asset and a corresponding lease liability are recognized at the date a leased asset is available for use by the Company. Assets and liabilities arising from the lease determination are initially measured on a present value basis of the following payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Amounts expected to be payable by the lessee under any residual value guarantees;
- The exercise of a purchase option if the lessee is reasonably certain to exercise that option;
- Restoration costs; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate is used to calculate present value. The Company’s borrowing rate is the rate that the Company (the lessee) would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Generally, the Company uses its incremental borrowing rate as the starting point in determining the discount rate, and makes adjustments based on the lease term, if required.

The lease term determined by the Company is comprised of the non-cancellable period of the lease contract, as well as options to terminate or extend the lease term if the exercise of either option is reasonably certain.

Right-of-use assets are subsequently measured at cost less depreciation on a straight-line basis and reduced to reflect impairment losses (if any) and adjusted for any remeasurement of the lease liability. After the lease commencement date, lease liabilities are measured at amortized cost using the effective interest method, which increases the liability amount to reflect interest on the lease liability, reduces the liability carrying amount to reflect lease payments made and also reflects any remeasurement or lease modifications. If a remeasurement to the lease liability is deemed necessary, a corresponding adjustment is also made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

Payments related to short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss over the respective lease terms. Short-term leases are leases with a lease term of 12 months or less. Low value assets are comprised of items such as computers, cellular phones and miscellaneous office support related items.

Some distribution and treatment plant facilities leases contain extension options exercisable by the Company. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not the lessors. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

(ii) *Lessors*

The accounting policy applicable to the Company where it is a lessor did not change upon the adoption of IFRS 16. The policy is as follows for instances where the Company is a lessor.

At lease inception, the Company determines whether each lease is a finance lease or an operating lease. To classify each lease, an assessment is made as to whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset, including an assessment of whether the lease term covers the majority of the asset's useful life. If it is determined that substantially all of the risks and rewards of ownership have been transferred, the lease is accounted for as a finance lease; otherwise it is accounted for as an operating lease.

Operating leases primarily occur in the Company's Forestry segment, recognizing the receipt of these payments on a straight-line basis over the agreement terms and included in revenue. These operating leases do not represent a significant source of revenue for the Company.

The impact on transition is discussed in Note 5.

**Under IAS 17, Leases ("IAS 17")**

In the comparative period, 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.

### Impact on transition

On January 1, 2019, the transition date to IFRS 16, the Company recognized \$118,979 of new right-of-use assets and lease liabilities in the Statement of Financial Position, using its incremental borrowing rate. The weighted average rate applied was 4%.

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### 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 remeasurement on plan obligations from assumption changes or experience adjustments are recognized immediately in OCI. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Payments to defined contribution plans are expensed as incurred.

**i) Share-based payments**

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

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

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

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

**j) Finance costs**

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

**k) Inventories**

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

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

**l) Vendor rebates**

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

### m) Performance bonds

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

### n) Income tax

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

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

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

At each reporting period, temporary differences are evaluated. A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. The recognized deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### o) Earnings per share

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

### p) Financial instruments

#### (i) *Non-derivative financial instruments*

The Company's non-derivative financial instruments are comprised of trade and other receivables, bank overdraft, 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.
- Bank overdraft, 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 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 held for trading with changes in fair value being recorded in other income (loss) in net earnings.

**q) Fair value measurement**

The Company measures derivative financial instruments at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 27.

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 mainland 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.

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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

#### (i) Financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. Regardless of whether credit risk has increased significantly, the loss allowance for trade receivables without a significant financing component classified at amortized cost, are measured using the lifetime expected credit loss approach. The Company recognizes in earnings, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

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

(ii) *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.

**w) 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.

#### 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, 2019 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 recoverable amount 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 recoverable amount of each cash-generating unit, including a discount rate, a growth rate and revenue projections. When the carrying amount of the cash-generating unit exceeds its fair value, the recoverable amount 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 valuers 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 18).

*(i) Discount rate*

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

*(ii) Other assumptions*

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

**e) Inventory valuation**

Under IFRS, inventories must be recognized at the lower of cost or their NRV, which is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. IFRS requires that the estimated NRV be based on the most reliable evidence available at the time the estimates are made of the amounts that inventories are expected to realize. The measurement of an inventory write-down to NRV is based on the Company's best estimate of the NRV and expected future sale or consumption of inventories. Due to the economic environment and continued volatility in the home-building market, there is uncertainty as to whether the NRV of the inventories will remain consistent with those used in our assessment of NRV at period end. As a result, there is the risk that a write-down of on-hand and unconsumed inventories could occur in future periods. Also, a certain portion of inventory may become damaged or obsolete. A slow moving reserve is recorded, as required, based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence (Note 20).

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 valuers 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 7).

### 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 22).

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### h) Leases

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

### i) 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.

## 5. CHANGES IN ACCOUNTING STANDARDS

### IFRS 16 - Leases

Effective January 1, 2019, the Company adopted IFRS 16, *Leases* ("IFRS 16").

IFRS 16 replaced IAS 17, and related interpretations. IFRS 16 sets out principles of recognition, measurement, presentation and disclosure of leases for the lessee and the lessor. IFRS 16 was applied using the modified retrospective approach, under which the cumulative effect of initial application was recognized in retained earnings on January 1, 2019, with no restatement of comparative figures, which continue to be reported under IAS 17. The Company elected to measure its right-of-use assets at amounts equal to the corresponding lease liabilities, which resulted in no adjustment to retained earnings on transition.

The Company identified agreements related to the leases of distribution and treatment plant facilities, forklifts, light vehicles and other equipment, which were previously treated as operating leases under IAS 17.

Judgement was applied when adopting IFRS 16 to determine contracts within the scope of IFRS 16, evaluating lease renewal terms and determining the discount rate (borrowing rate) used to present value the lease arrangements. At transition, lease liabilities were measured at the present value of the remaining lease payments under the agreement term. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company applied the following practical expedients when applying IFRS 16 to leases, which had been classified as operating leases under IAS 17:

- a. Recognition exemptions under IFRS 16 for short-term and low-value leases;
- b. An election under IFRS 16, which allows the Company a choice to not reassess contracts which were previously identified as leases under IAS 17; and
- c. An option under IFRS 16 to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. Forklifts, light vehicle leases and computer equipment were identified as separate portfolios, having similar characteristics.

The Company was not impacted by the adoption of IFRS 16 for transactions in which it acts as a lessor, as the treatment is the same as under the previous standard. These transactions primarily occurred in the Company's Forestry segment and relate to access to and use of Company owned lands by third parties and were not a significant source of revenue. The Company applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

### Impact on transition

On January 1, 2019, the transition date to IFRS 16, the Company recognized \$118,979 of new right-of-use assets and lease liabilities in the Statement of Financial Position, using its incremental borrowing rate. The weighted average rate applied was 4%.

The following is a reconciliation between lease commitments disclosed as at December 31, 2018 under IAS 17, and lease liabilities recognized on January 1, 2019 upon initial application of IFRS 16:

	\$
Undiscounted lease commitments at December 31, 2018 <sup>(1)</sup>	148,302
Discounted lease commitments at the Company's incremental borrowing rate	121,591
<b>Add (Deduct):</b>	
Lease extension and termination options expected to be exercised	9,029
Operating costs and maintenance included in commitments	(3,775)
Commitments with no identified asset under IFRS 16	(1,292)
Short-term leases exemption	(29)
Low value leases exemption	(785)
<b>Lease liabilities on January 1, 2019</b>	<b>124,739</b>
Finance lease liabilities recognized at December 31, 2018 <sup>(2)</sup>	5,760
New lease liabilities recognized on January 1, 2019	118,979
<b>Lease liabilities on January 1, 2019</b>	<b>124,739</b>

1. Note 27 to the 2018 audited Annual Consolidated Financial Statements.

2. Note 17 to the 2018 audited Annual Consolidated Financial Statements.

The adoption of IFRS 16 impacted the Consolidated Statement of Financial Position as follows:

	December 31, 2018 \$	Increase (Decrease) \$	January 1, 2019 \$
Property, plant and equipment <sup>(1)</sup>	108,242	(6,468)	101,774
Right-of-use assets	-	125,447	125,447
Lease liabilities	5,760	118,979	124,739
Deficit	(162,450)	-	(162,450)

1. Decrease represents the net book value of equipment under finance lease recognized previously, which has been reclassified to opening right-of-use assets on transition.

## 6. BUSINESS ACQUISITIONS

### 2019 Acquisition

On April 1, 2019, the Company completed the acquisition of all issued and outstanding partnership interests of Lignum Forest Products LLP (“Lignum”) (the “Lignum Acquisition”), a well-established brand in the lumber and forestry distribution market in Western Canada and the United States.

Total purchase consideration comprised of US\$11,476 and was subject to certain post-closing adjustments. The foreign exchange rate used to translate the purchase price consideration and fair values of assets acquired and liabilities assumed was based on the exchange rate as at the date of the acquisition.

Details of the allocation of the purchase price to the fair values of the identifiable assets and liabilities acquired at the date of the above noted acquisition were as follows (in thousands of Canadian dollars):

	2019 Provisional <sup>(1)</sup> \$
<b>Fair value of purchase consideration</b>	
Cash consideration	15,335
<b>Fair value of assets acquired<sup>(1)</sup></b>	
Cash and cash equivalents	1,129
Non-cash working capital	12,856
Right-of-use assets	520
Lease liabilities	(506)
Total identifiable net assets at fair value	13,999
Goodwill arising on acquisition	1,336
<b>Assets acquired</b>	<b>15,335</b>

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.

Goodwill recognized was primarily attributed to the expected synergies arising from the acquisition and the expertise and reputation of the assembled management and workforce. Goodwill is not expected to be deductible for income tax purposes.

During the year ended December 31, 2019, directly attributable acquisition costs of \$415 were expensed and were included in net earnings on the Consolidated Statement of Earnings.

Lignum’s gross revenues were \$86,600 and net earnings were \$780 from the date of acquisition to December 31, 2019.

**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 Inc. “OCBM”) (the “OCBM Acquisition”). Based in Junction City, Oregon, OCBM provides 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 completed testing and permitting during the quarter ended June 30, 2019, and commenced customer shipments in June 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 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 were as follows (in thousands of Canadian dollars):

	<b>2018</b>
	<b>\$</b>
<b>Fair value of purchase consideration</b>	
Cash consideration	18,224
Promissory note	4,617
<b>Consideration</b>	<b>22,841</b>
<b>Fair value of assets acquired</b>	
Non-cash working capital	386
Property, plant and equipment	11,673
<b>Total identifiable net assets at fair value</b>	<b>12,059</b>
<b>Goodwill arising on acquisitions</b>	<b>10,782</b>
<b>Assets acquired</b>	<b>22,841</b>

The goodwill recognized was 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.

OCBM and Woodland’s gross revenues were \$16,100 and net earnings were \$1,600 during the year ended December 31, 2019.

## 7. TRADE AND OTHER RECEIVABLES

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

	2019 \$	2018 \$
Trade receivables	91,760	90,173
Allowance for doubtful accounts	(856)	(871)
Net trade receivables	90,904	89,302
Other receivables	7,516	10,270
<b>Total trade and other receivables</b>	<b>98,420</b>	<b>99,572</b>

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

	2019 \$	2018 \$
Neither past due nor impaired	79,324	83,382
Past due but not impaired:		
Less than 1 month	9,446	7,232
1 to 3 months	6,414	6,967
3 to 6 months	3,236	1,991
<b>Total trade and other receivables</b>	<b>98,420</b>	<b>99,572</b>

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

	\$
Balance at December 31, 2018	871
Accruals during the period	99
Additions arising on acquisition	92
Accounts written off	(174)
Foreign exchange difference	(32)
<b>Balance at December 31, 2019</b>	<b>856</b>

The Company holds no collateral for any receivable amounts outstanding as at December 31, 2019.

## 8. INVENTORIES

	2019 \$	2018 \$
Inventories held for resale	238,718	223,109
Inventories held for processing	45,937	61,279
<b>Total</b>	<b>284,655</b>	<b>284,388</b>

The expenses related to the sale of inventories were recorded in cost of sales, as described in Note 20.

**9. 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 \$
<b>Cost</b>						
Cost at January 1, 2018	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 6)	-	-	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
Reclassification to right-of-use assets (Note 5)	-	-	-	-	(8,058)	(8,058)
Additions	-	4,223	2,616	477	-	7,316
Disposals	(3,882)	-	(1,175)	(54)	-	(5,111)
Foreign exchange difference	-	(82)	(1,177)	(15)	-	(1,274)
<b>Cost at December 31, 2019</b>	<b>31,762</b>	<b>22,807</b>	<b>90,911</b>	<b>5,613</b>	<b>-</b>	<b>151,093</b>
<b>Accumulated depreciation</b>						
Accumulated depreciation at January 1, 2018	-	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
Reclassification to right-of-use assets (Note 5)	-	-	-	-	(1,590)	(1,590)
Depreciation	-	1,505	10,801	1,044	-	13,350
Disposals	-	-	(838)	(42)	-	(880)
Foreign exchange difference	-	(16)	(217)	(4)	-	(237)
<b>Accumulated depreciation at December 31, 2019</b>	<b>-</b>	<b>5,744</b>	<b>50,379</b>	<b>4,498</b>	<b>-</b>	<b>60,621</b>
Net book value at December 31, 2018	35,644	14,411	50,014	1,705	6,468	108,242
<b>Net book value at December 31, 2019</b>	<b>31,762</b>	<b>17,063</b>	<b>40,532</b>	<b>1,115</b>	<b>-</b>	<b>90,472</b>

## 10. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company enters into various leases for the operation of its business, including distribution facilities, treatment plant facilities, computer equipment, light vehicles, forklifts and other equipment as required to efficiently operate.

### Right-of-use assets

	Facilities <sup>(1)</sup> \$	Machinery, automotive and other equipment <sup>(2)</sup> \$	Computer Equipment \$	Total \$
As at January 1, 2019 (Note 5)	111,301	13,626	520	125,447
Additions <sup>(3)</sup>	15,536	7,135	77	22,748
Additions arising on acquisition (Note 6)	520	-	-	520
Amortization	(16,164)	(5,289)	(163)	(21,616)
Disposals	(1,609)	(720)	-	(2,329)
Foreign exchange movements	(3,048)	(215)	(9)	(3,272)
<b>Balance at December 31, 2019</b>	<b>106,536</b>	<b>14,537</b>	<b>425</b>	<b>121,498</b>

### Lease liabilities

	Facilities <sup>(1)</sup> \$	Machinery, automotive and other equipment <sup>(2)</sup> \$	Computer Equipment \$	Total \$
As at January 1, 2019 (Note 5)	111,301	12,927	511	124,739
Additions	15,536	7,163	77	22,776
Additions arising on acquisition (Note 6)	506	-	-	506
Disposals	(1,674)	(667)	-	(2,341)
Finance costs	4,077	560	22	4,659
Lease payments	(17,954)	(4,972)	(175)	(23,101)
Foreign exchange movements	(2,979)	(240)	(10)	(3,229)
Balance at December 31, 2019	108,813	14,771	425	124,009
Less: current portion	(14,375)	(4,164)	(159)	(18,698)
<b>Balance at December 31, 2019</b>	<b>94,438</b>	<b>10,607</b>	<b>266</b>	<b>105,311</b>

1. Includes agreements related to distribution, wood treatment and office facility leases.

2. Includes forklifts, tractors, light vehicles and other heavy equipment leases.

3. Includes reduction of \$28 for asset buy-out transferred to property, plant and equipment.

Right-of-use assets and corresponding lease liabilities entered into during the year have been recorded using the Company's incremental borrowing rate. The weighted average rate applied was 4%.

**Amounts recognized in net earnings**

Expenses related to lease arrangements were as follows:

	Years ended December 31,	
	2019	2018 <sup>(1)</sup>
	\$	\$
Distribution, selling and administration	-	20,267
Depreciation of property, plant and equipment	-	688
Amortization of right-of-use assets	21,616	-
Finance costs	4,659	194
<b>Total expenses</b>	<b>26,275</b>	<b>21,149</b>

1. Amounts related to lease arrangements recognized in net earnings before the implementation of IFRS 16.

**Impact on cash flows**

Cash flows related to lease arrangements were as follows:

	Years ended December 31,	
	2019	2018
	\$	\$
<b>Operating activities</b>		
Expenses recorded in net earnings	(26,275)	(21,149)
Items not affecting cash		
Depreciation of property, plant and equipment	-	688
Amortization of right-of-use assets	21,616	-
Interest paid on finance leases	-	(194)
Finance costs	4,659	194
<b>Net cash flows used in operating activities</b>	<b>-</b>	<b>(20,461)</b>
<b>Financing activities</b>		
Payment of lease liabilities	(23,101)	(1,689)
<b>Net cash flows used in financing activities</b>	<b>(23,101)</b>	<b>(1,689)</b>
<b>Total cash flows</b>	<b>(23,101)</b>	<b>(22,150)</b>

### Lease commitments

Future undiscounted payments due under the terms of all agreements, including these leases, were as follows (including certain leases with related parties, as disclosed in Note 24):

Years ending December 31	\$
2020	24,428
2021	22,362
2022	20,259
2023	18,806
2024	15,269
Thereafter	65,552
	<b>166,676</b>

### 11. TIMBER

	2019 \$	2018 \$
Balance at January 1	62,659	64,249
Reforestation provision on harvested land	654	868
Harvested timber transferred to inventory in the year	(3,557)	(4,851)
Dispositions	(4,465)	-
Reclassification to intangible assets	(6,260)	-
Change in fair value resulting from growth and pricing	(231)	2,393
Balance at December 31	<b>48,800</b>	62,659

The Company's private timberlands comprised an area of approximately 45,983 (2018 - 53,525) hectares ("ha") of land as at December 31, 2019, with standing timber consisting of mixed-species softwood forests.

In October 2019, the Company completed the sale of a 7,542 hectare parcel of timberlands (approximately 14% of total holdings) to a coal mining entity that held an option to purchase the subject lands. Gross proceeds of \$12,201 were used to partially pay down the non-revolving term loan (\$8,542) with the balance paid to satisfy outstanding obligations to Tembec Inc. (now Rayonier Advanced Materials Inc.), a former owner of the lands. The Company retained the rights to harvest remaining timber on the subject lands for a period of 13 years. The retention of these harvesting rights resulted in a reclassification of the subject timber to intangible assets (Note 12).

During the year ended December 31, 2019, the Company harvested approximately 315,415 cubic metres ("m<sup>3</sup>") from its private timberlands (2018 - 409,917 m<sup>3</sup>).

**Measurement of fair values**

The table above reconciles the opening balances to the closing balances for Level 3 fair values (as defined in Note 27). For the years ended December 31, 2019 and 2018, the fair value measurement for the Company’s standing timber, as disclosed above, had 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	<p>Estimated log prices of \$36<sup>(1)</sup> per m<sup>3</sup> (weighted average sawlog and pulpwood prices) plus harvest and delivery charges of \$50<sup>(1)</sup> (where applicable)</p> <p>Estimated total costs, including harvest, delivery (where applicable) and stewardship cost, of \$55<sup>(1)</sup> per m<sup>3</sup></p> <p>Estimated harvest annual volume of 173,913 - 400,000 m<sup>3</sup> (20-year rolling average 241,018 m<sup>3</sup> (2018 – 256,789 m<sup>3</sup>))</p> <p>Risk-adjusted discount rate of 9.50%</p>
Inter-relationship between key unobservable inputs and fair value measurement	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>- the estimated log prices per m<sup>3</sup> were higher (lower);</li> <li>- the estimated harvest, delivery and stewardship costs per m<sup>3</sup> were lower (higher);</li> <li>- the estimated harvest volumes were higher (lower); and</li> <li>- the risk-adjusted discount rate was lower (higher).</li> </ul>

1. In whole dollars, not thousands

## 12. INTANGIBLE ASSETS

	Canadian operations \$	US operations \$	Value- added services \$	Forestry operations \$	Total \$
<b>Cost</b>					
Cost at January 1, 2018	10,000	52,419	1,633	2,146	66,198
Foreign exchange difference	-	4,479	-	-	4,479
Cost at December 31, 2018	10,000	56,898	1,633	2,146	70,677
Reclassification from timber			-	6,260	6,260
Foreign exchange difference	-	(2,730)	-	-	(2,730)
<b>Cost at December 31, 2019</b>	<b>10,000</b>	<b>54,168</b>	<b>1,633</b>	<b>8,406</b>	<b>74,207</b>
<b>Accumulated amortization</b>					
Accumulated amortization at January 1, 2018	7,917	5,206	734	34	13,891
Amortization	1,000	5,529	164	20	6,713
Foreign exchange difference	-	719	-	-	719
Accumulated amortization at December 31, 2018	8,917	11,454	898	54	21,323
Amortization	1,000	5,643	163	39	6,845
Foreign exchange difference	-	(670)	-	-	(670)
<b>Accumulated amortization at December 31, 2019</b>	<b>9,917</b>	<b>16,428</b>	<b>1,061</b>	<b>93</b>	<b>27,498</b>
Net intangible assets at December 31, 2018	1,083	45,444	735	2,092	49,354
<b>Net intangible assets at December 31, 2019</b>	<b>83</b>	<b>37,740</b>	<b>572</b>	<b>8,313</b>	<b>46,709</b>

Intangible assets at December 31, 2019 relate to customer lists and trade names for the Distribution business segment and harvesting rights for the Forestry business segment.

**13. GOODWILL**

	Canadian operations \$	US operations \$	Value-added services \$	Total \$
Balance at January 1, 2018	62,624	66,158	35,347	164,129
Additions arising on acquisition (Note 6)	-	10,782	-	10,782
Foreign exchange difference	-	6,246	-	6,246
Balance at December 31, 2018	62,624	83,186	35,347	181,157
Additions arising on acquisition (Note 6)	-	1,336	-	1,336
Foreign exchange difference	-	(4,072)	-	(4,072)
Balance at December 31, 2019	<b>62,624</b>	<b>80,450</b>	<b>35,347</b>	<b>178,421</b>

Goodwill at December 31, 2019 relates to the Company's Distribution business segment, as described in Note 30.

The Company performed its annual test for goodwill impairment as at December 31, 2019. The recoverable amount of each of the cash-generating units has been determined using fair value less costs to sell. To determine fair value less costs to sell, the Company utilized five-year cash flow forecasts using the annual budget approved by the Board of Directors as a basis for such forecasts. Cash flow forecasts beyond that of the budget were prepared using a stable growth rate for future periods. These forecasts were based on historical data and future trends expected by the Company. To adjust the forecasts to consider selling costs, management estimated that disposition costs would be 1% of enterprise value.

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

Forecasted cash flows were discounted using after-tax rates of approximately 8% in all cash-generating units for the purpose of the annual impairment test.

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

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



## 14. 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.

	2019	2018
	\$	\$
Funds received on bonding obligations <sup>(1)</sup>	91,797	95,488
Payments made on bonding obligations <sup>(1)</sup>	(79,418)	(82,385)
Receipts in excess of payments	12,379	13,103
Provision for loss on bonds	399	404
<b>Balance at December 31</b>	<b>12,778</b>	<b>13,507</b>

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

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

	2019	2018
	\$	\$
Balance at January 1	13,507	14,101
Net payments on bonding obligations during the year	(98)	(1,698)
Change in provision for loss on bonds	14	(40)
Foreign exchange difference	(645)	1,144
<b>Balance at December 31</b>	<b>12,778</b>	<b>13,507</b>

Total gross bonding contracts on all outstanding projects at December 31, 2019 were \$146,812 (December 31, 2018 - \$149,462).

The Company manages risk associated with exposure to loss on these performance bond obligations 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 bond obligations.

**15. LOANS AND BORROWINGS**

	2019	2018
	\$	\$
<b>Total loans and borrowings</b>		
Unsecured notes <sup>(1)</sup>	57,424	56,756
Revolving loan facility <sup>(1)</sup>	211,940	184,102
Non-revolving term loan <sup>(1)</sup>	22,404	33,580
Promissory notes	3,052	5,584
Equipment term loan, equipment line and other loans <sup>(1)</sup>	9,280	12,155
<b>Total loans and borrowings</b>	<b>304,100</b>	<b>292,177</b>
<b>Current portion of loans and borrowings</b>		
Non-revolving term loan	2,667	2,667
Promissory notes	1,515	2,400
Equipment term loan, equipment line and other loans	3,842	3,639
<b>Total current portion of loans and borrowings</b>	<b>8,024</b>	<b>8,706</b>
<b>Non-current portion of loans and borrowings</b>	<b>296,076</b>	<b>283,471</b>

1. Amounts reflect financing costs net of amortization totaling \$4,972 as at December 31, 2019 and \$5,833 as at December 31, 2018.

On April 3, 2019, the maximum credit available under the Company's revolving loan facility was temporarily increased from \$300,000 to \$325,000, with an additional \$25,000 accordion facility, for a total loan limit of \$350,000. This loan limit was in effect for a period of 120 days commencing on April 3, 2019.

On December 6, 2019, the Company amended its existing revolving loan facility. The maximum credit available was increased from \$300,000 to \$360,000 with a revised maturity date of December 6, 2024. Concurrent with the amendment to the revolving loan facility, the maturity date of the non-revolving term loan was also extended to December 6, 2024.

**Terms and repayment schedule**

The terms and conditions of the outstanding loan facilities were as follows:

	Currency	Nominal interest rate %	Maturity	December 31, 2019		December 31, 2018	
				Face value \$	Carrying amount \$	Face value \$	Carrying amount \$
62 Unsecured notes <sup>(1)</sup>	CDN	6.375	Oct 9, 2023	60,000	57,424	60,000	56,756
Revolving loan facility <sup>(2)</sup>	CDN	Based on Canadian prime rate or Canadian Offered Rate	Dec 6, 2024	164,725	162,912	150,213	148,376
Revolving loan facility <sup>(2)</sup>	USD	Based on US prime rate or London Interbank Offered Rate	Dec 6, 2024	49,149	49,028	35,937	35,726
Non-revolving term loan <sup>(3)</sup>	CDN	Based on Canadian prime rate or Canadian Banker's Acceptance Rate	Dec 6, 2024	22,791	22,404	34,000	33,580
Promissory note <sup>(4)</sup>	USD	Based on US Prime Rate	Dec 3, 2021	3,052	3,052	5,584	5,584
Equipment term loan <sup>(5)</sup>	CDN	Based on Business Development Bank of Canada Floating Base Rate	Jul 1, 2021	5,080	5,005	8,128	8,007
Equipment line <sup>(5)</sup>	CDN	Based on Business Development Bank of Canada Floating Base Rate	Jul 1, 2025	4,226	4,226	4,063	4,063
Other	CDN	5.000	Dec 31, 2020	49	49	85	85
<b>Total loans and borrowings</b>				<b>309,072</b>	<b>304,100</b>	298,010	292,177

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 \$360,000. 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 6). Principal is payable in three equal annual instalments, plus annual interest, starting December 3, 2019. Various promissory notes in connection with prior business acquisitions were included in the comparative year ended December 31, 2018.
5. 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 year ended December 31, 2019.

**16. REFORESTATION AND ENVIRONMENTAL**

	2019	2018
	\$	\$
Balance at January 1	2,461	3,159
Paid during the year	(891)	(1,421)
Reforestation provision on harvested land	866	963
Changes in fair value	156	(240)
Balance at December 31	2,592	2,461
Less: current portion	(1,353)	(737)
	<b>1,239</b>	<b>1,724</b>

**17. OTHER LIABILITIES**
***Earn-out commitment***

Subject to certain minimum obligations, the Company had a liability to pay additional amounts (“Earn-out”) from proceeds of the sale of certain private timberlands to third parties for a period of seven years ending September 15, 2021. During the year, the Company completed the sale of a portion of the subject lands and paid the full value of the Earn-out, such that there was no net remaining undiscounted minimum amount payable at December 31, 2019 (2018 - \$2,065). See further details regarding the sale in Note 11. The remaining balance of other liabilities consists of various smaller balances.

**18. 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 \$1,390 (2018 - \$1,405) based on actuarial estimates determined annually.

The most recent actuarial valuation of the registered pension plan for funding purposes was as at December 31, 2016. The next actuarial valuation for the registered pension plan is required to be performed as at December 31, 2019 and finalized later in 2020.

***Annuity contract***

During the 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.

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At December 31, 2019, reflecting the buy-in annuity, 63% (2018 - 64%) 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, 2019 amounted to \$1,065 (2018 - \$1,050) and was 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 2019, consisting of cash contributed by the Company to defined benefit plans, defined contribution plans, and other post-retirement benefits, were \$1,727 (2018 - \$1,794), with no solvency deficiency contributions.

Included in total cash payments, based on 2019 experience, the Company expects the 2020 contributions for its defined benefit plans to be approximately \$350, including solvency deficiency contributions of \$49.

**Notes to the Consolidated Financial Statements for the years ended December 31, 2019 and 2018**

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

	Pension benefit plan		Other benefit plans	
	2019 \$	2018 \$	2019 \$	2018 \$
<b>Net benefit expense</b>				
Current service cost	350	368	-	-
Non-investment expenses	100	80	-	-
Interest cost on benefit obligation	1,696	1,584	79	79
Interest on effect of asset ceiling impairment at beginning of year	34	1	-	-
Expected return on plan assets	(1,683)	(1,540)	-	-
<b>Net benefit expense</b>	<b>497</b>	<b>493</b>	<b>79</b>	<b>79</b>
<b>Defined benefit obligation</b>				
Defined benefit obligation at January 1	45,661	49,023	2,198	2,508
Current service cost	350	368	-	-
Interest cost on benefit obligation	1,696	1,584	79	79
Benefits paid	(3,350)	(2,838)	(202)	(222)
Actuarial (gains) losses on obligation	3,891	(2,476)	104	(167)
<b>Defined benefit obligation at December 31</b>	<b>48,248</b>	<b>45,661</b>	<b>2,179</b>	<b>2,198</b>
<b>Plan assets</b>				
Fair value of plan assets at January 1	45,461	47,846	-	-
Expected return on plan assets	1,683	1,540	-	-
Employer contributions	460	522	202	222
Non-investment expenses	(100)	(80)	-	-
Benefits paid	(3,350)	(2,838)	(202)	(222)
Actuarial gains (losses) on plan assets	2,568	(1,529)	-	-
<b>Fair value of plan assets at December 31</b>	<b>46,722</b>	<b>45,461</b>	<b>-</b>	<b>-</b>
<b>Net benefit liability</b>				
Fair value of plan assets at December 31	46,722	45,461	-	-
Accrued benefit obligation at December 31	(48,248)	(45,661)	(2,179)	(2,198)
Asset ceiling impairment	(1,526)	(200)	(2,179)	(2,198)
<b>Net benefit liability</b>	<b>(1,526)</b>	<b>(1,092)</b>	<b>(2,179)</b>	<b>(2,198)</b>

Notes to the Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

	Pension benefit plan		Other benefit plans	
	2019 \$	2018 \$	2019 \$	2018 \$
<b>Distribution, selling and administration</b>				
Current service cost	350	368	-	-
Non-investment expenses	100	80	-	-
	<b>450</b>	<b>448</b>	<b>-</b>	<b>-</b>
<b>Finance costs</b>				
Interest cost on benefit obligation	1,696	1,584	79	79
Interest on effect of asset ceiling impairment at beginning of year	34	1	-	-
Expected return on plan assets	(1,683)	(1,540)	-	-
	<b>47</b>	<b>45</b>	<b>79</b>	<b>79</b>
<b>Other comprehensive income (loss)</b>				
Actuarial (losses) gains on obligation due to changes in financial assumptions	(3,891)	2,496	(118)	172
Actuarial (losses) gains on obligation due to changes in experience	-	(20)	14	(5)
Actuarial gains (losses) on plan assets	2,568	(1,529)	-	-
Net change in effect of asset ceiling	926	(868)	-	-
	<b>(397)</b>	<b>79</b>	<b>(104)</b>	<b>167</b>

**Assets**

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

	2019 %	2018 %
Annuity	63	64
Debt securities	31	31
Short-term securities	5	4
Equity securities	1	1
	<b>100</b>	<b>100</b>

**Notes to the Consolidated Financial Statements for the years ended December 31, 2019 and 2018**

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

	2019 %	2018 %
Annuity	63	64
Unquoted investments (pooled funds)	36	35
Investments quoted in active markets	1	1
	<b>100</b>	<b>100</b>

**Significant assumptions**

The significant weighted average assumptions used were as follows:

	Pension benefit plan		Other benefit plans	
	2019 %	2018 %	2019 %	2018 %
Accrued benefit obligation as of December 31				
Discount rate	3.00	3.80	3.00	3.80
Rate of compensation increase	3.25	3.25		
Benefit costs for year ended December 31				
Discount rate	3.80	3.30	3.80	3.30
Rate of compensation increase	3.25	3.25		

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

	2019	2018
Health care initial cost trend rate	8.0%	8.0%
Health care ultimate cost trend date	3.5%	3.5%
Year that the rate reaches the ultimate trend rate	2027	2027

The mortality assumptions were 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			
	2019		2018	
	Increase \$	Decrease \$	Increase \$	Decrease \$
Effect on the defined benefit obligation	233	(208)	207	(184)
Effect on the aggregate current service cost and interest cost	8	(5)	8	(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 \$
<b>2019</b>				
Effect on the defined benefit obligation	(4,792)	5,822	(146)	165
Effect on the aggregate current service cost and interest cost for the next year	210	(266)	15	(17)
<b>2018</b>				
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)

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The average duration of the defined benefit plan obligation at December 31, 2019 was 12 years.

## 19. 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 this NCIB, the Company could purchase for cancellation up to 6,085,605 of its common shares at market prices. Up to November 21, 2019, the Company repurchased and cancelled 142,200 of its common shares (2018 – nil) pursuant to this NCIB.

Upon the cancellation of the common shares, the difference between the cost of the repurchased shares and the average value of the common shares of \$297 (2018 - \$nil) was credited to contributed surplus.

On November 22, 2019 the Company renewed the NCIB. Under the terms of the renewed NCIB, the Company may purchase for cancellation up to 5,995,340 of its common shares at market prices. At December 31, 2019 the Company had not repurchased any of its common shares under the renewed NCIB.

### Restricted Equity Common Share Plan (“RECSP”)

Outstanding Restricted Stock Units (“RSUs”) pursuant to the RECSP were as follows:

	Years ended December 31,	
	2019	2018
	#	#
Balance at January 1	-	-
Granted	5,852	3,726
Vested and converted to common shares during the period	(5,852)	(3,726)
Balance at December 31	-	-

Compensation expense in respect of RSUs for the year ended December 31, 2019 was \$29 (2018 - \$25).

**Employee Common Share Purchase Plan (“ECSPP”)**

For the year ended December 31, 2019, the Company issued 157,079 (2018 – 81,217) common shares from treasury for gross proceeds of \$630 (2018 - \$490), pursuant to the ECSPP.

**Dividend**

The following dividends were declared and paid by the Company:

	2019				2018			
	Declared			Payment Date	Declared			Payment date
	Record date	Per share \$	Amount \$		Record date	Per share \$	Amount \$	
Quarter 1	Mar 29, 2019	0.14	10,876	Apr 15, 2019	Mar 29, 2018	0.14	10,877	Apr 13, 2018
Quarter 2	Jun 28, 2019	0.14	10,877	Jul 15, 2019	Jun 29, 2018	0.14	10,878	Jul 13, 2018
Quarter 3	Sep 30, 2019	0.14	10,887	Oct 15, 2019	Sep 28, 2018	0.14	10,884	Oct 15, 2018
Quarter 4	Dec 31, 2019	0.14	10,887	Jan 15, 2020	Dec 31, 2018	0.14	10,884	Jan 15, 2019
<b>Year ended December 31</b>		<b>0.56</b>	<b>43,527</b>			<b>0.56</b>	<b>43,523</b>	

**20. COST OF SALES**

Cost of sales includes the following costs:

	2019	2018
	\$	\$
Purchased and treated building materials	1,078,409	1,041,615
Timber and related products	30,168	26,889
Salaries and benefits	29,581	29,190
Inventory provisions	3,213	1,776
Others	653	1,288
Fair value adjustments	231	(2,393)
	<b>1,142,255</b>	<b>1,098,365</b>

## 21. DISTRIBUTION, SELLING AND ADMINISTRATION COSTS

Distribution, selling and administration costs include the following:

	2019	2018
	\$	\$
Salaries and benefits	70,223	66,729
Building rent and occupancy costs	14,312	31,954
Office and miscellaneous	8,758	9,400
Travel, promotion and entertainment	8,020	8,334
Professional and management fees	4,479	4,520
	<b>105,792</b>	<b>120,937</b>

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## 22. INCOME TAXES

Income tax for the Company consisted of the following:

### *Consolidated Statements of Earnings*

	2019	2018
	\$	\$
Current income tax expense	6,876	8,632
Deferred income tax (recovery) expense	(2,035)	2,499
	<b>4,841</b>	<b>11,131</b>

### *Consolidated Statements of Comprehensive Earnings*

	2019	2018
	\$	\$
Deferred tax related to items recorded in OCI during the year		
Actuarial gains	(136)	64

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

	2019	2018
	\$	\$
Earnings before income taxes	22,060	41,146
Income tax at statutory rates	5,908	11,667
Adjustment to deferred tax assets related to changes in tax rates	5	2
Permanent differences	(1,072)	(538)
Income tax expense	<b>4,841</b>	<b>11,131</b>

**Notes to the Consolidated Financial Statements for the years ended December 31, 2019 and 2018**

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

	2019 \$	2018 \$
Deferred income tax (liabilities) assets:		
Property, plant and equipment	(9,497)	(10,701)
Timber	(8,636)	(12,349)
Pensions and other post-retirement benefits	1,000	892
Non-capital losses	7,835	9,089
Non-deductible reserves	4,361	4,108
Intangible assets and goodwill	(9,004)	(7,705)
	<b>(13,941)</b>	<b>(16,666)</b>

At December 31, 2019, the Company had approximately \$50,108 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	39,216
	<b>50,108</b>

At December 31, 2019, approximately \$15,000 of these non-capital losses have not been recognized as deferred income tax assets.

### 23. FINANCE COSTS

Finance costs include the following:

	2019 \$	2018 \$
Loans and borrowings	14,858	9,898
Lease liabilities	4,659	193
Other	145	158
Net interest	19,662	10,249
Amortization of financing costs	1,706	1,056
Accretion of earn-out commitment	374	243
Interest on net defined benefit liability	126	124
	<b>21,868</b>	<b>11,672</b>

## 24. RELATED PARTY TRANSACTIONS

### Transactions

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

	2019	2018
	\$	\$
Leased facilities: distribution <sup>(1)</sup> and treatment <sup>(2)</sup>	3,638	3,317
Purchase of product <sup>(3)(4)</sup>	3,818	4,938
Management fees and other <sup>(5)</sup>	1,349	1,098
Professional fees and other <sup>(6)</sup>	542	645

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: \$3,423 (2018 - \$3,901).
4. Paid to a company owned by a director of the Company: \$395 (2018 - \$1,037).
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

Future undiscounted 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, were as follows:

Years ending December 31	\$
2020	3,900
2021	3,564
2022	3,183
2023	3,201
2024	3,201
Thereafter	19,953
	<b>37,002</b>

### Payable to related parties

As at December 31, 2019, trade and other payables include amounts due to related parties as follows:

	2019	2018
	\$	\$
Purchase of product <sup>(1)</sup>	18	38
Management fees and other <sup>(2)</sup>	96	59
Professional fees and other <sup>(3)</sup>	159	282

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 was 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:

	2019	2018
	\$	\$
Salaries and other benefits	3,100	3,397
Share-based compensation	29	25
	<b>3,129</b>	<b>3,422</b>

## 25. COMMITMENTS AND CONTINGENCIES

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.

## 26. FINANCIAL INSTRUMENTS

### Non-derivative financial instruments

The carrying amounts of non-derivative financial instruments approximate fair value, with the exception of the following:

	December 31, 2019		December 31, 2018	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Unsecured notes	57,424	58,026	56,756	57,594
Revolving loan facility	211,940	213,874	184,102	186,150
Non-revolving term loan	22,404	22,791	33,580	34,000
Equipment term loan and equipment line	9,280	9,355	12,155	12,276

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 hand, trade and other payables, performance bond obligations and dividends payable were comparable to their carrying amounts, 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, 2019.
- 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 lease liabilities approximate their carrying values as they bear interest that approximates current market rates.

All of the Company's assets and liabilities are categorized as Level 3 fair values, with the exception of unsecured notes and dividends payable, which are categorized as Level 1 and Level 2, respectively.

The expenses resulting from financial assets and liabilities recorded in net earnings are as disclosed in Note 23.

### 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, 2019, the Company held an outstanding foreign exchange contract to purchase US\$3,100 (December 31, 2018 - US\$9,020) for economic hedging purposes with no unrealized gains (2018 - \$400).

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 was 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 were measured at amortized cost. Financial liabilities include cheques issued 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, lease liabilities, equipment term loan and equipment line, and earn-out commitment. All financial liabilities were 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, 2019, trade accounts receivable, excluding other receivables, were as follows:

	\$
Current	87,570
Past due over 60 days	4,190
Trade receivables	91,760
Less: Allowance for doubtful accounts	(856)
	90,904

As at December 31, 2019, the maximum exposure to credit risk, including both trade and other receivables, is \$98,420 (December 31, 2018 - \$99,572), 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 15). Based on the Company’s average revolving loan facility, non-revolving term loan, equipment term loan and equipment line balances during the year ended December 31, 2019, the sensitivity of a 1% increase in interest rates would result in an approximate decrease of \$2,157 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 revenues and purchase transactions that are denominated in United States dollars.

As at December 31, 2019, 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 \$10,163.

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### 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 net quarterly 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.

## 27. 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, 2019.

	Total	Level 1	Level 2	Level 3
	\$	\$	\$	\$
<b>Non-financial assets measured at fair value</b>				
Timber	48,800	-	-	48,800
<b>Financial assets for which fair values are disclosed</b>				
Trade and other receivables	98,420	-	-	98,420
<b>Financial liabilities for which fair values are disclosed</b>				
Trade and other payables	82,553	-	-	82,553
Performance bonds	12,778	-	-	12,778
Dividends payable	10,887	-	10,887	-
Unsecured notes	58,026	58,026	-	-
Revolving loan facility	213,874	-	-	213,874
Non-revolving term loan	22,791	-	-	22,791
Promissory notes	3,052	-	-	3,052
Lease liabilities	124,009	-	-	124,009
Equipment term loan and equipment line	9,355	-	-	9,355

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.

## 28. CHANGES IN NON-CASH WORKING CAPITAL

	2019	2018
	\$	\$
Trade and other receivables	4,534	7,539
Inventories	5,807	(54,945)
Prepaid expenses and deposits	(2,939)	(434)
Trade and other payables	(116)	(5,892)
Performance bond obligations	(83)	(1,735)
	<b>7,203</b>	<b>(55,467)</b>

## 29. 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 were affected by economic factors.

	2019			2018		
	Distribution \$	Forestry \$	Total \$	Distribution \$	Forestry \$	Total \$
<b>Primary geographic markets</b>						
Canada	866,611	40,513	<b>907,124</b>	903,895	42,338	946,233
United States	419,169	7,908	<b>427,077</b>	336,870	8,192	345,062
	<u>1,285,780</u>	<u>48,421</u>	<u><b>1,334,201</b></u>	<u>1,240,765</u>	<u>50,530</u>	<u>1,291,295</u>
<b>Revenue categories</b>						
Products	1,281,953	48,421	<b>1,330,374</b>	1,236,428	50,530	1,286,958
Services	3,827	-	<b>3,827</b>	4,337	-	4,337
	<u>1,285,780</u>	<u>48,421</u>	<u><b>1,334,201</b></u>	<u>1,240,765</u>	<u>50,530</u>	<u>1,291,295</u>

Certain customers elect to prepay for goods and services, for which the Company has recorded a contract liability of \$4,059 as at December 31, 2019 (December 31, 2018 - \$2,924), related to these unsatisfied performance obligations (unearned revenues). These amounts are included in Trade and other payables in the audited Consolidated Statement of Financial Position.

The Company has sold products to certain customers who comprise greater than 10% of its revenues. During the year ended December 31, 2019, two customers individually accounted for revenues in excess of 10%, purchasing an aggregate of \$353,740 (2018 - \$383,821, representing two customers).

## 30. 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.

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

**Notes to the Consolidated Financial Statements for the years ended December 31, 2019 and 2018**

Business segment revenues and specified expenses were as follows:

	2019				2018			
	Distribution	Forestry	Adjustments and eliminations <sup>(1)</sup>	Consolidated	Distribution	Forestry	Adjustments and eliminations <sup>(1)</sup>	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b>								
External customers	1,285,780	48,421	-	1,334,201	1,240,765	50,530	-	1,291,295
Inter-segment	-	2,142	(2,142)	-	-	1,594	(1,594)	-
	1,285,780	50,563	(2,142)	1,334,201	1,240,765	52,124	(1,594)	1,291,295
<b>Specified expenses</b>								
Depreciation and amortization	34,288	7,523	-	41,811	13,411	5,011	-	18,422
Finance costs	19,132	2,736	-	21,868	9,160	2,512	-	11,672
<b>Net earnings (loss)</b>	17,981	(762)	-	17,219	26,289	3,726	-	30,015
<b>Purchase of property, plant and equipment</b>	3,943	3,373	-	7,316	8,048	5,708	-	13,756

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

Business segment long-term assets were as follows:

	December 31, 2019				December 31, 2018			
	Distribution	Forestry	Percent	Consolidated	Distribution	Forestry	Percent	Consolidated
	\$	\$	%	\$	\$	\$	%	\$
Canada	170,694	116,962	59	287,656	118,774	131,679	62	250,453
United States	204,006	-	41	204,006	156,073	-	38	156,073
<b>Long-term assets</b>	374,700	116,962	100	491,662	274,847	131,679	100	406,526

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

	2019	2018
	%	%
Construction materials	58	58
Specialty and allied	35	34
Forestry and other	7	8
	100	100

### 31. 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.

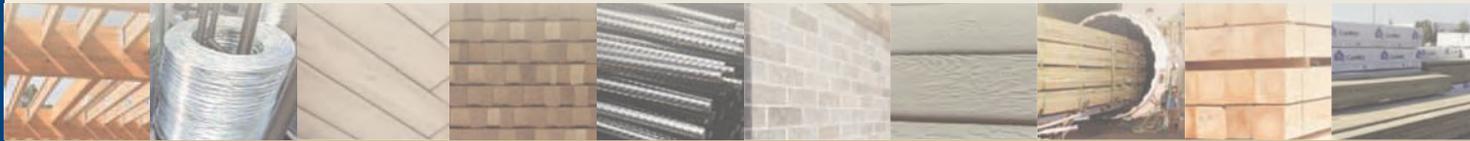
There were no changes to the Company's approach to capital management during the current year.

### 32. SEASONALITY

The Company's sales are subject to seasonal variances that fluctuate in accordance with the normal home building season. 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.

### 33. COMPARATIVE FIGURES

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



## Corporate Information

### Directors

**Ian M. Baskerville**  
Toronto, Ontario

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

**Tom Donaldson**  
Saint John, New Brunswick

**Kelvin Dushnisky**  
Johannesburg, South Africa

**Sam Fleiser**  
Toronto, Ontario

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

**Harry Rosenfeld**  
Vancouver, British Columbia

**Marc Seguin**  
Vancouver, British Columbia

**Siegfried J. Thoma**  
Portland, Oregon

### Auditors

**KPMG LLP**  
Vancouver, British Columbia

### Solicitors

**Goodmans LLP**  
Toronto, Ontario

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

### Officers

**Amar S. Doman**  
Chairman and CEO

**James Code**  
Chief Financial Officer

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

### CanWel Building Materials

**National Office**  
1600 – 1100 Melville Street  
P.O. Box 39  
Vancouver BC V6E 4AE

**Contact**  
Phone: (604) 432-1400  
Internet: [www.canwel.com](http://www.canwel.com)

### Transfer Agent

**AST Trust Company (Canada)**  
Vancouver, British Columbia  
Toronto, Ontario

### Investor Relations

**Contact**  
Ali Mahdavi  
Phone: (416) 962-3300

### Stock Exchange

Toronto Stock Exchange

### Trading Symbols:

**CWX, CWX.NT.A**

**CanWel Building Materials Group Ltd.**  
**[www.canwel.com](http://www.canwel.com)**

