CanWel®

CanWel Building Materials Group Ltd.

2020 Management's Discussion and Analysis

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March 11, 2021

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, 2020 relative to 2019. 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, 2020 (the "2020 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 2020 Consolidated Financial Statements and the 2020 Letter to Shareholders (the "2020 Reporting Documents") contain historical information, descriptions of current circumstances and statements about potential future developments and anticipated financial results, performance or achievements of the Company and its subsidiaries. The latter statements, which are forward-looking statements, are presented to provide guidance to the reader but their accuracy depends on a number of assumptions and are subject to various known and unknown risks and uncertainties. Forward-looking statements are included under the headings "Business Overview", "Outlook", "Commitments and Contingencies", "Sales and Gross Margin", "Dividend Policy" and "Liquidity and Capital Resources". When used in this MD&A, such statements may contain such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the inverse or negative of these terms or other similar terminology. Forward-looking information in the 2020 Reporting Documents includes, without limitation, statements regarding funding requirements, dividends, commodity pricing, interest rates, economic data and housing starts. Additionally, the ultimate impact of COVID-19 on the Company's quarterly and full-year 2020 results is difficult to quantify, as it will depend on, inter alia, the duration and impact of the pandemic, the impact of government policies, and the pace of economic recovery. These statements are based on management's current expectations regarding future events and operating performance, and on information currently available to management, speak only as of the date of the 2020 Reporting Documents and are subject to risks which are described in the Company's current Annual Information Form dated March 31, 2020 ("AIF") and the Company's public filings on the Canadian Securities Administrators' website at www.sedar.com ("SEDAR") and as updated from time to time, and would include, but are not limited to, dependence on market economic conditions, risks related to the impact of local, national, and international health concerns, including but not limited to the novel coronavirus COVID-19, sales and margin risk, acquisition and integration risks and operational risks related thereto, competition, information system risks, technology risks, cybersecurity 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, 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 ("US") 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; availability or more limited availability of access to equity and debt capital markets to fund, at acceptable costs, the Company's future growth plans, the implementation and success of the integration of the acquisitions, the ability of the Company to refinance its debts as they mature; the direct and indirect effect of the US housing market and economy; exchange rate fluctuations between the Canadian and US dollar; retention of key personnel; the Company's ability to sustain its level of sales and earnings margins; the Company's ability to grow its business long-term and to manage its growth; the Company's management information systems upon which it is dependent are not impaired; the Company's insurance is sufficient to cover losses that may occur as a result of its operations as well as the general level of economic activity, in Canada and the US, and abroad, discretionary spending and unemployment levels; the *effect of general economic conditions; market demand for the Company's products, and prices for such products; the effect of forestry, land use, environmental and other governmental regulations; and the risk of losses from fires, floods and other natural disasters and unemployment levels. 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 2020 Reporting Documents is qualified by these cautionary statements. Although the forward-looking information contained in the 2020 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 2020 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 2020 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 2020 Reporting Documents and in the "Risk Factors" section of the Company's AIF, and as updated from time to time, in the Company's other public filings on SEDAR.*

The forward-looking statements contained in the 2020 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, 2021, 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".

Business Overview

The Company is a leading wholesale distributor of building materials and home renovation products and producer of pressure treated wood products 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 forest licenses, full service harvesting and trucking operations, and agricultural post-peeling and pressure treating through CanWel Fibre Corp. In 2017, the Company acquired the Honsador Building Products group of companies, 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 and a lumber pressure treating plant in Woodland, California. 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 US. On November 9, 2020, the Company completed the acquisition of Vickers Island Truss, Ltd. ("Island Truss") (the "Island Truss Acquisition"), a truss manufacturing plant in Kauai, Hawaii.

Global Pandemic

On March 11, 2020, the World Health Organization declared the novel coronavirus (specifically identified as "COVID-19") a global pandemic (the "Pandemic"), resulting in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of stay at home orders, mandated non-essential business closures, travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and significant economic uncertainty.

At this time, as part of a supply chain for the construction industry, the Company has been classified as an essential service for the majority of its operations in Canada and the US, and therefore has not been required to shut down. However, the Company has taken specific health and safety measures in response to COVID-19, including limiting the number of employees, customers and others on its premises, mandatory self-imposed quarantine periods for employees, team separation and staggered work hours, temporary suspension of all non-essential business travel, heightened hygienic and disinfecting practices, provision of personal protective equipment such as masks and face shields, technology enabled remote work initiatives and other safety protocols.

Additionally, the Company has taken steps to mitigate the Pandemic's impact on its customers, operations and cash flows by optimizing its working capital, implementing working hours reductions, initiating temporary employee layoffs, deferring or eliminating certain non-essential operating expenditures, minimizing capital expenditures, evaluating ongoing cost savings opportunities and assessing financial assistance options available under COVID-19-related government programs. Management is actively monitoring the Pandemic, economic and regulatory developments, and their impact on the Company's operations, continually adapting to the changing operating environment.

Island Truss Acquisition

On November 9, 2020, the Company completed the acquisition of Island Truss (formerly owned by Vickers Island Truss, Ltd.), a truss design and manufacturing plant in Kauai, Hawaii. Island Truss is Kauai's only on-island truss manufacturing plant and has built a reputation for excellence in servicing the requirements of many of Kauai's finest hotels, resorts, homes and schools.

Further information regarding this acquisition is contained in Note 7 of the 2020 Consolidated Financial Statements.

Lignum Acquisition

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 US. This acquisition further solidified and complemented the Company's North American distribution capabilities and reach with existing and new customers.

Further information regarding this acquisition is contained in Note 7 of the 2020 Consolidated Financial Statements.

Annuity Contract

During the fourth quarter of 2020, the Company purchased an annuity for $6.3 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. 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 17 of the 2020 Consolidated Financial Statements.

Normal Course Issuer Bid

The Company renewed its existing Normal Course Issuer Bid ("NCIB") on November 24, 2020. Under the terms of the NCIB, the Company may purchase for cancellation up to an authorized number of common shares over a twelve-month period. Any shares acquired will be at the market price of the shares at the time of acquisition.

The Company continually considers share repurchases with excess cash if management is satisfied that this will enhance shareholder value and does not compromise the Company's financial flexibility.

Additional information regarding the NCIB is contained in Note 18 of the 2020 Consolidated Financial Statements.

Renewal of Revolving Loan Facility

On December 6, 2019, the Company renewed and 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 renewal of the revolving loan facility, the maturity date of the non-revolving term loan was also extended to December 6, 2024.

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, extreme winter weather conditions and periods of extreme heat and low humidity, 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 217,802 in 2020 versus 208,685 in 2019, an increase of 4.4%. The seasonally adjusted annualized rate for single detached units, a more relevant indicator for the Company, amounted to 69,443 in the fourth quarter of 2020 versus 56,869 in the comparative period of 2019, an increase of 22.1%[1].

The seasonally adjusted annualized rate for overall US housing starts was an average of 1,380,300 units in 2020 versus 1,290,000 units in 2019, an increase of 7.0%[2].

Construction Materials Pricing

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

	2020				2019			
(In Canadian $)	31 - Dec	30 - Sep	30 - Jun	31 - Mar	31 - Dec	30 - Sep	30 - Jun	31 - Mar
Lumber	**914**	1,025	540	558	538	509	480	513
Plywood	**784**	677	470	438	421	452	454	507
OSB	**845**	705	363	343	271	258	262	285

Lumber, plywood and OSB prices experienced unprecedented increases in the second half of 2020, impacted by a combination of limited supply and elevated demand. Production curtailments by major producers earlier in the year contributed to low levels of supply chain inventory, while home construction activity and the repair and remodel market remained strong.

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, short-term financing 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, but are not limited to, the use of vendor managed inventories, direct shipments from the manufacturer to the customer, and the Company's internal policy of optimizing inventory levels to maintain its high standard of customer service levels and minimizing excess inventory otherwise exposed to market fluctuations.

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

Results of Operations

Selected Annual Information

(in $ millions, per share in dollars)	Fiscal Years Ended December 31, 2020	2019	2018[4]
Sales	**1,613.8**	1,334.2	1,291.3
Earnings before income taxes	**82.0**	22.1	41.1
Net earnings	**59.6**	17.2	30.0
Adjusted net earnings[1]	**60.0**	17.5	30.6
Net earnings per share (basic and diluted)	**0.77**	0.22	0.39
Adjusted net earnings per share (basic and diluted)[1]	**0.78**	0.22	0.39
Total assets	**867.2**	894.4	803.3
Long-term debt[2]	**323.5**	401.4	287.6
Total debt	**349.0**	428.1	297.9
Dividends declared to shareholders	**40.5**	43.5	43.5
Dividends declared to shareholders (per share) [3]	**0.52**	0.56	0.56
Weighted average shares outstanding (basic)	**77,878,231**	77,714,660	77,713,148
Weighted average shares outstanding (diluted)	**77,930,715**	77,714,660	77,713,148
Total shares outstanding	**77,935,719**	77,765,329	77,744,598

1. Net earnings before directly attributable acquisition related costs.
2. Excludes current portion of debt.
3. The Company updated its dividend policy during the second quarter of 2020, further described in the "Dividend Policy" section of this MD&A, resulting in a dividend reduction beginning with the dividend paid on October 15, 2020.
4. The Company adopted IFRS 16 Leases on January 1, 2019. Comparative periods have not been restated.

Comparison of the Year Ended December 31, 2020 and December 31, 2019

Overall Performance

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

	Year ended December 31, 2020				Year ended December 31, 2019			
(in thousands of dollars)	Distribution $	Forestry $	Adjustments and eliminations[1] $	Consolidated $	Distribution $	Forestry $	Adjustments and eliminations[1] $	Consolidated $
Revenue								
External customers	1,577,830	35,974	-	**1,613,804**	1,285,780	48,421	-	**1,334,201**
Inter-segment	-	2,679	(2,679)	-	-	2,142	(2,142)	-
	1,577,830	38,653	(2,679)	**1,613,804**	1,285,780	50,563	(2,142)	**1,334,201**
Specified expenses								
Depreciation and amortization	35,057	9,592	-	**44,649**	34,288	7,523	-	**41,811**
Finance costs	14,396	1,310	-	**15,706**	19,132	2,736	-	**21,868**
Net earnings (loss)	65,202	(5,615)	-	**59,587**	20,566	(3,347)	-	**17,219**

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

Sales and Gross Margin

Sales for the year ended December 31, 2020 were $1.61 billion versus $1.33 billion in 2019, representing an increase of $279.6 million or 21.0%, due to the factors discussed below.

Despite the general economic impact of the Pandemic, sales for the Distribution segment increased by $292.1 million or 22.7%, demonstrating the Company's continued resilience and steady overall end-market demand for its products. The increase in sales is attributable to improvements in both sales volumes and pricing. Quarantine-related home improvement activities and strong housing starts resulted in increased demand from consumers spending more time and efforts on home renovation and repair projects. Additionally, construction materials pricing generally increased during the second half of 2020.

Sales for the Forestry segment decreased by $11.9 million or 23.6%. The decrease in sales relative to 2019 was largely driven by decreased demand for timber from regional sawmill customers, reflecting production curtailments experienced across the industry during 2019 and early 2020. In addition, third quarter 2020 sales were negatively affected by extremely dry conditions in British Columbia, with harvesting activities temporarily halted due to increased provincial fire risk ratings, resulting in decreased harvest and customer delivery levels.

The Company's sales by product group in the year were made up of 65% construction materials, compared to 58% last year, with the remaining balance resulting from specialty and allied products of 29% (2019 - 35%), and forestry and other of 6% (2019 - 7%).

Gross margin dollars increased to $256.2 million in the current year, versus $191.9 million in 2019, an increase of $64.3 million. Gross margin percentage was 15.9% during the year, an increase from the 14.4% achieved in 2019. The Company's margins in 2020 benefited from the previously discussed improvements in construction materials pricing during the year, and ongoing implementation of the Company's strategies.

Expenses

Expenses for the year ended December 31, 2020 were $157.8 million versus $147.6 million in 2019, an increase of $10.2 million or 6.9% due to the factors discussed below. As a percentage of sales, 2020 expenses were 9.8%, versus 11.1% in 2019.

Distribution, selling and administration expenses increased by $7.4 million or 7.0%, to $113.2 million, versus $105.8 million in 2019, mainly due to increased sales activity resulting in higher personnel costs. This increase was partially offset by a decrease in certain other non-essential operating expenditures, as the Company continued to take cost-reduction measures in response to the Pandemic. As a percentage of sales, these expenses were 7.0% in the year, compared to 7.9% in 2019.

Depreciation and amortization expenses increased by $2.8 million, from $41.8 million to $44.6 million. Depreciation and amortization expenses for the Distribution segment increased by $769,000, largely as a result of certain previously acquired assets within the Distribution segment having been placed in use. Depreciation and amortization expense for the Forestry segment increased by $2.1 million, partially due to amortization of certain intangible assets acquired at the end of 2019. Additionally, the Company revised assumptions regarding the expected useful lives of certain Forestry equipment.

Operating Earnings

For the year ended December 31, 2020, operating earnings were $98.4 million versus $44.3 million in 2019, an increase of $54.1 million due to the foregoing factors.

Finance Costs

Finance costs for the year ended December 31, 2020 were $15.7 million, versus $21.9 million in 2019, a decrease of $6.2 million or 28.2%. Finance costs for the Distribution segment were $4.7 million lower than in 2019, partly due to lower interest rates on the Company's variable rate loan facilities, and partly due to lower average borrowings. The decrease in the average revolving loan facility was largely the result of reducing the Company's working capital levels in response to the Pandemic, as the Company reduced its total loans and borrowings by $88.6 million relative to December 31, 2019.

Finance costs for the Forestry segment were $1.4 million lower versus 2019, as a result of lower interest rates on the Company's variable rate loan facilities, as well as lower average borrowings due to principal repayments made in the year.

Earnings before Income Taxes

For the year ended December 31, 2020, earnings before income taxes were $82.0 million versus $22.1 million in 2019, an increase of $59.9 million due to the foregoing factors.

Provision for Income Taxes

For the year ended December 31, 2020, the provision for income taxes was $22.5 million compared to $4.8 million in 2019, an increase of $17.7 million. 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, 2020 were $59.6 million versus $17.2 million in 2019, an increase of $42.4 million, as discussed above.

Fourth Quarter Results

A summary of the unaudited results for the quarter ended December 31, 2020 and 2019 is as follows:

	Three months ended December 31,	
(in $ thousands, per share in dollars)	**2020**	**2019**
Sales	**$401,977**	$293,351
Gross margin	**66,972**	44,173
Gross margin %	***16.7%***	*15.1%*
Distribution, selling and administration expenses	**30,263**	25,831
Depreciation and amortization	**12,469**	10,513
Expenses	**42,732**	36,344
Operating earnings	**24,240**	7,829
Finance costs	**2,932**	4,992
Acquisition costs	**620**	-
Earnings before income taxes	**20,688**	2,837
Provision for (recovery of) income taxes	**5,677**	(535)
Net earnings	**$15,011**	$3,372
Net earnings per share[1]	**0.19**	0.04

1. Weighted average basic shares outstanding in the period.

Overall Performance

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

	Three months ended December 31, 2020				Three months ended December 31, 2019			
(in thousands of dollars)	**Distribution $**	**Forestry $**	**Adjustments and eliminations[1] $**	**Consolidated $**	**Distribution $**	**Forestry $**	**Adjustments and eliminations[1] $**	**Consolidated $**
Revenue								
External customers	392,597	9,380	-	**401,977**	284,427	8,924	-	**293,351**
Inter-segment	-	292	(292)	**-**	-	516	(516)	**-**
	392,597	9,672	(292)	**401,977**	284,427	9,440	(516)	**293,351**
Specified expenses								
Depreciation and amortization	8,655	3,814	-	**12,469**	8,561	1,952	-	**10,513**
Finance costs	2,668	264	-	**2,932**	4,439	553	-	**4,992**
Net earnings (loss)	17,789	(2,778)	-	**15,011**	3,773	(401)	-	**3,372**

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

Sales and Gross Margin

Sales for the three-month period ended December 31, 2020 were $402.0 million versus $293.4 million in 2019, representing an increase of $108.6 million or 37.0% due to the factors discussed below.

Sales for the Distribution segment increased by $108.2 million or 38.0%, compared to the same period in 2019, largely due to quarantine-related home improvement activities and strong housing starts, which continued into the fourth quarter of 2020.

Sales for the Forestry segment were largely consistent with the fourth quarter in 2019, with a slight increase of $232,000 or 2.5%.

The Company's sales by product group in the quarter were made up of 67% of construction materials, compared to 55% during the same quarter last year, with the remaining balance of sales resulting from specialty and allied products of 27% (2019 - 37%) and forestry and other of 6% (2019 - 8%).

Gross margin dollars were $67.0 million in the three-month period versus $44.2 million in the comparative quarter of 2019, an increase of $22.8 million. Gross margin percentage was 16.7% in the quarter, an increase from 15.1% achieved in the same quarter of 2019. The Company's margins in the fourth quarter of 2020 benefited from the previously discussed improvements in construction materials pricing and ongoing implementation of the Company's strategies.

Expenses

Expenses for the three-month period ended December 31, 2020 were $42.7 million as compared to $36.3 million for the comparative quarter in 2019, an increase of $6.4 million or 17.6%, due to the factors discussed below. As a percentage of sales, expenses were 10.6% in the quarter, compared to 12.4% during the comparative quarter in 2019.

Distribution, selling and administration expenses increased by $4.4 million or 17.2%, from $25.8 million to $30.3 million. The increase was mainly due to increased sales activity resulting in higher personnel costs. This increase was partially offset by a decrease in certain other non-essential operating expenditures, as the Company continued to take cost-reduction measures in response to the Pandemic. As a percentage of sales, these expenses were 7.5% in the quarter, compared to 8.8% during the same quarter in 2019.

Depreciation and amortization expenses increased by $2.0 million or 18.6%, from $10.5 million to $12.5 million. Depreciation and amortization for the Distribution segment were largely in line with the fourth quarter of 2019. Depreciation and amortization expense for the Forestry segment increased by $1.9 million, partially due to amortization of certain intangible assets acquired at the end of 2019. Additionally, the Company revised assumptions regarding the expected useful lives of certain Forestry equipment.

Operating Earnings

For the quarter ended December 31, 2020, operating earnings were $24.2 million compared to $7.8 million in the comparative period of 2019, an increase of $16.4 million, due to the foregoing factors.

Finance Costs

Finance costs for the fourth quarter of 2020 were $2.9 million, compared to $5.0 million for the same period in 2019, a decrease of $2.1 million or 41.3%. Finance costs for the Distribution segment were $1.8 million lower than the same quarter in 2019, partly due to lower interest rates on the Company's variable rate loan facilities, and partly due to lower average borrowings. The decrease in the average revolving loan facility was largely the result of the Company successfully reducing its working capital levels in response to the Pandemic, as the Company reduced its total loans and borrowings by $88.6 million relative to December 31, 2019.

Finance costs for the Forestry segment decreased by $289,000, as a result of lower interest rates on the Company's variable rate loan facilities, as well as lower average borrowings due to principal repayments made in the period.

Earnings before Income Taxes

For the quarter ended December 31, 2020, earnings before income taxes were $20.7 million, compared to $2.8 million in the comparative quarter of 2019, an increase of $17.9 million due to the foregoing factors.

Provision for (Recovery of) Income Taxes

For the quarter ended December 31, 2020, provision for income taxes was $5.7 million compared to a $535,000 recovery of income taxes in the same quarter of 2019, an increase in the provision of $6.2 million. 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, 2020 were $15.0 million compared to $3.4 million for the period in 2019, an increase of $11.6 million, due to the foregoing factors impacting the overall financial performance of the Company.

Summary of Quarterly Results

For the Quarters ended:

	2020				2019			
($ and shares millions, per share in dollars)	**31-Dec**	**30-Sep**	**30-Jun**	**31-Mar**	**31-Dec**	**30-Sep**	**30-Jun**	**31-Mar**
Sales	**402.0**	472.2	412.9	326.7	**293.4**	373.2	385.7	281.9
EBITDA	**36.1**	57.0	32.8	16.5	**18.4**	25.0	27.3	15.1
Adjusted EBITDA(1)	**36.7**	57.0	32.8	16.5	**18.4**	25.3	27.5	15.1
Adjusted EBITDA % of sales(1)	**9.1**	12.1	7.9	5.1	**6.3**	6.8	7.1	5.4
Earnings (Loss) before income taxes	**20.7**	42.7	17.5	1.2	**2.8**	9.0	10.7	(0.5)
Net earnings (loss)	**15.0**	31.0	12.7	0.9	**3.4**	6.4	7.8	(0.4)
Adjusted net earnings (loss) (1)	**15.4**	31.0	12.7	0.9	**3.4**	6.7	7.9	(0.4)
Net earnings (loss) per share(3)	**0.19**	0.40	0.16	0.01	**0.04**	0.08	0.10	(0.0)
Adjusted net earnings (loss) per share(2)(3)	**0.20**	0.40	0.16	0.01	**0.04**	0.09	0.10	(0.0)
Dividends declared per share	**0.12**	0.12	0.14	0.14	**0.14**	0.14	0.14	0.14
Outstanding shares(3)	**77.9**	77.9	77.8	77.8	**77.8**	77.7	77.7	77.7

1. Adjusted EBITDA refers to EBITDA before directly attributable acquisition related costs.
2. Net earnings (loss) before directly attributable acquisition related costs.
3. Weighted average basic shares outstanding in the period.

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

	Three months ended December 31,		Years ended December 31,	
	2020	2019	2020	2019
(in thousands of dollars)	**$**	**$**	**$**	**$**
Net earnings	**15,011**	3,372	**59,587**	17,219
Provision for (recovery of) income taxes	**5,677**	(535)	**22,451**	4,841
Finance costs	**2,932**	4,992	**15,706**	21,868
Depreciation of property, plant and equipment	**5,240**	3,388	**15,699**	13,350
Amortization of right-of-use assets	**5,385**	5,404	**22,001**	21,616
Amortization of intangible assets	**1,844**	1,721	**6,949**	6,845
Share-based compensation	**34**	10	**92**	29
EBITDA	**36,123**	18,352	**142,485**	85,768
Acquisition costs	**620**	-	**620**	415
Adjusted EBITDA	**36,743**	18,352	**143,105**	86,183

EBITDA and Adjusted EBITDA

For the quarter ended December 31, 2020, EBITDA was $36.1 million and Adjusted EBITDA was $36.7 million, compared to EBITDA and Adjusted EBITDA of $18.4 million in the comparative quarter of 2019. The increase in Adjusted EBITDA of $18.4 million or 100.2% was largely due to the improvements in both sales volumes and construction materials pricing as a result of the aforementioned quarantine-related home improvement activities and strong housing starts during the fourth quarter of 2020.

For the year ended December 31, 2020, EBITDA was $142.5 million and Adjusted EBITDA was $143.1 million, compared to EBITDA of $85.8 million and Adjusted EBITDA of $86.2 million in 2019. The increase in Adjusted EBITDA of $56.9 million or 66.0% was largely as a result of the previously discussed quarantine-related home improvement activities and strong housing starts during the year and ongoing implementation of the Company's strategies.

Financial Condition

Liquidity and Capital Resources

During the year ended December 31, 2020, the Company generated $3.5 million in cash, versus $1.0 million in 2019. The following activities during the year were responsible for the change in cash.

The significant factors affecting the Company's operating activities were improved earnings and working capital changes, as discussed below. Operating activities generated cash of $129.8 million, before non-cash working capital changes, compared to $60.7 million in 2019.

During the year ended December 31, 2020, changes in non-cash working capital items generated $34.4 million in cash, compared to $7.2 million in 2019. In response to the economic uncertainty caused by the Pandemic, the Company successfully adjusted its non-cash working capital levels during 2020, resulting in a significant year-over-year increase in cash generated.

Notwithstanding the Pandemic, 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 an increase in trade and other receivables of $32.2 million, a decrease in inventory of $35.8 million, an increase in prepaid expenses and deposits of $2.4 million, and a net increase in trade and other payables and performance bond obligations of $33.2 million.

During the year ended December 31, 2020, improved earnings and cash generated from working capital changes resulted in the Company paying down its loans and borrowings, as financing activities used $157.7 million, compared to $56.5 million in 2019.

Scheduled repayments related to the non-revolving term loan consumed $2.7 million, versus $11.2 million in 2019. In October 2019, the Company completed the sale of a 7,542-hectare parcel of timberlands (approximately 14% of total holdings) to an entity that held a pre-existing option to purchase the subject lands. Net cash proceeds of $10.6 million were used to partially pay down the non-revolving term loan ($8.5 million) with the balance paid to satisfy pre-existing contractual obligations to Tembec Inc. (now Rayonier Advanced Materials Inc.), a former owner of the lands.

Net repayment of equipment loans amounted to $4.1 million, compared with $2.9 million in 2019, with the increase in repayments due to proceeds generated from sales of certain non-core Forestry equipment. Scheduled repayment of certain promissory notes consumed $1.6 million, compared to $2.4 million in 2019. Payment of lease liabilities, including interest, consumed $24.7 million of cash, compared to $23.1 million in 2019. The Company's lease obligations require monthly installments, and these payments are all current.

The revolving loan facility decreased by $83.1 million compared to an increase of $29.6 million in 2019. The significant year-over-year increase in net repayments to the revolving loan facility is a result of the previously discussed increased earnings and reduction in non-cash working capital levels during 2020 in response to the Pandemic.

Shares issued during the year generated $671,000 of cash compared to $630,000 in 2019. The Company also returned $42.0 million to shareholders through dividend payments, compared to $43.5 million in 2019. The Company updated its dividend policy during the second quarter of 2020, further described in the "Dividend Policy" section of this MD&A, resulting in a dividend reduction beginning with the dividend paid on October 15, 2020.

The Company was not in breach of any of its lending covenants during the year ended December 31, 2020.

Investing activities consumed $2.9 million of cash, compared to $10.4 million during 2019. Investing activities in 2020 included the Island Truss Acquisition, whereas 2019 included the Lignum Acquisition and the related cash and cash equivalents acquired.

Purchases of property, plant and equipment consumed $2.8 million of cash, compared to $7.3 million in 2019, largely as a result of the Company minimizing its capital expenditures in response to the Pandemic. Cash purchases of property, plant and equipment relating to the Distribution segment were $2.3 million, compared to $3.9 million in 2019. Cash purchases of property, plant and equipment relating to the Forestry segment were $470,000, compared to $3.4 million in 2019.

Proceeds from disposition of property, plant and equipment were $2.1 million, versus $654,000 in 2019. Proceeds in 2020 largely consisted of sales of certain non-core Forestry equipment. Additionally, in the comparative period, the Company completed the sale the previously discussed parcel of private timberlands for net cash proceeds of $10.6 million.

In response to the Pandemic, the Company has taken steps to bolster its cash flows, including but not limited to, managing cash flow by reducing working capital levels and capital expenditures, implementing working hours reductions, initiating temporary employee layoffs, evaluating ongoing cost savings opportunities, deferring certain scheduled debt, finance lease and statutory payments (as may be applicable, with bilateral agreement), deferring or reducing anticipated capital expenditures, and reducing quarterly dividends. These liquidity measures, combined with the Company's continuing cash flows from operations, are expected to be sufficient to meet its operating requirements and remain compliant with its lending covenants.

Total Assets

Total assets of the Company were $867.2 million as at December 31, 2020, versus $894.4 million as at December 31, 2019, a decrease of $27.2 million. Current assets decreased by $9.9 million. The decrease in inventory, attributable to the Company's continued success in reducing its non-cash working capital in response to the Pandemic, was partially offset by an increase in trade and other receivables resulting from the previously discussed increased sales activity in 2020. Additionally, property, plant and equipment decreased by $16.8 million, as discussed below.

Long-term assets within the Distribution segment were $371.3 million as at December 31, 2020, versus $374.7 million as at December 31, 2019, a decrease of $3.4 million, as a result of the Company minimizing its capital expenditures in response to the Pandemic. Long-term assets within the Forestry segment were $103.1 million as at December 31, 2020, compared to $117.0 million as at December 31, 2019, a decrease of $13.9 million, largely due to disposals of certain non-core equipment.

Total Liabilities

Total liabilities were $526.6 million as at December 31, 2020, versus $566.1 million at December 31, 2019, a decrease of $39.5 million. This decrease was partly due to a reduction in the Company's revolving loan facility of $81.5 million (including amortization of deferred financing costs). As previously discussed, the Company reduced its non-cash working capital levels during 2020 in response to the Pandemic, which resulted in lower net advances on the facility. This decrease was partially offset by an increase in lease liabilities of $8.3 million, largely as a result of remeasurements due to revised lease term assumptions, and an increase in trade and other payables of $32.4 million, driven by increased business activity in 2020.

Outstanding Share Data

As at March 11, 2021, there were 77,996,755 common shares issued and outstanding.

Dividends

The following dividends were declared and paid by the Company:

(in $ thousands, per share in dollars)	2020 Declared Record date	Per share $	Amount $	Payment date	2019 Declared Record date	Per share $	Amount $	Payment date
Quarter 1	Mar 31, 2020	0.14	10,897	Apr 15, 2020	Mar 29, 2019	0.14	10,876	Apr 15, 2019
Quarter 2	Jun 30, 2020	0.14	10,898	Jul 15, 2020	Jun 28, 2019	0.14	10,877	Jul 15, 2019
Quarter 3	Sep 30, 2020	0.12	9,352	Oct 15,2020	Sep 30, 2019	0.14	10,887	Oct 15, 2019
Quarter 4	Dec 31, 2020	0.12	9,352	Jan 15, 2021	Dec 31, 2019	0.14	10,887	Jan 15, 2020
		0.52	**40,499**			0.56	43,527	

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, general economic conditions 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. Accordingly, on June 15, 2020, the Company announced a dividend reduction beginning with the dividend payable on October 15, 2020, to shareholders of record on September 30, 2020, reducing its quarterly dividend from $0.14 to $0.12 per share.

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 measured at fair value through profit and loss, with changes in fair value being recorded in net earnings.

When held by the Company, foreign currency and lumber derivative instruments are traded through well-established financial services firms with a long history of providing trading, exchange and clearing services for commodities and currencies. As trading activities are closely monitored by senior management, the risk of credit loss on these financial instruments is considered low.

Related Party Transactions

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

Certain distribution facilities used by the Company to store and process inventory are leased from a company in which Amar Doman, a director and officer, and Rob Doman, an officer of the Company, have a minority interest and the land and buildings of certain of the treatment plants are leased from entities solely controlled by Amar Doman. All lease rates were market tested in advance of the signing of the lease agreements and were determined to be at market rates. Lease payments to such related parties were $4.0 million in the year ended December 31, 2020, versus $3.6 million in 2019. The minimum payments under the terms of these leases are as follows: $4.2 million in 2021, $4.2 million in 2022, $4.2 million in 2023, $3.9 million in 2024, $2.5 million in 2025 and $13.8 million thereafter.

During the year ended December 31, 2020, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of $534,000 (2019 - $542,000) by a company owned by Rob Doman. As at December 31, 2020 payables to this related party were $112,000 (2019 - $159,000). Additionally, fees of $876,000 (2019 - $1.3 million) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman. As at December 31, 2020, payables to this related party were $42,000 (2019 - $96,000).

During the year the Company purchased $2.9 million (2019 - $3.4 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, 2020, payables to this related party were $131,000 (2019 - $18,000).

During the year the Company did not purchase any product from a company controlled by Siegfried Thoma, a director of the Company (2019 - $395,000). In the comparative prior year, these purchases were made in the normal course of operations and were recorded at exchange amounts.

Additional information regarding these related party transactions is contained in Note 23 of the 2020 Consolidated Financial Statements.

Commitments and Contingencies

Future and Contractual Obligations

In addition to various debt facilities, the Company has lease commitments for certain transportation equipment, rental of most of its distribution centres and treatment plant properties in Canada and the US, and for vehicles, warehouse equipment, and a computer hosting contract.

The following table shows, as at December 31, 2020 the Company's contractual obligations, including estimated interest, within the periods indicated:

Contractual Obligations	**Total**	**2021**	**2022-2023**	**2024-2025**	**Thereafter**
(in thousands of dollars)	**$**	**$**	**$**	**$**	**$**
Revolving loan facility(1)	142,833	848	6,781	135,204	-
Non-revolving term loan(2)	22,264	3,349	6,417	12,498	-
Unsecured notes(3)	71,475	3,825	67,650	-	-
Promissory notes(4)	3,174	2,155	1,019	-	-
Equipment term loan and line(5)	5,615	2,384	1,688	1,483	60
Leases(6)	153,449	24,973	45,047	29,989	53,440
Total contractual obligations	**398,810**	**37,534**	**128,602**	**179,174**	**53,500**

1. Interest has been calculated based on the average borrowing under the facility for the year ended December 31, 2020 utilizing the interest rate payable under the terms of the facility at December 31, 2020. 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 2020 Consolidated Financial Statements.
5. Monthly principal repayments amortize over 5 years, with interest payable monthly. Equipment line principal repayments commenced on August 1, 2019, with maturity on July 1, 2025.
6. Additional information is contained in Note 11 the 2020 Consolidated Financial Statements.

Claims

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

Guarantees

The Company has issued letters of credit totaling $1.3 million as at December 31, 2020 (2019 - $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, forecasted cash flow estimates 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, 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, and judgments regarding aggregation of reportable segments.

In light of the economic uncertainty due to the Pandemic, it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates. However, management does not believe it is likely that any such differences will materially affect the Company's financial condition.

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, 2020 relates to the Company's acquisitions of various businesses. Goodwill is not amortized, but is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. Goodwill impairment is assessed based on a comparison of the value in-use of a cash-generating unit to the underlying carrying value of that cash-generating unit's net assets, including goodwill. Significant estimates are required in determining the fair value of each cash-generating unit, including a discount rate, a growth rate and after-tax cash flows. When the carrying amount of the cash-generating unit exceeds its value in-use, the value in-use of goodwill related to the cash-generating unit is reduced by the excess of this carrying value and recognized as an impairment loss.

Timber

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

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.

Income Taxes

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

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

Leases

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

Segment Reporting

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

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

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

b) *Forestry* – timber ownership and management of private timberlands and forest licenses, harvesting 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 2020 Consolidated Financial Statements.

IFRS 3 – Business Combinations

Effective January 1, 2020, the Company adopted amendments to IFRS 3, *Business Combinations*, in accordance with the applicable transactional provisions.

The Company applied *Definition of a Business (Amendments to IFRS 3)* to business combinations whose acquisition dates are on or after January 1, 2020 in assessing whether it had acquired a business or a group of assets. The details of this accounting policy are set out in Note 3(a) of the 2020 Consolidated Financial Statements.

A number of other new standards are also effective from January 1, 2020, but do not have a material effect on these consolidated financial statements.

Disclosure Controls and Internal Controls over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to: (a) provide reasonable assurance that material information required to be disclosed by the Company is accumulated and communicated to management to allow timely decisions regarding required disclosure; and (b) ensure that information required to be disclosed by the Company is recorded, processed, summarized, and reported within the time periods specified in applicable securities legislation. The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2020. Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that these disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosure in the Issuer's Annual and Interim Filings are effective for the purposes set out above. The Company's management, including the Chief Executive Officer and the Chief Financial Officer, acknowledges responsibility for the design and operation of disclosure controls and procedures and internal control over financial reporting ("ICFR"), and the requirement to evaluate the effectiveness of these controls on an annual basis.

Internal Control over Financial Reporting

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

Management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's ICFR as of December 31, 2020 based on the provisions of Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, management concluded that its ICFR, as defined by National Instrument 52-109, is effective and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

Changes in Internal Control over Financial Reporting

There have been changes in the Company's ICFR during the year ended December 31, 2020, as a result of a large number of employees transitioning to remote work arrangements in response to the Pandemic. However, there were no material changes in the design of the Company's ICFR that have affected, or are reasonably likely to materially affect, its ICFR.

Risks and Uncertainties

The Company is subject to normal business risks associated with similar firms operating within the building materials industry in Canada and the US, which are described in greater detail in the Company's AIF dated March 31, 2020, the Company's 2020 Consolidated Financial Statements and the Company's public filings on www.sedar.com, which the reader is encouraged to review, and which are or may be, updated from time to time, after the date therein. Except as required by applicable law, the Company undertakes no obligation to publicly update or otherwise revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Cybersecurity Risk

As a result of the Pandemic, information technology ("IT") and cyber risks have increased as malicious activities are creating more threats for cyberattacks. Such cyberattacks include COVID-19 phishing emails and targeting of vulnerabilities in remote access platforms as companies continue to operate with work from home arrangements. Privacy, data and third party risks have also been heightened as the use of work from home arrangements have become common practice. As many of the Company's employees are working from home or utilizing remote system access during, and as part of the Company's response to, COVID-19, the Company is continuously monitoring its IT infrastructure to maintain the privacy and confidentiality of all sensitive, proprietary and confidential information.

While the Company believes it takes appropriate precautions in light of cybersecurity risks, given that cyber risks cannot be fully mitigated and the evolving nature of these threats, management cannot assure that the Company's IT systems are fully protected from cybercrime or that the systems will not be inadvertently compromised, or without failures or defects. Accordingly, there can be no assurance that the Company may not be subject to cybersecurity risks or attack, which could have a material adverse effect on the Company's business or results of operations.

Outlook

The global impact of the Pandemic has been rapidly evolving and the disruption from this outbreak is adversely impacting many industries. The Pandemic could have a continued adverse impact on economic and market conditions, triggering a period of sustained global economic slowdown, and will ultimately depend on the speed at which effective vaccines can be developed and administered on a mass scale, and the ability of governments, businesses and health-care systems to effectively limit the epidemiological and economic impacts of the virus, including resurgences, in the intervening period. The rapid development and fluidity of this situation precludes any meaningful attempts to predict the ultimate adverse impact of COVID-19 on the Company's operations.

Despite the challenging global economic conditions during 2020, demand for residential building materials in Canada and the US has been much stronger than was expected when the Pandemic was first declared in March 2020. As a result, the Company has benefited significantly from quarantine-related home improvement activities and an increased interest in single-family detached housing. Nevertheless, COVID-19 presents uncertainty and risk with respect to the Company's future performance and financial results. The Company is actively managing these risks; however, due to the uncertainty regarding the duration and extent of the Pandemic, the severity of the operational and financial impacts on the Company will depend on, among other things, how long and diverse the disruptions in a variety of areas prove to be, including but not limited to, government and institutional regulation, legislation, capital and credit markets, Canadian, US and overall global economies, the Company's customers, suppliers and supply chains, and the Company's labour force.

At this time, the Company expects any potential impacts of the Pandemic to be temporary, and that the demand for its products will sustain beyond the Pandemic, as governments in Canada and the US have identified investment in housing and infrastructure as a key source of economic stimulus, during the eventual recovery phase. In the interim, the Company continues to maintain a high level of vigilance and focus on the Pandemic and its disruptive impacts, and actively manage the risks. Management continues to employ mitigation strategies to minimize, among other things, the potential impacts of construction materials price volatility. These strategies include, but are not limited to, the use of vendor managed inventories, direct shipments from the manufacturer to the customer, and the Company's internal policy of optimizing inventory levels to maintain its high standard of customer service levels and 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.

The Bank of Canada's ("BoC") January 2021 monetary policy report indicated that the Canadian and world economies are experiencing a setback in their economic recoveries. Rapid increases in the number of COVID-19 infections have prompted governments to impose stricter containment measures. However, an earlier-than-expected start to vaccination programs has accelerated the timeline for achieving broad immunity and improved the outlook for growth in the medium term. Nonetheless, the course of the Pandemic and the steps needed to contain it remain highly uncertain, and until the virus is under control and there is no need for physical distancing and other mitigation techniques, the recuperation phase of the economic recovery will likely remain choppy and uneven.

Historically, the rate of new housing starts has been an indicator of the Company's business prospects and the volume of building materials that it sells. According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for Canadian housing starts in 2020 was 217,802 compared to 208,685 last year. Prior to the Pandemic, the CMHC reported that it expected housing starts for both single-detached and multi-unit housing would stabilize in 2020 and 2021 after declining in 2019, and reach somewhere between 194,000 and 204,300. However, this is subject to change given the uncertainty around the COVID-19 situation. According to the US Census Bureau, seasonally-adjusted housing starts were an average of 1,380,300 units in 2020, up from 1,290,000 units last year. According to the Fannie Mae Economic and Strategic Research Group (Fannie Mae), housing starts are expected to increase further in 2021, to 1,450,000 units. Recent US home resales are at levels not seen for almost a decade, and residential repair and remodeling activities remained strong, as homeowners redirect discretionary spending away from traditional areas of travel and entertainment during the Pandemic. Management believes a significant proportion of the Company's sales are ultimately driven by activity in the repair and remodel market.

The Company's priority in the near term is the health and safety of its employees, compliance with all necessary regulations and health guidelines during the Pandemic, and mitigating the impacts of the Pandemic, while continuing to serve its customers and helping essential supply chain and related activities. The Company's focus will remain on cash flow, consisting of optimization of working capital, reduction of operating costs, minimizing capital expenditures and continually assessing the dividend policy.

CanWel®

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Trading Symbols:

CWX, CWX.NT.A