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CanWel Building Materials Group Ltd.

THIRD QUARTER 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

CanWel Building Materials Group Ltd.

Management's Discussion and Analysis

November 9, 2017

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 ended September 30, 2017 relative to the same quarter of 2016. This discussion of the financial condition and results of operations of the Company should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2016 (the "2016 Consolidated Financial Statements"). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to the preparation of interim financial statements.

This MD&A and the associated Unaudited Interim Condensed Consolidated Financial Statements for the period ending September 30, 2017 (collectively, the "Interim Financial Report") 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 Interim Financial Report includes, without limitation, statements regarding funding requirements or dividends. These statements are based on management's current expectations regarding future events and operating performance, are based on information currently available to management, speak only as of the date of this Interim Financial Report and are subject to risks which are described in the Company's current Annual Information Form dated March 30, 2017 ("AIF") and the Company's public filings on the Canadian Securities Administrators' website at www.sedar.com ("SEDAR") and as updated from time to time, and would include, but are not limited to, dependence on market economic conditions, sales and margin risk, acquisition and integration risks, competition, information system risks, availability of supply of products, risks associated with the introduction of new product lines, product design risk, environmental risks, volatility of commodity prices, inventory risks, customer and vendor risks, availability of credit, credit risks, currency risks, interest rate risks, tax risks, risks of legislative changes, international trade and tariff risks, resource industry risks, resource extraction risks, risks relating to remote operations, forestry management and silviculture risks, fire and natural disaster risks, key executive risk and litigation risks. In addition, there are numerous risks associated with an investment in the Company's common shares, which are also further described in the "Risks and Uncertainties" section in this Interim Financial Report and in the "Risk Factors" section of the Company's AIF, and as updated from time to time, the Company's other public filings on SEDAR. These risks and uncertainties may cause actual results to differ materially from those contained in the statements. Such statements reflect management's current views and are based on certain assumptions. Some of the key assumptions include, but are not limited to, assumptions regarding the performance of the Canadian and the United States economies, interest rates, exchange rates, capital and loan availability, commodity pricing, the Canadian and the US housing and building materials markets; international trade matters; post acquisition operation of a business; the amount of the Company's cash flow from operations; tax laws; laws and regulations relating to the protection of the environment and natural resources; and the extent of the Company's future acquisitions and capital spending requirements or planning in respect thereto, including but not limited to the performance of any such business and its operation. They are, by necessity, only estimates of future developments and actual developments may differ materially from these statements due to a number of known and unknown factors. Investors are cautioned not to place undue reliance on these forward-looking statements. All forward-looking information in this Interim Financial Report is qualified by these cautionary statements. Although the forward-looking information contained in this Interim Financial Report is based on upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements included in this Interim Financial Report may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this Interim Financial Report.

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

The information in this report is as at November 9, 2017, unless otherwise indicated. All amounts are reported in Canadian dollars.

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, goodwill impairment loss (if applicable) and share-based compensation. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, and therefore the measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. EBITDA is presented as we believe it is a useful indicator of a Company's ability to meet debt service and capital expenditure requirements and because we interpret trends in EBITDA as an indicator of relative operating performance. EBITDA should not be considered by an investor as an alternative to net earnings or cash flows as determined in accordance with IFRS. For a reconciliation of EBITDA to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) and Adjusted EBITDA".
2. In the discussion, reference is made to Adjusted EBITDA, which is EBITDA as defined above, before certain non-recurring or unusual items. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, The measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. Adjusted EBITDA is presented as we believe it is a useful indicator of the Company's ability to meet debt service and capital expenditure requirements from its regular business, before non-recurring items. Adjusted EBITDA should not be considered by an investor as an alternative to net earnings or cash flows as determined in accordance with IFRS. For a reconciliation from Adjusted EBITDA to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) and Adjusted EBITDA".
3. Reference is also made to free cash flow of the Company. This is a non-IFRS measure generally used by Canadian companies as an indicator of financial performance. The measure as calculated by the Company might not be comparable to similarly-titled measures reported by other companies. Management believes that this measure provides investors with an indication of the cash available for distribution to shareholders of the Company. We define free cash flow as cash flow from operating activities excluding changes in non-cash working capital, and after interest on convertible debentures, maintenance of business capital expenditures and funds received from other assets.

Business Overview

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

2017 Acquisition

Purchase of Honsador Building Products Group

Subsequent to the end of the third quarter, on October 2, 2017, the Company completed the acquisition of all issued and outstanding shares of Honsador Acquisition Corp., the parent company of Honsador Building Products group of companies ("Honsador") (the "Honsador Acquisition"), a leading distributor of building products and electrical supplies, and the largest producer of pressure-treated wood in Hawaii, for approximately US$82.3 million cash, including certain post-closing adjustments.

2016 Acquisitions

Purchase of Jemi Fibre Corp.

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

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

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

The fair values of assets acquired and liabilities assumed recognized in the 2016 Consolidated Financial Statements were based on a provisional assessment of fair values while the Company completed the finalization of fair value determinations during the measurement period of up to one year after the acquisition date, in accordance with IFRS 3, *Business Combinations* ("IFRS 3"). The final assessment had not been completed by the date the 2016 Consolidated Financial Statements were approved for issue by management. During the second quarter of 2017, the provisional fair values were finalized taking into consideration all new information obtained during the one year measurement period, resulting in a revised gain on bargain purchase of $22.2 million. The comparative information contained in the Unaudited Interim Condensed Consolidated Financial Statements for the period ended September 30, 2017 reflects this revision.

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

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

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

Further information regarding the revised purchase price allocation, along with the revisions thereto, and the recognition of the bargain purchase gain is contained in Note 4 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended September 30, 2017.

Purchase of Assets of Total Forest Industries Ltd.

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

The consideration transferred to the vendors was satisfied through:

a) $8.3 million cash; and

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

Further information regarding the preliminary purchase price allocation is contained in Note 4 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended September 30, 2017 and Note 7 of the 2016 Consolidated Financial Statements.

Issuance of Shares

2017 Private Placement

Subsequent to the end of the third quarter, on October 2, 2017, and concurrent with the Honsador Acquisition, the Company completed a private placement of 9,832,500 subscription receipts at a price of $5.85 each, resulting in gross proceeds of $57.5 million (the "2017 Private Placement"), including subscription receipts to certain insiders for proceeds of $5.6 million. The 2017 Private Placement is pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P.

Cash proceeds raised from the 2017 Private Placement, net of issuance costs, were used as partial consideration for the Honsador Acquisition. Total cash proceeds were held in escrow at September 30, 2017 by the Underwriters or escrow agent, and released to the Company concurrently with the Honsador Acquisition.

2017 Public Offering

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

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

2016 Public Offering

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

2016 Private Placement

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

Foreign Exchange Forward Contracts

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

Revolving Loan Facility and Non-Revolving Term Loan

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

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

The interest rate charged on the Timberlands Facility is based on the Canadian prime rate or the Canadian Banker's Acceptance rate. The principal amount will be amortized over 15 years and is payable in quarterly instalments, commencing no later than December 31, 2016, with maturity on July 10, 2021.

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

Concurrent with the Honsador Acquisition, the maximum credit available under the Company's revolving loan facility was increased from $275.0 million to $300.0 million. All other material terms under the facility remained consistent with those described in the 2016 Consolidated Financial Statements.

Additional information regarding these transactions is contained in Note 15 of the 2016 Consolidated Financial Statements and in Note 34 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended September 30, 2017.

Equipment Term Loan and Equipment Line

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

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

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

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

Additional information regarding these transactions is contained in Note 19 of the 2016 Consolidated Financial Statements.

Redemption of Convertible Debentures

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

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

Debt Exchange Agreement

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

Additional information regarding this transaction is contained in Note 23 of the 2016 Consolidated Financial Statements.

Seasonality

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

Results of Operations

Comparison of the Quarter Ended September 30, 2017 and September 30, 2016

Overall Performance

The following table shows the Company's segmented results for the quarters ended September 30:

(in thousands of dollars)

	Three months ended September 30, 2017				Three months ended September 30, 2016			
	Building Materials Distribution $	Forestry $	Adjustments and eliminations[(1)] $	Consolidated $	Building Materials Distribution $	Forestry[(2)] $	Adjustments and eliminations[(1)] $	Consolidated $
Revenue								
External customers	302,843	13,998	-	**316,841**	257,734	18,414	-	**276,148**
Inter-segment	-	217	(217)	**-**	-	355	(355)	**-**
	302,843	14,215	(217)	**316,841**	257,734	18,769	(355)	**276,148**
Specified income (expenses)								
Depreciation and amortization	(1,930)	(1,397)	-	**(3,327)**	(2,183)	(1,263)	-	**(3,446)**
Finance costs	(1,301)	(608)	-	**(1,909)**	(1,856)	(787)	-	**(2,643)**
Fair value adjustments	-	421	-	**421**	-	444	-	**444**
Net earnings	11,201	360	-	**11,561**	5,921	1,020	-	**6,941**

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

Sales and Gross Margin

Sales for the quarter ended September 30, 2017 were $316.8 million compared to $276.1 million in the same period in 2016, representing an increase of $40.7 million or 14.7%, due to the factors discussed below.

Sales for the Building Materials Distribution segment increased by $45.1 million or 17.5%, largely due to the Company's continuing focus on its product mix strategies and target customer base, continued strengthening of US housing markets, as well as the results from the TFI Acquisition.

Sales for the Forestry segment decreased by $4.6 million or 24.3%. Third quarter sales for this segment were negatively affected by the recent wildfires throughout British Columbia, with harvesting activities temporarily halted due to forest area closures, resulting in decreased harvest and customer delivery levels. Direct damage to the Company's forest lands was minimal.

The seasonally adjusted annual housing start rate for Canada in the quarter was approximately 11.3% higher than the same period last year(1). The Company's sales in the quarter were made up of 63% construction materials, compared to 58% during the same quarter last year, with the remaining balance of sales resulting from specialty and allied products of 33% (2016 - 35%) and forestry and other of 4% (2016 - 7%).

Gross margin dollars increased to $41.6 million in the quarter compared to $35.1 million in the same quarter of 2016, an increase of $6.5 million or 18.5%. Gross margin percentage was 13.1% in the quarter, an increase from the 12.7% achieved in the same quarter of 2016. The increase in margin dollars and percentage is due to better market conditions for construction materials during the quarter, and the results from the TFI Acquisition.

Expenses

Expenses for the quarter ended September 30, 2017 were $24.9 million as compared to $22.2 million for the same quarter in 2016, an increase of $2.7 million or 12.2%, due to the factors discussed below. As a percentage of sales, expenses were 7.9% in the quarter, compared to 8.0% during the same quarter in 2016.

Distribution, selling and administration expenses increased by $2.8 million or 14.9%, from $18.8 million to $21.6 million in the third quarter of 2016. The increase is mainly due to increased sales activity resulting in higher personnel costs. As a percentage of sales, these expenses were 6.8% in the quarter, consistent with the same quarter in 2016.

Depreciation and amortization expenses decreased by $119,000 or 3.5%, from $3.4 million to $3.3 million in the third quarter of 2017. Depreciation and amortization expense for the Building Materials Distribution segment decreased by $253,000, mainly due to certain equipment becoming fully depreciated, partially offset by a slight increase in depreciation and amortization for the Forestry segment of $134,000.

Operating Earnings

For the quarter ended September 30, 2017, operating earnings were $16.7 million, compared to $12.9 million in the same quarter in 2016, an increase of $3.8 million or 29.5%, due to the aforementioned increase in gross margin dollars, partially offset by the increase in expenses.

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

Finance Costs

Finance costs for the third quarter of 2017 were $1.9 million, a decrease of $734,000 or 27.8% from $2.6 million in the same period in 2016. Finance costs for the Building Materials Distribution segment were $555,000 lower than the same quarter in 2016, mainly due to the aforementioned redemption of the Company's convertible debentures in September 2016 and the 2017 Public Offering, which reduced the revolving loan facility, and the resulting interest savings. Finance costs for the Forestry segment were $179,000 lower than the same period in 2016, due to lower average borrowings under various long-term debt facilities.

Acquisition Costs

Acquisition costs during the quarter were $424,000, compared to $774,000 in the same period in 2016. These costs include management resources as well as legal, environmental, financial and other advisory services directly attributable to acquisitions. In 2016, these costs were primarily attributable to the 2016 Acquisitions, while in 2017 they primarily related to the advancement of the Honsador Acquisition.

Fair Value Adjustments

Fair value adjustments within the Forestry segment for the quarter resulted in an income of $421,000, compared to $444,000 in 2016, a decrease of $23,000 or 5.2%. The fair value adjustments recognized in the period relate to standing timber, which is carried at fair value less cost to sell, and are a function of estimated growth and harvest rates, costs of sustainable forest management, log pricing assumptions and the discount rate used.

Earnings before Income Taxes

For the quarter ended September 30, 2017, earnings before income taxes were $16.0 million, compared to $9.9 million in the same quarter of 2016, an increase of $6.1 million or 61.6% due to the foregoing factors.

Provision for Income Taxes

For the quarter ended September 30, 2017, provision for income taxes was $4.5 million, compared with $3.0 million during the same quarter of 2016, an increase of $1.5 million or 50.0%. This amount is a function of the pre-tax earnings generated in the quarter.

Net Earnings

As a result of the foregoing factors, net earnings for the quarter ended September 30, 2017 were $11.6 million compared to $6.9 million in the same quarter of 2016, an increase of $4.6 million or 66.6% due to the foregoing factors impacting the overall financial performance of the Company.

Comparison of the Nine Months Ended September 30, 2017 and September 30, 2016

Overall Performance

The following table shows the Company's segmented results for the nine months ended September 30:

	Nine months ended September 30, 2017				Nine months ended September 30, 2016			
	Building Materials Distribution $	Forestry $	Adjustments and eliminations[1] $	Consolidated $	Building Materials Distribution $	Forestry[2] $	Adjustments and eliminations[1] $	Consolidated $
Revenue								
External customers	818,842	40,881	-	**859,723**	735,032	28,858	-	**763,890**
Inter-segment	-	683	(683)	**-**	-	526	(526)	**-**
	818,842	41,564	(683)	**859,723**	735,032	29,384	(526)	**763,890**
Specified income (expenses)								
Depreciation and amortization	(5,826)	(4,289)	-	**(10,115)**	(6,914)	(2,147)	-	**(9,061)**
Restructuring costs	-	(834)	-	**(834)**	-	-	-	**-**
Finance costs	(4,172)	(1,741)	-	**(5,913)**	(5,643)	(1,045)	-	**(6,688)**
Fair value adjustments	-	1,300	-	**1,300**	-	565	-	**565**
Gain on bargain purchase	-	-	-	**-**	-	-	22,189	**22,189**
Net earnings	22,809	246	-	**23,055**	15,024	1,853	22,189	**39,066**

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

Sales and Gross Margin

Sales for the nine month period ended September 30, 2017 were $859.7 million compared to $763.9 million in the same period in 2016, representing an increase of $95.8 million or 12.5%, due to the factors discussed below.

Sales for the Building Materials Distribution segment increased by $83.8 million or 11.4%, largely due to the Company's continuing focus on its product mix strategies and target customer base, continued strengthening of US housing markets, as well as the results from the TFI Acquisition.

Sales for the Forestry segment increased by $12.2 million or 41.5%. The Forestry segment commenced operations on May 13, 2016 and therefore accounted for only four and a half months of activity in the prior year comparative period versus the full nine months in 2017. Sales for the segment were negatively affected by adverse weather conditions in the first and second quarters of 2017 and did not recover to seasonal expectations until the mid-point of the second quarter. Third quarter sales were negatively affected by the recent wildfires throughout British Columbia, with harvesting activities temporarily halted due to forest area closures, resulting in decreased harvest and customer delivery levels. Direct damage to the Company's forest lands was minimal.

The Company's sales in the period were made up of 63% construction materials, compared to 61% during the same period last year, with the remaining balance resulting from specialty and allied products of 32% (2016 - 35%), forestry and other of 5% (2016 - 4%).

Gross margin dollars increased to $107.8 million in the nine month period compared to $97.3 million in the same period of 2016, an increase of $10.5 million or 10.8%. Gross margin percentage was 12.5% in the period, a slight decrease from the 12.7% achieved in the same period of 2016. Lower gross margin percentages were mainly the result of the aforementioned adverse conditions experienced within the Forestry segment during the first nine months of 2017.

Expenses

Expenses for the nine month period ended September 30, 2017 were $71.0 million as compared to $65.3 million for the same period in 2016, an increase of $5.7 million or 8.7% due to the factors discussed below. As a percentage of sales, expenses were 8.3% in the period, compared to 8.5% during the same period in 2016.

Distribution, selling and administration expenses were $60.0 million, compared to $56.2 million for the same period in 2016, and increase of $3.8 million or 6.8%. As a percentage of sales, these expenses were 7.0% in the period, compared to 7.4% the same period in 2016.

Depreciation and amortization expenses increased by $1.1 million or 11.6%, from $9.1 million to $10.1 million in the same period in 2017. Depreciation and amortization expense for the Building Materials Distribution segment decreased by $1.1 million, mainly due to certain equipment becoming fully depreciated. Depreciation and amortization for the Forestry segment increased by $2.1 million, which was largely a function of the 2016 comparative period beginning in May 13, 2016 with only four and a half months of operations versus the full nine months in 2017.

Restructuring costs for the nine months ended September 30, 2017 of $834,000 related to the closure of certain non-core Forestry segment operations.

Operating Earnings

For the nine month period ended September 30, 2017, operating earnings were $36.8 million compared to $32.0 million in the same period of 2016, an increase of $4.8 million or 15.0%, due to the foregoing factors.

Finance Costs

Finance costs for the period were $5.9 million, compared to $6.7 million during the same period in 2016, a decrease of $775,000 or 11.6%. Finance costs for the Building Materials Distribution segment were $1.5 million lower than the same period in 2016, mainly due to the aforementioned redemption of the Company's convertible debentures in September 2016 and the 2017 Public Offering, which reduced the revolving loan facility, and the resulting interest savings. This decrease was partially offset by an increase in finance costs within the Forestry segment of $696,000, which was a function of the 2016 comparative period beginning in May 13, 2016 with only four and a half months of operations versus the full nine months in 2017.

Acquisition Costs

Acquisition costs during the period were $1.2 million, compared to $1.8 million in the same period in 2016. These costs include management resources as well as legal, environmental, financial and other advisory services directly attributable to acquisitions. In 2016, these costs were primarily attributable to the 2016 Acquisitions, while in 2017 they primarily related to the advancement of the Honsador Acquisition.

Fair Value Adjustments

Fair value adjustments within the Forestry segment for the period resulted in an income of $1.3 million, compared to $565,000 in the same period in 2016, and increase of $735,000 or 130.1%. The fair value adjustments recognized in the period relate to standing timber, which is carried at fair value less cost to sell, and are a function of estimated growth and harvest rates, costs of sustainable forest management, log pricing assumptions and the discount rate used.

Gain on Bargain Purchase and Other Income

The first nine months of 2016 included the aforementioned finalization of the previously provisional gain on bargain purchase in the amount of $22.2 million relating to the CFC Acquisition.

Earnings before Income Taxes

For the nine month period ended September 30, 2017, earnings before income taxes were $32.3 million, compared to earnings of $46.3 million in the same period of 2016, a decrease of $14.0 million or 30.2% due to the foregoing factors, and largely as a result of the aforementioned non-recurring gain on bargain purchase relating to the CFC Acquisition.

Provision for Income Taxes

For the nine month period ended September 30, 2017, provision for income taxes was $9.2 million compared to $7.3 million in the same period of 2016, an increase of $1.9 million or 26.0%. This amount is mainly a function of pre-tax earnings generated in the period, excluding the aforementioned gain on bargain purchase, which is non-taxable.

Net Earnings

As a result of the foregoing factors, net earnings for the nine month period ended September 30, 2017 were $23.1 million compared to $39.1 million in the same period of 2016, a decrease of $16.0 million or 41.0% due to the foregoing factors impacting the overall financial performance of the Company. Excluding the impact of the aforementioned gain on bargain purchase, directly attributable acquisition costs and restructuring costs, net earnings for the first nine months of 2017 would have been $25.0 million, compared to $18.6 million in the same period in 2016, with an increase of $6.4 million or 34.4% due to the foregoing factors.

Summary of Quarterly Results

For the Quarters ended:

($ and shares in millions, per share in dollars)	2017 30 - Sept	30 - Jun	31 - Mar	2016 31 - Dec	30 - Sep	30 - Jun	31 - Mar	2015 31 - Dec
Sales	**316.8**	320.0	222.8	214.4	276.1	290.1	197.6	193.5
EBITDA(1)	**21.3**	18.9	8.2	5.0	16.0	40.7	5.4	5.1
Adjusted EBITDA(1) (2)	**21.7**	20.5	8.2	7.3	16.8	19.5	5.4	5.1
Earnings before income taxes(1)	**16.0**	13.8	2.4	0.0	9.9	35.2	1.3	0.8
Net earnings(1)	**11.6**	9.8	1.7	0.0	6.9	31.2	0.9	0.6
Net earnings before non-recurring items(3)	**12.0**	11.0	1.7	2.2	7.7	9.7	0.9	0.7
Net earnings per share (4)	**0.17**	0.15	0.03	0.01	0.12	0.66	0.02	0.01
Net earnings per share, before non-recurring items(3)(4)	**0.17**	0.17	0.03	0.04	0.14	0.21	0.02	0.01
Dividends declared per share	**0.14**	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Outstanding shares (4)	**67.8**	66.5	61.2	61.2	59.6	47.0	42.4	42.4

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

EBITDA and Adjusted EBITDA

EBITDA for the quarter ended September 30, 2017 was $21.3 million compared to $16.0 million in the same quarter of 2016, an increase of $5.3 million or 33.1%. EBITDA for the third quarter of 2017 was impacted by non-recurring directly attributable acquisition costs of $424,000, whereas the third quarter of 2016 was impacted by acquisition costs of $774,000. Adjusted EBITDA before these non-recurring items was $21.7 million compared to $16.8 million in the same quarter of 2016, an increase of $4.9 million or 29.5% compared to the same quarter in 2016. The increase in Adjusted EBITDA is largely due to the Company's continuing focus on its product mix strategies and target customer base, continued strengthening of US housing markets, as well as the results from the TFI Acquisition.

EBITDA for the nine months ended September 30, 2017 was $48.3 million compared to $62.1 million the first nine months of 2016, a decrease of $13.8 million or 22.2%. EBITDA for the first nine months of 2016 was impacted by the aforementioned gain on bargain purchase of $22.2 million, non-recurring directly attributable acquisition costs of $1.8 million, whereas the first nine months of 2017 were impacted by acquisition costs of $1.2 million and restructuring costs of $834,000. Adjusted EBITDA before these non-recurring expenses was $50.3 million compared to $41.7 million in the same period in 2016, an increase of $8.7 million or 20.8%. The increase in Adjusted EBITDA relates largely to the Company's continuing focus on its product mix strategies and target customer base, continued strengthening of US housing markets, as well as the results from the TFI Acquisition.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
(in thousands of dollars)	**$**	**$**	**$**	**$**
Net earnings	**11,561**	6,941	**23,055**	39,066
Provision for income taxes	**4,482**	2,960	**9,225**	7,278
Finance costs	**1,909**	2,643	**5,913**	6,688
Depreciation of property, plant and equipment	**2,607**	2,708	**7,899**	6,830
Amortization of intangible assets	**720**	738	**2,216**	2,231
Share-based compensation	**-**	-	**29**	20
EBITDA	**21,279**	15,990	**48,337**	62,113
Gain on bargain purchase	**-**	-	**-**	(22,189)
Acquisition costs	**424**	774	**1,158**	1,750
Restructuring costs	**-**	-	**834**	-
Adjusted EBITDA	**21,703**	16,764	**50,329**	41,674

Financial Condition

Liquidity and Capital Resources

During the nine months ended September 30, 2017, the Company generated $4.9 million in cash, versus consuming $3.2 million in the same period of 2016. The following activities during the period were responsible for the change in cash.

Operating activities generated $21.3 million in cash, before changes in non-cash working capital, compared to $16.6 million in the same period of 2016. This increase in cash generated is primarily the result of the aforementioned improved Adjusted EBITDA in the first nine months of 2017 compared to the same period in 2016.

During the nine months ended September 30, 2017, changes in non-cash working capital items used $4.9 million in cash, compared to generating $1.9 million in the same period in 2016. The increase in the changes in non-cash working capital items relative to the same period last year is mainly due to increased sales volumes in the latter part of the third quarter of 2017, resulting in higher levels of trade and other receivables compared to September 30, 2016.

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 first nine months of 2017 was comprised of an increase in trade and other receivables of $44.0 million, a decrease in inventory of $9.1 million, an increase in prepaid expenses of $923,000, and an increase in trade and other payables and income taxes payable of $30.9 million.

In the nine months ended September 30, 2017, financing activities consumed $10.4 million of cash, compared to $10.7 million in the same period in 2016. Shares issued generated $37.9 million of cash, net of transaction costs, compared to $79.8 million in 2016, relating to the aforementioned 2017 Public Offering, compared to the 2016 Public Offering and the 2016 Private Placement included last year.

Repayments of the non-revolving term loan consumed $2.0 million, compared to funds received of $40.0 million in 2016 and used to pay a portion of Jemi's callable loan, which consumed a total of $52.2 million of cash. Repayments of equipment term loans consumed $3.0 million, compared to net funds received of $6.4 million in 2016, due to CFC's activities. The annual scheduled installment payments of the promissory notes consumed $2.7 million of cash, compared to $1.9 million in 2016. Payment of finance lease liabilities consumed $484,000 of cash compared to $6.5 million in 2016, mainly due to CFC's activities.

Dividends paid to shareholders amounted to $26.6 million, compared to $19.2 million in the same period in 2016. The increase in dividends paid was due to the aforementioned 2017 Public Offering, 2016 Public Offering, 2016 Private Placement, shares issued pursuant to the CFC Acquisition and the debt exchange agreement resulting in a higher weighted average number of shares.

Financing costs on borrowings consumed $759,000, compared to $858,000 during the same period in 2016. The revolving loan facility decreased by $12.8 million, compared to $7.4 million in the same period in 2016. The Company was not in breach of any of its covenants during the nine months ended September 30, 2017.

During the comparative nine months ended September 30, 2016, repayment of demand loans consumed $3.2 million of cash and repayment of convertible debentures consumed $43.7 million of cash, due to the aforementioned early redemption of convertible debentures. There were no such transactions during the third quarter of 2017.

Interest paid on convertible debentures in the first nine months of 2017 was $nil, compared to $1.9 million the same period in 2016 due to the aforementioned early redemption of the convertible debentures.

Investing activities consumed $1.0 million of cash, compared to $11.1 million in 2016. Cash purchases of property, plant and equipment relating to the Building Materials Distribution segment were $1.1 million, compared to $965,000 in 2016. Cash purchases of property, plant and equipment relating to the Forestry segment were $3.4 million, compared to $2.2 million in 2016. Proceeds from disposition of property, plant and equipment were $3.5 million, largely related to equipment sold with respect to the closure of certain non-core Forestry segment operations compared to $447,000 in the same period in 2016. Investing activities in 2016 included the TFI Acquisition and bank indebtedness acquired through the CFC Acquisition, with no such activities during the first nine months of 2017.

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 $642.0 million as at September 30, 2017, versus $558.9 million as at December 31, 2016, an increase of $83.1 million. Current assets increased by $93.2 million largely due to the increase in restricted cash of $57.5 million, due to the aforementioned cash proceeds from the 2017 Private Placement, which were held in escrow as at September 30, 2017. The remaining change was due to seasonal increases of $43.3 million in trade and other receivables and $903,000 in prepaid expenses and deposits, partially offset by a decrease of $8.5 million in inventory.

Long-term assets within the Building Materials Distribution segment were $167.4 million as at September 30, 2017, compared to $175.8 million as at December 31, 2016, a decrease of $8.4 million, mainly due to depreciation of certain property, plant and equipment and amortization of intangible assets. Long-term assets within the Forestry segment were $128.8 million as at September 30, 2017, compared to $130.5 million as at December 31, 2016, a decrease of $1.7 million, mainly due to disposing of equipment with respect to the aforementioned closure of certain non-core operations.

Total Liabilities

Total liabilities were $335.7 million as at September 30, 2017, versus $283.7 million at December 31, 2016, an increase of $52.0 million. This increase was mainly as a result of an increase in the aforementioned subscription receipts held in trust of $57.5 million and a seasonal increase in trade and other payables of $22.2 million. These increases were partially offset by decreases in bank indebtedness of $5.0 million, post-retirement benefits of $2.4 million, the settlement of a provision for onerous operating leases of $1.5 million, and the decrease in the revolving loan facility of $13.9 million. The decrease in the revolving loan facility as a result of the 2017 Public Offering was partially offset by an increase in the facility in order to finance the working capital requirements of the Company.

Outstanding Share Data

As at November 9, 2017, there were 77,659,655 Common Shares issued and outstanding.

Dividends

During the nine months ended September 30, 2017, the Company declared dividends to shareholders of $0.42 per share, resulting in aggregate dividends of $27.6 million. A dividend was declared on September 15, 2017, to shareholders of record on September 29, 2017, and was accrued at September 30, 2017 and paid on October 13, 2017.

(in thousands of dollars, except per share amounts)

Record date	Amount $	Per share $
March 31, 2017	**8,566**	0.14
June 30, 2017	**9,490**	0.14
September 30, 2017	**9,496**	0.14
	27,552	0.42

Dividend Policy

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

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

Hedging

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

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

At September 30, 2017, the Company held various outstanding foreign exchange contracts to purchase an aggregate of US$80.0 million at exchange rates ranging between 1.2154 and 1.2437 (2016 - $nil), as described in "Foreign Exchange Forward Contracts" above, and unrealized gains totaling $1.2 million (2016 - $nil) were recorded in Other income.

The Company also held several other insignificant foreign exchange contracts to purchase US dollars for economic hedging purposes, with total unrealized gains of $43,000 (2016 - $nil) recorded in Other income.

When held by the Company, these derivative instruments are traded through a well-established financial services firm 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 $2.4 million in the nine months ended September 30, 2017, consistent with the same period in 2016. The minimum payments under the terms of these leases are as follows: $806,000 in 2017, $3.2 million in 2018, $2.9 million in 2019, $1.5 million in 2020, $810,000 in 2021 and $1.1 million thereafter.

During the nine months ended September 30, 2017, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of $831,000 (2016 - $394,000) by a company owned by Rob Doman. As at September 30, 2017, payables to this related party were $324,000 (2016 - $532,000). Additionally, fees of $850,000 (2016 - $797,000) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman. As at September 30, 2017, payables to this related party were $67,000 (2016 - $48,000).

During the nine months ended September 30, 2017 the Company purchased $2.2 million (2016 - $2.6 million) of product from a public company in which Amar Doman has an ownership interest and is also a director and officer. These purchases are in the normal course of operations and are recorded at exchange amounts. As at September 30, 2017, payables to this related party were $133,000 (2016 - $76,000).

During the nine months ended September 30, 2017 the Company sold $nil (2016 - $45,000) of product to a company controlled by Siegfried Thoma, a director of the Company. These sales were made in the normal course of operations and are recorded at exchange amounts.

During the nine months ended September 30, 2017, subscriptions were received from certain insiders of the Company for proceeds of $5.6 million (2016 - $14.6 million), as discussed above, on terms consistent with all other subscriptions, including $5.0 million in subscription receipts from a company solely controlled by Amar Doman and $472,000 from several members of key management personnel, directors and officers of the Company. In 2016, subscription receipts from Amar Doman totaled $6.0 million, from Rob Doman totaled $1.9 million and from several members of key management personnel totaled $567,000, on terms consistent with all other subscriptions.

Additional information regarding these related party transactions is contained in Note 24 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended September 30, 2017 and Note 28 of the 2016 Consolidated Financial Statements.

In addition to the aforementioned related party transactions, certain subsidiaries of the Company have entered into leases for various facilities and equipment, with entities affiliated with individuals who are directors and officers of such subsidiaries, in connection with prior acquisitions. During the nine months ended September 30, 2017, such lease payments totaled $1.2 million (2016 - $911,000), and trucking services and other related services paid totaled $70,000 (2016 - $248,000). A number of these arrangements were terminated during the second quarter of 2017.

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 Western United States, and for vehicles, warehouse equipment, and a computer hosting contract.

The following table shows, as at September 30, 2017, the Company's contractual obligations within the periods indicated:

Contractual Obligations (in thousands of dollars)	**Total**	**Remainder of 2017**	**2018-2019**	**2020-2021**	**Thereafter**
Revolving loan facility(1)	138,249	1,345	10,758	126,146	-
Non-revolving term loan(2)	43,152	1,102	8,537	33,513	-
Promissory notes(3)	4,566	-	4,566	-	-
Equipment term loan(4)	14,011	1,296	7,489	5,226	-
Equipment line(5)	3,042	29	256	486	2,271
Earn-out commitment(6)	2,065	-	-	-	2,065
Finance leases(7)	2,382	177	1,192	682	331
Operating leases(7)	60,958	3,721	26,533	15,591	15,113
Total contractual obligations	268,425	7,670	59,331	181,644	19,780

1. Interest has been calculated based on the average borrowing under the facility for the quarter ended September 30, 2017 utilizing the interest rate payable under the terms of the facility at September 30, 2017. This facility matures on July 10, 2021.
2. Annual principal payments are amortized over 15 years beginning on December 31, 2016, with interest payable quarterly.
3. Two promissory notes: (1) annual principal payments of $1.9 million on July 2, with simple interest payable as a lump sum on July 2, 2018 maturity date; (2) with annual principal payments of $802,000 on August 31, with simple interest payable semi-annually, and maturing on August 31, 2019.
4. Monthly principal repayments are amortized over 5 years beginning August 1, 2016, with interest payable monthly.
5. Monthly principal repayments amortized over 15 years, commencing on August 1, 2019, with maturity on July 1, 2025.
6. Additional information is contained in Note 18 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ending September 30, 2017.
7. Additional information is contained in Note 25 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ending September 30, 2017.

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 $1.6 million (2016 - $1.6 million) in respect of historical obligations, pre-dating 1999, for a non-registered executive pension plan for former executives.

Significant Accounting Judgments and Estimates

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

Goodwill

Management uses judgment in determining the fair value of the acquired net identifiable tangible and intangible assets at the date of a business combination. Any resulting goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill at September 30, 2017 relates to the Company's acquisitions of various businesses. Goodwill is not amortized, but is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. Goodwill impairment is assessed based on a comparison of the fair value of a cash-generating unit to the underlying carrying value of that cash-generating unit's net assets, including goodwill. Significant estimates are required in determining the fair value of each cash-generating unit, including a discount rate, a growth rate and revenue projections. When the carrying amount of the cash-generating unit exceeds its fair value, the fair value of goodwill related to the cash-generating unit is reduced by the excess of this carrying value and recognized as an impairment loss.

Timber

At each reporting date, timber is valued at fair value less costs to sell with any change therein, including the impact of growth and harvesting, 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, and net present value of future cash flows for standing timber, including, but not limited to, log pricing assumptions and the discount rate used.

Reforestation and Environmental Provisions

Management uses judgment in determining the value of the reforestation and environmental provisions. 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.

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.

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

Allowance for Doubtful Accounts

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

Income Taxes

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

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

Leases

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

Segment Reporting

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

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

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

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

Changes in Accounting Standards

The significant accounting policies as disclosed in Note 3 of the 2016 Consolidated Financial Statements have been applied consistently in the preparation of these financial statements, except for amendments to IAS 7, *Statement of Cash Flows*, and IAS 12, *Income Taxes*.

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

Amendment to IAS 12, *Income Taxes,* clarifies that unrealized losses related to debt instruments that are measured at fair value in the financial statements and at cost for tax purposes, can give rise to deductible temporary differences, whether the entity that holds the debt instrument expects to recover the carrying amount of the debt instrument by holding it to maturity or selling it.

In addition, the IAS 12 amendment clarifies that:

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

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

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

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

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 nine months ended September 30, 2017 that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risks and Uncertainties

The Company is subject to normal business risks associated with similar firms operating within the building materials industry in Canada and the US, which are described in greater detail in the Company's AIF dated March 30, 2017, the Company's MD&A contained in the 2016 annual consolidated financial report and the Company's public filings on www.sedar.com, which the reader is encouraged to review, and which are or may be, updated from time to time, after the date therein.

Outlook

The Canadian economy is expected to grow by 3.1% in 2017, before slowing to 2.1% in 2018 and 1.5% in 2019, according to the most recent estimates published by the Bank of Canada ("BoC"). The BoC also reported that recent indicators have bolstered their confidence in the economic outlook for above-potential growth and the absorption of excess capacity. Based on this improving outlook, the BoC raised interest rates by 0.25% in July 2017, the first such increase in several years, and by a further 0.25% in September 2017, although the BoC adopted a more cautious approach in its October 2017 guidance. The Company's focus in the near term remains to improve sales with its target customer base while continuing to optimize gross margins, integrate recent acquisitions and maintain tight controls over expenses, including those relating to the operations of the CFC Acquisition and the recent Honsador Acquisition. The Company is committed to enhancing its offering of specialty and allied products to the Canadian and Unites States markets. Management's focus on cash flow, primarily consisting of the management of inventory and trade receivables, remains paramount, and such discipline was introduced to the operations of the new forestry operating segment, including in respect of its property, plant and equipment.

According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for Canadian housing starts was 222,513 in the third quarter of 2017, compared to 200,003 in the same period in 2016. CMHC forecasts housing starts for the year 2017 to be in the range from 174,500 units to 184,300 units, and in the range from 172,700 units to 183,100 units for 2018. The Canadian Real Estate Association expects 506,900 existing homes to change hands in Canada in 2017, a decrease from 536,118 in 2016. The results of the 2016 Federal Budget, the BC and the new Ontario foreign buyers tax, foreign exchange fluctuations and overall affordability issues, as well as recent and potential legislative policy changes to address these issues, may affect the housing market, although any potential impact is not predictable.

According to the US Census Bureau, US housing starts have been growing steadily over the past four years, reaching 1,200,000 units in the third quarter of 2017, and, according to the Federal Home Mortgage Corporation (Freddie Mac) Economic & Housing Research Group, are estimated to continue the current trend and reach 1,220,000 units for the 2017 year. Housing construction in the US remains subdued by historical standards even though other indicators suggest the housing market is strong.

Several counties in Northern California have declared a state of emergency due to recent wildfire activity in the region. The fire situation is volatile and evolving. The Company's operations in the Western United States have not been impacted the fires. However, the Company continues to diligently monitor the situation.

Sawlog prices have experienced an upward trend in pricing largely attributable to ongoing log supply constraints, particularly in British Columbia, where the situation has been exacerbated by the recent wild fire activity, which has now been contained. There can be no assurance these pricing trends will be sustainable, resulting in potential adverse impacts on the Company's forestry segment.

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

Management will continue to keep a close eye on the Company's legacy customers, those relating to the CFC Acquisition, its operations and potential seasonal weather impacts, as well as focus on operations relating to the Honsador Acquisition, continue to carefully manage the Company's costs in line with their activity so that the Company can be appropriately positioned to participate in a continuing economic recovery and be ready to work hard to translate revenue gains into higher earnings.

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