CanWel Building Materials Group Ltd.

Unaudited Interim Condensed Consolidated Financial Statements

March 31, 2020
(in thousands of Canadian dollars)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102 “Continuous Disclosure Obligations”, Part 4, Subsection 4.3(3a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited Interim Condensed Consolidated Financial Statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor, KPMG LLP, has not performed a review of these Interim Condensed Consolidated Financial Statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

May 14, 2020

Interim Condensed Consolidated Statement of Financial Position (Unaudited)

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

(in thousands of Canadian dollars)	Notes	As at March 31, 2020 $	As at December 31, 2019 $
Assets			
Current assets			
Cash		**4,202**	-
Trade and other receivables	5	**178,958**	98,420
Income taxes receivable		**9,740**	8,934
Inventories	6	**308,734**	284,655
Prepaid expenses and deposits		**10,758**	10,752
		512,392	402,761
Non-current assets			
Property, plant and equipment	7	**90,164**	90,472
Right-of-use assets	8	**131,463**	121,498
Timber	9	**48,233**	48,800
Deferred income tax assets		**3,269**	2,861
Intangible assets	10	**48,367**	46,709
Goodwill	11	**185,848**	178,421
Other assets		**3,394**	2,901
		510,738	491,662
Total assets		**1,023,130**	894,423
Liabilities			
Current liabilities			
Cheques issued in excess of funds on deposit		**12,398**	8,000
Trade and other payables		**104,529**	82,553
Performance bond obligations	12	**13,473**	12,778
Dividends payable	15	**10,897**	10,887
Income taxes payable		**1,332**	1,651
Current portion of non-current liabilities		**27,076**	28,075
		169,705	143,944
Non-current liabilities			
Loans and borrowings	13	**378,923**	296,076
Lease liabilities	8	**116,101**	105,311
Reforestation and environmental		**1,959**	1,239
Deferred income tax liabilities		**17,527**	16,802
Retirement benefit obligations	14	**4,798**	3,705
Other liabilities		**516**	572
		519,824	423,705
Total liabilities		**689,529**	567,649
Equity			
Common shares	15	**499,210**	498,891
Contributed surplus		**11,066**	11,066
Foreign currency translation		**23,273**	5,940
Deficit		**(199,948)**	(189,123)
		333,601	326,774
Total liabilities and equity		**1,023,130**	894,423

Commitments and contingencies 8,24

Interim Condensed Consolidated Statement of Earnings (Loss) and Comprehensive Earnings (Loss) (Unaudited)

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

(in thousands of Canadian dollars except per share amounts)	Notes	Three months ended March 31, 2020 $	2019 $
Revenue	20,21	**326,745**	281,946
Cost of sales		**283,278**	240,915
Gross margin from operations		**43,467**	41,031
Expenses			
Distribution, selling and administration		**26,949**	25,940
Depreciation of property, plant and equipment	7	**3,134**	3,325
Amortization of right-of-use assets	8	**5,415**	5,426
Amortization of intangible assets	10	**1,747**	1,708
		37,245	36,399
Operating earnings		**6,222**	4,632
Finance costs	16	**(5,042)**	(5,116)
Earnings (loss) before income taxes		**1,180**	(484)
Provision for (recovery of) income taxes			
Current income tax		**565**	939
Deferred income tax recovery		**(235)**	(1,067)
		330	(128)
Net earnings (loss)		**850**	(356)
Other comprehensive income (loss)			
Exchange differences on translation of foreign operations[1]		**17,333**	(3,973)
Net actuarial loss from pension and other benefit plans[2]		**(778)**	(77)
		16,555	(4,050)
Comprehensive earnings (loss)		**17,405**	(4,406)
Net earnings per share			
Basic and diluted		**0.01**	(0.00)
Weighted average number of shares			
Basic and diluted		**77,816,740**	77,662,114

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

Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)

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

(in thousands of Canadian dollars except share amounts)	Common shares		Contributed surplus	Foreign currency translation	Deficit	Total
	#	$	$	$	$	$
As at December 31, 2019	77,765,329	498,891	11,066	5,940	(189,123)	326,774
Shares issued pursuant to:						
Employee Common Share Purchase Plan	67,804	319	-	-	-	319
Dividends		-	-	-	(10,897)	(10,897)
Comprehensive earnings for the period		-	-	17,333	72	17,405
As at March 31, 2020	**77,833,133**	**499,210**	**11,066**	**23,273**	**(199,948)**	**333,601**
As at December 31, 2018	77,744,598	499,154	10,769	15,654	(162,450)	363,127
Shares issued pursuant to:						
Employee Common Share Purchase Plan	83,862	317	-	-	-	317
Repurchase of common shares	(142,200)	(913)	297	-	-	(616)
Transaction costs on issue of shares		(9)	-	-	-	(9)
Dividends		-	-	-	(10,876)	(10,876)
Comprehensive loss for the period		-	-	(3,973)	(433)	(4,406)
As at March 31, 2019	**77,686,260**	**498,549**	**11,066**	**11,681**	**(173,759)**	**347,537**

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

(in thousands of Canadian dollars)	Notes	Three months ended March 31, 2020 $	2019 $
Operating activities			
Net earnings (loss) for the period		**850**	(356)
Items not affecting cash			
Provision for (recovery of) income taxes		**330**	(128)
Depreciation and amortization of:			
Property, plant and equipment	7	**3,134**	3,325
Right-of-use assets	8	**5,415**	5,426
Intangible assets	10	**1,747**	1,708
Fair value adjustments	9	**23**	329
Timber harvested	9	**674**	1,441
Other		**(177)**	(53)
Income taxes paid		**(1,413)**	(2,878)
Interest paid on loans and borrowings and other		**(2,198)**	(2,310)
Payment of reforestation and environmental		**(40)**	(90)
Finance costs	16	**5,042**	5,116
Cash flows from operating activities before changes in non-cash working capital		**13,387**	11,530
Changes in non-cash working capital	19	**(74,754)**	(81,921)
Net cash flows used in operating activities		**(61,367)**	(70,391)
Financing activities			
Shares issued, net of transaction costs	15	**319**	308
Dividends paid	15	**(10,887)**	(10,884)
Payment of lease liabilities, including interest	8	**(6,491)**	(5,586)
Net advances of loans and borrowings		**78,298**	93,030
Financing costs on borrowings		**(106)**	(16)
Repurchase of common shares	15	**-**	(616)
Net cash flows provided by financing activities		**61,133**	76,236
Investing activities			
Purchase of property, plant and equipment	7	**(957)**	(1,896)
Proceeds from disposition of property, plant and equipment		**49**	35
Net cash flows used in investing activities		**(908)**	(1,861)
Net (decrease) increase in cash and cash equivalents		**(1,142)**	3,984
Foreign exchange difference		**946**	(68)
Cash and cash equivalents - beginning of period		**(8,000)**	(9,213)
Cash and cash equivalents - end of period		**(8,196)**	(5,297)

1. NATURE OF OPERATIONS

CanWel Building Materials Group Ltd. (the "Company") was incorporated in 2009 under the Business Corporations Act (British Columbia). On May 11, 2010, the Company was continued under the laws of Canada pursuant to section 187 of the Canada Business Corporations Act with its current name. The Company has limited liability, with its shares publicly listed on the Toronto Stock Exchange ("TSX"). The Company's head office is located at Suite 1600 – 1100 Melville Street, Vancouver, British Columbia. The Company's Canadian operations commenced in 1989.

The Company operates through its wholly owned subsidiaries as a distributor of building materials and home renovation products and as a provider of wood pressure treating services in Canada nationally and regionally in the Western United States mainland and Hawaii. Additionally, the Company has operations in timber ownership and management of private timberlands and Crown forest licenses, full service harvesting and trucking, and post peeling and pressure treating in British Columbia and Saskatchewan for the North American agricultural market.

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

a) Statement of compliance

These unaudited Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with the accounting policies disclosed in the Company's audited Annual Consolidated Financial Statements for the year ended December 31, 2019.

These unaudited Interim Condensed Consolidated Financial Statements were authorized for issuance on May 14, 2020 by the Board of Directors of the Company.

b) Basis of presentation

These unaudited Interim Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries. The notes presented in these unaudited Interim Condensed Consolidated Financial Statements include in general only significant changes and transactions occurring since the Company's last year-end, and are not fully inclusive of all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. These unaudited Interim Condensed Consolidated Financial Statements should be read in conjunction with the Company's audited Annual Consolidated Financial Statements, including the notes thereto, for the year ended December 31, 2019.

c) Functional and presentation currency

These unaudited Interim Condensed Consolidated Financial Statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except per share amounts.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies as disclosed in the Company's audited Annual Consolidated Financial Statements for the year ended December 31, 2019 have been consistently applied to all periods in the preparation of these unaudited Interim Condensed Consolidated Financial Statements.

4. BUSINESS ACQUISITION

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

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

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

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

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

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

Lignum's gross revenues were $126,900 and net earnings were $1,265 from the date of acquisition to March 31, 2020.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three months ended March 31, 2020 and 2019 (in thousands of Canadian dollars)

5. TRADE AND OTHER RECEIVABLES

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

	March 31, 2020 $	December 31, 2019 $
Trade receivables	**174,182**	91,760
Allowance for doubtful accounts	**(621)**	(856)
Net trade receivables	**173,561**	90,904
Other receivables	**5,397**	7,516
Total trade and other receivables	**178,958**	98,420

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

	March 31, 2020 $	December 31, 2019 $
Neither past due nor impaired	**160,081**	79,324
Past due but not impaired:		
Less than 1 month	**11,078**	9,446
1 to 3 months	**5,501**	6,414
3 to 6 months	**2,298**	3,236
Total trade and other receivables	**178,958**	98,420

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

	$
Balance at December 31, 2019	856
Reversals during the period	(121)
Accounts written off	(166)
Foreign exchange difference	52
Balance at March 31, 2020	**621**

The Company holds no collateral for any receivable amounts outstanding as at March 31, 2020.

Further information on the valuation of trade and other receivables is disclosed in Note 24.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three months ended March 31, 2020 and 2019 (in thousands of Canadian dollars)

6. INVENTORIES

	March 31, 2020 $	December 31, 2019 $
Inventories held for resale	**256,662**	238,718
Inventories held for processing	**52,072**	45,937
	308,734	284,655

Further information on the valuation of inventories is disclosed in Note 24.

7. PROPERTY, PLANT AND EQUIPMENT

	Land $	Buildings, leasehold improvements and roads $	Machinery, automotive and other equipment $	Computer equipment and systems development $	Total $
Cost					
Cost at December 31, 2019	31,762	22,807	90,911	5,613	151,093
Additions	-	258	674	25	957
Disposals	-	(2,197)	(1,787)	(1,460)	(5,444)
Foreign exchange difference	-	217	2,323	33	2,573
Cost at March 31, 2020	**31,762**	**21,085**	**92,121**	**4,211**	**149,179**
Accumulated depreciation					
Accumulated depreciation at December 31, 2019	-	5,744	50,379	4,498	60,621
Depreciation	-	611	2,245	278	3,134
Disposals	-	(2,197)	(1,756)	(1,460)	(5,413)
Foreign exchange difference	-	49	615	9	673
Accumulated depreciation at March 31, 2020	**-**	**4,207**	**51,483**	**3,325**	**59,015**
Net book value at December 31, 2019	31,762	17,063	40,532	1,115	90,472
Net book value at March 31, 2020	**31,762**	**16,878**	**40,638**	**886**	**90,164**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three months ended March 31, 2020 and 2019 (in thousands of Canadian dollars)

8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

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

During the quarter ended March 31, 2020, the Company revised certain assumptions regarding determination of the expected lease term, minimum lease payments and the assessment of the likelihood of exercising extension options with respect to several of the Company's facility leases. These revised assumptions were treated as a lease modification and resulted in a remeasurement, which increased the existing right-of-use assets and lease liabilities by $6,003.

Right-of-use assets

	Facilities[1] $	Machinery, automotive and other equipment[2] $	Computer Equipment $	Total $
Balance at December 31, 2019	106,536	14,537	425	121,498
Additions	3,165	402		3,567
Lease modifications and other remeasurements	6,003	-	-	6,003
Amortization	(4,232)	(1,141)	(42)	(5,415)
Foreign exchange movements	5,320	476	14	5,810
Balance at March 31, 2020	**116,792**	**14,274**	**397**	**131,463**

Lease liabilities

	Facilities[1] $	Machinery, automotive and other equipment[2] $	Computer Equipment $	Total $
Balance at December 31, 2019	108,813	14,771	425	124,009
Additions	3,165	402		3,567
Finance costs	1,059	142	5	1,206
Lease payments	(5,205)	(1,242)	(44)	(6,491)
Lease modifications and other remeasurements	6,003	-	-	6,003
Foreign exchange movements	5,465	497	15	5,977
Balance at March 31, 2020	119,300	14,570	401	134,271
Less: current portion	(13,753)	(4,252)	(165)	(18,170)
	105,547	**10,318**	**236**	**116,101**

1. Includes agreements related to distribution, wood treatment and office facility leases.
2. Includes forklifts, tractors, light vehicles and other heavy equipment leases.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three months ended March 31, 2020 and 2019 (in thousands of Canadian dollars)

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

Lease commitments

Future undiscounted payments due under the terms of all agreements, including these leases, are as follows (including certain leases with related parties, as disclosed in Note 17):

Year ending December 31	$
Remainder of 2020	**18,997**
2021	**23,566**
2022	**21,420**
2023	**19,913**
2024	**16,207**
Thereafter	**73,514**
	173,617

9. TIMBER

	$
Balance at December 31, 2019	48,800
Reforestation provision on harvested land	130
Harvested timber transferred to inventory in the period	(674)
Change in fair value	(23)
Balance at March 31, 2020	**48,233**

The Company's private timberlands comprise an area of approximately 45,983 hectares ("ha") of land as at March 31, 2020 (2019 - 45,983 ha) with standing timber consisting of mixed-species softwood forests.

During the three-month period ended March 31, 2020, the Company harvested approximately 62,949 cubic metres ("m^3") from its private timberlands (2019 - 127,697 m^3).

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three months ended March 31, 2020 and 2019 (in thousands of Canadian dollars)

Measurement of fair values

The table above reconciles the opening balances to the closing balances for Level 3 fair values (as defined in Note 18). The fair value measurement for the Company's standing timber, as disclosed above, has been categorized as Level 3 fair value, and was based on the inputs to the valuation technique discussed below.

Valuation Technique	Discounted cash flow analysis: The valuation model considers the present value of the net cash flows expected to be generated by the private timberlands over a period of 20 years. The expected net cash flows are discounted using a risk-adjusted discount rate.
Significant Unobservable Inputs in future periods	Estimated timber prices of \$36(1) per m^3 (weighted average sawlog and pulpwood prices) plus harvest and delivery charges (where applicable) of \$50(1) Estimated total costs, including harvest, delivery (where applicable) and stewardship costs of \$56(1) per m^3 Estimated harvest annual volume of 138,913 - 365,000 m^3 (20-year rolling average 222,107 m^3 (2019 - 241,018 m^3)) Risk-adjusted discount rate of 9.50%
Inter-relationship between key unobservable inputs and fair value measurement	The estimated fair value would increase (decrease) if: - the estimated timber prices per m^3 were higher (lower); - the estimated harvest, delivery and stewardship costs per m^3 were lower (higher); - the estimated harvest volumes were higher (lower); and - the risk-adjusted discount rate was lower (higher).

1. In whole dollars, not thousands

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three months ended March 31, 2020 and 2019 (in thousands of Canadian dollars)

10. INTANGIBLE ASSETS

	Canadian operations $	US operations $	Value-added services $	Forestry operations $	Total $
Cost					
Cost at December 31, 2019	10,000	54,168	1,633	8,406	74,207
Foreign exchange difference	-	5,001	-	-	5,001
Cost at March 31, 2020	**10,000**	**59,169**	**1,633**	**8,406**	**79,208**
Accumulated amortization					
Accumulated amortization at December 31, 2019	9,917	16,427	1,061	93	27,498
Amortization	83	1,429	41	194	1,747
Foreign exchange difference	-	1,596	-	-	1,596
Accumulated amortization at March 31, 2020	**10,000**	**19,452**	**1,102**	**287**	**30,841**
Net intangible assets at December 31, 2019	83	37,741	572	8,313	46,709
Net intangible assets at March 31, 2020	**-**	**39,717**	**531**	**8,119**	**48,367**

Intangible assets at March 31, 2020 relate to customer lists and trade names for the Distribution business segment and harvesting rights for the Forestry business segment, as described in Note 21.

11. GOODWILL

	Canadian operations $	US operations $	Value-added services $	Total $
Balance at December 31, 2019	62,624	80,450	35,347	178,421
Foreign exchange difference	-	7,427	-	7,427
Balance at March 31, 2020	**62,624**	**87,877**	**35,347**	**185,848**

Goodwill at March 31, 2020 relates to the Distribution business segment, as described in Note 21.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three months ended March 31, 2020 and 2019 (in thousands of Canadian dollars)

12. PERFORMANCE BOND OBLIGATIONS

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

	March 31, 2020 $	December 31, 2019 $
Funds received on bonding obligations[1]	**98,766**	91,797
Payments made on bonding obligations[1]	**(85,728)**	(79,418)
Receipts in excess of payments	**13,038**	12,379
Provision for loss on bonds	**435**	399
Performance bond obligations	**13,473**	12,778

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

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

	$
Balance at December 31, 2019	12,778
Net payments on bonding obligations during the period	(459)
Change in provision for loss on bonds	(1)
Foreign exchange difference	1,155
Balance at March 31, 2020	**13,473**

Total gross bonding contracts on all outstanding projects at March 31, 2020 were $158,959 (December 31, 2019 - $146,812).

The Company manages risk associated with exposure to loss on these performance bond obligations through rigorous underwriting practices which include reviewing construction estimates, evaluating contractors' experience and financial condition, managing bond proceeds assigned to the Company, and obtaining security or personal guarantees from contracted parties for certain performance bond obligations.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three months ended March 31, 2020 and 2019 (in thousands of Canadian dollars)

13. LOANS AND BORROWINGS

	March 31, 2020 $	**December 31, 2019 $**
Revolving loan facility[1]	**296,333**	211,940
Unsecured notes[1]	**57,589**	57,424
Non-revolving term loan[1]	**21,745**	22,404
Promissory notes	**3,379**	3,052
Equipment term loan, equipment line and other loans[1]	**8,042**	9,280
Total loans and borrowings	**387,088**	304,100
Current portion of loans and borrowings		
Non-revolving term loan	**2,667**	2,667
Promissory notes	**1,655**	1,515
Equipment term loan, equipment line and other loans	**3,843**	3,842
Total current portion of loans and borrowings	**8,165**	8,024
Total non-current portion of loans and borrowings	**378,923**	296,076

1. Amounts reflect financing costs net of amortization totaling $4,835 as at March 31, 2020 and $4,972 as at December 31, 2019.

The terms and conditions of the revolving loan facility are consistent with those disclosed in Note 15 to the 2019 audited Annual Consolidated Financial Statements.

The Company was not in breach of any of its covenants during the period ended March 31, 2020.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three months ended March 31, 2020 and 2019 (in thousands of Canadian dollars)

14. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

Total net benefit expense of the Company's pension and post-retirement benefit plans for the quarter ended March 31, 2020 was $437 (2019 - $409). These expenses have been included in distribution, selling and administration costs and finance costs in the unaudited Interim Condensed Consolidated Statement of Earnings (Loss).

The table below reflects liabilities related to employee future benefit plans.

	March 31, 2020 $	December 31, 2019 $
Pension benefit plan	**2,753**	1,526
Other benefit plans	**2,045**	2,179
	4,798	3,705

Further information about these plans is disclosed in Note 18 to the 2019 audited Annual Consolidated Financial Statements.

15. SHARE CAPITAL

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

Normal Course Issuer Bid

On November 22, 2019 the Company commenced a Normal Course Issuer Bid ("NCIB") with respect to its common shares. Under the terms of the NCIB, the Company may purchase for cancellation up to 5,995,340 of its common shares at market prices. Since commencement, as at March 31, 2020, the Company has not repurchased any of its common shares (2019 - 142,200) pursuant to the NCIB.

Upon the cancellation of the common shares, the difference between the cost of the repurchased shares and the average value of the common shares of $nil (2019 - $297) was credited to contributed surplus.

Employee Common Share Purchase Plan ("ECSPP")

For the quarter ended March 31, 2020, the Company has issued 67,804 (2019 - 83,862) common shares from treasury for gross proceeds of $319 (2019 - $317), pursuant to the ECSPP.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three months ended March 31, 2020 and 2019 (in thousands of Canadian dollars)

Dividend

The following dividends were declared and paid by the Company:

	2020				2019			
	Declared				Declared			
	Record date	Per share $	Amount $	Paid date	Record date	Per share $	Amount $	Paid date
Quarter 1 dividend	Mar 31, 2020	0.14	10,897	Apr 15, 2020	Mar 29, 2019	0.14	10,876	Apr 15, 2019
Quarter 2 dividend					Jun 28, 2019	0.14	10,877	Jul 15, 2019
Quarter 3 dividend					Sep 30, 2019	0.14	10,887	Oct 15, 2019
Quarter 4 dividend					Dec 31, 2019	0.14	10,887	Jan 15, 2020
						0.14	**43,527**	

16. FINANCE COSTS

Finance costs include the following:

	Three months ended March 31, 2020 $	2019 $
Loans and borrowings	**3,371**	3,537
Lease liabilities	**1,206**	1,189
Other	**(34)**	(83)
Net cash interest	**4,543**	4,643
Amortization of financing costs	**469**	404
Accretion of earn-out commitment	**-**	37
Interest on net defined benefit liability	**30**	32
	5,042	5,116

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three months ended March 31, 2020 and 2019 (in thousands of Canadian dollars)

17. RELATED PARTY TRANSACTIONS

Transactions

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

	Three months ended March 31,	
	2020	**2019**
	$	**$**
Leased facilities: distribution[1] and treatment plants[2]	**980**	909
Purchase of product[3][4]	**641**	1,422
Management fees and other[5]	**233**	246
Professional fees and other[6]	**134**	134

1. Paid to a company in which a member of key management personnel who is a director and officer of the Company has an interest.
2. Paid to a company solely controlled by a director and officer of the Company.
3. Paid to a public company that a member of key management personnel who is a director and officer of the Company has an ownership interest in: $641 (2019 - $1,027).
4. Paid to a company owned by a director of the Company: $nil (2019 - $395).
5. Paid to a company controlled by a member of key management personnel who is also a director and officer of the Company.
6. Paid to a company controlled by an officer of the Company.

Commitments with related parties

Future undiscounted minimum payments under the terms of the leases with companies, in which a member of key management personnel who is also a director and officer of the Company has an interest in, are as follows:

Year ending December 31	$
Remainder of 2020	**2,882**
2021	**3,526**
2022	**3,144**
2023	**3,162**
2024	**3,162**
Thereafter	**19,759**
	35,635

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three months ended March 31, 2020 and 2019 (in thousands of Canadian dollars)

Payable to related parties

As at March 31, 2020, trade and other payables include amounts due to related parties as follows:

	March 31, 2020 $	December 31, 2019 $
Purchase of product[1]	**82**	18
Management fees and other[2]	**39**	96
Professional fees and other[3]	**159**	159

1. Owing to a public company that a member of key management personnel who is a director and officer of the Company has an ownership interest in.
2. Owing to a company controlled by a member of key management personnel who is also a director and officer of the Company.
3. Owing to a company controlled by an officer of the Company.

18. FINANCIAL INSTRUMENTS

Non-derivative financial instruments

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

	March 31, 2020		December 31, 2019	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Unsecured notes	**57,589**	**45,600**	57,424	58,026
Revolving loan facility	**296,333**	**298,097**	211,940	213,874
Non-revolving term loan	**21,745**	**22,125**	22,404	22,791
Equipment term loan and equipment line	**8,042**	**8,105**	9,280	9,355

The following methods and assumptions were used to determine the estimated fair value of each class of financial instrument:

- The fair values of cash, trade and other receivables, cheques issued in excess of funds on deposit, trade and other payables, performance bond obligations and dividends payable were comparable to their carrying amounts, given the short maturity periods.

- The fair value of the Company's unsecured notes was based on the quoted active market price at March 31, 2020.

- The fair values of the Company's revolving loan facility, non-revolving term loan, and equipment term loan, equipment line and other approximate their carrying values as they bear interest at variable rates based on current market rates. The fair values have been estimated as the carrying values excluding unamortized financing costs.

- The fair values of the Company's promissory notes and lease liabilities approximate their carrying values as they bear interest that approximates current market rates.

IFRS 13, *Fair Value Measurement* requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset and liability, either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

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

The expenses resulting from financial assets and liabilities recorded in net earnings are as disclosed in Note 16.

Derivative financial instruments

The Company uses derivative financial instruments for economic hedging purposes in managing lumber price risk and foreign exchange risk through the use of futures contracts and options. Derivative instruments were designated as fair value through profit and loss with changes in fair value recorded in other income (loss).

As at March 31, 2020, the Company held no outstanding foreign exchange contracts (December 31, 2019 - US$3,100) for economic hedging purposes, and no unrealized gains (2019 - $128) were recognized in net earnings.

When held by the Company, these derivative financial instruments are traded through well-established financial services firms with a long history of providing trading, exchange and clearing services for commodities and currencies. As trading activities are closely monitored and restricted by senior management, including limits for a maximum number of outstanding contracts at any point in time, the risk of credit loss on these financial instruments is considered low.

Financial risk management

The Company's activities result in exposure to a variety of financial risks from its financial assets and financial liabilities, including risks related to credit, interest rates, currency, liquidity and wood product prices.

Financial assets include trade and other receivables, which are measured at amortized cost. Financial liabilities include cheques issued in excess of finds on deposit, trade and other payables, performance bond obligations, dividends payable, unsecured notes, revolving loan facility, non-revolving term loan, promissory notes, lease liabilities, equipment term loan and equipment line, and earn-out commitment. All financial liabilities are measured at amortized cost.

The Board of Directors has overall responsibility for establishment and oversight of the Company's risk management, which seeks to minimize any potential adverse effects on the Company's financial performance.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three months ended March 31, 2020 and 2019 (in thousands of Canadian dollars)

Credit risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations, and arises primarily from the Company's trade and other receivables. The Company grants credit to its customers in the normal course of operations. To limit its exposure to credit risk, the Company performs ongoing evaluations of the credit quality of its customers and follows diligent credit granting and collection procedures. Purchase limits are established for each customer and are reviewed regularly.

The Company regularly reviews the collectability of its trade accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts.

As at March 31, 2020, trade accounts receivable, excluding other receivables, were as follows:

	$
Current	171,534
Past due over 60 days	2,648
Trade receivables	174,182
Less: Allowance for doubtful accounts	(621)
	173,561

As at March 31, 2020, the maximum exposure to credit risk, including both trade and other receivables, was $178,958 (December 31, 2019 - $98,420), which represents the carrying value amount of financial instruments classified as trade and other receivables.

Interest rate risk

The Company is exposed to interest rate risk through its variable rate revolving loan facility, non-revolving term loan, and equipment term loan and equipment line (Note 13). Based on the Company's average revolving loan facility, non-revolving term loan, equipment term loan and equipment line balances during the period ended March 31, 2020, the sensitivity of a 1% increase in interest rates would result in an approximate decrease of $534 in quarterly net earnings.

Currency risk

Currency risk is the risk that changes in market prices of foreign exchange rates will affect the Company's earnings or the value of its holdings of financial instruments. The Company is exposed to currency risk on the United States dollar components of its revolving loan facility, as well as revenues and purchase transactions that are denominated in United States dollars.

As at March 31, 2020, a $0.05 increase in the United States dollar versus the Canadian dollar would have an insignificant impact on quarterly net earnings, and an increase in other comprehensive earnings of approximately $10,620.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three months ended March 31, 2020 and 2019 (in thousands of Canadian dollars)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or at a reasonable cost. The Company manages liquidity risk by having appropriate credit facilities available at all times. In addition, the Company continuously monitors and reviews both actual and forecasted cash flows. The Company is exposed to refinancing risks as there can be no assurance that the Company will be able to secure credit on the same terms or amount when the facility expires.

Other price risk

Other price risk is defined as the potential adverse impact on earnings and economic value due to price movement and volatilities. The Company is exposed to other price risk with respect to certain wood products. The Company closely monitors wood product prices.

19. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended March 31, 2020 $	2019 $
Trade and other receivables	**(78,818)**	(70,691)
Inventories	**(13,869)**	(40,349)
Prepaid expenses and deposits	**(652)**	(846)
Trade and other payables	**19,044**	30,595
Performance bond obligations	**(459)**	(630)
	(74,754)	(81,921)

20. REVENUE

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

	Three months ended March 31, 2020			Three months ended March 31, 2019		
	Distribution $	Forestry $	Total $	Distribution $	Forestry $	Total $
Primary geographic markets						
Canada	189,936	7,359	**197,295**	184,479	13,551	198,030
United States	127,210	2,240	**129,450**	81,831	2,085	83,916
	317,146	9,599	**326,745**	266,310	15,636	281,946
Revenue categories						
Products	316,400	9,599	**325,999**	265,411	15,636	281,047
Services	746	-	**746**	899	-	899
	317,146	9,599	**326,745**	266,310	15,636	281,946

Certain customers elect to prepay for goods and services, for which the Company has recorded a contract liability of $3,773 as at March 31, 2020 (December 31, 2019 - $4,059), related to these future performance obligations (unearned revenues). These amounts are included in trade and other payables in the unaudited Interim Condensed Consolidated Statement of Financial Position.

The Company has sold products to certain customers who each contribute greater than 10% of its revenues. During the quarter ended March 31, 2020, two customers individually accounted for revenues in excess of 10%, purchasing an aggregate of $75,455 (2019 - $76,307, representing two customers).

21. SEGMENTED INFORMATION

The Company operates in two reportable business segments and two geographic areas.

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

- *Distribution* – wholesale distribution of building materials and home renovation products, including value-added services such as lumber pressure treating; and
- *Forestry* – timber ownership and management of private timberlands and Crown forest licenses, harvesting and trucking operations, and value-added services such as post-peeling and post and pole pressure treating operations.

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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three months ended March 31, 2020 and 2019 (in thousands of Canadian dollars)

Business segment revenues and specified income (expenses) were as follows:

	Three months ended March 31, 2020				Three months ended March 31, 2019			
	Distribution $	Forestry $	Adjustments and eliminations[1] $	Consolidated $	Distribution $	Forestry $	Adjustments and eliminations[1] $	Consolidated $
Revenue								
External customers	317,146	9,599	-	**326,745**	266,310	15,636	-	**281,946**
Inter-segment	-	623	(623)	**-**	-	404	(404)	**-**
	317,146	10,222	(623)	**326,745**	266,310	16,040	(404)	**281,946**
Specified expenses								
Depreciation and amortization	8,431	1,865	-	**10,296**	8,576	1,883	-	**10,459**
Finance costs	4,597	445	-	**5,042**	4,460	656	-	**5,116**
Net earnings (loss)	1,475	(625)	-	**850**	(118)	(238)	-	**(356)**
Purchase of property, plant and equipment	843	114	-	**957**	652	1,244	-	**1,896**

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

Business segment long-term assets were as follows:

	March 31, 2020				December 31, 2019			
	Distribution $	Forestry $	Percent %	Consolidated $	Distribution $	Forestry $	Percent %	Consolidated $
Canada	174,465	114,847	57	**289,312**	170,694	116,962	59	**287,656**
United States	221,426	-	43	**221,426**	204,006	-	41	**204,006**
Long-term assets	395,891	114,847	100	**510,738**	374,700	116,962	100	**491,662**

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

	Three months ended March 31, 2020 %	2019 %
Construction materials	**62**	56
Specialty and allied	**32**	35
Forestry and other	**6**	9
	100	100

22. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide dividends to shareholders and benefits for other stakeholders. The Company includes debt and equity, comprising shareholders' capital, contributed surplus, deficit and cumulative dividends on shares, in the definition of capital.

The Company seeks to maintain a balance between the higher returns that might be possible with the leverage afforded by higher borrowing levels and the security afforded by a sound capital structure. It does this by maintaining appropriate debt levels in relation to its working capital and other assets in order to provide the maximum dividends to shareholders commensurate with the level of risk. Also, the Company utilizes its debt capabilities to buy back shares, where appropriate, in order to maximize cash distribution rates for remaining shareholders.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase shares in the market, issue new shares, or sell assets to reduce debt.

The Company's policy is to dividend all available cash from operations to shareholders after provision for cash required for maintenance of capital expenditures and other reserves considered advisable by the Company's directors. The Company has eliminated the impact of seasonal fluctuations by equalizing quarterly dividends.

23. SEASONALITY

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

24. CONTINGENCIES

Global Pandemic

On March 11, 2020, the World Health Organization declared the novel coronavirus (specifically identified as “COVID-19”) a global pandemic (the “Pandemic”). COVID-19’s impact on global markets has been significant through the quarter ended March 31, 2020 and as the situation continues to rapidly evolve, the magnitude of its effects on the economy and on the Company’s financial and operational performance, is uncertain at this time.

At the time these unaudited Interim Condensed Consolidated Financial Statements were authorized for issuance, the Company has been classified as an essential service for the majority of its operations in Canada and the United States, and therefore has not been required to shut down. The Company has taken steps to mitigate the Pandemic’s impact on its customers, operations and cash flows by optimizing its working capital, implementing salary and 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.

The Company will continue to closely monitor the COVID-19 situation and should the duration, spread or intensity of the Pandemic further develop in 2020, the supply chain, market pricing and customer demand could be affected.

These factors may further impact the Company’s operating plan, its liquidity and cash flows, and the valuation of its long-lived assets, inventory and trade and other receivables.

Product liability and other 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.

25. COMPARATIVE FIGURES

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

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