



**CanWel Building Materials Group Ltd.**  
**THIRD QUARTER 2018**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

# CanWel Building Materials Group Ltd.

## Management's Discussion and Analysis

November 8, 2018

*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, 2018 relative to the same quarter of 2017. This discussion of the financial condition and results of operations of the Company should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2017 (the "2017 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, 2018 (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 29, 2018 ("AIF") and the Company's public filings on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com) ("SEDAR") and as updated from time to time, and would include, but are not limited to, dependence on market economic conditions, sales and margin risk, acquisition and integration risks, competition, information system risks, availability of supply of products, risks associated with the introduction of new product lines, product design risk, product liability risk, environmental risks, volatility of commodity prices, inventory risks, customer and vendor risks, contract performance risk, availability of credit, credit risks, performance bond risk, currency risks, interest rate risks, tax risks, risks of legislative changes, international trade and tariff risks, resource industry risks, resource extraction risks, risks relating to remote operations, forestry management and silviculture risks, fire and natural disaster risks, key executive risk and litigation risks. These risks and uncertainties may cause actual results to differ materially from those contained in the statements. Such statements reflect management's current views and are based on certain assumptions. Some of the key assumptions include, but are not limited to, assumptions regarding the performance of the Canadian and the United States economies, interest rates, exchange rates, capital and loan availability, commodity pricing, the Canadian and the US housing and building materials markets; international trade matters; post acquisition operation of a business; the amount of the Company's cash flow from operations; tax laws; laws and regulations relating to the protection of the environment and natural resources; and the extent of the Company's future acquisitions and capital spending requirements or planning in respect thereto, including but not limited to the performance of any such business and its operation. They are, by necessity, only estimates of future developments and actual developments may differ materially from these statements due to a number of known and unknown factors. Investors are cautioned not to place undue reliance on these forward-looking statements. All forward-looking information in 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. 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 in the Company's other public filings on SEDAR.*

*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 the Company's views as of any date subsequent to the date of this report. Except as required by applicable law, the Company undertakes no obligation to publicly update or otherwise revise any forward-looking statement, whether as a result of new information, future events, or otherwise.*

*The information in this report is as at November 8, 2018, 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. 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 maintenance of business capital expenditures.

## Business Overview

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

## Note Offering

Subsequent to the quarter end, on October 9, 2018, the Company completed a bought deal offering (the "Offering") of senior unsecured notes for gross proceeds of \$60.0 million (the "Notes"). The Offering was underwritten by a syndicate of underwriters led by National Bank Financial Inc., and including GMP Securities L.P., Canaccord Genuity Corp., CIBC World Markets Inc., Raymond James Ltd., RBC Dominion Securities Inc., and Haywood Securities Inc. The Notes trade on the Toronto Stock Exchange under the symbol CWX.NT.A.

The Notes accrue interest at the rate of 6.375% per annum, payable on a semi-annual basis, maturing on October 9, 2023. The net proceeds of the offering were used for the repayment of bank debt.

## Purchase of Honsador Building Products Group

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

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

Further information regarding the preliminary purchase price allocation is contained in Note 4 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended September 30, 2018 and Note 7 of the 2017 Consolidated Financial Statements.

## 2017 Private Placement

On October 2, 2017, and concurrent with the Honsador Acquisition, the Company completed a private placement of 9,832,500 subscription receipts at a price of \$5.85 each, resulting in gross proceeds of \$57.5 million (the "2017 Private Placement"), including subscription receipts to certain insiders<sup>(1)</sup> for proceeds of \$5.6 million. The 2017 Private Placement was pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and included National Bank Financial Inc., Canaccord Genuity Corp., Raymond James Ltd., Cormark Securities Inc. and Haywood Securities Inc.

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

## 2017 Public Offering

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

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

## Annuity Contract

During the fourth quarter of 2017, the Company purchased an annuity for \$36.0 million through its defined benefit pension plan in order to mitigate its exposure to potential future volatility fluctuations in the related pension obligations and plan assets. Upon closing of the annuity purchase, non-cash actuarial based transaction costs of \$4.4 million were recognized in other comprehensive income (loss), reflecting the difference in the annuity rate (which is comparable to solvency rates) as compared to the discount rate used to value the pension obligations on

---

1. For further details, see [www.sedi.ca](http://www.sedi.ca).

a going concern basis. Further information regarding the Company's pension plan and this transaction is included under the headings "Employee Future Benefits" and "Significant Accounting Judgments and Estimates", and Note 23 of the 2017 Consolidated Financial Statements.

## Foreign Exchange Forward Contracts

In order to reduce exposure to fluctuations in the United States - Canada dollar exchange rate with respect to the Honsador Acquisition, the Company entered into various foreign exchange contracts: to purchase US\$40.0 million at an exchange rate of 1.2402, US\$20.0 million at an exchange rate of 1.2213, US\$10.0 million at an exchange rate of 1.2154, and US\$10.0 million at an exchange rate of 1.2437. Upon settlements, realized gains totaling \$1.4 million were recorded in Other income in the 2017 Consolidated Financial Statements. Upon the closing of the Honsador Acquisition, the Company used the total purchased funds of US\$80.0 million as partial consideration for the acquisition.

## Seasonality

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

## Housing Starts

The seasonally adjusted annualized rate for overall Canadian housing starts at September 30, 2018 was 195,811 versus 222,513 in the comparative period of 2017, a decrease of 12.0%. The seasonally adjusted annualized rate for single detached units, a more relevant indicator for CanWel, amounted to 62,041 at September 30, 2018 versus 77,430 in the comparative period of 2017, a decrease of 19.9%<sup>(2)</sup>.

The seasonally adjusted annualized rate for overall US housing starts at September 30, 2018 was 1,201,000 units versus 1,127,000 in the comparative period of 2017<sup>(3)</sup>.

## Lumber Pricing

After experiencing approximately 18 months of generally increasing prices since the beginning of 2017, lumber prices<sup>(4)</sup> peaked in June 2018, then experienced significant declines to quarter end and continued to decline into the early stages of the fourth quarter of 2018.

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

3. As reported by the US Census Bureau.

4. As reported by Natural Resources Canada

## Results of Operations

### Comparison of the Three Months Ended September 30, 2018 and September 30, 2017

#### Overall Performance

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

	Three months ended September 30, 2018				Three months ended September 30, 2017			
	Distribution \$	Forestry \$	Adjustments and eliminations <sup>(1)</sup> \$	Consolidated \$	Distribution \$	Forestry \$	Adjustments and eliminations <sup>(1)</sup> \$	Consolidated \$
<b>Revenue</b>								
External customers	337,459	12,727	-	<b>350,186</b>	302,843	13,998	-	316,841
Inter-segment	-	639	(639)	-	-	217	(217)	-
	<b>337,459</b>	<b>13,366</b>	<b>(639)</b>	<b>350,186</b>	<b>302,843</b>	<b>14,215</b>	<b>(217)</b>	<b>316,841</b>
<b>Specified expenses</b>								
Depreciation and amortization	3,378	1,178	-	<b>4,556</b>	1,930	1,397	-	3,327
Finance costs	2,430	640	-	<b>3,070</b>	1,301	608	-	1,909
<b>Net earnings</b>	<b>6,806</b>	<b>1,683</b>	<b>-</b>	<b>8,489</b>	<b>11,201</b>	<b>360</b>	<b>-</b>	<b>11,561</b>
<b>Purchase of property, plant and equipment<sup>(2)</sup></b>	<b>1,204</b>	<b>1,012</b>	<b>-</b>	<b>2,216</b>	<b>1,163</b>	<b>1,944</b>	<b>-</b>	<b>3,107</b>

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

2. Includes property, plant and equipment acquired through finance leases.

## Sales and Gross Margin

Sales for the three month period ended September 30, 2018 were \$350.2 million versus \$316.8 million in the comparative period in 2017, an increase of \$33.3 million or 10.5%, due to the factors discussed below.

Sales for the Distribution segment increased by \$34.6 million or 11.4% over the comparative three month period, largely due to the inclusion of the results from the Honsador Acquisition, and the Company's continuing focus on its product mix strategies and target customer base.

Sales for the Forestry segment decreased by \$0.8 million or 6.0%, inclusive of inter-segment sales. As was the case in the previous year, 2018 third quarter sales for this segment were negatively affected by wildfires in British Columbia, with Company harvesting activities temporarily halted due to forest area closures, resulting in decreased harvest and customer delivery levels. Direct impact to the Company's forest lands from forest fires was minimal.

The Company's sales by product group in the quarter were made up of 58% construction materials, compared to 63% during the same quarter last year, with the remaining balance of sales resulting from specialty and allied products of 35% (2017 - 33%) and forestry and other of 7% (2017 - 4%).

Gross margin dollars increased to \$50.8 million in the quarter compared to \$42.0 million in the comparative quarter of 2017, an increase of \$8.8 million or 20.9%. Gross margin percentage was 14.5% in the quarter, an increase from the 13.3% achieved in the same quarter of 2017. This increase in margin dollars and margin percentage is mainly due to the positive impacts from the Honsador Acquisition.

## Expenses

Expenses for the three month period ended September 30, 2018 were \$35.2 million as compared to \$24.9 million for the same quarter in 2017, an increase of \$10.3 million or 41.4%, due to the factors discussed below. As a percentage of sales, expenses were 10.1% in the quarter, versus 7.9% during the comparative quarter in 2017.

Distribution, selling and administration expenses increased by \$9.1 million or 42.1%, to \$30.7 million in the third quarter of 2018, from \$21.6 million in the same period of 2017. The increase is primarily due to additional expenses relating to Honsador's operations. As a percentage of sales these expenses were 8.8% in the quarter, compared to 6.8% in the comparative period in 2017.

In the three month period ended September 30, 2018 expenses related to the amortization of intangible assets were \$1.7 million, versus \$0.7 million in the comparative period, with the increase reflecting the amortization related to the inclusion of Honsador.

## Operating Earnings

For the quarter ended September 30, 2018, operating earnings were \$15.6 million, versus \$17.1 million in the comparative quarter in 2017, a decrease of \$1.5 million or 8.8%, due to the foregoing factors.

## Finance Costs

Finance costs for the third quarter of 2018 were \$3.1 million, an increase of \$1.2 million or 63.2% from \$1.9 million in the same period in 2017. Finance costs for the Distribution segment were \$1.1 million higher than the same quarter in 2017, mainly due to higher interest rate on the Company's variable rate revolving loan facility and higher average borrowings and partly due to working capital requirements of Honsador. Finance costs for the Forestry segment were similar with the comparative period of 2017.

## Acquisition Costs

Acquisition costs in the comparative period of 2017 related to due diligence costs, allocation of management resources as well as legal, environmental, financial and other advisory services primarily related to the advancement of the Honsador Acquisition. There were no comparable costs in the current three month period.

## Earnings before Income Taxes

For the quarter ended September 30, 2018, earnings before income taxes were \$12.5 million, compared to \$16.0 million in the comparative quarter of 2017, a decrease of \$3.5 million or 21.9% due to the factors discussed above.

## Provision for Income Taxes

For the quarter ended September 30, 2018, the provision for income taxes was \$4.0 million, compared with \$4.5 million in the same quarter of 2017, a decrease of \$0.5 million or 11.1%. This provision is a function of the pre-tax earnings generated in the quarter as well as the tax rate reduction related to US tax reform, impacting the current period amount.

## Net Earnings

Net earnings for the quarter ended September 30, 2018 were \$8.5 million compared to \$11.6 million for the period in 2017, a decrease of \$3.1 million or 26.7% due to the foregoing factors.

## Comparison of the Nine Months Ended September 30, 2018 and September 30, 2017

### Overall Performance

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

	Nine months ended September 30, 2018				Nine months ended September 30, 2017			
	Distribution \$	Forestry \$	Adjustments and eliminations <sup>(1)</sup> \$	Consolidated \$	Distribution \$	Forestry \$	Adjustments and eliminations <sup>(1)</sup> \$	Consolidated \$
<b>Revenue</b>								
External customers	989,098	38,157	-	<b>1,027,255</b>	818,842	40,881	-	859,723
Inter-segment	-	1,457	(1,457)	-	-	683	(683)	-
	<b>989,098</b>	<b>39,614</b>	<b>(1,457)</b>	<b>1,027,255</b>	<b>818,842</b>	<b>41,564</b>	<b>(683)</b>	<b>859,723</b>
<b>Specified expenses</b>								
Depreciation and amortization	9,917	3,465	-	<b>13,382</b>	5,826	4,289	-	10,115
Finance costs	6,804	1,734	-	<b>8,538</b>	4,172	1,741	-	5,913
<b>Net earnings</b>	<b>26,721</b>	<b>2,924</b>	<b>-</b>	<b>29,645</b>	<b>22,809</b>	<b>246</b>	<b>-</b>	<b>23,055</b>
<b>Purchase of property, plant and equipment<sup>(2)</sup></b>								
	<b>10,045</b>	<b>4,458</b>	<b>-</b>	<b>14,503</b>	<b>2,946</b>	<b>6,757</b>	<b>-</b>	<b>9,703</b>

1. Includes inter-segment eliminations and income and expenses that are not allocated to reportable business segments.
2. Includes property, plant and equipment acquired through finance leases as well as purchase of the partially completed treating plant in Oregon in June of 2018.

## Sales and Gross Margin

Sales for the nine month period ended September 30, 2018 were \$1,027.3 million versus \$859.7 million in the comparative period in 2017, representing an increase of \$167.6 million or 19.5%, due to the factors discussed below.

Sales for the Distribution segment increased by \$170.3 million or 20.8%, largely due to the inclusion of the results from the Honsador Acquisition, higher in construction materials pricing earlier in the current year, and the Company's continuing focus on its product mix strategies and target customer base.

Sales for the Forestry segment decreased by \$2.0 million or 4.8%, inclusive of inter-segment sales. The decrease in sales relative to the comparative period of 2017 is largely due to sales from since closed non-core Forestry segment operations which were partially offset by an increase in sales due to comparatively more favourable pricing and weather conditions for harvesting during the period in 2018. As was the case in 2017, third quarter 2018



sales were however negatively affected by wildfires in British Columbia, with Company harvesting activities temporarily halted due to forest area closures, resulting in decreased harvest and customer delivery levels. Direct impact to the Company's forest lands from forest fires was minimal.

The Company's sales by product group in the period were made up of 60% construction materials, compared to 63% during the same period last year, with the remaining balance resulting from specialty and allied products of 33% (2017 - 32%), forestry and other of 7% (2017 - 5%).

Gross margin dollars increased to \$154.3 million in the nine month period to September 30, 2018, versus \$109.1 million in the comparative period of 2017, an increase of \$45.2 million or 41.4%. Gross margin percentage was 15.0% in the period, an increase from the 12.7% that was achieved in the comparative period of 2017. This increase in margin dollars and margin percentage reflects the positive impacts from the Honsador Acquisition, as well as higher construction materials pricing earlier in the current year.

## Expenses

Expenses for the nine month period ended September 30, 2018 were \$104.6 million versus \$71.0 million for the comparative period in 2017, an increase of \$33.6 million or 47.3% due to the factors discussed below. As a percentage of sales, expenses were 10.2% in the period, versus 8.3% during the comparative period in 2017.

Distribution, selling and administration expenses were \$91.2 million, versus \$60.0 million for the comparative period in 2017, an increase of \$31.2 million or 52.0%. The increase is primarily due to expenses relating to Honsador operations. As a percentage of sales, these expenses were 8.9% in the period, versus 7.0% in the comparative period in 2017.

In the nine month period ended September 30, 2018, expenses related to the amortization of intangible assets were \$5.0 million, compared with \$2.2 million in the comparative period, with the increase reflecting the amortization related to Honsador.

## Restructuring

Restructuring costs for the nine months ended September 30, 2017 of \$0.8 million related to the closure of non-core Forestry segment operations. There were no similar charges in the current nine month period.

## Operating Earnings

For the nine month period ended September 30, 2018, operating earnings were \$49.8 million versus \$38.1 million in the comparative period of 2017, an increase of \$11.7 million or 30.7%, due to the foregoing factors.

## Finance Costs

Finance costs for the period were \$8.5 million, versus \$5.9 million during the comparative period in 2017, an increase of \$2.6 million or 44.1%. Finance costs for the Distribution segment were \$2.6 million higher than the comparative period in 2017, mainly due to higher average borrowings and higher interest rates on the Company's variable rate revolving loan facility. The increase in the average balance of the revolving loan facility was primarily driven by the Honsador operations and higher construction material prices earlier in the year. Finance costs for the Forestry segment were in line with the comparative period of 2017.

## Acquisition Costs

Acquisition costs in the comparative period of 2017 related to due diligence, allocation of management resources as well as legal, environmental, financial and other advisory services primarily related to the advancement of the Honsador Acquisition, as well as the evaluation of other opportunities that did not come to fruition. There were no comparable costs in the current nine month period.

## Earnings before Income Taxes

For the nine month period ended September 30, 2018, earnings before income taxes were \$41.2 million, versus earnings of \$32.3 million in the comparative period of 2017, an increase of \$8.9 million or 27.6% due to the foregoing factors.

## Provision for Income Taxes

For the nine month period ended September 30, 2018, the provision for income taxes was \$11.6 million compared with \$9.2 million in the same period of 2017, an increase of \$2.3 million or 25.4%. This provision is a function of the pre-tax earnings generated in the quarter as well as the tax rate reduction related to US tax reform impacting the current period amount.

## Net Earnings

As a result of the foregoing factors, net earnings for the nine month period ended September 30, 2018 were \$29.6 million versus \$23.1 million in the comparative period of 2017, an increase of \$6.5 million or 28.1% as discussed above.

## Summary of Quarterly Results

For the Quarters ended:

(\$ and shares millions, per share in dollars)	2018		2017		2016			
	30 - Sep	30 - Jun	31 - Mar	31 - Dec	30 - Sep	30 - Jun	31 - Mar	31 - Dec
Sales	350.2	382.1	295.0	276.2	316.8	320.0	222.8	214.4
EBITDA <sup>(1)</sup>	20.1	27.5	15.6	10.5	21.3	18.9	8.2	10.6
Adjusted EBITDA <sup>(2)</sup>	20.1	27.5	15.6	13.4	21.7	20.4	8.2	9.3
Adjusted EBITDA % of sales <sup>(2)</sup>	5.7	7.2	5.3	4.8	6.9	6.4	3.7	4.3
Earnings before income taxes <sup>(1)</sup>	12.5	19.9	8.8	3.5	16.0	13.8	2.4	5.6
Net earnings <sup>(1)</sup>	8.5	14.7	6.5	5.8	11.6	9.8	1.7	5.1
Net earnings before non-recurring items <sup>(1)(3)</sup>	8.5	14.7	6.5	7.1	12.0	11.0	1.7	3.7
Net earnings per share <sup>(4)</sup>	0.11	0.19	0.08	0.07	0.17	0.15	0.03	0.08
Net earnings per share, before non-recurring items <sup>(3)(4)</sup>	0.11	0.19	0.08	0.09	0.17	0.17	0.03	0.06
Dividends declared per share	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Outstanding shares <sup>(4)</sup>	77.7	77.7	77.7	77.4	67.8	66.5	61.2	61.2

1. Revised, as applicable, to reflect the measurement period finalized gain on bargain purchase relating to the CFC acquisition, and the resulting adjustments to 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 the following non-recurring items: gain on bargain purchase relating to the CFC acquisition in 2016, restructuring costs and directly attributable acquisition related costs.
3. Net earnings before gain on bargain purchase relating to the CFC acquisition in 2016, restructuring costs and directly attributable acquisition related costs.
4. Weighted average basic shares outstanding in the period.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
(in thousands of dollars)	\$	\$	\$	\$
Net earnings	8,489	11,561	29,645	23,055
Provision for income taxes	3,995	4,482	11,570	9,225
Finance costs	3,070	1,909	8,538	5,913
Depreciation of property, plant and equipment	2,875	2,607	8,380	7,899
Amortization of intangible assets	1,681	720	5,002	2,216
<b>EBITDA</b>	<b>20,110</b>	<b>21,279</b>	<b>63,135</b>	<b>48,308</b>
Acquisition costs	-	424	-	1,158
Restructuring costs	-	-	-	834
<b>Adjusted EBITDA</b>	<b>20,110</b>	<b>21,703</b>	<b>63,135</b>	<b>50,300</b>

### EBITDA and Adjusted EBITDA

EBITDA for the three month period ended September 30, 2018 was \$20.1 million versus \$21.3 million in the comparative quarter of 2017, a decrease of \$1.2 million or 5.6% largely due to the impact of a significant, abrupt fall in commodity prices, on both sales and gross margin. EBITDA for the third quarter of 2017 was impacted by acquisition costs of \$0.4 million. Adjusted EBITDA before non-recurring items was \$20.1 million compared to \$21.7 million in the same quarter of 2017, a decrease of \$1.6 million or 7.4% compared to the same quarter in 2017.

EBITDA for the nine months ended September 30, 2018 was \$63.1 million compared to \$48.3 million for the first nine months of 2017, an increase of \$14.8 million or 30.6% (largely due to the inclusion of the results from the Honsador operations). EBITDA for the first nine months of 2017 was also impacted by acquisition costs of \$1.2 million and restructuring costs of \$0.8 million. Adjusted EBITDA before these non-recurring expenses was \$63.1 million compared to \$50.3 million in the same period in 2017, an increase of \$12.8 million or 25.5%.

## Financial Condition

### Liquidity and Capital Resources

During the nine month period ended September 30, 2018, the Company consumed \$3.3 million in cash, versus generating \$4.9 million in the same period of 2017. The following activities during the period were responsible for the change in cash.

Operating activities generated \$47.1 million in cash, before non-cash working capital, versus \$32.7 million in the comparative period of 2017. This increase in cash generated is primarily a result of the inclusion of the Honsador operations and the positive impact of higher construction materials pricing earlier in the year.

During the nine month period ended September 30, 2018, changes in non-cash working capital items used \$48.0 million in cash, versus using \$16.3 million in the comparative period in 2017. The increase in the changes in non-cash working capital is driven by increased business activity levels in the Company's legacy business units and its recently acquired entities.

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 seasonal factors relating to the Company's business cycle (particularly in its Canadian distribution operations). The change in working capital in the first nine months of 2018 was comprised of an increase in trade and other receivables of \$33.0 million, an increase in inventory of \$33.5 million, a decrease in prepaid expenses of \$1.6 million, an increase in trade and other payables and income taxes payable of \$17.8 million and a decrease in performance bond obligations (Honsador) of \$0.9 million.

In the nine month period ended September 30, 2018, financing activities generated \$9.7 million of cash, versus consuming \$10.4 million in the comparative period in 2017. Shares issued during the period generated \$0.5 million of cash, compared to \$37.9 million in the comparative period of 2017 due to the 2017 Private Placement and 2017 Public Offering. Scheduled repayments related to the non-revolving term loan consumed \$2.0 million, in both nine month periods. Payment of finance lease liabilities consumed \$1.1 million of cash in the current nine month period versus \$0.5 million in the comparative period in 2017. Net funds drawn on the equipment term loan and line amounted to \$0.8 million compared to \$3.0 in 2017 and were used to finance certain equipment purchases, partially offset by scheduled repayments. Repayment of the certain promissory notes consumed \$3.7 million of cash in the nine month period, compared to \$2.7 million in the comparative period of 2017.

Dividends paid to shareholders amounted to \$32.6 million, versus \$26.6 million in the comparative period in 2017. The increase in dividends paid reflects the greater number of shares outstanding in the current period resulting from the 2017 Private Placement and 2017 Public Offerings. The dividends declared and paid on a per share basis were unchanged from the comparative period.

The revolving loan facility increased by \$49.8 million, versus decreasing by \$12.8 million in the comparative period in 2017 due to the increased working capital needs of the Company resulting from the Honsador acquisition, higher construction materials pricing earlier in the current year and the purchase of assets in Oregon and elsewhere. The Company was not in breach of any of its covenants during the nine months ended September 30, 2018.

Investing activities in the nine month period ended September 30, 2018 consumed \$12.0 million of cash, compared to \$1.0 million in 2017. Cash purchases of property, plant and equipment relating to the Distribution segment were \$9.7 million (including the purchase of the partially constructed wood treatment plant in Oregon, which is nearing completion and is expected to be operational before the end of 2018), versus \$1.1 million in the comparative period of 2017. Cash purchases of property, plant and equipment relating to the Forestry segment were \$2.5 million, versus \$3.4 million in 2017. Proceeds from disposition of property, plant and equipment were \$0.2 million, versus \$3.5 million in the comparative period.

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

## Total Assets

Total assets of the Company were \$790.8 million as at September 30, 2018, versus \$722.8 million as at December 31, 2017, an increase of \$68.0 million. Current assets increased by \$65.2 million mainly due to seasonal increases of \$34.0 million in trade and other receivables, \$36.2 million in inventory, with the remainder in prepaid expenses and deposits, partially offset by a decrease in cash of \$5.1 million.

Long-term assets within the Distribution segment were \$251.0 million as at September 30, 2018, compared to \$248.0 million as at December 31, 2017, an increase of \$3.0 million mainly due to the purchase of a wood treatment plant under construction in Oregon plus the purchases of property, plant and equipment in the normal course of operations, partially offset by depreciation. Long-term assets within the Forestry segment were consistent with the comparative period.

## Total Liabilities

Total liabilities were \$426.9 million as at September 30, 2018, versus \$362.6 million at December 31, 2017, an increase of \$64.3 million. This increase was mainly as a result of increases in the loan facilities of \$47.2 million which was used to finance the working capital requirements of the Company reflecting higher construction materials pricing, increased capital needs with the addition of Honsador, as well as a seasonal increase in trade and other payables of \$18.8 million, partially offset by a decrease in the bank overdraft of \$1.7 million.

## Outstanding Share Data

As at November 8, 2018, there were 77,744,598 common shares issued and outstanding.

## Dividends

The following dividends were declared and paid by the Company:

	2018				2017			
	Declared				Declared			
	Record Date	Per share	Amount	Paid	Record Date	Per share	Amount	Paid
Quarter 1 dividend	Mar 29, 2018	0.14	<b>10,877</b>	Apr 13, 2018	Mar 31, 2017	0.14	8,566	Apr 14, 2017
Quarter 2 dividend	Jun 29, 2018	0.14	<b>10,878</b>	Jul 13, 2018	Jun 30, 2017	0.14	9,490	Jul 14, 2017
Quarter 3 dividend	Sep 28, 2018	0.14	<b>10,884</b>	Oct 15, 2018	Sep 29, 2017	0.14	9,496	Oct 13, 2017
	Sep 30, 2018	0.42	<b>32,639</b>		Sep 30, 2017	0.42	27,552	
Quarter 4 dividend					Dec 29, 2017	0.14	10,872	Jan 15, 2018
						0.56	38,424	

## Dividend Policy

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

Looking forward, the Company is continually assessing its dividend policy based on the considerations outlined above as well as other possible factors that may become relevant in the future and, accordingly, there can be no assurance that the current quarterly dividend of \$0.14 per share will be maintained. Furthermore, the Company

may not use future growth in its profitability or free cash flow, if any, to increase its dividend in the near or medium term, but may focus on reducing the ratio of its dividends paid to its net earnings or free cash flow and using any additional cash to pay down debt, fund business acquisitions, capital projects or such other uses as determined by the Board of Directors.

## Hedging

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

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

At September 30, 2018, the Company held no outstanding foreign exchange contracts (December 31, 2017 - US\$1.9 million) for economic hedging purposes, and no unrealized gains (2017 - \$nil) were recognized in net earnings. When held by the Company, foreign currency and lumber derivative instruments are traded through well-established financial services firms with a long history of providing trading, exchange and clearing services for commodities and currencies. As trading activities are closely monitored by senior management, the risk of credit loss on these financial instruments is considered low.

## Related Party Transactions

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

Certain distribution facilities used by the Company to store and process inventory are leased from a company in which Amar Doman, a director and officer, and Rob Doman, an officer of the Company, have a minority interest and the land and buildings of certain of the treatment plants are leased from entities solely controlled by Amar Doman. All lease rates were market tested in advance of the signing of the lease agreements and were determined to be at market rates. Lease payments to such related parties were \$2.5 million in the nine months ended September 30, 2018, versus \$2.4 million in the comparative quarter in 2017. The minimum payments under the terms of these leases are as follows: \$0.9 million for the remainder of 2018, \$3.4 million in 2019, \$2.3 million in 2020, \$1.9 million in 2021, \$1.6 million in 2022 and \$15.7 million for periods thereafter.

During the nine month period ended September 30, 2018, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of \$0.5 million (2017 - \$0.4 million) by a company owned by Rob Doman. As at September 30, 2018, payables to this related party were \$0.2 million (December 31, 2017 - \$0.1 million). Additionally, fees of \$0.8 million (2017 - \$0.9 million) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman. As at September 30, 2018, payables to this related party were \$0.1 million (December 31, 2017 - \$0.1 million).

During the nine month period ended September 30, 2018 the Company purchased \$2.6 million (2017 - \$2.2 million) of product from a public company in which Amar Doman has an ownership interest and is also a director and officer. These purchases were in the normal course of operations and are recorded at exchange amounts. As at September 30, 2018, payables to this related party were \$0.1 million (December 31, 2017 - \$0.1 million).

During the nine months ended September 30, 2018 the Company purchased \$0.7 million (December 31, 2017 - \$nil) of product from a company controlled by Siegfried Thoma, a director of the Company. These purchases were made in the normal course of operations and are recorded at exchange amounts.

Additional information regarding these related party transactions is contained in Note 21 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended September 30, 2018 and Note 29 of the 2017 Consolidated Financial Statements.

In addition to the aforementioned related party transactions, certain subsidiaries of the Company had entered into leases for various facilities and equipment, with entities affiliated with individuals who are directors and officers of such subsidiaries, in connection with prior acquisitions. During the nine month period ended September 30, 2018, such lease payments totaled \$nil (2017 - \$1.2 million), and trucking services and other related party services paid totaled \$nil (2017 - \$0.1 million). 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 United States, and for vehicles, warehouse equipment, and a computer hosting contract.

The following table shows, as at September 30, 2018, the Company's contractual obligations inclusive of estimated interest within the periods indicated:

Contractual Obligations (in thousands of dollars)	Total	Remainder			
		of 2018	2019-2020	2021-2022	Thereafter
Revolving loan facility <sup>(1)</sup>	235,390	2,072	16,573	216,746	-
Non-revolving term loan <sup>(2)</sup>	39,188	1,113	8,570	29,504	-
Promissory notes <sup>(3)</sup>	823	-	823	-	-
Equipment term loan and line <sup>(4)</sup>	14,042	913	8,823	4,306	-
Earn-out commitment <sup>(5)</sup>	2,065	-	-	2,065	-
Finance leases <sup>(6)</sup>	4,519	389	2,355	1,358	417
Operating leases <sup>(6)</sup>	131,337	5,329	38,426	25,975	61,607
<b>Total contractual obligations</b>	<b>427,364</b>	<b>9,816</b>	<b>75,570</b>	<b>279,954</b>	<b>62,024</b>

- Interest has been calculated based on the average borrowing under the facility for the quarter ended September 30, 2018 utilizing the interest rate payable under the terms of the facility at September 30, 2018. This facility matures on July 10, 2021.
- Annual principal payments are amortized over 15 years beginning on December 31, 2016, with interest payable quarterly.
- Annual principal payments of \$0.8 million on August 31, with simple interest payable semi-annually, and maturing on August 31, 2019.
- Monthly principal repayments amortize over 5 years, interest is payable monthly. Equipment line principal repayments commence on August 1, 2019, with maturity on December 1, 2021
- Additional information is contained in Note 15 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ending September 30, 2018.
- Additional information is contained in Note 22 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ending September 30, 2018.

### 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 \$1.5 million as at September 30, 2018 (December 31, 2017 - \$1.5 million) in respect of historical obligations, pre-dating 1999, for a non-registered executive pension plan for former executives.

## Significant Accounting Judgments and Estimates

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

## Goodwill

Management uses judgment in determining the fair value of the acquired net identifiable tangible and intangible assets at the date of a business combination. Any resulting goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill at September 30, 2018 relates to the Company's acquisitions of various businesses. Goodwill is not amortized, but is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. Goodwill impairment is assessed based on a comparison of the 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 after tax cash flows. 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 harvest, recognized in net earnings for the period. Significant judgment is used in determining the fair value with reference to independent third party valuers and recent comparatives of standing timber sales, costs of sustainable forest management, log pricing and harvest volume assumptions, the discount rate used and the resulting net present value of future cash flows for standing timber.

## Reforestation Provision

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



## Employee Future Benefits

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

### i. Discount rate

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

### ii. Other assumptions

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

## Inventory Valuation

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

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

## Allowance for Doubtful Accounts

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

## Income Taxes

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

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

## Leases

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

## Segment Reporting

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

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

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

## Changes in Accounting Standards

The significant accounting policies as disclosed in Note 3 of the 2017 Consolidated Financial Statements have been applied consistently in the preparation of these financial statements, except as stated below.

### IFRS 9 – Financial Instruments

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

### IFRS 15 - Revenue from Contracts with Customers

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

Further information about changes to the Company’s accounting policies resulting from the adoption of these new standards can be found in Note 3 to the Company’s Unaudited Interim Condensed Consolidated Financial Statements for the nine month period ended September 30, 2018.

## New Accounting Pronouncements Issued but not yet Applied

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

### IFRS 16 – Leases

In January 2016, the International Accounting Standards Board issued IFRS 16, *Leases* (“IFRS 16”), replacing IAS 17, *Leases*, and related interpretations. IFRS 16 sets out principles of recognition, measurement, presentation and disclosure of leases for both parties to a contract, the lessee and the lessor. IFRS 16 is effective January 1, 2019 and the Company does not intend to early adopt this standard. The Company anticipates that it will use the modified retrospective approach which recognizes the cumulative effect of applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other components of equity, as appropriate) at the date of initial application.

The Company is evaluating the impact that this new standard will have and based upon work completed to date, expects that IFRS 16 will have a significant impact on the Company’s Statement of Financial Position, stemming from the recognition of new right-of-use assets and lease liabilities for leases with lease terms that are greater than twelve months, which are currently accounted for as operating leases. The Company has substantially completed the identification of its existing lease and rental agreements that may result in the recognition of right-of-use assets and lease liabilities; however, at this time it is not possible to make reasonable quantitative estimates of the impact of IFRS 16 on its financial results.

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

## 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.

### Limitations on Scope of Design

The scope of design and operating effectiveness over disclosure controls and internal controls over financial reporting has been limited to exclude control, policies and procedures of Honsador, which was acquired on October 2, 2017, consistent with past Company practices. The summary financial information of Honsador is presented below.

(in thousands of dollars)	Three months ended September 30, 2018.	Nine months ended September 30, 2018.
Revenue	47,316	135,472
Net earnings	465	2,715

  

(in thousands of dollars)	September 30, 2018
Current assets	80,733
Long-term assets	78,197
Current liabilities	33,658
Long-term liabilities	18,553

The scope limitation is in accordance with section 3.3(1)(b) of National Instrument 52-109, which allows an issuer to limit the assessment of the design of disclosure and control procedures and internal control over financial reporting to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days after the acquisition date.

### 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 most recent interim period ended September 30, 2018 that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### Risks and Uncertainties

The Company is subject to normal business risks associated with similar firms operating within the building materials industry in Canada, which are described in greater detail in the Company's AIF dated March 29, 2018, the Company's MD&A contained in the 2017 annual consolidated financial report and the Company's public filings on [www.sedar.com](http://www.sedar.com), which the reader is encouraged to review, and which are or may be, updated from time to time, after the date therein. Except as required by applicable law, the Company undertakes no obligation to publicly update or otherwise revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

## Outlook

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

The Canadian economy is forecast to grow by 2.2% in 2019, before slowing to 1.9% in 2020, according to the most recent revised estimates published by the Bank of Canada ("BoC"). The BoC also reported that recent indicators have bolstered their confidence in their economic outlook, with inflation close to target and the economy operating close to capacity. Based on this improving outlook, the BoC raised its key short-term lending rate by 0.25% on October 24, 2018 to 1.75%, which is the fifth such increase since July 2017. On September 26, 2018 the US Federal Reserve raised its benchmark interest rate to 2.25%, which was the third rate increase in 2018. We believe this signals that both economies are returning to a more solid footing, with unemployment rates falling and economies performing in line with expectations.

According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for Canadian housing starts in the third quarter of 2018 was 195,811 compared to 222,513 in the same period last year. CMHC forecasts annual housing starts for the years 2018 and 2019 to be in the range from 192,200 units to 203,800 units. Historically, strong housing starts have positively impacted the Company's business and the volume of building materials that it sells. The recent introduction of stricter federal mortgage rules, the introduction of British Columbia and Ontario foreign buyers' and speculation taxes, increased lending rates, foreign exchange fluctuations and overall affordability issues, may affect the housing market, although any potential impact is not predictable.

US housing construction experienced a strong start to 2018 as seasonally-adjusted housing starts reached 1,319,000 units in the first quarter of 2018 compared to 1,189,000 units in the same period last year. However, rising material costs and the shortage of qualified construction workers have impacted housing starts in Q2 2018. According to the US Census Bureau, seasonally-adjusted housing starts reached 1,173,000 units in the second quarter of 2018 compared to 1,215,000 units in the same period last year, while seasonally-adjusted housing starts in the third quarter of 2018 reached 1,201,000 compared to 1,127,000 in the same period last year. According to the Federal Home Mortgage Corporation (Freddie Mac) Economic & Housing Research Group, housing starts are estimated to reach 1,290,000 units for 2018 and 1,350,000 for 2019. The US economy has been expanding at a robust pace, and according to the BoC, is expected to average about 2.8% growth over the 2018-2019 period.

A tentative new trilateral trade deal was recently announced between the United States, Mexico and Canada to replace NAFTA. The new trade agreement is expected to add a measure of certainty to trade between the countries, which in turn should have a positive impact on consumer confidence. That said, there is still no agreement on the ongoing softwood lumber dispute. The Softwood Lumber Agreement with the US expired in October 2015 and as anticipated, the US Department of Commerce introduced both countervailing and anti-dumping duties on Canadian softwood lumber imports. The Company will continue to carefully manage its business to minimize any potential impacts of these trade dispute duties. The Company does not export softwood lumber from Canada to the US and the Company's US distribution operations sell wood products sourced in the US. Despite ongoing talks, there is no visibility as to the resolution of this trade dispute.

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

The proceeds from the Company's bond offering in the fourth quarter were applied against the revolving loan balance, freeing up additional credit availability, and providing greater financial flexibility for the Company.

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 impacted by the 2018 wild fire activity. Prices are expected to remain strong for the remainder of 2018 and into 2019 as the demand from the US continues to be high due to supply shortfalls and the expectations for an increase in US housing starts. There can be no assurance, however, these pricing trends will be sustainable, which may result in potential adverse impacts on the Company's forestry segment.

Construction at our wood treatment facility in Junction City, Oregon has been progressing according to plan and remains on track for completion late in the fourth quarter of 2018.

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



## CORPORATE INFORMATION

### Directors

**Ian M. Baskerville**  
Toronto, Ontario

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

**Tom Donaldson**  
Saint John, New Brunswick

**Kelvin Dushnisky**  
Johannesburg, South Africa

**Sam Fleiser**  
Toronto, Ontario

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

**Harry Rosenfeld**  
West Vancouver, British Columbia

**Marc Seguin**  
Vancouver, British Columbia

**Siegfried J. Thoma**  
Portland, Oregon

### Auditors

**KPMG LLP**  
Vancouver, British Columbia

### Solicitors

**Goodmans LLP**  
Toronto, Ontario

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

### Officers

**Amar S. Doman**  
Chairman and CEO

**James Code**  
Chief Financial Officer

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

### CanWel Building Materials

**National Office**  
1100 - 1055 West Georgia Street  
P.O. Box 11135 STN Royal Centre  
Vancouver BC V6E 3P3

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

### Transfer Agent

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

### Investor Relations

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

### Stock Exchange

**Toronto Stock Exchange**

### Trading Symbols:

CWX, CWX.NT.A