



CanWel Building Materials Group Ltd.
Unaudited Interim Condensed
Consolidated Financial Statements

September 30, 2019
(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.

November 7, 2019

Interim Condensed Consolidated Statement of Financial Position (Unaudited)

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

(in thousands of Canadian dollars)	Notes	As at September 30, 2019 \$	As at December 31, 2018 (Note 4) \$
Assets			
Current assets			
Cash		5,352	488
Trade and other receivables	5	144,872	101,797
Income taxes receivable		8,121	4,796
Inventories	6	267,364	284,388
Prepaid expenses and deposits		6,044	5,774
		431,753	397,243
Non-current assets			
Property, plant and equipment	7	96,829	108,242
Right-of-use assets	8	112,819	-
Timber	9	60,047	62,659
Deferred income tax assets		3,706	2,641
Intangible assets	10	40,837	47,263
Goodwill	11	180,001	181,157
Other assets		4,897	4,564
		499,136	406,526
Total assets		930,889	803,769
Liabilities			
Current liabilities			
Cheques issued in excess of cash on hand		10,392	9,701
Trade and other payables		103,782	80,808
Performance bond obligations	12	14,015	13,507
Dividends payable	17	10,887	10,884
Income taxes payable		1,681	169
Current portion of non-current liabilities	8,13,14	27,589	11,063
		168,346	126,132
Non-current liabilities			
Loan and borrowings	13	300,661	283,471
Lease liabilities	8	96,547	4,140
Reforestation and environmental	14	1,439	1,724
Other liabilities	15	2,716	2,578
Deferred income tax liabilities		19,149	19,307
Retirement benefit obligations	16	4,029	3,290
		424,541	314,510
Total liabilities		592,887	440,642
Equity			
Common shares	17	498,881	499,154
Contributed surplus		11,066	10,769
Foreign currency translation		9,896	15,654
Deficit		(181,841)	(162,450)
		338,002	363,127
Total liabilities and equity		930,889	803,769
Commitments and contingencies	8,28		

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

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

(in thousands of Canadian dollars except per share amounts)	Notes	Three months ended September 30,		Nine months ended September 30,	
		2019 \$	2018 \$	2019 \$	2018 \$
Revenue	24,25	373,203	350,186	1,040,850	1,027,255
Cost of sales	18	320,901	299,412	893,077	872,928
Gross margin from operations		52,302	50,774	147,773	154,327
Expenses					
Distribution, selling and administration	19	27,013	30,664	79,961	91,192
Depreciation of property, plant and equipment	7	3,141	2,875	9,962	8,380
Amortization right-of-use assets	8	5,370	-	16,212	-
Amortization of intangible assets	10	1,698	1,681	5,124	5,002
		37,222	35,220	111,259	104,574
Operating earnings		15,080	15,554	36,514	49,753
Finance costs	20	5,750	3,070	16,876	8,538
Acquisition costs		281	-	415	-
Earnings before income taxes		9,049	12,484	19,223	41,215
Provision for income taxes					
Current income tax		3,217	3,267	6,105	9,686
Deferred income tax		(564)	728	(729)	1,884
		2,653	3,995	5,376	11,570
Net earnings		6,396	8,489	13,847	29,645
Other comprehensive (loss) income					
Exchange differences on translation of foreign operations ⁽¹⁾		2,097	(3,001)	(5,758)	6,035
Net actuarial gain (loss) from pension and other benefit plans ⁽²⁾		(235)	61	(598)	118
Comprehensive earnings		8,258	5,549	7,491	35,798
Net earnings per share					
Basic and diluted		0.08	0.11	0.18	0.38
Weighted average number of shares					
Basic and diluted		77,742,789	77,729,227	77,698,113	77,702,549

(1) Item 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 condensed consolidated financial statements.

(in thousands of Canadian dollars except share amounts)	Common shares		Contributed surplus	Foreign currency translation	Deficit	Total
	#	\$	\$	\$	\$	\$
As at December 31, 2018	77,744,598	499,154	10,769	15,654	(162,450)	363,127
Shares issued pursuant to:						
Restricted Equity Common Share Plan	4,004	19	(19)	-	-	-
Employee Common Share Purchase Plan	157,079	630	-	-	-	630
Repurchase of common shares	(142,200)	(913)	297	-	-	(616)
Transaction costs on issue of shares		(9)	-	-	-	(9)
Share-based compensation charged to operations		-	19	-	-	19
Dividends		-	-	-	(32,640)	(32,640)
Comprehensive earnings for the period		-	-	(5,758)	13,249	7,491
As at September 30, 2019	77,763,481	498,881	11,066	9,896	(181,841)	338,002
As at December 31, 2017	77,659,655	498,639	10,769	(49)	(149,124)	360,235
Shares issued pursuant to:						
Restricted Equity Common Share Plan	3,726	25	(25)	-	-	-
Employee Common Share Purchase Plan	81,217	490	-	-	-	490
Share-based compensation charged to operations		-	25	-	-	25
Dividends		-	-	-	(32,639)	(32,639)
Comprehensive earnings for the period		-	-	6,035	29,763	35,798
As at September 30, 2018	77,744,598	499,154	10,769	5,986	(152,000)	363,909

Interim Condensed Consolidated Statement of Cash Flows (Unaudited)

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

(in thousands of Canadian dollars)	Notes	Three months ended September 30,		Nine months ended September 30,	
		2019 \$	2018 \$	2019 \$	2018 \$
Operating activities					
Net earnings for the period		6,396	8,489	13,847	29,645
Items not affecting cash:					
Provision for income taxes		2,653	3,995	5,376	11,570
Depreciation and amortization of:					
Property, plant and equipment	7	3,141	2,875	9,962	8,380
Right-of-use assets	8	5,370	-	16,212	-
Intangible assets	10	1,698	1,681	5,124	5,002
Fair value adjustments	9	374	(972)	353	(1,173)
Timber harvested	9	735	1,489	2,766	3,342
Other		(152)	(192)	92	(535)
Income taxes paid		(2,940)	(3,356)	(8,058)	(9,259)
Interest paid on loans and borrowings and other		(4,716)	(2,641)	(12,341)	(7,312)
Payment of reforestation and environmental	14	(53)	(276)	(700)	(1,135)
Finance costs	20	5,750	3,070	16,876	8,538
Cash flows from operating activities before changes in non-cash working capital		18,256	14,162	49,509	47,063
Changes in non-cash working capital	23	100,978	95,787	7,742	(48,041)
Net cash flows provided by (used in) operating activities		119,234	109,949	57,251	(978)
Financing activities					
Dividends paid	17	(10,887)	(10,878)	(32,640)	(32,639)
Repayment of term loans		(1,560)	(585)	(3,956)	(2,762)
Repayment of promissory notes		(802)	(3,699)	(802)	(3,699)
Payment of lease liabilities, including interest	8	(5,773)	(435)	(17,212)	(1,106)
Other		294	51	(128)	52
Increase (Decrease) in revolving loan facility		(102,749)	(82,527)	21,510	49,836
Net cash flows provided by (used in) financing activities		(121,477)	(98,073)	(33,228)	9,682
Investing activities					
Business Acquisition	4	-	-	(15,335)	(6,352)
Cash and cash equivalents acquired	4	-	-	1,129	-
Purchase of property, plant and equipment	7	(2,033)	(2,175)	(5,748)	(5,861)
Other		1	43	12	194
Net cash flows used in investing activities		(2,032)	(2,132)	(19,942)	(12,019)
Decrease (Increase) in bank overdraft		(4,275)	9,744	4,081	(3,315)
Foreign exchange difference		124	(131)	92	(232)
Bank overdraft - Beginning of period		(889)	(16,171)	(9,213)	(3,011)
Bank overdraft - End of period		(5,040)	(6,558)	(5,040)	(6,558)

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 1100 – 1055 West Georgia Street, Vancouver, BC. The Company’s Canadian operations commenced in 1989.

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

2. BASIS OF PRESENTATION 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, 2018 (except for as described in Note 3).

These unaudited Interim Condensed Consolidated Financial Statements were authorized for issuance on November 7, 2019 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, 2018.

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, 2018 have been consistently applied to all periods in the preparation of these unaudited Interim Condensed Consolidated Financial Statements unless otherwise stated below.

Changes in accounting standards

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

IFRS 16 - Leases

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

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

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

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

- a. Recognition exemptions under IFRS 16 (5a) and (5b) for short-term and low-value leases;
- b. An election under IFRS 16 (C11), which allows the Company a choice to not reassess contracts which were previously identified as leases under IAS 17; and
- c. An option under IFRS 16 (B1) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. Forklifts, light vehicle leases and computer equipment were identified as separate portfolios, having similar characteristics.

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

Impact on transition

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

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

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

- Note 27 to the 2018 audited Annual Consolidated Financial Statements.
- Note 17 to the 2018 audited Annual Consolidated Financial Statements.

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

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

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

Significant accounting policies amended

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

(i) Lessees

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

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

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

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

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

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

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

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

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

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

(ii) Lessors

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

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

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

4. BUSINESS ACQUISITIONS

2019 Acquisition

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

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

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

	2019
	Provisional⁽¹⁾
	\$
Fair value of purchase consideration	
Cash consideration	15,335
Fair value of assets acquired⁽¹⁾	
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

1. The purchase price allocation is preliminary and is subject to change up to a period of one year from the acquisition date upon finalization of fair value determinations.

Goodwill recognized is 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 three months ended September 30, 2019, directly attributable acquisition costs of \$281 have been expensed and are included in net earnings on the Consolidated Statement of Earnings and during the nine months ended September 30, 2019, directly attributable acquisition costs of \$415 have been expensed and are included in net earnings on the Consolidated Statement of Earnings.

2018 Acquisitions

On June 12, 2018, the Company acquired certain assets and the business of Superior Forest Products, Inc. (now doing business as Oregon Cascade Building Materials, Inc. "OCBM") (the "OCBM Acquisition"). Based in Junction City, Oregon, OCBM will provide lumber pressure treating services for customers predominantly based in Oregon and Washington. The OCBM Acquisition is expected to complement the Company's existing treated lumber and specialty wood products business in the United States. The plant completed testing and permitting during the quarter ended June 30, 2019, and commenced customer shipments in June 2019.

On December 3, 2018, the Company acquired certain assets and the business of Western Wood Treating, Inc. (now doing business as Woodland Wood Preservers, Ltd. "Woodland") (the "Woodland Acquisition"). Based in Woodland, California, Woodland specializes in pressure treated wood products. The Woodland Acquisition is expected to expand the Company's presence in the United States treating markets.

The foreign exchange rates used to translate purchase price consideration and fair values of assets acquired were based on the exchange rates as at the date of the above noted acquisitions (collectively the OCBM and Woodland Acquisitions hereafter, the "2018 Acquisitions").

Details of the allocation of the purchase price to the fair values of the identifiable assets acquired at the date of the 2018 Acquisitions were as follows (in thousands of Canadian dollars):

	2018
	\$
Fair value of purchase consideration	
Cash consideration	18,224
Promissory note	4,617
Consideration	22,841
Fair value of assets acquired⁽¹⁾	
Non-cash working capital	386
Property, plant and equipment	11,673
Total identifiable net assets at fair value	12,059
Goodwill arising on acquisitions	10,782
Assets acquired	22,841

1. The purchase price allocation is preliminary and is subject to change up to a period of one year from the acquisition date upon finalization of fair value determinations.

The goodwill recognized is primarily attributed to the expected synergies arising from the acquisitions and the expertise and reputation of the assembled management and workforce. Goodwill is expected to be deductible for income tax purposes.

The acquirees' gross revenues and net earnings during the three and six months ended June 30, 2018 were nominal.

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:

	September 30 2019, \$	December 31 2018, \$
Trade receivables	139,040	92,398
Allowance for doubtful accounts	(980)	(871)
Net trade receivables	138,060	91,527
Other receivables	6,812	10,270
Total trade and other receivables	144,872	101,797

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

	September 30, 2019 \$	December 31, 2018 \$
Neither past due nor impaired	127,337	85,607
Past due but not impaired:		
Less than 1 month	9,097	7,232
1 to 3 months	5,648	6,967
3 to 6 months	2,790	1,991
Total trade and other receivables	144,872	101,797

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

	\$
Balance at December 31, 2018	871
Accruals during the period	210
Additions arising on acquisition	92
Accounts written off	(176)
Foreign exchange difference	(17)
Balance at September 30, 2019	980

The Company holds no collateral for any receivable amounts outstanding as at September 30, 2019.

6. INVENTORIES

	September 30, 2019 \$	December 31, 2018 \$
Inventories held for resale	220,572	223,109
Inventories held for processing	46,792	61,279
	267,364	284,388

The expenses related to the sale of inventories were recorded in cost of sales, as described in Note 18.

7. PROPERTY, PLANT AND EQUIPMENT

	Land \$	Buildings, leasehold improvements and roads \$	Machinery, automotive and other equipment \$	Computer equipment and systems development \$	Equipment under finance leases \$	Total \$
Cost						
Cost at December 31, 2018	35,644	18,666	90,647	5,205	8,058	158,220
Reclassification to right-of-use assets (Note 3)	-	-	-	-	(8,058)	(8,058)
Additions	-	3,316	1,956	476	-	5,748
Disposals	-	-	(321)	(36)	-	(357)
Foreign exchange difference	-	(37)	(692)	(7)	-	(736)
Cost at September 30, 2019	35,644	21,945	91,590	5,638	-	154,817
Accumulated depreciation						
Accumulated depreciation at December 31, 2018	-	4,255	40,633	3,500	1,590	49,978
Reclassification to right-of-use assets (Note 3)	-	-	-	-	(1,590)	(1,590)
Depreciation	-	1,059	8,131	772	-	9,962
Disposals	-	-	(219)	(29)	-	(248)
Foreign exchange difference	-	(7)	(105)	(2)	-	(114)
Accumulated depreciation at September 30, 2019	-	5,307	48,440	4,241	-	57,988
Net book value at December 31, 2018	35,644	14,411	50,014	1,705	6,468	108,242
Net book value at September 30, 2019	35,644	16,638	43,150	1,397	-	96,829

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.

Right-of-use assets

	Facilities ⁽²⁾ \$	Machinery, automotive and other equipment ⁽³⁾ \$	Computer Equipment \$	Total \$
As at January 1, 2019 (Note 3)	111,301	13,626	520	125,447
Additions ⁽¹⁾	10	5,132	76	5,218
Additions arising on acquisition (Note 4)	520	-	-	520
Amortization	(12,084)	(4,006)	(122)	(16,212)
Disposals	-	(37)	-	(37)
Foreign exchange movements	(1,973)	(138)	(6)	(2,117)
Balance at September 30, 2019	97,774	14,577	468	112,819

Lease liabilities

	Facilities ⁽²⁾ \$	Machinery, automotive and other equipment ⁽³⁾ \$	Computer Equipment \$	Total \$
As at January 1, 2019 (Note 3)	111,301	12,927	511	124,739
Additions	10	5,160	76	5,246
Additions arising on acquisition (Note 4)	506	-	-	506
Disposals	-	(52)	-	(52)
Finance costs	3,078	415	17	3,510
Lease payments	(13,354)	(3,727)	(131)	(17,212)
Foreign exchange movements	(1,924)	(112)	(6)	(2,042)
Balance at September 30, 2019	99,617	14,611	467	114,695
Less: current portion	(13,938)	(4,051)	(159)	(18,148)
	85,679	10,560	308	96,547

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

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

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

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%.

Amounts recognized in net earnings

Expenses related to lease arrangements were as follows:

	Three months ended		Nine months ended	
	2019	September 30, 2018 ⁽¹⁾	2019	September 30, 2018 ⁽¹⁾
	\$	\$	\$	\$
Distribution, selling and administration	-	5,066	-	15,252
Depreciation of property, plant and equipment	-	160	-	443
Amortization of right-of-use assets	5,370	-	16,212	-
Finance costs	1,124	48	3,510	143
Total expenses	6,494	5,274	19,722	15,838

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

Impact on cash flows

Cash flows related to lease arrangements were as follows:

	Three months ended		Nine months ended	
	2019	September 30, 2018	2019	September 30, 2018
	\$	\$	\$	\$
Operating activities				
Expenses recorded in net earnings	(6,494)	(5,274)	(19,722)	(15,838)
Items not affecting cash				
Depreciation of property, plant and equipment	-	160	-	443
Amortization of right-of-use assets	5,370	-	16,212	-
Interest paid on finance leases	-	(48)	-	(143)
Finance costs	1,124	48	3,510	143
Net cash flows used in operating activities	-	(5,114)	-	(15,395)
Financing activities				
Payment of lease liabilities	(5,773)	(435)	(17,212)	(1,106)
Net cash flows used in financing activities	(5,773)	(435)	(17,212)	(1,106)
Total cash flows	(5,773)	(5,549)	(17,212)	(16,501)

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 21):

Year ending December 31	\$
Remainder of 2019	6,273
2020	22,244
2021	18,051
2022	15,745
2023	13,997
Thereafter	63,371
	139,681

9. TIMBER

	\$
Balance at December 31, 2018	62,659
Reforestation provision on harvested land	507
Harvested timber transferred to inventory in the period	(2,766)
Change in fair value	(353)
Balance at September 30, 2019	60,047

During the three month period ended September 30, 2019, the Company harvested approximately 65,445 cubic metres ("m³") from its private timberlands (2018 - 126,977 m³), and during the nine month period ended September 30, 2019, the Company harvested approximately 245,513 cubic metres ("m³") from its private timberlands (2018 - 298,212 m³).

Measurement of fair values

The table above reconciles the opening balances to the closing balances for Level 3 fair values (as defined in Note 24). 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	<p>Estimated timber prices of \$36⁽¹⁾ per m³ (weighted average sawlog and pulpwood prices) plus harvest and delivery charges (where applicable) of \$50⁽¹⁾</p> <p>Estimated total costs, including harvest, delivery (where applicable) and stewardship costs of \$53⁽¹⁾ per m³</p> <p>Estimated harvest annual volume of 173,913 - 450,000 m³ (20-year rolling average 249,787 m³ (2018 - 265,997 m³))</p> <p>Risk-adjusted discount rate of 9.5%</p>
Inter-relationship between key unobservable inputs and fair value measurement	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> - the estimated timber prices per m³ were higher (lower); - the estimated harvest, delivery and stewardship costs per m³ 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

10. INTANGIBLE ASSETS

	Canadian operations \$	US operations \$	Value-added services \$	Total \$
Cost				
Cost at December 31, 2018	10,000	56,898	1,633	68,531
Foreign exchange difference	-	(1,665)	-	(1,665)
Cost at September 30, 2019	10,000	55,233	1,633	66,866
Accumulated amortization				
Accumulated amortization at December 31, 2018	8,917	11,453	898	21,268
Amortization	750	4,252	122	5,124
Foreign exchange difference	-	(363)	-	(363)
Accumulated amortization at September 30, 2019	9,667	15,342	1,020	26,029
Net intangible assets at December 31, 2018	1,083	45,445	735	47,263
Net intangible assets at September 30, 2019	333	39,891	613	40,837

Intangible assets at September 30, 2019 relate to the Distribution business segment, as described in Note 25 and include purchased customer lists and trade names.

11. GOODWILL

	Canadian operations \$	US operations \$	Value-added services \$	Total \$
Balance at December 31, 2018	62,624	83,186	35,347	181,157
Additions arising on acquisition (Note 4)	-	1,336	-	1,336
Foreign exchange difference	-	(2,492)	-	(2,492)
Balance at September 30, 2019	62,624	82,030	35,347	180,001

Goodwill at September 30, 2019 relates to the Distribution business segment, as described in Note 25.

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.

	September 30, 2019 \$	December 31, 2018 \$
Funds received on bonding obligations ⁽¹⁾	92,348	95,488
Payments made on bonding obligations ⁽¹⁾	(78,763)	(82,385)
Receipts in excess of payments	13,585	13,103
Provision for loss on bonds	430	404
Balance at September 30, 2019	14,015	13,507

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, 2018	13,507
Net payments on bonding obligations during the period	869
Change in provision for loss on bonds	37
Foreign exchange difference	(398)
Balance at September 30, 2019	14,015

Total gross bonding contracts on all outstanding projects at September 30, 2019 were \$153,121 (December 31, 2018 - \$149,462).

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

13. LOANS AND BORROWINGS

	September 30, 2019 \$	December 31, 2018 \$
Total loans and borrowings		
Unsecured notes ⁽¹⁾	57,255	56,756
Revolving loan facility ⁽¹⁾	204,993	184,102
Non-revolving term loan ⁽¹⁾	31,604	33,580
Promissory notes	4,867	5,584
Equipment term loan, equipment line and other loans ⁽¹⁾	10,234	12,155
Total loans and borrowings	308,953	292,177
Current portion of loans and borrowings		
Non-revolving term loan	2,667	2,667
Promissory notes	1,784	2,400
Equipment term loan, equipment line and other loans	3,841	3,639
Total current portion of loans and borrowings	8,292	8,706
Non-current portion of loans and borrowings	300,661	283,471

1. Amounts reflect financing costs net of amortization totaling \$4,731 as at September 30, 2019 and \$5,833 as at December 31, 2018.

On April 3, 2019, the maximum credit available under the Company's revolving loan facility was temporarily increased from \$300,000 to \$325,000, with an additional \$25,000 accordion facility, for a total loan limit of \$350,000. This loan limit was in effect for a period of 120 days commencing on April 3, 2019. All other material terms under the facility remained consistent with those described in Note 16 to the 2018 audited Annual Consolidated Financial Statements.

The Company was not in breach of any of its covenants during the period ended September 30, 2019.

14. REFORESTATION AND ENVIRONMENTAL

	\$
Balance at December 31, 2018	2,461
Paid during the period	(700)
Reforestation provision on harvested land	722
Changes in fair value	105
Balance at September 30, 2019	2,588
Less: current portion	(1,149)
	1,439

15. OTHER LIABILITIES

Earn-out commitment

Subject to certain minimum obligations, the Company has a liability to pay additional amounts (“Earn-out”) from proceeds of sale of certain lands to third parties for a period of seven years beginning September 15, 2014. The total net remaining undiscounted minimum amount payable with respect to the Earn-out is \$2,065 (December 31, 2018 - \$2,065), with an additional 25% of the gross proceeds on any amounts above a certain price per hectare sold. The total discounted amount payable with respect to the Earn-out is \$2,065 (December 31, 2018 - \$1,691), and is included in other liabilities.

16. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

Total net benefit expense of the Company’s pension and post-retirement benefit plans for the quarter ended September 30, 2019 was \$435 (2018 - \$408) and for nine months ended September 30, 2019 was \$1,257 (2018 - \$1,175). These expenses have been included in distribution, selling and administration costs and finance costs in the unaudited Interim Condensed Consolidated Statement of Earnings.

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

	September 30, 2019	December 31, 2018
	\$	\$
Pension benefit plan	1,793	1,092
Other benefit plans	2,236	2,198
	4,029	3,290

Further information about these plans is disclosed in Note 20 to the 2018 audited Annual Consolidated Financial Statements.

17. SHARE CAPITAL

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

Normal Course Issuer Bid

On November 22, 2018 the Company commenced a Normal Course Issuer Bid (“NCIB”) with respect to its common shares. Under the terms of the NCIB, the Company may purchase for cancellation up to 6,085,605 of its common shares at market prices. Since commencement, as at September 30, 2019, the Company repurchased and cancelled 142,200 of its common shares (2018 - nil) 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 \$297 (2018 - \$nil) was credited to contributed surplus.

Restricted Equity Common Share Plan (“RECSP”)

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

	Nine months ended September 30,	
	2019	2018
	#	#
Balance at December 31, 2018	-	-
Granted	4,004	3,726
Vested and converted to common shares during the period	(4,004)	(3,726)
Balance at September 30, 2019	-	-

Compensation expense in respect of RSUs for the quarter ended September 30, 2019 was \$nil (2018 - \$nil) and for the nine-month period to date was \$19 (2018 - \$25).

Employee Common Share Purchase Plan (“ECSP”) (“ECSP”)

For the quarter ended September 30, 2019, the Company issued 73,217 (2018 - 47,137) common shares from treasury and for the nine-month period to date the Company issued 157,079 (2018 - 81,217) common shares from treasury for gross proceeds of \$630 (2018 - \$490), pursuant to the ECSP.

Dividends

The following dividends were declared and paid by the Company:

	2019				2018			
	Declared				Declared			
	Record date	Per share \$	Amount \$	Paid date	Record date	Per share \$	Amount \$	Paid date
Quarter 1 dividend	Mar 29, 2019	0.14	10,876	Apr 15, 2019	Mar 29, 2018	0.14	10,877	Apr 13, 2018
Quarter 2 dividend	Jun 28, 2019	0.14	10,877	Jul 15, 2019	Jun 29, 2018	0.14	10,878	Jul 13, 2018
Quarter 3 dividend	Sep 30, 2019	0.14	10,887	Oct 15, 2019	Sep 28, 2018	0.14	10,884	Oct 15, 2018
Balance at Sep 30		0.42	32,640			0.42	32,639	
Quarter 4 dividend					Dec 31, 2018	0.14	10,884	Jan 15, 2019
						0.56	43,523	

18. COST OF SALES

Cost of sales includes the following:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Purchased and treated building materials	304,980	286,203	843,662	830,212
Salaries and benefits	7,036	7,054	23,077	21,957
Timber harvesting and hauling	4,692	3,109	16,336	11,894
Peeled and treated posts	2,160	1,754	4,922	4,488
Harvested timber sold	886	1,489	2,944	3,342
Inventory provisions	675	514	1,371	1,223
Fair value adjustments	374	(911)	353	(1,246)
Other	98	200	412	1,058
	320,901	299,412	893,077	872,928

19. DISTRIBUTION, SELLING AND ADMINISTRATION COSTS

Distribution, selling and administration costs include the following:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Salaries and benefits	17,734	16,731	52,521	50,719
Building rent and occupancy costs ⁽¹⁾	3,650	7,937	10,570	23,651
Office and miscellaneous	2,826	2,597	8,229	7,355
Travel, promotion and entertainment	1,775	2,021	5,674	5,960
Professional and management fees	1,028	1,378	2,967	3,507
	27,013	30,664	79,961	91,192

1. Prior year comparatives include amounts related to lease arrangements, which were recognized in distribution, selling and administration costs before the implementation of IFRS 16.

20. FINANCE COSTS

Finance costs include the following:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Loans and borrowings	3,873	2,533	11,557	7,330
Lease liabilities	1,124	48	3,510	143
Other	-	146	108	101
Net interest	4,997	2,727	15,175	7,574
Amortization of financing costs	420	275	1,229	761
Accretion of earn-out commitment	300	33	374	98
Interest on net defined benefit liability	33	35	98	105
	5,750	3,070	16,876	8,538

21. 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 September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Leased facilities: distribution ⁽¹⁾ and treatment ⁽²⁾	910	840	2,729	2,452
Purchase of product ⁽³⁾⁽⁴⁾	626	1,450	3,167	3,471
Management fees and other ⁽⁵⁾	370	285	960	805
Professional fees and other ⁽⁶⁾	179	104	449	450

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: for the quarter \$626 (2018 - \$779), and for the nine-month period to date \$2,771 (2018 - \$2,801).
4. Paid to a company owned by a director of the Company: for the quarter \$nil (2018 - \$672), and for the nine-month period to date \$395 (2018 - \$672).
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 2019	790
2020	2,307
2021	1,944
2022	1,557
2023	1,589
Thereafter	14,072
	22,259

Payable to related parties

As at September 30, 2019, trade and other payables include amounts due to related parties as follows:

	September 30, 2019 \$	December 31, 2018 \$
Purchase of product ⁽¹⁾	110	38
Management fees and other ⁽²⁾	54	59
Professional fees and other ⁽³⁾	157	282

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

22. FINANCIAL INSTRUMENTS

Non-derivative financial instruments

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

	September 30, 2019		December 31, 2018	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Unsecured notes	57,255	57,600	56,756	57,594
Revolving loan facility	204,993	206,497	184,102	186,150
Non-revolving term loan	31,604	32,000	33,580	34,000
Equipment term loan and equipment line	10,234	10,320	12,155	12,276

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

- The fair values of cash, trade and other receivables, cheques issued in excess of cash on hand, trade and other payables, performance bond obligations and dividends payable are 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 September 30, 2019.
- The fair values of the Company's revolving loan facility, non-revolving term loan, and equipment term loan, equipment line and other approximate their carrying values as they bear interest at variable rates based on current market rates. The fair values have been estimated as the carrying values excluding unamortized financing costs.
- The fair values of the Company's promissory notes and lease liabilities approximate their carrying values as they bear interest that approximates current market rates.
- The fair value of the earn-out commitment is equal to the discounted amount of the earn-out payment.

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

The three levels of the fair value hierarchy are:

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

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

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

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

The expenses resulting from financial assets and liabilities recorded in net earnings were as disclosed in Note 20.

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 September 30, 2019, the Company held no outstanding foreign exchange contracts (December 31, 2018 - US\$9,020) for economic hedging purposes, and no unrealized gains (2018 - nil) 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 cash on hand, 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.

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 September 30, 2019, trade accounts receivable, excluding other receivables, were as follows:

	\$
Current	135,234
Past due over 60 days	3,806
Trade receivables	139,040
Less: Allowance for doubtful accounts	(980)
	<u>138,060</u>

As at September 30, 2019, the maximum exposure to credit risk is \$144,872 (December 31, 2018 - \$101,797), 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 September 30, 2019, the sensitivity of a 1% increase in interest rates would result in an approximate decrease of \$501 in net quarterly 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 September 30, 2019, a quarterly increase of \$0.01 in the United States dollar versus the Canadian dollar would have an insignificant impact on quarterly net earnings, and an increase in quarterly other comprehensive earnings of approximately \$2,486.

Liquidity risk

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

Other price risk

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

23. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended		Nine months ended	
	2019	2018	2019	2018
	\$	\$	\$	\$
Trade and other receivables	70,863	82,140	(39,039)	(32,958)
Inventories	32,874	18,877	25,235	(33,488)
Prepaid expenses and deposits	314	1,997	(295)	1,565
Trade and other payables	(3,158)	(7,054)	20,935	17,758
Performance bond obligations	85	(173)	906	(918)
	100,978	95,787	7,742	(48,041)

24. 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 September 30, 2019			Three months ended September 30, 2018		
	Distribution \$	Forestry \$	Total \$	Distribution \$	Forestry \$	Total \$
Primary geographic markets						
Canada	250,217	9,534	259,751	250,550	11,019	261,569
United States	111,742	1,710	113,452	86,909	1,708	88,617
	<u>361,959</u>	<u>11,244</u>	<u>373,203</u>	<u>337,459</u>	<u>12,727</u>	<u>350,186</u>
Revenue categories						
Products	360,967	11,244	372,211	336,424	12,727	349,151
Services	992	-	992	1,035	-	1,035
	<u>361,959</u>	<u>11,244</u>	<u>373,203</u>	<u>337,459</u>	<u>12,727</u>	<u>350,186</u>
	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
	Distribution \$	Forestry \$	Total \$	Distribution \$	Forestry \$	Total \$
Primary geographic markets						
Canada	691,251	33,166	724,417	732,201	31,609	763,810
United States	310,102	6,331	316,433	256,897	6,548	263,445
	<u>1,001,353</u>	<u>39,497</u>	<u>1,040,850</u>	<u>989,098</u>	<u>38,157</u>	<u>1,027,255</u>
Revenue categories						
Products	998,556	39,497	1,038,053	985,676	38,157	1,023,833
Services	2,797	-	2,797	3,422	-	3,422
	<u>1,001,353</u>	<u>39,497</u>	<u>1,040,850</u>	<u>989,098</u>	<u>38,157</u>	<u>1,027,255</u>

Certain customers elect to prepay for goods and services, for which the Company has recorded a contract liability of \$4,004 as at September 30, 2019 (December 31, 2018 - \$2,924), related to these unsatisfied performance obligations (unearned revenues). These amounts are included in trade and other payables in the 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 September 30, 2019, two customers individually accounted for revenues in excess of 10%, purchasing an aggregate of \$99,996 (2018 - \$107,654, representing two customers), and for the nine-month period to date, two customers individually accounted for revenues in excess of 10%, purchasing an aggregate of \$288,221 (2018 - \$311,852, representing two customers).

25. SEGMENTED INFORMATION

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

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

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

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

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

	Three months ended September 30, 2019				Three months ended September 30, 2018			
	Distribution	Forestry	Adjustments and eliminations ⁽¹⁾	Consolidated	Distribution	Forestry	Adjustments and eliminations ⁽¹⁾	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
External customers	361,959	11,244	-	373,203	337,459	12,727	-	350,186
Inter-segment	-	619	(619)	-	-	639	(639)	-
	361,959	11,863	(619)	373,203	337,459	13,366	(639)	350,186
Specified expenses (income)								
Depreciation and amortization	8,384	1,825	-	10,209	3,378	1,178	-	4,556
Finance costs	4,860	890	-	5,750	2,430	640	-	3,070
Fair value adjustments	-	374	-	374	-	(911)	-	(911)
Net earnings (loss)	7,703	(1,307)	-	6,396	6,806	1,683	-	8,489
Purchase of property, plant and equipment	1,202	831	-	2,033	1,190	985	-	2,175

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

	Nine months ended September 30, 2019				Nine months ended September 30, 2018			
	Distribution	Forestry	Adjustments and eliminations ⁽¹⁾	Consolidated	Distribution	Forestry	Adjustments and eliminations ⁽¹⁾	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
External customers	1,001,353	39,497	-	1,040,850	989,098	38,157	-	1,027,255
Inter-segment	-	1,626	(1,626)	-	-	1,457	(1,457)	-
	1,001,353	41,123	(1,626)	1,040,850	989,098	39,614	(1,457)	1,027,255
Specified expenses (income)								
Depreciation and amortization	25,727	5,571	-	31,298	9,917	3,465	-	13,382
Finance costs	14,693	2,183	-	16,876	6,804	1,734	-	8,538
Fair value adjustments	-	353	-	353	-	(1,246)	-	(1,246)
Net earnings (loss)	14,873	(1,026)	-	13,847	26,721	2,924	-	29,645
Purchase of property, plant and equipment	2,978	2,770	-	5,748	3,297	2,564	-	5,861

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:

	September 30, 2019				December 31, 2018			
	Distribution	Forestry	Percent	Consolidated	Distribution	Forestry	Percent	Consolidated
	\$	\$	%	\$	\$	\$	%	\$
Canada	160,899	126,750	58	287,649	118,774	131,679	62	250,453
United States	211,487	-	42	211,487	156,073	-	38	156,073
Long-term assets	372,386	126,750	100	499,136	274,847	131,679	100	406,526

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	%	%	%	%
Construction materials	57	58	59	60
Specialty and allied	37	35	34	33
Forestry and other	6	7	7	7
	100	100	100	100

26. CAPITAL DISCLOSURES

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

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

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

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

There are no externally imposed capital requirements and the Company's loan agreements do not contain any capital maintenance covenants.

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

27. 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 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.



28. CONTINGENCIES

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

29. COMPARATIVE FIGURES

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



CORPORATE INFORMATION

Directors

Ian M. Baskerville
Toronto, Ontario

Amar S. Doman
West Vancouver, British Columbia

Tom Donaldson
Saint John, New Brunswick

Kelvin Dushnisky
Johannesburg, South Africa

Sam Fleiser
Toronto, Ontario

Stephen W. Marshall
Vancouver, British Columbia

Harry Rosenfeld
Vancouver, British Columbia

Marc Seguin
Vancouver, British Columbia

Siegfried J. Thoma
Portland, Oregon

Auditors

KPMG LLP
Vancouver, British Columbia

Solicitors

Goodmans LLP
Toronto, Ontario

DLA Piper (Canada) LLP
Vancouver, British Columbia

Officers

Amar S. Doman
Chairman and CEO

James Code
Chief Financial Officer

R.S. (Rob) Doman
Corporate Secretary

CanWel Building Materials

National Office
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

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