



CANWEL BUILDING MATERIALS GROUP LTD.

THIRD QUARTER 2020
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**CanWel Building Materials Group Ltd.
Unaudited Interim Condensed
Consolidated Financial Statements**

September 30, 2020
(in thousands of Canadian dollars)



Notice of No Auditor Review of Interim Financial Statements

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

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

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

November 5, 2020



Interim Condensed Consolidated Statement of Financial Position (Unaudited)

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

(in thousands of Canadian dollars)	Notes	As at September 30, 2020 \$	As at December 31, 2019 \$
Assets			
Current assets			
Cash		4,130	-
Trade and other receivables	5	192,058	98,420
Income taxes receivable		1,339	8,934
Inventories	6	199,683	284,655
Prepaid expenses and deposits		9,528	10,752
		406,738	402,761
Non-current assets			
Property, plant and equipment	7	81,947	90,472
Right-of-use assets	8	125,967	121,498
Timber	9	48,037	48,800
Deferred income tax assets		3,370	2,861
Intangible assets	10	42,689	46,709
Goodwill	11	180,596	178,421
Other assets		2,365	2,901
		484,971	491,662
Total assets		891,709	894,423
Liabilities			
Current liabilities			
Cheques issued in excess of funds on deposit		7,811	8,000
Trade and other payables		123,168	82,553
Performance bond obligations	12	13,365	12,778
Dividends payable	15	9,352	10,887
Income taxes payable		7,522	1,651
Current portion of loans and borrowings	13	7,740	8,024
Current portion of lease liabilities	8	18,296	18,698
Current portion of reforestation and environmental		112	1,353
		187,366	143,944
Non-current liabilities			
Loans and borrowings	13	223,288	296,076
Lease liabilities	8	111,777	105,311
Reforestation and environmental		2,524	1,239
Deferred income tax liabilities		16,568	16,802
Retirement benefit obligations	14	6,615	3,705
Other liabilities		-	572
		360,772	423,705
Total liabilities		548,138	567,649
Equity			
Common shares	15	499,597	498,891
Contributed surplus		11,110	11,066
Foreign currency translation		10,684	5,940
Deficit		(177,820)	(189,123)
		343,571	326,774
Total liabilities and equity		891,709	894,423
Commitments and contingencies	8,24		

CANWEL BUILDING MATERIALS GROUP LTD.



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

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

(in thousands of Canadian dollars except per share amounts)	Notes	Three months ended September 30,		Nine months ended September 30,	
		2020 \$	2019 \$	2020 \$	2019 \$
Revenue	20,21	472,172	373,203	1,211,827	1,040,850
Cost of sales		385,362	320,901	1,022,630	893,077
4 Gross margin from operations		86,810	52,302	189,197	147,773
Expenses					
Distribution, selling and administration		29,804	27,013	82,893	79,961
Depreciation of property, plant and equipment	7	3,589	3,141	10,459	9,962
Amortization right-of-use assets	8	5,611	5,370	16,616	16,212
Amortization of intangible assets	10	1,650	1,698	5,105	5,124
		40,654	37,222	115,073	111,259
Operating earnings		46,156	15,080	74,124	36,514
Finance costs	16	3,484	5,750	12,774	16,876
Acquisition costs	4	-	281	-	415
Earnings before income taxes		42,672	9,049	61,350	19,223
Provision for (recovery of) income taxes					
Current income tax		11,212	3,217	16,980	6,105
Deferred income tax		441	(564)	(206)	(729)
		11,653	2,653	16,774	5,376
Net earnings		31,019	6,396	44,576	13,847
Other comprehensive (loss) income					
Exchange differences on translation of foreign operations ⁽¹⁾		(4,436)	2,097	4,744	(5,758)
Net actuarial loss from pension and other benefit plans ⁽²⁾		(160)	(235)	(2,105)	(598)
Comprehensive earnings		26,423	8,258	47,215	7,491
Net earnings per share					
Basic and diluted		0.40	0.08	0.57	0.18
Weighted average number of shares					
Basic		77,920,883	77,742,789	77,858,928	77,698,113
Diluted		77,973,367	77,742,789	77,911,412	77,698,113

1. Item that may be reclassified to earnings in subsequent periods.

2. Item will not be reclassified to earnings.

Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)

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

(in thousands of Canadian dollars except share amounts)	Common shares		Contributed surplus	Foreign currency translation	Deficit	Total
	#	\$	\$	\$	\$	\$
As at December 31, 2019	77,765,329	498,891	11,066	5,940	(189,123)	326,774
Shares issued pursuant to:						
Restricted Equity Common Share Plan	11,589	35	(35)	-	-	-
Employee Common Share Purchase Plan	158,801	671	-	-	-	671
Share-based compensation charged to operations		-	58	-	-	58
Accrued dividends on unvested restricted shares		-	21	-	(21)	-
Dividends		-	-	-	(31,147)	(31,147)
Comprehensive earnings for the period		-	-	4,744	42,471	47,215
As at September 30, 2020	77,935,719	499,597	11,110	10,684	(177,820)	343,571
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 (loss) 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

Interim Condensed Consolidated Statement of Cash Flows (Unaudited)

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

(in thousands of Canadian dollars)	Notes	Three months ended September 30,		Nine months ended September 30,	
		2020 \$	2019 \$	2020 \$	2019 \$
Operating activities					
Net earnings for the period		31,019	6,396	44,576	13,847
Items not affecting cash					
Provision for income taxes		11,653	2,653	16,774	5,376
Depreciation and amortization of:					
Property, plant and equipment	7	3,589	3,141	10,459	9,962
Right-of-use assets	8	5,611	5,370	16,616	16,212
Intangible assets	10	1,650	1,698	5,105	5,124
Fair value adjustments	9	(482)	374	(328)	353
Timber harvested	9	448	735	1,366	2,766
Other		(62)	(152)	(939)	92
Income taxes paid		(1,885)	(2,940)	(3,448)	(8,058)
Interest paid on loans and borrowings and other		(1,066)	(4,716)	(6,715)	(12,341)
Payment of reforestation and environmental		(300)	(53)	(340)	(700)
Finance costs	16	3,484	5,750	12,774	16,876
Cash flows from operating activities before changes in non-cash working capital		53,659	18,256	95,900	49,509
Changes in non-cash working capital	19	52,646	100,978	36,082	7,742
Net cash flows provided by operating activities		106,305	119,234	131,982	57,251
Financing activities					
Dividends paid	15	(10,898)	(10,887)	(32,682)	(32,640)
Payment of lease liabilities, including interest	8	(6,051)	(5,773)	(18,612)	(17,212)
Net (repayments) advances on loans and borrowings		(91,550)	(105,111)	(75,242)	16,752
Other		352	294	540	(128)
Net cash flows used in financing activities		(108,147)	(121,477)	(125,996)	(33,228)
Investing activities					
Purchase of property, plant and equipment	7	(544)	(2,033)	(1,932)	(5,748)
Other		1,242	1	1,236	12
Business acquisition	4	-	-	-	(15,335)
Cash and cash equivalents acquired	4	-	-	-	1,129
Net cash flows provided by (used in) investing activities		698	(2,032)	(696)	(19,942)
(Decrease) Increase in cash and cash equivalents		(1,144)	(4,275)	5,290	4,081
Foreign exchange difference		66	124	(971)	92
Cash and cash equivalents - beginning of period		(2,603)	(889)	(8,000)	(9,213)
Cash and cash equivalents - end of period		(3,681)	(5,040)	(3,681)	(5,040)

1. NATURE OF OPERATIONS

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

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

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2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

a) Statement of compliance

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

These unaudited Interim Condensed Consolidated Financial Statements were authorized for issuance on November 5, 2020 by the Board of Directors of the Company.

b) Basis of presentation

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

c) Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

4. BUSINESS ACQUISITION

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

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

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

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

Lignum's gross revenues were \$222,000 and net earnings were \$3,351 from the date of acquisition to September 30, 2020.

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, 2020 \$	December 31, 2019 \$
Trade receivables	186,407	91,760
Allowance for doubtful accounts	(756)	(856)
Net trade receivables	185,651	90,904
Other receivables	6,407	7,516
Total trade and other receivables	192,058	98,420

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

	September 30, 2020 \$	December 31, 2019 \$
Neither past due nor impaired	179,799	79,324
Past due but not impaired:		
Less than 1 month	6,743	9,446
1 to 3 months	4,714	6,414
3 to 6 months	802	3,236
Total trade and other receivables	192,058	98,420

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

	\$
Balance at December 31, 2019	856
Accruals during the period	217
Accounts written off	(341)
Foreign exchange difference	24
Balance at September 30, 2020	756

The Company holds no collateral for any receivable amounts outstanding as at September 30, 2020.

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

6. INVENTORIES

	September 30, 2020	December 31, 2019
	\$	\$
Inventories held for resale	152,828	238,718
Inventories held for processing	46,855	45,937
	199,683	284,655

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

7. PROPERTY, PLANT AND EQUIPMENT

	Land \$	Buildings, leasehold improvements and roads \$	Machinery, automotive and other equipment \$	Computer equipment and systems development \$	Total \$
Cost					
Cost at December 31, 2019	31,762	22,807	90,911	5,613	151,093
Additions	-	590	1,255	87	1,932
Disposals	-	-	(1,506)	(85)	(1,591)
Foreign exchange difference	-	58	660	9	727
Cost at September 30, 2020	31,762	23,455	91,320	5,624	152,161
Accumulated depreciation					
Accumulated depreciation at December 31, 2019	-	5,744	50,379	4,498	60,621
Depreciation	-	1,513	8,380	566	10,459
Disposals	-	-	(908)	(78)	(986)
Foreign exchange difference	-	7	112	1	120
Accumulated depreciation at September 30, 2020	-	7,264	57,963	4,987	70,214
Net book value at December 31, 2019	31,762	17,063	40,532	1,115	90,472
Net book value at September 30, 2020	31,762	16,191	33,357	637	81,947

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 ⁽¹⁾ \$	Machinery, automotive and other equipment ⁽²⁾ \$	Computer Equipment \$	Total \$
Balance at December 31, 2019	106,536	14,537	425	121,498
Additions	6,844	2,580	-	9,424
Lease modifications and other remeasurements	10,039	-	-	10,039
Amortization	(12,885)	(3,605)	(126)	(16,616)
Foreign exchange movements	1,495	121	6	1,622
Balance at September 30, 2020	112,029	13,633	305	125,967

Lease liabilities

	Facilities ⁽¹⁾ \$	Machinery, automotive and other equipment ⁽²⁾ \$	Computer Equipment \$	Total \$
Balance at December 31, 2019	108,813	14,771	425	124,009
Additions	6,844	2,580	-	9,424
Finance costs	3,155	420	12	3,587
Lease payments	(14,647)	(3,832)	(133)	(18,612)
Lease modifications and other remeasurements	10,039	-	-	10,039
Foreign exchange movements	1,506	115	5	1,626
Balance at September 30, 2020	115,710	14,054	309	130,073
Less: current portion	(13,888)	(4,253)	(155)	(18,296)
	101,822	9,801	154	111,777

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

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

Lease commitments

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

Year ending December 31	\$
Remainder of 2020	6,366
2021	24,131
2022	22,112
2023	20,459
2024	16,502
Thereafter	71,576
	161,146

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9. TIMBER

	\$
Balance at December 31, 2019	48,800
Reforestation provision on harvested land	275
Harvested timber transferred to inventory in the period	(1,366)
Change in fair value	328
Balance at September 30, 2020	48,037

During the three-month period ended September 30, 2020, the Company harvested approximately 44,956 cubic metres ("m³") from its private timberlands (2019 - 65,445 m³), and during the nine-month period ended September 30, 2020, the Company harvested approximately 133,268 m³ from its private timberlands (2019 - 245,513 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 18). The fair value measurement for the Company’s standing timber, as disclosed above, has been categorized as Level 3 fair value, and was based on the inputs to the valuation technique discussed below.

Valuation Technique	Discounted cash flow analysis: The valuation model considers the present value of the net cash flows expected to be generated by the private timberlands over a period of 20 years. The expected net cash flows are discounted using a risk-adjusted discount rate.
Significant Unobservable Inputs in future periods	<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 \$56⁽¹⁾ per m³</p> <p>Estimated harvest annual volume of 138,913 - 365,000 m³ (20-year rolling average 222,064 m³ (December 31, 2019 - 241,018 m³))</p> <p>Risk-adjusted discount rate of 9.5%</p>

1. In whole dollars, not thousands.

10. INTANGIBLE ASSETS

	Canadian operations \$	US operations \$	Value- added services \$	Forestry operations \$	Total \$
Cost					
Cost at December 31, 2019	10,000	54,168	1,633	8,406	74,207
Foreign exchange difference	-	1,464	-	-	1,464
Cost at September 30, 2020	10,000	55,632	1,633	8,406	75,671
Accumulated amortization					
Accumulated amortization at December 31, 2019	9,917	16,427	1,061	93	27,498
Amortization	83	4,319	122	581	5,105
Foreign exchange difference	-	379	-	-	379
Accumulated amortization at September 30, 2020	10,000	21,125	1,183	674	32,982
Net intangible assets at December 31, 2019	83	37,741	572	8,313	46,709
Net intangible assets at September 30, 2020	-	34,507	450	7,732	42,689

Intangible assets at September 30, 2020 relate to customer lists and trade names for the Distribution business segment and harvesting rights for the Forestry business segment, as described in Note 21.

11. GOODWILL

	Canadian operations \$	US operations \$	Value-added services \$	Total \$
Balance at December 31, 2019	62,624	80,450	35,347	178,421
Foreign exchange difference	-	2,175	-	2,175
Balance at September 30, 2020	62,624	82,625	35,347	180,596

Goodwill at September 30, 2020 relates to the Distribution business segment, as described in Note 21.

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, 2020 \$	December 31, 2019 \$
Funds received on bonding obligations ⁽¹⁾	107,110	91,797
Payments made on bonding obligations ⁽¹⁾	(94,109)	(79,418)
Receipts in excess of payments	13,001	12,379
Provision for loss on bonds	364	399
Performance bond obligations	13,365	12,778

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

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

	\$
Balance at December 31, 2019	12,778
Net receipts on bonding obligations during the period	292
Change in provision for loss on bonds	(47)
Foreign exchange difference	342
Balance at September 30, 2020	13,365

Total gross bonding contracts on all outstanding projects at September 30, 2020 were \$150,477 (December 31, 2019 - \$146,812).

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

CANWEL BUILDING MATERIALS GROUP LTD.



Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three and nine months ended September 30, 2020 and 2019 (in thousands of Canadian dollars)

13. LOANS AND BORROWINGS

	September 30, 2020				December 31, 2019			
	Face value	Carrying amount	Current portion	Non-current portion	Face value	Carrying amount	Current portion	Non-current portion
	\$	\$	\$	\$	\$	\$	\$	\$
Revolving loan facility	143,547	142,003	-	142,003	213,874	211,940	-	211,940
Unsecured notes	60,000	57,931	-	57,931	60,000	57,424	-	57,424
Non-revolving term loan	20,791	20,429	2,667	17,762	22,791	22,404	2,667	19,737
Promissory note	3,263	3,263	1,693	1,570	3,052	3,052	1,515	1,537
Equipment term loan, equipment line and other loans	7,442	7,402	3,380	4,022	9,355	9,280	3,842	5,438
	235,043	231,028	7,740	223,288	309,072	304,100	8,024	296,076

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

The Company was not in breach of any of its covenants during the period ended September 30, 2020.

14. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

Total net benefit expense of the Company's pension and post-retirement benefit plans for the quarter ended September 30, 2020 was \$486 (2019 - \$435) and for the nine-month period ended September 30, 2020 was \$1,438 (2019 - \$1,257). 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, 2020	December 31, 2019
	\$	\$
Pension benefit plan	4,365	1,526
Other benefit plans	2,250	2,179
	6,615	3,705

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

15. SHARE CAPITAL

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

Normal Course Issuer Bid

On November 22, 2019 the Company commenced a Normal Course Issuer Bid (“NCIB”) with respect to its common shares. Under the terms of the NCIB, the Company may purchase for cancellation up to 5,995,340 of its common shares at market prices. Since commencement, as at September 30, 2020, the Company has not repurchased any of its common shares (2019 - 142,200) pursuant to the NCIB.

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

Restricted Equity Common Share Plan (“RECSP”)

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

	Nine months ended September 30,	
	2020	2019
	#	#
Balance at January 1	-	-
Granted	59,388	4,004
Additional RSUs earned as notional dividends	4,685	-
Vested and converted to common shares during the period	(11,589)	(4,004)
Balance at September 30	52,484	-

Compensation expense in respect of RSUs for the quarter ended September 30, 2020 was \$23 (2019 - \$nil) and for the nine-month period to date was \$58 (2019 - \$19).

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

For the quarter ended September 30, 2020, the Company issued 90,997 (2019 - 73,217) common shares from treasury for gross proceeds of \$352 (2019 - \$313), and for the nine-month period to date the Company issued 158,801 (2019 - 157,079) common shares from treasury for gross proceeds of \$671 (2019 - \$630), pursuant to the ECSP.

Dividends

The following dividends were declared and paid by the Company:

	2020				2019			
	Declared			Payment date	Declared			Payment date
	Record date	Per share \$	Amount \$		Record date	Per share \$	Amount \$	
Quarter 1	Mar 31, 2020	0.14	10,897	Apr 15, 2020	Mar 29, 2019	0.14	10,876	Apr 15, 2019
Quarter 2	Jun 30, 2020	0.14	10,898	Jul 15, 2020	Jun 28, 2019	0.14	10,877	Jul 15, 2019
Quarter 3	Sep 30, 2020	0.12	9,352	Oct 15, 2020	Sep 30, 2019	0.14	10,887	Oct 15, 2019
		0.40	31,147			0.42	32,640	
Quarter 4					Dec 31, 2019	0.14	10,887	Jan 15, 2020
						0.56	43,527	

The Company is continually assessing its dividend policy in the context of overall profitability, cash flows, capital requirements, general economic conditions and other business needs. Accordingly, on June 15, 2020, the Company announced a dividend reduction beginning with the dividend payable on October 15, 2020, to shareholders of record on September 30, 2020, reducing its quarterly dividend from \$0.14 to \$0.12 per share.

16. FINANCE COSTS

Finance costs include the following:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Loans and borrowings	2,039	3,873	8,122	11,557
Lease liabilities	1,146	1,124	3,587	3,510
Other	(44)	-	(115)	108
Net interest	3,141	4,997	11,594	15,175
Amortization of financing costs	313	420	1,090	1,229
Accretion of earn-out commitment	-	300	-	374
Interest on net defined benefit liability	30	33	90	98
	3,484	5,750	12,774	16,876

17. RELATED PARTY TRANSACTIONS

Transactions

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

	Three months ended September 30,		Nine months ended September 30,	
	2020 \$	2019 \$	2020 \$	2019 \$
Leased facilities: distribution ⁽¹⁾ and treatment ⁽²⁾	980	910	2,939	2,729
Purchase of product ⁽³⁾⁽⁴⁾	971	626	2,267	3,167
Management fees and other ⁽⁵⁾	216	370	631	960
Professional fees and other ⁽⁶⁾	136	179	397	449

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 \$971 (2019 - \$626), and for the nine-month period to date \$2,267 (2019 - \$2,772).
4. Paid to a company owned by a director of the Company: for the quarter \$nil (2019 - \$nil), and for the nine-month period to date \$nil (2019 - \$395).
5. Paid to a company controlled by a member of key management personnel who is also a director and officer of the Company.
6. Paid to a company controlled by an officer of the Company.

Commitments with related parties

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

Year ending December 31	\$
Remainder of 2020	919
2021	3,526
2022	3,144
2023	3,162
2024	3,162
Thereafter	19,759
	33,672

Payable to related parties

As at September 30, 2020, trade and other payables include amounts due to related parties as follows:

	September 30, 2020 \$	December 31, 2019 \$
Purchase of product ⁽¹⁾	160	18
Management fees and other ⁽²⁾	41	96
Professional fees and other ⁽³⁾	112	159

- 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.
- Owing to a company controlled by a member of key management personnel who is also a director and officer of the Company.
- Owing to a company controlled by an officer of the Company.

18. FINANCIAL INSTRUMENTS

Non-derivative financial instruments

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

	September 30, 2020		December 31, 2019	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Revolving loan facility	142,003	143,547	211,940	213,874
Unsecured notes	57,931	58,200	57,424	58,026
Non-revolving term loan	20,429	20,791	22,404	22,791
Equipment term loan and equipment line	7,402	7,442	9,280	9,355

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

- The fair values of cash, trade and other receivables, cheques issued in excess of funds on deposit, trade and other payables, performance bond obligations and dividends payable were comparable to their carrying amounts, given the short maturity periods.
- The fair values of the Company's revolving loan facility, non-revolving term loan, and equipment term loan and equipment line 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 value of the Company's unsecured notes was based on the quoted active market price at September 30, 2020.
- The fair values of the Company's promissory notes and lease liabilities approximate their carrying values as they bear interest that approximates current market rates.

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

The three levels of the fair value hierarchy are:

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

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

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

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

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

Derivative financial instruments

The Company uses derivative financial instruments for economic hedging purposes in managing lumber price risk and foreign exchange risk through the use of futures contracts and options. Derivative instruments are measured at fair value through profit and loss with changes in fair value recorded in net earnings.

As at September 30, 2020, the Company held no outstanding foreign exchange contracts and a nominal amount of lumber futures contracts (December 31, 2019 - US\$3,100 in foreign exchange contracts, and no lumber futures contracts) for economic hedging purposes.

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 funds on deposit, trade and other payables, performance bond obligations, dividends payable, unsecured notes, revolving loan facility, non-revolving term loan, promissory notes, lease liabilities, and equipment term loan and equipment line. 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.

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As at September 30, 2020, trade accounts receivable, excluding other receivables, were as follows:

	\$
Current	185,152
Past due over 60 days	1,255
Trade receivables	186,407
Less: Allowance for doubtful accounts	(756)
	185,651

As at September 30, 2020, the maximum exposure to credit risk, including both trade and other receivables, is \$192,058 (December 31, 2019 - \$98,420), which represents the carrying value amount of financial instruments classified as trade and other receivables.

Interest rate risk

The Company is exposed to interest rate risk through its variable rate revolving loan facility, non-revolving term loan, and equipment term loan and equipment line (Note 13). Based on the Company’s average revolving loan facility, non-revolving term loan, equipment term loan and equipment line balances during the period ended September 30, 2020, the sensitivity of a 1% increase in interest rates would result in an approximate decrease of \$474 in quarterly net earnings.

Currency risk

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

As at September 30, 2020, a quarterly increase of \$0.05 in the United States dollar versus the Canadian dollar would have an insignificant impact on quarterly net earnings, and an increase in other comprehensive earnings of approximately \$10,356.

Liquidity risk

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

Other price risk

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

19. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Trade and other receivables	39,599	70,863	(91,491)	(39,039)
Inventories	13,297	32,874	87,949	25,235
Prepaid expenses and deposits	(515)	314	(443)	(295)
Trade and other payables	1,741	(3,158)	39,822	20,935
Performance bond obligations	(1,476)	85	245	906
	52,646	100,978	36,082	7,742

20. REVENUE

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

	Three months ended September 30, 2020			Three months ended September 30, 2019		
	Distribution \$	Forestry \$	Total \$	Distribution \$	Forestry \$	Total \$
Primary geographic markets						
Canada	310,036	7,731	317,767	250,217	9,534	259,751
United States	153,645	760	154,405	111,742	1,710	113,452
	463,681	8,491	472,172	361,959	11,244	373,203
Revenue categories						
Products	462,596	8,491	471,087	360,967	11,244	372,211
Services	1,085	-	1,085	992	-	992
	463,681	8,491	472,172	361,959	11,244	373,203

	Nine months ended September 30, 2020			Nine months ended September 30, 2019		
	Distribution \$	Forestry \$	Total \$	Distribution \$	Forestry \$	Total \$
Primary geographic markets						
Canada	772,427	21,576	794,003	691,251	33,166	724,417
United States	412,805	5,019	417,824	310,102	6,331	316,433
	<u>1,185,232</u>	<u>26,595</u>	<u>1,211,827</u>	<u>1,001,353</u>	<u>39,497</u>	<u>1,040,850</u>
Revenue categories						
Products	1,182,494	26,595	1,209,089	998,556	39,497	1,038,053
Services	2,738	-	2,738	2,797	-	2,797
	<u>1,185,232</u>	<u>26,595</u>	<u>1,211,827</u>	<u>1,001,353</u>	<u>39,497</u>	<u>1,040,850</u>

Certain customers elect to prepay for goods and services, for which the Company has recorded a contract liability of \$4,587 as at September 30, 2020 (December 31, 2019 - \$4,059), related to these future performance obligations (unearned revenues). These amounts are included in trade and other payables in the unaudited Interim Condensed Consolidated Statement of Financial Position.

The Company has sold products to certain customers who each contribute greater than 10% of its revenues. During the quarter ended September 30, 2020, two customers individually accounted for revenues in excess of 10%, purchasing an aggregate of \$150,259 (2019 - \$99,996, 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 \$405,235 (2019 - \$288,221, representing two customers).

21. SEGMENTED INFORMATION

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

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

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

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

Business segment revenues and specified expenses were as follows:

	Three months ended September 30, 2020				Three months ended September 30, 2019			
	Distribution	Forestry	Adjustments and eliminations ⁽¹⁾	Consolidated	Distribution	Forestry	Adjustments and eliminations ⁽¹⁾	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
External customers	463,681	8,491	-	472,172	361,959	11,244	-	373,203
Inter-segment	-	782	(782)	-	-	619	(619)	-
	463,681	9,273	(782)	472,172	361,959	11,863	(619)	373,203
Specified expenses								
Depreciation and amortization	8,803	2,047	-	10,850	8,384	1,825	-	10,209
Finance costs	3,205	279	-	3,484	4,860	890	-	5,750
Net earnings (loss)	32,375	(1,356)	-	31,019	7,703	(1,307)	-	6,396
Purchase of property, plant and equipment	335	209	-	544	1,202	831	-	2,033

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

	Nine months ended September 30, 2020				Nine months ended September 30, 2019			
	Distribution	Forestry	Adjustments and eliminations ⁽¹⁾	Consolidated	Distribution	Forestry	Adjustments and eliminations ⁽¹⁾	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
External customers	1,185,233	26,594	-	1,211,827	1,001,353	39,497	-	1,040,850
Inter-segment	-	2,387	(2,387)	-	-	1,626	(1,626)	-
	1,185,233	28,981	(2,387)	1,211,827	1,001,353	41,123	(1,626)	1,040,850
Specified expenses								
Depreciation and amortization	26,403	5,777	-	32,180	25,727	5,571	-	31,298
Finance costs	11,728	1,046	-	12,774	14,693	2,183	-	16,876
Net earnings (loss)	47,468	(2,892)	-	44,576	16,144	(2,297)	-	13,847
Purchase of property, plant and equipment	1,553	379	-	1,932	2,978	2,770	-	5,748

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

CANWEL BUILDING MATERIALS GROUP LTD.



Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) for the three and nine months ended September 30, 2020 and 2019 (in thousands of Canadian dollars)

Business segment long-term assets were as follows:

	September 30, 2020				December 31, 2019			
	Distribution \$	Forestry \$	Percent %	Consolidated \$	Distribution \$	Forestry \$	Percent %	Consolidated \$
Canada	171,843	110,393	58	282,236	170,694	116,962	59	287,656
United States	202,735	-	42	202,735	204,006	-	41	204,006
Long-term assets	374,578	110,393	100	484,971	374,700	116,962	100	491,662

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

	Three months ended September 30, 2020		Nine months ended September 30, 2019	
	2020 %	2019 %	2020 %	2019 %
Construction materials	65	57	65	59
Specialty and allied	30	37	30	34
Forestry and other	5	6	5	7
	100	100	100	100

22. CAPITAL DISCLOSURES

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

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

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

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

23. SEASONALITY

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

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24. CONTINGENCIES

Global pandemic

On March 11, 2020, the World Health Organization declared the novel coronavirus (specifically identified as "COVID-19") a global pandemic (the "Pandemic"). COVID-19's impact on global markets has been significant through the quarter and nine-months ended September 30, 2020 and as the situation continues to rapidly evolve, the magnitude of its effects on the economy and on the Company's financial and operational performance, is uncertain at this time.

At the time these unaudited Interim Condensed Consolidated Financial Statements were authorized for issuance, the Company has been classified as an essential service for the majority of its operations in Canada and the United States, and therefore has not been required to shut down. Additionally, certain jurisdictions in which the Company's customers operate have re-opened. However, due to the uncertainty of the spread of COVID-19, these or other markets may be required to close in the future. The Company has taken steps to mitigate the Pandemic's impact on its customers, operations and cash flows by optimizing its working capital, implementing salary and working hours reductions, initiating temporary employee layoffs, deferring or eliminating certain non-essential operating expenditures, minimizing capital expenditures, evaluating ongoing cost savings opportunities and reducing dividends (as discussed in Note 15).

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

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

Product liability and other claims

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

25. COMPARATIVE FIGURES

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



Corporate Information

Directors

Ian M. Baskerville
Toronto, Ontario

Amar S. Doman
West Vancouver, British Columbia

Tom Donaldson
Saint John, New Brunswick

Kelvin Dushnisky
Toronto, Ontario

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
1600 – 1100 Melville Street
P.O. Box 39
Vancouver BC V6E 4AE

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