


CanWel®

CanWel Building Materials Group Ltd.

2016 MANAGEMENT'S DISCUSSION AND ANALYSIS

CanWel Building Materials Group Ltd.

Management's Discussion and Analysis

March 7, 2017

This Management's Discussion and Analysis ("MD&A") provides a review of the significant developments that have impacted CanWel Building Materials Group Ltd. (the "Company") in the quarter and year ended December 31, 2016 relative to 2015. This discussion of the financial condition and results of operations of the Company should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2016 (the "2016 Consolidated Financial Statements"). The financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to the preparation of financial statements.

This MD&A, the associated 2016 Consolidated Financial Statements and the 2016 Letter to Shareholders (the "2016 Reporting Documents") contain historical information, descriptions of current circumstances and statements about potential future developments and anticipated financial results, performance or achievements of the Company and its subsidiaries. The latter statements, which are forward-looking statements, are presented to provide guidance to the reader but their accuracy depends on a number of assumptions and are subject to various known and unknown risks and uncertainties. Forward-looking statements are included under the headings "Business Overview", "Outlook", "Commitments and Contingencies", "Sales and Gross Margin", "Dividend Policy" and "Liquidity and Capital Resources". When used in this MD&A, such statements may contain such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the negative of these terms or other similar terminology. Forward-looking information in the 2016 Reporting Documents includes, without limitation, statements regarding funding requirements. These statements are based on management's current expectations regarding future events and operating performance, are based on information currently available to management, speak only as of the date of the 2016 Reporting Documents and are subject to risks which are described in the Company's current Annual Information Form dated March 30, 2016 ("AIF") and the Company's public filings on the Canadian Securities Administrators' website at www.sedar.com ("SEDAR") and as updated from time to time, and would include, but are not limited to, dependence on market economic conditions, sales and margin risk, acquisition and integration risks, competition, information system risks, availability of supply of products, risks associated with the introduction of new product lines, product design risk, environmental risks, volatility of commodity prices, inventory risks, customer and vendor risks, availability of credit, credit risks, currency risks, interest rate risks, tax risks, risks of legislative changes, resource industry risks, resource extraction risks, risks relating to remote operations, forestry management and silviculture risks, fire and natural disaster risks, key executive risk and litigation risks. In addition, there are numerous risks associated with an investment in the Company's common shares, which are also further described in the "Risks and Uncertainties" section in this MD&A and in the "Risk Factors" section of the Company's AIF, and as updated from time to time, the Company's other public filings on SEDAR. These risks and uncertainties may cause actual results to differ materially from those contained in the statements. Such statements reflect management's current views and are based on certain assumptions. Some of the key assumptions include, but are not limited to, assumptions regarding the performance of the Canadian and the United States economies, interest rates, exchange rates, capital and loan availability, commodity pricing, the Canadian and US housing and building materials markets; international trade matters; post acquisition operation of a business; the amount of the Company's cash flow from operations; tax laws; laws and regulations relating to the protection of the environment; and the extent of the Company's future acquisitions and capital spending requirements or planning in respect thereto, including but not limited to the performance of any such business and its operation. They are, by necessity, only estimates of future developments and actual developments may differ materially from these statements due to a number of known and unknown factors. Investors are cautioned not to place undue reliance on these forward-looking statements. All forward-looking information in the 2016 Reporting Documents is qualified by these cautionary statements. Although the forward-looking information contained these 2016 Reporting Documents is based on upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements included in the 2016 Reporting Documents may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than these 2016 Reporting Documents.

The forward-looking statements contained in the 2016 Reporting Documents are made as of the date of this report, and should not be relied upon as representing management's views as of any date subsequent to the date of this report. Except as required by applicable law, the Company undertakes no obligation to publicly update or otherwise revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

The information in this report is as at March 7, 2017, unless otherwise indicated. All amounts are reported in Canadian dollars.

1. In the discussion, reference is made to EBITDA, which represents earnings from continuing operations before interest, including amortization of deferred financing costs, provision for income taxes, depreciation and amortization, goodwill impairment loss (if applicable) and share-based compensation. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, and therefore the measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. EBITDA is presented as we believe it is a useful indicator of a Company's ability to meet debt service and capital expenditure requirements and because we interpret trends in EBITDA as an indicator of relative operating performance. EBITDA should not be considered by an investor as an alternative to net earnings or cash flows as determined in accordance with IFRS. For a reconciliation of EBITDA to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) and Adjusted EBITDA".

2. In the discussion, reference is made to Adjusted EBITDA, which is EBITDA as defined above, before certain non-recurring or unusual items. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, The measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. Adjusted EBITDA is presented as we believe it is a useful indicator of the Company's ability to meet debt service and capital expenditure requirements from its regular business, before non-recurring items. Adjusted EBITDA should not be considered by an investor as an alternative to net earnings or cash flows as determined in accordance with IFRS. For a reconciliation from Adjusted EBITDA to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA)and Adjusted EBITDA".

3. Reference is also made to free cash flow of the Company. This is a non-IFRS measure generally used by Canadian companies as an indicator of financial performance. The measure as calculated by the Company might not be comparable to similarly-titled measures reported by other companies. Management believes that this measure provides investors with an indication of the cash available for distribution to shareholders of the Company. We define free cash flow as cash flow from operating activities excluding changes in non-cash working capital, and after interest on convertible debentures, maintenance of business capital expenditures and funds received from other assets.

Business Overview

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

Business Acquisitions (the "Acquisitions")

Purchase of Jemi Fibre Corp.

On May 13, 2016, the Company completed the acquisition of all issued and outstanding shares of Jemi (the "Jemi Acquisition"), a vertically-integrated forest products company that operates primarily in British Columbia and Saskatchewan. The Jemi Acquisition was completed by way of a share exchange by a plan of arrangement, pursuant to which the Company issued 2,529,405 common shares in exchange for all issued and outstanding common shares of Jemi, with the acquisition date fair value of $13.2 million.

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

The Jemi Acquisition is expected to diversify the Company's operations and revenue stream, providing vertical integration via a sustained source of fibre supply, as well as further expand the Company's wood treatment operations by adding two specialty treating plants with limited product overlap.

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

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

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

Further information regarding the preliminary purchase price allocation and the recognition of the bargain purchase gain is contained in Note 7 of the 2016 Consolidated Financial Statements.

Purchase of Total Forest Industries Ltd.'s Assets

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

The consideration transferred to the vendors was satisfied through:

a) $8.3 million cash; and

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

Further information regarding the preliminary purchase price allocation is contained in Note 7 of the 2016 Consolidated Financial Statements.

Purchase of California Cascade Industries' Assets

On July 2, 2015, the Company completed the acquisition of certain assets and liabilities of California Cascade Industries (now doing business as California Cascade Building Materials "CCBM") (the "CCBM Acquisition"), a California-based building products distribution and treating business. The CCBM Acquisition has provided the Company with substantive entry into the United States building products distribution and treating markets, and an incumbent position in California, currently one of the strongest economies and housing markets in the United States.

The consideration transferred to the vendors was satisfied through:

a) US$30.0 million cash; and

b) the issuance of 3,224,087 common shares of the Company to the sellers of California Cascade Industries' assets.

The foreign exchange rate used to translate cash purchase consideration and fair value of assets acquired and liabilities assumed was based on the exchange rate published by the Bank of Canada as at the date of the CCBM Acquisition.

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

Further information regarding the purchase price allocation is contained in Note 7 of the 2016 Consolidated Financial Statements.

Issuance of Shares

2016 Public Offering

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

2016 Private Placement

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

2015 Private Placement

Concurrent with the CCBM Acquisition, the Company completed a private placement of 8,050,000 subscription receipts at a price of $5.00 each, resulting in gross proceeds of $40.3 million. The private placement was pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and including Raymond James Ltd., Canaccord Genuity Corp., Haywood Securities Inc., and Cormark Securities Inc. The Company also completed a non-brokered concurrent private placement of 2,385,000 subscription receipts to certain related parties for proceeds of $11.9 million, under the same terms.

Upon the closing of the CCBM Acquisition, the subscription receipts issued were converted into a total of 10,435,000 common shares of the Company in accordance with their terms.

Cash proceeds raised from these private placements, net of issuance costs, were used as consideration for the CCBM Acquisition (as described above), for reducing the Company's revolving loan facility and for general corporate purposes.

Redemption of Convertible Debentures

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

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

Revolving Loan Facility and Non-Revolving Term Loan

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

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

The interest rate charged on the $40.0 million Timberlands Facility is based on the Canadian prime rate or the Canadian Banker's Acceptance rate. The principal amount will be amortized over 15 years and is payable in quarterly instalments, commencing no later than December 31, 2016, with maturity on July 10, 2021.

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

Additional information regarding these transactions is contained in Note 15 of the 2016 Consolidated Financial Statements.

Equipment Term Loan and Equipment Line

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

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

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

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

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

Debt Exchange Agreement

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

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

Seasonality

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

Results of Operations

Selected Annual Information

	Fiscal Year Ended December 31,		
(in $ millions, per share in dollars)	**2016**	**2015**	**2014**
Sales	**978.3**	824.7	759.5
Earnings before income taxes	**57.4**	17.0	17.1
Net earnings	**49.9**	12.3	12.3
Net earnings before non-recurring items (1)	**21.1**	13.2	12.3
Net earnings per share (basic and diluted)	**0.97**	0.35	0.43
Net earnings per share (based and diluted), before non-recurring items (1)	**0.41**	0.37	0.43
Total assets	**569.4**	400.1	296.2
Long-term debt (2)	**183.2**	153.8	131.2
Dividends declared to shareholders	**30.3**	19.9	16.1
Dividends declared to shareholders (per share)	**0.56**	0.56	0.56
Weighted average basic shares outstanding	**51,409,974**	35,551,386	28,704,089

1. Net earnings before directly attributable acquisition related costs and gain on bargain purchase relating to the Acquisitions.
2. Excludes current portion of long-term debt.

Comparison of the Year Ended December 31, 2016 and December 31, 2015

Overall Performance

The following table shows the Company's segmented results for the year ended December 31, 2016:

(in thousands of dollars)	2016				2015
	Building Materials Distribution	**Forestry[1]**	**Adjustments and eliminations[2]**	**Consolidated**	**Consolidated**
Year ended December 31	**$**	**$**	**$**	**$**	**$**
Revenue					
External customers	937,876	40,420	-	**978,296**	824,733
Inter-segment	-	633	(633)	**-**	-
	937,876	41,053	(633)	**978,296**	824,733
Specified income (expenses)					
Depreciation and amortization	(8,946)	(4,386)	-	**(13,332)**	(7,404)
Finance costs	(6,621)	(1,727)	-	**(8,348)**	(6,960)
Fair value adjusments	-	1,072	-	**1,072**	-
Gain on bargain purchase	-	-	30,637	**30,637**	-
Net earnings	19,222	50	30,637	**49,909**	12,295

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

For the comparative year ended December 31, 2015, the Company operated as one reportable business segment, Building Materials Distribution.

Sales and Gross Margin

Sales for the year ended December 31, 2016 were $978.3 million, which compares to $824.7 million in 2015, an increase of $153.6 million or 18.6%, due to the factors discussed below.

Sales for the Building Materials Distribution segment increased by $113.1 million or 13.7%, largely due to the CCBM Acquisition, which was acquired during 2015 and accordingly included only six months of operations, and due to the Company's continuing focus on its product mix strategies and target customer base. The remainder of the increase was attributable to the Company's new Forestry segment. Sales within the Forestry segment were impacted by adverse weather conditions across British Columbia and Saskatchewan, restricting access to certain terrain and resulting in temporarily reduced harvest and customer shipment levels.

The seasonally adjusted annual housing start rate for the year was approximately 1.2% higher than the rate last year[1]. The Company's sales for the year were made up of 61% construction materials, compared to 59% in 2015, with the remaining balance of sales resulting from specialty and allied products of 35% (2015 - 41%), and forestry and other of 4% (2015 - nil).

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

Gross margin dollars increased to $123.4 million in the year compared to $98.3 million in 2015, an increase of $25.1 million or 25.5%. Gross margin percentage was 12.6%, an increase from the 11.9% achieved in 2015. The increase in margin dollars and percentage is mainly due to the results from the Jemi Acquisition and the CCBM Acquisition, and a change in the Company's sales mix within general categories of construction materials and specialty and allied products.

Expenses

Expenses for the year ended December 31, 2016 were $86.8 million as compared to $73.5 million in 2015, an increase of $13.3 million or 18.1%, due to the factors discussed below. As a percentage of sales, expenses were 8.9% for the year ended December 31, 2016, consistent with 2015.

Distribution, selling and administration expense increased by $7.4 million, or 11.2%, to $73.5 million from $66.1 million in 2015. The increase is mainly due to the additional expenses from the Acquisitions. As a percentage of sales, these expenses were 7.5% in the year, compared to 8.0% in 2015.

Depreciation and amortization expenses increased by $5.9 million, or 80.1%, from $7.4 million in 2015 to $13.3 million in 2016. Depreciation and amortization expense for the Building Materials Distribution segment increased by $1.5 million, mainly due to the depreciation on the new ERP system, which was implemented and placed in use in June 2015, and for the new Forestry segment depreciation and amortization expense was $4.4 million.

Operating Earnings

For the year ended December 31, 2016, operating earnings were $36.6 million compared to $24.8 million in 2015, an increase of $11.8 million or 47.6%, due to the foregoing factors.

Finance Costs

Finance costs for the year increased to $8.3 million from $7.0 million in 2015, an increase of $1.4 million or 20.0%. Finance costs for the Building Materials Distribution segment were $339,000 lower than in 2015, mainly due to the redemption of the Company's convertible debentures in September 2016 and the resulting interest savings. The remaining increase in finance costs was due to the financing activities of the Company's new Forestry segment.

Acquisition Costs

Directly attributable acquisition costs were $2.6 million, compared to $1.3 million in 2015. Acquisition costs in 2016 included costs related to the TFI Acquisition and the Jemi Acquisition, whereas acquisition costs in 2015 related to the CCBM Acquisition.

Fair Value Adjustments

Fair value adjustments with respect to timber for the year ended December 31, 2016 were an income of $1.1 million, compared to $nil in 2015, due to the results from the Jemi Acquisition.

Other (Loss) Income

Other loss for the year ended December 31, 2016 was $20,000, compared to income of $448,000 in 2015. Other income during 2015 included a realized gain on a foreign exchange forward contract, arranged in connection with the CCBM Acquisition.

Gain on Bargain Purchase

The year ended December 31, 2016 included the aforementioned gain on bargain purchase in the amount of $30.6 million relating to the Jemi Acquisition.

Earnings before Income Taxes

For the year ended December 31, 2016 earnings before income taxes were $57.4 million, compared to $17.0 million in 2015, an increase of $40.4 million or 237.6%, due to the foregoing factors.

Provision for Income Taxes

For the year ended December 31, 2016, income tax expense was $7.5 million, compared to $4.7 million in 2015, an increase of $2.8 million or 59.6%. This amount is largely a function of earnings before income taxes for the year and before the gain on bargain purchase, which is not taxable.

Net Earnings

Net earnings for the year ended December 31, 2016 were $49.9 million, compared to $12.3 million, and increase of $37.6 million or 305.7%, due to the foregoing factors impacting the overall financial performance of the Company.

Fourth Quarter Results

A summary of the unaudited results for the three months ended December 31, 2016 and 2015 is as follows:

(in $ thousands, per share in dollars)	Three months ended December 31, 2016	2015
Sales	**$214,360**	$193,491
Gross Margin	**24,922**	24,139
Distribution, selling and administration expenses	**17,097**	19,033
Depreciation and amortization	**3,812**	2,613
Expenses	**20,909**	21,646
Operating earnings	**4,013**	2,493
Finance costs	**1,660**	1,609
Acquisition costs	**818**	28
Fair value adjustments	**(507)**	-
Adjustment to gain on bargain purchase	**1,546**	-
Share-based compensation	**-**	18
Earnings before income taxes	**496**	838
Provision for income taxes	**50**	226
Net earnings	**$446**	$612
Net earnings per share	**0.01**	0.01

Overall Performance

The following table shows the Company's segmented results for the quarter ended December 31, 2016:

(in thousands of dollars)	2016				2015
	Building Materials Distribution	Forestry	Adjustments and eliminations	Consolidated	Consolidated
Three months ended December 31	$	$	$	$	$
Revenue					
External customers	202,844	11,516	-	**214,360**	193,491
Inter-segment	-	107	(107)	**-**	-
	202,844	11,623	(107)	**214,360**	193,491
Specified income (expenses)					
Depreciation and amortization	(2,032)	(1,780)	-	**(3,812)**	(2,613)
Finance costs	(978)	(682)	-	**(1,660)**	(1,609)
Fair value adjusments	-	507	-	**507**	-
Gain on bargain purchase	-	-	(1,546)	**(1,546)**	-
Net earnings	4,198	(2,206)	(1,546)	**446**	612

For the comparative three months ended December 31, 2015, the Company operated as one reportable business segment, Building Materials Distribution.

Sales and Gross Margin

Sales for the quarter ended December 31, 2016 were $214.4 million compared to $193.5 million in the same period in 2015, representing an increase of $20.9 million or 10.8%, due to the factors discussed below.

Sales for the Building Materials Distribution segment increased by $9.4 million or 4.8%. The increase in this segment is mainly attributable to the TFI Acquisition and the Company's continuing focus on its product mix strategies and target customer base. The remainder of the increase was attributable to the Company's new Forestry segment. Sales within the Forestry segment during the quarter were impacted by poor weather conditions across British Columbia and Saskatchewan, restricting access to certain terrain and resulting in temporarily reduced harvest and customer shipment levels.

The seasonally adjusted annual housing start rate in the quarter was approximately 1.2% higher than the rate in the same period last year[(1)]. The Company's sales for the quarter were made up of 58% construction materials, compared to 59% in 2015, with the remaining balance of sales resulting from specialty and allied products of 36% (2015 - 41%), and forestry and other of 6% (2015 - nil).

Gross margin was $24.9 million in the quarter compared to $24.1 million in the same period in 2015, an increase of $783,000 or 3.2%. Gross margin percentage was 11.6% in the quarter, a decrease from 12.5% achieved in the fourth quarter of 2015. This decrease in margin percentage is mainly due to the aforementioned poor weather conditions impacting the harvest levels within the Forestry segment, and the resulting lower margins.

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

Expenses

Expenses for the fourth quarter were $20.9 million as compared to $21.6 million for the same period in 2015, a decrease of $737,000 or 3.4%, due to the factors discussed below.

Distribution, selling and administration expenses decreased by $1.9 million or 10.2%, to $17.1 million from $19.0 million in the same period in 2015. The decrease is primarily explained by the Company's continued focus on cost management, partially offset by the additional costs relating to the Acquisitions and their operations. As a percentage of sales, these expenses were 8.0% in the quarter, compared to 9.8% in the same quarter in 2015.

Depreciation and amortization expense was $3.8 million, compared to $2.6 million in the same period in 2015, an increase of $1.2 million or 45.9%. Depreciation and amortization expense for the Building Materials Distribution segment was $2.0 million, compared to $2.6 million in the same quarter last year, a decrease of $581,000 or 22.2%, mainly due to certain fully depreciated property, plant and equipment. The offsetting increase was attributable to the Company's new Forestry segment.

Operating Earnings

For the fourth quarter of 2016, operating earnings were $4.0 million compared to $2.5 million for the same period in 2015, an increase of $1.5 million or 60.0%, due to the foregoing factors.

Finance Costs

Finance costs for the quarter increased to $1.7 million from $1.6 million in the same period in 2015, an increase of $51,000 or 3.2%. Finance costs for the Building Materials Distribution segment were $978,000, compared to $1.6 million in the same period in 2015, a decrease of $631,000 or 39.2%, mainly due to the redemption of the Company's convertible debentures in September 2016 and the resulting interest savings. The remaining increase in finance costs was due to the financing activities of the Company's new Forestry segment.

Acquisition Costs

Directly attributable acquisition costs during the quarter were $818,000, compared to $28,000 in the same period in 2015. Acquisition costs in the fourth quarter of 2016 included costs related to the Acquisitions, whereas acquisition costs in the same period in 2015 related to the CCBM Acquisition.

Fair Value Adjustments

Fair value adjustments with respect to timber during the fourth quarter of 2016 were an income of $507,000, compared to $nil in 2015, due to the results from the Jemi Acquisition.

Adjustment to Gain on Bargain Purchase

The provisional purchase price allocation determined at the date of the Jemi Acquisition was revised during the fourth quarter of 2016, resulting in a reduction of $1.5 million in the originally recognized gain on bargain purchase. The provisional purchase price allocation is preliminary and subject to change up to a period of one year from May 13, 2016, upon finalization of fair value determinations.

Earnings before Income Taxes

For the fourth quarter of 2016, earnings before income taxes were $496,000, compared to $838,000 in the same period in 2015, a decrease in earnings of $342,000 or 40.8%, due to the foregoing factors.

Provision for Income Taxes

For the fourth quarter of 2016, the provision for income taxes was $50,000 compared to $226,000 in the same quarter of 2015. This amount is a function of earnings before income taxes.

Net Earnings

Net earnings for the fourth quarter were $446,000, compared to $612,000 in the fourth quarter of 2015, a decrease of $166,000 or 27.1%, due to the foregoing factors impacting the overall financial performance of the Company.

Summary of Quarterly Results

For the Quarters ended:

	2016				2015			
($ millions, per share in dollars)	**31 - Dec**	**30 - Sep**	**30 - Jun**	**31 - Mar**	**31 - Dec**	**30 - Sep**	**30 - Jun**	**31 - Mar**
Sales	**214.4**	276.3	290.1	197.6	193.5	247.4	224.5	159.4
EBITDA	**6.0**	17.0	50.7	5.4	5.1	12.6	12.2	1.5
Adjusted EBITDA[1]	**8.3**	17.8	19.5	5.4	5.1	13.9	12.2	1.5
Earnings (loss) before income taxes[2]	**0.5**	10.4	45.2	1.3	0.8	8.9	8.8	(1.6)
Net earnings (loss)[2]	**0.4**	7.3	41.2	0.9	0.6	6.6	6.1	(1.2)
Net earnings (loss) before non-recurring items[3]	**2.6**	8.1	9.8	0.9	0.7	7.9	6.1	(1.2)
Net earnings (loss) per share [4]	**0.01**	0.12	0.88	0.02	0.01	0.16	0.21	(0.04)
Net earnings (loss) per share, before non-recurring items[3][4]	**0.04**	0.14	0.21	0.02	0.01	0.16	0.21	(0.04)
Dividends declared per share	**0.14**	0.14	0.14	0.14	0.14	0.14	0.14	0.14

1. Adjusted EBITDA refers to EBITDA before directly attributable acquisition related costs and gain on bargain purchase relating to the Acquisitions.
2. Quarter ended June 30, 2016 includes the gain on bargain purchase relating to the Jemi Acquisition of $32.2 million, and quarter ended December 31, 2016 includes an adjustment to revise the gain down by $1.5 million, from $32.2 million to $30.6 million.
3. Net earnings (loss) before directly attributable acquisition related costs and gain on bargain purchase relating to the Acquisitions.
4. Weighted average basic shares outstanding in the quarter.

EBITDA and Adjusted EBITDA

EBITDA for the three months ended December 31, 2016 was $6.0 million compared to $5.1 million in the same quarter of 2015, an increase of $890,000 or 17.5%. EBITDA for the fourth quarter of 2016 was impacted by the aforementioned non-recurring directly attributable acquisition related costs of $818,000 compared to $28,000 in the same quarter of 2015, and the adjustment to gain on bargain purchase of $1.5 million. Adjusted EBITDA before these non-recurring items was $8.3 million, compared to $5.1 million in the same period in 2015, an increase of $3.2 million or 63.2% compared to the same quarter in 2015. The increase in Adjusted EBITDA relates primarily to the results from the Acquisitions, as well as the aforementioned improvements in the quarter.

EBITDA for the year ended December 31, 2016 was $79.1 million compared to $31.4 million in 2015, an increase of $47.7 million or 151.8%. EBITDA for 2016 was impacted by one-time directly attributable acquisition related costs of $2.6 million compared to $1.3 million in 2015, and the gain on bargain purchase of $30.6 million. Adjusted EBITDA before these one-time items was $51.0 million compared to $32.7 million in 2015, an increase of $18.3 million or 55.9% compared to 2015. The increase in Adjusted EBITDA relates primarily to the results of the Acquisitions.

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

	Three months ended December 31		Year ended December 31	
(in thousands of dollars)	**2016**	**2015**	**2016**	**2015**
Net earnings	**$446**	$612	**49,909**	$12,295
Provision for income taxes	**50**	226	**7,470**	4,664
Finance costs	**1,660**	1,609	**8,348**	6,960
Depreciation of property, plant and equipment	**3,064**	1,595	**10,352**	5,315
Amortization of intangible assets	**748**	1,018	**2,980**	2,089
Share-based compensation	**-**	18	**20**	79
EBITDA	**5,968**	5,078	**79,079**	31,402
Gain on bargain purchase	**1,546**	-	**(30,637)**	-
Acquisition costs	**818**	28	**2,568**	1,313
Adjusted EBITDA	**$8,332**	$5,106	**$51,010**	$32,715

Financial Condition

Liquidity and Capital Resources

During the year ended December 31, 2016, the Company consumed $128,000 in cash, compared to generating $290,000 in 2015. The following activities during the year were responsible for the change in cash.

Operating activities generated $37.7 million in cash, before non-cash working capital changes, income taxes paid, interest paid and payment for reforestation and environmental activities, compared to $25.7 million in 2015. This increase is mainly the result of the aforementioned improved Adjusted EBITDA due to the results from the Acquisitions.

During the year ended December 31, 2016, changes in non-cash working capital items consumed $16.9 million in cash, compared to $9.5 million in 2015. The change in working capital in the year was comprised of an increase in trade and other receivables of $5.4 million, an increase in inventory of $11.3 million, a decrease in prepaid expenses of $798,000, and a decrease in trade and other payables and income taxes payable of $1.1 million. The overall change in working capital is mainly due to results from the Acquisitions.

Income taxes paid were $12.1 million, compared to $4.5 million during 2015. The change in income taxes paid is a function of the aforementioned improvement in pre-tax earnings resulting in higher income taxes payable. Cash interest on the loan facilities and bank indebtedness was $4.6 million compared to $3.5 million in 2015, mainly due to Jemi's activities. The Company paid $821,000 for reforestation in its new Forestry segment, compared to $nil in 2015.

During the year ended December 31, 2016, financing activities generated $10.0 million of cash, compared to $34.4 million in 2015. Shares issued, net of issuance costs, generated $78.9 million of cash compared to $49.7 million in 2015, due to the aforementioned 2016 Public Offering and 2016 Private Placement, compared to last year's 2015 Private Placement.

Dividends paid to shareholders amounted to $27.7 million, compared to $18.0 million in 2015. The increase in dividends paid was mainly due to the aforementioned 2016 Public Offering, 2016 Private Placement, shares issued pursuant to the Jemi Acquisition and the 2015 Private Placement resulting in a higher weighted average number of shares in 2016. Interest paid on convertible debentures during the year was $1.9 million, compared to $2.6 million in 2015, due to the aforementioned early redemption of the convertible debentures.

Net funds received through the Timberlands Facility amounted to $40.0 million, of which $670,000 has been repaid during the year, compared to $nil in 2015. Proceeds from the Timberlands Facility were used to pay a portion of Jemi's senior loans, which consumed a total of $52.2 million of cash. Funds received through the equipment term loan amounted to $17.0 million, compared to $nil in 2015, and the proceeds were used to replace Jemi's pre-existing equipment loans. Repayment of convertible debentures consumed $43.7 million of cash, compared to $nil in 2015, due to the aforementioned early redemption of the convertible debentures. The annual scheduled installment payment of a promissory note consumed $1.9 million of cash, consistent with 2015.

Repayment of demand loans consumed $3.2 million of cash, payment of finance lease liabilities consumed $6.8 million of cash, and payment of equipment term loans consumed $11.6 million of cash, compared to only payment of finance lease liabilities of $166,000 in 2015 due to Jemi's activities.

Financing costs on borrowings consumed $2.0 million, compared to $987,000 during 2015. The revolving loan facility increased by $25.8 million, compared to $8.3 million in 2015. The Company was not in breach of any of its covenants during the year ended December 31, 2016.

Investing activities consumed $13.3 million of cash, compared to $42.4 million in 2015. Investing activities in 2016 included the TFI Acquisition and bank indebtedness acquired through the Jemi Acquisition, whereas 2015 included the CCBM Acquisition and ERP implementation costs. Cash purchases of property, plant and equipment relating to the Building Materials Distribution segment were $1.5 million, compared to $4.9 million in 2015, with the decrease mainly attributable to 2015 ERP implementation costs. Cash purchases of property, plant and equipment relating to the Forestry segment were $3.4 million, compared to $nil in 2015, due to Jemi's general operations. Funds received from other assets were $393,000, compared to $nil, due to Jemi's activities.

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

Total Assets

Total assets of the Company were $569.4 million at December 31, 2016, versus $400.1 million at December 31, 2015, an increase of $169.3 million. Current assets increased by $37.1 million, mainly due to the additional receivables and inventory from the Jemi Acquisition and the TFI Acquisition. Timber increased by $58.9 million, property, plant and equipment increased by $69.5 million, and other assets increased by $2.5 million, mainly as a result of the Jemi Acquisition.

Long-term assets within the Building Materials Distribution segment were $175.8 million as at December 31, 2016, compared to $178.1 million as at December 31, 2015, a decrease of $2.3 million mainly due to depreciation taken on property, plant and equipment. Long-term assets within the new Forestry segment were $134.4 million as at December 31, 2016.

Total Liabilities

Total liabilities were $284.1 million at December 31, 2016, versus $231.2 million at December 31, 2015, an increase of $52.9 million. The increase in current liabilities was $12.9 million, mainly as a result of the Jemi Acquisition.

The increase in long-term loan facilities was $60.8 million, partially due to the Timberland Facility, which was used to repay a portion of Jemi's senior loans. Convertible debentures decreased by $43.3 million due to the aforementioned early redemption. Equipment term loan, earn-out commitment and deferred income tax liabilities increased by a total of $22.3 million, mainly due to the Jemi Acquisition.

Outstanding Share Data

As at March 7, 2017, there were 61,152,898 Common Shares issued and outstanding.

Dividends

During the year ended December 31, 2016, the Company declared quarterly dividends to shareholders of $0.14 per share, resulting in aggregate dividends of $30.3 million. A dividend was declared on December 15, 2016, to shareholders of record on December 30, 2016, and was paid on January 15, 2017.

Record date	Amount $	Per share $
March 31, 2016	**5,942**	0.14
June 30, 2016	**7,284**	0.14
September 30, 2016	**8,561**	0.14
December 30, 2016	**8,561**	0.14
	30,348	0.56

Dividend Policy

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

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

Hedging

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

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

As at December 31, 2016 the Company held no outstanding foreign exchange contracts (2015 - $nil) and no gains or losses were recorded in other income (loss) (2015 – a gain of $805,000). The gain recognized during the year ended December 31, 2015 was in respect of a foreign exchange contract to purchase $30.0 million Unites States dollars at an exchange rate of 1.2319, which completed during the third quarter of 2015 and was used as partial consideration for the CCBM Acquisition.

When held by the Company, these derivative instruments are traded through a well-established financial services firm with a long history of providing trading, exchange and clearing services for commodities and currencies. As trading activities are closely monitored by senior management, the risk of credit loss on these financial instruments is considered low.

Related Party Transactions

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

Certain distribution facilities used by the Company to store and process inventory are leased from a company in which Amar Doman, a director and officer, and Rob Doman, an officer of the Company, have a minority interest and the land and buildings of certain of the treatment plants are leased from entities solely controlled by Amar Doman. All lease rates were market tested in advance of the signing of the lease agreements and were determined to be at market rates. Lease payments to such related parties were $3.2 million in the year ended December 31, 2016, compared to $3.1 million in 2015. The minimum payments under the terms of these leases are as follows: $3.2 million in 2017, $3.2 million in 2018, $2.9 million in 2019, $1.5 million in 2020, $1.9 million in 2021.

During the year ended December 31, 2016, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of $981,000 (2015 - $633,000) by a company owned by Rob Doman. As at December 31, 2016, payables to this related party were $532,000 (2015 - $132,000). Additionally, fees of $1.3 million (2015 - $1.1 million) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman. As at December 31, 2016, payables to this related party were $48,000 (2015 - $54,000).

During the year the Company purchased $2.9 million (2015 - $3.2 million) of product from a public company in which Amar Doman has an ownership interest and is also a director and officer. These purchases are in the normal course of operations and are recorded at exchange amounts. As at December 31, 2016, payables to this related party were $76,000 (2015 - $33,000).

During the year the Company sold $nil (2015 - $47,000) of product to a company controlled by Siegfried Thoma, a director of the Company. These sales were made in the normal course of operations and are recorded at exchange amounts.

During the year subscriptions received from certain insiders of the Company for proceeds of $14.6 million (2015 - $11.9 million), as discussed above, including $6.0 million in subscription receipts from Amar Doman, $1.9 million from Rob Doman and $567,000 from several members of key management personnel, directors and officers of the Company. The balance of subscriptions were received from other non-management insiders. In 2015, subscription receipts from Amar Doman totaled $3.0 million and from several members of key management personnel totaled $635,000.

Additional information regarding these related party transactions is contained in Note 28 of the 2016 Consolidated Financial Statements.

In addition to the aforementioned related party transactions, certain subsidiaries of the Company have entered into leases for various facilities and equipment, with entities affiliated with individuals who are directors and officers of such subsidiaries, in connection with the Acquisitions. During the year ended December 31, 2016, such lease payments totaled $1.3 million (2015 - $495,000), and trucking services and other related services paid totaled $573,000 (2015 - $nil).

Commitments and Contingencies

Future and Contractual Obligations

In addition to various debt facilities, an earn-out commitment and finance leases covering certain transportation equipment, the Company has operating lease commitments for the rental of most of its distribution centres and treatment plant properties in Canada and the United States, and for vehicles, warehouse equipment, and a computer hosting contract.

The following table shows, as at December 31, 2016, the Company's contractual obligations within the periods indicated:

Contractual Obligations	Total	2017	2018-2019	2020-2021	Thereafter
(in thousands of dollars)	$	$	$	$	$
Revolving loan facility[1]	148,770	3,774	7,547	137,449	-
Non-revolving term loan[2]	45,021	4,085	7,874	33,062	-
Promissory notes[3]	7,332	2,766	4,566	-	-
Equipment term loans[4]	16,926	3,918	7,433	5,575	-
Earn-out commitment[5]	2,100	-	-	2,100	-
Finance leases[6]	868	354	514	-	-
Operating leases[6]	72,002	15,181	26,427	15,142	15,252
Total contractual obligations	293,019	30,078	54,361	193,328	15,252

1. Interest has been calculated based on the average borrowing under the facility for the year ended December 31, 2016 utilizing the interest rate payable under the terms of the facility at December 31, 2016. This facility matures on July 10, 2021.
2. Annual principal payments are amortized over 15 years beginning on December 31, 2016, with interest payable quarterly. For additional information, see Note 15 of the 2016 Consolidated Financial Statements.
3. Additional information is contained in Note 17 of the 2016 Consolidated Financial Statements.
4. Monthly principal repayments are amortized over 5 years beginning August 1, 2016, with interest payable monthly. Additional information is contained in Note 19 of the 2016 Consolidated Financial Statements.
5. Additional information is contained in Note 21 of the 2016 Consolidated Financial Statements.
6. Additional information is contained in Note 29 of the 2016 Consolidated Financial Statements.

Claims

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

Guarantees

The Company has issued letters of credit totaling \$1.6 million (2015 - \$1.6 million) in respect of historical obligations, pre-dating 1999, for a non-registered executive pension plan for former executives.

Significant Accounting Judgments and Estimates

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

Goodwill

Management uses judgment in determining the fair value of the acquired net identifiable tangible and intangible assets at the date of a business combination. Any resulting goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill at December 31, 2016 relates to the Company's acquisitions of various businesses. Goodwill is not amortized, but is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. Goodwill impairment is assessed based on a comparison of the fair value of a cash-generating unit to the underlying carrying value of that cash-generating unit's net assets, including goodwill. Significant estimates are required in determining the fair value of each cash-generating unit, including a discount rate, a growth rate and revenue projections. When the carrying amount of the cash-generating unit exceeds its fair value, the fair value of goodwill related to the cash-generating unit is reduced by the excess of this carrying value and recognized as an impairment loss.

Timber

At each reporting date, timber is valued at fair value less costs to sell with any change therein, including the impact of growth and harvest, recognized in net earnings for the period. Significant judgment is used in determining the fair value with reference to independent third party valuators and recent comparatives of standing timber sales, costs of sustainable forest management, and net present value of future cash flows for standing timber, including, but not limited to, log pricing assumptions and the discount rate used.

Reforestation Provision

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

Employee Future Benefits

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

Discount rate

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

Other assumptions

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

Inventory Valuation

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

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

Allowance for Doubtful Accounts

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

Income Taxes

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

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

Leases

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

Segment Reporting

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

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

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

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

Changes in Accounting Standards

Amendments to IAS 16, Property, Plant and Equipment, and IAS 38, Intangible Assets clarify acceptable methods of depreciation and amortization, prohibiting the use of revenue based depreciation. The Company has adopted these amendments effective January 1, 2016. The adoption of these amendments did not result in any adjustments.

New Accounting Pronouncements Issued but not yet Applied

The International Accounting Standards Board ("IASB") periodically issues new standards and amendments or interpretations to existing standards. The new pronouncements listed below are those that we consider the most significant. They are not intended to be a complete list of new pronouncements that may affect the Company's financial statements.

IFRS 9 – Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39, Financial Instruments: Recognition and Measurement, to be subsequently measured at amortized cost or fair value. Specifically, financial assets that are held with a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payment of principal and interest on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods.

Requirements for classification and measurement of financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in OCI.

The IASB issued a new impairment model for financial assets based on expected credit losses in July 2015. The new standard requires entities to account for expected credit losses from when financial instruments are first recognized and it lowers the threshold for recognition of full lifetime expected losses.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company will not adopt this standard before the effective date. The Company will continue to evaluate the impact of this standard on its audited annual consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which is a replacement of IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations. IFRS 15 provides a single, principles-based five-step model that will apply to all contracts with customers with limited exceptions. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. IFRS 15 requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities.

IFRS 15 will be applied to fiscal years beginning on or after January 1, 2018. Earlier application is permitted. The Company will not adopt this standard before the effective date. The Company will continue to evaluate the impact of this standard on its audited annual consolidated financial statements.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, Leases, replacing IAS 17, Leases, and related interpretations. IFRS 16 sets out principles of recognition, measurement, presentation and disclosure of leases for both parties to a contract, the lessee and the lessor.

IFRS 16 will be applied to fiscal years beginning on or after January 1, 2019. Earlier application is permitted. The Company will not adopt this standard before the effective date. The Company will continue to evaluate the impact of this standard on its audited annual consolidated financial statements.

Amendments to Other Standards

In addition, there have been amendments to existing standards under IAS 7, Statement of Cash Flows, and IAS 12, Income Taxes.

IAS 7 clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

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

In addition, the IAS 12 amendment clarifies that:

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

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

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

These amendments will be applied to fiscal years beginning on or after January 1, 2017. Earlier application is permitted. The Company will not apply these amendments before the effective date, and will continue to evaluate the impact of these standards on its audited annual consolidated financial statements.

Disclosure Controls and Internal Controls over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to: (a) provide reasonable assurance that material information required to be disclosed by us is accumulated and communicated to management to allow timely decisions regarding required disclosure; and (b) ensure that information required to be disclosed by us is recorded, processed, summarized, and reported within the time periods specified in applicable securities legislation. The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2016. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosure in the Issuer's Annual and Interim Filings, with the exception of the following limitation of scope, are effective for the purposes set out above.

Limitations on Scope of Design

The scope of design over disclosure controls and internal controls over financial reporting has been limited to exclude control, policies and procedures of Jemi, which was acquired on May 13, 2016. The summary financial information of Jemi is presented below.

(in thousands of dollars)	2016
Revenue	41,053
Net earnings	50

(in thousands of dollars)	2016
Current assets	18,085
Long-term assets	134,436
Current liabilities	15,016
Long-term liabilities	60,981

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

Internal Control over Financial Reporting

Management is responsible for designing, establishing and maintaining an adequate system of internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS.

Management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2016 based on the provisions of Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, management concluded that its internal control over financial reporting, as defined by National Instrument 52-109, with the exception of the aforementioned limitation of scope, is effective and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

Changes in Internal Control over Financial Reporting

During 2015, the Company successfully completed the implementation of its new ERP system, including general ledger, sales distribution, supply chain and transportation modules, replacing its legacy ERP system. As a result of the new ERP system, the Company reviewed policies and procedures materially impacted by the new ERP implementation, resulting in improvements in the design of system access rights, therefore increasing the Company's ability to rely on automated controls.

There were no material changes in design of the Company's internal controls over financial reporting for the quarter and year ended December 31, 2016 that have affected, or are reasonably likely to affect, the Company's internal control over financial reporting.

Risks and Uncertainties

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

Outlook

The Canadian economy is expected to grow by 2.1% in both 2017 and 2018, according to the most recent estimates published by the Bank of Canada ("BoC"). The BoC reports that the Canadian economy is evolving largely as expected but expresses concern over the elevated policy uncertainty at the global level. The Company's focus in the near term remains to improve sales with its target customer base while continuing to optimize gross margins and maintain tight controls over expenses, including those relating to the operations of the Jemi Acquisition. The Company is committed to enhancing its offering of specialty and allied products to the Canadian and Unites States markets. Management's focus on cash flow, primarily consisting of the management of inventory and trade receivables, remains paramount, and such discipline was introduced to the operations of the new forestry operating segment.

According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for Canadian housing starts was 197,915 in 2016, compared to 195,535 in 2015. CMHC forecasts housing starts for the year 2017 to be in the range from 174,500 units to 184,300 units, and in the range from 172,700 units to 183,100 units for 2018. The Canadian Real Estate Association reports 536,118 existing homes changed hands in Canada in 2016, but expects a decrease to 518,900 in 2017. The results of the 2016 Federal Budget, the BC foreign buyers tax, foreign exchange fluctuations and overall affordability issues, as well as recent and potential legislative policy changes to address these issues, may affect the housing market, although any potential impact is not predictable.

The BoC is continuing to express concerns about the potential impact of the decrease in petroleum and related commodity prices on the Canadian economy, and consequently did not raise its key interest rate during 2016. The BoC's more sober outlook on the Canadian economy could delay eventual interest rate hikes, while the US Federal Reserve initiated interest rate increases in December 2015. The resulting decrease in the value of the Canadian dollar and decreased economic activity could potentially negatively impact the Company's operations in Canada and accordingly its overall financial performance.

According to the US Census Bureau, US housing starts have been growing steadily over the past four years, reaching 1,170,000 units in 2016, and, according to the Federal Home Mortgage Corporation (Freddie Mac) Economic & Housing Research Group, are estimated to continue the current trend and reach 1,260,000 units for the 2017 year. Housing construction in the US remains subdued by historical standards even though other indicators suggest the housing market is strong.

CanWel®

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