CanWel Building Materials Group Ltd.

Unaudited Interim Condensed Consolidated Financial Statements

March 31, 2017
(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, Ernst & Young LLP, has not performed a review of these Interim Condensed Consolidated Financial Statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

May 9, 2017

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

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

(in thousands of Canadian dollars)	Notes	As at March 31, 2017 $	As at December 31, 2016 $
Assets			
Current assets			
Trade and other receivables	5	**148,003**	86,828
Income taxes receivable		**1,374**	1,214
Inventories	6	**199,920**	165,876
Prepaid expenses		**4,920**	5,225
		354,217	259,143
Non-current assets			
Property, plant and equipment	7	**97,805**	99,226
Timber	8	**58,391**	58,905
Deferred income tax assets		**3,658**	3,658
Intangible assets	9	**18,896**	19,792
Goodwill	10	**125,945**	126,217
Other assets		**2,770**	2,454
		307,465	310,252
Total assets		**661,682**	569,395
Liabilities			
Current liabilities			
Bank indebtedness		**520**	6,277
Trade and other payables		**85,712**	53,392
Dividends payable	18	**8,566**	8,561
Income taxes payable		**-**	1,048
Current portion of non-current liabilities	11-15	**10,570**	10,689
		105,368	79,967
Non-current liabilities			
Revolving loan facility	11	**204,840**	129,451
Non-revolving term loan	11	**35,607**	36,300
Leasehold inducements		**1,437**	1,503
Promissory notes	12	**4,401**	4,378
Finance lease liabilities	13	**1,268**	857
Equipment term loan	14	**11,367**	12,197
Reforestation and environmental	15	**1,000**	958
Earn-out commitment	16	**1,358**	1,328
Deferred income tax liabilities		**11,677**	11,771
Pension benefits		**1,188**	1,185
Post-retirement benefits		**5,107**	5,071
		279,250	204,999
Total liabilities		**384,618**	284,966
Equity			
Common shares	18	**405,206**	405,048
Contributed surplus	18	**10,769**	10,769
Foreign currency translation		**3,712**	4,335
Deficit		**(142,623)**	(135,723)
		277,064	284,429
Total liabilities and equity		**661,682**	569,395
Commitments and contingencies	23		
Events after the financial statement date	32		

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 March 31, 2017 $	2016 $
Revenue	27,28	**222,846**	197,558
Cost of sales	19	**195,885**	174,378
Gross margin from operations		**26,961**	23,180
Expenses			
Distribution, selling and administration	20	**19,151**	17,659
Depreciation of property, plant and equipment	7	**3,113**	1,603
Amortization of intangible assets	9	**744**	762
		23,008	20,024
Operating earnings		**3,953**	3,156
Finance costs	21	**(1,899)**	(1,753)
Fair value adjustments	8	**363**	-
Other loss		**-**	(128)
Earnings before income taxes		**2,417**	1,275
Provision for (recovery of) income taxes			
Current income tax		**839**	406
Deferred income tax		**(90)**	(43)
		749	363
Net earnings		**1,668**	912
Other comprehensive losses			
Exchange differences on translation of foreign operations (1)		**(623)**	(3,925)
Net actuarial loss from pension and other benefit plans (2)		**(2)**	(1,605)
		(625)	(5,530)
Comprehensive earnings (loss)		**1,043**	(4,618)
Net earnings per share			
Basic and diluted		**0.03**	0.02
Weighted average number of shares			
Basic and diluted		**61,173,431**	42,429,362

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

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

	Common shares		Contributed surplus	Foreign currency translation	Deficit	Total
(in thousands of Canadian dollars except share amounts)	#	$	$	$	$	$
As at December 31, 2016	61,152,898	405,048	10,769	4,335	(135,723)	284,429
Shares issued pursuant to:						
Employee Common Share Purchase Plan	31,321	158	-	-	-	158
Dividends		-	-	-	(8,566)	(8,566)
Comprehensive earnings for the period		-	-	(623)	1,666	1,043
As at March 31, 2017	**61,184,219**	**405,206**	**10,769**	**3,712**	**(142,623)**	**277,064**
As at December 31, 2015	42,414,598	306,663	10,769	6,210	(154,716)	168,926
Shares issued pursuant to:						
Employee Common Share Purchase Plan	26,343	106	-	-	-	106
Dividends		-	-	-	(5,942)	(5,942)
Comprehensive loss for the period		-	-	(3,925)	(693)	(4,618)
As at March 31, 2016	42,440,941	306,769	10,769	2,285	(161,351)	158,472

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

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

		Three months ended March 31, 2017	2016
(in thousands of Canadian dollars)	Notes	$	$
Operating activities			
Net earnings for the period		**1,668**	912
Items not affecting cash			
Depreciation of property, plant and equipment	7	**3,113**	1,603
Recovery of deferred income taxes		**(90)**	(43)
Net change in pensions and other post-retirement benefits		**(27)**	(69)
Amortization of:			
Intangible assets	9	**744**	762
Leasehold inducements		**(66)**	(17)
Fair value adjustments	8	**(363)**	-
Change in reforestation and environmental	15	**(38)**	-
Gain on disposal of property, plant and equipment		**(45)**	-
Gain on other assets		**(329)**	-
Income taxes paid		**(2,054)**	(4,269)
Interest paid on loan facilities, bank indebtedness and other	21	**(1,523)**	(878)
Payment of reforestation and environmental	15	**(12)**	-
Finance costs	21	**1,899**	1,753
Cash flows from operating activities before changes in non-cash working capital		**2,877**	(246)
Changes in non-cash working capital	26	**(60,912)**	(66,716)
Net cash flows used in operating activities		**(58,035)**	(66,962)
Financing activities			
Shares issued	18	**158**	106
Repayment of non-revolving term loan	11	**(667)**	-
Payment of finance lease liabilities		**(194)**	(85)
Repayment of equipment term loans, including interest	14,21	**(989)**	-
Dividends paid	18	**(8,561)**	(5,938)
Financing costs on borrowings		**(34)**	-
Increase in revolving loan facility		**75,340**	69,427
Interest paid on convertible debentures	21	**-**	(639)
Net cash flows provided by financing activities		**65,053**	62,871
Investing activities			
Purchase of property, plant and equipment	7	**(1,498)**	(517)
Proceeds from disposition of property, plant and equipment		**200**	-
Net cash flows used in investing activities		**(1,298)**	(517)
Net decrease (increase) in bank indebtedness		**5,720**	(4,608)
Foreign exchange difference		**37**	223
Bank indebtedness - Beginning of period		**(6,277)**	(6,223)
Bank indebtedness - End of period		**(520)**	(10,608)

1. NATURE OF OPERATIONS

CanWel Building Materials Group Ltd. (the "Company") was incorporated in 2009 under the Business Corporations Act (British Columbia). On May 11, 2010, the Company was continued under the laws of Canada pursuant to section 187 of the Canada Business Corporations Act with its current name. The Company has limited liability, with its shares publicly listed on the Toronto Stock Exchange ("TSX"). The Company's head office is located at Suite 1100 – 1055 West Georgia Street, Vancouver, BC. The Company operates through its wholly owned subsidiaries as a distributor of building materials and home renovation products and a provider of wood pressure treating services in Canada nationally and regionally in the Western United States. On May 13, 2016, the Company acquired Jemi Fibre Corp. ("Jemi") 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.

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") and, except for as described in Note 3, on a basis consistent with the accounting policies disclosed in the Company's audited annual consolidated financial statements for the year ended December 31, 2016.

These unaudited Interim Condensed Consolidated Financial Statements were authorized for issuance on May 9, 2017 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, 2016.

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, 2016 have been consistently applied to all periods in the preparation of these unaudited Interim Condensed Consolidated Financial Statements unless otherwise stated below.

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, regardless of 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, an entity should assess whether a deferred tax asset can be recognized in combination with deferred taxes resulting from deductible temporary differences of the same type.

The Company has adopted these amendments effective January 1, 2017. The adoption of these amendments did not result in any adjustments.

4. BUSINESS ACQUISITIONS

Jemi Acquisition

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 is expected to diversify the Company's operations and revenue streams, 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 and a specialty sawmill, with limited product overlap.

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 $13,205.

(in thousands of Canadian dollars, except per share amounts)

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.

Details of the fair value of the aggregate consideration transferred and the fair value of the identifiable assets and liabilities acquired at the date of the Jemi Acquisition were as follows:

	May 13, 2016[(1)] $
Fair value of purchase consideration	
Share consideration	13,205
Fair value of assets acquired and liabilities assumed	
Non-cash working capital	(916)
Property, plant and equipment	72,060
Timber	59,545
Other long-term assets	2,195
Bank indebtedness	(1,041)
Demand loans payable	(3,217)
Finance lease liabilities	(4,321)
Reforestation and environmental	(2,517)
Related party debt[(2)]	(4,500)
Earn-out commitment	(1,256)
Equipment term loans	(10,065)
Deferred income tax liability	(9,924)
Senior loans[(3)]	(52,201)
Total identifiable net assets at fair value	43,842
Gain on bargain purchase	(30,637)
Consideration	13,205

1. The provisional purchase price allocation determined at the Jemi Acquisition date is preliminary and subject to change up to a period of one year from May 13, 2016, upon finalization of fair value determinations.
2. Subsequent to the Jemi Acquisition date, the debt owing to certain related parties of Jemi was satisfied in full through the Debt exchange agreement (Note 18).
3. Concurrent with the Jemi Acquisition, these loans were repaid in full from the funds raised from the 2016 Private placement (Note 18) and the Non-revolving term loan (Note 11).

The estimated fair value of assets acquired and liabilities assumed exceeded the fair value of consideration transferred, resulting in a bargain purchase. The gain on bargain purchase in the amount of $30,637 was recognized in net earnings as at the date of the Jemi Acquisition on May 13, 2016. The gain on bargain purchase is based on preliminary fair values, and is subject to change, including possible erosion, which may be material, upon finalization of a complete valuation.

The bargain purchase is the result of the purchase price reflecting on-going difficulties of Jemi in its ability to continue as a going concern, including the 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 the inability to pay off or refinance senior loans, the cumulative effect on which effectively forced the sale of Jemi.

As a result of the circumstances leading up to the sale of Jemi, the purchase price consideration is less than the fair value of assets acquired and liabilities assumed.

(in thousands of Canadian dollars, except per share amounts)

From the date of the Jemi Acquisition, for the period commencing May 13, 2016, the acquired business contributed $57,093 of revenue and $349 of the net earnings. If the Jemi Acquisition had taken place at the beginning of 2016, unaudited consolidated revenue for the Company for the period ended March 31, 2016 would have been approximately $220,600 and unaudited net earnings of the Company would have been approximately $900.

During the quarter ended March 31, 2017, there were no directly attributable acquisition-related costs relating to the Jemi Acquisition.

TFI Acquisition

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.

Details of the fair value of the aggregate consideration transferred and the fair value of the identifiable assets acquired at the date of the TFI Acquisition were as follows:

	September 6, 2016[1]
	$
Fair value of purchase consideration	
Cash	8,262
Promissory note	2,405
Consideration	10,667
Fair value of assets acquired	
Non-cash working capital	5,607
Property, plant and equipment	1,269
Total identifiable net assets at fair value	6,876
Goodwill arising on acquisition	3,791
Consideration	10,667

1. The provisional purchase price allocation determined at the TFI Acquisition date is preliminary and subject to change up to a period of one year from September 6, 2016, upon finalization of fair value determinations.

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

From the date of the TFI Acquisition, for the period commencing September 6, 2016, the acquired business contributed $14,219 of revenue and $454 of the net earnings.

(in thousands of Canadian dollars, except per share amounts)

During the quarter ended March 31, 2017, there were no directly attributable acquisition-related costs relating to the TFI Acquisition.

It is impracticable for the Company to disclose gross revenues and net earnings as though the TFI Acquisition had taken place at the beginning of 2016, as audited financial information is not available for the TFI Acquisition prior to the acquisition date, and management does not believe these amounts to be material.

5. TRADE AND OTHER RECEIVABLES

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

	March 31, 2017 $	December 31, 2016 $
Trade receivables	**143,393**	81,905
Allowance for doubtful accounts	**(609)**	(644)
Net trade receivables	**142,784**	81,261
Other receivables	**5,219**	5,567
Total trade and other receivables	**148,003**	86,828

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

	March 31, 2017 $	December 31, 2016 $
Neither past due nor impaired	**143,736**	78,002
Past due but not impaired:		
Less than 1 month	**1,922**	6,601
1 to 3 months	**1,607**	1,642
3 to 6 months	**738**	583
Total trade and other receivables	**148,003**	86,828

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

	$
Balance at December 31, 2016	644
Accruals during the period	41
Accounts written off	(73)
Foreign exchange difference	(3)
Balance at March 31, 2017	609

The Company holds no collateral for any receivable amounts outstanding as at March 31, 2017.

(in thousands of Canadian dollars, except per share amounts)

6. INVENTORIES

	March 31, 2017 $	December 31, 2016 $
Inventories held for resale	**162,103**	131,613
Inventories held for processing	**37,817**	34,263
	199,920	165,876

7. PROPERTY, PLANT AND EQUIPMENT

	Land $	Buildings and leasehold improvements $	Machinery, automotive and other equipment $	Computer equipment and systems development $	Equipment under finance leases $	Total $
Cost						
Cost at December 31, 2016	36,758	14,862	72,066	4,592	2,242	130,520
Additions	-	211	1,211	76	774	2,272
Disposals	-	-	(408)	-	(421)	(829)
Foreign exchange difference	-	-	(44)	-	(12)	(56)
Cost at March 31, 2017	**36,758**	**15,073**	**72,825**	**4,668**	**2,583**	**131,907**
Accumulated depreciation						
Accumulated depreciation at December 31, 2016	-	2,626	26,199	1,888	581	31,294
Depreciation	-	102	2,677	208	126	3,113
Disposals	-	-	(253)	-	(40)	(293)
Foreign exchange difference	-	-	(6)	-	(6)	(12)
Accumulated depreciation at March 31, 2017	**-**	**2,728**	**28,617**	**2,096**	**661**	**34,102**
Net book value at December 31, 2016	36,758	12,236	45,867	2,704	1,661	99,226
Net book value at March 31, 2017	**36,758**	**12,345**	**44,208**	**2,572**	**1,922**	**97,805**

(in thousands of Canadian dollars, except per share amounts)

8. TIMBER

	$
Balance at December 31, 2016	58,905
Reforestation provision on harvested land	210
Harvested timber transferred to inventory in the period	(1,087)
Change in fair value resulting from growth and pricing	363
Balance at March 31, 2017	**58,391**

The Company's private timberlands comprised an area of approximately 53,525 hectares ("ha") of land as at March 31, 2017 and 42,651 ha of the land was unharvested with standing timber consisting of mixed species softwood forests.

During the three month period ended March 31, 2017, the Company harvested approximately 106,210 cubic metres ("m^3") from its private timberlands.

Measurement of fair values

The table above reconciles the opening balances to the closing balances for Level 3 fair values (as defined in Note 25). The fair value measurement for the Company's standing timber of $58,391 has been categorized as Level 3 fair value based on the inputs to the valuation technique used as 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 with a reversion in year 21. The expected net cash flows are discounted using a risk-adjusted discount rate.
Significant Unobservable Inputs in future periods	Estimated log prices of $75[(1)] per m^3 (weighted average sawlog and pulpwood prices) Estimated total costs, including harvest costs, of $49[(1)] per m^3 Estimated harvest annual volume of 173,913-450,000 m^3 (20-year average 274,712 m^3) Risk-adjusted discount rate of 8.50%
Inter-relationship between key unobservable inputs and fair value measurement	The estimated fair value would increase (decrease) if: - the estimated log prices per m^3 were higher (lower); - the estimated harvest costs per m^3 were lower (higher); and - the risk-adjusted discount rate were lower (higher).

1. In whole dollars, not thousands.

(in thousands of Canadian dollars, except per share amounts)

9. INTANGIBLE ASSETS

	Core business $	US operations $	Value-added services $	Total $
Cost				
Cost at December 31, 2016	10,000	18,406	1,633	30,039
Foreign exchange difference	-	(175)	-	(175)
Cost at March 31, 2017	**10,000**	**18,231**	**1,633**	**29,864**
Accumulated amortization				
Accumulated amortization at December 31, 2016	6,917	2,759	571	10,247
Amortization	250	453	41	744
Foreign exchange difference	-	(23)	-	(23)
Accumulated amortization at March 31, 2017	**7,167**	**3,189**	**612**	**10,968**
Net intangible assets at December 31, 2016	3,083	15,647	1,062	19,792
Net intangible assets at March 31, 2017	**2,833**	**15,042**	**1,021**	**18,896**

10. GOODWILL

	Core business $	US operations $	Value-added services $	Total $
Balance at December 31, 2016	62,624	28,517	35,076	126,217
Foreign exchange difference	-	(272)	-	(272)
Balance at March 31, 2017	**62,624**	**28,245**	**35,076**	**125,945**

11. LOAN FACILITIES

Revolving loan facility

	March 31, 2017 $	December 31, 2016 $
Revolving loan facility	**207,049**	131,789
Financing costs, net of amortization	**(2,209)**	(2,338)
	204,840	129,451

The terms and conditions of the revolving loan facility are consistent with those disclosed in Note 15 to the 2016 audited annual consolidated financial statements.

(in thousands of Canadian dollars, except per share amounts)

Non-revolving term loan

	March 31, 2017 $	December 31, 2016 $
Non-revolving term loan	**38,666**	39,333
Financing costs, net of amortization	**(392)**	(366)
Less: current portion	**(2,667)**	(2,667)
	35,607	36,300

The terms and conditions of the non-revolving term loan are consistent with those disclosed in Note 15 to the 2016 audited annual consolidated financial statements.

12. PROMISSORY NOTES

	March 31, 2017 $	December 31, 2016 $
Promissory notes	**6,205**	6,205
Accrued interest	**903**	885
Less: current portion	**(2,707)**	(2,712)
	4,401	4,378

The terms and conditions of the promissory notes are consistent with those disclosed in Note 17 to the 2016 audited annual consolidated financial statements.

13. FINANCE LEASE LIABILITIES

	March 31, 2017 $	December 31, 2016 $
Finance lease liabilities	**1,700**	1,506
Less: current portion	**(432)**	(649)
	1,268	857

The Company leases certain transportation equipment, which has been classified as finance leases. Future minimum lease payments with respect to these leases are disclosed in Note 23.

(in thousands of Canadian dollars, except per share amounts)

14. EQUIPMENT TERM LOAN AND EQUIPMENT LINE

	March 31, 2017 $	December 31, 2016 $
Equipment term loan	**14,733**	15,583
Other loans	**224**	242
Financing costs, net of amortization	**(131)**	(154)
Less: current portion	**(3,459)**	(3,474)
	11,367	12,197

The terms and conditions of the equipment term loan and equipment line are consistent with those disclosed in Note 19 to the 2016 audited annual consolidated financial statements.

15. REFORESTATION AND ENVIRONMENTAL

	$
Balance at December 31, 2016	2,145
Paid during the period	(12)
Reforestation provision on harvested land	210
Changes in fair value resulting from estimates	(38)
Balance at March 31, 2017	2,305
Less: current portion	(1,305)
	1,000

16. EARN-OUT COMMITMENT

As a result of the Jemi Acquisition (Note 4), subject to certain minimum obligations, the Company assumed Jemi's liability to pay additional amounts ("Earn-out") from proceeds of the sale of certain specified lands to third parties for a period of seven years beginning September 15, 2014. The total undiscounted minimum amount payable with respect to the Earn-out is $2,100, with an additional 25% of the gross proceeds on any amounts above a certain price per hectare sold.

The Company has paid $nil of the Earn-out Payment as of March 31, 2017 (2016 - $nil).

17. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

Total net benefit expense of the Company's pension and post-retirement benefit plans in the first quarter was $412 (2016 - $383). Further information about these plans is disclosed in Note 22 to the 2016 audited annual consolidated financial statements.

18. SHARE CAPITAL

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

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 $60,001 (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. (the "Underwriters").

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 (Note 4), repay a portion of the revolving loan facility, and for general corporate purposes.

2016 Private placement

Concurrent with the Jemi Acquisition (Note 4), the Company completed a private placement of 6,100,750 subscription receipts at a price of $4.10 each, resulting in gross proceeds of $25,013 (the "2016 Private Placement"), including subscription receipts to certain insiders for proceeds of $14,600. The 2016 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.

Cash proceeds raised from 2016 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. Cash proceeds were released to the Company on May 13, 2016, concurrent with the closing of the Jemi Acquisition.

Upon the closing of the Jemi Acquisition, the subscription receipts issued were converted into a total of 6,100,750 common shares.

Debt exchange

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 $4,500 was satisfied in full through the issuance of 955,414 common shares of the Company at a price of $4.71 each.

Employee Common Share Purchase Plan ("ECSPP")

For the quarter ended March 31, 2017, the Company issued 31,321 (2016 - 26,343) common shares from treasury for gross proceeds of $158 (2016 - $106), pursuant to the ECSPP.

(in thousands of Canadian dollars, except per share amounts)

Dividend

On March 15, 2017, the Company declared a dividend of $0.14 per share, totaling $8,566 to shareholders of record on March 31, 2017, which was paid on April 14, 2017.

On December 15, 2016, the Company declared a dividend of $0.14 per share, totaling $8,561 to shareholders of record on December 30, 2016, which was paid on January 13, 2017.

19. COST OF SALES

Cost of sales includes the following costs:

	Three months ended March 31, 2017 $	2016 $
Purchased and treated building materials	**181,289**	172,432
Salaries and benefits	**6,781**	1,346
Logging, trucking and timber	**5,871**	-
Peeled and treated posts	**1,491**	-
Inventory provisions	**292**	284
Other	**161**	316
	195,885	174,378

20. DISTRIBUTION, SELLING AND ADMINISTRATION COSTS

Distribution, selling and administration costs include the following:

	Three months ended March 31, 2017 $	2016 $
Salaries and benefits	**10,679**	9,788
Building rent and occupancy costs	**5,041**	4,672
Travel, promotion and entertainment	**1,376**	1,256
Office and miscellaneous	**1,310**	1,319
Professional and management fees	**745**	624
	19,151	17,659

(in thousands of Canadian dollars, except per share amounts)

21. FINANCE COSTS

Finance costs for the Company are broken down as follows:

	Three months ended March 31, 2017 $	2016 $
Loan facilities	**1,439**	888
Equipment term loan	**121**	-
Bank indebtedness and other	**84**	40
Convertible debentures	**-**	639
Net cash interest	**1,644**	1,567
Amortization of financing costs	**162**	135
Accretion of earn-out commitment	**30**	-
Interest expense on net defined benefit liability	**63**	51
	1,899	1,753

22. RELATED PARTY TRANSACTIONS

Transactions

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

	Three months ended March 31, 2017 $	2016 $
Land and building lease payments for distribution facilities paid to a company in which a member of the key management personnel who is a director and officer of the Company has an interest and lease payments for certain treatment plant facilities to a company solely controlled by a director and officer of the Company	**806**	805
Purchase of product from a public company that a member of the key management personnel who is a director and officer of the Company has an ownership interest in	**873**	1,092
Fees for management services and other charges paid to a company controlled by one of the key management personnel who is also a director and officer of the Company	**290**	237
Fees for professional services and other charges paid to a company controlled by an officer of the Company	**135**	120

(in thousands of Canadian dollars, except per share amounts)

Commitments with related parties

The minimum payments under the terms of the leases with companies, in which a member of the 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 2017	**2,418**
2018	**3,224**
2019	**2,938**
2020	**1,517**
2021	**810**
Thereafter	**1,065**
	11,972

Subscription receipts issued to related parties

During the three months ended March 31, 2017, the Company received no subscription receipts from related parties. During the three months ended March 31, 2016, the Company received subscription receipts from certain insiders of the Company for proceeds of $14,600, including the following:

	Three months ended March 31, 2017 $	2016 $
A company controlled by one of the key management personnel who is also a director and officer of the Company	-	6,000
A company in which members of the key management personnel who are directors and/or officers of the Company have an interest in	-	1,902
Several members of key management personnel, directors and officers of the Company	-	567

(in thousands of Canadian dollars, except per share amounts)

Payable to related parties

As at March 31, 2017, trade and other payables include amounts due to related parties as follows:

	March 31, 2017 $	December 31, 2016 $
A public company in which a member of the key management personnel who is a director and officer of the Company has an ownership interest in	**237**	76
A company controlled by one of the key management personnel who is also a director and officer of the Company	**47**	48
A company controlled by an officer of the Company	**532**	532

23. COMMITMENTS AND CONTINGENCIES

Lease commitments

The Company has lease commitments as follows:

a. real estate operating leases with third parties and related parties covering the head office, as well as many of the distribution centre properties and treatment plant properties;

b. operating leases covering certain vehicles, computer equipment and warehouse equipment; and

c. finance leases covering certain transportation equipment.

Future minimum payments due under the terms of these leases, including those amounts disclosed in Note 22, are as follows:

	$
Year ending December 31	
Remainder of 2017	**11,646**
2018	**14,117**
2019	**13,103**
2020	**9,719**
2021	**5,908**
Thereafter	**15,414**
	69,907

As at March 31, 2017 the present value of minimum lease payments relating to the finance leases was $1,425 (December 31, 2016 - $934).

(in thousands of Canadian dollars, except per share amounts)

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.

24. FINANCIAL INSTRUMENTS

Non-derivative financial instruments

The carrying amounts and fair values of financial instruments were as follows:

	March 31, 2017		December 31, 2016	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Trade and other receivables	**148,003**	**148,003**	86,828	86,828
Bank indebtedness	**520**	**520**	6,277	6,277
Trade and other payables	**85,712**	**85,712**	53,392	53,392
Dividends payable	**8,566**	**8,566**	8,561	8,561
Revolving loan facility	**204,840**	**207,049**	129,451	131,789
Non-revolving term loan	**38,274**	**38,666**	38,967	39,333
Promissory notes	**7,108**	**7,108**	7,090	7,090
Finance lease liabilities	**1,700**	**1,700**	1,506	1,506
Equipment term loan	**14,826**	**14,957**	15,671	15,825
Earn-out commitment	**1,358**	**1,358**	1,328	1,328

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

- The fair values of trade and other receivables, bank indebtedness, trade and other payables, and dividends payable is comparable to their carrying amount, given the short maturity periods.

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

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

- The fair value of the earn-out commitment is equal to the discounted amount of the Earn-out Payment.

The expenses resulting from financial assets and liabilities recorded in net earnings were as disclosed in Note 21.

Derivative financial instruments

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

As at March 31, 2017 the Company held no outstanding foreign exchange contracts, no outstanding lumber futures contracts and no lumber options (December 31, 2016 - $nil).

When held by the Company, these derivative financial 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 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, including risks related to credit, interest rates, currency and liquidity.

Financial assets include trade and other receivables, which are measured at amortized cost. Financial liabilities include bank indebtedness, trade and other payables, dividends payable, revolving loan facility, non-revolving term loan, promissory notes, finance lease liabilities, equipment term loan and earn-out commitment. All financial liabilities are measured at amortized cost.

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

Credit risk

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

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

(in thousands of Canadian dollars, except per share amounts)

As at March 31, 2017, trade accounts receivable, excluding other receivables, were as follows:

	$
Current	142,606
Past due over 60 days	787
Trade accounts receivable	143,393
Less: Allowance for doubtful accounts	(609)
	142,784

As at March 31, 2017, the maximum exposure to credit risk is $148,003 (December 31, 2016 - $86,828), 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 (Note 11), non-revolving term loan (Note 11), and equipment term loan (Note 14). Based on the Company's average loan facilities and equipment term loan balance during the period ended March 31, 2017, the sensitivity of a 1% increase in interest rates would result in an approximate decrease of $399 in net quarterly earnings.

Currency risk

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

As at March 31, 2017, a $0.05 increase in the United States dollar versus the Canadian dollar would have an insignificant impact on net quarterly earnings and other comprehensive earnings.

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.

(in thousands of Canadian dollars, except per share amounts)

25. FAIR VALUE MEASUREMENT

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

The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices that are observable for the asset and liability, either directly or indirectly;
Level 3 - Inputs that are not based on observable market data.

The following table summarizes the fair value measurement hierarchy of the Company's assets and liabilities at March 31, 2017.

	Total $	Level 1 $	Level 2 $	Level 3 $
Non-financial assets measured at fair value				
Timber	**58,391**	-	-	58,391
Financial assets for which fair values are disclosed				
Trade and other receivables	**148,003**	-	-	148,003
Financial liabilities for which fair values are disclosed				
Trade and other payables	**85,712**	-	-	85,712
Dividends payable	**8,566**	-	8,566	-
Revolving loan facility	**207,049**	-	-	207,049
Non-revolving term loan	**38,666**	-	-	38,666
Promissory notes	**7,108**	-	-	7,108
Finance lease liabilities	**1,700**	-	-	1,700
Equipment term loan	**14,957**	-	-	14,957
Earn-out commitment	**1,358**	-	-	1,358

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(in thousands of Canadian dollars, except per share amounts)

26. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended March 31, 2017 $	2016 $
Trade and other receivables	**(61,175)**	(53,273)
Inventories	**(34,044)**	(22,328)
Prepaid expenses	**305**	2,257
Trade and other payables	**33,156**	6,192
Income taxes payable	**846**	436
	(60,912)	(66,716)

27. FOREIGN SALES AND SIGNIFICANT CUSTOMERS

During the quarter ended March 31, 2017, the Company had sales outside of Canada of $33,800 (2016 - $30,067).

The Company has sold products to certain customers who comprise greater than 10% of its sales. During the quarter ended March 31, 2017, two customers individually accounted for sales in excess of 10%, purchasing an aggregate of $64,545 (2016 - $84,331, representing three customers).

28. 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:

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

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

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

(in thousands of Canadian dollars, except per share amounts)

Three months ended March 31, 2017	Building Materials Distribution $	Forestry[1] $	Adjustments and eliminations[2] $	Consolidated $
Revenue				
External customers	206,950	15,896	-	**222,846**
Inter-segment	-	144	(144)	**-**
	206,950	16,040	(144)	**222,846**
Specified income (expenses)				
Depreciation and amortization	(1,975)	(1,882)	-	**(3,857)**
Finance costs	(1,312)	(587)	-	**(1,899)**
Fair value adjustments (Note 8)	-	363	-	**363**
Net earnings	1,369	299	-	**1,668**
Purchase of property, plant and equipment (Note 7)	1,201	1,071	-	**2,272**
Long-term assets	174,574	132,891	-	**307,465**

1. Forestry segment was added through the Jemi Acquisition (Note 4) on May 13, 2016.
2. Includes inter-segment eliminations and income and expenses that are not allocated to reportable business segments.

For the comparative three months ended March 31, 2016, the Company operated as one reportable business segment, Building Materials Distribution.

The percentage of total revenue from external customers and long-term assets by geographic area are as follows:

	Three months ended March 31, 2017 %	2016 %
Revenue		
Canada	**85**	85
US	**15**	15
	100	100

	March 31, 2017 %	December 31, 2016 %
Long-term assets		
Canada	**84**	85
US	**16**	15
	100	100

(in thousands of Canadian dollars, except per share amounts)

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

	Three months ended March 31,	
	2017	**2016**
	%	**%**
Construction materials	**60**	64
Specialty and allied	**33**	36
Forestry and other	**7**	-
	100	100

29. CAPITAL DISCLOSURES

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

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

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

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

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

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

30. SEASONALITY

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

31. COMPARATIVE FIGURES

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

32. EVENTS AFTER THE FINANCIAL STATEMENT DATE

2017 Public Offering

On April 18, 2017, the Company completed its previously announced public offering of 6,598,470 common shares, by way of prospectus, at a price of $6.10 each, resulting in gross proceeds of $40,251 (the "2017 Offering"). The 2017 Offering was pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and including National Bank Financial Inc., Canaccord Genuity Corp., Haywood Securities Inc., Raymond James Ltd., and Cormark Securities Inc.

Cash proceeds raised from the 2017 Offering, net of issuance costs, were used for reducing the Company's existing revolving loan facility, which is expected to be drawn in the future to fund potential acquisition opportunities, and for general corporate purposes.

CORPORATE INFORMATION

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