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CanWel Building Materials Group Ltd.

FIRST QUARTER 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

CanWel Building Materials Group Ltd.

Management's Discussion and Analysis

May 9, 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 ended March 31, 2017 relative to the same quarter of 2016. 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 interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to the preparation of interim financial statements.

This MD&A and the associated Unaudited Interim Condensed Consolidated Financial Statements for the period ending March 31, 2017 (the "Interim Financial Report") contains historical information, descriptions of current circumstances and statements about potential future developments and anticipated financial results, performance or achievements of the Company and its subsidiaries. The latter statements, which are forward-looking statements, are presented to provide guidance to the reader but their accuracy depends on a number of assumptions and are subject to various known and unknown risks and uncertainties. Forward-looking statements are included under the headings "Business Overview", "Outlook", "Commitments and Contingencies", "Sales and Gross Margin", "Dividend Policy" and "Liquidity and Capital Resources". When used in this MD&A, such statements may contain such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the negative of these terms or other similar terminology. Forward-looking information in the Interim Financial Report 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 this Interim Financial Report and are subject to risks which are described in the Company's current Annual Information Form dated March 30, 2017 ("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, international trade and tariff risks, resource industry risks, resource extraction risks, risks relating to remote operations, forestry management and silviculture risks, fire and natural disaster risks, key executive risk and litigation risks. In addition, there are numerous risks associated with an investment in the Company's common shares, which are also further described in the "Risks and Uncertainties" section in this Interim Financial Report and in the "Risk Factors" section of the Company's AIF, and as updated from time to time, 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 the US housing and building materials markets; international trade matters; post-acquisition operation of a business; the amount of the Company's cash flow from operations; tax laws; laws and regulations relating to the protection of the environment; and the extent of the Company's future acquisitions and capital spending requirements or planning in respect thereto, including but not limited to the performance of any such business and its operation. They are, by necessity, only estimates of future developments and actual developments may differ materially from these statements due to a number of known and unknown factors. Investors are cautioned not to place undue reliance on these forward-looking statements. All forward-looking information in this Interim Financial Report is qualified by these cautionary statements. Although the forward-looking information contained in this Interim Financial Report is based on upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements included in this Interim Financial Report may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this Interim Financial Report.

The forward-looking statements contained in this Interim Financial Report are made as of the date of this report, and should not be relied upon as representing 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 May 9, 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

2016 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 and a specialty sawmill 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 were 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 4 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended March 31, 2017 and Note 7 of the 2016 Consolidated Financial Statements.

Purchase of Assets of Total Forest Industries Ltd.

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") (collectively with the Jemi Acquisition, the "2016 Acquisitions"), 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 4 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended March 31, 2017 and Note 7 of the 2016 Consolidated Financial Statements.

Issuance of Shares

2017 Public Offering

Subsequent to the end of the first quarter, 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 $40.3 million (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.

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.

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:

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

Comparison of the Quarter Ended March 31, 2017 and March 31, 2016

Overall Performance

The following table shows the Company's segmented results for the quarters ended March 31:

(in thousands of dollars)	2017				2016
	Building Materials Distribution	Forestry[1]	Adjustments and eliminations[2]	Consolidated	Consolidated
	$	$	$	$	$
Revenue					
External customers	206,950	15,896	-	**222,846**	197,558
Inter-segment	-	144	(144)	**-**	-
	206,950	16,040	(144)	**222,846**	197,558
Specified income (expenses)					
Depreciation and amortization	(1,975)	(1,882)	-	**(3,857)**	(2,365)
Finance costs	(1,312)	(587)	-	**(1,899)**	(1,753)
Fair value adjustments	-	363	-	**363**	-
Net earnings	1,369	299	-	**1,668**	912

1. Forestry business segment was added through the Jemi Acquisition.
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.

Sales and Gross Margin

Sales for the quarter ended March 31, 2017 were $222.8 million compared to $197.6 million in the same period in 2016, representing an increase of $25.3 million or 12.8%, due to the factors discussed below.

Sales for the Building Materials Distribution segment increased by $9.4 million or 4.8%, largely due to the Company's continuing focus on its product mix strategies and target customer base, as well as the results from the TFI Acquisition.

The remainder of the increase was attributable to the Company's new Forestry segment. In the fourth quarter of 2016, sales within the Forestry segment were negatively 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. These adverse weather conditions continued to negatively impact the Forestry segment through the first several weeks of the first quarter of 2017. Once these conditions abated in the latter part of the first quarter, the Forestry operations returned to normal productivity.

Outside of the ordinary seasonal factors, the Building Materials Distribution segment operations have not been impacted by the adverse weather experienced earlier in the first quarter by the Forestry segment.

The seasonally adjusted annual housing start rate for Canada in the quarter was approximately 13.3% higher than the same period last year[1]. The Company's sales in the quarter were made up of 60% of construction materials, compared to 64% during the same quarter last year, with the remaining balance of sales resulting from specialty and allied products of 33% (2016 - 36%) and forestry and other of 7% (2016 - nil).

Gross margin dollars increased to $27.0 million in the quarter compared to $23.2 million in the same quarter of 2016, an increase of $3.8 million or 16.4%. Gross margin percentage was 12.1% in the quarter, an increase from the 11.7% achieved in the same quarter of 2016. This increase in margin percentage and dollars is mainly due to the results from the 2016 Acquisitions and a change in the Company's sales mix within general categories of construction materials and specialty and allied products.

Expenses

Expenses for the quarter ended March 31, 2017 were $23.0 million as compared to $20.0 million for the same quarter in 2016, an increase of $3.0 million or 15.0%, due to the factors discussed below. As a percentage of sales, expenses were 10.3% in the quarter, compared to 10.1% during the same quarter in 2016.

Distribution, selling and administration expense increased by $1.5 million, or 8.5%, to $19.2 million from $17.7 million in the first quarter of 2016. The increase is mainly due to the results from the 2016 Acquisitions. As a percentage of sales, these expenses were 8.6% in the quarter, compared to 9.0% in the same quarter in 2016.

Depreciation and amortization expenses increased by $1.5 million, or 63.1%, from $2.4 million to $3.9 million in the first quarter of 2017. Depreciation and amortization expense for the Building Materials Distribution segment decreased by $390,000, mainly due to certain equipment becoming fully depreciated, offset by depreciation and amortization for the new Forestry segment of $1.9 million.

Operating Earnings

For the quarter ended March 31, 2017, operating earnings were $4.0 million compared to $3.2 million in the same quarter of 2016, an increase of $797,000 or 24.9%, due to the foregoing factors.

Finance Costs

Finance costs for the first quarter of 2017 were $1.9 million, a slight increase from $1.8 million in the same period in 2016. Finance costs for the Building Materials Distribution segment were $441,000 lower than the same quarter in 2016, mainly due to the aforementioned 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.

Fair Value Adjustments

Within the new Forestry segment, fair value adjustments with respect to timber during the first quarter of 2017 resulted in an income of $363,000, compared to $nil in 2016, due to the results from the Jemi Acquisition.

Earnings before Income Taxes

For the quarter ended March 31, 2017, earnings before income taxes were $2.4 million, compared to $1.3 million in the same quarter of 2016, an increase of $1.1 million or 84.6% due to the foregoing factors.

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

Provision for Income Taxes

For the quarter ended March 31, 2017, provision for income taxes was $749,000 compared to $363,000 in the same quarter of 2016. This amount is a function of the pre-tax earnings generated in the quarter.

Net Earnings

As a result of the foregoing factors, net earnings for the quarter ended March 31, 2017 were $1.7 million compared to $912,000 in the same quarter of 2016, an increase in net earnings of $756,000 or 82.9%, due to the foregoing factors impacting the overall financial performance of the Company.

Summary of Quarterly Results

For the Quarters ended:

	2017	2016				2015		
($ millions, per share in dollars)	**31 - Mar**	**31 - Dec**	**30 - Sep**	**30 - Jun**	**31 - Mar**	**31 - Dec**	**30 - Sep**	**30 - Jun**
Sales	**222.8**	214.4	276.3	290.1	197.6	193.5	247.4	224.5
EBITDA	**8.2**	6.0	17.0	50.7	5.4	5.1	12.6	12.2
Adjusted EBITDA[(1)]	**8.2**	8.3	17.8	19.5	5.4	5.1	13.9	12.2
Earnings before income taxes[(2)]	**2.4**	0.5	10.4	45.2	1.3	0.8	8.9	8.8
Net earnings[(2)]	**1.7**	0.4	7.3	41.2	0.9	0.6	6.6	6.1
Net earnings before non-recurring items[(3)]	**1.7**	2.6	8.1	9.8	0.9	0.7	7.9	6.1
Net earnings per share [(4)]	**0.03**	0.01	0.12	0.88	0.02	0.01	0.16	0.21
Net earnings per share, before non-recurring items[(3)(4)]	**0.03**	0.04	0.14	0.21	0.02	0.01	0.16	0.21
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 Jemi Acquisition.
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 reduce such gain by $1.5 million, from $32.2 million to $30.6 million.
3. Net earnings before directly attributable acquisition related costs and gain on bargain purchase relating to the Jemi Acquisition.
4. Weighted average basic shares outstanding in the period.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA for the quarter ended March 31, 2017 were $8.2 million compared to $5.4 million in the same quarter of 2016, an increase of $2.8 million or 51.5%. The increase in EBITDA and Adjusted EBITDA relates primarily to the results from the 2016 Acquisitions as well as the aforementioned improvements in the quarter.

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

	Three months ended March 31,	
(in thousands of dollars)	**2017**	**2016**
Net earnings	**$1,668**	$ 912
Provision for income taxes	**749**	363
Finance costs	**1,899**	1,753
Depreciation of property, plant and equipment	**3,113**	1,603
Amortization of intangible assets	**744**	762
EBITDA and Adjusted EBITDA	**$8,173**	$5,393

Financial Condition

Liquidity and Capital Resources

During the quarter ended March 31, 2017, the Company generated $5.7 million in cash, versus consuming $4.6 million in the same period of 2016. The following activities during the period were responsible for the change in cash.

Operating activities generated $2.9 million in cash, before non-cash working capital changes, compared to consuming $246,000 in the same quarter of 2016. This increase in cash generated is primarily the result of the aforementioned improved EBITDA in the first quarter of 2017 compared to the same period in 2016.

Income taxes paid were $2.1 million, mainly attributable to 2016 taxes payable, compared to $4.3 million during the same period in 2016, relating to payment of 2015 taxes payable. Cash interest on the revolving loan facility and bank indebtedness in the first quarter of 2017 was $1.5 million compared to $878,000 in the same period in 2016, mainly due to Jemi's activities.

During the quarter ended March 31, 2017, changes in non-cash working capital items used $60.9 million in cash, compared to $66.7 million in the same period in 2016.

The Company generally experiences higher levels of non-cash working capital during the first and second quarters, and a decrease in non-cash working capital during the third and fourth quarters, due to ordinary seasonal factors relating to the Company's business cycle. The change in working capital in the quarter was comprised of an increase in trade and other receivables of $61.2 million, an increase in inventory of $34.0 million, a decrease in prepaid expenses of $305,000, and an increase in trade and other payables and income taxes payable of $34.0 million.

In the quarter ended March 31, 2017, financing activities generated $65.1 million of cash, compared to $62.9 million in the same period in 2016. Shares issued during the quarter generated $158,000 of cash compared to $106,000 in 2016. Repayment of non-revolving term loan and equipment term loans consumed $667,000 and $989,000, respectively, compared to $nil in 2016, due to Jemi's activities. Payment of finance lease liabilities consumed $194,000 of cash compared to $85,000 in 2016.

Dividends paid to shareholders amounted to $8.6 million, compared to $5.9 million in the same period in 2016. The increase in dividends paid was due to the aforementioned 2016 Public Offering, 2016 Private Placement and shares issued pursuant to the Jemi Acquisition resulting in a higher weighted average number of shares. Interest paid on convertible debentures in the quarter was $nil, compared to $639,000 the same period in 2016 due to the aforementioned early redemption of the convertible debentures. The revolving loan facility increased by $75.3 million, compared to $69.4 million in the same quarter in 2016. The Company was not in breach of any of its covenants during the three months ended March 31, 2017.

Investing activities consumed $1.3 million of cash, compared to $517,000 in 2016. Cash purchases of property, plant and equipment relating to the Building Materials Distribution segment were $427,000, compared to $517,000 in 2016. Cash purchases of property, plant and equipment relating to the Forestry segment were $1.1 million, compared to $nil in 2016. Proceeds from disposition of property, plant and equipment were $200,000, compared to $nil, due to Jemi's activities.

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

Total Assets

Total assets of the Company were $661.7 million as at March 31, 2017, versus $569.4 million as at December 31, 2016, an increase of $92.3 million. Current assets increased by $95.1 million, mainly due to seasonal increases of $61.2 million in trade and other receivables and $34.0 million in inventory, and an increase in income taxes receivable of $160,000, partially offset by a decrease in prepaid expenses of $305,000.

Long-term assets within the Building Materials Distribution segment were $174.6 million as March 31, 2017, compared to $175.8 million as at December 31, 2016, a decrease of $1.2 million, and long-term assets within the Forestry segment were $132.9 million as at March 31, 2017, compared to $134.4 million as at December 31, 2016, a decrease of $1.5 million. These decreases were both mainly due to depreciation of certain property, plant and equipment and amortization of intangible assets.

Total Liabilities

Total liabilities were $384.6 million as at March 31, 2017, versus $285.0 million at December 31, 2016, an increase of $99.6 million. This increase was mainly as a result of a seasonal increase in trade and other payables of $32.3 million, and an increase in the revolving loan facility of $75.4 million in order to finance the working capital requirements of the Company, partially offset by decreases in bank indebtedness and income taxes payable.

Outstanding Share Data

As at May 9, 2017, there were 67,782,689 Common Shares issued and outstanding.

Dividends

During the quarter ended March 31, 2017, the Company declared a dividend to shareholders of $0.14 per share, resulting in aggregate dividends of $8.6 million. The dividend was declared on March 15, 2017, to shareholders of record on March 31, 2017, and was accrued at March 31, 2017 and paid on April 14, 2017.

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

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 $806,000 in the quarter ended March 31, 2017, compared to $805,000 in the same quarter in 2016. The minimum payments under the terms of these leases are as follows: $2.4 million for the remainder of 2017, $3.2 million in 2018, $2.9 million in 2019, $1.5 million in 2020, $810,000 in 2021 and $1.1 million thereafter.

During the quarter ended March 31, 2017, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of $135,000 (2016 - $120,000) by a company owned by Rob Doman. As at March 31, 2017, payables to this related party were $532,000 (December 31, 2016 - $532,000). Additionally, fees of $290,000 (2016 - $237,000) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman. As at March 31, 2017, payables to this related party were $47,000 (December 31, 2016 - $48,000).

During the quarter the Company purchased $873,000 (2016 - $1.1 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 March 31, 2017, payables to this related party were $237,000 (December 31, 2016 - $76,000).

During the quarter, there were no subscriptions received from insiders of the Company (2016 - $14.6 million). During the first quarter of 2016, subscription receipts from Amar Doman totaled $6.0 million, from Rob Doman totaled $1.9 million and from several members of key management personnel totaled $567,000.

Additional information regarding these related party transactions is contained in Note 22 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended March 31, 2017 and 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 prior acquisitions. During the quarter ended March 31, 2017, such lease payments totaled $354,000 (2016 - $257,000), and trucking services and other related services paid totaled $102,000 (2016 - $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 March 31, 2017, the Company's contractual obligations within the periods indicated:

Contractual Obligations (in thousands of dollars)	Total	Remainder of 2017	2018-2019	2020-2021	Thereafter
Revolving loan facility(1)	227,640	3,634	9,690	214,316	-
Non-revolving term loan(2)	43,991	3,055	7,874	33,062	-
Promissory notes(3)	7,300	2,734	4,566	-	-
Equipment term loans(4)	15,937	2,929	7,433	5,575	-
Earn-out commitment(5)	2,100	-	-	2,100	-
Finance leases(6)	1,541	361	771	262	147
Operating leases(6)	69,907	11,646	27,220	15,627	15,414
Total contractual obligations	368,416	24,359	57,554	270,942	15,561

1. Interest has been calculated based on the average borrowing under the facility for the quarter ended March 31, 2017 utilizing the interest rate payable under the terms of the facility at March 31, 2017. 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.
3. Two promissory notes: (1) annual principal payments of $1.9 million on July 2, with simple interest payable as a lump sum on July 2, 2018 maturity date; (2) with annual principal payments of $802,000 on August 31, with simple interest payable semi-annually, and maturing on August 31, 2019.
4. Monthly principal repayments are amortized over 5 years beginning August 1, 2016, with interest payable monthly.
5. Additional information is contained in Note 16 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ending March 31, 2017.
6. Additional information is contained in Note 23 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ending March 31, 2017.

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 (2016 - $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 March 31, 2017 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 harvesting, 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

The significant accounting policies as disclosed in Note 3 of the 2016 Consolidated Financial Statements have been applied consistently in the preparation of these financial statements, except for amendments to IAS 7, *Statement of Cash Flows*, and IAS 12, *Income Taxes*.

Amendment IAS 7, *Statement of Cash Flows*, clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendment to IAS 12, *Income Taxes,* 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.

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

Disclosure Controls and Internal Controls over Financial Reporting

Disclosure Controls and Procedures

In accordance with the requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, the Company's management, including the Chief Executive Officer and Chief Financial Officer, acknowledges responsibility for the design and operation of disclosure controls and procedures and internal control over financial reporting, and the requirement to evaluate the effectiveness of these controls on an annual basis.

Limitations on Scope of Design

The scope of design over disclosure controls and internal controls over financial reporting has been limited to exclude controls, 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)	**Three months ended March 31, 2017**
Revenue	16,040
Net earnings	299

(in thousands of dollars)	**March 31, 2017**
Current assets	21,463
Long-term assets	132,891
Current liabilities	14,964
Long-term liabilities	59,365

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.

Changes in Internal Control over Financial Reporting

There were no material changes in the design of the Company's internal controls over financial reporting during the quarter ended March 31, 2017 that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risks and Uncertainties

The Company is subject to normal business risks associated with similar firms operating within the building materials industry in Canada, which are described in greater detail in the Company's AIF dated March 30, 2017, the Company's MD&A contained in the 2016 annual consolidated financial report 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 2.6% in 2017, before slowing to 1.9% in 2018 and 1.8% in 2019, 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, including in respect of its property, plant and equipment.

According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for Canadian housing starts was 224,624 in the first quarter of 2017, compared to 198,249 in the same period in 2016. 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 and the new Ontario 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 1,215,000 units in the first quarter of 2017, and, according to the Federal Home Mortgage Corporation (Freddie Mac) Economic & Housing Research Group, are estimated to continue the current trend and reach 1,267,500 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.

Britain's recent decision to exit the European Union may also have an adverse effect on the value of the Canadian dollar, interest rates and global economic activity, and accordingly impact the Company's operations in Canada and the US. Pending foreign elections impacting European Union membership may further impact these variables.

Sawlog prices have experienced an upward trend in pricing largely attributable to ongoing log supply constraints, particularly in British Columbia. Although supply constraints are likely to continue, there can be no assurance these pricing trends will be sustainable, resulting in potential adverse impacts on the Company's forestry segment.

The Softwood Lumber Agreement with the US expired in October 2015 and has not been renewed, despite discussions between Canadian and US federal governments, and a twelve month stand still period expired in October, 2016. The US Department of Commerce is conducting antidumping and countervailing duty investigations pursuant to a petition filed in November 2016 and announced an anticipated 20% countervailing duty in the second quarter of 2017 and its preliminary antidumping duty determination is expected within the second quarter. In certain circumstances, these duties may be applied retroactively. Accordingly, there can be no certainty about the impact if the agreement is not renewed, or renewed with new or other terms not in the expired agreement, or with respect to duties or tariffs in the interim periods.

Management will continue to keep a close eye on the Company's legacy customers, those relating to the Jemi Acquisition, as well as its operations and potential seasonal weather impacts, and continue to carefully manage the Company's costs in line with their activity so that the Company can be appropriately positioned to participate in a continuing economic recovery and be ready to work hard to translate revenue gains into higher earnings.

CORPORATE INFORMATION

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