



CanWel Building Materials Group Ltd.

FIRST QUARTER 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

CanWel Building Materials Group Ltd.

Management's Discussion and Analysis

May 8, 2018

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, 2018 relative to the same quarter of 2017. 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, 2017 (the "2017 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, 2018 (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 inverse or negative of these terms or other similar terminology. Forward-looking information in the Interim Financial Report includes, without limitation, statements regarding funding requirements or dividends. 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 29, 2018 ("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, product liability risk, environmental risks, volatility of commodity prices, inventory risks, customer and vendor risks, contract performance risk, availability of credit, credit risks, performance bond risk, 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. 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 natural resources; 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. 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, in the Company's other public filings on SEDAR.

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 8, 2018, 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, asset impairment losses (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 bonding obligations, and after 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 regionally in the Western United States and Hawaii. 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. The Company's operations also includes 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 through CanWel Fibre Corp. ("CFC). On October 2, 2017, the Company acquired Honsador Building Products group of companies ("Honsador"), as described below, with an incumbent position in the State of Hawaii, further expanding its presence in the US building distribution and treating markets.

Purchase of Honsador Building Products Group

On October 2, 2017, the Company completed the acquisition of all issued and outstanding shares of Honsador Acquisition Corp., the parent company of the Honsador group of companies (the "Honsador Acquisition"), a leading distributor of building products and electrical supplies, and the largest producer of pressure-treated wood in Hawaii. The Honsador Acquisition is expected to expand the Company's presence in the United States building distribution and treating markets, and provide an incumbent position in the State of Hawaii.

Total purchase consideration comprised of US\$81.3 million, including certain preliminary post-closing adjustments. The foreign exchange rate used to translate cash purchase consideration and fair value of assets acquired and liabilities assumed was based on the exchange rate published by the Bank of Canada as at the date of the Honsador Acquisition.

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, 2018 and Note 7 of the 2017 Consolidated Financial Statements.

Issuance of Shares

2017 Private Placement

On October 2, 2017, and concurrent with the Honsador Acquisition, the Company completed a private placement of 9,832,500 subscription receipts at a price of \$5.85 each, resulting in gross proceeds of \$57.5 million (the "2017 Private Placement"), including subscription receipts to certain insiders⁽¹⁾ for proceeds of \$5.6 million. The 2017 Private Placement is pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and included National Bank Financial Inc., Canaccord Genuity Corp., Raymond James Ltd., Cormark Securities Inc. and Haywood Securities Inc.

Cash proceeds raised from the 2017 Private Placement, net of issuance costs, were used as partial consideration for the Honsador Acquisition. Upon the closing of the Honsador Acquisition, the subscription receipts issued were converted into a total of 9,832,500 common shares in accordance with their terms.

2017 Public Offering

On April 18, 2017, the Company completed a 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 Public Offering"). The 2017 Public Offering was pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and included National Bank Financial Inc., Canaccord Genuity Corp., Haywood Securities Inc., Raymond James Ltd., and Cormark Securities Inc.

Cash proceeds raised from the 2017 Public Offering, net of issuance costs, were used for reducing the Company's existing revolving loan facility, which was drawn on October 2, 2017, as partial consideration for the Honsador Acquisition, and for general corporate purposes.

Annuity Contract

During the fourth quarter of 2017, the Company purchased an annuity for \$36.0 million through its defined benefit pension plan in order to mitigate its exposure to potential future volatility fluctuations in the related pension obligations and plan assets. Upon closing of the annuity purchase, non-cash actuarial based transaction costs of \$4.4 million were recognized in other comprehensive income (loss), reflecting the difference in the annuity rate (which is comparable to solvency rates) as compared to the discount rate used to value the pension obligations on a going concern basis. Further information regarding the Company's pension plan and this transaction is included under the headings "Employee Future Benefits" and "Significant Accounting Judgments and Estimates", and Note 23 of the 2017 Consolidated Financial Statements.

¹ For further details, see www.sedi.ca.

Foreign Exchange Forward Contracts

In order to reduce exposure to fluctuations in the United States - Canada dollar exchange rate with respect to the Honsador Acquisition, the Company entered into various foreign exchange contracts: to purchase US\$40.0 million at an exchange rate of 1.2402, US\$20.0 million at an exchange rate of 1.2213, US\$10.0 million at an exchange rate of 1.2154, and US\$10.0 million at an exchange rate of 1.2437. Realized gains totaling \$1.4 million were recorded in Other income in the 2017 Consolidated Financial Statements. Upon the closing of the Honsador Acquisition, the Company used the total purchased funds of US\$80.0 million as partial consideration for the acquisition.

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, 2018 and March 31, 2017

Overall Performance

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

| | Three months ended March 31, 2018 | | | | Three months ended March 31, 2017 | | | |
|--|-----------------------------------|----------------|---|--------------------|-----------------------------------|----------------|---|--------------------|
| | Distribution \$ | Forestry \$ | Adjustments and eliminations ⁽¹⁾ \$ | Consolidated \$ | Distribution \$ | Forestry \$ | Adjustments and eliminations ⁽¹⁾ \$ | Consolidated \$ |
| Revenue | | | | | | | | |
| External customers | 281,313 | 13,655 | - | 294,968 | 206,950 | 15,896 | - | 222,846 |
| Inter-segment | - | 306 | (306) | - | - | 144 | (144) | - |
| | 281,313 | 13,961 | (306) | 294,968 | 206,950 | 16,040 | (144) | 222,846 |
| Specified income (expenses) | | | | | | | | |
| Depreciation and amortization | (3,221) | (1,119) | - | (4,340) | (1,975) | (1,882) | - | (3,857) |
| Finance costs | (1,804) | (623) | - | (2,427) | (1,312) | (587) | - | (1,899) |
| Fair value adjustments | - | 6 | - | 6 | - | 363 | - | 363 |
| Net earnings | 6,066 | 427 | - | 6,493 | 1,369 | 299 | - | 1,668 |

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

Sales and Gross Margin

Sales for the quarter ended March 31, 2018 were \$295.0 million compared to \$222.8 million in the same period in 2017, representing an increase of \$72.1 million or 32.4%, due to the factors discussed below.

Sales for the Distribution segment increased by \$74.4 million or 35.9%, largely due to the inclusion of the results from the Honsador Acquisition, an upward trend in construction material pricing, and the Company's continuing focus on its product mix strategies and target customer base.

Sales for the Forestry segment decreased by \$2.1 million or 13.0%. The decrease in sales relative to the same quarter of 2017 is largely due to the closure of certain non-core operations which were not profitable, and partially offset by an increase in sales due to more favorable weather conditions during the first quarter of 2018. The comparative first quarter of 2017 was negatively affected by adverse weather conditions, resulting in decreased harvest and customer delivery levels.

The seasonally adjusted annual housing start rate for the quarter was approximately 4% higher than the same period last year⁽¹⁾. The Company's sales in the quarter were made up of 59% of construction materials, compared to 60% during the same quarter last year, with the remaining balance of sales resulting from specialty and allied products of 33% (2017 - 33%) and forestry and other of 8% (2017 - 7%).

Gross margin dollars increased to \$45.7 million in the quarter compared to \$27.3 million in the same quarter of 2017, an increase of \$18.4 million or 67.4%. Gross margin percentage was 15.5% in the quarter, an increase from the 12.3% achieved in the same quarter of 2017. This increase in margin dollars and margin percentage is mainly due to positive contributions from the Honsador Acquisition, as well as the aforementioned upward trend in construction material pricing.

Expenses

Expenses for the quarter ended March 31, 2018 were \$34.4 million as compared to \$23.0 million for the same quarter in 2017, an increase of \$11.4 million or 49.6%, due to the factors discussed below. As a percentage of sales, expenses were 11.7% in the quarter, compared to 10.3% during the same quarter in 2017.

Distribution, selling and administration expenses increased by \$10.9 million, or 56.8%, to \$30.1 million in the first quarter of 2018, from \$19.2 million in the same period of 2017. The increase is primarily due to additional expenses relating to the Honsador Acquisition operations. As a percentage of sales, these expenses were 10.2% in the quarter, compared to 8.6% in the same quarter in 2017.

Depreciation and amortization expenses increased by \$483,000, or 12.5%, from \$3.9 million to \$4.3 million. Depreciation and amortization expense for the Distribution segment increased by \$1.2 million or 63.1%, mainly resulting from depreciation on the additional assets related to the Honsador Acquisition. Depreciation and amortization expense for the Forestry segment decreased by \$763,000 or 40.5% mainly due to the disposal of certain equipment during 2017.

Operating Earnings

For the quarter ended March 31, 2018, operating earnings were \$11.2 million compared to \$4.3 million in the same quarter of 2017, an increase of \$6.9 million or 160.5%, due to the foregoing factors.

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

Finance Costs

Finance costs for the first quarter of 2018 were \$2.4 million, compared to \$1.9 million for the same quarter in 2017, an increase of \$528,000 or 27.8%. Finance costs for the Distribution segment were \$492,000 or 37.5% higher than the same quarter in 2017, mainly due to higher average borrowings on the Company's revolving loan facility. Finance costs for the Forestry segment remained largely in line with the first quarter of 2017, with only a slight increase of \$36,000 or 6.1%.

Earnings before Income Taxes

For the quarter ended March 31, 2018, earnings before income taxes were \$8.8 million, compared to \$2.4 million in the same quarter of 2017, an increase of \$6.4 million or 266.7% due to the foregoing factors.

Provision for Income Taxes

For the quarter ended March 31, 2018, provision for income taxes was \$2.3 million compared to \$749,000 in the same quarter of 2017, an increase of \$1.6 million or 208.9%. This amount is a function of the pre-tax earnings generated in the quarter and the expected taxes payable on these earnings.

Net Earnings

As a result of the foregoing factors, net earnings for the quarter ended March 31, 2018 were \$6.5 million compared to \$1.7 million in the same quarter of 2017, an increase of \$4.8 million or 289.3%, due to the foregoing factors impacting the overall financial performance of the Company.

Summary of Quarterly Results

For the Quarters ended:

| (\$ and shares millions, per share in dollars) | 2018 | | 2017 | | | 2016 | | |
|--|--------------|----------|----------|----------|----------|----------|----------|----------|
| | 31 - Mar | 31 - Dec | 30 - Sep | 30 - Jun | 31 - Mar | 31 - Dec | 30 - Sep | 30 - Jun |
| Sales | 295.0 | 276.2 | 316.8 | 320.0 | 222.8 | 214.4 | 276.1 | 290.1 |
| EBITDA ⁽¹⁾ | 15.6 | 11.5 | 21.3 | 18.9 | 8.2 | 10.6 | 16.0 | 40.7 |
| Adjusted EBITDA ⁽²⁾ | 15.6 | 13.4 | 21.7 | 20.5 | 8.2 | 9.3 | 16.8 | 19.5 |
| Adjusted EBITDA % of sales ⁽²⁾ | 5.3 | 4.9 | 6.8 | 6.4 | 3.7 | 4.4 | 6.1 | 6.7 |
| Earnings before income taxes ⁽¹⁾ | 8.8 | 3.5 | 16.0 | 13.8 | 2.4 | 5.6 | 9.9 | 35.2 |
| Net earnings ⁽¹⁾ | 6.5 | 5.8 | 11.6 | 9.8 | 1.7 | 5.1 | 6.9 | 31.2 |
| Net earnings before non-recurring items ⁽¹⁾⁽³⁾ | 6.5 | 7.1 | 12.0 | 11.0 | 1.7 | 3.7 | 7.7 | 9.7 |
| Net earnings per share ⁽⁴⁾ | 0.08 | 0.07 | 0.17 | 0.15 | 0.03 | 0.08 | 0.12 | 0.66 |
| Net earnings per share, before non-recurring items ⁽³⁾⁽⁴⁾ | 0.08 | 0.09 | 0.17 | 0.17 | 0.03 | 0.06 | 0.14 | 0.21 |
| Dividends declared per share | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 |
| Outstanding shares ⁽⁴⁾ | 77.7 | 77.4 | 67.8 | 66.5 | 61.2 | 61.2 | 59.6 | 47.0 |

1. Revised, as applicable, to reflect the measurement period finalized gain on bargain purchase relating to the CFC acquisition, and the resulting adjustments to depreciation of property, plant and equipment and the corresponding provision for income tax in the third and fourth quarters of 2016.
2. Adjusted EBITDA refers to EBITDA before the following non-recurring items: gain on bargain purchase relating to the CFC acquisition in 2016, restructuring costs and directly attributable acquisition related costs.
3. Net earnings before gain on bargain purchase relating to the CFC acquisition in 2016, restructuring costs and directly attributable acquisition related costs.
4. Weighted average basic shares outstanding in the period.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA for the quarter ended March 31, 2018 were \$15.6 million compared to \$8.2 million in the same quarter of 2017, an increase of \$7.4 million or 90.6%. The increase in EBITDA and Adjusted EBITDA relates largely to the aforementioned improvements in the quarter, as well as the results from the Honsador Acquisition.

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

| (in thousands of dollars) | Three months ended March 31, | |
|---|------------------------------|----------|
| | 2018 | 2017 |
| Net earnings | \$ 6,493 | \$ 1,668 |
| Provision for income taxes | 2,314 | 749 |
| Finance costs | 2,427 | 1,899 |
| Depreciation of property, plant and equipment | 2,691 | 3,113 |
| Amortization of intangible assets | 1,649 | 744 |
| EBITDA and Adjusted EBITDA | \$15,574 | \$ 8,173 |

Financial Condition

Liquidity and Capital Resources

During the quarter ended March 31, 2018, the Company consumed \$13.3 million in cash, versus generating \$5.7 million in the same period of 2017. The following activities during the period were responsible for the change in cash.

Operating activities generated \$10.1 million in cash, before non-cash working capital changes, compared to \$3.7 million in the same quarter of 2017. This increase in cash generated is primarily the result of the aforementioned year-over-year increase in net earnings.

During the quarter ended March 31, 2018, changes in non-cash working capital items used \$116.8 million in cash, compared to \$61.8 million in the same period in 2017. The year-over-year \$55.0 million variance in cash consumed by changes in non-cash working capital is driven by this year's increased business activity levels in the Company's legacy business units and recently acquired entities, as well as the aforementioned upward trend in construction materials pricing.

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 \$71.6 million, an increase in inventory of \$52.3 million, an increase in prepaid expenses and deposits of \$617,000, and an increase in trade and other payables of \$7.7 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In the quarter ended March 31, 2018, financing activities generated \$95.3 million of cash, compared to \$65.1 million in the same period in 2017. Shares issued during the quarter generated \$210,000 of cash compared to \$158,000 in 2017. Scheduled repayments related to the non-revolving term loan consumed \$667,000, consistent with 2017. Payment of finance lease liabilities consumed \$326,000 of cash compared to \$194,000 in 2017. Funds drawn on the equipment line amounted to \$740,000 compared to \$nil in 2017, in order to finance certain equipment purchases, and scheduled repayments of equipment term loan consumed \$966,000 compared to \$989,000 in 2017.

Dividends paid to shareholders amounted to \$10.9 million, compared to \$8.6 million in the same period in 2017. The increase in dividends paid was due to the aforementioned 2017 Private Placement and 2017 Public Offering resulting in a higher weighted average number of shares in the current period.

The revolving loan facility increased by \$107.3 million, compared to \$75.3 million in the same quarter in 2017. The Company was not in breach of any of its covenants during the three months ended March 31, 2018.

Investing activities consumed \$1.9 million of cash, compared to \$1.3 million in 2017. Cash purchases of property, plant and equipment relating to the Distribution segment were \$732,000, compared to \$427,000 in 2017. Cash purchases of property, plant and equipment relating to the Forestry segment were \$1.1 million, consistent with 2017. Proceeds from disposition of property, plant and equipment were \$28,000, compared to \$200,000 in the comparative quarter.

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 \$846.6 million as at March 31, 2018, versus \$723.5 million as at December 31, 2017, an increase of \$123.1 million. Current assets increased by \$120.7 million, mainly due to seasonal increases of \$72.4 million in trade and other receivables, \$54.5 million in inventory, with the remainder in prepaid expenses and deposits, partially offset by a decrease in cash of \$6.7 million.

Long-term assets within the Distribution segment were \$249.4 million as March 31, 2018, compared to \$248.7 million as at December 31, 2017, an increase of \$724,000, and long-term assets within the Forestry segment were \$133.8 million as at March 31, 2018, compared to \$132.0 million as at December 31, 2017, an increase of \$1.8 million. These increases were mainly due to purchases of property, plant and equipment in the normal course of operations, partially offset by depreciation.

Total Liabilities

Total liabilities were \$485.4 million as at March 31, 2018, versus \$363.3 million at December 31, 2017, an increase of \$122.1 million. This increase was mainly as a result of a seasonal increase in trade and other payables of \$7.5 million, and increases in the revolving loan facility of \$107.9 million and bank indebtedness of \$6.2 million in order to finance the working capital requirements of the Company.

Outstanding Share Data

As at May 8, 2018, there were 77,693,735 common shares issued and outstanding.

Dividends

During the quarter ended March 31, 2018, the Company declared a dividend to shareholders of \$0.14 per share, resulting in aggregate dividends of \$10.9 million. The dividend declared on March 15, 2018, to shareholders of record on March 29, 2018, was accrued at March 31, 2018 and paid on April 13, 2018.

Dividend Policy

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

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

Hedging

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

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

As at March 31, 2018 the Company held two outstanding foreign exchange contracts to purchase an aggregate of US\$967,000 at exchange rates ranging between 1.2258 and 1.2888 (December 31, 2017 - US\$1.9 million) for economic hedging purposes, and unrealized gains totaling \$62,000 (2017 - \$nil) were recognized in net earnings. When held by the Company, foreign currency and lumber derivative instruments are traded through well-established financial services firms with a long history of providing trading, exchange and clearing services for commodities and currencies. As trading activities are closely monitored 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, 2018, consistent with the same quarter in 2017. The minimum payments under the terms of these leases are as follows: \$3.1 million for the remainder of 2018, \$3.5 million in 2019, \$2.4 million in 2020, \$2.1 million in 2021, \$1.6 million in 2022 and \$14.9 million thereafter.

During the quarter ended March 31, 2018, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of \$210,000 (2017 - \$135,000) by a company owned by Rob Doman. As at March 31, 2018, payables to this related party were \$206,000 (December 31, 2017 - \$133,000). Additionally, fees of \$222,000 (2017 - \$290,000) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman. As at March 31, 2018, payables to this related party were \$55,000 (December 31, 2017 - \$55,000).

MANAGEMENT'S DISCUSSION AND ANALYSIS

During the quarter the Company purchased \$1.1 million (2017 - \$873,000) 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, 2018, payables to this related party were \$548,000 (December 31, 2017 - \$99,000).

Additional information regarding these related party transactions is contained in Note 23 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended March 31, 2018 and Note 29 of the 2017 Consolidated Financial Statements.

In addition to the aforementioned related party transactions, certain subsidiaries of the Company had 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, 2018, such lease payments totaled \$nil (2017 - \$354,000), and trucking services and other related services paid totaled \$nil (2017 - \$102,000).

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, 2018, the Company's contractual obligations within the periods indicated:

| Contractual Obligations (in thousands of dollars) | Remainder | | | | |
|---|------------------|----------------|------------------|------------------|-------------------|
| | Total | of 2018 | 2019-2020 | 2021-2022 | Thereafter |
| Revolving loan facility ⁽¹⁾ | 293,429 | 5,431 | 14,482 | 273,516 | - |
| Non-revolving term loan ⁽²⁾ | 41,349 | 3,339 | 8,519 | 29,491 | - |
| Promissory notes ⁽³⁾ | 4,544 | 3,721 | 823 | - | - |
| Equipment term loan ⁽⁴⁾ | 11,282 | 2,607 | 6,612 | 2,063 | - |
| Equipment line ⁽⁵⁾ | 3,544 | 94 | 1,993 | 1,457 | - |
| Earn-out commitment ⁽⁶⁾ | 2,065 | - | - | 2,065 | - |
| Finance leases ⁽⁷⁾ | 5,387 | 1,207 | 2,334 | 1,341 | 505 |
| Operating leases ⁽⁷⁾ | 128,467 | 15,651 | 35,722 | 23,603 | 53,491 |
| Total contractual obligations | 490,067 | 32,050 | 70,485 | 333,536 | 53,996 |

- Interest has been calculated based on the average borrowing under the facility for the quarter ended March 31, 2018 utilizing the interest rate payable under the terms of the facility at March 31, 2018. This facility matures on July 10, 2021.
- Annual principal payments are amortized over 15 years beginning on December 31, 2017, with interest payable quarterly.
- 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.
- Monthly principal repayments are amortized over 5 years, with interest payable monthly.
- Monthly principal repayments amortized over 6 years, commencing on August 1, 2019, with maturity on July 1, 2025, with interest payable monthly.
- Additional information is contained in Note 17 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ending March 31, 2018.
- Additional information is contained in Note 24 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ending March 31, 2018.

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 as at March 31, 2018 (December 31, 2017 - \$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, 2018 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 after-tax cash flows. When the carrying amount of the cash-generating unit exceeds its fair value, the fair value of goodwill related to the cash-generating unit is reduced by the excess of this carrying value and recognized as an impairment loss.

Timber

At each reporting date, timber is valued at fair value less costs to sell with any change therein, including the impact of growth and harvest, recognized in net earnings for the period. Significant judgment is used in determining the fair value with reference to independent third party valuers and recent comparatives of standing timber sales, costs of sustainable forest management, log pricing and harvest volume assumptions, the discount rate used, and the resulting net present value of future cash flows for standing timber.

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.

i. 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.

ii. 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, the cost of which is based on its fair value less costs to sell, and forms a component of the carrying value of log inventory. Harvested timber is subsequently processed into logs and carried at the lower of cost or NRV. Significant judgment is used in determining the fair value of timber with reference to independent third party valuers 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) *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 2017 Consolidated Financial Statements have been applied consistently in the preparation of these financial statements, except as stated below.

IFRS 9 – Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* ("IFRS 9") replacing IAS 39, *Financial Instruments: Recognition and Measurement*. The adoption of IFRS 9 did not have a material impact on the Unaudited Interim Condensed Consolidated Financial Statements and did not result in any adjustments.

IFRS 15 - Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), replacing IAS 11, *Construction Contracts*, IAS 18, *Revenue*, as well as several revenue-related interpretations. The adoption of IFRS 15 did not have a material impact on the Unaudited Interim Condensed Consolidated Financial Statements and did not result in any adjustments. The adoption of this standard did; however, result in more detailed disclosure in the Company's financial statements related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Further information about changes to the Company's accounting policies resulting from the adoption of these new standards can be found in Note 3 to the Company's Unaudited Interim Condensed Consolidated Financial Statements for the three month period ended March 31, 2018.

New Accounting Pronouncements Issued but not yet Applied

The following is an overview of accounting changes the Company will be required to adopt in future periods.

IFRS 16 – Leases

In January 2016, the International Accounting Standards Board issued IFRS 16, *Leases* ("IFRS 16"), replacing IAS 17, *Leases*, and related interpretations. IFRS 16 sets out principles of recognition, measurement, presentation and disclosure of leases for both parties to a contract, the lessee and the lessor. IFRS 16 is effective January 1, 2019 and the Company does not intend to early adopt this standard.

The Company is evaluating the impact that this new standard will have and based upon work completed to date, we expect that IFRS 16 will have a significant impact on the Company's Statement of Financial Position, stemming from the recognition of new right-of-use assets and lease liabilities for leases with lease terms that are greater than twelve months which are currently accounted for as operating leases.

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 and operating effectiveness over disclosure controls and internal controls over financial reporting has been limited to exclude control, policies and procedures of Honsador, which was acquired on October 2, 2017, consistent with past Company practices. The summary financial information of Honsador is presented below.

| (in thousands of dollars) | Three months. ended March 31, 2018. |
|----------------------------------|--|
| Revenue | 42,406 |
| Net earnings | 506 |

| (in thousands of dollars) | March 31, 2018 |
|----------------------------------|-----------------------|
| Current assets | 71,759 |
| Long-term assets | 81,004 |
| Current liabilities | 36,712 |
| Long-term liabilities | 7,760 |

The scope limitation is in accordance with section 3.3(1)(b) of National Instrument 52-109, which allows an issuer to limit the assessment of 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, 2018 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 29, 2018, the Company's MD&A contained in the 2017 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. 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.

Outlook

The Canadian economy is forecast to grow by 2.0% in 2018, rising to 2.1% in 2019, before slowing to 1.8% in 2020, according to the most recent revised estimates published by the Bank of Canada ("BoC"). The BoC also reported that recent indicators have bolstered their confidence in their economic outlook, with inflation close to target and the economy operating close to capacity. Based on this improving outlook, the BoC raised its key short-term lending rate by 0.25% in January 2018 to 1.25%, which is the third such increase since July 2017.

According to the BoC, economic activity is estimated to have expanded by 1.3% in the first quarter of 2018 and is forecast to grow by 2.5% in the second quarter. This is expected to be driven by an increase in exports as the production growth of crude oil continues and the weather-related backlog of shipments of lumber and agricultural products subsides. Despite this optimism, the BoC stressed in recent remarks that uncertainty remains surrounding the future of the North American Free Trade Agreement (NAFTA) and is clouding the economic outlook.

The Company's focus in the near term remains to grow sales with its target customer base while continuing to optimize gross margins, integrate recent acquisitions and maintain tight controls over expenses, including those relating to the Honsador Acquisition. The Company is committed to enhancing its offering of specialty and allied products to the Canadian and United States markets. Management's focus on cash flow, primarily consisting of the management of inventory and trade receivables, remains paramount.

According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for Canadian housing starts in the first quarter of 2018 was 226,910 compared to 219,150 in the same period last year. CMHC forecasts annual housing starts for the years 2018 and 2019 to be in the range from 192,200 units to 203,800 units. Historically, strong housing starts have positively impacted the Company's business and the volume of building materials that it sells. The recent introduction of stricter federal mortgage rules, the introduction of British Columbia and Ontario foreign buyers' and speculation taxes, foreign exchange fluctuations and overall affordability issues, may affect the housing market, although any potential impact is not predictable.

US housing construction has experienced a strong start to 2018. According to the US Census Bureau, seasonally-adjusted housing starts reached 1,319,000 units in the first quarter of 2018 compared to 1,189,000 units in the same period last year. According to the Federal Home Mortgage Corporation (Freddie Mac) Economic & Housing Research Group, housing starts are estimated to continue the current trend and reach 1,295,000 units for 2018 and 1,395,000 for 2019. The US economy has been expanding at a robust pace and, according to the BoC, is expected to average about 2.8% over the 2018-2019 period.

Sawlog prices have experienced an upward trend in pricing largely attributable to ongoing log supply constraints, particularly in British Columbia, where the situation had been exacerbated by the 2017 wild fire activity. Prices are expected to remain strong in 2018 as the demand from the US continues to be high due to supply shortfalls and the expectations for an increase in US housing starts. There can be no assurance, however, these pricing trends will be sustainable, which may result in potential adverse impacts on the Company's forestry segment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Softwood Lumber Agreement with the US expired in October 2015 and as anticipated, the US Department of Commerce introduced both countervailing and anti-dumping duties on Canadian softwood lumber imports. The Company will continue to carefully manage its business to minimize any potential impacts of these trade dispute duties. The Company does not export softwood lumber from Canada to the US and the Company's US distribution operations sell wood products sourced in the US. Despite ongoing talks, there is no visibility as to the resolution of this trade dispute.

Management will continue to closely monitor the Company's operations, legacy customers, and potential seasonal weather impacts, as well as focus on operations relating to the Honsador Acquisition, so that the Company will be appropriately positioned to participate in a continuing economic recovery and be ready to work hard to translate revenue gains into higher earnings for the Company and its shareholders.



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