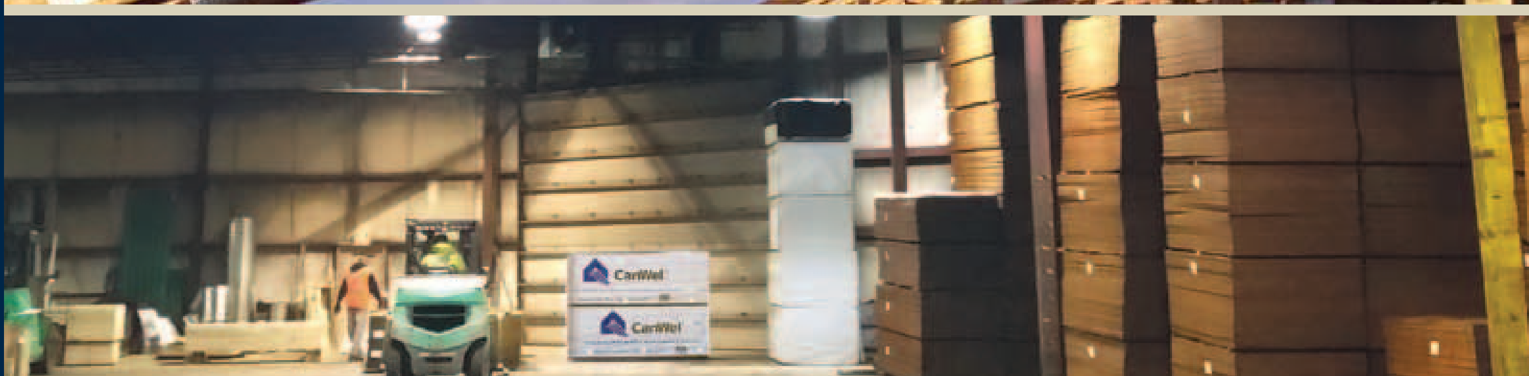
CanWel Building Materials Group Ltd.

Third Quarter 2019 • Management's Discussion and Analysis



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Management's Discussion and Analysis

November 7, 2019

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 September 30, 2019 relative to the same quarter of 2018. 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, 2018 (the "2018 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 September 30, 2019 (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, dividends, commodity pricing, interest rates, economic data and housing starts. 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, 2019 ("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 and operational risks related thereto, 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, 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 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 and senior unsecured notes, 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 the Company'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 November 7, 2019, unless otherwise indicated. All amounts are reported in Canadian dollars.

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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. 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 management believes it is a useful indicator of a Company's ability to meet debt service and capital expenditure requirements and because the Company interprets 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 management believes 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. The Company defines free cash flow as cash flow from operating activities excluding changes in non-cash working capital, and after payment of lease liabilities and maintenance of business capital expenditures.

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 include 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 the Honsador Building Products group of companies ("Honsador"), as described below, with an incumbent position in the State of Hawaii, further expanding the Company's presence in the US building distribution and treating markets. In 2018, the Company continued with its expansion and growth plans, completing the purchase of a partially constructed lumber pressure treating plant near Portland, Oregon on June 12, 2018 and a lumber pressure treating plant in Woodland, California on December 3, 2018. Growth has continued in 2019 and on April 1, 2019, the Company completed the acquisition of Lignum Forest Products LLP ("Lignum") (the "Lignum Acquisition"), a well-established brand in the lumber and forestry distribution market in Western Canada and the United States.

Purchase of Lignum Forest Products LLP

On April 1, 2019, the Company completed the acquisition of all issued and outstanding partnership interests of Lignum, a well-established brand in the lumber and forestry distribution market in Western Canada and the United States. This acquisition further solidifies and complements the Company's North American distribution capabilities and reach with existing and new customers.

Further information regarding this acquisition is contained in Note 4 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended September 30, 2019.

Purchase of Superior Forest Products, Inc. and Western Wood Treating, Inc.

On June 12, 2018, the Company acquired certain assets and the business of Superior Forest Products, Inc. (now doing business as Oregon Cascade Building Materials, Inc. "OCBM") (the "OCBM Acquisition"). Based in Junction City, Oregon, OCBM provides lumber pressure treating services for customers predominantly based in Oregon and Washington. The OCBM Acquisition is expected to complement the Company's existing treated lumber and specialty wood products business in the United States.

On December 3, 2018, the Company acquired certain assets and the business of Western Wood Treating, Inc. (now doing business as Woodland Wood Preservers, Ltd. "Woodland") (the "Woodland Acquisition"). Based in Woodland, California, Woodland specializes in pressure treated wood products. The Woodland Acquisition is expected to expand the Company's presence in the United States treating markets.

The foreign exchange rates used to translate purchase price consideration and fair values of assets acquired were based on the exchange rates as at the date of the above noted acquisitions (collectively, "2018 Acquisitions").

Further information regarding the preliminary purchase price allocation is contained in Note 7 of the 2018 Consolidated Financial Statements.

Temporary Increase of Revolving Loan Facility

On April 3, 2019, the maximum credit available under the Company's revolving loan facility was temporarily increased from $300.0 million to $325.0 million, with an additional $25.0 million accordion facility, for a total loan limit of $350.0 million, in order to address seasonal working capital requirements and the Company's ongoing growth and expansion. This loan limit was in effect for a period of 120 days commencing on April 3, 2019. All other material terms under the facility remained consistent with those described in Note 16 to the 2018 Consolidated Financial Statements.

Normal Course Issuer Bid

On November 22, 2018, the Company commenced a Normal Course Issuer Bid ("NCIB") with respect to its common shares. Under the terms of the NCIB, the Company may purchase for cancellation up to 6,085,605 of its common shares at market prices. Since commencement, the Company had repurchased and cancelled 142,200 of its common shares pursuant to the NCIB.

Offering of Senior Unsecured Notes

On October 9, 2018, the Company completed a bought deal prospectus offering of senior unsecured notes (the "Unsecured Notes") denominated in principal amounts of one thousand dollars, resulting in gross proceeds of $60.0 million. The offering was underwritten by a syndicate of underwriters led by National Bank Financial Inc., and including GMP Securities L.P., Canaccord Genuity Corp., CIBC World Markets Inc., Raymond James Ltd., RBC Dominion Securities Inc., and Haywood Securities Inc. The Unsecured Notes trade on the Toronto Stock Exchange under the symbol CWX.NT.A.

The Unsecured Notes accrue interest at the rate of 6.375% per annum, payable on a semi-annual basis, maturing on October 9, 2023. While the net proceeds of the offering were initially used for the repayment of bank debt, the Unsecured Notes provide the Company with readily available growth capital at an attractive locked-in cost, in an environment expected to have increasing rates over the term of the Unsecured Notes.

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.

Housing Starts

The seasonally adjusted annualized rate for overall Canadian housing starts at September 30, 2019 was 222,089, versus 197,394 in the comparative period of 2018, an increase of 12.5%. The seasonally adjusted annualized rate for single detached units, a more relevant indicator for the Company, amounted to 58,458 at September 30, 2019 versus 61,950 in the comparative period of 2018, a decrease of 5.6%[(1)].

The seasonally adjusted annualized rate for overall US housing starts at September 30, 2019 was 1,256,000 units versus 1,237,000 in the comparative period of 2018[(2)], an increase of 1.5%

Construction Materials Pricing

The following table provides average quarterly pricing for lumber, plywood and oriented strand board ("OSB")[(3)]:

	2019			2018				2017
(In Canadian $)	**30 - Sep**	**30 - Jun**	**31 - Mar**	**31 - Dec**	**30 - Sep**	**30 - Jun**	**31 - Mar**	**31 - Dec**
Lumber	**509**	480	513	481	697	788	685	640
Plywood	**452**	454	507	464	527	632	569	473
OSB	**258**	262	285	323	464	529	465	520

After experiencing approximately eighteen months of generally increasing pricing trends since the beginning of 2017, lumber, plywood and OSB prices peaked in June 2018, then experienced significant declines towards the end of 2018. Prices for all three construction materials categories generally continued to decline during the first half of 2019.

The Company generally prices its products in the competitive construction materials market so that the Company's profitability is based on cost plus value-added services such as wood pressure treating, distribution and other services provided. As a result, the Company's sales levels are impacted by the construction materials costs of its products.

The Company's gross margins are impacted by the relative **level** of construction materials pricing (such as whether prices are higher or lower compared to other periods), as well as the **trend** in pricing (such as whether the price is increasing or decreasing within a period). Depending on whether the product is sold at a fixed price or is tied to the current market, the impact of pricing **levels** and pricing **trends** will have differing effects on each category of product.

1. As reported by CMHC. For further information, see "Outlook".
2. As reported by the US Census Bureau.
3. Per thousand FBM, as reported by Natural Resources Canada.

Management employs mitigation strategies to minimize the potential impacts of future construction materials price volatility. These strategies include the use of vendor managed inventories, direct shipments from the manufacturer to the customer, and the Company's internal policy of matching inventory levels to maintain its high standard of customer service levels, minimizing excess inventory otherwise exposed to market fluctuations.

Results of Operations

Comparison of the Three Months Ended September 30, 2019 and September 30, 2018

Overall Performance

The following table shows the Company's segmented results for the quarters ended September 30:

	Three months ended September 30, 2019				Three months ended September 30, 2018[1]			
(in thousands of dollars)	Distribution $	Forestry $	Adjustments and eliminations[2] $	Consolidated $	Distribution $	Forestry $	Adjustments and eliminations[2] $	Consolidated $
Revenue								
External customers	361,959	11,244	-	**373,203**	337,459	12,727	-	350,186
Inter-segment	-	619	(619)	**-**	-	639	(639)	-
	361,959	11,863	(619)	**373,203**	337,459	13,366	(639)	350,186
Specified expenses (income)								
Depreciation and amortization	8,384	1,825	-	**10,209**	3,378	1,178	-	4,556
Finance costs	4,860	890	-	**5,750**	2,430	640	-	3,070
Fair value adjustments	-	374	-	**374**	-	-	-	-
Net earnings (loss)	7,703	(1,307)	-	**6,396**	6,806	1,683	-	8,489

1. Effective January 1, 2019, the Company adopted IFRS 16, *Leases*, with the ongoing impact of this standard included in the Company's results prospectively from that date. The Company's comparative 2018 results have not been restated. See "Changes in Accounting Standards" section in this MD&A.
2. Includes inter-segment eliminations and income and expenses that are not allocated to reportable business segments.

The Company adopted IFRS 16, *Leases* ("IFRS 16") effective January 1, 2019, and prior year comparative results have not been restated. The adoption of IFRS 16 resulted in the following estimated variances relative to the prior year non-restated comparative quarter:

	Increase (Decrease)		
(in thousands of dollars)	**Distribution $**	**Forestry $**	**Consolidated $**
Distribution, selling and administration expenses	(5,046)	(20)	(5,066)
EBITDA and Adjusted EBITDA	5,046	20	5,066
Amortization of right-of-use assets	5,111	259	5,370
Depreciation of property, plant and equipment	(97)	(63)	(160)
Finance costs	1,075	1	1,076
Net earnings before tax	(939)	(177)	(1,116)

Sales and Gross Margin

Sales for the three month period ended September 30, 2019 were $373.2 million versus $350.2 million in the comparative period in 2018, representing an increase of $23.0 million or 6.6%, due to the factors discussed below.

Sales for the Distribution segment increased by $24.5 million or 7.3%, largely due to the inclusion of the results from the Lignum Acquisition in 2019 and the 2018 Acquisitions, and the Company's continuing focus on its product mix strategies and target customer base. These improvements in the quarter were partially offset by the impact of construction materials pricing which generally continued on a downward trend until late in the quarter.

Sales for the Forestry segment decreased by $1.5 million or 11.2%. The decrease in sales relative to the same quarter of 2018 was largely driven by reduced demand for timber from local sawmills reflecting curtailments experienced across the industry.

The Company's sales by product group in the quarter were made up of 57% of construction materials, compared to 58% during the same quarter last year, with the remaining balance of sales resulting from specialty and allied products of 37% (2018 - 35%) and forestry and other of 6% (2018 - 7%).

Gross margin dollars increased to $52.3 million in the three month period versus $50.8 million in the comparative quarter of 2018, a increase of $1.5 million or 3.0%. Gross margin percentage was 14.0% in the quarter, a decrease from the 14.5% achieved in the same quarter of 2018. This increase in margin dollars is mainly attributable to the inclusion of the results from the Lignum Acquisition in 2019 and the 2018 Acquisitions.

Expenses

Expenses for the three month period ended September 30, 2019 were $37.2 million as compared to $35.2 million for the comparative quarter in 2018, an increase of $2.0 million or 5.7%, due to the factors discussed below. As a percentage of sales, expenses were 10.0% in the quarter, compared to 10.1% during the comparative quarter in 2018.

Distribution, selling and administration expenses decreased by $3.7 million, or 11.9%, to $27.0 million in the third quarter of 2019, from $30.7 million in the same period of 2018. Excluding the impact of the IFRS 16 adoption, distribution selling and administration expenses increased by $1.5 million or 5.0%, largely due to additional expenses relating to the Lignum Acquisition in 2019 and the 2018 Acquisitions' operations. As a percentage of sales, these expenses were 7.2% in the quarter, compared to 8.8% in the same quarter in 2018.

Depreciation and amortization expenses increased by $5.6 million, from $4.6 million to $10.2 million. Depreciation and amortization expenses for the Distribution segment increased by $5.0 million, largely due to the impact of the adoption of IFRS 16. Depreciation and amortization expense for the Forestry segment increased by $647,000.

Fair Value Adjustments

Fair value adjustments recognized for the quarter ended September 30, 2019 and the comparative period in 2018 relate to standing timber, which is carried at fair value less cost to sell, and is a function of estimated growth and harvest rates, costs of sustainable forest management, log pricing assumptions, timing of harvest and the discount rate used.

Operating Earnings

For the quarter ended September 30, 2019, operating earnings were $15.1 million compared to $15.6 million in the comparative period of 2018, a decrease of $474,000 or 3.3%, due to the foregoing factors.

Finance Costs

Finance costs for the third quarter of 2019 were $5.8 million, compared to $3.1 million for the same period in 2018, an increase of $2.7 million. Finance costs for the Distribution segment were $2.4 million higher than the same quarter in 2018, partly due to the impact of the adoption of IFRS 16, and partly due to higher average borrowings in order to finance the Company's working capital requirements and higher rates resulting from the Unsecured Notes. Finance costs for the Forestry segment remained largely in line with the third quarter of 2018.

Acquisition Costs

Acquisition costs in the quarter ended September 30, 2019 related to the Lignum Acquisition. There were no comparable costs in the comparative three month period in 2018.

Earnings before Income Taxes

For the quarter ended September 30, 2019, earnings before income taxes were $9.0 million, compared to $12.5 million in the comparative quarter of 2018, a decrease of $3.5 million due to the foregoing factors.

Provision for Income Taxes

For the quarter ended September 30, 2019, provision for income taxes was $2.7 million compared to $4.0 million in the same quarter of 2018, a decrease of $1.3 million. This amount is a function of the pre-tax earnings generated in the quarter and the expected taxes payable on these earnings.

Net Earnings

Net earnings for the quarter ended September 30, 2019 were $6.4 million compared to $8.5 million for the period in 2018, a decrease of $2.1 million, due to the foregoing factors impacting the overall financial performance of the Company.

Comparison of the Nine Months Ended September 30, 2019 and September 30, 2018

Overall Performance

The following table shows the Company's segmented results for the nine months ended September 30:

(in thousands of dollars)	Nine months ended September 30, 2019 Distribution $	Forestry $	Adjustments and eliminations[2] $	Consolidated $	Nine months ended September 30, 2018[1] Distribution $	Forestry $	Adjustments and eliminations[2] $	Consolidated $
Revenue								
External customers	1,001,353	39,497	-	**1,040,850**	989,098	38,157	-	**1,027,255**
Inter-segment	-	1,626	(1,626)	**-**	-	1,457	(1,457)	**-**
	1,001,353	41,123	(1,626)	**1,040,850**	989,098	39,614	(1,457)	**1,027,255**
Specified expenses (income)								
Depreciation and amortization	25,727	5,571	-	**31,298**	9,917	3,465	-	**13,382**
Finance costs	14,693	2,183	-	**16,876**	6,804	1,734	-	**8,538**
Fair value adjustments	-	353	-	**353**	-	(1,246)	-	**(1,246)**
Net earnings (loss)	14,873	(1,026)	-	**13,847**	26,721	2,924	-	**29,645**

1. Effective January 1, 2019, the Company adopted IFRS 16, *Leases*, with the ongoing impact of this standard included in the Company's results prospectively from that date. The Company's comparative 2018 results have not been restated. See "Changes in Accounting Standards" section in this MD&A.
2. Includes inter-segment eliminations and income and expenses that are not allocated to reportable business segments.

The Company adopted IFRS 16, *Leases* ("IFRS 16") effective January 1, 2019, and prior year comparative results have not been restated. The adoption of IFRS 16 resulted in the following estimated variances relative to the prior year non-restated comparative nine month period:

(in thousands of dollars)	Increase (Decrease) Distribution $	Forestry $	Consolidated $
Distribution, selling and administration expenses	(15,182)	(70)	(15,252)
EBITDA and Adjusted EBITDA	15,182	70	15,252
Amortization of right-of-use assets	15,509	703	16,212
Depreciation of property, plant and equipment	(258)	(185)	(443)
Finance costs	3,358	9	3,367
Net earnings before tax	(3,323)	(457)	(3,780)

Sales and Gross Margin

Sales for the nine month period ended September 30, 2019 were $1,040.9 million versus $1,027.3 million in the comparative period in 2018, representing an increase of $13.6 million or 1.3%, due to the factors discussed below.

Sales for the Distribution segment increased by $12.3 million or 1.2%, largely due to the inclusion of the results from the Lignum Acquisition and the 2018 Acquisitions, as well as the Company's continuing focus on its product mix strategies and target customer base.

Sales for the Forestry segment increased by $1.5 million or 3.8%. The increase in sales relative to the same quarter of 2018 was largely driven by increased demand for agricultural posts, as well as more timber harvested and sold during the third quarter of 2019, relative to the same period in 2018.

The Company's sales by product group in the period were made up of 59% of construction materials, compared to 60% during the same period last year, with the remaining balance of sales resulting from specialty and allied products of 34% (2018 - 33%) and forestry and other of 7% (2018 - 7%).

Gross margin dollars were $147.8 million in the nine month period ended September 30, 2019 versus $154.3 million in the comparative period of 2018, a decrease of $6.5 million or 4.2%. Gross margin percentage was 14.2% in the period, a decrease from the 15.0% that was achieved in the comparative period of 2018 mainly due to the downward trend in construction material pricing. This decrease in gross margin dollars is mainly attributable to the aforementioned downward trend in construction material pricing, which was partially offset by the inclusion of the results from the Lignum Acquisition and the 2018 Acquisitions.

Expenses

Expenses for the nine month period ended September 30, 2019 were $111.3 million versus $104.6 million for the same period in 2018, an increase of $6.7 million or 6.4%, due to the factors discussed below. As a percentage of sales, expenses were 10.7% in the period, versus 10.2% during the comparative period in 2018.

Distribution, selling and administration expenses decreased by $11.2 million, or 12.3%, to $80.0 million in the first nine months of 2019, from $91.2 million in the comparative period of 2018. Excluding the impact of the IFRS 16 adoption, distribution selling and administration expenses increased by $4.1 million or 4.5%, largely due to additional expenses relating to the Lignum Acquisition in 2019 and the 2018 Acquisitions' operations. As a percentage of sales, these expenses were 7.7% in the period, compared to 8.9% in the same period in 2018.

Depreciation and amortization expenses increased by $17.9 million, from $13.4 million to $31.3 million. Depreciation and amortization expenses for the Distribution segment increased by $15.8 million, largely due to the impact of the adoption of IFRS 16. Depreciation and amortization expense for the Forestry segment increased by $2.1 million.

Fair Value Adjustments

Fair value adjustments recognized for the nine month period ended September 30, 2019 and the comparative period in 2018 relate to standing timber, which is carried at fair value less cost to sell, and is a function of estimated growth and harvest rates, costs of sustainable forest management, log pricing assumptions, timing of harvest and the discount rate used.

Operating Earnings

For the nine month period ended September 30, 2019, operating earnings were $36.5 million versus $49.8 million in the comparative period of 2018, a decrease of $13.3 million or 26.7%, due to the foregoing factors.

Finance Costs

Finance costs for the period were $16.9 million, versus $8.5 million for the comparative period in 2018, an increase of $8.4 million. Finance costs for the Distribution segment were $7.9 million higher than the same period in 2018, partly due to the impact of the adoption of IFRS 16, and partly due to higher average borrowings in order to finance the Company's working capital requirements and higher rates resulting from the Unsecured Notes. Finance costs for the Forestry segment remained largely in line with 2018.

Earnings before Income Taxes

For the nine month period ended September 30, 2019, earnings before income taxes were $19.2 million, versus $41.2 million in the comparative period of 2018, a decrease of $22.0 million due to the foregoing factors.

Provision for Income Taxes

For the nine month period ended September 30, 2019, provision for income taxes was $5.4 million compared to $11.6 million in the same period of 2018, a decrease of $6.2 million. This amount is a function of the pre-tax earnings generated in the period and the expected taxes payable on these earnings.

Net Earnings

As a result of the foregoing factors, net earnings for the nine month period ended September 30, 2019 were $13.8 million versus $29.6 million in the comparative period of 2018, a decrease of $15.8 million, as discussed above.

Summary of Quarterly Results

For the Quarters ended:

	2019			2018				2017
($ and shares millions, per share in dollars)	**30 - Sep**	**30 - Jun**	**31 - Mar**	**31 - Dec**	**30 - Sep**	**30 - Jun**	**31 - Mar**	**31 - Dec**
Sales	**373.2**	385.7	281.9	264.0	350.2	382.1	295.0	276.2
EBITDA	**25.0**	27.3	15.1	8.1	20.1	27.5	15.6	11.5
Adjusted EBITDA(1)	**25.3**	27.5	15.1	8.9	20.1	27.5	15.6	13.4
Adjusted EBITDA % of sales(1)	**6.8**	7.1	5.4	3.4	5.7	7.2	5.3	4.9
Earnings (Loss) before income taxes	**9.0**	10.7	(0.5)	(0.1)	12.5	19.9	8.8	3.5
Net earnings (loss)	**6.4**	7.8	(0.4)	0.4	8.5	14.7	6.5	5.8
Net earnings (loss) before non-recurring items(2)	**6.7**	7.9	(0.4)	0.9	8.5	14.7	6.5	7.1
Net earnings (loss) per share(3)	**0.08**	0.10	(0.0)	0.00	0.11	0.19	0.08	0.07
Net earnings per share, before non-recurring items(2)(3)	**0.09**	0.10	(0.0)	0.01	0.11	0.19	0.08	0.09
Dividends declared per share	**0.14**	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Outstanding shares(3)	**77.7**	77.7	77.7	77.7	77.7	77.7	77.7	77.4

1. Adjusted EBITDA refers to EBITDA before the following non-recurring items: restructuring costs, directly attributable acquisition related costs and impairment loss on property, plant and equipment.
2. Net earnings before restructuring costs, directly attributable acquisition related costs and impairment loss on property, plant and equipment.
3. Weighted average basic shares outstanding in the period.

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
(in thousands of dollars)	**$**	**$**	**$**	**$**
Net earnings	**6,396**	8,489	**13,847**	29,645
Provision for income taxes	**2,653**	3,995	**5,376**	11,570
Finance costs	**5,750**	3,070	**16,876**	8,538
Depreciation of property, plant and equipment	**3,141**	2,875	**9,962**	8,380
Amortization of right-of-use assets	**5,370**	-	**16,212**	-
Amortization of intangible assets	**1,698**	1,681	**5,124**	5,002
Share-based compensation	**-**	-	**19**	25
EBITDA	**25,008**	20,110	**67,416**	63,160
Acquisition costs	**281**	-	**415**	-
Adjusted EBITDA	**25,289**	20,110	**67,831**	63,160

EBITDA and Adjusted EBITDA

For the three month period ended September 30, 2019, EBITDA was $25.0 million and Adjusted EBITDA was $25.3 million, consistent with the comparative quarter of 2018. Current quarter EBITDA and Adjusted EBITDA were positively impacted by the adoption of IFRS 16, in the amount of $5.1 million. Excluding the impact of IFRS 16 adoption, Adjusted EBITDA increased by $113,000 or 0.6%, consistent with the comparative quarter of 2018.

For the nine months ended September 30, 2019, EBITDA was $67.4 million and Adjusted EBITDA was $67.8 million, compared to $63.2 million for the first nine months of 2018, an increase in Adjusted EBITDA of $4.7 million or 7.4%. Current year EBITDA and Adjusted EBITDA were positively impacted by the adoption of IFRS 16, in the amount of $15.3 million. Excluding the impact of IFRS 16 adoption, Adjusted EBITDA for the nine months ended September 30, 2019 decreased by $10.6 million or 16.8%, largely due to the aforementioned downward trend in construction materials pricing throughout the period and weather conditions during the first quarter of 2019 impacting construction activities, which was partially offset by the inclusion of the results from the Lignum Acquisition in 2019 and the 2018 Acquisitions.

Financial Condition

Liquidity and Capital Resources

During the nine month period ended September 30, 2019, the Company generated $4.1 million in cash, versus consuming $3.3 million in the same period of 2018. The following activities during the period were responsible for the change in cash.

Operating activities generated $49.5 million in cash, before non-cash working capital changes, compared to $47.1 million in the same period of 2018.

During the nine month period ended September 30, 2019, changes in non-cash working capital items generated $7.7 million in cash, compared to consuming $48.0 million in the same period in 2018. The Company experienced a significant increase in inventory towards the end of the fourth quarter of 2018, built up to address a strong order backlog with treated lumber customers and to take advantage of favourable buying conditions. This resulted in reduced inventory stocking required during the first and second quarters of 2019 and the year-over-year $55.7 million positive variance in cash consumed.

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 period was comprised of an increase in trade and other receivables of $43.1 million, an decrease in inventory of $17.0 million, an increase in prepaid expenses and deposits of $274,000, and a net increase in trade and other payables and performance bond obligations of $23.5 million.

In the nine month period ended September 30, 2019, financing activities used $33.2 million of cash, compared to generating $9.7 million in the same period in 2018. Scheduled repayments related to the term loans consumed $4.0 million, versus $2.8 million in the same period in 2018. Payment of lease liabilities, including interest, consumed $17.2 million of cash compared to $1.1 million in 2018, mainly due to the impact of adopting IFRS 16, which is offset by a corresponding increase in cash from operating activities. Repayment of certain promissory notes consumed $802,000 in the period, compared to $3.7 million in the comparative period of 2018.

Dividends paid to shareholders amounted to $32.6 million, consistent with the same period in 2018.

The revolving loan facility increased by $21.5 million, compared to an increase of $49.8 million in the same period in 2018. The Company was not in breach of any of its covenants during the nine months ended September 30, 2019.

Investing activities consumed $19.9 million of cash, compared to $12.0 million in the same period in 2018. Cash purchases of property, plant and equipment relating to the Distribution segment were $3.0 million, compared to $3.3 million in 2018. Cash purchases of property, plant and equipment relating to the Forestry segment were $2.8 million, compared to $2.6 million in 2018. Investing activities in 2019 included the Lignum Acquisition and the related cash and cash equivalents acquired, whereas 2018 included the 2018 Acquisitions.

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 $930.9 million as at September 30, 2019, versus $803.8 million as at December 31, 2018, an increase of $127.1 million. Current assets increased by $34.6 million, mainly due to seasonal increases of $43.1 million in trade and other receivables, a decrease of $17.0 million in inventory and an increase in cash of $4.9 million due to timing of certain cash transactions.

Long-term assets within the Distribution segment were $372.4 million as at September 30, 2019, compared to $274.8 million as at December 31, 2018, an increase of $97.6 million, mainly due to the recognition of right-of-use assets in accordance with IFRS 16 on January 1, 2019 in the amount of $119.0 million, and partially offset by depreciation and amortization taken in the period. Long-term assets within the Forestry segment were $126.8 million as at September 30, 2019, compared to $131.7 million as at December 31, 2018, a decrease of $4.9 million, mainly due to depreciation taken on property, plant and equipment. IFRS 16 implementation had minimal impact on the Forestry segment, as the majority of its lease arrangements were already classified as finance leases under the previous standard.

Total Liabilities

Total liabilities were $592.9 million as at September 30, 2019, versus $440.6 million at December 31, 2018, an increase of $152.3 million. This increase was largely as a result of the recognition of lease liabilities in accordance with IFRS 16 on January 1, 2019 in the amount of $119.0 million, as well as a seasonal increase in trade and other payables of $23.0 million, and an increase in the revolving loan facility of $20.9 million in order to finance the working capital requirements of the Company, partially offset by various scheduled repayments of the Company`s loans and borrowings.

Outstanding Share Data

As at November 7, 2019, there were 77,763,481 common shares issued and outstanding.

Dividends

The following dividends were declared and paid by the Company:

	2019				2018			
	Declared				Declared			
	Record date	Per share $	Amount $	Paid date	Record date	Per share $	Amount $	Paid date
Quarter 1 dividend	Mar 29, 2019	0.14	10,876	Apr 15, 2019	Mar 29, 2018	0.14	10,877	Apr 13, 2018
Quarter 2 dividend	Jun 28, 2019	0.14	10,877	Jul 15, 2019	Jun 29, 2018	0.14	10,878	Jul 13, 2018
Quarter 3 dividend	Sep 30, 2019	0.14	10,887	Oct 15, 2019	Sep 28, 2018	0.14	10,884	Oct 15, 2018
Balance at Sep 30		0.42	32,640			0.42	32,639	
Quarter 4 dividend					Dec 31, 2018	0.14	10,884	Jan 15, 2019
						0.56	43,523	

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 choose to 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 fair value through profit and loss, with changes in fair value being recorded in Other income (loss) in net earnings.

As at September 30, 2019, the Company held no outstanding foreign exchange contracts (December 31, 2018 - US$9.0 million) for economic hedging purposes, and no unrealized gains (2018 - nil) were recorded 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 and restricted by senior management, including limits for a maximum number of outstanding contracts at any point in time, the risk of credit loss on these financial instruments is considered low.

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 $2.7 million in the nine months ended September 30, 2019, versus $2.5 million in 2018. The minimum payments under the terms of these leases are as follows: $790,000 for the remainder of 2019, $2.3 million in 2020, $1.9 million in 2021, $1.6 million in 2022, $1.6 million in 2023 and $14.1 million thereafter.

During the nine months ended September 30, 2019, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of $449,000 (2018 - $450,000) by a company owned by Rob Doman. As at September 30, 2019, payables to this related party were $157,000 (December 31, 2018 - $282,000). Additionally, fees of $960,000 (2018 - $805,000) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman. As at September 30, 2019, payables to this related party were $54,000 (December 31, 2018 - $59,000).

During the period the Company purchased $2.7 million (2018 - $2.8 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 September 30, 2019, payables to this related party were $110,000 (December 31, 2018 - $38,000).

During the period the Company purchased $395,000 (2018 - $672,000) of product from a company controlled by Siegfried Thoma, a director of the Company. These purchases were made in the normal course of operations and are recorded at exchange amounts.

Additional information regarding these related party transactions is contained in Note 21 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended September 30, 2019 and Note 26 of the 2018 Consolidated Financial Statements.

In addition to the aforementioned related party transactions, certain subsidiaries of the Company had entered into a facilities lease with entities affiliated with individuals who are directors or officers of such subsidiaries, in connection with prior acquisitions. During the nine month period ended September 30, 2019, such lease payments totaled $148,000 (2018 - $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 September 30, 2019, the Company's contractual obligations, including estimated interest, within the periods indicated:

Contractual Obligations (in thousands of dollars)	**Total**	**Remainder of 2019**	**2020-2021**	**2022-2023**	**Thereafter**
Revolving loan facility[1]	222,955	2,351	220,604	-	-
Non-revolving term loan[2]	34,876	1,087	33,789	-	-
Unsecured notes[3]	75,310	-	7,660	67,650	-
Promissory notes[4]	5,234	1,833	3,401	-	-
Equipment term loan and line[5]	8,240	1,079	7,161	-	-
Earn-out commitment[6]	2,065	2,065	-	-	-
Leases[7]	139,681	6,273	40,295	29,742	63,371
Total contractual obligations	488,361	14,688	312,910	97,392	63,371

1. Interest has been calculated based on the average borrowing under the facility for the nine month period ended September 30, 2019 utilizing the interest rate payable under the terms of the facility at September 30, 2019. This facility matures on July 10, 2021.
2. Annual principal payments are amortized over 15 years, with interest payable quarterly.
3. Interest has been calculated at 6.375%, payable semi-annually. The notes mature on October 9, 2023.
4. Additional information is contained in Note 13 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ending September 30, 2019.
5. Monthly principal repayments amortize over 5 years, interest is payable monthly. Equipment line principal repayments commenced on August 1, 2019, with maturity on July 1, 2025.
6. Additional information is contained in Note 15 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ending September 30, 2019.
7. Additional information is contained in Note 8 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ending September 30, 2019.

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 $1.4 million as at September 30, 2019 (December 31, 2018 - $1.4 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, assessing whether an arrangement contains a lease, determining the lease term, determining the discount rate to value the lease, 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 September 30, 2019 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 value in-use 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 value in-use, the value in-use of goodwill related to the cash-generating unit is reduced by the excess of this carrying value and recognized as an impairment loss.

Timber

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

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 2018 Consolidated Financial Statements have been applied consistently in the preparation of these financial statements, except as stated below.

IFRS 16 – Leases

Effective January 1, 2019, the Company adopted IFRS 16, replacing IAS 17, *Leases* ("IAS 17") 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 was applied using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019, with no restatement of comparative figures, which continue to be reported under IAS 17. The Company elected to measure its right-of-use assets at amounts equal to the corresponding lease liabilities, which resulted in no adjustment to retained earnings on transition.

As a Lessee

The Company identified agreements in both the United States and Canada related to the rental of distribution and wood treatment facilities, forklifts, light vehicles and other equipment, which were previously treated as operating leases under IAS 17.

Judgement was applied adopting IFRS 16 to determine contracts within the scope of IFRS 16, evaluating lease renewal terms and determining the discount (incremental borrowing rate) used to present value the lease arrangements. At transition, lease liabilities were measured at the present value of the remaining lease payments under the agreement term. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments and this approach was applied to all leases.

The Company applied the following practical expedients when applying IFRS 16 to leases, which had been classified as operating leases under IAS 17:

a. recognition exemptions under IFRS 16 (5a) and (5b) for short-term and low-value leases;

b. an election under IFRS 16 (C11), which allows a Company the choice to not reassess contracts which were previously identified as leases under IAS 17; and

c. an option under IFRS 16 (B1) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. Forklifts, light vehicle leases and computer equipment were identified as separate portfolios, having similar characteristics.

As a Lessor

The Company was not impacted by the adoption of IFRS 16 for transactions in which it acts as a lessor, as the treatment is the same as under the previous standard. These transactions primarily occur in the Company's Forestry segment and relate to access to and use of Company owned lands by third parties and are not a significant source of revenue. The Company applies IFRS 15, Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

Summary of the financial statement impact of the adoption of IFRS 16

The new leasing standard had a significant impact on the financial statements of the Company and how lease related transactions are accounted for; however, there has been no change to how the Company conducts its business.

Area	Summarized impact
Statement of financial position	The new leasing standard resulted in an increase in the value of both right-of-use assets and lease liabilities of approximately **$119.0 million** and the reclassification of approximately **$5.8 million** of lease liabilities that were accounted for as finance leases under the previous standard and were included in property, plant and equipment. The finance leases previously included in property, plant and equipment are now included as part of the new financial statement line item, right-of-use assets. Note 3 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended September 30, 2019 summarizes the overall impact of adoption of IFRS 16, and Note 8 summarizes the activity related to the leasing transactions that occurred during the period.
Statement of earnings and comprehensive earnings (loss)	The new leasing standard resulted in a change in the amount, presentation and timing related to the recognition of lease related expenses. Under the previous lease standard (IAS 17), certain rental and lease payments were included in distribution, selling and administration expenses as incurred (approximately **$15.3 million** for the nine month period ended September 30, 2018); whereas the new standard replaces these expenses with an amortization expense on the right-of-use assets and a finance cost based on the Company's incremental borrowing rate (**$16.2 million** and **$3.5 million**, respectively, for the nine month period ended September 30, 2019). When payments are made, this is reflected as a reduction in the lease liabilities on the statement of financial position. The total expense over the lifetime of a lease has not changed under the new leasing standard. However, the expense associated with the lease is front-loaded due to the finance costs on the lease liability, compared to the previous straight-line methodology for recording rent expenses. The result is higher overall expenses and lower net earnings in the year of adoption of IFRS 16 or upon entering into a new lease. Depreciation on the right-of-use assets is straight-line over the term of the lease, and finance costs on lease liabilities decline over the life of the lease as the liability is repaid.
Statement of cash flows	Under the previous leasing standard, payments related to operating leases with respect to rental and leasing arrangements were presented as part of net cash flows provided by **operating activities** (approximately **$15.4 million** for the nine month period ended September 30, 2018), and payments related to finance leases were presented as part of net cash flows provided by **financing activities** (**$1.1 million** for the nine month period ended September 30, 2018). Under IFRS 16, lease payments include cash payments for the interest portion of lease liabilities and repayment of principal, and are all presented within net cash flows provided by **financing activities** (**$17.2 million** for the nine month period ended September 30, 2019).
EBITDA and Adjusted EBITDA	Amortization charges on the newly recorded right-of-use assets are excluded from EBITDA and Adjusted EBITDA, along with the finance cost on lease liabilities. Previously, expenses related to these leasing and rental activities were included in distribution, selling and administration expenses and were included in the calculation of EBITDA. For the nine month period ended September 30, 2019, approximately **$15.3 million** of distribution, selling and administration expenses were excluded from EBITDA, and were instead re-categorized as **$16.2 million** of amortization of right-of-use assets and **$3.5 million** of interest, with the difference applied against the right-of-use assets and lease liabilities, as applicable.

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 and nine months ended September 30, 2019.

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.

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 nine month period ended September 30, 2019 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, 2019, the Company's MD&A contained in the 2018 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

Pricing for lumber, plywood and OSB experienced significant declines from June 2018 through to the end of 2018. Prices for all three categories continued to generally decline during the first three quarters of 2019 with the exception of Lumber which showed a slight recovery in Q3 2019. Management will continue to employ mitigation strategies to minimize the potential impacts of future construction materials price volatility. These strategies include the use of vendor managed inventories, direct shipments from the manufacturer to the customer, and the Company's internal policy of matching inventory levels to maintain its high standard of customer service levels, minimizing excess inventory otherwise exposed to market fluctuations. The Company is also continuing to execute on its strategy to increase the proportion of value added products, such as pressure treated wood, in its overall sales.

In July 2019, The BoC reported that growth in the economy in the fourth quarter of 2018 and the first quarter of 2019 was weaker than anticipated, leading to downwards revised growth figures for 2019 but largely unchanged figures for 2020. The Canadian economy is forecast to grow by 1.3% in 2019, rising to 2.0% in 2020 and 2021, according to the most recent revised estimates published by the Bank of Canada ("BoC"). Based on this slowdown and in line with the April 2019 publication, the BoC kept its key short-term lending rate at 1.75%. The dampening effects on growth of low oil prices, changes to housing policies and the 2017 and 2018 increases in borrowing rates should dissipate over 2019, according to the BoC.

According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for Canadian housing starts in the third quarter of 2019 was 222,089 compared to 197,394 in the same period last year. CMHC expects that housing starts for both single-detached and multi-unit housing will decline for the second year in a row before stabilizing in 2020 and 2021 somewhere between 194,000 and 204,300

The seasonally adjusted annualized rate for single detached units, a more relevant indicator for the Company, amounted to 58,458 versus 61,950 in the comparative period of 2018. For the years 2019 and 2020, CMHC forecasts the rate for single detached units to be in the range from 65,500 units to 69,400. 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 slower than anticipated first and second quarter of 2019. According to the US Census Bureau there was some recovery in the third quarter of 2019 with seasonally-adjusted housing starts reaching a 12 year high of 1,364,000 units in August 2019 before falling 9.4% in September 2019. The seasonally-adjusted housing starts reached 1,280,000 units in the same period last year. According to the Federal Home Mortgage Corporation (Freddie Mac) Economic & Housing Research Group, housing starts are expected to continue the current trend and reach 1,310,000 units for 2019 and 1,370,000 units for 2020. In late April, Bloomberg reported that US economic growth accelerated by more than expected in the first quarter of 2019, with a big boost from inventories and trade that offset a slowdown in consumer spending. GDP expanded at a 3.2% annualized rate during the first quarter of 2019, according to Commerce Department data, which topped all forecasts. According to the BoC, the US economy is expected to expand about 2.0% over the 2019-2020 period.

The Company's focus in the near term remains to grow sales with its target customer base while continuing to optimize gross margins, capture synergies with recent acquisitions and maintain tight controls over expenses. 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 trade receivables and trade payables, remains paramount.

Sawlog prices are expected to remain strong in the remainder of 2019 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 will continue to closely monitor the Company's operations, legacy customers, and potential seasonal weather impacts, so that the Company will be appropriately positioned and be ready to work hard to translate revenue into higher earnings for the Company and its shareholders.

CORPORATE INFORMATION

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Trading Symbols:

CWX, CWX.NT.A