CanWel®

CanWel Building Materials Group Ltd.

Q1 Management's Discussion and Analysis

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May 7, 2021

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, 2021 relative to the same quarter of 2020. 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, 2020 (the "2020 Consolidated Financial Statements"), and the Company's annual MD&A for the year ended December 31, 2020. 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, 2021 (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. Additionally, the ultimate impact of COVID-19 on the Company's quarterly and full-year 2020 results is difficult to quantify, as it will depend on, inter alia, the duration and impact of the pandemic, the impact of government policies, and the pace of economic recovery. These statements are based on management's current expectations regarding future events and operating performance, and 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 12, 2021 ("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, risks related to the impact of local, national, and international health concerns, including but not limited to the novel coronavirus COVID-19, sales and margin risk, acquisition and integration risks and operational risks related thereto, competition, information system risks, technology risks, cybersecurity 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, insurance risks, risks related to climate change, 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 ("US") economies, the impact of COVID-19, 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; availability or more limited availability of access to equity and debt capital markets to fund, at acceptable costs, the Company's future growth plans, the implementation and success of the integration of the acquisitions, the ability of the Company to refinance its debts as they mature; the direct and indirect effect of the US housing market and economy; exchange rate fluctuations between the Canadian and US dollar; retention of key personnel; the Company's ability to sustain its level of sales and earnings margins;

the Company's ability to grow its business long-term and to manage its growth; the Company's management information systems upon which it is dependent are not impaired; the Company's insurance is sufficient to cover losses that may occur as a result of its operations as well as the general level of economic activity, in Canada and the US, and abroad, discretionary spending and unemployment levels; the effect of general economic conditions; market demand for the Company's products, and prices for such products; the effect of forestry, land use, environmental and other governmental regulations; and the risk of losses from fires, floods and other natural disasters and unemployment levels. 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 May 7, 2021, unless otherwise indicated. All amounts are reported in Canadian dollars.

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1. In the discussion, reference is made to Earnings before Interest, Tax, Depreciation and Amortization ("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".

Business Overview

The Company is a leading wholesale distributor of building materials and home renovation products and producer of pressure treated wood products in Canada, and regionally in the Western United States mainland 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 forest licenses, full service harvesting and trucking operations, and agricultural post-peeling and pressure treating through CanWel Fibre Corp. After acquisition of its California Cascade business in 2015, in 2017, the Company acquired the Honsador Building Products group of companies, 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 and a lumber pressure treating plant in Woodland, California. In 2019, the Company completed the acquisition of Lignum Forest Products LLP, a well-established brand in the lumber and forestry distribution market in Western Canada and the US. On November 9, 2020, the Company completed the acquisition of Vickers Island Truss, Ltd. ("Island Truss") (the "Island Truss Acquisition"), a truss manufacturing plant in Kauai, Hawaii.

Global Pandemic

On March 11, 2020, the World Health Organization declared the novel coronavirus (specifically identified as "COVID-19") a global pandemic (the "Pandemic"), resulting in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of stay at home orders, mandated non-essential business closures, travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and significant economic uncertainty.

At this time, as part of a supply chain for the construction industry, the Company has been classified as an essential service for the majority of its operations in Canada and the US, and therefore has not been required to shut down. However, the Company has taken specific health and safety measures in response to COVID-19, including limiting the number of employees, customers and others on its premises, mandatory self-imposed quarantine periods for employees, team separation and staggered work hours, temporary suspension of all non-essential business travel, heightened hygienic and disinfecting practices, provision of personal protective equipment such as masks and face shields, technology enabled remote work initiatives and other safety protocols.

Additionally, the Company has taken steps to mitigate the Pandemic's impact on its customers, operations and cash flows by optimizing its working capital, deferring or eliminating certain non-essential operating expenditures, minimizing capital expenditures, evaluating ongoing cost savings opportunities and assessing financial assistance options available under COVID-19-related government programs. Management is actively monitoring the Pandemic, economic and regulatory developments, and their impact on the Company's operations, continually adapting to the changing operating environment.

Offering of Senior Unsecured Notes

Subsequent to the end of the first quarter, on April 29, 2021, the Company entered into an underwriting agreement to sell $325.0 million in senior unsecured notes (the "Unsecured Notes"). The offering is underwritten by a syndicate of underwriters led by Stifel Nicolaus Canada Inc., and including National Bank Financial Inc. and RBC Dominion Securities Inc.

The Unsecured Notes accrue interest at the rate of 5.25% per annum, payable on a semi-annual basis, maturing on May 15, 2026. Cash proceeds raised from the Unsecured Notes, net of issuance costs, will be primarily used to repay the Company's existing revolving loan facility, which at March 31, 2021 had a balance of $300.8 million, and for working capital and general corporate purposes. The Company will have the ability to redraw the revolving loan facility in the future to fund potential acquisitions and for other corporate purposes.

Public Offering of Common Shares

Subsequent to the end of the first quarter, on April 21, 2021, the Company announced a public offering of 7,500,000 common shares, by way of a short form prospectus, at a price of $10.00 each for gross proceeds of $75.0 million, with an underwriters' option to purchase up to an additional 1,125,000 common shares at the same price (the "Public Offering"). In the event that the option is exercised in its entirety, the aggregate gross proceeds will be $86.3 million. The Public Offering is pursuant to a bought deal underwritten by a syndicate of underwriters led by Stifel Nicolaus Canada Inc. and National Bank Financial Inc., and is expected to close on or about May 11, 2021.

Cash proceeds raised from the Public Offering, net of issuance costs, will be used for reducing the Company's existing loans and borrowings, which will provide the Company with readily available capital for future acquisitions and other growth investments.

Normal Course Issuer Bid

The Company renewed its existing Normal Course Issuer Bid ("NCIB") on November 24, 2020. Under the terms of the NCIB, the Company may purchase for cancellation up to an authorized number of common shares over a twelve-month period. Any shares acquired will be at the market price of the shares at the time of acquisition.

The Company continually considers share repurchases with excess cash if management is satisfied that this will enhance shareholder value and does not compromise the Company's financial flexibility.

Additional information regarding the NCIB is contained in Note 14 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended March 31, 2021.

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, extreme winter weather conditions and periods of extreme heat and low humidity, 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 for the quarter ended March 31, 2021 was 296,174, versus 203,433 in the comparative period of 2020, an increase of 45.6%[(1)]. The seasonally adjusted annualized rate for single detached units, a more relevant indicator for the Company, amounted to 96,035 for the first quarter of 2021 versus 62,538 in the comparative period of 2020, an increase of 53.6%[(1)].

The seasonally adjusted annualized rate for overall US housing starts was an average of 1,613,000 units in the first quarter of 2021 versus 1,487,000 in the same period of 2020, an increase of 8.5%[(2)].

Construction Materials Pricing

The following table provides average quarterly pricing for lumber, plywood and oriented strand board ("OSB") per thousand board feet, as reported by Natural Resources Canada:

	2021		**2020**				**2019**	
(in Canadian $)	**31 - Mar**	**31 - Dec**	**30 - Sep**	**30 - Jun**	**31 - Mar**	**31 - Dec**	**30 - Sep**	**30 - Jun**
Lumber	**1,329**	914	1,025	540	558	538	509	480
Plywood	**1,041**	784	677	470	438	421	452	454
OSB	**1,150**	845	705	363	343	271	258	262

Lumber, plywood and OSB prices experienced unprecedented increases in the second half of 2020 and during the first quarter of 2021, primarily impacted by a combination of limited supply and elevated demand. Production curtailments by major producers earlier in 2020 contributed to low levels of supply chain inventory, while home construction activity and the repair and remodel market remained strong.

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, short-term financing and other services provided. As a result, the Company's sales levels are impacted by the underlying 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.

Management employs mitigation strategies to minimize the potential impacts of future construction materials price volatility. These strategies include, but are not limited to, the use of vendor managed inventories, direct shipments from the manufacturer to the customer, use of lumber futures contracts and the Company's internal policy of optimizing inventory levels to maintain its high standard of customer service levels, and minimizing excess inventory otherwise exposed to market fluctuations.

(1) As reported by CMHC. For further information, see "Outlook".
(2) As reported by the US National Mortgage Association (Fannie Mae). For further information, see "Outlook".

Results of Operations

Comparison of the Quarter Ended March 31, 2021 and March 31, 2020

Overall Performance

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

	Three months ended March 31, 2021				Three months ended March 31, 2020			
(in thousands of dollars)	Distribution $	Forestry $	Adjustments and eliminations[1] $	Consolidated $	Distribution $	Forestry $	Adjustments and eliminations[1] $	Consolidated $
Revenue								
External customers	509,825	10,101	-	**519,926**	317,146	9,599	-	**326,745**
Inter-segment	-	404	(404)	**-**	-	623	(623)	**-**
	509,825	10,505	(404)	**519,926**	317,146	10,222	(623)	**326,745**
Specified expenses								
Depreciation and amortization	8,390	1,945	-	**10,335**	8,431	1,865	-	**10,296**
Finance costs	3,204	375	-	**3,579**	4,597	445	-	**5,042**
Net earnings (loss)	34,751	(594)	-	**34,157**	1,475	(625)	-	**850**

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, 2021 were $519.9 million compared to $326.7 million in the comparative period in 2020, representing an increase of $193.2 million or 59.1%, due to the factors discussed below.

Sales for the Distribution segment increased by $192.7 million or 60.8%, demonstrating the Company's continued resilience and strong overall end-market demand for its products. The increase in sales is attributable to improvements in both sales volumes and pricing. Quarantine-related home improvement activities and strong housing starts resulted in increased demand from consumers spending more time and efforts on home renovation and repair projects. Additionally, construction materials pricing generally continued to increase during the first quarter of 2021.

Sales for the Forestry segment increased by $283,000 or 2.8%, largely driven by increased demand for timber.

The Company's sales by product group in the quarter were made up of 72% of construction materials, compared to 62% during the same quarter last year, with the remaining balance of sales resulting from specialty and allied products of 23% (2020 - 32%) and forestry and other of 5% (2020 - 6%).

Gross margin dollars increased to $90.4 million in the quarter compared to $43.5 million in the same period of 2020, an increase of $46.9 million. Gross margin percentage was 17.4% in the quarter, an increase from the 13.3% achieved in the same quarter of 2020. The Company's margins benefited from the previously discussed improvements in construction materials pricing during the first quarter of 2021, and ongoing implementation of the Company's strategies.

Expenses

Expenses for the quarter ended March 31, 2021 were $40.7 million as compared to $37.2 million for the same quarter in 2020, an increase of $3.5 million or 9.4%, due to the factors discussed below. As a percentage of sales, expenses were 7.8% in the quarter, compared to 11.4% during the same quarter in 2020.

Distribution, selling and administration expenses increased by $3.5 million, or 13.0%, to $30.4 million in the first quarter of 2021 from $26.9 million in the same period of 2020, mainly due to increased sales activity resulting in higher personnel costs. This increase was partially offset by a decrease in certain other non-essential operating expenditures, as the Company continued to take cost-reduction measures in response to the Pandemic. As a percentage of sales, these expenses were 5.8% in the quarter, compared to 8.2% in the same quarter in 2020.

Depreciation and amortization expenses for the quarter ended March 31, 2021 were consistent with the same period in 2020, at $10.3 million.

Operating Earnings

For the quarter ended March 31, 2021, operating earnings were $49.7 million compared to $6.2 million in the comparative quarter of 2020, an increase of $43.5 million, due to the foregoing factors.

Finance Costs

Finance costs for the quarter ended March 31, 2021 were $3.6 million, versus $5.0 million in the same period in 2020, a decrease of $1.5 million or 29.0%. Finance costs for the Distribution segment were $1.4 million lower than in 2020, partly due to lower interest rates on the Company's variable rate loan facilities, and partly due to lower average borrowings. The decrease in the average revolving loan facility was largely the result of reducing the Company's working capital levels in response to the Pandemic, as the Company reduced its total loans and borrowings by $2.8 million relative to March 31, 2020, despite the comparative strength in pricing for construction materials.

Finance costs for the Forestry segment were $70,000 lower versus the same period in 2020, as a result of lower interest rates on the Company's variable rate loan facilities, as well as lower average borrowings due to principal repayments made over the past year.

Earnings before Income Taxes

For the quarter ended March 31, 2021, earnings before income taxes were $46.1 million, compared to $1.2 million in the comparative period of 2020, an increase of $44.9 million due to the foregoing factors.

Provision for Income Taxes

For the quarter ended March 31, 2021, provision for income taxes was $12.0 million compared to $330,000 in the same quarter of 2020, an increase of $11.7 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 March 31, 2021 were $34.2 million compared to $850,000 in the same quarter of 2020, an increase of $33.3 million, due to the foregoing factors impacting the overall financial performance of the Company.

Summary of Quarterly Results

For the Quarters ended:

	2021	2020				2019		
($ and shares millions, per share in dollars)	31 - Mar	31 - Dec	30 - Sep	30 - Jun	31 - Mar	31 - Dec	30 - Sep	30 - Jun
Sales	**519.9**	402.0	472.2	412.9	326.7	293.4	373.2	385.7
EBITDA	**60.1**	36.1	57.0	32.8	16.5	18.4	25.0	27.3
Adjusted EBITDA[1]	**60.1**	36.7	57.0	32.8	16.5	18.4	25.3	27.5
Adjusted EBITDA % of sales[1]	**11.6**	9.1	12.1	7.9	5.1	6.3	6.8	7.1
Earnings before income taxes	**46.1**	20.7	42.7	17.5	1.2	2.8	9.0	10.7
Net earnings	**34.2**	15.0	31.0	12.7	0.9	3.4	6.4	7.8
Adjusted net earnings[2]	**34.2**	15.4	31.0	12.7	0.9	3.4	6.7	7.9
Net earnings per share[3]	**0.44**	0.19	0.40	0.16	0.01	0.04	0.08	0.10
Adjusted net earnings per share[2][3]	**0.44**	0.20	0.40	0.16	0.01	0.04	0.09	0.10
Dividends declared per share[4]	**0.16**	0.12	0.12	0.14	0.14	0.14	0.14	0.14
Outstanding shares[3]	**78.0**	77.9	77.9	77.8	77.8	77.8	77.7	77.7

1. Adjusted EBITDA refers to EBITDA before directly attributable acquisition related costs.
2. Net earnings before directly attributable acquisition related costs.
3. Weighted average basic shares outstanding in the period.
4. Quarter ended March 31, 2021 includes a regular quarterly dividend of $0.12 per share and a one-time special dividend of $0.04 per share, further described in the "Dividend Policy" section of this MD&A.

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, 2021 $	2020 $
Net earnings	**34,157**	850
Provision for income taxes	**11,951**	330
Finance costs	**3,579**	5,042
Depreciation and amortization	**10,335**	10,296
Share-based compensation	**34**	-
EBITDA and Adjusted EBITDA	**60,056**	16,518

EBITDA and Adjusted EBITDA

For the quarter ended March 31, 2021, EBITDA and Adjusted EBITDA were $60.1 million compared to $16.5 million in the comparative quarter of 2020, an increase of $43.5 million or 263.6%, largely due to the improvements in both sales volumes and construction materials pricing as a result of the aforementioned quarantine-related home improvement activities and strong housing starts during the first quarter of 2021.

Financial Condition

Liquidity and Capital Resources

During the quarter ended March 31, 2021, the Company consumed $3.9 million in cash, versus $1.1 million in the same period of 2020. The following activities during the period were responsible for the change in cash.

The significant factors affecting the Company's operating activities were improved earnings and working capital changes, as discussed below. Operating activities generated $42.4 million in cash, before non-cash working capital changes, compared to $13.4 million during the same quarter of 2020.

During the quarter ended March 31, 2021, changes in non-cash working capital items consumed $197.6 million in cash, compared to $74.8 million in the same period in 2020. The increase in the changes in non-cash working capital is driven by a significant increase in the levels of trade and other receivables and the cost of inventory, as construction materials pricing experienced unprecedented increases through the first quarter of 2021.

Notwithstanding the impact of the Pandemic, 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 $144.2 million, an increase in inventory of $62.5 million, an increase in prepaid expenses and deposits of $268,000, and a net increase in trade and other payables and performance bond obligations of $9.5 million.

During the quarter ended March 31, 2021, the previously discussed increase in cash consumed by seasonal working capital changes, largely driven by the higher construction materials pricing, resulted in the Company's increased utilization of its loans and borrowings, as the Company used $152.5 million of cash in financing activities, compared to $61.1 million in the same period in 2020.

Scheduled repayments related to the non-revolving term loan consumed $667,000, consistent with 2020. Net repayment of the equipment loans amounted to $657,000 compared to $1.3 million in 2020. Payment of lease liabilities, including interest, consumed $5.8 million of cash compared to $6.5 million in 2020. The Company's lease obligations require monthly installments, and these payments are all current.

The revolving loan facility increased by $168.7 million, compared to $80.2 million in the same quarter in 2020. The significant year-over-year increase in net advances from the revolving loan facility is a result of the previously discussed increase in cash consumed by working capital changes.

Shares issued during the year generated $393,000 of cash compared to $319,000 in the same period in 2020. The Company also returned $9.4 million to shareholders through a dividend paid during the quarter, compared to $10.9 million in 2020. The Company updated its dividend policy during the second quarter of 2020, further described in the "Dividend Policy" section of this MD&A, resulting in a dividend reduction beginning with the dividend paid on October 15, 2020. Additionally, on March 11, 2021, the Company announced a one-time special dividend of $0.04 per share, payable subsequent to the first quarter on April 15, 2021, to shareholders of record at the close of business on March 31, 2021.

The Company was not in breach of any of its lending covenants during the quarter ended March 31, 2021.

Investing activities consumed $1.3 million of cash, compared to $908,000 in the same period in 2020. Cash purchases of property, plant and equipment relating to the Distribution segment were $1.3 million, compared to $843,000 in 2020. Cash purchases of property, plant and equipment relating to the Forestry segment were $159,000, compared to $114,000 in 2020.

In response to the Pandemic, the Company has taken steps to bolster its cash flows, including but not limited to, managing cash flow by reducing non-cash working capital levels and capital expenditures, evaluating ongoing cost savings opportunities, deferring certain scheduled debt, finance lease and statutory payments (as may be applicable, with bilateral agreement), deferring or reducing anticipated capital expenditures, and reducing quarterly dividends. These liquidity measures, combined with the Company's continuing cash flows from operations, are expected to be sufficient to meet its operating requirements and remain compliant with its lending covenants.

Total Assets

Total assets of the Company were $1,066.8 million as at March 31, 2021, versus $867.2 million as at December 31, 2020, an increase of $199.6 million. Current assets increased by $205.6 million. Trade and other receivables increased by $144.9 million, due to a combination of increased sales activity, higher construction materials pricing and regular seasonal factors. Inventory increased by $61.6 million, largely due to the previously discussed significant increase in the cost of construction materials.

Long-term assets within the Distribution segment were $366.9 million as March 31, 2021, compared to $371.3 million as at December 31, 2020, a decrease of $4.4 million. Long-term assets within the Forestry segment were $101.5 million as at March 31, 2021, compared to $103.1 million as at December 31, 2020, a decrease of $1.6 million. The decrease in total long-term assets was mainly due to depreciation taken on property, plant and equipment.

Total Liabilities

Total liabilities were $705.5 million as at March 31, 2021, versus $526.6 million at December 31, 2020, an increase of $178.9 million. This increase was largely due to the seasonal increase in the revolving loan facility of $168.9 million (including amortization of deferred financing costs) in order to finance the working capital requirements of the Company, as discussed above. Trade and other payables increased by $9.7 million, driven by both seasonality and higher construction materials pricing.

Outstanding Share Data

As at May 7, 2021, there were 77,996,755 common shares issued and outstanding.

Dividends

The following dividends were declared and paid by the Company:

	2021				2020			
	Declared				Declared			
(in $ thousands, per share in dollars)	Record date	Per share $	Amount $	Payment Date	Record date	Per share $	Amount $	Payment date
Quarter 1	Mar 31, 2021[(1)]	0.16	12,479	Apr 15, 2021	Mar 31, 2020	0.14	10,897	Apr 15, 2020
		0.16	**12,479**			**0.14**	**10,897**	
Quarter 2					Jun 30, 2020	0.14	10,898	Jul 15, 2020
Quarter 3					Sep 30, 2020	0.12	9,352	Oct 15, 2020
Quarter 4					Dec 31, 2020	0.12	9,352	Jan 15, 2021
						0.52	40,499	

1. Includes the regular quarterly dividend of $0.12 per share and a one-time special dividend of $0.04 per share.

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, general economic conditions 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. Accordingly, on June 15, 2020, the Company announced a dividend reduction beginning with the dividend payable on October 15, 2020, to shareholders of record on September 30, 2020, reducing its quarterly dividend from $0.14 to $0.12 per share.

In addition to the regular quarterly dividend of $0.12 per share, on March 11, 2021 the Company announced a one-time special dividend of $0.04 per share, both payable April 15, 2021, to shareholders of record at the close of business on March 31, 2021.

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 measured at fair value through profit and loss, with changes in fair value being 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 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 land and buildings of the Company's treatment plants are leased from entities solely controlled by Amar Doman, a director and officer of the Company, and certain distribution facilities used by the Company to store and process inventory are leased from a company controlled by Rob Doman, an officer of the Company, or a close member of that person's family. 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 $1.0 million in the quarter ended March 31, 2021, versus $980,000 in 2020. The minimum payments under the terms of these leases are as follows: $3.1 million for the remainder of 2021, $4.2 million in 2022, $4.2 million in 2023, $3.9 million in 2024, $2.5 million in 2025 and $13.8 million thereafter.

During the period the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of $134,000 (2020 - $134,000) by a company owned by Rob Doman. As at March 31, 2021, payables to this related party were $112,000 (December 31, 2020 - $112,000). Additionally, fees of $238,000 (2020 - $233,000) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman. As at March 31, 2021, payables to this related party were $50,000 (December 31, 2020 - $42,000).

During the period the Company purchased $900,000 (2020 - $641,000) 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, 2021, payables to this related party were $167,000 (December 31, 2020 - $131,000).

Additional information regarding these related party transactions is contained in Note 16 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended March 31, 2021 and Note 23 of the 2020 Consolidated Financial Statements.

Commitments and Contingencies

Future and Contractual Obligations

In addition to various debt facilities, the Company has lease commitments for certain transportation equipment, rental of most of its distribution centres and treatment plant properties in Canada and the US, and for vehicles, warehouse equipment, and a computer hosting contract.

The following table shows, as at March 31, 2021, the Company's contractual obligations, including estimated interest, within the periods indicated:

Contractual Obligations (in thousands of dollars)	Total $	Remainder of 2021 $	2022-2023 $	2024-2025 $	Thereafter $
Revolving loan facility(1)	315,113	2,912	7,766	304,435	-
Non-revolving term loan(2)	21,393	2,496	6,403	12,494	-
Unsecured notes(3)	71,475	3,825	67,650	-	-
Promissory notes(4)	3,074	2,068	1,006	-	-
Equipment term loan and line(5)	4,920	1,689	1,688	1,483	60
Leases(6)	147,894	18,687	45,249	29,959	53,999
Total contractual obligations	**563,869**	**31,677**	**129,762**	**348,371**	**54,059**

1. Interest has been calculated based on the average borrowing under the facility for the quarter ended March 31, 2021 utilizing the interest rate payable under the terms of the facility at March 31, 2021. This facility matures on December 6, 2024.
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 12 of the Unaudited Interim Condensed Consolidated Financial Statements.
5. Monthly principal repayments amortize over 5 years, with interest payable monthly. Equipment line principal repayments commenced on August 1, 2019, with maturity on July 1, 2025.
6. Additional information is contained in Note 7 of the Unaudited Interim Condensed Consolidated Financial Statements.

Claims

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

Guarantees

The Company has issued letters of credit totaling $1.3 million as at March 31, 2021 (December 31, 2020 - $1.3 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, forecasted cash flow estimates 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, 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, and judgments regarding aggregation of reportable segments.

In light of the economic uncertainty due to the Pandemic, it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates. However, management does not believe it is likely that any such differences will materially affect the Company's financial condition.

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, 2021 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.

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.

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 a lease agreement, 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, determining the discount rate to value the lease, the assessment of the likelihood of exercising options and estimation of the fair value of the leased 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 forest licenses, harvesting 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 2020 Consolidated Financial Statements, have been applied consistently in the preparation of these financial statements.

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 ("ICFR") during the quarter ended March 31, 2021 that have affected, or are reasonably likely to materially affect, its ICFR.

Risks and Uncertainties

The Company is subject to normal business risks associated with similar firms operating within the building materials industry in Canada and the US, which are described in greater detail in the Company's AIF dated March 12, 2021, the Company's MD&A contained in the 2020 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.

Cybersecurity Risk

As a result of the Pandemic, information technology ("IT") and cyber risks have increased as malicious activities are creating more threats for cyberattacks. Such cyberattacks include COVID-19 phishing emails and targeting of vulnerabilities in remote access platforms as companies continue to operate with work from home arrangements. Privacy, data and third party risks have also been heightened as the use of work from home arrangements have become common practice. As many of the Company's employees are working from home or utilizing remote system access during, and as part of the Company's response to, COVID-19, the Company is continuously monitoring its IT infrastructure to maintain the privacy and confidentiality of all sensitive, proprietary and confidential information.

While the Company believes it takes appropriate precautions in light of cybersecurity risks, given that cyber risks cannot be fully mitigated and the evolving nature of these threats, management cannot assure that the Company's IT systems are fully protected from cybercrime or that the systems will not be inadvertently compromised, or without failures or defects. Accordingly, there can be no assurance that the Company may not be subject to cybersecurity risks or attack, which could have a material adverse effect on the Company's business or results of operations.

Outlook

The global impact of the Pandemic has been rapidly evolving and the disruption from this outbreak is adversely impacting many industries. The Pandemic could have a continued adverse impact on economic and market conditions, triggering a period of sustained global economic slowdown, and will ultimately depend on the speed at which effective vaccines can be developed and administered on a mass scale, and the ability of governments, businesses and health-care systems to effectively limit the epidemiological and economic impacts of the virus, including resurgences, in the intervening period. The rapid development and fluidity of this situation precludes any meaningful attempts to predict the ultimate impact of COVID-19 on the Company's operations.

Despite the challenging global economic conditions as a result of the Pandemic, demand for residential building materials in Canada and the US has been much stronger than was expected when the Pandemic was first declared in March 2020. As a result, the Company has benefited significantly from quarantine-related home improvement activities and an increased interest in single-family detached housing. Nevertheless, COVID-19 presents uncertainty and risk with respect to the Company's future performance and financial results. The Company is actively managing these risks; however, due to the uncertainty regarding the duration and extent of the Pandemic, the severity of the operational and financial impacts on the Company will depend on, among other things, how long and diverse the disruptions in a variety of areas prove to be, including but not limited to, government and institutional regulation, legislation, capital and credit markets, Canadian, US and overall global economies, the Company's customers, suppliers and supply chains, and the Company's labour force.

At this time, the Company expects any potential negative impacts of the Pandemic to be temporary, and that the higher demand for its products will sustain beyond the Pandemic, as governments in Canada and the US have identified investment in housing and infrastructure as a key source of economic stimulus, during the eventual recovery phase. In the interim, the Company continues to maintain a high level of vigilance and focus on the Pandemic and its disruptive impacts, and actively manage the risks. Management continues to employ mitigation strategies to minimize, among other things, the potential impacts of construction materials price volatility. These strategies include, but are not limited to, the use of vendor managed inventories, direct shipments from the manufacturer to the customer, and the Company's internal policy of optimizing inventory levels to maintain its high standard of customer service levels and 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.

The Bank of Canada's ("BoC") April 2021 monetary policy report indicated that while confidence in the economic recovery in Canada had improved, COVID-19 variants are leading renewed lockdowns and restrictions, dampening near-term activity. Economic activity in recent months has been more resilient than anticipated, with consumers and businesses learning new ways to adapt to public health measures. The rollout of COVID-19 vaccines is also progressing more quickly in some jurisdictions than previously expected, and governments, most importantly in the United States, have announced new fiscal stimulus. Overall, the outlook has been revised up for the Canadian and global economies, although achieving full recovery will take time, and the impacts of the pandemic remain uneven. As well, uncertainty remains elevated, particularly around the implications of variants of the virus.

Historically, the rate of new housing starts has been an indicator of the Company's business prospects and the volume of building materials that it sells. According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for Canadian housing starts in the first quarter of 2021 was 296,174, reaching the highest monthly total in March 2021 since 1977, compared to 203,433 the same period last year. According to the US Census Bureau, seasonally-adjusted housing starts were an average of 1,613,000 units during the first quarter of 2021, up from 1,487,000 units in the same period last year. According to the Fannie Mae Economic and Strategic Research Group (Fannie Mae), housing starts are expected to increase further in 2021, to 1,619,000 units. Recent US home resales are at levels not seen for almost a decade, and residential repair and remodeling activities remained strong, as homeowners redirect discretionary spending away from traditional areas of travel and entertainment during the Pandemic. Management believes a significant proportion of the Company's sales are ultimately driven by activity in the repair and remodel market.

The Company's priority in the near term is the health and safety of its employees, compliance with all necessary regulations and health guidelines during the Pandemic, and mitigating the impacts of the Pandemic, while continuing to serve its customers and helping essential supply chain and related activities. The Company's focus will remain on cash flow, consisting of optimization of working capital, reduction of operating costs, minimizing capital expenditures and continually assessing the dividend policy and maximizing shareholder value.

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