CanWel®

CanWel Building Materials Group Ltd.

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## Management's Discussion and Analysis

## March 28, 2011

*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"), the successor to CanWel Building Materials Income Fund (the "Fund"), in the quarter and year ended December 31, 2010 relative to 2009. 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, 2010, (the "2010 Consolidated Financial Statements").*

*This MD&A contains historical information, descriptions of current circumstances and statements about potential future developments and anticipated financial results, performance or achievements of the Fund, 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 "Outlook", "Contingencies and Commitments", "Sale of Hardware Division", "Dividend Policy" and "Liquidity and Capital Resources". When used in this MD&A, such statements may contain such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the negative of these terms or other similar terminology. Forward-looking information in this MD&A includes, without limitation, statements regarding funding requirements and anticipated cost savings and benefits of the Acquisition (as defined below). 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 MD&A and are subject to risks which are described in our Annual Information Form ("AIF") dated March 30, 2010 and our public filings on the Canadian Securities Administrators' website at www.sedar.com ("SEDAR") and would include, but are not limited to, dependence on market economic conditions, sales and margin risk, acquisition and integration risks, competition, information system risks, availability of supply of products, risks associated with the introduction of new product lines, product design risk, environmental risks, volatility of commodity prices, inventory risks, customer and vendor risks, availability of credit, credit risks, interest rate risks and litigation risks. In addition, there are numerous risks associated with an investment in common shares and units (as may be applicable prior to February 1, 2010), which are also further described in the "Risks and Uncertainties" section in this MD&A and in the "Risk Factors" section of our AIF dated March 30, 2010, our management information circulars dated December 17, 2009 and March 31, 2010, our short form prospectus dated April 15, 2010 and our other public filings on SEDAR. These risks and uncertainties may cause actual results to differ materially from those contained in the statements. Such statements reflect management's current views and are based on certain assumptions. Some of the key assumptions include, without limitation, assumptions regarding the performance of the Canadian economy, interest rates, capital and loan availability, commodity pricing, the Canadian housing and building materials market; the amount of the Company's cash flow from operations; tax laws; and the extent of the Company's future acquisitions and capital spending requirements or planning. 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 MD&A is qualified by these cautionary statements. Although the forward-looking information contained in this MD&A is based on upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.*

*The forward-looking statements contained in this MD&A are made as of the date of this MD&A, and should not be relied upon as representing management's views as of any date subsequent to the date of this MD&A. 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.*

*References to the Company include the Fund, CanWel and BLC (the latter both as defined below) as the context may require. The information in this report is as at March 28, 2011, unless otherwise indicated. All amounts are reported in Canadian dollars.*

1. In the discussion, reference is made to EBITDA, which represents earnings from continuing operations before interest, provision for income taxes, gain or loss on sale of fixed assets, depreciation and amortization, goodwill impairment loss and stock-based compensation. This is a non-GAAP measure and, as there is no generally accepted method of calculating EBITDA, the measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. EBITDA is presented as we believe it is a useful indicator of a Company's ability to meet debt service and capital expenditure requirements and because we interpret trends in EBITDA as an indicator of relative operating performance. EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with Canadian GAAP.
2. In the discussion, reference is made to Adjusted EBITDA, which is EBITDA as defined above, before certain one time or unusual items. This is a non-GAAP measure and, as there is no generally accepted method of calculating Adjusted EBITDA, the measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. Adjusted EBITDA is presented as we believe it is a useful indicator of the Company's ability to meet debt service and capital expenditure requirements from its regular business, before non-recurring items. Adjusted EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with Canadian GAAP.
3. Reference is also made to Distributable Cash of the Fund. This is a non-GAAP measure generally used by Canadian open-ended income funds as an indicator of financial performance. The measure as calculated by the Fund might not be comparable to similarly-titled measures reported by other companies. Management believes that this measure provided investors with an indication of the cash available for distribution to unitholders. We defined distributable cash as cash flow from operating activities before changes in non-cash working capital and pension and other post-retirement benefits and after maintenance of business capital expenditure and contributions to any reserves the Board of Trustees (as they were) deemed to be reasonable and necessary for the operations of the Fund.
4. Reference is also made to Free Cash Flow of the Company. This is a non-GAAP measure generally used by Canadian companies as an indicator of financial performance. The measure as calculated by the Company might not be comparable to similarly-titled measures reported by other companies. Management believes that this measure provides investors with an indication of the cash available for distribution to shareholders of the Company. We define free cash flow as cash flow from continuing operating activities before changes in non-cash working capital and after maintenance of business capital expenditure.

# Business Overview

The Company is a leading Canadian national wholesale distributor of building materials, home renovation products and hardware and provides wood pressure treating services. On February 1, 2010, the Company acquired the operations of Broadleaf Logistics Company ("BLC") (see "Acquisition"). Prior to the Acquisition, the Company's subsidiary, CanWel Building Materials Ltd. ("CanWel"), operated from 16 distribution centres, and 4 pressure treatment plants, strategically located across Canada. The Acquisition added an additional 14 distribution centres. On November 15, 2010 the Company sold its hardware division to Tim-BR-Marts Ltd. (see "Sale of Hardware Division"). The hardware division operated from 4 distribution centres. The Company services the new home construction, home renovation and industrial markets by supplying the retail lumber and building materials industry, hardware stores, industrial and furniture manufacturers and similar concerns across Canada. On October 1, 2010, CanWel and BLC were legally amalgamated as part of the integration of their operations during late 2010 and early 2011.

Pursuant to a plan of arrangement (the "Arrangement"), which became effective May 18, 2005, CanWel Building Materials Income Fund (the "Fund") acquired 100% of the shares of CanWel in exchange for units of the Fund ("Fund Units") and exchangeable partnership units in a majority owned partnership of the Fund.

On February 1, 2010, pursuant to a plan of arrangement, the Fund converted (the "Conversion") into CanWel Holdings Corporation (which was continued federally and renamed in the name of the Company on May 11, 2010), a corporate entity. All of the outstanding Fund units and Class B exchangeable limited partnership interests of CanWel Holding Partnership ("CHP") were exchanged for common shares of the Company ("Common Shares") on a one-for-one basis. In addition, all of the outstanding options to acquire Fund units were exchanged for options to acquire an equal number of Common Shares on the same terms and all of the outstanding entitlements under the Fund's restricted equity unit plan became rights to acquire an equivalent number of Common Shares on the same terms. On February 1, 2010, the Fund was dissolved and all of its assets were transferred to, and all of its liabilities were assumed by, the Company, as the Fund's sole unitholder on that date. The Conversion occurred on a tax deferred basis.

The exchange of the units of the Fund to the Company was recorded at the carrying values of the Fund's assets and liabilities on February 1, 2010 in accordance with the continuity of interest method of accounting as the Company is considered to be a continuation of the Fund. Accordingly, this MD&A and the Company's consolidated financial statements for the period ended December 31, 2010 reflect CanWel as a corporation subsequent to the Conversion date and as an income trust prior thereto. All references to "shares" refer collectively to the Company's Common Shares on and subsequent to the Conversion date and to the Fund's units prior to the Conversion date, as the context may require. Similarly, all references to “shareholders” refer collectively to holders of the Common Shares on and subsequent to the Conversion date and to holders of the Fund’s units prior to the Conversion date, as the context may require.

Further detailed information regarding the Conversion, name change and continuation is contained in the Fund’s management information circular dated December 17, 2009 for the special meeting of unitholders of the Fund held on January 15, 2010 (the “Acquisition Circular”), the Company’s AIF dated March 30, 2010, and management information circular dated March 31, 2010 for its annual and special meeting held on May 11, 2010, available on SEDAR.
In the year ended December 31, 2010 the Fund and the Company declared distributions and dividends to unit and shareholders totaling $0.41.

**Subscription Receipts**

On December 17, 2009, the Fund issued 15,131,700 subscription receipts by way of private placement at a price of $3.80 per subscription receipt for gross proceeds of $57.5 million. Subject to the satisfaction of certain conditions related to the Conversion and the Acquisition (as defined below), each subscription receipt entitled the holder to receive one Fund unit without further action or payment immediately prior to the completion of the Conversion and the Acquisition (as defined below). On February 1, 2010, immediately prior to the Conversion and the Acquisition, all of the subscription receipts were exchanged for Fund units on a one-for-one basis. All of these Fund units were then exchanged for Common Shares as part of the Conversion.

**Acquisition**

On February 1, 2010, the Company purchased 100% of the outstanding common shares of BLC (the “Acquisition”), a private company which distributed building materials across Canada.

The purchase price for the Acquisition was satisfied through: (i) the issuance to the vendors of 10,250,000 Common Shares; (ii) the payment to the vendor of $20 million in cash; (iii) the issuance to the vendor of a secured subordinated interest bearing promissory note of the Company in the aggregate principal amount of US$18.5 million; and (iv) an adjustment based on the difference between net working capital of each of BLC and the Fund on the closing date, February 1, 2010.

Further detailed information regarding the Acquisition is contained in the Acquisition Circular available on SEDAR. Details of the purchase price and the allocation to the assets and liabilities assigned to the assets acquired and liabilities assumed are contained in Note 4 of the Company’s audited financial statements as at December 31, 2010.

**Unsecured Convertible Debentures**

On April 22, 2010, pursuant to a bought deal prospectus offering (the “Offering”), the Company issued $45.0 million of unsecured convertible debentures (“Debentures”) denominated in principal amounts of $1,000 each, resulting in proceeds of $42.7 million net of underwriting fees and costs of $2.3 million. The Debentures bear interest at an annual rate of 5.85% payable semi-annually in arrears on October 31 and April 30 in each year commencing on October 31, 2010, and have a maturity date of April 30, 2017.

Each Debenture is convertible into Common Shares at the option of the holder at any time prior to the close of business on the earlier of the maturity date and the business day immediately preceding the date specified by the Company for redemption of the Debentures at a conversion price of $6.40 per common share (the “Conversion Price”), being a conversion rate of approximately 156.25 Common Shares per $1,000 principal amount of debentures, subject to adjustment in accordance with the trust indenture governing the terms of the debentures.

The Debentures may not be redeemed by the Company on or before April 30, 2013. After April 30, 2013 and prior to April 30, 2015, the debentures may be redeemed by the Company, in whole or in part from time to time, on not more than 60 days and not less than 30 days prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted average trading price of the Common Shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On or after April 30, 2015 and prior to the maturity date, the debentures may be redeemed in whole or in part at the option of the Company on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest.

The Company used the net proceeds from the offering to repay part of its revolving term debt facility. The Company was then able to draw, as required, from increased availability on its credit facility.

**Sale of Hardware Division**

On November 15, 2010, the Company sold substantially all the assets and liabilities of its hardware division to Tim-BR-Marts Ltd. Accordingly, current and prior period results for this division have been reclassified as discontinued operations.

The hardware division distributed hardware and building material products through four facilities located in Quebec and Ontario. The decision to sell this division was based in part on a strategic determination to focus exclusively on the Company's core business of distributing building materials products. The Company used the net proceeds to reduce its bank indebtedness, thereby improving its balance sheet for future growth activities.

Total proceeds on sale were $50 million. Total assets and liabilities disposed of were $87.0 million and $29.0 million, respectively. The final working capital amount is subject to an adjustment based on agreed values at November 15, 2010. This has not yet been finalized. Note 3 of the Company's audited consolidated financial statements as at December 31, 2010, contains details of sales, pre-tax earnings, and cash flows of these discontinued operations.

## Seasonality

The Company's sales are subject to seasonal variances that fluctuate in accordance with the normal home building season. The Company generally experiences higher sales in the second and third quarters compared to the first and fourth quarters. This creates a timing difference between free cash 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.

## Distributions and Dividends to Shareholders

Following the Conversion, the Board of Directors reviews the Company's dividend periodically in the context of the Company's overall profitability, free cash flow, capital requirements and other business needs (see "Dividend Policy"),

The distribution policy of the Fund was to make distributions of its available cash to the maximum extent possible to unitholders. The Fund defined distributable cash as cash flow from operating activities before changes in non-cash working capital and pension and other post-retirement benefits and after maintenance of business capital expenditure and contributions to any reserves the Board of Trustees (as they then were) deemed to be reasonable and necessary for the operations of the Fund.

## Matter Affecting Comparisons

This MD&A includes certain comparisons of the results for the year ended December 31, 2010 to the results for the years ended December 31, 2009 and 2008, and the results for the fourth quarter of 2010 compared to those of the fourth quarter of 2009.

On November 15, 2010, the Company sold its hardware division (see "Sale of Hardware Division"). Accordingly current and prior period results of this division have been reclassified as discontinued operations.

# Results of Operations

## Selected Annual Information

| | Fiscal Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Sales ($ millions) (1) | $1,032.3 | $408.2 | $571.9 |
| Earnings before income taxes ($ millions) (1) | $22.9 | $14.0 | $13.3 |
| Earnings before income taxes before one time items ($ millions) (1)(2) | $25.1 | $15.0 | $13.3 |
| Net Earnings ($ millions) (1) | $15.7 | $15.7 | $13.3 |
| Net Earnings ($ millions) before one time items(1)(2) | $17.1 | $17.3 | $13.3 |
| Net earnings/(loss) ($millions) from discontinued operations | $(9.9) | $(2.0) | $3.6 |
| Net Earnings ($ millions) | $5.9 | $13.8 | $16.9 |
| | | | |
| Net Earnings per Share/Unit (Basic and Fully Diluted) (dollars) (1) | $0.27 | $0.45 | $0.38 |
| Net Earnings per Share/Share (Basic and Fully Diluted) (dollars) | $0.10 | $0.39 | $0.48 |
| | | | |
| Total Assets ($ millions) | $279.9 | $264.7 | $239.6 |
| Long-Term Debt ($ millions) (3) | $51.4 | $71.7 | $89.2 |
| Distributions declared to shareholders/unitholders ($ thousands) | $23,723 | $20,455 | $26,445 |
| Distributions declared to shareholders/unitholders (per share/unit) | $0.41 | $0.58 | $0.75 |
| Number of units/shares outstanding(4) | 58,603,332 | 35,061,385 | 35,263,507 |

1. From continuing operations.
2. One time items include Acquisition, Conversion and integration costs and foreign exchange gain.
3. Excludes current portion of long-term debt.
4. The number of units outstanding is the weighted average number of units outstanding for the year and includes securities exchangeable into units for no further consideration.

# Comparison of the Year Ended December 31, 2010 and December 31, 2009

A significant factor when comparing the results for the year ended December 31, 2010 to those for the same period in 2009, is that the current period's results include the operations of BLC from February 1, 2010.

# Sales and Gross Margin

Sales for the year ended December 31, 2010, were $1,032 million which compares $408 million in the same period in 2009, an increase of 152%. The increase in revenue related to both the inclusion of the operations of BLC for eleven months and an increase overall in the selling prices of construction materials (lumber and panel products) for this year period versus 2009. Further, sales volume increased due to the inclusion of BLC's business as well as increases in sales at the Company's legacy business operations, reflecting an improvement in the Canadian economy compared to 2009.

The downturn in the Canadian economy in 2009 had exerted downward pressure on housing construction in Canada which had negatively impacted the Company's revenues. In the year ended December 31, 2010, revenues were positively impacted by upward price pressure. Lumber products increased by 14%, oriented strand board products increased by 25% and plywood panel products pricing increased by 1%, compared to prices in 2009. However, in the second half of the year there was some significant price weakening from the increases experienced in the first half. The Company increased its market share in construction materials and our overall exposure to this market was 54% for the year.

Gross margin dollars increased to $106.4 million in the year compared to $55.1 million in 2009, a 93% increase. Gross margin percentage was 10.3% in the period, a decrease from the 13.5% achieved in 2009. This decrease in margin percentage is mainly due to the increase in construction materials in the Company's sales mix, flowing from the BLC operations.

## Expenses

Expenses for the year ended December 31, 2010 were $80.1 million as compared to $39.8 million for 2009, an increase of $40.3 million or 101%. This increase is solely explained by the inclusion of the BLC operations from February 1, 2010.

Distribution, selling and administration expense increased by $37.8 million, or 106%, to $73.5 million from $35.7 million in 2009, due to the inclusion of the operations of BLC. As a percentage of sales these expenses were 7.0% in the year, versus 8.3% in 2009.

The Company expensed $914,000 of costs related to the Acquisition and Conversion and $2.3 million of costs related to the re-organization of the BLC's operations in the year. In 2009 the Company incurred $1.9 million of costs related to the Acquisition and Conversion.

Share-based compensation cost in the year decreased to $247,000 compared to $383,000 in 2009, due to a decrease in the amount of shares issued in the period pursuant to the restricted equity common share plan. Depreciation and amortization expense increased by $1.3 million in the year to $3.1 million compared to $1.8 million in 2009, due to the amortization of intangible assets on the acquisition of BLC.

## Operating Earnings

For the year ended December 31, 2010, operating earnings of $26.3 million compared to $15.3 million in 2009, an increase of 72%. Excluding the costs related to the Acquisition and Conversion and the re-organization, operating earnings would have been $29.6 million compared to $17.3 million in 2009, an increase of 71%. The improvement in operating earnings is explained by the inclusion of the operations of BLC since February 1, 2010, as well as improved sales and lower distribution, selling and administration costs in the Company's legacy operations.

## Foreign Exchange Gain

On March 31, 2010, the Company repaid the US$18.5 million promissory note that was issued pursuant to the Acquisition on February 1, 2010. This resulted in a realized gain on exchange of $1.1 million. There was no such gain in 2009.

## Interest Expense

Interest expense for the year increased to $4.5 million from $1.3 million in 2009, an increase of $3.2 million or 246%. This increase was due to: (i) increased borrowings resulting from, and a higher interest rate on, the US$ promissory note issued pursuant to the Acquisition; (ii) the inclusion of the interest associated with the bank debt assumed on the Acquisition; (iii) increased seasonal working capital requirements due to the inclusion of BLC's operations; (iv) the higher interest rate on the Debentures; and (v) an increase in interest rates on the Company's revolving term loan debt due to the increase in the average prime rate in the year compared to 2009.

## Net Income Before Tax from Continuing Operations

For the year net income before tax was $22.9 million, compared to $14.0 million in 2009.

## Income Taxes

For the year the provision for income taxes was $7.1 million, compared to a recovery of $1.7 million in 2009. The difference in the tax provision is both a function of the higher pre-tax income as well as the conversion from an income trust structure on February 1, 2010, to a taxable corporation.

## Net Earnings from Continuing Operations

Net earnings from continuing operations for the year ended December 31, 2010 were $15.7 million compared to $15.7 million in 2009. The net earnings in 2009 were materially affected by the tax structure of the Fund, which resulted in a tax recovery in 2009, versus a charge this year, resulting in a difference of $8.2 million.

## Net Earnings from Discontinued Operations

On November 15, 2010 the Company sold its hardware division. The loss for the year amounted to $9.9 million compared to a loss of $2.0 million for 2009. The net after tax loss on the sale of the assets of the discontinued operations of $10.5 million is included in the loss for this year. Note 3 of the Company's 2010 Consolidated Financial Statements, provides further details.

## Net Earnings

Net earnings for the year ended December 31, 2010 were $5.9 million compared to $13.8 million in 2009. The difference in net earnings between the two years was substantially due to the loss from discontinued operations in 2010 and the tax structure of the Fund in 2009, which due to its inherent nature results in lower taxes payable and therefore, generally, higher net earnings.

# Fourth Quarter Results

A summary of the results for the three months ended December 31, 2010 and 2009 is as follows:

| | Three months ended | |
|---|---|---|
| **(in $ thousands, per Unit/Share in dollars)** | **December 31 2010** | **December 31 2009** |
| Sales | $177,843 | $85,504 |
| Gross margin | 19,101 | 12,416 |
| Distribution, selling and administration expenses | 17,749 | 8,492 |
| Depreciation and amortization | 1,479 | 431 |
| Unit-based compensation | 24 | 40 |
| | 19,252 | 8,963 |
| Operating (loss) income before one time items | (151) | 3,453 |
| Acquisition and conversion costs | - | 1,904 |
| Integration costs | 2,268 | - |
| Operating (loss) income | (2,419) | 1,549 |
| Interest | 1,021 | 244 |
| Earnings (loss) before tax from continuing operations | (3,440) | 1,305 |
| (Recovery of) Provision for income taxes | (349) | (661) |
| Net earnings (loss) from continuing operations | $(3,091) | $1,966 |
| Net earnings from discontinued operations | (10,457) | (2,165) |
| Net earnings | $(13,548) | $(199) |
| Net earnings (loss) from continuing operations before one time items | $(1,510) | $2,023 |
| Net earnings (loss) per share from continuing operations | (0.05) | 0.06 |
| Net earnings per share, discontinued operations | (0.17) | (0.06) |
| Net earnings (loss) per share | (0.22) | (0.01) |

Sales in the quarter were $178 million versus $86 million in the same period of 2009, an increase of $94 million or 107%. The increase in revenue related to both the inclusion of the operations of BLC for the quarter and a slight increase overall in the selling prices of construction materials (lumber and panel products) for this year's quarter versus the fourth quarter of 2009.

The average price for lumber was 11% higher, plywood 6% lower and OSB 7% higher, in the fourth quarter of 2010 compared to the same quarter of 2009. CanWel continued to maintain market share in construction materials and our overall exposure to this market was at 49% of total sales for the quarter, slightly lower than the 50% in the fourth quarter of 2009.

Gross margin dollars increased to $19.1 million in the quarter compared to $12.4 million in the same quarter in 2009. However, gross margin percentages decreased for the quarter to 10.7% versus 14.5% in the same period of 2009.

Distribution, selling and administration expense was $17.7 million, compared to $8.5 million in the same period of 2009, an increase of 108%. This increase was due to the inclusion of the operations of BLC. As a percentage of sales these expenses were 9.9% in the period, versus 9.5% in same period of 2009.

Depreciation and amortization expense was higher in this year's quarter as in the same quarter last year due to a charge in the quarter for the full year's amortization of intangible assets recognized on the acquisition of BLC.

Operating loss before one time items was $151,000 for the quarter compared to income of $3.5 million in the fourth quarter of 2009, a difference of $3.6 million. This was due to the full year's amortization charge in the quarter and the lower gross margin percentage achieved in the quarter compared to last year's quarter.

The Fund incurred $2.3 million of costs in the quarter related to the physical integration of BLC's operations, there were no similar costs in last year's quarter. Likewise, in the fourth quarter of 2009 the Company incurred $1.9 million of costs related to the Acquisition and Conversion and there were no similar costs in this year's quarter.

Operating loss for the quarter was $2.4 million compared to operating earnings of $1.5 million in the same quarter of 2009, a reduction of $3.9 million.

Interest costs for the quarter amounted to $1.0 million compared to $244,000 in the same quarter last year, primarily due to the same factors affecting the annual interest expense.

The loss before tax from continuing operations for the quarter was $3.4 million compared to earnings of $1.3 million in the fourth quarter of 2009. The recovery of income taxes in the fourth quarter amounted to $349,000 compared to a recovery of $661,000 in the same period last year.

Net loss from continuing operations for the fourth quarter amounted to $3.1 million compared to earnings of $2.0 million in the same quarter last year

The net loss from discontinued operations for the quarter was $10.5 million compared to a net loss of $2.2 million in the fourth quarter of 2009. The net after tax loss on the sale of the assets of the discontinued operations of $10.5 million is included in the loss for this year.

Net loss for the fourth quarter amounted to $13.5 million, compared to a net loss of $199,000 in the same quarter last year, due in the main part to the loss form discontinued operations.

# Summary of Quarterly Results

## For the Quarters ended:

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ millions, per share in dollars) | Dec 31 | Sep 30 | June 30 | March 31 | Dec 31 | Sep 30 | Jun 30 | Mar 31 |
| Sales[1] | 177.8 | 292.5 | 340.5 | 221.4 | 85.5 | 120.8 | 116.9 | 85.1 |
| EBITDA[1] | (0.9) | 9.0 | 15.3 | 7.5 | 2.0 | 8.4 | 7.2 | 0.0 |
| EBITDA before one time items[1] | 1.4 | 9.4 | 15.4[4] | 6.9 [4] | 3.9[4] | 8.4 | 7.2 | 0.0 |
| Earnings (loss) before tax[1] | (3.4) | 7.1 | 13.2 | 5.9 | 1.3 | 7.6 | 6.2 | (1.1) |
| Earnings (loss) before tax and one time items[1] | (1.2) | 7.5[4] | 13.4[4] | 5.4[4] | 2.2[4] | 7.6 | 6.2 | (1.1) |
| Net earnings (loss) [1] | (3.1) | 4.9 | 9.4 | 4.5 | 2.0 | 6.9 | 5.9 | 1.0 |
| Net earnings (loss) before one time items[1] | (1.5) | 5.2[4] | 9.5[4] | 4.0[4] | 3.6[4] | 6.9 | 5.9 | 1.0 |
| Net earnings (loss), discontinued operations | (10.5) | 0.3 | 0.6 | (0.4) | (2.2) | 0.1 | 1.5 | (1.5) |
| Net earnings (loss) | (13.5) | 5.2 | 10.0 | 4.2 | (0.2) | 7.0 | 7.4 | (0.4) |
| Net earnings (loss) per share[1][2] | (0.05) | 0.08 | 0.16 | 0.09 | 0.06 | 0.20 | 0.17 | 0.03 |
| Net earnings (loss) per share, discontinued operations | (0.17) | 0.01 | 0.01[4] | (0.01)[4] | (0.06)[4] | 0.00 | 0.04 | (0.04) |
| Net earnings (loss) per share2) | (0.22) | 0.09 | 0.17 | 0.08 | (0.01) | 0.20 | 0.21 | (0.01) |
| Dividends/Distributions per share/unit | 0.100 | 0.100 | 0.100 | 0.108 | 0.125 | 0.125 | 0.158[3] | 0.175 |

(1) From continuing operations.
(2) Basic and diluted.
(3) Monthly distribution reduced effective the June 2009 distribution.
(4) One time items refer to costs related to the Acquisition and Conversion, realized foreign exchange gain on debt repayment and reorganization costs.

The Company operates in a seasonal industry that fluctuates in accordance with the normal home building season. It generally experiences higher sales in the second and third quarters compared to sales in the first and fourth quarters.

# EBITDA

EBITDA for the three months ended December 31, 2010 was negative $915,000 compared to $2.0 million in the same quarter of 2009. For the year ended December 31, 2010, EBITDA was $30.8 million compared to $17.5 million in the same period of 2009.

The EBITDA for the year was impacted by three non-recurring items. The items are $3.3 million of costs related to the Acquisition, Conversion and reorganization, partially offset by a realized foreign exchange gain of $1.1 million on repayment of the US$ promissory note. Adjusted EBITDA before these items was $32.9 million for the year. This compares to $19.4 million Adjusted EBITDA in 2009.

The EBITDA for quarter was impacted by the one time costs. Adjusted EBITDA for the fourth quarter was $1.4 million, compared to $3.9 million in the same period of 2009.

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

| (in thousands of dollars) | Three months ended December 31 2010 | 2009 | Twelve months ended December 31 2010 | 2009 |
|---|---|---|---|---|
| Net Earnings (loss) from continuing operations | $(3,091) | $1,966 | $15,744 | $15,727 |
| Income tax provision (recovery) | (349) | (661) | 7,127 | (1,696) |
| Cash interest expense | 708 | 146 | 3,419 | 917 |
| Depreciation of property plant and equipment | 568 | 454 | 2,283 | 1,904 |
| Amortization of intangible and other assets | 930 | - | 930 | - |
| Amortization of deferred gain | (18) | (19) | (73) | (74) |
| Amortization of financing costs | 313 | 65 | 1,096 | 253 |
| Amortization of promissory notes | - | 33 | 11 | 129 |
| Stock-based compensation | 24 | 40 | 247 | 383 |
| EBITDA | $(915) | $2,024 | $30,784 | $17,544 |
| Acquisition and Conversion costs | - | 1,904 | 993 | 1,904 |
| Reorganization costs | 2,268 | | 2,268 | - |
| Realized foreign exchange gain | - | - | (1,102) | - |
| Adjusted EBITDA | $1,353 | $3,928 | $32,943 | $19,448 |

EBITDA, as currently defined by the Company, starts with net income from continuing operations. In previous disclosures EBITDA started with net earnings. This change in the definition of EBITDA was as a result of the required disclosure of the hardware division as discontinued operations in the audited financial statements. For increased clarity we note below the reconciliation to previously disclosed adjusted EBITDA:

| (in thousands of dollars) | Three months ended December 31 2010 | 2009 | Twelve months ended December 31 2010 | 2009 |
|---|---|---|---|---|
| Adjusted EBITDA as currently stated | $1,353 | $3,928 | $32,943 | $19,448 |
| EBITDA from discontinued operations | 938 | 406 | 5,535 | 4,771 |
| Adjusted EBITDA as previously reported | $2,291 | $3,522 | $38,478 | $24,219 |

# Financial Condition

## Liquidity and Capital Resources

During the year ended December 31, 2010, the Company generated $24.1 million in cash from continuing operations, versus $4.0 million in the same period of 2009. Discontinued operations consumed $4.1 million of cash in the year versus $7.1 million last year. The following activities during the period were responsible for the change in cash.

Operating activities generated $27.7 million in cash for the year ended December 31, 2010, compared to $28.5 million in 2009, a decrease of $0.8 million. This decrease was due to a difference of $9.0 million in cash flow flowing from changes in working capital, mostly offset by $8.2 million more cash generated from operations in the year compared to 2009.

Cash generated by operating activities, before working capital changes, amounted to $24.1 million in the year compared to $15.9 million in 2009, an improvement of $8.2 million. This reflects an increase in net before tax operating earnings year over year of $8.8 million.

During the year ended December 31, 2010, working capital changes generated $3.6 million of cash, compared to $12.6 million of cash generated in 2009, a difference of $9.0 million. Working capital in 2010 declined as a result of a $16.9 reduction in accounts receivable, partially offset by a $14.0 million reduction in accounts payable. In 2009 accounts receivable decreased by $4.8 million and inventory decreased by $7.0 million.

In the year ended December 31, 2010, financing activities consumed $29.9 million of cash, compared to consuming $24.2 million in 2009. During this year the conversion of the subscription receipts resulted in proceeds of $54.0 million (net of issuance costs of $3.6 million) and the issue of the Debentures resulted in proceeds of $45.0 million. This compares to proceeds of $240,000 last year from the issue of Fund Units. Cash distributions and dividends to unit and share holders totalling $19.1 million were paid compared to $21.0 million in 2009. During the year $18.7 million of cash was used to repay the promissory note issued at time of the Acquisition. The Company incurred $4.2 million in fees and costs in respect of the refinancing of the revolving term debt that took place in February 2010 and the issue of the Debentures. In this year's period the revolving long-term loan decreased by of $87.1 million, compared to a decrease of $2.8 million in the same period last year.

Investing activities in the year generated $26.3 million of cash versus consuming $261,000 last year. The difference between the two years is due to the cash proceeds from the sale of the hardware division of $50 million, less $3.2 million of costs related to the sale and the $20 million cash portion of the Acquisition that occurred on February 1, 2010. The total purchase price of the Acquisition was $87.2 million. This was satisfied by the cash payment of $20 million, the issuance of 10,250,000 Common Shares for deemed proceeds of $47.5 million, the issue of a promissory note of US$18.5 million and an amount for a working capital adjustment that has not yet been determined. Capital expenditures this year consumed $494,000 of cash, compared to $266,000 in 2009.

Discontinued operations consumed $816,000 of cash in the year versus $1.0 million last year. Operating activities in the year generated $7.5 million, whilst in 2009 they generated $14.2 million. The difference of $6.7 million between the years is due to working capital changes. Financing activities in the year, which was the repayment of the revolving loan, consumed $8 million of cash versus $16 million in 2009. There were no investing activities in the year, whereas in 2009 they generated $1 million in cash, which was due to a reduction in other assets.

During the year the Company renewed its revolving credit facility with Wachovia Capital Finance Corporation (Canada) (now Wells Fargo Capital Finance Corporation Canada) effective February 1, 2010, in conjunction with the Acquisition. The renewed and amended facility provides for a maximum indebtedness of $275 million, with an additional $50 million accordion facility and has a three-year term which expires on January 31, 2013. These facilities are in the nature of a revolving loan and the Company expects they will be sufficient to accommodate the daily operating needs of the Company. The facilities are limited to a defined percentage of the accounts receivable, inventory and land and buildings of the Company. At December 31, 2010, indebtedness under the revolving facility totalled $10 million and the Company is in compliance with the credit limits, security requirements and covenants of the facility.

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

## Total Assets

Total assets of the Company were $280 million at December 31, 2010, versus $265 million at December 31, 2009, an increase of $15 million. Current assets decreased by $20 million, this was due to reduction of $56 million of restricted cash pertaining to the subscription receipts held in escrow at December 31, 2009, partially offset by an increase in cash on hand of $19 million and an increase in accounts receivable of $8 million and inventories of $7 million. The balance of the increase in assets in the year was due to an increase of $63 million in goodwill, arising on the Acquisition and a $27 million decrease in fixed assets, primarily as a result of the impact on fixed assets by the sale of the hardware division.

## Total Liabilities

Total liabilities were $114 million at December 31, 2010, versus $183 million at December 31, 2009, a decrease of $69 million. This decrease was due to a decrease in current liabilities of $49 million, the result of a reduction in the subscription receipt liability of $57 million, partially offset by a $7 million increase in accounts payable and a $5 million increase in dividends payable. The balance of the decrease in liabilities, $17 million, was primarily due to a decrease of $20 million in long term debt, comprised of the revolving credit facility and the Debentures.

## Outstanding Unit/Share Data

As of December 31, 2009 the Fund was an unincorporated, open-ended, limited purpose trust, with an authorized capital of an unlimited number of Fund Units and special voting units.

On February 1, 2010, immediately prior to the Conversion and the Acquisition, all of the 15,131,700 subscription receipts that were issued on December 17, 2009 were exchanged for Fund Units on a one-for-one basis. All of these Fund Units were then exchanged for Common Shares as part of the Conversion.

On February 1, 2010, pursuant to the Conversion, the Fund converted into the Company. All of the outstanding Fund Units and Class B exchangeable limited partnership interests of CHP were exchanged for Common Shares on a one-for-one basis. In addition, all of the outstanding options to acquire Fund units were exchanged for options to acquire an equal number of Common Shares on the same terms and all of the outstanding entitlements under the Fund's restricted equity unit plan became rights to acquire an equivalent number of Common Shares on the same terms. Also, on February 1, 2010, the Company issued 10,250,000 Common Shares as part of the purchase price of the Acquisition.

As at March 28, 2011, there were 60,873,707 Common Shares issued and outstanding. In addition, at March 28, 2011 there were 1,138,415 common share options outstanding with exercise prices ranging from $2.125 to $4.25 and 60,637 Common Shares outstanding pursuant to the restricted equity common share plan of the Company.

## Distributions and Dividends

Distributable cash, distributable cash per basic unit, distributable cash per diluted unit and payout ratio are non-GAAP measures generally used by Canadian open-ended income funds as an indicator of financial performance. The Fund converted to a corporation on February 1, 2010 and as only one month of the quarter was while it was income fund, management believes the calculation of distributable cash for the one month period would not provide meaningful or useful information.

During the year ended December 31, 2010, the Fund declared distributions to unitholders of $0.04166 per unit and the Company declared dividends to shareholders of $0.36667 per share, resulting in aggregate distributions of $23.7 million.

The amounts and record dates of distributions and dividends declared were as follows:

| Record date | Amount $ | per unit/share $ |
|---|---|---|
| January 19, 2010 | 1,467 | 0.04166 |
| March 31, 2010 | 4,044 | 0.06667 |
| June 30, 2010 | 6,070 | 0.10000 |
| September 30, 2010 | 6,071 | 0.10000 |
| December 31, 2010 | 6,071 | 0.10000 |
| | 23,723 | 0.40833 |

The dividend declared on December 20, 2010, of $0.10 per share, totalling $6.1 million to shareholders of record on December 31, 2010, was accrued at December 31, 2010 and paid on January 14, 2011.

## Dividend Policy

Following the Conversion, the Board of Directors adopted a dividend policy with the intent to pay a quarterly dividend of $0.10 per share, which on an annualized tax affected basis to a taxable recipient is approximately equivalent to the annual distribution of $0.50 per unit that it was paying as an income trust. The Board of Directors intends to review the Company's dividend periodically in the context of the Company's overall profitability, free cash flow, capital requirements and other business needs.

Looking forward (see Forward-Looking Statements), 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 $0.10 per share will be maintained. Furthermore, the Company may not use future growth in its profitability or free cash flow, if any, to increase its dividend in the near or medium term, but may focus on reducing the ratio of its dividends paid to its net income or free cash flow and using any additional cash to pay down debt and fund business acquisitions or capital projects.

### Future and Contractual Obligations

The following table shows, as at December 31, 2010, the Company's contractual obligations within the periods indicated.

| Payment Made by Year<br>Contractual Obligations<br>(in thousands of dollars) | Total | 2011 | 2012-2013 | 2014-2015 | Thereafter |
|---|---|---|---|---|---|
| Long-Term Debt | $8,454 | $ — | $ 8,454 | $ — | $ — |
| Convertible Debenture | 45,000 | — | — | — | 45,000 |
| Operating Leases | 50,559 | 11,040 | 17,213 | 10,658 | 11,648 |
| Total Contractual Obligations | $104,013 | $11,040 | $25,667 | $10,658 | $56,648 |

### Hedging

The Company undertakes sale and purchase transactions in foreign currency and therefore, is subject to gains and losses due to fluctuations in foreign exchange rates.
The Company utilizes foreign exchange contracts to reduce exposure to fluctuations in foreign currency exchange rates. The Company does not purchase or hold forward exchange contracts for speculative purposes. As at December 31, 2010, there were no contracts held.

### Related Party Transactions

The Company has transactions with related parties in the normal course of operations at exchange amounts as agreed 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 $2,846,000 in the year ended December 31, 2010, compared to $2,558,000 in 2009. The minimum payments under the terms of these leases are as follows: $2,961,000 in 2011, $2,973,000 in each of 2012 and 2013, $2,182,000 in 2014 and $4,205,000 thereafter.

Effective July 1, 2010 a subsidiary of the Company entered into leases for certain distribution facilities from a company which is an affiliate of Rudy Holding II S.a.r.l. ("Rudy"), a shareholder of the Company. Jacob Kotzubei, a director of the Company, is a partner at an affiliate of Rudy. 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 $1,795,000 in 2010. The minimum payments under the terms of these leases are as follows: $1,855,000 in 2011, $1,252,000 in each of 2012, 2013, 2014 and 2015, and $5,851,000 thereafter.

During the year ended December 31, 2010, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of $748,000 (2009—$558,000) by a company owned by Rob Doman, an officer of the Company. Additionally, fees of $772,000 (2009—$756,000) were paid for fees and other services related to strategic and financial advice to a company solely controlled by Amar Doman, a director and officer of the Company.

During the year the Company purchased $5,183,000 of product from a company in which Amar Doman, a director and officer of the Company, has an ownership interest. These purchases are in the normal course of operations and are recorded at exchange amounts. As at December 31, 2010 payables to this related party were $11,000.

As at December 31, 2010, accounts receivable owed by Amar Doman, a director, in respect of advances for expenses totalled $46,000 (2009—$45,000).

Additional information is contained in note 14 of the 2010 Consolidated Financial Statements.

## Contingencies and Commitments

### Lease Commitments

The Company has operating lease commitments for the rental of most of its distribution centre and treatment plant properties in Canada and for vehicles, warehouse equipment, a computer hosting contract and the leasing of computer network communication lines. Future minimum payments due under the terms of these leases are as follows:

| Year ending December 31 (in thousands of dollars) | $ |
|---|---|
| 2011 | 11,040 |
| 2012 | 9,241 |
| 2013 | 7,972 |
| 2014 | 6,034 |
| 2015 | 4,624 |
| Thereafter | 11,648 |
| | 50,559 |

## 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 and, based on current knowledge, believes that they are without merit and does not expect that the outcome of any of these matters, 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 totalling $1.7 million (2009- $1.7 million) in respect of historical obligations, pre-dating 1999, for an unfunded closed pension fund for former executives.

## Sales Tax dispute

The Company is objecting to an interest charge of approximately $0.7 million that has been levied by way of a notice of assessment by a provincial tax authority on one of its subsidiaries. The interest is the result of a timing difference between the initial disallowance of input tax credit claims and their subsequent acceptance by the tax authority. There is no dispute on the eventual eligibility of the input tax credit claims and at no time was there any delay in remitting taxes. The Company believes that it will be successful with its appeal, but there can be no certainty on the outcome. The financial statements do not reflect any charge for this matter. Additional information is contained in note 16 of the 2010 Consolidated Financial Statements.

## Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Financial results as determined by actual events could differ from those estimates.

Significant areas requiring estimates are asset valuations, inventory, the composition of future income taxes, volume rebates, share-based compensation, intangible asset valuation and impairment, goodwill impairment, accounting for the Debentures provision for doubtful accounts and certain actuarial and economic assumptions used in the determination of the cost and accrued benefit obligations of employee future benefits.

The Company reviews the carrying value of future income tax assets periodically to ensure the carrying value is appropriate. The key factors considered are the Company’s future expectations of profitability and the timing of expiry of tax loss carryforwards.

Intangible assets comprise customer relationships and are amortized on a straightline basis over 10 years. The Company periodically reviews the useful lives and carrying values of its intangibles, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount, it is considered to be impaired. An impairment loss is equal to the carrying value in excess of the discounted estimated future cash flows expected to be generated by the asset.

Goodwill is the excess of the cost of acquired enterprises over the amounts assigned to the net assets acquired. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it may be impaired. The impairment test consists of a comparison of the fair value of the reporting unit with the carrying amount. When the carrying amount exceeds the fair value, the Company compares the fair value of goodwill related to the reporting unit to its carrying value and recognizes an impairment loss equal to the excess. The fair value of a reporting unit is calculated based on evaluations of discounted cash flows. The Company tested its goodwill for impairment in 2010 and has concluded that a write down is not required. The testing of goodwill impairment involves a significant amount of estimation including future sales volumes and prices, operating costs and the appropriate discount rate to apply. In all cases, the Company has used its best estimates of these future amounts. Given the current economic uncertainty, it is possible the Company's estimates will be updated in the future and that these updated estimates could result in the future impairment of goodwill.

The Company maintains two defined benefit pension plans which have been closed to new participants effective August 1, 2000. The annual funding requirements and pension expense are based on certain actuarial and economic assumptions (as disclosed in Note 11 of the 2010 Consolidated Financial Statements) determined by the Company as well as on actual investment returns on the pension fund assets. Based on the 2010 investment returns of the pension fund and the expected future return on plan assets, the Company anticipates that the required contributions for defined benefit plans in 2011 will be approximately $1.4 million, the same as that contributed in 2010.

The Debentures are compound instruments and the proceeds received are bifurcated to record the material fair value, if any, of the conversion feature with the residual being allocated to the debt portion of the Debentures. The fair value of the conversion feature and the debt was determined using a discounted cash flow model, which resulted in a non-material allocation of value to the conversion feature, and therefore 100% of the fair value was recorded as debt. Transactions costs offset the carrying value and are amortized over the expected life of the Debentures.

Management believes the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results may differ from these estimates.

# Changes in Accounting Policies

**New Accounting policies to the Company**

**Discontinued Operations**

The financial results for the Company's hardware division, which was sold on November 15, 2010, have been reclassified as discontinued operations. Operating results of a company's component disposed of by sale are reported as discontinued operations if the operations and cash flows of that component have been eliminated from the Company's current operations pursuant to the disposal and if the Company does not have significant continuing involvement in the operations of the component after the disposal transaction. The Company allocates interest on its parent company debt to discontinued operations on a relative net asset basis.

# Conversion to International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with IFRS for interim and annual financial statements for fiscal years commencing January 1, 2011. IFRS use a conceptual framework similar to that of Canadian GAAP, but includes major differences with respect to recognition, measurement, presentation and disclosure. In the period prior to conversion to IFRS, the International Accounting Standards Board (IASB) will continue to publish new accounting standards and, as a result, the final impact of IFRS on the Company's consolidated financial statements will be evaluated only when all IFRS standards applicable on the adoption date are known.

The Company intends to convert to these new standards according to the timetable set for these new rules. IFRS requires that in the year of implementation the comparative financial statements be restated to conform to the standards. The year of implementation for the Company is the fiscal year ending December 31, 2011.

The Company has prepared a comprehensive IFRS conversion plan and has commenced the process to transition from Canadian GAAP to IFRS. This plan addresses the changes in accounting policy, restatement of comparative periods, internal control over financial reporting, disclosure controls and procedures, modification of existing systems, staff training as well as other related business matters.

The project plan consists of three major phases:

**Assessment phase** – This phase involved identifying the differences between Canadian GAAP and IFRS. These differences were then analyzed to determine the possible effect on the Company including changes required to existing accounting policies and information systems, together with analysis of policy choices under IFRS.

**Design phase** – During this phase additional specialist personnel were be identified to assist as necessary on system and process changes. Training requirements for staff were assessed and appropriate training programs completed. In addition, optional exemptions for the first time adopters of IFRS and accounting policy choices under IFRS were evaluated.

**Implementation phase** – This phase includes execution of changes to information systems and business processes, obtaining authorization for recommended exemptions for first time adopters and for accounting policy choices. During this phase draft IFRS-compliant consolidated financial statements are in the process of being completed as at December 31, 2010 for approval of the Audit Committee.

All the phases are now substantially completed and the Company continues to monitor the development of new standards within IFRS as they are released. The Company has identified additional disclosure resulting from the adoption of IFRS and has implemented any required systems changes to compile the required disclosures.

To date, there have been no significant changes required to information technology systems or business processes to conform to IFRS. The adoption of IFRS is not expected to materially affect cash flows or debt covenant calculations.

A draft opening balance sheet prepared under IFRS at the date of transition (January 1, 2010) is being completed. Draft financial statements and disclosure information is being prepared for each quarter in 2010 (to be used for comparative purposes in 2011) and reporting under IFRS will commence for interim and annual periods in 2011.

The differences between IFRS and Canadian GAAP that affect the Company have been quantified based on IFRS in effect as at January 1, 2011, However, the accounting methods selected by management and their application may require adjustments before the publication of the annual financial statements for 2011 to reflect the impact of one or more of the following items: (i) the evaluation of financial reporting requirements as a result of new or revised standards issued by the IASB (ii) modification of accounting methods selected by management. In addition, the impacts outlined below have not all yet been audited and other differences could arise.

IFRS 1, First-time Adoption of International Financial Reporting Standards, provides for optional exemptions and mandatory exceptions to the general requirement of full retrospective application of IFRS. The Company has analyzed the various possible methods and will implement those considered most suitable.

The following are the main IFRS 1 exemptions that the company intends to use at transition:

***Business Combinations***

The Company can choose not to apply IFRS 3, Business Combinations, retrospectively at the date of changeover or at the earlier date of its choosing. The Company has chosen to apply IFRS 3 as of the date of transition, which is January 1, 2010, and no impact is anticipated at the transition date.

***Share-based Payment***

IFRS 2, Share-based Payment, applies without exemption to equity instruments granted after November 7, 2002, that will be vested after the transition date. The Company can choose to apply IFRS 2 retrospectively to equity instruments granted before November 7, 2002, or to all those vested at the transition date. The Company has elected to apply IFRS 2 only to grants after November 7, 2002, that will be vested after the transition date.

***Employee Benefits***

The Company can choose to recognize all unamortized actuarial gains and losses in retained earnings at transition date. The Company intends to use this exemption. The defined benefit asset at January 1, 2010 of $12.4 million will now be a liability of $2.5 million, a difference of $14.9 million and the other benefits liability will be reduced by $876,000.

The Company has identified the main difference between IFRS and Canadian GAAP that have a major impact on the Company's consolidated financial statements, and the resulting adjustments on changeover to IFRS. Most of the adjustments required for the transition to IFRS will be applied retrospectively to opening retained earnings at the date of the first statement of Consolidated financial position (balance sheet) prepared under IFRS. The following adjustments are to be made on January 1, 2010, to convert the Company's Canadian GAAP balance sheet to its opening IFRS statement of financial position and their impacts are as follows:

***Leases***

IAS 17, "Leases", indicates that for sale and leaseback transactions at fair value, which result in an operating lease contract for the leases, all gains must be immediately recorded in income. Under Section 3065, "Leases" of Canadian GAAP, a gain from sales was deferred and recorded in income over the duration of the lease. The anticipated impact at transition is the deferred gain as at December 31, 2009 of $449,000 will be reversed to retained earnings. The anticipated future impact to the Company's before-tax results will be reduced by $72,000 annually until 2016.

***Employee Benefits***

IAS 19, "Employee Benefits", allows actuarial gains or losses to be accounted for as follows:

a) recognition in income of a portion of excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligations and the fair value of plan assets through amortization over the average remaining service period of the active employees (the corridor approach");
b) recognition immediately in income; or
c) recognized immediately in comprehensive income without subsequent reversal of income.

The Company will use the corridor approach, which is the method currently used in compliance with Canadian GAAP. It is anticipated that there will be no impact due to this policy choice. The impact at transition can be attributed to the application of IFRS 1 exemption as discussed earlier. No impact is anticipated at the date of transition. The impact on 2010 results has not yet been determined.

***Impairment of Assets***

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IAS 36, "Impairment of Assets", uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell, and value in use. This may potentially result in more write-downs where carrying values of assets were not previously impaired under Canadian GAAP when compared to undiscounted cash flows, but could be impaired under IFRS when compared to fair value or value in use. However, the extent of any new write-downs may be partially offset by the requirement under IAS 36 to reverse any previous impairment losses where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits reversal of impairment losses. No impact is anticipated at the date of transition or on the 2010 results.

***Provisions, Contingent Liabilities and Contingent Assets***

IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", requires a provision to be recognized when there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation, where "probable" in this context, means more likely than not. The criteria for recognition in the financial statements under Canadian GAAP, is "likely", which is a higher threshold than "probable". Therefore, it is possible that there may be some contingent liabilities which would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP. Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the mid-point of the range, whereas Canadian GAAP uses the low-end of the range), and the requirement under IFRS for provisions to be discounted where material. No impact is anticipated at the date of transition or on the 2010 results.

***Business Combinations***

IFRS 3 (Revised), "Business Combinations", requires that transaction costs incurred during the acquisition of a business be charged as expenses. According to Section 1581, "Business Combinations", of Canadian GAAP formerly applied by the Company, the costs related directly to the acquisition are part of the capitalized costs of the transaction. In addition, under Canadian GAAP certain reorganization and integration costs could be capitalized as part of the purchase consideration, whilst IFRS does not allow this. During the year ended December 31, 2009, the Company adopted CICA Handbook Section 1582, which provides the Canadian equivalent to IFRS 3 (Revised). Details of this accounting policy are contained in Note 2 of the audited consolidated financial statements of the Fund as at December 31, 2009. As a result, no impact is anticipated on transition.

***Income Fund Trust Units***

There was uncertainty regarding the classification the Company's Fund Units under IFRS prior to conversion to a corporation on February 1, 2010, because the Fund's trust declaration granted the trustees discretion to avoid paying cash distributions by issuing additional Fund Units in certain situations. The Company anticipates classifying the Fund Units as equity at the date of transition.

***Presentation of Financial Statements***

There are a number of presentation changes and reclassifications amongst line items on the financial statements that are expected under IFRS. In addition, IFRS requires significantly more financial statement note disclosure than that under Canadian GAAP standards. The Company has amended its financial reporting processes to ensure appropriate data is collected.

In conclusion, preparations for the transition to IFRS are advancing according to plan. A number of adjustments to the financial statements are foreseen as soon as IFRS is adopted. According to the results to date, the Company is confident that the transition will meet all requirements.

# Disclosure Controls and Internal Controls Over Financial Reporting

**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.

Management evaluated the effectiveness of these controls that were in effect at the end of the reporting period and, based on this evaluation, concluded that the Fund's internal controls over financial reporting and the disclosure controls and procedures were effective as at December 31, 2010, except as outlined in the "Limitation on Scope of Design" noted below.

**Changes in Internal Control Over Financial Reporting**

There has been no changes in the Company's internal controls over financial reporting during the year ended December 31, 2010 that has affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Limitation on Scope of Design**

We have limited the scope of our evaluation of the effectiveness of internal control over financial reporting to exclude controls, polices and procedures of BLC, which was acquired effective February 1, 2010. As part of its due diligence procedures and in subsequent work, management evaluated the design of internal controls and procedures at BLC and did not identify any significant deficiencies.

Subsequent to the Acquisition, management commenced an integration process of the CanWel operations and the BLC operations. The ultimate result of this integration process is that the joint operations will be conducted within the internal control framework in place at CanWel. BLC and CanWel were legally amalgamated on October 1, 2010 and the final systems integration process was completed early in 2011. As a result, management tested the operating effectiveness of internal control over financial reporting at only the CanWel operations as at December 31, 2010. In 2011, management will evaluate both the design and operating effectiveness of DC&P and ICFR for the integrated entity in accordance with the requirements of NI 52-109.

The scope limitation is in accordance with section 3.3(1)(b) of NI 52-109 to which this MD&A relates, which allows an issuer to limit its design of DC&P and ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days prior to the end of the fiscal period.

The majority of customers and products sold by BLC are common with the existing operations of the Company. Following the Acquisition in the early part of 2010, the operations of BLC and the Company were organized to optimize the servicing of customers from the location best suited. Additionally, a number of functions including product and customer management were allocated across the Company's existing management and the management of BLC. Commencing in the final quarter of 2010, the operations of BLC were integrated with those of the Company.

In these circumstances management believe the disclosure of the revenue and net income of BLC, to the extent that it is separable, would not provide the reader of this scope limitation any further useful information.

# Risks and Uncertainties

The Company is subject to normal business risks associated with distribution firms operating within the building materials industry in Canada, which are described in greater detail in our AIF dated March 30, 2010, and our public filings on SEDAR, which the reader is encouraged to review, as the following is only intended to be a summary. Demand for the Company's products is significantly dependant upon the home renovation and new home construction markets that are cyclical in nature. The renovation and new home construction markets have sensitivity to many market factors including availability of credit, interest rates, employment and income levels. A significant change in any or all of these factors could have a material effect on the Company's financial performance. In addition, there are numerous risks associated with an investment in Common Shares, which are also further described in our AIF dated March 31, 2010 and our public filings on SEDAR. We urge the reader to review these filings and descriptions in detail as not all risks are set out below and they are only summarized herein.

Approximately 54% of the Company's revenue comes from commodity type products. The risk associated with commodity type products is two-fold: 1) the movement up or down of the average price has a direct impact on the Company's revenues and margins; and 2) price volatility on the down side could have a negative impact on inventory valuations, revenues and margins.

A material change in the financial health of the Company's customers or suppliers within the value chain would have a negative impact on the Company's performance. The Company's ability to effectively manage growth of sales and margins with the Company's customers, source products from the Company's supply base, manage and control internal expenses and manage credit facilities with its customer base could also negatively impact the Company's performance.

## Dependence on Market Economic Conditions

Demand for the Company's products depends significantly upon the home improvement, new residential and commercial construction markets. The level of activity in the home improvement and new residential construction markets depends on many factors, including the general demand for housing, interest rates, availability of financing, housing affordability, levels of unemployment, shifting demographic trends, gross domestic product growth, consumer confidence and other general economic conditions, in both Canada and the USA. Since such markets are sensitive to cyclical changes in the economy, future downturns in the Canadian and/or United States economies could have a material adverse effect on the Company.

## Information Systems Risk

CanWel's enterprise resource planning ("ERP") system provides information to management which is used to evaluate financial controls, reporting and sales analysis and strategies. There can be no assurance that the ERP or other systems will provide the information and benefits expected by management. CanWel may also experience disruptions in its business and a diversion of management's attention to CanWel's business relating to the ERP system. Any of these factors could have a material adverse impact on CanWel's business and results of operations, and accordingly the Company.

## Environmental Risks

With the completion of the acquisition of our pressure treatment business, the Company could, as lessee, be liable for the cost of the removal and remediation at the plants under various federal, provincial and local laws and regulations. The remediation costs and other costs required to clean up or treat contaminated sites could be material. Contamination on and from the Company's sites may subject it to liability to third parties or government authorities for injuries to persons, property or the environment and could adversely affect the Company's ability to operate these plants and therefore could have a material adverse impact on the Company's performance.

## Sales and Margin Risk

As a distributor, the Company's profitability depends on its ability to maintain and grow sales to its customers and to sustain its profit margins. If the Company's cost of goods increases, for example through increased prices from suppliers for products or increases in commodity prices for products the Company has already agreed to sell, operating costs increase or if competitors compete more aggressively with the Company, its sales or margins, or both, would be adversely affected. Some of the Company's competitors may bundle products that compete with those of the Company's for promotional purposes or as a long-term pricing strategy or provide guarantees of prices and product implementations. These practices could, over time, limit the prices that the Company can charge for its products. In such circumstances, if the Company cannot offset price reductions with a corresponding increase in sales or with reduced expenses, then the Company's margins and operating results would be adversely affected.

## Competition

The Company faces competition from one or more competitors in all geographic areas where its Distribution Centres are located. The Company competes with distributors, product manufacturers that engage in direct sales and mass merchandisers. There can be no assurance that the Company's principal competitors will not be successful in capturing, or that new competitors will not emerge and capture, a share of the Company's present or potential customer base. In addition, it is possible that some of the Company's suppliers or customers could become competitors of the Company if they decide to distribute their own building materials products. Furthermore, if one or more of the Company's competitors were to merge or partner with another of its competitors, the change in the competitive landscape could adversely affect the Company's ability to compete effectively. Disruptions in the Company's business caused by these events could reduce its revenues and materially adversely affect the Company.

## Supply of Commodities and Volatility of Commodity Prices

The financial performance of the Company is directly influenced by the cost of certain commodity products, such as plywood, oriented strand board, panel boards and lumber, which are subject to significant volatility. There can be no assurance that the Company's manufacturers or suppliers will continue to have these commodity products available to them at reasonable prices or that significant increases in the costs of such commodities or that significant decreases in pricing negatively impacting revenues and margins, will not materially adversely affect the operations or financial results of the Company.

## Inventory Risk

Large sales volumes and low gross margins characterize the wholesale forest products and building materials distribution industry. It is highly sensitive to price, quality, timeliness of delivery and continuity of supply. In addition, demand for some of the Company's products is cyclical and prices can change rapidly. The Company's buying practices are designed to minimize the risk of rapidly changing prices, although there can be no assurance that such practices will reduce risk. Substantially all purchases are made based on current orders and anticipated sales, and substantially all sales are made against inventory or product on order. Inventory levels are monitored in an attempt to achieve balance between maximum inventory turnover and optimal customer service. However, as a wholesale building products distributor, the Company maintains significant quantities of inventory, the value of which is subject to the risk of changing prices.

## Renewals of Supply and Customer Arrangements Are Not Guaranteed

The majority of the Company's supply and customer arrangements vary significantly in length. Most arrangements are for individual purchase orders and are satisfied upon delivery of the goods to the customer. Some arrangements involve customers purchasing goods several months in advance of delivery. These arrangements, known as bookings, vary in length but are generally less than nine months long. There can be no assurance that these customers will renew their bookings or continue to place purchase orders with the Company.

## Supply-Side Risks

As is customary in the building materials/distribution industry, the Company does not have long-term contracts with any of its major suppliers. Although the Company believes that it has access to similar products from competing suppliers, any disruption in the Company's sources of supply, particularly of the most commonly sold items or any material fluctuation in the quality, quantity or cost of such supply, could have a material adverse effect upon the Company's results of operations and financial condition. Supply shortages occur at times as a result of unanticipated demand, production difficulties or delivery delays. In such cases, building material and commodity suppliers often allocate products among distributors. Future supply shortages may occur from time to time and may have a short-term material adverse effect on the Company's results of operations and financial condition.

## Acquisition Risk

A key component in the Company's growth strategy is to complete acquisitions or other business combinations. Acquisitions and business combinations involve inherent risks, including assumption of transaction costs, risk of non-completion, undisclosed liabilities, assimilation and successfully managing growth. While CanWel conducts extensive due diligence and takes steps to ensure successful assimilation, factors beyond CanWel's control could influence the results of acquisitions. In addition, CanWel continually seeks acquisition candidates in selected markets and from time to time engages in exploratory discussions with suitable candidates. There can be no assurance, however, that CanWel will be able to identify, acquire and integrate appropriate businesses or obtain financing for such acquisitions on satisfactory terms. There can also be no assurance that competition for acquisition candidates will not escalate, thereby increasing the costs of making acquisitions. In addition, the process of integrating a company's business into CanWel's operations may result in operating difficulties and expenditures, may absorb significant management attention that would otherwise be available for the ongoing development of CanWel's business, may cause disruptions to the ongoing business, may involve the assumption of significant disclosed and undisclosed liabilities and may result in unanticipated expenses, events or circumstances and possibly charges to operating results. There can be no assurance that a given acquisition, whether or not consummated, would not have an adverse effect on the Company's business or results of operations.

## Importation of Foreign Products

Similar products to those distributed by the Company may be imported into North America from countries with low labour costs. Any increase in the importation of products similar to those distributed by the Company by other parties could increase competition for distributors in North America. An increase in such imports in North America could reduce the Company's sales and opportunities for growth and adversely affect the Company's business, financial condition and results of operations.

## Customer Risk

The Company does not have long-term contracts with any of its major customers. As a result, the loss of any of the Company's major customers could have a material adverse effect upon the Company's results of operations and financial condition.

## Credit Risk

The Company extends credit facilities to its customers, which are generally unsecured. Although the Company has a system of credit management in place, there is a risk that some of the Company's customers may not be able to meet their obligations when they become due. The loss of a large receivable would have substantial adverse effect on the Company's profitability.

## Interest Rate Risk

The Company is a building materials distribution company, which utilizes significant leverage to finance day-to-day operations. The interest cost of the loans is prime-based. Increases in prime lending rates may reduce net profits after tax. In addition, increases in interest rates or interest costs could negatively impact the business of the Company's customers, and potentially adversely affect the Company's business, financial condition and results of operations. Based on the Company's average variable rate debt levels the sensitivity of a 1% increase in interest rates would result in an approximate decrease of $350,000 in before tax earnings and EBITDA.

## Litigation Risk

In the normal course of business, the Company is involved in various legal proceedings which arise from time to time, some of which may be substantial. In view of the nature of the claims and the quantum of the amounts claimed, management does not believe that any of the legal actions or proceedings that are presently known or anticipated by the Company is likely to have a material adverse affect on its financial position. However, any claim against the Company could result in the Company incurring significant costs that could have a material adverse affect on its financial position.

## Availability of Credit

The Company relies on access to a revolving term credit facility in order to finance its ongoing operations. Although the Company's present facility does not expire until January 31, 2013, there can be no assurance that the Company will be able to secure credit on the same terms or amount when the current facility expires. Additionally, the lack of availability of credit for the Company's customers from their lenders could reduce the Company's revenues, which would have an adverse affect on the Company's results of operations.

## Risks Relating to Debentures

The likelihood that a holder of Debentures will receive payments owing to them under the terms of the Debentures will depend on the Company's financial condition and creditworthiness. The indenture dated April 22, 2010 between the Company and BNY Trust Company of Canada (the "Indenture") contains limited covenant protection. The Debentures are unsecured obligations of the Company and are subordinate in right of payment to all of the Company's existing and future senior indebtedness.

If the Company becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the Company's assets will be available to pay its obligations with respect to the Debentures only after it has paid all of its senior indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding.

The Debentures are also effectively subordinate to claims of creditors of the Company's subsidiaries except. The Indenture does not prohibit or limit the ability of the Company to incur additional debt or liabilities (including senior indebtedness) or to pay dividends on the Common Shares except in respect of dividends where an event of default under the Indenture has occurred and such default has not been cured or waived.

The effects of certain transactions on the Debentures could substantially lessen or eliminate the value of the conversion privilege. In the event that a change of control of Company occurs, holders of Debentures will have the right to require the Company to redeem the Debentures in an amount equal to 100% of the principal amount of the Debentures, plus accrued and unpaid interest until the date of redemption. In the event that persons holding 90% or more of the Debentures exercise their right to require the Company to redeem the Debentures, the Company may acquire the remaining Debentures on the same terms. In such event, the conversion privilege associated with the Debentures would be eliminated.

The Debentures may also be redeemed, at the option of the Company, at any time and from time to time on and after April 30, 2013, subject to certain conditions for redemptions prior to April 30, 2015, at a price equal to the principal amount thereof plus accrued and unpaid interest. Holders of the Debentures should assume that this redemption option will be exercised if the Company is able to refinance at a lower interest rate or if it is otherwise in the interest of the Company to redeem the Debentures.

The Company may be required to purchase all outstanding Debentures upon the occurrence of a change of control of the Company. However, it is possible that following a change of control, the Company will not have sufficient funds at that time to make any required purchase of outstanding Debentures or that restrictions contained in other indebtedness will restrict those purchases.

## Risks associated with the BLC Acquisition

**Integration of the Combined Business**

The success of the Acquisition will depend, in part, on the ability of management of the Company to realize the anticipated benefits and cost savings from integration of the businesses of the Company and BLC. The integration of the businesses of the Company and BLC may result in significant challenges, and management of the Company may be unable to accomplish the integration smoothly or successfully or without spending significant amounts of time and/or money. It is possible that the integration process could result in the loss of key employees, the disruption of the respective ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the ability of management of the Company to maintain relationships with clients, customers, suppliers, employees or to achieve the anticipated benefits of the Acquisition.

The integration of BLC requires the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. There can be no assurance that management of the Company will be able to integrate the operations of each of the businesses successfully or achieve any of the synergies or other benefits that are anticipated as a result of the Acquisition. Any inability of management to successfully integrate the operations of the Company and BLC, including, but not limited to, information technology and financial reporting systems, could have a material adverse effect on the business, financial condition and results of operations of the Company.

**Supplier Risk**

The Company and BLC each distribute building products that are manufactured or supplied by a number of major suppliers. As is customary in the building materials distribution industry, the Company and BLC generally do not have long-term contracts with any of their major suppliers. In addition, in a number of instances the Company and BLC currently purchase similar products from different producers, with the result that certain overlaps, redundancies or conflicting exclusivity arrangements will be created when their respective businesses are combined. As a result, Management expects that following the Acquisition there will be some degree of attrition in the number of suppliers and range of products available to the Company as compared to what was available to the Company or BLC, in the aggregate, as opposed to the Company and BLC as stand-alone entities. The loss of any of the Company's or BLC's major suppliers or any significant number of existing suppliers of the Company or BLC could have a material adverse effect upon the Company's results of operations and financial condition.

**Results of Operations and Financing Risks**

Management believes that, based on its expectations as to the future performance of the Company, the cash flow from its operations and funds available to it under its credit facilities will be adequate to enable the Company to finance its operations, execute its business strategy and maintain an adequate level of liquidity. However, expected revenue and the costs of planned capital expenditures are only estimates. Actual cash flows from operations are dependent on regulatory, market and other conditions that will be beyond the control of the Company. As such, no assurance can be given that Management's expectations as to future performance will be realized. In addition, Management's expectations as to the future performance of the Company reflect the current state of its information about BLC and its operations and there can be no assurance that such information is correct or complete in all material respects.

**Management of Expanding Operations**

As a result of the Acquisition, significant demands will be placed on the managerial, operational and financial personnel and systems of the Company. No assurance can be given that such systems, procedures and controls will be adequate to support the expansion of operations of the Company. The future operating results of the Company will be affected by the ability of its officers and key employees to manage changing business conditions and to implement and improve its operational and financial controls and reporting systems. If the Company is unsuccessful in managing such demands and changing business conditions, its financial conditions and results of operations could be materially adversely affected.

**Realization of Acquisition Benefits**

Management believes that the Acquisition will provide a number of benefits to the Company. However, there is a risk that some or all of the expected benefits of the Acquisition may fail to materialize, or may not materialize within the time periods anticipated by Management, which could materially adversely affect the financial conditions or results of the Company. The realization of such benefits may be affected by a number of factors, many of which are beyond the control of the Company.

# Outlook

Although the economic climate in Canada improved during 2010, the most recent Bank of Canada forecast of overall economic growth for 2011 is 2.4%. Now that the hardware division has been sold and the BLC operations substantially integrated, the Company's focus in the near term is to grow market share while continuing to improve its gross margins and maintaining tight controls over expenses. The Company is committed to enhancing the offering of specialty products to the Canadian market. Management's focus on cash flow, primarily consisting of the management of inventory and accounts receivable, remains paramount.

In comparison to 2009, the environment for single family new home construction improved in 2010, but has moderated somewhat in the final quarter and into 2011. In 2010 starts were 189,930. The Canadian Mortgage Housing Corporation's ("CMHC") latest forecast is for 2011 housing starts to fall to 177,600 and then rise to 183,800 in 2012. Further, in February the Canadian Real Estate Association forecasted the housing resale activity to fall to 439,900 in 2011 from 447,010 in 2010. Recent increases in mortgage rates and tighter lending requirements imposed by the CMHC also cast a shadow over the outlook overall for housing starts in 2011.

We are encouraged with the completion of our systems integration of operations of BLC, but cautious as to the pricing environment for construction materials at the start of 2011. U.S. housing starts have still shown little signs of a recovery and therefore no clear sign of a commodity price improvement, unless caused by new supply side corrections. In addition, recent major international developments have the potential to threaten some of the nascent economic improvements. Therefore, we will keep a close eye on our customers and continue to carefully manage our costs in line with their activity so that the Company can be well positioned to participate in the economic recovery and therefore be ready to work hard to translate revenue gains into higher EBITDA, cash flow and earnings.