



CanWel®

CanWel Building Materials Group Ltd.

Third Quarter Report 2012

CanWel Building Materials Group Ltd.

Management's Discussion and Analysis

November 6, 2012

This Management's Discussion and Analysis ("MD&A") provides a review of the significant developments that have impacted CanWel Building Materials Group Ltd. (the "Company"), in the quarter ended September 30, 2012 relative to the same quarter of 2011. 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, 2011, (the "2011 Consolidated Financial Statements"). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to the preparation of interim financial statements.

This MD&A and the associated Unaudited Interim Condensed Consolidated Financial Statements for the period ended September 30, 2012 (the "Interim Financial Report") contains historical information, descriptions of current circumstances and statements about potential future developments and anticipated financial results, performance or achievements of the Company, the fund 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", "Dividend Policy" and "Liquidity and Capital Resources". When used in this MD&A, such statements may contain such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the negative of these terms or other similar terminology. Forward-looking information in the Interim Financial Report includes, without limitation, statements regarding funding requirements 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 Interim Financial Report and are subject to risks which are described in our Annual Information Form ("AIF") dated March 30, 2012 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, key executive risk and litigation risks. In addition, there are numerous risks associated with an investment in common shares or our convertible debentures, which are also further described in the "Risks and Uncertainties" section in this Interim Financial Report and in the "Risk Factors" section of our AIF dated March 30, 2012, 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; post acquisition operation of the business; 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 Interim Financial Report is qualified by these cautionary statements. Although the forward-looking information contained in this Interim Financial Report is based on upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements included in this Interim Financial Report may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this Interim Financial Report.

The forward-looking statements contained in this Interim Financial Report are made as of the date of this report, and should not be relied upon as representing management's views as of any date subsequent to the date of this report. Except as required by applicable law, the Company undertakes no obligation to publicly update or otherwise revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

References to the Company include CanWel and BLC (both as defined below) as the context may require. The information in this report is as at November 6, 2012, 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 not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, and therefore the measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. EBITDA is presented as we believe it is a useful indicator of a Company's ability to meet debt service and capital expenditure requirements and because we interpret trends in EBITDA as an indicator of relative operating performance. EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with IFRS.
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 not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, and 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 IFRS.
3. Reference is also made to free cash flow of the Company. This is a non-IFRS measure generally used by Canadian companies as an indicator of financial performance. The measure as calculated by the Company might not be comparable to similarly-titled measures reported by other companies. Management believes that this measure provides investors with an indication of the cash available for distribution to shareholders of the Company. We define free cash flow as cash flow from continuing operating activities before changes in non-cash working capital and pension and other post-retirement benefits and after maintenance of business capital expenditures.

Business Overview

The Company is a leading Canadian national wholesale distributor of building materials and home renovation products and provides wood pressure treating services. On February 1, 2010, the Company acquired the operations of Broadleaf Logistics Company ("BLC") (the "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 numerous additional distribution centres, which operations have now been integrated as the CanWel Broadleaf Division. On November 15, 2010 the Company sold its hardware division to Tim-BR-Marts Ltd. 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. Further information about the Acquisition, the sale of Hardware Division and the Company's conversion from an income fund (the "Conversion") and subsequent financings may be found in the Company's filings on SEDAR. All references to "shares" refer collectively to the Company's Common Shares on and subsequent to the Conversion date and to the income fund's units prior to the Conversion date, as the context may require.

Purchase of Northwest Wood Preservers' Assets

On February 1, 2012, the Company completed the purchase of Northwest Wood Preservers' assets including the vendor's lumber pressure treating plant and related equipment and property in Prince George, BC (the "NWT assets").

Results of Operations

Comparison of the Quarter Ended September 30, 2012 and September 30, 2011

Sales and Gross Margin

Sales for the quarter ended September 30, 2012 were $198 million, which compares to $196 million in the same period in 2011, an increase of 1.0%. The increase in revenue relates primarily to continuing improved market conditions for commodity products together with additional treated wood sales volumes. The additional treated wood sales volumes were supported by the purchase of the NWT assets in the first quarter of 2012, while in 2011 the Company's Alberta treating facility was closed due to weather related damage and the facility remained closed in 2012.

Contributing to the increase in sales volume in the quarter was the Company's ongoing focus on its customers and the market development of its product portfolio. The Company's sales in the quarter were made up of 55% of construction materials compared to 49% in the same quarter last year, with the balance resulting from specialty and allied products. The increase in sales of construction materials is attributable to the improved market conditions in this category relative to 2011.

Gross margin dollars decreased to $21.9 million in the quarter compared to $22.2 million in the same quarter of 2011, a 1.4% decrease. Gross margin percentage was 11.1% in the quarter, a decrease compared to the 11.3% achieved in the same quarter of 2011. This decrease in margin percentage is mainly due to higher mix of construction materials in our overall sales compared to the prior period.

Expenses

Expenses for the quarter ended September 30, 2012 were $14.7 million as compared to $17.5 million for the same quarter in 2011, a decrease of $2.8 million or 16.0%. The decline in expenses represents the Company's continued focus on cost management and operational synergies since acquiring and completing the integration of BLC.

Distribution, selling and administration expense decreased by $1.6 million, or 10.3%, to $14.0 million from $15.6 million in the third quarter of 2011. The decline in distribution, selling and administration expense is a result of the completion of the integration of the BLC operations and the Company's focus on cost management. As a percentage of sales these expenses were 7.1% in the quarter, versus 7.9% in the same quarter of 2011.

In the quarter the Company expensed $nil of one-time costs related to the integration of BLC's operations compared to $1.2 million in the same quarter of 2011.

Share-based compensation cost in the quarter was $34,000, consistent with the share-based compensation cost in the same period in 2011. Depreciation and amortization expense decreased by $101,000 in the quarter to $379,000 compared to $480,000 in the same quarter of 2011. Increases in depreciation expense resulting from the purchase of NWT assets this year were more than offset by reductions resulting from certain assets becoming fully depreciated during 2012.

Operating Earnings

For the quarter ended September 30, 2012, operating earnings were $7.2 million compared to earnings of $4.7 million in the same quarter of 2011, an increase of $2.5 million or 53.2%. Excluding integration costs, operating earnings would have been $7.2 million compared to $5.9 million in the third quarter of 2011. The net improvement in results from operations is explained primarily by the Company's focus on costs and developing operational synergies.

Finance Costs

Finance costs for the third quarter of 2012 were $1.5 million, consistent with the expense in the same period in 2011. In addition to interest costs, finance costs for the current quarter include $260,000 relating to the amortization of financing costs compared to $332,000 in the same quarter in 2011.

Earnings Before Income Taxes

For the quarter earnings before tax were $5.7 million, compared to earnings of $3.2 million in the same quarter of 2011, an increase of 78.1%. The improvement in earnings before tax is explained by higher operating earnings attributable to cost reductions and synergies.

Income Taxes

For the quarter, income tax expense was $1.5 million, compared to $990,000 in the same quarter of 2011. The increase in tax expense is explained by the Company's higher pre-tax income.

Net Earnings

As a result of foregoing factors, net earnings for the quarter ended September 30, 2012 were $4.2 million compared to net earnings of $2.2 million in the same quarter of 2011, representing an increase of 90.9%.

Comparison of the Nine Month Period Ended September 30, 2012 and September 30, 2011

Sales and Gross Margin

Sales for the nine month period were $560 million which compares to $555 million in the same period in 2011, an increase of 0.9%.

Contributing to the increase in sales volumes were improved building conditions together with the Company's continued focus on its customers and the market development of its product portfolio. A key factor impacting sales volume was an improvement in the pricing of goods within the construction material category of approximately 5 to 10% across categories, driven by increased demand. The increase in sales of construction materials was partially offset by a decline in sales of specialty and allied building products in 2012. Despite the decline in specialty and allied building product sales, the Company's focus on preservation and enhancement of margin has contributed to positive financial results.

The Company's sales in the nine month period were made up of 57% construction materials compared to 50% in the same period last year.

Gross margin dollars were $61.7 million in the nine month period compared to $62.9 million in the same period in 2011, a 1.9% decrease. Gross margin percentage was 11.0% in the period, a decrease from the 11.3% achieved in the same period of 2011. The decline in margins in 2012 is explained primarily by the increase in sales of construction materials which typically yield lower gross margins; however, the stronger construction materials market in the second and third quarters mitigated the impact of the significant change in sales mix.

Expenses

Expenses for the nine months ended September 30, 2012 were $44.3 million as compared to $56.5 million for the same period of 2011, a decrease of $12.2 million or 21.6%.

Distribution, selling and administration expense decreased by $8.2 million, or 16.4%, to $41.7 million from $49.9 million in the same period of 2011. The decline compared to 2011 is a result of the Company benefiting from the prior completion of its integration activities combined with a continued focus on cost management. In 2012 the Company expensed $nil of integration costs compared to $4.0 million of costs related to the integration in 2011.

Share-based compensation cost in the period decreased to $103,000 compared to $406,000 in the same period of 2011, due to a decrease in activity pursuant to the restricted equity common share plan. Depreciation and amortization expense increased by $356,000 in the period to $2.5 million compared to $2.2 million in the same period of 2011, due mainly to the amortization of the recently purchased NWT assets.

Operating Earnings

For the nine months ended September 30, 2012, operating earnings increased by $11.0 million to $17.3 million. The increase is primarily due to a $12.2 million reduction in expenses, resulting from the consolidation of product lines, distribution centers, and staffing optimization. This focus on reducing costs, synergies and efficiencies has resulted in the significant improvement in operating earnings.

Finance Costs

Finance costs for the nine month period increased to $4.5 million from $4.4 million in the same period last year, an increase of $108,000 or 2.5%. In addition to interest costs, finance costs in the first nine months of 2012 include $779,000 relating to the amortization of financing costs compared to $977,000 in the same period in 2011.

Earnings Before Income Taxes

Earnings before tax for the nine month period ended September 30, 2012 were $12.9 million compared to $2.0 million in the same period of 2011, reflecting the aforementioned operational performance.

Income taxes

For the nine months ended September 30, 2012, the provision for income taxes was $3.4 million, compared to $1.0 million in the same period last year. The increase in the tax expense is due to the higher pre-tax income in 2012.

Net Earnings

As a result of foregoing factors, net earnings for the nine months ended September 30, 2012 were $9.5 million compared to $1.0 million in the same period of 2011.

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.

Dividend Policy

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.

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 $0.07 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.

Summary of Quarterly Results

For the Quarters ended:

All periods according to IFRS	2012			2011				2010
(S millions, per share in dollars)	30 – Sep	30 – Jun	31 – Mar	31 – Dec	30 – Sep	30 – Jun	31 – Mar	31 – Dec
Sales(1)	197.6	206.7	155.8	138.3	196.4	204.7	153.5	177.8
EBITDA(1)	7.9	9.8	2.3	0.8	5.4	6.3	(2.8)	(0.1)
EBITDA before one-time items(1)(3)	7.9	9.8	2.3	0.0	6.7	7.1	(0.8)	2.1
Earnings (loss) before income taxes(1)	5.7	7.2	0.0	(1.5)	3.2	4.0	(5.1)	(3.4)
Earnings (loss) before income taxes and one-time items(1)(3)	5.7	7.2	0.0	(2.4)	4.4	4.8	(3.1)	(1.2)
Net earnings (loss)(1)	4.2	5.3	0.0	(1.7)	2.2	2.6	(3.8)	(3.1)
Net earnings (loss) before one-time items(1)(3)	4.2	5.3	0.0	(2.3)	2.9	3.2	(2.4)	(1.5)
Net earnings (loss), discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(10.5)
Net earnings (loss)	4.2	5.3	0.0	(1.7)	2.2	2.6	(3.8)	(13.5)
Net earnings (loss) per share(1)(2)	0.07	0.09	0.00	(0.01)	0.04	0.04	(0.06)	(0.05)
Net earnings (loss) per share, discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(0.17)
Net earnings (loss) per share (2)	0.07	0.09	0.00	(0.03)	0.04	0.04	(0.06)	(0.22)
Dividends per share	0.07	0.07	0.07	0.10	0.10	0.10	0.10	0.10

1. From continuing operations.
2. Weighted average basic shares / units outstanding in period.
3. One-time items refer to costs related to the integration of BLC, Acquisition and Conversion, realized foreign exchange gain on debt repayment and insurance proceeds.

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[1,2] for the three months ended September 30, 2012 was $7.9 million compared to $5.4 million in the same quarter of 2011, an increase of 46.3%. EBITDA in the third quarter of 2011 was impacted by the one-time costs of $1.2 million related to the integration of BLC. Adjusted EBITDA before these one-time items was $7.9 million for the quarter, which compares to $6.7 million Adjusted EBITDA in last year's quarter.

EBITDA increased by $11.0 million from $9.0 million for the nine months ended September 30, 2011 to $20.0 million for the first nine months of 2012. EBITDA for the nine month period of 2011 was impacted by one-time costs of $4.0 million related to the integration of BLC. Adjusted EBITDA before these one-time items was $20.0 million in 2012 compared to $13.0 million in 2011.

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 not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, and therefore the measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. EBITDA is presented as we believe it is a useful indicator of a Company's ability to meet debt service and capital expenditure requirements and because we interpret trends in EBITDA as an indicator of relative operating performance. EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with IFRS.
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 not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, and 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 IFRS.

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

	Three months ended September 30		Nine months ended September 30	
(in thousands of dollars)	2012	2011	2012	2011
Net Earnings	$4,176	$2,199	$9,485	$1,033
Income tax expense	1,542	990	3,408	1,010
Cash interest expense	1,236	1,157	3,680	3,374
Depreciation of property, plant and equipment	379	480	1,797	1,441
Amortization of intangible assets	250	250	750	750
Amortization of financing costs	260	332	779	977
Share-based compensation	34	34	103	406
EBITDA	$7,877	$5,442	$20,002	$8,991
Integration costs	-	1,228	-	4,018
Adjusted EBITDA	$7,877	$6,670	$20,002	$13,009

Financial Condition

Liquidity and Capital Resources

During the nine months ended September 30, 2012, the Company consumed $2.7 million in cash, compared to $23.1 million in the same period of 2011. The following activities during the period were responsible for the change in cash.

Operating activities consumed $2.4 million in cash for the nine months ended September 30, 2012, compared to $10.0 million in the same period of 2011, a decrease in cash utilized of $7.6 million. This decrease in cash utilized is a result of $9.7 million more cash generated from operations in the period compared to 2011 due to the improvement in operating earnings partially offset by $2.1 million in more cash utilized due to changes in non-cash working capital.

During the nine months ended September 30, 2012, working capital changes required $20.9 million of cash, compared to $18.8 million in the same period of 2011, a difference of $2.1 million. Working capital in the period decreased as a result of a $33.7 million seasonal increase in accounts receivable and a $0.7 million decrease in inventory. These changes were partially offset by an increase in accounts payable of $9.5 million. In the same period of 2011 accounts receivable increased by $31.4 million, inventory decreased by $3.5 million and accounts payable increased by $6.0 million. The changes in working capital in this and the prior year's periods are due to the seasonal nature of the business.

In the nine months ended September 30, 2012, financing activities generated $7.2 million of cash, compared to consuming $11.9 million in the same period of 2011. Shares issued during the period generated $53,000 of cash compared to $519,000 in the nine months ended September 30, 2011. In the first nine months of 2012, the Company used $4.8 million to repurchase Common Shares under its Normal Course Issuer Bid ("NCIB") compared to $nil in the same period in 2011. Dividends to shareholders holders amounted to $14.2 million in the period, compared to $18.3 million in the same period of 2011. Cash interest in 2012 was $3.7 million compared to $3.4 million in 2011. In the first nine months of 2012 the revolving loan facility increased by $29.1 million, compared to $9.2 million in the same period last year. Investing activities in the nine month period consumed $7.5 million of cash for capital expenditures, including the purchase of the NWT assets, compared to $1.1 million in the first nine months of 2011.

During the first quarter of 2010 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 Company expects to conclude terms for renewing the revolving credit facility arrangements prior to the existing facilities' maturity date on January 31, 2013. The facilities are limited to a defined percentage of the accounts receivable, inventory and land and buildings of the Company. At September 30, 2012, indebtedness under the revolving facility totaled $37.4 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 lease obligations require monthly installments and these payments are all current.

Total Assets

Total assets of the Company were $270 million at September 30, 2012, versus $237 million at December 31, 2011, an increase of $33 million. Current assets increased by $30 million, due to the seasonal increase of $36 million in trade accounts receivable, partially offset by a decrease in prepaid expenses of $3 million.

Total Liabilities

Total liabilities were $155 million at September 30, 2012, versus $114 million at December 31, 2011, an increase of $41 million. This increase is primarily a result of the seasonal increase in accounts payable of $9 million, and additional borrowings of $29 million on the Company's revolving loan facility, which is used to finance the seasonal working capital requirements of the Company.

Outstanding Share Data

As at November 6, 2012, there were 57,593,489 Common Shares issued and outstanding. Impacting this balance were 3,423,800 shares repurchased and as of the date hereof, pursuant to the Company's NCIB program. In addition, as of the date hereof, there were 1,138,415 common share options outstanding with exercise prices ranging from $2.125 to $4.25 and 10,015 Restricted Stock Units outstanding pursuant to the restricted equity common share plan of the Company.

Dividends

During the nine months ended September 30, 2012, the Company declared quarterly dividends to shareholders of $0.07 per share, resulting in aggregate dividends declared of $12.3 million. A dividend was declared on September 15, 2012, to shareholders of record on September 30, 2012, and was accrued at September 30, 2012 and paid on October 12, 2012.

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 may utilize 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 September 30, 2012, there were no such 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 $2.3 million in nine months period ended September 30, 2012, compared to $2.2 in the same period in 2011. In the first nine months of 2012 the Company received a gross tenant improvement allowance of $765,000 pursuant to amendments to two of the above noted lease agreements compared to $nil in the same period of 2011. The Company received net cash of $692,000, as the balance was applied against certain aspects due under the lease obligations. The minimum payments under the terms of these leases are as follows: $0.6 million in 2012, $2.7 million in 2013, $2.7 million in 2014, $2.7 million in 2015, $2.7 million in 2016, and $9.4 million 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 $nil in the nine months period ended September 30, 2012 (2011 - $1.8 million) as during the year of 2011 these properties were acquired from Rudy by parties unrelated to the Company or Rudy.

During the nine months ended September 30, 2012, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of $438,000 (2011—$486,000) by a company owned by Rob Doman, an officer of the Company. Additionally, fees of $534,000 (2011—$513,000) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman, a director and officer of the Company.

During the nine month period the Company purchased $3.9 million (2011—$4.1 million) of product from a public company in which Amar Doman, a director and officer of the Company, has an ownership interest and is also a director and officer. These purchases are in the normal course of operations and are recorded at exchange amounts. As at September 30, 2012, payables to this related party were $97,000 (2011—$186,000).

As at September 30, 2012, accounts receivable owed by Amar Doman, a director, in respect of advances for expenses totaled $30,000 (2011—$47,000).

Additional information is contained in note 14 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended September 30, 2012 and note 24 of the 2011 Consolidated Financial Statements.

Commitments and Contingencies

Future and Contractual Obligations

In addition to its revolving loan facility and convertible debentures, 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.

The following table summarizes the Company's contractual obligations as at September 30, 2012. Payments on convertible debentures and the revolving loan facility include cash interest and principal payments based on applicable due dates:

Payment Made by Year Contractual Obligations (in thousands of dollars)	Total	Remainder of 2012	2013-2014	2015-2016	Thereafter
Revolving loan facility[1]	$ 37,979	$ 434	$37,545	$ -	$ -
Convertible debentures[2]	58,162	1,316	5,265	5,265	46,316
Operating Leases	55,791	2,487	18,521	15,031	19,752
Total Contractual Obligations	$151,932	$4,237	$61,331	$20,296	$66,068

1. Interest has been calculated based on the average borrowing under the facility for the nine months ended September 30, 2012 utilizing the interest payable under the terms of the facility at September 30, 2012. This facility matures on January 31, 2013.
2. Under the indenture governing its convertible debentures the Company is required to make semi-annual interest payments at a rate of 5.85% on October 31 and April 30. These debentures mature on April 30, 2017.

Claims

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

Guarantees

The Company has issued letters of credit totaling $1.6 million (2011- $1.7 million) in respect of historical obligations, pre-dating 1999, for an unfunded closed pension fund for former executives.

Significant Accounting Judgments and Estimates

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. Significant areas requiring estimates are goodwill and related impairment testing, inventory valuation and obsolescence, deferred tax assets and liabilities valuation, recoverability of accounts receivable, and certain actuarial and economic assumptions used in the determination for the cost and accrued benefit obligations of employee future benefits.

Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill at September 30, 2012 relates to the Company’s historic acquisition of a wood pressure treatment business as well as the acquisition of Broadleaf Logistics Company in 2010. Goodwill is not amortized, but is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. Goodwill impairment is assessed based on a comparison of the fair value of a reporting unit to the underlying carrying value of that reporting unit’s net assets, including goodwill. When the carrying amount of the reporting unit exceeds its fair value, the fair value of goodwill related to the reporting unit is compared to its carrying value and excess of carrying value is recognized as an impairment loss.

Employee future benefits

The cost of defined benefit pension plans and other post- employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future.

Discount rate

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have maturity profiles that are similar to the underlying cash flows of the defined benefit obligation.

Expected return on assets

The determination of benefit expense requires assumptions as to the expected return on assets available to fund pension obligations. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value and historical returns together with the asset profile are considered in determining an appropriate rate of return. Actual results may differ from results which are estimated based on assumptions.

Other assumptions

The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates.

Inventory valuation

Under IFRS, inventories must be recognized at the lower of cost or their Net Realizable Value (“NRV”), which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. IFRS requires that the estimated NRV be based on the most reliable evidence available at the time the estimates are made of the amounts that inventories are expected to realize. The measurement of an inventory write-down to NRV is based on the Company’s best estimate of the NRV and of our expected future sale or consumption of our inventories. Due to the economic environment and continued volatility in the homebuilding market, there is uncertainty as to whether the NRV of the inventories will remain consistent with those used in our assessment of NRV at period end. As a result there is the risk that a write-down of on hand and unconsumed inventories could occur in future periods. Also, a certain portion of inventory may become damaged or obsolete. A slow moving reserve is recorded, as required, based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence.

Allowance for doubtful accounts

It is possible that certain accounts receivable may become uncollectible, and as such an allowance for these doubtful accounts is maintained. The allowance is based on the estimated recovery of accounts receivable and incorporates current and expected collection trends. These estimates will change, as necessary, to reflect market or specific industry risks, as well as known or expected changes in the customers’ financial position.

Income taxes

At each balance sheet date, a deferred income tax asset may be recognized for all tax deductible temporary differences, unused tax losses and income tax reductions, to the extent that their realization is probable. The determination of this requires significant judgment. This evaluation includes review of the ability to carry-back operating losses to offset taxes paid in prior years; the carry-forward periods of the losses; and an assessment of the excess of fair value over the tax basis of the Company’s net assets. If based on this review, it is not probable such assets will be realized then no deferred income tax asset is recognized.

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

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.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2012 that has affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risks and Uncertainties

The Company is subject to normal business risks associated with distribution firms operating within the building materials industry in Canada, which are described in greater detail in our AIF dated March 30, 2012, our MD&A contained in our annual consolidated financial report for 2011 and our public filings on www.sedar.com, which the reader is encouraged to review.

Outlook

The Bank of Canada currently projects overall economic growth in Canada at 2.2% in 2012 and 2.3% in 2013. The bank, however, has expressed concern over increasing levels of consumer debt in Canada, and the negative impact that could have on the housing market, when interest rates eventually begin to rise. With the integration of BLC completed in 2011, the Company's focus in the near term remains to improve market share while continuing to optimize gross margins and maintain tight controls over expenses. The Company is committed to enhancing its offering of specialty and allied products to the Canadian market. Management's focus on cash flow, primarily consisting of the management of inventory and accounts receivable, remains paramount.

The seasonally adjusted annualized rate for Canadian housing starts was 222,974 in Q3 2012 compared to 205,817 in Q3 2011. CMHC forecasts full year 2012 housing starts of 207,200 compared to 2011 housing starts totaling 193,950. The Canadian Real Estate Association expects 466,600 existing homes to change hands in Canada in 2012, a 2% increase over sales of existing homes in 2011. While tighter lending requirements recently imposed by the CMHC have not yet manifested into materially lower housing start numbers or resale home activity, there can be however, no assurances this may not occur.

The Company is now seeing the impact year over year of the cost synergies being realized in the first nine months of 2012. We expect these synergies to continue to be clearly demonstrated through the remainder of 2012. In the third quarter of 2012 prices for construction materials continued to improve as a result of seasonal demand and reductions in product availability. U.S. housing starts are continuing to improve; however, have not yet demonstrated a sustained recovery, and therefore there are no clear signs of a commodity price improvement beyond current levels, unless caused by new supply side corrections. In addition, ongoing recent major international economic developments have the potential to threaten or reverse any short-term economic improvements. Therefore, we will continue to 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 appropriately positioned to participate in an economic recovery and be ready to work hard to translate revenue gains into higher EBITDA, cash flow and earnings.