Canwel Building Materials Group Ltd.

Consolidated Financial Statements
(Unaudited)

For the three and nine months ended September 30, 2011 and 2010
(in thousands of Canadian dollars)

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements

Under National Instrument 51-102 “Continuous Disclosure Obligations”, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor, PricewaterhouseCoopers, has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

November 2, 2011

Condensed Consolidated Balance Sheet

(Unaudited)

(Stated in thousands of Canadian dollars)

	Notes	As at September 30, 2011 $	As at December 31, 2010 $
Assets			
Current assets			
Cash and cash equivalents		-	19,175
Accounts receivable			
Trade	9	81,893	48,783
Other	9	3,080	4,825
Inventories	10	74,885	80,291
Prepaid expenses		2,508	3,656
		162,366	156,730
Non-current assets			
Property, plant and equipment		2,928	3,224
Intangible assets		8,333	9,083
Deferred income tax assets		9,608	9,202
Goodwill		91,606	91,606
Other financial assets		-	8
		112,475	113,123
Total assets		274,841	269,853
Equity and liabilities			
Current liabilities			
Bank indebtedness		3,879	-
Trade and other payables		55,733	49,735
Dividends payable	12	6,094	6,071
		65,706	55,806
Non-current liabilities			
Borrowings	11	18,203	8,454
Convertible debentures	11	43,146	42,901
Deferred amounts		1,089	216
Pension benefits	7	6,461	2,423
Post retirement benefits	7	4,615	4,474
		73,514	58,468
Total liabilities		139,220	114,274
Shareholders' Equity			
Shareholders' capital		252,224	251,333
Contributed surplus		4,268	4,228
Deficit		(106,441)	(89,193)
Accumulated other comprehensive income	7	(14,430)	(10,789)
Total equity		135,621	155,579
Total equity and liabilities		274,841	269,853
Nature of operations	1		
Commitments for expenditures	16		

The accompanying notes are an integral part of these consolidated financial statements.

Condensed Consolidated Statement of Earnings (Loss) and Comprehensive Earnings (Loss)
(Unaudited)
(Stated in thousands of Canadian dollars, except per share amounts)

		Three months ended September 30,		Nine months ended September 30,	
		2011	2010	2011	2010
	Notes	$	$	$	$
Revenue		196,401	292,608	554,601	854,503
Cost of sales		174,179	264,180	491,687	767,163
Gross Margin from operations		22,222	28,428	62,914	87,340
Expenses					
Distribution, selling and administration		15,552	19,073	49,905	55,762
Share-based compensation	12	34	23	406	222
Depreciation of property, plant and equipment		480	502	1,441	1,489
Amortization of intangible assets and other assets		250	61	750	158
Acquisition costs		-	398	-	712
Conversion costs		-	-	-	281
Integration costs		1,228	-	4,018	-
		17,544	20,057	56,520	58,624
Operating earnings from continuing operations		4,678	8,371	6,394	28,716
Finance costs	6	(1,489)	(1,241)	(4,351)	(3,506)
Foreign exchange gain on promissory note	5	-	-	-	1,102
Earnings before tax		3,189	7,130	2,043	26,312
Income tax expense	13	(990)	(2,267)	(1,010)	(7,476)
Net earnings from continuing operations		2,199	4,863	1,033	18,836
Income from discontinued operations	4	-	346	-	572
Net earnings		2,199	5,209	1,033	19,408
Other Comprehensive Income, Net of Tax	7	(3,641)	-	(3,641)	-
Comprehensive earnings (loss)		(1,442)	5,209	(2,608)	19,408
Net earnings (loss) per share					
Basic and diluted - continuing operations		0.04	0.08	0.02	0.33
Basic and diluted - net earnings		0.04	0.09	0.02	0.34
Weighted average number of shares outstanding	12				
Basic		60,899,706	60,701,559	60,858,975	56,380,446
Diluted		61,020,151	60,929,599	60,980,238	56,608,448

CANWEL BUILDING MATERIALS GROUP LTD.

Condensed Consolidated Statement of Changes in Shareholder's Equity

(Unaudited)
(in thousands of Canadian dollars)

	Common Shares		Fund Units		Exchangable Partnership Units					
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total
Balance December 31, 2010	60,709,681	251,333	-	-	-	-	4,228	(89,193)	(10,789)	155,579
Shares issued pursuant										
Restricted Equity Common Share Plan	100,922	372					(372)			-
Stock option plan	106,668	453								453
Employee Common Share Purchase Plan	20,682	66								66
Stock-based compensation charged to operations							406			406
Accrued dividends on unvested restricted shares (note 12)							6	(6)		-
Dividends (note 12)								(18,275)		(18,275)
Net income and comprehensive income for the period								1,033	(3,641)	(2,608)
Balances, September 30, 2011	60,937,953	252,224	-	-	-	-	4,268	(106,441)	(14,430)	135,621
Balance January 1, 2010			24,060,204	112,365	11,144,279	36,486	4,338	(71,320)	(9,992)	71,877
Units issued pursuant to Employee										
Unit Ownership Plan - for cash			14,732	52						52
Balance prior to conversion to corporate entity			24,074,936	112,417	11,144,279	36,486	4,338	(71,320)	(9,992)	71,929
Exchange of fund units for common shares	24,074,936	112,417	(24,074,936)	(112,417)						-
Exchanges of exchangeable partnership units for										
common shares	11,144,279	36,486			(11,144,279)	(36,486)				-
Shares issued pursuant										
Private Placement	15,131,700	57,500								57,500
Share issue costs net of deferred tax asset	-	(2,944)								(2,944)
Business acquisition	10,250,000	47,458								47,458
Restricted Equity Common Share Plan	94,273	368					(368)			-
Employee Common Share Purchase Plan	14,493	48								
Stock-based compensation charged to operations							223			223
Accrued dividends on unvested restricted shares (note 12)							11	(11)		-
Dividends								(17,652)		(17,652)
Net earnings and comprehensive income for the period								19,408		14,203
Balances, September 30, 2010	60,709,681	251,333	-	-	-	-	4,204	(69,575)	(9,992)	170,717

(in thousands of Canadian dollars, except per unit/share amounts)

Condensed Consolidated Statement of Cash Flows
(Unaudited)

		Three months ended September 30,		Nine months ended September 30,	
		2011	2010	2011	2010
(Stated in thousands of Canadian dollars)	Notes	$	$	$	$
Cash flows from operating activities					
Net earnings from continuing operations for the period		2,129	4,863	963	18,834
Depreciation of property, plant and equipment		480	502	1,441	1,516
Net change in pensions and other post-retirement benefits		(432)	(236)	(878)	(338)
Amortization of:					
Intangible assets		250	-	750	-
Other assets and deferred amounts		216	61	656	132
Interest expense	6	1,489	1,241	4,351	3,506
Future income tax expense (recovery)		1,060	2,267	1,080	7,476
Future income taxes paid (recovered)		-	(416)	-	(1,643)
Foreign exchange gain on repayment of promissory note		-	-	-	(1,102)
Share-based compensation		34	24	406	223
		5,226	8,306	8,769	28,604
Net change in non-cash working capital	17	40,532	56,927	(18,814)	(28,338)
Net cash generated from operating activities		45,758	65,233	(10,045)	266
Cash flows from financing activities					
Shares issued for cash		32	48	519	57,600
Share issuance costs		-	-	-	(3,626)
Dividends paid		(6,092)	(6,070)	(18,253)	(13,048)
Interest paid		(1,157)	(926)	(3,373)	(2,958)
Repayment of promissory note	5	-	-	-	(18,680)
Financing costs on borrowings		-	-	(138)	(4,251)
Increase in deferred amounts		225		225	
Net increase in convertible debentures		-	-	-	45,000
Net increase (decrease) in revolving loan facility		(36,261)	(51,330)	9,156	(40,823)
Net cash generated from financing activities		(43,253)	(58,278)	(11,864)	19,214
Cash flows from investing activities					
Business acquisition	5	-	-	-	(20,000)
Net decrease in other financial assets		-	(203)		(202)
Purchase of property plant and equipment		(606)	(63)	(1,145)	(84)
Net cash used in investing activities		(606)	(266)	(1,145)	(20,286)
Net (increase) decrease in bank indebtedness		1,899	6,689	(23,054)	(806)
Net (increase) decrease in bank indebtedness from discontinued operations		-	1,234	-	3,265
Cash and cash equivalents (bank indebtedness) - Beginning of period		(5,778)	(9,571)	19,175	(4,107)
Net cash (bank indebtedness) - End of period		(3,879)	(1,648)	(3,879)	(1,648)
Non-cash financing activities					
Shares issued for business acquisition	5	-	-	-	47,458
Promissory note issued for business acquisition	5	-	-	-	19,782

(in thousands of Canadian dollars, except per unit/share amounts)

1 NATURE OF OPERATIONS

CanWel Building Materials Group Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Federal Government of Canada and its shares are listed on the TSX. The Company operates through its wholly owned subsidiaries in Canada as a national distributor of building materials, hardware and home renovation products and provides pressure treating services.

Prior to February 1, 2010, these operations were owned by CanWel Building Materials Income Fund (the "Fund"). On February 1, 2010, the Fund was converted, on a tax deferred basis, from an open-ended limited purpose trust to a dividend-paying corporation (the "Conversion") pursuant to a plan of arrangement under the Business Corporations Act (British Columbia). Pursuant to the Conversion, the Company acquired all of the outstanding units of the Fund ("Units"), in exchange for Common Shares, on the basis of one Common share for each Unit. Other securities exercisable or exchangeable for Units were either exchanged for Common Shares or for securities exercisable for Common Shares, as applicable. As a result of the Conversion, the Company became the sole holder of the outstanding Units. 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 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.

The financial results of Broadleaf Logistics Company (“BLC”) have been consolidated commencing February 1, 2010 (note 5, Business Acquisition).

2 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

The Company adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”). The Company’s financial statements for the year ending December 31, 2011 will be the first annual financial statements that are prepared in accordance with IFRS. The Company’s transition date is January 1, 2010, (the “Transition Date”) and the Company has prepared its opening IFRS balance sheet at that date. The Company will ultimately prepare its opening balance sheet and financial statements for 2010 and 2011 by applying IFRS with an effective date of December 31, 2011, or earlier. Accordingly, the opening balance sheet and annual financial statements for 2010 and 2011 may differ from these statements.

3 BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Reporting Interpretations Committee ("IFRIC").

The interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2011 were prepared in accordance with IAS 34, Interim Financial Reporting. The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the interim condensed consolidated financial statements for the three month periods ended March 31 and June 30, 2011. In addition, the interim condensed consolidated financial statements for the three month periods ended March 31 and June 30, 2011 contain certain incremental annual IFRS disclosures not included in the annual financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP. Accordingly, these interim condensed consolidated financial statements for the three and nine months periods ended September 30, 2011 should be read together with the annual consolidated financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP as well as the interim condensed consolidated financial statements for the three month periods ended March 31 and June 30, 2011.

Certain comparative figures have been reclassified to conform to the current period's presentation.

4 DISCONTINUED OPERATIONS

On November 15, 2010, the Company sold substantially all the assets and liabilities of its CanWel Hardware division. Accordingly, current and prior period results for the 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 the 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.

Total cash proceeds on sale were $50,000. Total assets and liabilities disposed of were $86,980 and $29,030, respectively.

The transaction is subject to a working capital adjustment based on agreed values at November 15, 2010; this has not yet been finalized. The after-tax loss on the sale of this division was $10,540 and was recognized in 2010.

(in thousands of Canadian dollars, except per unit/share amounts)

In addition to the net loss on disposal, the Company recorded results from discontinued operations as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	$	$	$	$
Earnings (loss) from discontinued operations include the following:				
Net sales	-	55,726	-	196,492
Pre-tax earnings	-	496	-	824
Cash flow from discontinued operations includes the following:				
Cash flow from operating activities	-	5,179	-	9,287
Cash flow from financing activities	-	(3,945)	-	(6,022)
Cash flows from investing activities	-	-	-	-
Increase in cash	-	1,234	-	3,265

5 BUSINESS ACQUISITION

On February 1, 2010 (the “Acquisition Date”), the Company purchased 100% of the outstanding common shares of BLC (the “Acquisition”). BLC was a private, wholesale distributor of building materials and related products and marketed its products nationally in Canada through facilities located across the country. BLC’s principal customers were the major retailers in the building materials industry.

The primary reasons for the Acquisition included, but were not limited to, to increase and diversify the customer base of the Company, its suppliers and product offerings from what either the Company or BLC had prior to the Acquisition. The combined business is also expected to benefit from cost-saving synergies from the eventual consolidation of the operations of the Company and BLC, including the reduction of general and administrative expenses, warehouse costs, economies of scale in storage and transportation, consolidation of sales, marketing and distribution resources, as well as opportunities to benefit from greater volume discounts on purchases.

The consideration transferred to the former shareholder of BLC was satisfied through:

a. the issuance of 10,250,000 Common Shares of the Company, with an Acquisition Date fair value of $4.63 per common share;

b. $20,000 in cash;

c. a secured subordinated interest-bearing promissory note of the Company in the aggregate principal amount of US$18,500; and

d. an adjustment based on the difference between net working capital of each of BLC and the Company on February 1, 2010.

(in thousands of Canadian dollars, except per unit/share amounts)

The promissory note was repaid by the Company on March 31, 2010, realizing a foreign exchange gain of $1,102.

The Company's estimate of the fair value of the purchase consideration is $87,240. The fair value of the Common Shares issued as consideration was determined using the average market price for Common Shares of the Company trading on the TSX on February 1, 2010.

The Acquisition is recorded under the acquisition method of accounting. Under this method, the identifiable assets acquired and the liabilities assumed are measured and recognized at their Acquisition Date fair values. Any excess of the Acquisition Date fair value of the consideration over the net of the Acquisition Date fair values of the identifiable assets acquired and the liabilities assumed is recognized as goodwill and any deficiency is recognized as a gain.

The fair value of assets acquired and liabilities assumed was determined by the Company's management based on information furnished by the management of BLC and its own detailed review.

The determination of the fair value of consideration and identifiable assets and liabilities acquired is as follows:

	$
Fair value of purchase consideration at acquisition date	87,240
Fair values of identifiable assets acquired and liabilities assumed:	
Trade receivables	38,565
Other receivables	4,838
Inventories	36,364
Prepaid expenses	3,363
Future income taxes, current	1,076
Property, plant and equipment	1,269
Other assets	24
Intangible assets - customer relationships	10,000
Goodwill	62,624
Accounts payable and accrued liabilities	(36,767)
Future income taxes, long term	(2,700)
Loan payable	(31,416)
	87,240

The amounts allocated to goodwill will not be deductible for tax purposes.

(in thousands of Canadian dollars, except per unit/share amounts)

Restructuring charges related to the integration of BLC, included in accounts payable and accrued liabilities, are as follows:

	Nine months ended September 30, 2011	Year Ended December 31, 2010
Accrued liability - Beginning of period	2,100	-
Paid during the period	(5,090)	(247)
Expensed during the period	4,018	2,347
Accrued liability - End of period	1,028	2,100

6 FINANCE COSTS

The finance costs for the Company are broken down as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011 $	2010 $	2011 $	2010 $
Long-term debt	1,160	1,475	3,393	4,289
Cash, bank indebtedness and loans	(3)	13	(19)	12
Net cash interest	1,157	1,488	3,374	4,301
Amortization of financing costs	332	315	977	783
Accretion of promissory notes	-	-	-	11
	1,489	1,803	4,351	5,095
Allocation to discontinued operations	-	(562)	-	(1,589)
	1,489	1,241	4,351	3,506

7 PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The Company maintains defined benefit and defined contribution pension plans covering a majority of its employees. The defined benefit plans provide pension benefits based on years of service and highest average salary. The plans were closed to new participants effective August 1, 2000. Total pension and post retirement expense is $367 for the three months ended September 30, 2011 (2010 - $709) and $1,552 for the nine months ended September 30, 2011 (2010 - $2,082). The Company provides extended health care benefits and pays provincial medical plan premiums on behalf of qualifying employees. The Company also pays for dental benefits of certain retirees who had been employed at a predecessor company.

(in thousands of Canadian dollars, except per unit/share amounts)

The status of the combined benefit pension plans and other benefit plans, in aggregate, is as follows:

	September 30, 2011 $	December 31, 2010 $
Projected benefit obligation	47,169	45,108
Fair value of plan assets	36,091	38,211
	11,076	6,897

Represented by:

	September 30, 2011 $	December 31, 2010 $
Pension benefits	6,461	2,423
Post retirement benefits	4,615	4,474
	11,076	6,897

The significant assumptions used to determine the period end benefit obligations are as follows:

	September 30, 2011	December 31, 2010
Discount rate on obligation	5.0%	5.5%
Expected rate of return on plan assets	7.0%	7.0%
Rate of increase in future compensation	3.5%	3.5%

The change in the discount rate on obligations and the difference between the actual rate of return and the expected rate of return on plan assets generated an actuarial loss on employee future benefits, included in comprehensive earnings, as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011 $	2010 $	2011 $	2010 $
Actuarial loss on employee future benefits	(5,057)	-	(5,057)	-
Income tax on actuarial loss on employee future benefits	1,416	-	1,416	-
	(3,641)	-	(3,641)	-

(in thousands of Canadian dollars, except per unit/share amounts)

Management determined that there had been no material change in the actuarial assumptions used at December 2009 and those existing at September 30, 2010 that would lead to a material charge for actuarial losses or gains on benefit and other plans during that period.

8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Company are comprised of bank balances.

9 TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables arise from two main sources: trade receivables due from customers for building materials and claims to vendors. These are broken down as follows:

	September 30, 2011 $	December 31, 2010 $
Trade receivables	82,383	49,125
Provision for doubtful accounts	(490)	(342)
Net trade receivables	81,893	48,783
Claims receivable	915	870
Miscellaneous receivables	2,165	3,955
	84,973	53,608

	September 30, 2011 $	December 31, 2010 $
Past due by:		
Less than 1 month	81,468	52,352
1 to 3 months	2,600	645
3 to 6 months	905	-
Over 6 months	-	611
Total trade and other receivables	84,973	53,608

(in thousands of Canadian dollars, except per unit/share amounts)

Activity in the Company's provision for doubtful accounts is as follows:

Balance at Dec 31, 2010	342
Provisions during period	148
Accounts written off	-
Balance at Sept 30, 2011	490

The Company holds no collateral for any receivable amounts outstanding as at September 30, 2011.

10 INVENTORIES

The inventories for the Company are categorized as follows:

	September 30, 2011 $	December 31, 2010 $
Inventories held for resale	71,338	72,713
Inventories held for processing	3,547	7,578
	74,885	80,291

For the period ended September 30, 2011, the amount of inventory expensed as cost of sales was $163,545 (2010 - $262,449) for the quarter and $465,315 (2010 - $763,858) for the nine month period to date. Inventory provision charges and credits adjust the carrying amount of inventory to its net realizable value. For the period ended September 30, 2011, inventory provision charges (recoveries) included in cost of sales were $(23) (2010 - $(63)) for the quarter and $(183) (2010 - $228) for the nine month period to date. All of the Company's inventory is pledged as security for its revolving loan facility (note 11).

11 BORROWINGS AND CONVERTIBLE DEBENTURES

	September 30, 2011 $	December 31, 2010 $
Revolving loan facility (see below)	19,206	10,050
Financing costs net of amortization	(1,003)	(1,596)
	18,203	8,454
Convertible debentures (see below)	45,000	45,000
Financing costs net of amortization	(1,854)	(2,099)
	43,146	42,901
	61,349	51,355

Revolving loan facility

The Company's revolving loan facility with Wells Fargo Capital Finance Corporation Canada was renewed on February 1, 2010 and matures on January 31, 2013. Under the facility, up to $275,000, with an additional $50,000 accordion facility, may be borrowed for operating requirements in Canadian and US currency. Interest is variable based on the Canadian or US prime rate. The amount advanced under the facility at any time is limited to a defined percentage of inventories and accounts receivable, less certain reserves. The facility is secured by a first charge over the Company's assets and an assignment of accounts receivable and requires that certain covenants be met by the Company. The Company was not in breach of any of its covenants during the quarter ended September 30, 2011.

Convertible debentures

On April 22, 2010, the Company completed a bought-deal prospectus financing and issued $45,000 of unsecured convertible debentures denominated in principal amounts of one thousand dollars, resulting in proceeds of $42,676 net of underwriting fees and costs of $2,324. 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 of the Company 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 one thousand dollars of debenture principal amounts, 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 impart 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 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 convertible debentures are compound instruments and the proceeds received were bifurcated to record the material fair value, if any, of the conversion feature with the residual being allocated to the equity portion of the convertible 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 as interest expense over the expected life of the convertible debentures.

(in thousands of Canadian dollars, except per unit/share amounts)

12 SHARE CAPITAL

Pursuant to the Conversion, the Company is considered to be a continuation of the Fund and therefore the exchange of Fund Units for Common Shares of the Company is recorded at the carrying values of the Fund's assets and liabilities on January 31, 2010, in accordance with the continuity of interest method of accounting. 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 under the new Restricted Equity Common Share Plan.

The authorized capital of the Company consists of an unlimited number of common and preferred shares.

Refer to the Condensed Consolidated Statement of Changes in Shareholder's Equity for movement in share capital for the period ended September 30, 2011.

Share Option plan

The Fund had a unit option plan available to trustees, employees and consultants. On February 1, 2010, in accordance with the Arrangement, 1,245,083 outstanding unit options of the Fund were converted into 1,245,083 share options of the Company. The plan authorizes a maximum of 1,500,000 of the Company's issued and outstanding common shares to be reserved for issuance.

The following is an analysis of the outstanding share options:

	Share options	**Weighted average exercise price $**
Outstanding December 31, 2010	1,245,083	3.96
Exercised	(106,668)	4.25
Outstanding September 30, 2011	1,138,415	3.93

The following table summarizes the share options outstanding at September 30, 2011:

Exercise Price	**Number outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price $**	**Number of exercisable options**
2.125 - 4.25	1,138,415	2.75	3.93	1,138,415

(in thousands of Canadian dollars, except per unit/share amounts)

Compensation expense in respect of outstanding options for the three and nine months ended September 30, 2011 was $nil (2010 - $nil).

Employee Common Share Purchase Plan

For the nine months ended September 30, 2011, the Company has issued 20,682 common shares from treasury for gross proceeds of $66 from employees, pursuant to this plan.

Restricted Equity Unit Plan and Restricted Equity Common Share Plan

On May 11, 2006, unitholders approved the CanWel Restricted Equity Unit Plan (the "Plan"). The Plan provides for an allotment of Restricted Equity Units ("REUs") to designated trustees of the Fund and designated directors, officers and employees of CanWel (each a "Member") at the at the discretion of the compensation committee. On February 1, 2010, the Plan's underlying securities were changed so that it is now a Restricted Equity Common Share ("RSU") Plan.

RSUs generally vest one-third on the date of grant and on-third on each of the first and second anniversary of the date of the grant. However, vesting may be accelerated, or different vesting schedules may be implemented, at the discretion of the compensation committee. RSUs shall, within 30 days of vesting and, in any event, by no later than December 31 following the vesting date, be satisfied by the Company issuing to the holder that number of shares equal to the number of vested RSUs then credited to the holder. The RSUs earn additional RSUs for the distributions that would otherwise have been paid on the RSUs as if they had been issued as of the date of the grant. The number of additional RSUs is calculated using the average market price of the Company's shares in the five days immediately preceding each distribution.

RSUs granted are considered to be in respect of future services and are recognized in share-based compensation costs over the vesting period. Compensation cost is measured based on the market price of the Company's shares on the date of vesting of the RSUs. The value of the RSUs will appreciate or depreciate with increases or decreases in market price of the Company's Common Shares.

The Company's obligation to issue shares on the vesting of RSUs is an unfunded and unsecured obligation of the Company.

Outstanding RSUs are as follows:

	Nine months ended September 30, 2011	Twelve months Ended December 31, 2010
Beginning of period	60,637	64,061
Granted	79,998	82,730
Cancelled	-	-
Vested	(100,922)	(94,273)
Earned	4,159	8,119
End of period	43,872	60,637

(in thousands of Canadian dollars, except per unit/share amounts)

Earnings per share

Earnings per share is calculated using the weighted average number of shares outstanding for the period. Diluted earnings per share assumes the exercise of share options using the treasury stock method and the conversion of convertible debentures using the if converted method.

Dividend

On September 15, 2011 the Company declared a dividend of $0.10 per share, totalling $6,094 to shareholders of record on September 30, 2011, which was accrued at September 30, 2011 and paid on October 14, 2011.

13 INCOME TAXES

The Company's effective tax rate differs from the statutory income tax rate. The differences arise from the following items:

	Three months ended September 30,		**Nine months ended September 30,**	
	2011	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**
Earnings from continuing operations before income taxes	3,189	7,130	2,043	26,311
Income tax at statutory rates	893	2,144	572	7,913
Fund distributions deductible for tax purposes	-	-	-	(290)
Partnership income allocated to partners	-	-	-	(136)
Adjustment to future tax assets related to tax rates	-	(145)	-	(174)
Share-based compensation	10	5	114	67
Amounts not deductible for tax and other	88	263	324	96
Provision for (recovery of) future income taxes	990	2,267	1,010	7,476

14 CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide dividends to shareholders and benefits for other stakeholders. The Company includes debt and equity, comprising shareholders' capital, contributed surplus, and deficit, in the definition of capital.

The Company seeks to maintain a balance between the higher returns that might be possible with the leverage afforded by higher borrowing levels and the security afforded by a sound capital structure. It does this by maintaining appropriate debt levels in relation to its working capital and others assets in order to provide the maximum dividends to shareholders commensurately with the level of risk. Also the Company utilizes its debt capabilities to buy back shares, where appropriate, in order to maximize cash distribution rates for remaining shareholders.

(in thousands of Canadian dollars, except per unit/share amounts)

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the amount of dividends paid to shareholders, the Company may purchase shares in the market, issue new shares, or sell assets to reduce debt.

The Company reviews the dividend policy periodically in the context of the Company's overall profitability, free cash flow, capital requirements and other business needs. The Company has eliminated the impact of seasonal fluctuations by equalizing quarterly dividends.

There are no externally imposed capital requirements and the Company's loan agreements do not contain any capital maintenance covenants. There were no changes to the Company's approach to capital management during the period.

15 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 as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**
Land and building lease payments for distribution facilities paid to a company in which a director and an officer of the Company have an interest and lease payments for certain treatment plant facilities to a company solely controlled by a director of the Company.	743	630	2,217	2,077
Fees for management services and other charges from a company controlled by a director of the Company.	166	175	513	580
Fees for professional services and other charges from a company controlled by an officer of the Company.	161	184	486	629
Land and building lease payments for distribution facilities paid to a company which is an affiliate of Rudy Holding II S.a.r.l. ("Rudy"), a shareholder of the Company. A director of the Company is a partner at an affiliate of Rudy.	411	994	1,803	994

During the three months and nine months ending September 30, 2011, the Company purchased $1,179 (2010 - $196) and $4,070 (2010 – $1,131) respectively, of product from a public company in which a director of the Company has an ownership interest. These purchases are in the normal course of operations and are recorded at exchange amounts. As at September 30, 2011, payables to this related party were $186 (2010 – $50).
As at September 30, 2011, other accounts receivable include an amount due from a director of $47 (2010 - $45).

(in thousands of Canadian dollars, except per unit/share amounts)

The minimum payments under the terms of the leases with companies which a director or an officer of the Company either own or have and interest in are as follows:

Year ending December 31:	
2011	743
2012	2,973
2013	2,973
2014	2,182
2015	1,206
Thereafter	3,000
	13,077

The minimum payments under the terms of the leases with Rudy are as follows:

Year ending December 31:	
2011	83
2012	330
2013	330
2014	330
2015	330
Thereafter	1,375
	2,778

16 COMMITMENTS FOR EXPENDITURE

Lease commitments

The Company has operating lease commitments as follows:

a. Real estate operating leases with third parities and related parties covering many of the distribution centre properties and treatment plant properties that it operates across Canada.

b. Operating leases covering certain vehicles and warehouse equipment.

Future minimum payments due under the terms of theses leases are as follows:

Year ending December 31:	
2011	2,592
2012	9,038
2013	7,796
2014	6,290
2015	4,845
Thereafter	13,121
	43,682

(in thousands of Canadian dollars, except per unit/share amounts)

Claims

The Company is objecting to an interest charge of approximately $700 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 substantially 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.

The Company is disputing an assessment from a provincial tax authority that is claiming approximately $500 of sales tax on certain customer fees. The Company believes it will be successful with its appeal, but there can be no certainty on the outcome. However, to the extent that sales tax is determined to be chargeable, this tax is expected to be invoiced and is expected to be recoverable from the respective customers, but there can be no certainty on the outcome.

During the normal course of business, certain product and other claims have been brought against the Company and/or its suppliers. Management has contested the validity of these claims and believes that they are without merit and that any possible settlement will have no material effect on the financial position or future earnings of the Company.

17 CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	Three months ended September 30,		**Nine months ended September 30,**	
	2011	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**
Accounts receivable	38,369	55,515	(31,365)	(46,794)
Inventories	18,392	15,355	3,471	(6,273)
Prepaid expenses	(748)	477	3,083	1,572
Accounts payable and accrued liabilities	(15,481)	(14,420)	5,999	23,158
	40,532	56,927	(18,812)	(28,337)

(in thousands of Canadian dollars, except per unit/share amounts)

18 SEASONALITY

The Company's sales are subject to seasonal variances due to the seasonality of its customers' selling cycles. This creates a timing difference between free cash flow and dividends paid. While the Company has leveled the dividends to provide regular income stream for shareholders over the course of the year, the second and third quarters have historically been the most profitable.

19 SEGMENTED INFORMATION

The Company has one material reportable segment. The percentage of total revenues from external customers for each product group is as follows:

Sales by product category

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2011	2010	2011	2010
	%	%	%	%
Construction materials	49%	52%	50%	54%
Specialty and hardware	51%	48%	50%	46%
	100%	100%	100%	100%

Sales by geographic region

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2011	2010	2011	2010
	%	%	%	%
B.C.	14%	17%	15%	18%
Prairies	29%	32%	29%	32%
Ontario	24%	23%	23%	22%
Quebec	18%	14%	18%	15%
Atlantic	15%	14%	15%	13%
	100%	100%	100%	100%

20 TRANSITON TO IFRS

The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Under IFRS 1 "*First-time Adoption of International Financial Reporting Standards*", IFRS is applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied.

(in thousands of Canadian dollars, except per unit/share amounts)

The following tables and their notes reconcile September 30, 2010 IFRS equity and comprehensive earnings to the Canadian GAAP versions previously published.

20.1 Total shareholders' equity

	Notes	As at September 30, 2010 $
Total shareholders' equity under Canadian GAAP		185,962
Adjustments for differing accounting treatments:		
- actuarial losses on benefit plans, net of taxes	(i)	(10,316)
- gain on sale and leaseback transaction, net of taxes	(ii)	324
Total shareholders equity under IFRS		170,717

20.2 Net Earnings and Comprehensive Earnings

Management did not record any offsetting adjustments to net earnings and other comprehensive earnings for systemic amortization of actuarial gains or losses as they were determined to be immaterial

Management determined that there had been no material change in the actuarial assumptions used at December 2009 and those existing at September 30, 2010 that would lead to a material charge for actuarial losses or gains on benefit and other plans during the period. Therefore, there is no reconciliation of Other Comprehensive Income for the three and nine month period ended September 30, 2010, as there was no material difference in this measure between GAAP and IFRS presentations during these periods.

20.3 Cash flows

The impact of IFRS on the statement of cash flows is to reclassify certain items between cash flow categories. One of the main reclassifications relates to interest payments and receipts which were classified as operating activities under Canadian GAAP, but are shown as financing and investing activities, respectively, under IFRS.

Notes to IFRS reconciliation above:

(i) Employee benefits

Under Canadian GAAP – Prior to 2010, the Company amortized actuarial gains (losses) of defined benefit pension plans and other retirement benefits. The excess of the net accumulated actuarial gain (loss) from the defined benefit pension plans over the 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees in the defined benefit pension plans, and actuarial gains (losses) arising from other retirement benefits are amortized over the average remaining life expectancy of the former employees. Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the same periods as for actuarial gains (losses).

Under IFRS – IAS 19, "Employee Benefits", allows actuarial gains (losses) to be recognized immediately in other comprehensive income (loss) with out subsequent reversal of income (loss). The impact at the date of transition was to record the net actuarial losses of $8,391 (net of tax effect of $5,646) to opening comprehensive income. Management determined that there had been no material change in the actuarial assumptions used at December 2009 and those existing at September 30, 2010 that would lead to a material charge for actuarial losses or gains on benefit and other plans during the period. Therefore, there is no difference in the adjustment to shareholders equity from that at the transition date, January 1, 2010.

(ii) Leases

Under Canadian GAAP – A gain from a sale and leaseback transaction was deferred and recorded in income over the duration of the lease.

Under IFRS - IAS 17, "Leases", indicates that 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. The impact at the date of transition was to reverse the deferred gain of $324 net of taxes of $125 to retained earnings. There was no change in this adjustment to shareholders equity at September 30, 2010 from that at the transition date of January 1, 2010 as management determined the amount to be immaterial.

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