CanWel Building Materials Group Ltd.

Third Quarter Report 2011

CanWel Building Materials Group Ltd.

Management's Discussion and Analysis

November 2, 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 nine month period ended September 30, 2011 relative to the same periods of 2010. 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"). 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. 2010 prior period comparative financial information throughout this report has been restated and is shown in accordance with IFRS.

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 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", "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 31, 2011 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 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 31, 2011, 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 direct and indirect effect of the US housing and building materials markets; 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 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 November 2, 2011, unless otherwise indicated. All amounts are reported in Canadian dollars.

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1. In the discussion, reference is made to EBITDA, which represents earnings from continuing operations before interest, 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, 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, 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 interest expense, 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.

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 unaudited financial statements for the period ended September 30, 2011 reflect for the comparative period of 2010, 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 31, 2011, and management information circular dated March 31, 2010 for its annual and special meeting held on May 11, 2010, available on SEDAR.

In the nine months ended September 30, 2011 the Company declared dividends to shareholders totaling $0.30 per share.

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 vendor 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 5 of the Company's financial statements as at September 30, 2011.

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 4 of the Company's financial statements as at September 30, 2011, contains details of sales, pre-tax earnings, and cash flows of these discontinued operations in the quarter and nine month period ended September 30, 2010.

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 three and nine month period ended September 30, 2011 to the results for the same periods of 2010. On November 15, 2010, the Company sold its hardware division (see "Sale of Hardware Division"). Accordingly, prior period results of this division have been reclassified as discontinued operations.

Results of Operations

Comparison of the Quarter Ended September 30, 2011 and September 30, 2010

Sales and Gross Margin

Sales for the quarter ended September 30, 2011 were $196 million, which compares $293 million in the same period in 2010, a decrease of 33%. The decrease in revenue relates to a significant reduction in volume of construction materials sold compared to that in the same quarter of 2010, and our wood treatment facility in Alberta being temporarily closed due to weather related damage, reducing related product sales.

Contributing to the reduction in volumes in the quarter was a prolonged wet spring which caused delay or cancellation of renovation projects that would normally be initiated in the spring and completed over the summer. The Company also continued to decline certain high volume business in the quarter which would not have even been profitable at the gross margin level. Further, the re-alignment of some of our significant product offerings between vendors led to some shortfall in sales volume as we integrated the new vendor offerings into our sales activities. The Company's sales in the quarter were made up of 49% of construction materials compared to 52% in the same quarter last year.

Gross margin dollars decreased to $22.2 million in the quarter compared to $28.4 million in the same quarter of 2010, a 22% decrease. Gross margin percentage was 11.3% in the quarter, an increase from the 9.7% achieved in the same quarter of 2010. This increase in margin percentage is mainly due to the decrease in construction materials in the Company's sales mix from that in the third quarter of 2010.

Expenses

Expenses for the quarter ended September 30, 2011 were $17.5 million as compared to $20.1 million for the same quarter in 2010, a decrease of $2.6 million or 13%.

Distribution, selling and administration expense decreased by $3.5 million, or 18%, to $15.6 million from $19.1 million in the third quarter of 2010. These lower costs are due to the cost savings obtained from our integration of the BLC operations.

In the quarter the Company expensed $1.2 million of one time costs related to the integration of BLC's operations. This compares to one time costs related to the Acquisition of $398,000 in the same quarter of 2010.

Share-based compensation cost in the quarter was $34,000 compared to $23,000 in the same quarter of 2010. Depreciation and amortization expense increased by $167,000 in the quarter to $730,000 compared to $563,000 in the same quarter of 2010, due in the main part to the amortization of intangible assets resulting from the acquisition of BLC.

Operating Earnings

For the quarter ended September 30, 2011, the operating earnings were $4.7 million compared to earnings of $8.4 million in the same quarter of 2010, a decrease of 44%. Excluding the costs related to the integration and the Acquisition and Conversion, the operating earnings would have been $5.9 million compared to $8.8 million in the third quarter of 2010. The variance in the results from operations is explained by the decline in sales volume and resultant impact on gross margin between the two quarters.

Finance Costs

Finance costs for the quarter increased to $1.5 million from $1.2 million in the same quarter of 2010, an increase of $248,000 or 20%. This increase was due to the higher interest rate Debentures making up a larger share of the debt outstanding, together with an 11% increase in the interest rate on the Company's revolving term loan debt due to the increase in the average prime rate in the quarter to 3% compared to 2.7% in the third quarter of 2010.

Net Earnings Before Tax from Continuing Operations

For the quarter net earnings before tax were $3.2 million, compared to net earnings of $7.1 million in the same quarter of 2010.

Income Taxes

For the quarter income tax expense was $1.0 million, compared to $2.3 million in the same quarter of 2010.

Net Earnings from Continuing Operations

The net earnings from continuing operations for the quarter ended September 30, 2011 were $2.2 million compared to $4.9 million in the same quarter of 2010.

Net Earnings from Discontinued Operations

On November 15, 2010 the Company sold its hardware division. The net earnings in the third quarter of 2010 for that division was $346,000, see Note 4 of the Company's financial statements at September 30, 2011.

Net Earnings

The net earnings for the quarter ended September 30, 2011 were $2.2 million compared to $5.2 million in the same quarter of 2010.

Comparison of the Nine Month Period Ended September 30, 2011 and September 30, 2010

Sales and Gross Margin

Sales for the nine month period were $555 million which compares to $855 million in the same period in 2010, a decrease of 35%.

Contributing to the reduction in volumes in the period were the challenging building conditions that were mainly weather related and generally experienced across Canada in the first half of the year. This significantly affected construction and renovation activity. When comparing to last year's period, sales were negatively impacted by lower prices for construction materials in the range of 3% to 24%. Further, the restocking by our customers following reduced inventory levels in late 2009 and last minute buying in connection with the end of the home renovation tax credit in February 2010 led to increased sales in last year's period. The Company also declined to accept certain high volume business in the period which would not have even been profitable at the gross margin level. Further, the re-alignment of some of our significant product offerings between vendors also led to some shortfall in sales volume as we integrated the new vendor offerings into our sales activities The Company's sales in the period were made up of 50% of construction materials compared to 54% in the same period last year.

Gross margin dollars were $62.9 million in the nine month period compared to $87.3 million in the same period in 2010, a 28% decrease. Gross margin percentage was 11.3% in the period, an increase from the 10.2% achieved in the same period of 2010. This increase in margin percentage is mainly due to the decrease in construction materials in the Company's sales mix.

Expenses

Expenses for the nine months ended September 30, 2011 were $56.5 million as compared to $58.6 million for the same period of 2010, a decrease of $2.1 million or 4%.

Distribution, selling and administration expense decreased by $5.9 million, or 11%, to $48.9 million from $55.8 million in the same period of 2010. These lower costs are due to the cost savings obtained from our integration of the BLC operations which are manifesting themselves as we move through 2011.

The Company expensed $4.0 million of integration costs in the period, by comparison in the same period last year the company expensed $1.0 million of costs related to the Acquisition and Conversion.

Share-based compensation cost in the period increased to $406,000 compared to $222,000 in the same period of 2010, due to an increase in the amount of shares issued in the period pursuant to the restricted equity common share plan. Depreciation and amortization expense increased by $544,000 in the period to $2.2 million compared to $1.6 million in the same period of 2010, due in the main part to the amortization of intangible assets resulting from the acquisition of BLC.

Operating Earnings

For the nine months ended September 30, 2011, operating earnings of $6.4 million compared to $28.7 million in the same period last year, a decrease of 78%. Excluding the costs related to the re-organization and the Acquisition and Conversion, the operating earnings would have been $10.4 million compared to $29.7 million in the same period last year. The variance in the results from operations is mainly due to the decline in sales volume and resultant impact on gross margin between the two periods.

Finance Costs

Finance costs for the nine month period increased to $4.4 million from $3.5 million in the same period last year, an increase of $844,000 or 24%. This increase was due to the higher interest rate Debentures making up a larger share of the debt outstanding, together with a 20% increase in the interest rate on the Company's revolving term loan debt due to the increase in the average prime rate in the period to 3% compared to 2.5% in the same period of 2010.

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 this same period in 2011.

Net Earnings Before Tax from Continuing Operations

The net earnings before tax from continuing operations for the nine month period ended September 30, 2011 were $2.0 million compared to net earnings of $26.3 million in the same period of 2010.

Income taxes

For the nine months ended September 30, 2011, the provision for income taxes was $1 million, compared to $7.5 million in the same period last year. The difference in the tax provision is due to the higher pre-tax income in the previous year's period.

Net Earnings from Continuing Operations

The net earnings from continuing operations for the nine months ended September 30, 2011 were $1.0 million compared to net earnings of $18.8 million in the same period of 2010.

Net Earnings from Discontinued Operations

On November 15, 2010 the Company sold its hardware division. The net earnings in the nine month period ended September 30, 2010 for that division was $572,000, see Note 4 of the Company's financial statements at September 30, 2011.

Net Earnings

Net earnings for the nine months ended September 30, 2011 was $1.0 million compared to $19.4 million in the same period of 2010.

Other Comprehensive Income

The funded position of the defined benefit pension and post retirement benefit plans is estimated at the end of each quarter. The funded position is shown in note 7 of the Company's financial statements at September 30, 2011. The plan obligations are estimated by discounting the estimated future cash flows required to discharge them using a discount rate based on current market yields on corporate bonds. The plan assets are measured based on the market value at the end of the quarter. The decrease in the discount rate from the start of the quarter, together with the lower asset returns than those anticipated during the quarter, resulted in an increase in the net liabilities accrued for pension benefits in the quarter ended September 30, 2011 of $2.1 million. The decrease in the funded position for the quarter was charged to comprehensive earnings, net of taxes of $3.6 million (2010- $nil). 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.

Summary of Quarterly Results

For the Quarters ended:

	2011			2010				2009
($ millions, per share in dollars)	**Sep 30**	**June 30**	**March 31**	**Dec 31**	**Sep 30**	**June 30**	**March 31**	**Dec 31[2]**
Sales[1]	196.4	204.7	153.5	177.8	292.6	340.5	221.4	85.5
EBITDA[1]	5.4	6.3	(2.8)	(0.9)	9.0	15.3	7.5	2.0
EBITDA before one time items[1][4]	6.7	7.1	(0.8)	1.4	9.3	15.4	6.9	3.9
Earnings (loss) before tax[1]	3.2	4.0	(5.1)	(3.4)	7.1	13.2	5.9	1.3
Earnings (loss) before tax and one time items[1][4]	4.4	4.8	(3.1)	(1.2)	7.5	13.4	5.4	2.2
Net earnings (loss) [1]	2.2	2.6	(3.8)	(3.1)	4.9	9.4	4.5	2.0
Net earnings (loss) before one time items[1][4]	2.9	3.2	(2.4)	(1.5)	5.2	9.5	4.0	3.6
Net earnings (loss), discontinued operations	-	-	-	(10.5)	0.3	0.6	(0.4)	(2.2)
Net earnings (loss)	2.2	2.6	(3.8)	(13.5)	5.2	10.0	4.2	(0.2)
Net earnings (loss) per share[1][3]	0.04	0.04	(0.06)	(0.05)	0.08	0.16	0.09	0.06
Net earnings (loss) per share, discontinued operations	-	-	-	(0.17)	0.01	0.01	(0.01)	(0.06)
Net earnings (loss) per share [3]	0.04	0.04	(0.06)	(0.22)	0.09	0.17	0.08	(0.01)
Dividends/Distributions per share/unit	0.100	0.100	0.100	0.100	0.100	0.100	0.108	0.125

(1) From continuing operations.
(2) Prepared in accordance with Canadian generally accepted accounting principles in place at December 31, 2009.
(3) Basic.
(4) One time items refer to costs related to the Acquisition and Conversion, realized foreign exchange gain on debt repayment and integration 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 September 30, 2011 was $5.4 million compared to $9.0 million in the same quarter of 2010. The EBITDA for the quarter was impacted by the one time costs of $1.2 million related to the re-organization of BLC. This compares to one time items in last year's quarter of $398,000. Adjusted EBITDA before these one time items was $6.7 million for the quarter, which compares to $9.3 million Adjusted EBITDA in last year's quarter.

EBITDA for the nine months ended September 30, 2011 was $9.0 million compared to $31.7 million in the same period of 2010. The EBITDA for the period was impacted by the one time costs of $4.0 million related to the re-organization of BLC. This compares to one time items in last year's period of $993,000 for costs related to the Acquisition and Conversion, offset by a realized foreign exchange gain of $1.1 million on repayment of the US$ promissory note. Adjusted EBITDA before these one time items was $13.0 million for the period, which compares to $31.8 million Adjusted EBITDA in last year's period.

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)	2011	2010	2011	2010
Net Earnings from continuing operations	$2,199	$4,863	$1,033	$18,835
Income tax provision	990	2,267	1,010	7,476
Cash interest expense	1,157	926	3,373	2,958
Depreciation of property plant and equipment	480	502	1,441	1,489
Amortization of intangible and other assets	250	61	750	158
Amortization of financing costs	332	315	978	783
Amortization of promissory notes	-	-	-	11
Share-based compensation	34	23	406	222
EBITDA	$5,442	$8,957	8,991	31,932
Acquisition and Conversion costs	-	398	-	993
Integration costs	1,228	-	4,018	-
Realized foreign exchange gain	-	-	-	(1,102)
Adjusted EBITDA	$6,670	$9,355	$13,009	$31,823

Financial Condition

Liquidity and Capital Resources

During the nine months September 30, 2011, the Company consumed $23.1 million in cash for continuing operations, versus $806,000 in the same period of 2010. Discontinued operations generated $3.3 million of cash in last year's period versus $nil in this year's period. The following activities during the period were responsible for the change in cash.

Operating activities consumed $10.0 million in cash for the nine months ended September 30, 2011, compared to generating $266,000 in the same period of 2010, an increase in cash required of $10.3 million between the periods. This increase between the periods was due to $19.8 million less cash generated from operations in the period compared to 2010, partially offset by a difference of $9.5 million in cash flow flowing from changes in working capital.

Cash generated by operating activities, before working capital changes, amounted to $8.8 million in the nine month period, compared to generating $28.6 million in the same period of 2010, a reduction $19.8 million. This is substantially due to the decrease in net earnings period over period of $17.8 million.

During the nine months ended September 30, 2011, working capital changes required $18.8 million of cash, compared to $28.3 million in the same period of 2010, a difference of $9.5 million. Working capital in the period increased as a result of a $31.4 million increase in accounts receivable. This was partially offset by decreases of $5.4 million in inventory and $1.1 million in prepaid expenses, together with a $6 million increase in accounts payable. In the same period of 2010 accounts receivable increased by $46.8 million, inventory increased by $6.3 million and accounts payable increased by $23.2 million. The changes in working capital in this and the prior year's periods are due to the seasonal nature of the Company's business.

In the nine months ended September 30, 2011, financing activities required $11.9 million of cash, compared to generating $19.2 million in the same period of 2010. Shares issued during the period generated $519,000 of cash, whilst in last year's period the conversion of the subscription receipts resulted in proceeds of $54.0 million (net of issuance costs of $3.6 million). Cash distributions and dividends to shareholders holders amounted to $18.3 million in the period, compared to $13.0 million in the same period of 2010. Cash required for interest in the period amounted to $3.4 million compared to $3.0 million in last year's period. During last year's period $18.7 million of cash was used to repay the promissory note issued at time of the Acquisition and the Company incurred $4.3 million in fees and costs in respect of the issue of the Debentures in April 2010 and the refinancing of the revolving term debt that took place in February 2010. In this year's period the revolving long-term loan increased by $9.2 million, compared to a reduction of $40.8 million in the same period last year.

Investing activities in the nine month period consumed $1.1 million of cash for capital expenditure. In last year's period $20.0 million of cash was used for the cash payment in respect of the Acquisition, $202,000 was used for other financial assets and $84,000 was used for capital expenditures.

Discontinued operations generated $3.3 million of cash in last year's period compared to $nil in this year's period. Operating activities from discontinued operations in last year's period generated $9.3 million and financing activities consumed $6.0 million.

During last year's period 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 and inventory of the Company. At September 30, 2011, indebtedness under the revolving facility totalled $19.2 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 $275 million at September 30, 2011, versus $270 million at December 31, 2010, an increase of $5 million. Current assets increased by $5.6 million, this was due to seasonal increases of $33 million in trade accounts receivable, partially offset by a decrease in both inventory of $5 million and cash on hand of $19 million.

Total Liabilities

Total liabilities were $139 million at September 30, 2011, versus $114 million at December 31, 2010, an increase of $25 million. This increase was due to an increase in current liabilities of $10 million, the result of a seasonal increase in accounts payable of $6 million and a $4 million increase in bank indebtedness, an increase of $10 million in the revolving credit facility, which is used to finance the seasonal working capital requirements of the Company and an increase of $4 million in pension and post retirement benefit obligations.

Outstanding Unit/Share Data

As at November 2, 2011, there were 60,937,753 Common Shares issued and outstanding. In addition, at November 2, 2011 there were 1,138,415 common share options outstanding with exercise prices ranging from $2.125 to $4.25 and 42,464 Common Shares outstanding pursuant to the restricted equity common share plan of the Company.

Distributions and Dividends

During the nine months ended September 30, 2011, the Company declared dividends to shareholders of $0.30 per share, resulting in aggregate distributions of $18.3 million. The dividend declared on September 15, 2011, to shareholders of record on September 30, 2011, was accrued at September 30, 2011 and paid on October 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 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 September 30, 2011, the Company's contractual obligations within the periods indicated.

Payment Made by Year **Contractual Obligations** **(in thousands of dollars)**	**Total**	**2011**	**2012-2013**	**2014-2015**	**Thereafter**
Long-Term Debt	$19,205	$ —	$19,205	$ —	$ —
Convertible Debenture	45,000	—	—	—	45,000
Operating Leases	43,682	2,592	16,834	11,135	13,121
Total Contractual Obligations	$107,887	$2,592	$36,039	$11,135	$58,121

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 September 30, 2011, 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 $2,217,000 in the nine months ended September 30, 2011, compared to $2,077,000 in the same period of 2010. The minimum payments under the terms of these leases are as follows: $743,000 in 2011, $2,973,000 in each of 2012 and 2013, $2,182,000 in 2014 and $4,206,000 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 $1,803,000 in the nine months ended September 30, 2011 (2010 - $994,000). The minimum payments under the terms of these leases are as follows: $83,000 in 2011, $330,000 in each of 2012, 2013, 2014 and $1,375,000 thereafter.

During the nine months ended September 30, 2011, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of $486,000 (2010—$629,000) by a company owned by Rob Doman, an officer of the Company. Additionally, fees of $513,000 (2010—$580,000) 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 $4,070,000 (2010—$1,131,000) of product from a public 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 September 30, 2011 payables to this related party were $186,000 (2010—$50,000).

As at September 30, 2011, accounts receivable owed by Amar Doman, a director, in respect of advances for expenses totalled $47,000 (2010—$45,000).

Additional information is contained in note 15 of the Consolidated Financial Statements for the period ended September 30, 2011.

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	2,592
2012	9,038
2013	7,796
2014	6,290
2015	4,845
Thereafter	13,121
	43,682

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 totalling $1.7 million (2010- $1.7 million) in respect of historical obligations, pre-dating 1999, for an unfunded closed pension fund for former executives.

Sales Tax disputes

The Company is objecting to an interest charge of approximately $700,000 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 $500,000 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.

Critical Accounting Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards 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 carry forwards.

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 the amount by which the carrying amount of an asset exceeds its recoverable amount.

Goodwill represents the excess of the purchase price paid for a business over the fair value of the identifiable 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 cash generating unit with the carrying amount. The goodwill is attributed to two separate cash generating units, the CanWel Treating Division, in the amount of $29.0 million, and the CanWelBroadleaf division, in the amount of

$62.6 million. When the carrying amount exceeds the fair value, the Company compares the fair value of goodwill related to the cash generating unit to its carrying value and recognizes an impairment loss equal to the excess. The fair value of a cash generating unit is calculated based on evaluations of discounted cash flows. The Company tested its goodwill for impairment in 2010 and concluded that a write down was 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 7 of the Consolidated Financial Statements for the period ended September 30, 2011) determined by the Company as well as on actual investment returns on the pension fund assets. Additionally, each quarter the Company determines the funded position of the defined benefit pension and post retirement benefit plans.

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

International Financial Reporting Standards

The Company has adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canada's previous Generally Accepted Accounting Principles for publicly accountable profits–oriented enterprises. For additional information on the conversion to IFRS, see the Company's 2010 annual report and the interim condensed consolidated financial statements for the three months ended March 31, 2011 and those accompanying this MD&A.

New Accounting Pronouncements Issued but not yet Applied

The International Accounting Standards Board periodically issues new standards and amendments or interpretations to existing standards. The new pronouncements listed below are those that we consider the most significant. They are not intended to be a complete list of new pronouncements that may affect our financial statements.

IFRS 9, Financial Instruments

In November 2009 IFRS 9 was issued which addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive earnings. IFRS 9 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. We do not expect this standard to have a significant effect on our financial statements.

IFRS 10, Consolidated Financial Statements

In May 2011 IFRS 10 was issued which provides a single model to be applied in the control analysis for all investees and supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. We have not yet completed our assessment of the impact of the standard.

IFRS 11, Joint Arrangements

In May 2011 IFRS 11 was issued which provides guidance for determining if a joint arrangement is a joint venture or joint operation. The standard requires that joint ventures be accounted for by the equity method as opposed to the choice, presently available under IAS 31, of applying the equity method or proportionate consolidation. Joint operations are required to be accounted for using the proportionate consolidation method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. We have not yet completed our assessment of the impact of the standard.

IFRS 12, Disclosure of Interests in Other Entities

In May 2011 IFRS 12 was issued which sets out the required disclosures for companies that have adopted IFRS 10 and 11 described above. It requires disclosure of information that helps users to evaluate the nature, risks and financial effects associated with a company's interests in subsidiaries, associates and joint arrangements. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. We have not yet assessed the impact of the standard.

IFRS 13, Fair Value Measurement

In May 2011 IFRS 13 was issued which defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. Prior to the introduction of the standard there was no single source of guidance on fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. We have not yet assessed the impact of the standard.

IAS 19 Amendment, Employee Benefits

In August 2011 IAS 19 was amended. The amendment will result in significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The amendment is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. We have not yet assessed the impact of the amendment.

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, 2011 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 31, 2011, our MD&A for 2010 and our public filings on www.sedar.com, which the reader is encouraged to review.

Outlook

The most recent Bank of Canada forecast of overall Canadian economic growth shows a weakening from that earlier in 2011 and is now forecasted at 2.1% in 2011 and 1.9% in 2012. Now that the BLC operations are integrated, the Company's focus in the near term remains to improve 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.

The improving environment for single family new home construction experienced in 2010 has continued at a similar pace in the nine months of 2011, although it is anticipated to decrease in 2012. In 2010 starts were 189,930 and the most recent Canadian Mortgage Housing Corporation's ("CMHC") forecast is for 2011 housing starts to fall to 179,500 and then rise to 185,300 in 2012. However, the seasonally adjusted housing start rate in September 2011 was 205,900. The Canadian Real Estate Association is forecasting relatively stable housing resale activity of 450,800 in 2011 and 447,700 in 2012, which compares to 447,010 in 2010. Increases in mortgage rates and tighter lending requirements imposed by the CMHC earlier in 2011 have not yet manifested into materially lower housing start numbers or resale home activity. However, there can be no assurances this may not occur.

We completed our integration of the BLC operations in the first half of 2011 and we are now seeing the year over year cost synergies flowing from this. We expect these to be more clearly demonstrated in the fourth quarter and particularly 2012. The pricing environment for construction materials has been weak or uncertain at best in this period. U.S. housing starts continue to show little sign of sustained recovery and therefore no clear sign of a commodity price improvement, unless caused by new supply side corrections. In addition, recent major international economic developments have the potential to threaten some of the nascent 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.