



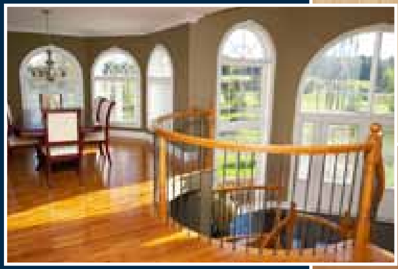

CanWel®

CanWel Building Materials Group Ltd.

2011 Annual Report

CanWel Building Materials Group Ltd.

Management's Discussion and Analysis

March 27, 2012

This Management's Discussion and Analysis ("MD&A") provides a review of the significant developments that have impacted CanWel Building Materials Group Ltd. (the "Company"), the successor to CanWel Building Materials Income Fund (the "Fund"), in the quarter and year ended December 31, 2011 relative to 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, 2011. The financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to the preparation of financial statements. 2010 prior period comparative financial information throughout this report has been restated and is shown in accordance with IFRS.

This MD&A, the associated Audited Consolidated Financial Statements and the 2011 Letter to Shareholders (the "2011 Reporting Documents") contain 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", "Changes in Accounting Policies", "Sale of Hardware Division", "Sales and Gross Margin", "Dividend Policy", "Liquidity and Capital Resources" and "New Accounting Pronouncements Issued but not yet Applied. When used in this MD&A, such statements may contain such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the negative of these terms or other similar terminology. Forward-looking information in the 2011 Reporting Documents 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 the 2011 Reporting Documents and are subject to risks which are described in our current Annual Information Form ("AIF") and our other 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 acquired businesses; 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 our 2011 Reporting Documents is qualified by these cautionary statements. Although the forward-looking information contained in these 2011 Reporting Documents are 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 our 2011 Reporting Documents may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than our 2011 Reporting Documents.

The forward-looking statements contained in our 2011 Reporting Documents are made as of the date herein, and should not be relied upon as representing management's views as of any date subsequent to the date of our 2011 Reporting Documents. Except as required by applicable law, the Company undertakes no obligation to publicly update or otherwise revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

References to the Company include the Fund, CanWel and BLC (the latter both as defined below) as the context may require. The information in this report is as at March 27, 2012, unless otherwise indicated. All amounts are reported in Canadian dollars.

1. In the discussion, reference is made to EBITDA, which represents earnings from continuing operations before interest, provision for income taxes, gain or loss on sale of fixed assets, depreciation and amortization, goodwill impairment loss and stock-based compensation. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, 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. For a reconciliation from EBITDA to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA)".
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. For a reconciliation from EBITDA to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA)".
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 expenditures.

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 (the "Integration"). Effective December 31, 2010, CanWel then legally amalgamated with CanWel Hardware Inc.

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 Audited Consolidated Financial Statements for the period ended December 31, 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 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 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 year ended December 31, 2011 the Company declared dividends to shareholders totaling $0.40 per Common 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 7 of the Company’s audited consolidated financial statements as at December 31, 2011 (the “2011 Audited Consolidated Financial Statements”).

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 6 of the Company's 2011 Audited Consolidated Financial Statements contains details of sales, pre-tax earnings, and cash flows of these discontinued operations.

Events after the Financial Statement Date

On January 31, 2012 the Company completed the previously announced acquisition of NorthWest Wood Preservers' assets including the vendor's lumber pressure treating plant and related equipment and property.

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 Company's results for the year ended December 31, 2011 to results for the years ended December 31, 2010 and 2009 and the results for the fourth quarter of 2011 compared to those of the fourth quarter of 2010.

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

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 profit–oriented enterprises. The accompanying annual financial statements have been prepared in accordance with IFRS. The comparative figures for 2010 have been restated to reflect significant differences between IFRS and Canadian Generally Accepted Accounting Principles. Certain financial information disclosed in this MD&A for 2009 has not been restated.

Results of Operations

Selected Annual Information

	Fiscal Year Ended December 31,		
	2011	**2010**	**2009**
	IFRS	IFRS	Canadian GAAP
Sales ($ millions) [(1)]	692.9	1,032.3	408.2
Earnings (loss) before income taxes ($ millions) [(1)]	0.5	23.6	14.0
Earnings (loss) before income taxes before one-time items ($ millions) [(1)(2)]	(3.7)	25.8	15.0
Net (loss) Earnings from continuing operations ($ millions) [(1)]	(0.7)	16.2	15.7
Net Earnings ($ millions) before one-time items [(1)(2)]	1.6	17.1	17.3
Net (loss) earnings ($millions) from discontinued operations	-	(9.9)	(2.0)
Net (loss) Earnings ($millions)	(0.7)	6.3	13.8
Net (loss) Earnings per Share / Unit:			
Basic and Diluted - Continuing Operations (dollars) [(1)]	(0.01)	0.28	0.45
Basic and Diluted – Net (loss) Earnings (dollars)	(0.01)	0.11	0.39
Total Assets ($ millions)	237.3	269.9	255.9
Long-Term Debt ($ millions) [(3)]	50.9	51.4	71.7
Distributions declared to shareholders/unitholders ($ thousands)	24,215	23,723	20,455
Distributions declared to shareholders/unitholders (per share/unit)	0.40	0.41	0.58
Number of units/shares outstanding [(4)]	60,779,352	58,603,332	35,061,385

1. From continuing operations.
2. One-time items include Acquisition, Conversion and Integration costs, foreign exchange gain and insurance proceeds.
3. Excludes current portion of long-term debt.
4. Weighted average basic shares / units

Results of Operations

Comparison of the Year Ended December 31, 2011 and December 31, 2010

Sales and Gross Margin

Sales for the year ended December 31, 2011 were $693 million, which compares $1,032 million in the same period in 2010, a decrease of 33%. The decrease in revenue relates to a significant reduction in volume of lumber, plywood and panel products ("construction materials") sold compared to that in 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 year 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 declined certain high volume business in the year, which it expected 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 year were made up of 50% of construction materials compared to 54% last year.

Gross margin dollars decreased to $76.5 million in the year compared to $106.4 million in 2010, a 28% decrease. Gross margin percentage was 11.0% in the year, an increase from the 10.3% achieved in 2010. This increase in margin percentage is mainly due to the decrease in construction materials in the Company's sales mix in the year compared to 2010.

Expenses

Expenses for the year ended December 31, 2011 were $72.1 million as compared to $79.4 million in 2010, a decrease of $7.3 million or 9.2%.

Distribution, selling and administration expense decreased by $9.2 million, or 13%, to $63.5 million from $72.7 million in 2010. These lower costs are due to the cost savings obtained from our Integration of the BLC operations.

In the year the Company expensed $5.0 million of one-time costs related to the Integration of BLC's operations offset by insurance proceeds of $1.9 million. This compares to one-time costs related to the Acquisition of $3.3 million in 2010.

Share-based compensation cost in the year was $440,000 compared to $247,000 in 2010. Depreciation and amortization expense decreased to $3.2 million in the year, unchanged from 2010.

Operating Earnings

For the year ended December 31, 2011, operating earnings from continuing operations were $4.3 million compared to earnings of $27.0 million in 2010. The variance in the results from operations is explained by the decline in sales volume and resultant impact on gross margin offset partially by the reduction in expenses in the year.

Finance Costs

Finance costs for the year increased to $5.7 million from $4.5 million in 2010, an increase of 25%. This increase was due to the higher interest rate Debentures being in place for the entire year versus approximately 8 months in 2010, together with an increase in the average interest rate on the Company's revolving term loan debt due to an approximate 40 basis point increase in the average prime rate in the year compared to 2010.

Earnings from Continuing Operations before Income Taxes

For the year ended December 31, 2011, earnings from continuing operations before income taxes were $536,000 compared to earnings from continuing operations before income taxes of $23.6 million in 2010. The year over year change was primarily a result of lower revenue in the current year partially offset by overhead expense reductions also in 2011.

(Recovery) Provision for Income Taxes

For the year, the provision for income taxes was $1.2 million, compared to a provision for income taxes of $7.4 million in 2010. The year over year change was primarily a result of the lower amount of earnings from continuing operations before income taxes in 2011.

Net (Loss) Earnings from Continuing Operations

The net loss from continuing operations for year ended December 31, 2011 was $685,000 compared to net earnings from continuing operations of $16.2 million in 2010. The year over year change was primarily a result of lower revenue in the current year partially offset by overhead expense reductions also in 2011.

Loss from Discontinued Operations

On November 15, 2010 the Company sold its hardware division. The loss from discontinued operations in 2010 for that division was $9.9 million. Note 6 of the Company's 2011 Audited Consolidated Financial Statements provides further details.

Net (Loss) Earnings

The net loss for the year ended December 31, 2011 was $685,000 compared to net earnings of $6.3 million in 2010. The year over year change was primarily a result of lower revenue in the current year partially offset by overhead expense reductions in 2011. The prior year was also impacted by the loss from discontinued operations, further offsetting the year over year change.

Other Comprehensive Income

The funded position of the Company's defined benefit pension and post retirement benefit plans is detailed in Note 17 of the Company's 2011 Audited Consolidated Financial Statements. 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 year. The decrease in the discount rate from the start of the year, together with lower asset returns than those anticipated during the year, resulted in an increase in the net liabilities accrued for pension benefits at December 31, 2011. The decrease in the funded position for the year was charged to comprehensive earnings, net of taxes of $5.2 million (2010- $1.3 million).

Fourth Quarter Results

A summary of the unaudited results for the three months ended December 31, 2011 and 2010 is as follows:

	Three months ended December 31,	
(in $ thousands, per share in dollars)	**2011**	**2010**
Sales	$138,318	$177,843
Gross Margin	13,533	19,101
Distribution, selling and administration expenses	13,579	16,945
Depreciation and amortization	986	1,552
Share-based compensation	34	24
Expenses	14,599	18,521
Operating (loss) income before one-time items	(1,066)	580
Insurance proceeds	(1,867)	-
Integration costs	1,000	2,268
Operating (loss) income	(199)	(1,688)
Interest	1,323	1,021
Earnings (loss) before tax from continuing operations	(1,522)	(2,709)
(Recovery of) Provision for income taxes	211	(71)
Net (loss) earnings from continuing operations	(1,733)	(2,638)
Net (loss) earnings from discontinued operations	-	(10,457)
Net (loss) earnings	($1,733)	($13,095)
Net (loss) earnings per share from continuing operations	(0.03)	(0.06)
Net (loss) earnings per share, discontinued operations	-	(0.18)
Net (loss) earnings per share	(0.03)	(0.23)

Sales and Gross Margin

Sales in the quarter were $138 million which compares to $178 million in the same period in 2010, a decrease of 22%.

Contributing to the reduction in volumes in the fourth quarter 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 for the balance of the year. Additionally, while prices for construction materials were relatively stable compared to the fourth quarter of 2010, the Company continued to decline certain high volume business in the period, which would not have even been profitable at the gross margin level. Further, the re-alignment through the year of some of our significant product offerings, also led to some shortfall in sales volume in the quarter, as new vendor offerings continued to gain acceptance with our customers. The Company's sales in the period were made up of 50% of construction materials compared to 49% in the same period last year.

Gross margin dollars were $13.5 million in the quarter compared to $19.1 million in the same period in 2010, a 29% decrease. Gross margin percentage was 9.8% in the quarter, a decrease from the 10.7% achieved in the fourth quarter of 2010. This decrease in margin percentage is due to the slight increase in construction materials in the Company's sales mix as well as increase in transportation costs in the fourth quarter of 2011 compared to fourth quarter of 2010.

Expenses

Expenses for the fourth quarter were $14.6 million as compared to $18.5 million for the same period of 2010, a decrease of $3.9 million or 21%.

Distribution, selling and administration expense decreased by $3.3 million, or 20%, to $13.6 million from $16.9 million in the fourth quarter 2010. These lower costs are due to the cost savings obtained from our Integration of the BLC operations which were substantially complete prior to the current quarter. These Integration activities resulted in $1.0 million of costs in the quarter, by comparison in the same period last year the company expensed $2.3 million of costs related to Integration activities.

Share-based compensation cost in the fourth quarter increased to $34,000 compared to $24,000 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 decreased to $986,000 from $1.6 million in the fourth quarter of 2010 reflecting the declining base of depreciable assets.

Operating (Loss) Earnings from Continuing Operations

The operating loss from continuing operations before one-time items for the fourth quarter was $1.1 million compared to operating income of $580,000 in the same period last year. The variance in results from continuing operations is mainly due to the decline in sales volume in 2011 and resultant impact on gross margin, partially offset by this quarter's reduction in expenses. Including the impact of one-time items, the operating loss in the fourth quarter of 2011 decreases to $198,000 and in 2010 increases to a loss of $2.4 million. One-time items include Acquisition, Integration and Conversion costs as well as a current quarter recovery of insurance proceeds related to the Alberta wood treatment facility weather related damage.

Finance Costs

Finance costs for the fourth quarter increased to $1.3 million from $1.0 million in the same period last year, due to the higher average revolving loan facility balance in the fourth quarter of 2011 compared to 2010.

Earnings (Loss) Before Tax from Continuing Operations

The loss before tax from continuing operations for the fourth quarter was $1.5 million compared to a loss of $2.7 million in the same period of 2010. The loss in the fourth quarter of 2011 was lower than 2010 despite the lower revenue level in 2011 due to the positive impact of overhead cost savings and net recoveries of one-time items in the current quarter.

Provision (Recovery) for Income taxes

For the fourth quarter, the provision for income taxes was $211,000 compared to a recovery of $71,000 in the same period last year. The difference in the income tax amount is due to the lower loss in the fourth quarter of 2011 compared to the prior period.

Net (Loss) Earnings from Continuing Operations

The net loss from continuing operations for fourth quarter was $1.7 million compared to a net loss of $2.6 million in the same period of 2010.

Net Loss from Discontinued Operations

On November 15, 2010 the Company sold its hardware division. The net loss from discontinued operations for that division in the fourth quarter of 2010 was $10.5 million. Note 6 of the Company's 2011 Audited Consolidated Financial Statements provides further details.

Net (Loss) Earnings

The net loss for the fourth quarter was $1.7 million compared to a net loss $13.5 million in the fourth quarter of 2010. The net loss in the fourth quarter of 2011 was lower than 2010 despite the lower revenue level in 2011 due to the positive impact of overhead cost savings and net recoveries of one-time items in the current quarter. In addition to these factors, the fourth quarter of the 2010 was negatively impacted by the net loss from discontinued operations.

Other Comprehensive Income

The funded position of the Company's defined benefit pension and post retirement benefit plans is detailed in Note 16 of the Company's 2011 Audited Consolidated Financial Statements. 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 period. A decrease in the discount rate from the start of the quarter, together with 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 December 31, 2011. The decrease in the funded position for the quarter was charged to comprehensive earnings, net of taxes of $2.0 million (2010 - $1.3 million).

Summary of Quarterly Results

For the Quarters ended (unaudited):

All periods according to IFRS	2011				2010			
(S millions, per share in dollars)	31- Dec	30 - Sep	30 - Jun	31 - Mar	31 - Dec	30 - Sep	30 - Jun	31 - Mar
Sales(1)	138.3	196.4	204.7	153.5	177.8	292.6	340.5	221.4
EBITDA(1)	0.8	5.4	6.3	(2.8)	(0.1)	9.0	15.3	7.5
EBITDA before one time items(1)(3)	-	6.7	7.1	(0.8)	2.1	9.4	15.4	6.9
Earnings (loss) before tax(1)	(1.5)	3.2	4.0	(5.1)	(3.4)	7.1	13.2	5.9
Earnings (loss) before tax and one time items(1)(3)	(2.4)	4.4	4.8	(3.1)	(1.2)	7.5	13.4	5.4
Net earnings (loss)(1)	(1.7)	2.2	2.6	(3.8)	(3.1)	4.9	9.4	4.5
Net earnings (loss) before one time items(1)(3)	(2.3)	2.9	3.2	(2.4)	(1.5)	5.2	9.5	4.0
Net earnings (loss), discontinued operations	-	-	-	-	(10.5)	0.3	0.6	(0.4)
Net earnings (loss)	(1.7)	2.2	2.6	(3.8)	(13.5)	5.2	10.0	4.2
Net earnings (loss) per share(1)(2)	(0.01)	0.04	0.04	(0.06)	(0.05)	0.08	0.16	0.09
Net earnings (loss) per share, discontinued operations	-	-	-	-	(0.17)	0.01	0.01	(0.01)
Net earnings (loss) per share (2)	(0.03)	0.04	0.04	(0.06)	(0.22)	0.09	0.17	0.08
Dividends/Distributions per share/unit	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.108

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

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

EBITDA

EBITDA for the three months ended December 31, 2011 was positive $821,000 compared to negative $111,000 in the same quarter of 2010. The EBITDA for the current quarter was impacted by net one-time recoveries of $867,000, including costs related to the Integration and the recovery of insurance proceeds related to the weather damaged wood treatment facility in Alberta. This compares to one-time expenses in last year's quarter of $2.3 million, all of which related to the Integration. Adjusted EBITDA before these one-time items was negative $46,000 for the quarter, which compares to positive $2.2 million Adjusted EBITDA in last year's quarter.

EBITDA for the year ended December 31, 2011 was $9.8 million compared to $31.6 million in 2010. The EBITDA for the current year was impacted by net one-time costs of $3.2 million, including costs related to the Integration and the recovery of insurance proceeds related to the weather damaged wood treatment facility in Alberta. This compares to one-time net expenses last year of $2.2 million, which included Integration, Acquisition and Conversion costs, 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 year, which compares to $33.7 million Adjusted EBITDA in the prior year.

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

(in thousands of dollars)	Three months ended December 31 2011	2010	Year ended December 31 2011	2010
Net Earnings (loss) from continuing operations	($1,733)	($2,638)	($685)	$16,197
Income tax provision (recovery)	211	(71)	1,221	7,405
Cash interest expense	991	708	4,364	3,419
Depreciation of property plant and equipment	736	568	2,177	2,283
Amortization of intangible and other assets	250	985	1,000	930
Amortization of financing costs	332	313	1,309	1,096
Accretion of promissory notes	-	-	-	11
Share-based compensation	34	24	440	247
EBITDA	$821	($111)	$9,826	$31,588
Acquisition and Conversion costs	-	-	-	993
Integration costs	1,000	2,268	5,020	2,268
Other Income	(1,867)	-	(1,867)	-
Realized foreign exchange gain	-	-	-	(1,102)
Adjusted EBITDA	($46)	$2,157	$12,979	$33,747

Financial Condition

Liquidity and Capital Resources

During the year ended December 31, 2011, the Company consumed $26.6 million in cash, versus generating $23.3 million in 2010.

Operating activities related to continuing operations generated $3.6 million in cash for the year, compared to generating $27.7 million in 2010, a decrease in net cash generation of $24.1 million between the periods. In 2010 discontinued operations generated $7.5 million from operating activities. In 2011 there were no equivalent discontinued operations.

Cash generated by operating activities, before working capital changes, amounted to $3.9 million in the year, compared to generating $24.1 million in 2010, a reduction $20.2 million. This decrease between the periods was due primarily to the $16.9 million decline in net earnings from continuing operations compared to 2010.

During the year ended December 31, 2011, changes in non-cash working capital items used $245,000 of cash, compared to generating $3.7 million in 2010. The change in working capital in the year was a result of a $12.9 million decrease in accounts payable offset by reductions in trade accounts receivable, inventory and prepaid expenses.

In the year ending December 31, 2011, financing activities consumed $28.4 million of cash, compared to the consumption of $29.9 million in 2010. Common Shares issued during the year generated $519,000 of cash, whilst last year the conversion of the subscription receipts resulted in proceeds of $54.0 million (net of issuance costs of $3.6 million). Cash dividends to shareholders holders amounted to $24.3 million in the year, compared to $19.1 million in dividends and distributions paid in 2010. Last year, $18.7 million of cash was used to repay the promissory note issued at time of the Acquisition and $4.2 million in fees and costs were incurred 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. This year the revolving long-term loan decreased by $1.7 million, compared to a reduction of $87.1 million last year. Cash required for interest in the period amounted to $4.4 million compared to $3.4 million in last year. The Company used $2.9 million to repurchase Common Shares under its Normal Course Issuer Bid ("NCIB") implemented in the fourth quarter of 2011. In 2010, financing activities relating to discontinued operations consumed $8.4 million.

Investing activities in the year consumed $1.8 million of cash for capital expenditures. Last year the sale of the hardware division generated $50.0 million of cash (net of $3.3 million of related costs), $20.0 million of cash was used for the cash payment in respect of the Acquisition and $494,000 was used for capital expenditures.

Last year the Company renewed its revolving credit facility with Wachovia Capital Finance Corporation (Canada) (now Wells Fargo Capital Finance Corporation Canada) effective February 1, 2010, in conjunction with the Acquisition. The renewed and amended facility provides for a maximum indebtedness of $275 million, with an additional $50 million accordion facility and has a three-year term which expires on January 31, 2013. These facilities are in the nature of a revolving loan and the Company expects they will be sufficient to accommodate the daily operating needs of the Company. The facilities are limited to a defined percentage of the accounts receivable and inventory of the Company. At December 31, 2011, indebtedness under the revolving facility was $7.6 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 $237 million at December 31, 2011, versus $270 million at December 31, 2010, a decrease of $33 million. Current asset balances accounted for substantially all of the change, with cash, trade accounts receivable and inventory decreasing significantly from prior year balances.

Total Liabilities

Total liabilities were unchanged at $114 million for both December 31, 2011, and December 31, 2010.

Outstanding Share Data

As at March 27, 2012, there were 59,412,154 Common Shares issued and outstanding. Impacting this balance were shares repurchased and canceled in 2011 pursuant to the Company's NCIB program. In addition, at March 27, 2012 there were 1,138,415 common share options outstanding with exercise prices ranging from $2.125 to $4.25 and 46,196 Common Shares outstanding pursuant to the restricted equity common share plan of the Company.

As at March 27, 2012, there were $45 million of Debentures, denominated in principal amounts of $1,000 each, issued and outstanding. 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, 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.

Distributions and Dividends

During the year ended December 31, 2011, the Company declared dividends to shareholders of $0.40 per share, resulting in aggregate distributions of $24.2 million. The dividend declared on December 15, 2011, to shareholders of record on December 30, 2011, was accrued at December 31, 2011 and paid on January 13, 2012.

Record date	Amount $	$ per share
March 31, 2011	6,089	0.10
June 30, 2011	6,093	0.10
September 30, 2011	6,094	0.10
December 30, 2011	5,939	0.10
	24,215	0.40

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. Based on these considerations, the Board of Directors determined to adjust the Company's quarterly Common Share dividend from $0.10 to $0.07 per share, effective for the dividend declared in the first quarter of 2012.

Looking forward (see Forward-Looking Statements), the Company is continually assessing its dividend policy based on the considerations outlined above as well as other possible factors that may become relevant in the future and, accordingly, there can be no assurance that the current quarterly dividend of $0.07 per share will be maintained. Furthermore, the Company may not use future growth in its profitability or free cash flow, if any, to increase its dividend in the near or medium term, but may focus on reducing the ratio of its dividends paid to its net income or free cash flow and using any additional cash to pay down debt and fund business acquisitions or capital projects.

Future and Contractual Obligations

The following table shows, as at December 31, 2011, the Company's contractual obligations within the periods indicated.

Payments Made by Year Contractual Obligations (in thousands of dollars)	Total	2012	2013-2014	2015-2016	Thereafter
Revolving loan facility	$7,554	$ —	$7,554	$ —	$ —
Convertible Debenture	45,000	—	—	—	45,000
Operating Leases	57,569	9,426	16,655	13,388	18,096
Total Contractual Obligations	$110,123	$9,426	$24,209	$13,388	$56,926

Hedging

The Company undertakes sale and purchase transactions in foreign currency and therefore, is subject to gains and losses due to fluctuations in foreign exchange rates.

The Company utilizes foreign exchange contracts to reduce exposure to fluctuations in foreign currency exchange rates. The Company does not purchase or hold forward exchange contracts for speculative purposes. As at December 31, 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 $3.0 million in the year ended December 31, 2011, compared to $2.8 million in 2010. The minimum payments under the terms of these leases are as follows: $3.2 million in 2012, $2.9 million in each of 2013, 2014, 2015 and 2016 and $9.5 million thereafter.

Effective July 1, 2010 a subsidiary of the Company entered into leases for certain distribution facilities from a company which is an affiliate of Rudy Holding II S.a.r.l. ("Rudy"), a shareholder of the Company. Jacob Kotzubei, a director of the Company, is a partner at an affiliate of Rudy. All lease rates were market tested in advance of the signing of the lease agreements and were determined to be at market rates. Lease payments to such related parties were $1.7 million in the year ended December 31, 2011 (2010 - $1.8 million). During the year, these properties were acquired from Rudy by parties unrelated to the Company.

For the year ended December 31, 2011, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of $652,000 (2010—$748,000) by a company owned by Rob Doman, an officer of the Company. Additionally, fees of $720,000 (2010—$772,000) 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.

In 2011 the Company purchased $4.7 million (2010—$5.2 million) 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 December 31, 2011, payables to this related party were $41,000 (2010—$11,000).

As at December 31, 2011, accounts receivable owed by Amar Doman, a director, in respect of advances for expenses totalled $46,000 (2010—$46,000).

Additional information is contained in Note 24 of the 2011 Audited Consolidated Financial Statements for the period ended December 31, 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)	**$**
2012	9,426
2013	8,624
2014	8,031
2015	7,185
2016	6,203
Thereafter	18,096
	57,569

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 $1.6 million (2010- $1.7 million) in respect of historical obligations, pre-dating 1999, for an unfunded closed pension fund for former executives.

Significant Accounting Judgments and Estimates

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

Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill at December 31, 2011 relates to the Company's historic acquisition of a wood pressure treatment business as well as the acquisition of Broadleaf Logistics

Company in 2010. Goodwill is not amortized, but is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. Goodwill impairment is assessed based on a comparison of the fair value of a reporting unit to the underlying carrying value of that reporting unit's net assets, including goodwill. When the carrying amount of the reporting unit exceeds its fair value, the fair value of goodwill related to the reporting unit is compared to its carrying value and excess of carrying value is recognized as an impairment loss.

Employee future benefits

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

Discount rate

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

Expected return on assets

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

Other assumptions

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

Inventory valuation

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

Allowance for doubtful accounts

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

Income taxes

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

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

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 2011 Audited Consolidated Financial Statements.

The accompanying annual financial statements have been prepared in accordance with IFRS. The comparative figures for 2010 have been restated to reflect significant differences between IFRS and Canadian Generally Accepted Accounting Principles. Certain financial information disclosed in this MD&A for 2009 has not been restated.

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.

Amendments to IAS 1 – Financial Statement Presentation

The amendments to IAS 1 require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as remeasurements resulting from the amendments to IAS 19 will be presented separately from items that may be recycled in the future, such as deferred gains on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

IFRS 9, Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope IFRS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, financial assets that are held with a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payment of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investment are measured at their fair values at the end of subsequent accounting periods.

Requirement for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

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, if any, on our financial statements.

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, if any, on our financial statements.

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, if any, on our financial statements.

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, if any, on our financial statements.

IAS 19, Employee Benefits

The amendments to IAS 19 make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to enhance the disclosures for all employee benefits. Actuarial gains and losses are renamed 'remeasurements' and will be recognized immediately in other comprehensive income ("OCI"). Remeasurements recognized in OCI will not be recycled though profit or loss in subsequent periods. The amendments also accelerate the recognition of past service costs whereby they are recognized in the period of a plan amendment. The annual expense for a funded benefit plan will be computed based on the application of the discount rate to the net defined benefit asset or liability. The amendments to IAS 19 will also impact the presentation of pension expense as benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlement and curtailments); and (ii) finance expense or income.

A number of other amendments have been made to recognition, measurement and classification including those re-defining short-term and other long-term benefits guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing factors and expanded disclosures.

The Company's current accounting policy for employee benefits for the presentation of pension expense and the immediate recognition of actuarial gains and losses in OCI is consistent with the requirements of the new standard, however, additional disclosures and the computation of annual expense based on the application of the discount rate to the net defined benefit asset or liability will be required under the revised standard.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IFRS 7 Financial Instruments: Disclosure, IAS Separate Financial Statements, IAS 28, Investments in Associates and Joint Ventures, and IAS 32, Financial Instruments: Presentation. IFRS 7 amendments require disclosure about the effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10-13. IAS 32 addresses inconsistencies when applying the offsetting requirements, and is effective for annual periods beginning on or after January 1, 2014.

Disclosure Controls and Internal Controls Over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to: (a) provide reasonable assurance that material information required to be disclosed by us is accumulated and communicated to management to allow timely decisions regarding required disclosure; and (b) ensure that information required to be disclosed by us is recorded, processed, summarized, and reported within the time periods specified in applicable securities legislation. Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2011. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosure in the Company's Annual and Interim Filings, are effective for the purposes set out above.

Internal Control over Financial Reporting

Management is responsible for designing, establishing and maintaining an adequate system of internal control over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS.

Management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011 based on the framework from the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, management concluded that our internal control over financial reporting, as defined by National Instrument 52-109, Certification of Disclosure in the Company's Annual and Interim Filings, is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

Changes in Internal Control Over Financial Reporting

The Company completed the integration of the business systems and the internal control infrastructure of BLC during 2011. BLC was a major acquisition and the integration involved changes in staffing and training of former BLC employees in the Company's procedures. As a result, the review of internal control design, conducted as part of the 2011 evaluation of the Company's internal control over financial reporting included the integrated operations of BLC for the first time in 2011. Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated changes in internal control over financial reporting that occurred during the fiscal year ended December 31, 2011 and found that the internal control over financial reporting still to be adequately designed. The Company's Board of Directors and Audit Committee reviewed and approved the 2011 Audited Consolidated Financial Statements and this MD&A prior to its release.

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, and our public filings on www.sedar.com, which the reader is encouraged to review.

Outlook

The Bank of Canada projects that overall economic growth in Canada will moderate from 2.4% in 2011 to 2.0% in 2012. With the Integration now complete, the Company's focus in the near term remains to improve market share while continuing to optimize gross margins and maintain tight controls over expenses. The Company is committed to enhancing 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 2011, although it is anticipated to decrease in 2012. In 2010 housing starts were 189,930 and the most recent Canadian Mortgage Housing Corporation's ("CMHC") estimates for 2011 housing starts totaled 193,950. CMHC forecasts 2012 housing starts to moderate slightly to 190,000. The Canadian Real Estate Association reports relatively stable housing resale activity of 456,000 units in 2011 versus 447,010 in 2010. For 2012, they forecast resale activity totaling 457,300 units. 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 the Integration in 2011 and we are now seeing the year over year cost synergies flowing from this. We expect these to be more clearly demonstrated in 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.