



**Canwel Building Materials Group Ltd.**  
**Consolidated Financial Statements**  
**(Unaudited)**

**For the three and six months ended June 30, 2011 and 2010**  
**(in thousands of Canadian dollars)**

## **Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements**

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

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

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

July 27, 2011

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

**Condensed Consolidated Balance Sheet**

(Unaudited)

(Stated in thousands of Canadian dollars)

	Notes	As at June 30, 2011 \$	As at December 31, 2010 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		-	19,175
Accounts receivable			
Trade	9	120,292	48,783
Other		3,050	4,825
Inventories	10	93,277	80,291
Prepaid expenses		1,760	3,656
		<b>218,379</b>	<b>156,730</b>
<b>Non-current assets</b>			
Property, plant and equipment		2,802	3,224
Intangible assets		8,583	9,083
Deferred income tax assets		9,182	9,202
Goodwill	5	91,606	91,606
Other financial assets		-	8
		<b>112,173</b>	<b>113,123</b>
<b>Total assets</b>		<b>330,552</b>	<b>269,853</b>
<b>Equity and liabilities</b>			
<b>Current liabilities</b>			
Bank indebtedness		5,778	-
Trade and other payables		71,215	49,735
Dividends payable	12	6,092	6,071
		<b>83,085</b>	<b>55,806</b>
<b>Non-current liabilities</b>			
Borrowings	11	54,213	8,454
Convertible debentures	11	43,065	42,901
Deferred amounts		648	216
Pension benefits		2,003	2,423
Post retirement benefits		4,449	4,474
		<b>104,378</b>	<b>58,468</b>
<b>Total liabilities</b>		<b>187,463</b>	<b>114,274</b>
<b>Shareholders' Equity</b>			
Shareholders' capital	12	252,192	251,333
Contributed surplus	12	4,233	4,228
Deficit		(102,277)	(88,923)
Accumulated other comprehensive income		(11,059)	(11,059)
<b>Total equity</b>		<b>143,089</b>	<b>155,579</b>
<b>Total equity and liabilities</b>		<b>330,552</b>	<b>269,853</b>
Nature of operations	1		
Commitments for expenditures	16		

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**Condensed Consolidated Statement of Earnings (Loss) and Comprehensive Earnings (Loss)**

(Unaudited)

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

	Notes	Three months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
		\$	\$	\$	\$
Revenue		204,723	340,495	358,201	561,895
Cost of sales		180,869	304,490	317,509	502,983
<b>Gross Margin from operations</b>		<b>23,854</b>	36,005	<b>40,692</b>	58,912
Expenses					
Distribution, selling and administration		16,729	20,649	34,355	36,689
Share-based compensation	12	57	152	371	199
Depreciation of property, plant and equipment		479	449	960	987
Amortization of intangible assets and other assets		250	116	500	97
Acquisition costs		-	91	-	314
Conversion costs		-	-	-	281
Integration costs		776	-	2,790	-
		<b>18,291</b>	21,457	<b>38,976</b>	38,567
Operating (loss) earnings from continuing operations		<b>5,563</b>	14,548	<b>1,716</b>	20,345
Finance costs	6	(1,580)	(1,270)	(2,862)	(2,266)
Foreign exchange gain on promissory note	5	-	-	-	1,102
Earnings (loss) before tax		<b>3,983</b>	13,278	<b>(1,146)</b>	19,181
Income tax (expense) recovery	13	(1,346)	(3,855)	(20)	(5,208)
<b>Net earnings (loss) from continuing operations</b>		<b>2,637</b>	9,423	<b>(1,166)</b>	13,973
Income from discontinued operations		-	603	-	230
<b>Net earnings (loss)</b>		<b>2,637</b>	10,026	<b>(1,166)</b>	14,203
<b>Other Comprehensive Income, Net of Tax</b>	20	-	-	-	-
<b>Comprehensive earnings (loss)</b>		<b>2,637</b>	10,026	<b>(1,166)</b>	14,203
Net earnings (loss) per share					
Basic and diluted - continuing operations		0.04	0.16	(0.02)	0.26
Basic and diluted - net earnings (loss)		0.04	0.17	(0.02)	0.26
Weighted average number of shares outstanding	12				
Basic		60,899,706	60,665,538	60,858,975	54,291,425
Diluted		61,020,151	60,763,412	60,980,238	54,466,425

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**CANWEL BUILDING MATERIALS GROUP LTD.**  
**Condensed Consolidated Statement of Changes in Shareholder's Equity**  
(Unaudited)  
(in thousands of Canadian dollars)

	Common Shares		Fund Units		Exchangable Partnership Units		Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount				
Balance December 31, 2010	60,709,681	251,333	-	-	-	-	4,228	(88,923)	(11,059)	155,579
Shares issued pursuant to:										
Restricted Equity Common Share Plan	100,922	372					(372)			-
Stock option plan	106,668	453								453
Employee Common Share Purchase Plan	8,242	34								34
Stock-based compensation charged to operations							371	(6)		371
Accrued dividends on unvested restricted shares (note 12)							6	(12,182)		(12,182)
Dividends (note 12)								(1,166)		(1,166)
Net loss and comprehensive income for the period							4,233	(102,277)	(11,059)	143,089
<b>Balances, June 30, 2011</b>	<b>60,925,513</b>	<b>252,192</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,337</b>	<b>(70,996)</b>	<b>(10,316)</b>	<b>71,876</b>
Balance January 1, 2010			24,060,204	112,365	11,144,279	36,486				
Units issued pursuant to Employee Unit Ownership Plan - for cash			14,732	52						52
Balance prior to conversion to corporate entity			24,074,936	112,417	11,144,279	36,486	4,337	(70,996)	(10,316)	71,928
Exchange of fund units for common shares	24,074,936	112,417	(24,074,936)	(112,417)						-
Exchanges of exchangeable partnership units for common shares	11,144,279	36,486			(11,144,279)	(36,486)				-
Shares issued pursuant to:										
Private Placement	15,131,700	57,500								57,500
Share issue costs net of deferred tax asset	-	(2,944)								(2,944)
Business acquisition	10,250,000	47,458								47,458
Restricted Equity Common Share Plan	94,273	368					(368)			-
Stock-based compensation charged to operations							199	(6)		199
Accrued dividends on unvested restricted shares (note 12)							6	(11,584)		(11,584)
Dividends								14,203		14,203
Net earnings and comprehensive income for the period							4,174	(68,383)	(10,316)	176,760
Balances, June 30, 2010	60,695,188	251,285	-	-	-	-				

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

**Condensed Consolidated Statement of Cash Flows**  
(Unaudited)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
(Stated in thousands of Canadian dollars)		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Net earnings (loss) from continuing operations for the period		2,637	9,423	(1,166)	13,973
Depreciation of property, plant and equipment		479	449	960	987
Net change in pensions and other post-retirement benefits		(176)	(203)	(445)	(102)
Amortization of:					
Intangible assets		250	-	500	-
Other assets and deferred amounts		223	116	440	97
Accretion of promissory note		-	-	-	11
Interest expense		1,580	1,270	2,862	2,256
Income tax expense (recovery)	13	1,346	3,855	20	5,208
Income taxes paid	13	-	(964)	-	(1,126)
Foreign exchange gain on repayment of promissory note		-	-	-	(1,102)
Share-based compensation		57	152	371	199
		6,396	14,098	3,542	20,401
Net change in non-cash working capital	17	(18,903)	(6,077)	(59,345)	(85,271)
<b>Net cash (used) generated from operating activities</b>		(12,507)	8,021	(55,803)	(64,870)
<b>Cash flows from financing activities</b>					
Shares issued for cash		-	1	487	57,552
Share issuance costs		-	628	-	(3,626)
Dividends paid		(6,089)	(4,047)	(12,160)	(6,978)
Interest paid		(1,248)	(978)	(2,217)	(1,906)
Repayment of promissory note	5	-	-	-	(18,680)
Financing costs on borrowings	11	(138)	(2,283)	(138)	(4,274)
Net increase in convertible debentures		-	45,000	-	45,000
Net increase in revolving loan facility		14,424	(48,882)	45,416	10,520
<b>Net cash generated from (used in) financing activities</b>		6,949	(10,561)	31,388	77,608
<b>Cash flows from investing activities</b>					
Business acquisition	5	-	-	-	(20,000)
Net decrease in other financing assets		-	1	-	1
Purchase of property plant and equipment		(397)	(14)	(538)	(14)
<b>Net cash used in investing activities</b>		(397)	(13)	(538)	(20,013)
Net decrease in cash/bank indebtedness		(5,955)	(2,553)	(24,953)	(7,275)
Net increase in cash/bank indebtedness from discontinued operations		-	1,331	-	1,810
Cash and cash equivalents (bank indebtedness) -					
Beginning of period		177	(8,350)	19,175	(4,107)
Bank indebtedness - End of period		(5,778)	(9,572)	(5,778)	(9,572)
<b>Non-cash financing activities</b>					
Shares issued for business acquisition	5	-	-	-	47,458
Promissory note issued for business acquisition	5	-	-	-	19,782



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

## **CANWEL BUILDING MATERIALS GROUP LTD.**

### Notes to the Interim Condensed Consolidated Statements

For the three and six months ended June 30, 2011 and 2010  
(Unaudited)

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(in thousands of Canadian dollars)

## **1 NATURE OF OPERATIONS**

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

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

The exchange of the units of the Fund to the Company was recorded at the carrying values of the Fund's assets and liabilities on February 1, 2010 in accordance with the continuity of interest method of accounting as the Company is considered to be a continuation of the Fund.

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

## **2 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

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

### **3 BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE**

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

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

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

### **4 DISCONTINUED OPERATIONS**

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

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

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

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



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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Earnings (loss) from discontinued operations include the following:				
Net sales	-	63,105	-	113,667
Pre-tax earnings	-	866	-	330
Cash flow from discontinued operations includes the following:				
Cash flow from operating activities	-	7,372	-	2,995
Cash flow from financing activities	-	(6,041)	-	(1,185)
Cash flows from investing activities	-	-	-	-
Increase in cash	-	1,331	-	1,810

## 5 BUSINESS ACQUISITION

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

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

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

- the issuance of 10,250,000 Common Shares of the Company, with an Acquisition Date fair value of \$4.63 per common share;
- \$20,000 in cash;
- a secured subordinated interest-bearing promissory note of the Company in the aggregate principal amount of US\$18,500; and

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d. an adjustment to be based on the difference between net working capital of each of BLC and the Company on February 1, 2010. The final net working capital adjustment in the purchase consideration has not yet been finalized. This may affect the final determination of consideration and identifiable assets and liabilities.

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

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

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

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

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

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

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

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

	Six months ended June 30, 2011	Year ended December 31, 2010
Accrued liability - Beginning of period	2,100	-
Paid during the period	(3,445)	(247)
Expensed during the period	2,790	2,347
Accrued liability - End of period	1,445	2,100

## 6 FINANCE COSTS

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

	Three months ended June 30,		Six months ended June 30,	
	2011 \$	2010 \$	2011 \$	2010 \$
Long-term debt	1,248	1,560	2,233	2,828
Cash, bank indebtedness and loans	-	(8)	(16)	(15)
Net cash interest	1,248	1,552	2,217	2,813
Amortization of financing costs	332	292	645	468
Accretion of promissory notes	-	-	-	11
	1,580	1,844	2,862	3,292
Allocation to discontinued operations	-	(574)	-	(1,036)
	1,580	1,270	2,862	2,256

## 7 PENSIONS AND OTHER POST-RETIREMENT BENEFITS

Total net benefit expense of the Company's pension and post-retirement benefit plans in the second quarter was \$621 (2010 - \$741) and for the six month period to date was \$1,229 (2010 - \$1,373).

## 8 CASH AND CASH EQUIVALENTS

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

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**9 TRADE AND OTHER RECEIVABLES**

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

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
	<b>\$</b>	<b>\$</b>
Trade receivables	120,729	49,125
Claims receivable	601	870
Miscellaneous receivables	2,449	3,955
Provision for doubtful accounts	(437)	(342)
	<b>123,342</b>	<b>53,608</b>

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
	<b>\$</b>	<b>\$</b>
Past due by:		
Less than 1 month	120,788	52,352
1 to 3 months	2,269	645
3 to 6 months	285	-
Over 6 months	-	611
Total trade and other receivables	<b>123,342</b>	<b>53,608</b>

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

Balance at Dec 31, 2010	342
Provisions during period	95
Accounts written off	-
Balance at June 30, 2011	<b>437</b>

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

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## 10 INVENTORIES

The inventories for the Company are categorized as follows:

	June 30, 2011 \$	December 31, 2010 \$
Inventories held for resale	87,319	72,713
Inventories held for processing	5,958	7,578
	93,277	80,291

For the period ended June 30, 2011, the amount of inventory expensed as cost of sales was \$169,994 (2010 - \$302,984) for the quarter and \$301,769 (2010 - \$501,597) for the six month period to date. Inventory provision charges and credits adjust the carrying amount of inventory to its net realizable value. For the period ended June 30, 2011, inventory provision charges (recoveries) included in cost of sales were \$206 (2010 - \$473) for the quarter and \$160 (2010 - \$501) for the six month period to date. All of the Company's inventory is pledged as security for its revolving loan facility (note 11).

## 11 BORROWINGS AND CONVERTIBLE DEBENTURES

	June 30, 2011 \$	December 31, 2010 \$
Revolving loan facility (see below)	55,464	10,050
Financing costs net of amortization	(1,251)	(1,596)
	54,213	8,454
Convertible debentures (see below)	45,000	45,000
Financing costs net of amortization	(1,935)	(2,099)
	43,065	42,901
	97,278	51,355
Less: current portion	-	-
	97,278	51,355

### Revolving loan facility

The Company's revolving loan facility with Wells Fargo Capital Finance Corporation Canada was renewed on February 1, 2010 and matures on January 31, 2013. Under the facility, up to \$275,000, with an additional \$50,000 accordion facility, may be borrowed for operating requirements in Canadian and US currency. Interest is variable based on the Canadian or US



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prime rate. The amount advanced under the facility at any time is limited to a defined percentage of inventories and accounts receivable, less certain reserves. The facility is secured by a first charge over the Company's assets and an assignment of accounts receivable and requires that certain covenants be met by the Company. The Company was not in breach of any of its covenants during the quarter ended June 30, 2011.

### Convertible debentures

On April 22, 2010, the Company completed a bought-deal prospectus financing and issued \$45,000 of unsecured convertible debentures denominated in principal amounts of one thousand dollars, resulting in proceeds of \$42,676 net of underwriting fees and costs of \$2,324. The debentures bear interest at an annual rate of 5.85% payable semi-annually in arrears on October 31 and April 30 in each year commencing on October 31, 2010 and have a maturity date of April 30, 2017.

Each debenture is convertible into Common Shares of the Company at the option of the holder at any time prior to the close of business on the earlier of the maturity date and the business day immediately preceding the date specified by the Company for redemption of the debentures at a conversion price of \$6.40 per common Share (the "Conversion Price"), being a conversion rate of approximately 156.25 Common Shares per one thousand dollars of debenture principal amounts, subject to adjustment in accordance with the trust indenture governing the terms of the debentures.

The debentures may not be redeemed by the Company on or before April 30, 2013. After April 30, 2013 and prior to April 30, 2015, the debentures may be redeemed by the company, in whole or 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 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 debentures are classified as a liability and associated transaction costs are amortized as interest expense over the life of the debentures.

	June 30, 2010	December 31, 2010
	\$	\$
Opening Balance	-	-
Face value of Convertible Debentures issued	45,000	45,000
Less financing costs	(2,324)	(2,324)
Carrying value of Convertible Debentures on issue	42,676	42,676
Amortization of financing costs	389	225
Carrying value of Convertible Debentures at period end	43,065	42,901

## 12 SHARE CAPITAL

Pursuant to the Conversion, the Company is considered to be a continuation of the Fund and therefore the exchange of Fund Units for Common Shares of the Company is recorded at the carrying values of the Fund's assets and liabilities on January 31, 2010, in accordance with the continuity of interest method of accounting. In addition, all of the outstanding options to acquire Fund Units were exchanged for options to acquire an equal number of Common Shares on the same terms and all of the outstanding entitlements under the Fund's Restricted Equity Unit Plan became rights to acquire an equivalent number of Common Shares on the same terms under the new Restricted Equity Common Share Plan.

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

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

### Share Option plan

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

The following is an analysis of the outstanding share options:

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

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

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

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

## Employee Common Share Purchase Plan

Effective January 1, 2011, the Company issued 8,242 common shares from treasury at a price of \$4.13 per common share for gross proceeds of \$34 from employees, pursuant to this plan.

## Restricted Equity Unit Plan and Restricted Equity Common Share Plan

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

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

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

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

Outstanding RSUs are as follows:

	Six months ended June 30, 2011	Twelve months ended December 31, 2010
Beginning of period	60,637	64,061
Granted	79,998	82,730
Cancelled	-	-
Vested	(100,922)	(94,273)
Earned	2,751	8,119
End of period	42,464	60,637

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## Earnings per share

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

## Dividend

On June 30, 2011 the Company declared a dividend of \$0.10 per share, totalling \$6,092 to shareholders of record on June 30, 2011, which was accrued at June 30, 2011 and paid on July 15, 2011.

## 13 INCOME TAXES

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Earnings from continuing operations before income taxes	3,983	13,278	(1,146)	19,181
Income tax at statutory rates	1,191	3,992	(343)	5,769
Fund distributions deductible for tax purposes	-	-	-	(290)
Partnership income allocated to partners	-	-	-	(136)
Adjustment to future tax assets related to tax rates	-	84	-	(29)
Share-based compensation	17	48	111	62
Amounts not deductible for tax and other	138	(269)	252	(168)
Provision for (recovery of) future income taxes	1,346	3,855	20	5,208

## 14 CAPITAL RISK MANAGEMENT

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

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



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

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

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

## 15 RELATED PARTY TRANSACTIONS

The Company has transactions with related parties in the normal course of operations at exchange amounts as agreed between the related parties as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Land and building lease payments for distribution facilities paid to a company in which a director and an officer of the Company have an interest and lease payments for certain treatment plant facilities to a company solely controlled by a director of the Company.	750	736	1,474	1,447
Fees for management services and other charges from a company controlled by a director of the Company.	205	154	348	405
Fees for professional services and other charges from a company controlled by an officer of the Company.	156	214	325	445
Land and building lease payments for distribution facilities paid to a company which is an affiliate of Rudy Holding II S.a.r.l. ("Rudy"), a shareholder of the Company. A director of the Company is a partner at an affiliate of Rudy.	751	-	1,392	-

During the three months and six months ending June 30, 2011, the Company purchased \$1,306 (2010 - \$217) and \$2,891 (2010 - \$853) respectively, of product from a public company in which a director of the Company has an ownership interest. These purchases are in the normal course of operations and are recorded at exchange amounts. As at June 30, 2011, payables to this related party were \$138 (2010 - \$15).

As at June 30, 2011, other accounts receivable include an amount due from a director of \$46 (2010 - \$45).



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

Year ending December 31:	
2011	1,487
2012	2,973
2013	2,973
2014	2,182
2015	1,206
Thereafter	3,000
	<hr/> 13,821

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

Year ending December 31:	
2011	1,447
2012	1,582
2013	1,582
2014	1,582
2015	1,582
Thereafter	7,226
	<hr/> 15,001

## 16 COMMITMENTS FOR EXPENDITURE

### Lease commitments

The Company has operating lease commitments as follows:

- a. Real estate operating leases with third parties and related parties covering many of the distribution centre properties and treatment plant properties that it operates across Canada.
  
- b. Operating leases covering certain vehicles and warehouse equipment.

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

Year ending December 31:	
2011	5,082
2012	9,014
2013	7,788
2014	6,118
2015	4,944
Thereafter	13,034
	<b>45,980</b>

## Claims

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

## 17 CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Accounts receivable	(27,297)	(5,126)	(69,734)	(98,199)
Inventories	9,327	895	(12,986)	(34,046)
Prepaid expenses	(799)	2,028	1,896	1,746
Accounts payable and accrued liabilities	(134)	(3,874)	21,479	45,228
	<b>(18,903)</b>	<b>(6,077)</b>	<b>(59,345)</b>	<b>(85,271)</b>

## 18 SEASONALITY

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

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## 19 SEGMENTED INFORMATION

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

### Sales by product category

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	%	%	%	%
Construction materials	50%	55%	51%	55%
Specialty and hardware	50%	45%	49%	45%
	100%	100%	100%	100%

### Sales by geographic region

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	%	%	%	%
B.C.	14%	17%	15%	17%
Prairies	32%	33%	28%	34%
Ontario	21%	18%	24%	19%
Quebec	18%	17%	18%	18%
Atlantic	15%	15%	15%	12%
	100%	100%	100%	100%

## 20 TRANSITION TO IFRS

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

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

## 20.1 Total shareholders' equity

	Notes	As at June 30, 2010 \$
Total shareholders' equity under Canadian GAAP		186,757
Adjustments for differing accounting treatments:		
- actuarial losses on benefit plans, net of taxes	(i)	(10,316)
- gain on sale and leaseback transaction, net of taxes	(ii)	324
<b>Total shareholders equity under IFRS</b>		<b>176,765</b>

## 20.2 Net Earnings and Comprehensive Earnings

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

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

## 20.3 Cash flows

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

### Notes to IFRS reconciliation above:

#### (i) Employee benefits

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

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

**(ii) Leases**

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

*Under IFRS* - IAS 17, “Leases”, indicates that sale and leaseback transactions at fair value, which result in an operating lease contract for the leases, all gains must be immediately recorded in income. The impact at the date of transition was to reverse the deferred gain of \$324 net of taxes of \$125 to retained earnings. There was no change in this adjustment to shareholders equity at June 30, 2010 from that at the transition date of January 1, 2010 as management determined the amount to be immaterial.





## Directors

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Toronto, Ontario

**Peter Dhillon**  
Richmond, British Columbia

**Amar S. Doman**  
West Vancouver, British Columbia

**Tom Donaldson**  
Saint John, New Brunswick

**Kelvin Dushnisky**  
Toronto, Ontario

**Todd Grenich**  
Seattle, Washington

**Jacob Kotzubei**  
Los Angeles, California

**Stephen W. Marshall**  
Vancouver, British Columbia

**Martin R. Melone**  
Los Angeles, California

**Siegfried J. Thoma**  
Portland, Oregon

## Auditors

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Vancouver, British Columbia

## Solicitors

**Goodmans LLP**  
Toronto, Ontario

**Davis LLP**  
Vancouver, British Columbia

## Officers

**Amar S. Doman**  
Chairman and CEO

**Martin Hope**  
Chief Financial Officer

**R.S. (Rob) Doman**  
Corporate Secretary

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Vancouver, British Columbia

## Stock Exchange

Toronto Stock Exchange

## Trading Symbol:

CWX; CWX. DB