CanWel Building Materials Group Ltd.
First Quarter Report 2011

Canwel Building Materials Group Ltd.

Consolidated Financial Statements
(Unaudited)

Three months ended March 31, 2011 and 2010
(in thousands of Canadian dollars)

Notice of No Auditor Review of Interim 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 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.

May 12, 2011

Condensed Consolidated Balance Sheet

(Unaudited)

	Notes	**As at March 31, 2011**	As at December 31, 2010	As at January 1, 2010
(in thousands of Canadian dollars)		**$**	$	$
Assets			(Note 22)	(Note 22)
Current assets				
Cash and cash equivalents		**177**	19,175	-
Restricted cash		**-**	-	55,630
Accounts receivable				
Trade	11	**93,103**	48,783	45,884
Other		**2,942**	4,825	436
Inventories	12	**102,604**	80,291	71,505
Prepaid expenses		**961**	3,656	2,656
		199,787	156,730	176,111
Non-current assets				
Property, plant and equipment		**2,884**	3,224	30,074
Intangible assets		**8,833**	9,083	6,228
Deferred income tax assets		**10,528**	9,202	11,993
Goodwill		**91,606**	91,606	28,982
Other financial assets		**7**	8	2,477
		113,858	113,123	79,754
Total assets		**313,645**	269,853	255,865
Equity and liabilities				
Current liabilities				
Bank indebtedness		**-**	-	4,107
Trade and other payables		**71,347**	49,735	42,335
Subscription receipts held in trust		**-**	-	57,500
Dividends payable	14	**6,089**	6,071	1,467
Current portion of borrowings	13	**-**	-	87
		77,436	55,806	105,496
Non-current liabilities				
Borrowings	13	**39,677**	8,454	71,716
Convertible debentures	13	**42,983**	42,901	-
Deferred amounts		**432**	216	-
Pension benefits		**2,197**	2,423	2,530
Post retirement benefits		**4,431**	4,474	4,246
		89,720	58,468	78,492
Total liabilities		**167,156**	114,274	183,988
Shareholders' Equity				
Shareholders' capital	14	**252,069**	251,333	148,851
Contributed surplus	14	**4,299**	4,228	4,338
Deficit		**(98,820)**	(88,923)	(70,996)
Accumulated other comprehensive income		**(11,059)**	(11,059)	(10,316)
Total equity		**146,489**	155,579	71,877
Total equity and liabilities		**313,645**	269,853	255,865
Nature of operations	1			
Commitments for expenditures	18			

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

		Three months ended March 31,	
		2011	**2010**
(in thousands of Canadian dollars, except per share amounts)	Notes	**$**	**$**
Revenue		**153,478**	221,396
Cost of sales		**136,640**	198,490
Gross Margin from operations		**16,838**	22,906
Expenses			
Distribution, selling and administration		**17,624**	16,019
Share-based compensation	14	**314**	47
Depreciation of property, plant and equipment		**481**	538
Amortization of intangible assets and other assets		**250**	-
Acquisition costs		**-**	223
Conversion costs		-	281
Integration costs		**2,015**	-
		20,684	17,108
Operating (loss) earnings from continuing operations		**(3,846)**	5,798
Finance costs	8	**(1,282)**	(996)
Foreign exchange gain on promissory note	7	**-**	1,102
Earnings (loss) before tax		**(5,128)**	5,904
Income tax (expense) recovery	15	**1,326**	(1,353)
Net earnings (loss) from continuing operations		**(3,802)**	4,551
Loss from discontinued operations		**-**	(374)
Net earnings (loss)		**(3,802)**	4,177
Other Comprehensive Income, Net of Tax			
Net actuarial losses from benefit plans		**-**	-
Comprehensive earnings (loss)		**(3,802)**	4,177

Net earnings (loss) per share			
Basic and diluted - continuing operations		**(0.06)**	0.09
Basic and diluted - net earnings		**(0.06)**	0.08
Weighted average number of shares outstanding	14		
Basic		**60,820,032**	51,861,703
Diluted		**61,140,918**	52,052,669

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

Condensed Consolidated Statement of Changes in Shareholder's Equity

(Unaudited)
(in thousands of Canadian dollars)

	Common Shares		Fund Units		Exchangable Partnership Units					
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total
Balance December 31, 2010	60,709,681	251,333	-	-	-	-	4,228	(88,923)	(11,059)	155,579
Shares issued pursuant										
Restricted Equity Common Share Plan	69,609	249					(249)			-
Stock option plan	106,668	453								453
Employee Common Share Purchase Plan	8,242	34								34
Stock-based compensation charged to operations							314			314
Accrued dividends on unvested restricted shares							6	(6)		-
Dividends								(6,089)		(6,089)
Net loss and comprehensive income for the period								(3,802)		(3,802)
Balances, March 31, 2011	60,894,200	252,069	-	-	-	-	4,299	(98,820)	(11,059)	146,489
Balance January 1, 2010			24,060,204	112,365	11,144,279	36,486	4,337	(70,996)	(10,316)	71,876
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										
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	58,212	219					(219)			-
Stock-based compensation charged to operations							47			47
Accrued dividends on unvested restricted shares (note 14)							6	(6)		-
Dividends								(5,514)		(5,514)
Net earnings and comprehensive income for the year								4,177		4,177
Balances, March 31, 2010	60,659,127	251,136	-	-	-	-	4,171	(72,339)	(10,316)	172,652

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

Condensed Consolidated Statement of Cash Flows

(Unaudited)

		Three months ended March 31,	
		2011	2010
(Stated in thousands of Canadian dollars)	Notes	$	$
Cash flows from operating activities			
Net earnings (loss) from continuing operations for the period		(3,802)	4,551
Depreciation of property, plant and equipment		481	901
Net change in pensions and other post-retirement benefits		(269)	101
Amortization of:			
Intangible assets		250	334
Other assets and deferred amounts		217	31
Accretion of promissory note		-	11
Interest expense		1,282	996
Income tax expense (recovery)		(1,326)	1,353
Income taxes paid		-	(162)
Foreign exchange gain on repayment of promissory note		-	(1,102)
Share-based compensation		314	47
		(2,853)	7,061
Net change in non-cash working capital	19	(40,443)	(79,195)
Net cash generated from operating activities		(43,296)	(72,134)
Cash flows from financing activities			
Shares issued		487	57,551
Share issuance costs		-	(4,254)
Dividends paid		(6,071)	(2,934)
Interest paid		(969)	(821)
Repayment of promissory note	7	-	(18,680)
Financing costs on convertible debentures	13	-	(1,941)
Net increase in revolving loan facility		30,992	59,362
Net cash generated from financing activities		24,439	88,283
Cash flows from investing activities			
Business acquisition	7	-	(20,000)
Net decrease in other financing assets		-	-
Purchase of property plant and equipment		(141)	-
Net cash used in investing activities		(141)	(20,000)
Net increase (decrease) in cash/bank indebtedness		(18,998)	(3,851)
Decrease in cash/bank indebtedness from discontinued operations		-	(392)
Cash and cash equivalents (bank indebtedness) - Beginning of period		19,175	(4,107)
Bank indebtedness - End of period		177	(8,350)
Non-cash financing activities			
Shares issued for business acquisition	7	-	47,458
Promissory note issued for business acquisition	7	-	19,782

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 owed subsidiaries in Canada as a national distributor of hardware, building materials 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 7, 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 a 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").

These are the Company's first IFRS consolidated interim financial statements for part of the period covered by the Company's first IFRS consolidated annual financial statements for the year ending December 31, 2011. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with GAAP.

As these are the Company's first set of consolidated interim financial statements in accordance with IFRS, the Company's disclosures exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's 2010 annual consolidated financial statements prepared in accordance with GAAP. Various reconciliations between previous GAAP and IFRS related to the transition and subsequent reporting periods are set out in note 22, together with explanatory notes. In 2012 and beyond, the Company may not provide the same amount of disclosure in the Company's interim consolidated financial statements under IFRS as the reader will be able to rely on the annual consolidated financial statements which will be prepared in accordance with IFRS.

4. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

IFRS 9 *Financial Instruments* was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through comprehensive earnings. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

5. SUMMARY OF SIGNIFICANT ACCCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation

The interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the Canadian Institute of Chartered Accountants (IFRSs as adopted by the CICA) and IFRIC interpretations. The interim consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

Discontinued operations

The financial results for the Company's hardware division, which was sold on November 15, 2010, have been reclassified as discontinued operations. Operating results of a company's component disposed of by sale are reported as discontinued operations if the operations and cash flows of that component have been eliminated from the Company's current operations pursuant to the disposal and if the company does not have significant continuing involvement in the operations of the component after the disposal transaction. The Company allocates interest on its parent company debt to discontinued operations on a relative net asset basis (note 6).

Business combinations

Business combinations are accounted for by applying the acquisition method, whereby assets acquired and liabilities assumed are measured at their fair value at the date of acquisition. Acquisition costs associated with a business combination are expensed in the period incurred.

Foreign currency translation

(a) Functional and presentation currency

The Company's reporting currency and the functional currency of all of its operations is the Canadian dollar as this is the principal currency of the economic environment in which it operates.

(*b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance costs'. All other foreign exchange gains and losses are presented in the income statement within 'cost of sales'.

Property, plant and equipment ("PPE")

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write of the cost of PPE, less their estimated residual value, and is calculated on a straight-line basis at the following annual rates:

Buildings	3%
Leasehold improvements	lease term
Machinery and equipment	20%
Automotive equipment	30%
Computer equipment	20% to 33 1/3%

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of comprehensive income.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

Share-based payments

Share-based payment transactions

Employees (including directors and senior executives) of the Company may receive a portion of their remuneration in the form of share-based payment transactions, whereby employees and non-employees render services as consideration for equity instruments (“equity-settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

Equity-settled transactions

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date:). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for the period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and /or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measure at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method, net of vendor rebates, and includes materials, freight and, where applicable, treatment cost.

Vendor rebates

The Company records cash consideration received from vendors as a reduction in the price of vendors' products and reflects it as a reduction to cost of sales and related inventory when recognized in the consolidated statements of earnings and consolidated balance sheets. Certain exceptions apply where the cash consideration received is either a reimbursement of incremental selling costs incurred by the reseller or a payment for goods or services delivered to the vendor, in which case the rebate is reflected as a reduction of operating expenses.

Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the dated of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Income per share

The basic income per share is computed dividing the net income by the weighted average number of common shares outstanding during the period. The diluted income per share reflects the potential dilution of common share equivalents, such as outstanding stock options, convertible debentures and restricted equity common shares, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options that are used to purchase common shares at the average market price during the period. The “if converted” method is used to measure the potential dilution from the conversion of convertible debentures.

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and loses recognized through earnings. The Company's cash and short-term money market investments are classified as FVTPL.

Financial assets classified as loans-and receivables and held-to-maturity are measured at amortized cost. The Company's trade and other receivables are classified as loans-and-receivables.

Financial assets classified as available-for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income(loss) except for losses in value that are considered other than temporary. At March 31, 2011 the Company has not classified any financial assets as available-for-sale.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables, deposits received, amounts due under line of credit facilities, convertible debentures and dividends payable are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. At March 31, 2011 the Company has not classified any financial liabilities as FVTPL.

Impairment of financial assets

The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in the statement of earnings.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment had not been recognized. Any subsequent reversal of an impairment loss is recognized in the statement of earnings.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

Available-for-sale

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of earnings.

Impairment of non-financial assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of earnings and comprehensive earnings, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term interest bearing securities maturing within three months of the date of purchase.

Revenue recognition

Revenue from the sale of products is recognized, net of discounts and customer rebates, when title passes to customers, which is at the time goods are shipped and the transfer of significant risks and rewards of ownership has taken place, and collectability is reasonably assured.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

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 long-term asset valuation, goodwill and related impairment testing, inventory valuation and obsolescence, deferred tax assets and liabilities valuation, recoverability of accounts receivable, volume rebates 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 March 31, 2011 relates to the Company's historic acquisition of a wood pressure treatment business as well as the acquisition of BLC 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.

Long-term debt

The Company's long-term debt is initially recognized at fair value, net of financing costs incurred. Long-term debt is subsequently stated at amortized cost; any difference between the proceeds (net of financing costs) and the redemption value is recognized in the consolidated statements of earnings over the term of the debt using the effective interest method.

Convertible debentures

The convertible debentures are compound instruments and the proceeds received are bifurcated to record the material fair value, if any, of the conversion feature with the residual being allocated to the equity portion of the convertible debentures.

The fair value of the conversion feature and the debt was determined using a discounted cash flow model, which resulted in a non-material allocation of value to the conversion feature, and therefore 100% of the fair value was recoded as debt. Transactions costs offset the carrying value and are amortized over the expected life of the convertible debentures.

Employee future benefits

For defined benefit pension plans and other post-retirement benefits, the net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation and the expected healthcare cost trend rate. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results will differ from results which are estimated based on assumptions. The vested portion of past service cost arising from plan amendments is recognized immediately in the income statement. The unvested portion is amortized on a straight-line basis over the average remaining period until the benefits become vested.

The asset or liability recognized in the statement of financial position is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. 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 terms to maturity approximating value of the defined benefit obligation and the fair value of plan assets are recognized immediately in the statement of comprehensive income. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Payments to defined contribution plans are expensed as incurred.

Comprehensive earnings

Other comprehensive earnings is the method to record revenues, expenses, gains and losses on net financial assets that are not required to be included in earnings. Comprehensive earnings is the sum of earnings for the year plus the other comprehensive earnings

6 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.

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

	Three months ended March 31,	
	2011 $	2010 $
Earnings (loss) from discontinued operations include the following:		
Net sales	-	50,562
Pre-tax earnings (loss)	-	(536)
Cash flow from discontinued operations includes the following:		
Cash flow from operating activities	-	(5,248)
Cash flow from financing activities	-	4,856
Cash flows from investing activities	-	-
Increase/(decrease) in cash	-	(392)

7 BUSINESS ACQUISITION

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

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

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

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

b. $20,000 in cash;

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

d. an adjustment 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.

8 FINANCIAL COSTS

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

	Three months ended March 31,	
	2011 **$**	**2010** **$**
Long-term debt	985	1,261
Cash, bank indebtedness and loans	(16)	1
Net cash interest	969	1,262
Amortization of financing costs	313	175
Accretion of promissory notes	-	11
	1,282	1,448
Allocation to discontinued operations	-	(452)
	1,282	996

9 PENSIONS AND OTHER POST-RETIREMENT BENEFITS

Total net benefit expense of the Company's pension and post-retirement benefit plans in the first quarter $606 (2010 - $632).

10 CASH AND CASH EQUIVALENTS

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

11 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:

	March 31, 2011 **$**	**December 31, 2010** **$**	**January 1, 2010** **$**
Trade receivables	93,456	49,125	46,220
Claims receivable	1,545	870	200
Other receivables	1,397	3,955	236
Provision for doubtful accounts	(353)	(342)	(336)
	96,045	53,608	46,320

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Past due by:			
Less than 1 month	93,261	52,352	39,858
1 to 3 months	2,106	645	2,228
3 to 6 months	83		3,889
Over 6 months	595	611	345
Total trade and other receivables	96,045	53,608	46,320

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

Balance at January 1, 2010	336
Provisions during period	160
Accounts written off	(154)
Balance at Dec 31, 2010	342
Provisions during period	11
Accounts written off	-
Balance at March 31, 2011	353

The Company holds no collateral for any receivable amounts outstanding as at March 31, 2011.

12 INVENTORIES

The inventories for the Company are categorized as follows:

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Inventories held for resale	94,458	70,778	67,310
Inventories held for processing	8,146	7,578	4,195
	102,604	78,356	71,505

For the period ended March 31, 2011, $131,775 (2010 - $195,860) of inventory was expensed as cost of sales. Inventory provision charges and credits adjust the carrying amount of inventory to its net realizable value. For the period ended March 31, 2011, inventory provision charges (recoveries) included in cost of sales were ($20) (2010 - $40). All of the Company's inventory is pledged as security for its revolving loan facility (note 13).

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

13 BORROWINGS AND CONVERTIBLE DEBENTURES

	March 31, 2011 $	**December 31,** 2010 $	**January 1,** 2010 $
Revolving loan facility (see below)	41,040	10,050	72,165
Financing costs net of amortization	(1,363)	(1,596)	(449)
	39,677	8,454	71,716
Convertible debentures (see below)	45,000	45,000	-
Financing costs net of amortization	(2,017)	(2,099)	-
	42,983	42,901	-
Promissory notes payable to a company controlled by a Director, non-interest bearing, repayable by monthly instalments of $97, maturing on January 1, 2010	-	-	87
	82,660	51,355	71,803
Less: current portion	-	-	87
	82,660	51,355	71,716

Revolving loan facility

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

Convertible debentures

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

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

The debentures may not be redeemed by the Company on or before April 30, 2013. After April 30, 2013 and prior to April 30, 2015, the debentures may be redeemed by the company, in whole or impart from time to time, on not more than 60 days and not less than 30 days prior notice, at a redemption price equal to the principal amount there of 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.

	March 31,	**December 31,**	**January 1,**
	2010	**2010**	**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	307	225	-
Carrying value of Convertible Debentures at period end	42,983	42,901	-

14 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 three months ended March 31, 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 7% 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 January 1, 2010 and December 31, 2010	1,245,083	3.96
Exercised	(106,668)	4.25
Outstanding March 31, 2011	1,138,415	3.93

The following table summarizes the share options outstanding at March 31, 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 months ended March 31, 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 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 vest one-third on the date of grant and on-third on each of the first and second anniversary of the date of the grant. However, vesting may be accelerated 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:

	Three months ended March 31, 2011	**Twelve months ended December 31, 2010**	**Twelve months ended January 1, 2010**
Beginning of period	60,637	64,061	244,151
Granted	74,116	82,730	19,048
Cancelled	-	-	-
Vested	(69,609)	(94,273)	(230,765)
Earned	1,288	8,119	31,627
End of period	66,432	60,637	64,061

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 March 31, 2011 the Company declared a dividend of $0.10 per share, totalling $6,089 to shareholders of record on March 31, 2011, which was accrued at March 31, 2011 and paid on April 15, 2011.

15 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 March 31,	
	2011	2010
	$	$
Earnings before income taxes	(5,128)	5,904
Income tax at statutory rates	(1,443)	1,784
Fund distributions deductible for tax purposes	-	(290)
Partnership income allocated to partners	-	(136)
Adjustment to future tax assets related to tax rates	-	(113)
Share-based compensation	314	14
Amounts not deductible for tax and other	(197)	94
Provision for (recovery of) future income taxes	(1,326)	1,353

16 CAPITAL RISK MANAGEMENT

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

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

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, 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.

17 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 March 31,	
	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.	724	711
Fees paid for management services and other charges paid to a company controlled by a director of the Company.	142	251
Fees paid for professional services and other charges paid to a company controlled by an officer of the Company.	169	231
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.	641	-

During the period ending March 31, 2011, the Company purchased $1,585 (2010 - $636) of product from a 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 March 31, 2011, payables to this related party were $311 (2010 – $64).

As at March 31, 2011, other accounts receivable include an amount due from a director of $46 (2010 - $45).

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

Year ending December 31:	
2011	2,225
2012	2,973
2013	2,973
2014	2,182
2015	1,206
Thereafter	3,000
	14,559

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

Year ending December 31:	
2011	1,048
2012	1,252
2013	1,252
2014	1,252
2015	1,252
Thereafter	5,851
	11,907

18 COMMITMENTS FOR EXPENDITURE

Lease commitments

The Company has operating lease commitments as follows:

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

b. Operating leases covering certain vehicles and warehouse equipment.

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

Year ending December 31:	
2011	7,875
2012	9,230
2013	7,972
2014	6,063
2015	4,594
Thereafter	11,649
	47,383

Claims

During the normal course of business, certain product claims have been brought against the Company and 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.

19 CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	Three months ended March 31, 2011 $	**Three months ended March 31, 2010 $**
Accounts receivable	(42,437)	(93,073)
Inventories	(24,248)	(38,226)
Prepaid expenses	4,630	3,003
Accounts payable and accrued liabilities	21,612	49,101
	(40,443)	(79,195)

20 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.

21 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 March 31,**
	2011 %	**2010 %**
Construction materials	52%	56%
Specialty and hardware	48%	44%
	100%	100%

Sales by geographic region	**Three months ended March 31,**	
	2011	**2010**
	%	**%**
B.C.	14%	17%
Prairies	32%	33%
Ontario	21%	18%
Quebec	18%	17%
Atlantic	15%	15%
	100%	100%

22 FIRST TIME ADOPTION OF 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.

Initial elections upon adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

IFRS exemption Options

- **Business combinations** - IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the transition date. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to the date of transition and as such business combinations have not been restated. Any goodwill arising on such business combinations before the transition date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.

- **Share-based payment** - IFRS 2, Share-based Payments, encourages application of its provision to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the date of transition. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its transition date. Management has determined that there is no material adjustments required as at the date of transition.

- **Employee Benefits** - IFRS 1 provides the option to retrospectively apply the corridor approach under IAS 19, Employee Benefits, for the recognition of actuarial gains and losses, or recognize all cumulative gains and losses deferred under Canadian GAAP in opening retained earnings at the date of transition. The Company elected to recognize all cumulative actuarial gains and losses that existed at its transition date in opening retained earnings for all of its employee benefit plans.

IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in significant changes to the reported financial position and results of operations of the Company. Presented below are reconciliations prepared by the Company to reconcile to IFRS the assets, liabilities, equity, earnings and cash flows of the Company from those reported under Canadian GAAP:

22.1 Total assets

		At December 31,	At March 31,	At January 1,
		2010	2010	2010
	Notes	$	$	$
Total assets under Canadian GAAP		279,913	489,018	264,652
Adjustments for differing accounting treatments:				
- actuarial losses on employee benefits	(i)	(13,051)	(12,235)	(12,383)
- adjustment for deferred taxes				
on employee benefits and deferred gain	(i) & (ii)	3,841	3,596	3,596
- reclassification of deferred income taxes	(iii)	(850)	-	-
Total assets under IFRS		269,853	480,379	255,865

22.2 Total liabilities

		At December 31,	At March 31,	At January 1,
		2010	2010	2010
	Notes	$	$	$
Total liabilities under Canadian GAAP		113,545	306,324	182,783
Adjustments for differing accounting treatments:				
- actuarial losses on benefit plans	(i)	1,955	1,834	1,654
- gain on sale and leaseback transaction	(ii)	(376)	(431)	(449)
- reclassification of deferred income taxes	(iii)	(850)	-	-
Total liabilities under IFRS		114,274	307,727	183,988

22.3 Total shareholders' equity

		At December 31,	At March 31,	At January 1,
		2010	2010	2010
	Notes	$	$	$
Total shareholders' equity under Canadian GAAP		166,368	182,644	81,869
Adjustments for differing accounting treatments:				
- actuarial losses on benefit plans, net of taxes	(i)	(11,059)	(10,316)	(10,316)
- gain on sale and leaseback transaction, net of taxes	(ii)	270	324	324
Total liabilities under IFRS		155,579	172,652	71,877

22.4 Deferred income taxes

	Notes	At December 31, 2010 $	At March 31, 2010 $	At January 1, 2010 $
Total deferred income taxes under Canadian GAAP		5,361	9,442	8,397
Adjustments for differing accounting treatments:				
- actuarial losses on benefit plans	(i)	3,947	3,721	3,721
- gain on sale and leaseback transaction	(ii)	(106)	(125)	(125)
Total deferred income taxes under IFRS		9,202	13,038	11,993

22.5 Comprehensive income

	Notes	12 months ended December 31, 2010 $
Net earnings		5,861
Net earnings under Canadian GAAP		
Amortization of deferred gain on sale and leaseback transactions, net of taxes	(ii)	(54)
Net earnings under IFRS		5,807
Other comprehensive income (loss)		-
Other comprehensive income under Canadian GAAP		
Actuarial losses on benefit and other plans during the period, net of taxes	(i)	(11,059)
Other comprehensive income (loss) under IFRS		(11,059)

22.6 Cash flows

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

Notes to IFRS reconciliation above:

(i) Employee benefits

Under Canadian GAAP – Prior to 2010, the Company amortized actuarial gains (losses) of defined benefit pension plans and other retirement benefits. The excess of the net accumulated actuarial gain (loss) from the defined benefit pension plans over the 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees in the defined benefit pension plans, and actuarial gains (losses) arising

from other retirement benefits are amortized over the average remaining life expectancy of the former employees. Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the same periods as for actuarial gains (losses).

Under IFRS – IAS 19, "Employee Benefits", allows actuarial gains (losses) to be recognized immediately in other comprehensive income (loss) with out subsequent reversal of income (loss). The impact at the date of transition was to record the net actuarial losses of $8,391 (net of tax effect of $5,646) to opening comprehensive income. The impact for 2010 was to record net actuarial losses of $535 less the tax effect of $434 to comprehensive income.

(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.

(iii) Deferred taxes

Under Canadian GAAP – Deferred taxes were classified in the balance sheet as either current or long term.

Under IFRS - IAS 12, Deferred taxes are all classified as long term.

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