CanWel Building Materials Group Ltd.

Second Quarter Report 2011

CanWel Building Materials Group Ltd.

Management's Discussion and Analysis

July 27, 2011

This Management's Discussion and Analysis ("MD&A") provides a review of the significant developments that have impacted CanWel Building Materials Group Ltd. (the "Company"), the successor to CanWel Building Materials Income Fund (the "Fund"), in the quarter and six month period ended June 30, 2011 relative to the same periods of 2010. This discussion of the financial condition and results of operations of the Company should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2010, (the "2010 Consolidated Financial Statements"). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to the preparation of interim financial statements. 2010 prior period comparative financial information throughout this report has been restated and is shown in accordance with IFRS.

This MD&A contains historical information, descriptions of current circumstances and statements about potential future developments and anticipated financial results, performance or achievements of the Company, the Fund and its subsidiaries. The latter statements, which are forward-looking statements, are presented to provide guidance to the reader but their accuracy depends on a number of assumptions and are subject to various known and unknown risks and uncertainties. Forward-looking statements are included under the headings "Outlook", "Contingencies and Commitments", "Sale of Hardware Division", "Dividend Policy" and "Liquidity and Capital Resources". When used in this MD&A, such statements may contain such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the negative of these terms or other similar terminology. Forward-looking information in this MD&A includes, without limitation, statements regarding funding requirements and anticipated cost savings and benefits of the Acquisition (as defined below). These statements are based on management's current expectations regarding future events and operating performance, are based on information currently available to management, speak only as of the date of this MD&A and are subject to risks which are described in our Annual Information Form ("AIF") dated March 31, 2011 and our public filings on the Canadian Securities Administrators' website at www.sedar.com ("SEDAR") and would include, but are not limited to, dependence on market economic conditions, sales and margin risk, acquisition and integration risks, competition, information system risks, availability of supply of products, risks associated with the introduction of new product lines, product design risk, environmental risks, volatility of commodity prices, inventory risks, customer and vendor risks, availability of credit, credit risks, interest rate risks, key executive risk and litigation risks. In addition, there are numerous risks associated with an investment in common shares and units (as may be applicable prior to February 1, 2010), which are also further described in the "Risks and Uncertainties" section in this MD&A and in the "Risk Factors" section of our AIF dated March 31, 2011, and our other public filings on SEDAR. These risks and uncertainties may cause actual results to differ materially from those contained in the statements. Such statements reflect management's current views and are based on certain assumptions. Some of the key assumptions include, without limitation, assumptions regarding the performance of the Canadian economy, interest rates, capital and loan availability, commodity pricing, the Canadian housing and building materials market; the direct and indirect effect of the US housing and building materials markets; post acquisition operation of the business; the amount of the Company's cash flow from operations; tax laws; and the extent of the Company's future acquisitions and capital spending requirements or planning. They are, by necessity, only estimates of future developments and actual developments may differ materially from these statements due to a number of known and unknown factors. Investors are cautioned not to place undue reliance on these forward-looking statements. All forward-looking information in this MD&A is qualified by these cautionary statements. Although the forward-looking information contained in this MD&A is based on upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.

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

References to the Company include the Fund, CanWel and BLC (the latter both as defined below) as the context may require. The information in this report is as at July 27, 2011, unless otherwise indicated. All amounts are reported in Canadian dollars.

1. In the discussion, reference is made to EBITDA, which represents earnings from continuing operations before interest, provision for income taxes, gain or loss on sale of fixed assets, depreciation and amortization, goodwill impairment loss and stock-based compensation. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, the measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. EBITDA is presented as we believe it is a useful indicator of a Company's ability to meet debt service and capital expenditure requirements and because we interpret trends in EBITDA as an indicator of relative operating performance. EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with IFRS.
2. In the discussion, reference is made to Adjusted EBITDA, which is EBITDA as defined above, before certain one time or unusual items. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, the measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. Adjusted EBITDA is presented as we believe it is a useful indicator of the Company's ability to meet debt service and capital expenditure requirements from its regular business, before non-recurring items. Adjusted EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with IFRS.
3. Reference is also made to Free Cash Flow of the Company. This is a non-IFRS measure generally used by Canadian companies as an indicator of financial performance. The measure as calculated by the Company might not be comparable to similarly-titled measures reported by other companies. Management believes that this measure provides investors with an indication of the cash available for distribution to shareholders of the Company. We define free cash flow as cash flow from continuing operating activities before changes in non-cash working capital and after maintenance of business capital expenditure.

Business Overview

The Company is a leading Canadian national wholesale distributor of building materials, home renovation products and hardware and provides wood pressure treating services. On February 1, 2010, the Company acquired the operations of Broadleaf Logistics Company ("BLC") (see "Acquisition"). Prior to the Acquisition, the Company's subsidiary, CanWel Building Materials Ltd. ("CanWel"), operated from 16 distribution centres, and 4 pressure treatment plants, strategically located across Canada. The Acquisition added an additional 14 distribution centres. On November 15, 2010 the Company sold its hardware division to Tim-BR-Marts Ltd. (see "Sale of Hardware Division"). The hardware division operated from 4 distribution centres. The Company services the new home construction, home renovation and industrial markets by supplying the retail lumber and building materials industry, hardware stores, industrial and furniture manufacturers and similar concerns across Canada. On October 1, 2010, CanWel and BLC were legally amalgamated as part of the integration of their operations during late 2010 and early 2011.

Pursuant to a plan of arrangement (the "Arrangement"), which became effective May 18, 2005, CanWel Building Materials Income Fund (the "Fund") acquired 100% of the shares of CanWel in exchange for units of the Fund ("Fund Units") and exchangeable partnership units in a majority owned partnership of the Fund.

On February 1, 2010, pursuant to a plan of arrangement, the Fund converted (the "Conversion") into CanWel Holdings Corporation (which was continued federally and renamed in the name of the Company on May 11, 2010), a corporate entity. All of the outstanding Fund units and Class B exchangeable limited partnership interests of CanWel Holding Partnership ("CHP") were exchanged for common shares of the Company ("Common Shares") on a one-for-one basis. In addition, all of the outstanding options to acquire Fund units were exchanged for options to acquire an equal number of Common Shares on the same terms and all of the outstanding entitlements under the Fund's restricted equity unit plan became rights to acquire an equivalent number of Common Shares on the same terms. On February 1, 2010, the Fund was dissolved and all of its assets were transferred to, and all of its liabilities were assumed by, the Company, as the Fund's sole unitholder on that date. The Conversion occurred on a tax deferred basis.

The exchange of the units of the Fund to the Company was recorded at the carrying values of the Fund's assets and liabilities on February 1, 2010 in accordance with the continuity of interest method of accounting as the Company is considered to be a continuation of the Fund. Accordingly, this MD&A and the Company's unaudited financial statements for the period ended June 30, 2011 reflect for the comparative period of 2010, CanWel as a corporation subsequent to the Conversion date and as an income trust prior thereto. All references to "shares" refer collectively to the Company's Common Shares on and subsequent to the Conversion date and to the Fund's units prior to the Conversion date, as the context may require. Similarly, all references to "shareholders" refer collectively to holders of the Common Shares on and subsequent to the Conversion date and to holders of the Fund's units prior to the Conversion date, as the context may require.

Further detailed information regarding the Conversion, name change and continuation is contained in the Fund's management information circular dated December 17, 2009 for the special meeting of unitholders of the Fund held on January 15, 2010 (the "Acquisition Circular"), the Company's AIF dated March 31, 2011, and management information circular dated March 31, 2010 for its annual and special meeting held on May 11, 2010, available on SEDAR.

In the six months ended June 30, 2011 the Company declared dividends to shareholders totaling $0.20 per share.

Subscription Receipts

On December 17, 2009, the Fund issued 15,131,700 subscription receipts by way of private placement at a price of $3.80 per subscription receipt for gross proceeds of $57.5 million. Subject to the satisfaction of certain conditions related to the Conversion and the Acquisition (as defined below), each subscription receipt entitled the holder to receive one Fund unit without further action or payment immediately prior to the completion of the Conversion and the Acquisition (as defined below). On February 1, 2010, immediately prior to the Conversion and the Acquisition, all of the subscription receipts were exchanged for Fund units on a one-for-one basis. All of these Fund units were then exchanged for Common Shares as part of the Conversion.

Acquisition

On February 1, 2010, the Company purchased 100% of the outstanding common shares of BLC (the "Acquisition"), a private company which distributed building materials across Canada.

The purchase price for the Acquisition was satisfied through: (i) the issuance to the vendor of 10,250,000 Common Shares; (ii) the payment to the vendor of $20 million in cash; (iii) the issuance to the vendor of a secured subordinated interest bearing promissory note of the Company in the aggregate principal amount of US$18.5 million; and (iv) an adjustment based on the difference between net working capital of each of BLC and the Fund on the closing date, February 1, 2010.

Further detailed information regarding the Acquisition is contained in the Acquisition Circular available on SEDAR. Details of the purchase price and the allocation to the assets and liabilities assigned to the assets acquired and liabilities assumed are contained in Note 5 of the Company's financial statements as at June 30, 2011.

Unsecured Convertible Debentures

On April 22, 2010, pursuant to a bought deal prospectus offering (the "Offering"), the Company issued $45.0 million of unsecured convertible debentures ("Debentures") denominated in principal amounts of $1,000 each, resulting in proceeds of $42.7 million net of underwriting fees and costs of $2.3 million. The Debentures bear interest at an annual rate of 5.85% payable semi-annually in arrears on October 31 and April 30 in each year commencing on October 31, 2010, and have a maturity date of April 30, 2017.

Each Debenture is convertible into Common Shares at the option of the holder at any time prior to the close of business on the earlier of the maturity date and the business day immediately preceding the date specified by the Company for redemption of the Debentures at a conversion price of $6.40 per common share (the "Conversion Price"), being a conversion rate of approximately 156.25 Common Shares per $1,000 principal amount of debentures, subject to adjustment in accordance with the trust indenture governing the terms of the debentures.

The Debentures may not be redeemed by the Company on or before April 30, 2013. After April 30, 2013 and prior to April 30, 2015, the debentures may be redeemed by the Company, in whole or in part from time to time, on not more than 60 days and not less than 30 days prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted average trading price of the Common Shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On or after April 30, 2015 and prior to the maturity date, the debentures may be redeemed in whole or in part at the option of the Company on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest.

The Company used the net proceeds from the offering to repay part of its revolving term debt facility. The Company was then able to draw, as required, from increased availability on its credit facility.

Sale of Hardware Division

On November 15, 2010, the Company sold substantially all the assets and liabilities of its hardware division to Tim-BR-Marts Ltd. Accordingly, current and prior period results for this division have been reclassified as discontinued operations.

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

Total proceeds on sale were $50 million. Total assets and liabilities disposed of were $87.0 million and $29.0 million, respectively. The final working capital amount is subject to an adjustment based on agreed values at November 15, 2010. This has not yet been finalized. Note 4 of the Company's financial statements as at June 30, 2011, contains details of sales, pre-tax earnings, and cash flows of these discontinued operations in the quarter and six month period ended June 30, 2010.

Seasonality

The Company's sales are subject to seasonal variances that fluctuate in accordance with the normal home building season. The Company generally experiences higher sales in the second and third quarters compared to the first and fourth quarters. This creates a timing difference between free cash earned and dividends paid. While the Company has leveled dividends to provide a regular income stream to shareholders over the course of a year, the second and third quarters have historically been the Company's most profitable.

Distributions and Dividends to Shareholders

Following the Conversion, the Board of Directors reviews the Company's dividend periodically in the context of the Company's overall profitability, free cash flow, capital requirements and other business needs (see "Dividend Policy").

The distribution policy of the Fund was to make distributions of its available cash to the maximum extent possible to unitholders. The Fund defined distributable cash as cash flow from operating activities before changes in non-cash working capital and pension and other post-retirement benefits and after maintenance of business capital expenditure and contributions to any reserves the Board of Trustees (as they then were) deemed to be reasonable and necessary for the operations of the Fund.

Matter Affecting Comparisons

This MD&A includes certain comparisons of the results for the quarter ended June 30, 2011 to the results for the quarter ended June 30, 2010. On November 15, 2010, the Company sold its hardware division (see "Sale of Hardware Division"). Accordingly, current and prior period results of this division have been reclassified as discontinued operations.

Results of Operations

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

Sales and Gross Margin

Sales for the quarter ended June 30, 2011 were $205 million, which compares $340 million in the same period in 2010, a decrease of 40%. The decrease in revenue relates to a significant reduction in volume of construction materials sold compared to that in the same quarter of 2010, declines in key construction material prices in the range 15% to 43% when compared to the second quarter of 2010 and our wood treatment facility in Alberta being temporarily closed due to weather related damage, reducing related product sales.

Contributing to the reduction in volumes in the quarter was a prolonged wet spring generally experienced across Canada. This significantly affected construction and renovation activity. When comparing to last year's quarter, sales in that quarter were positively impacted by a follow through of the upward price pressure of construction materials from the first quarter, whereas in this year's quarter prices were declining and were significantly lower than the same quarter last year. The Company also declined to accept certain high volume business in the quarter which would not have even been profitable at the gross margin level. The Company's sales in the quarter were made up of 50% of construction materials compared to 55% in the same quarter last year.

Gross margin dollars decreased to $23.8 million in the quarter compared to $36.0 million in the same quarter of 2010, a 34% decrease. Gross margin percentage was 11.7% in the quarter, an increase from the 10.1% achieved in the same quarter of 2010. This increase in margin percentage is mainly due to the decrease in construction materials in the Company's sales mix from that in the second quarter of 2010.

Expenses

Expenses for the quarter ended June 30, 2011 were $18.3 million as compared to $21.5 million for the same quarter in 2010, a decrease of $3.2 million or 15%.

Distribution, selling and administration expense decreased by $3.9 million, or 19%, to $16.7 million from $20.6 million in the second quarter of 2010.

In the quarter the Company expensed $776,000 of one time costs related to the integration of BLC's operations. This compares to one time costs related to the Acquisition of $91,000 in the same quarter of 2010.

Share-based compensation cost in the quarter decreased to $57,000 compared to $152,000 in the same quarter of 2010, due to a decrease in the amount of shares issued in the period pursuant to the restricted equity common share plan. Depreciation and amortization expense increased by $146,000 in the quarter to $729,000 compared to $565,000 in the same quarter of 2010, due in the main part to the amortization of intangible assets resulting from the acquisition of BLC.

Operating Earnings

For the quarter ended June 30, 2011, the operating earnings were $5.6 million compared to earnings of $14.5 million in the same quarter of 2010. Excluding the costs related to the re-organization and the Acquisition and Conversion, the operating earnings would have been $6.4 million compared to $14.6 million of operating earnings in the second quarter of 2010. The variance in the results from operations is explained by the decline in sales volume between the two quarters.

Finance Costs

Interest expense for the quarter increased to $1.6 million from $1.3 million in the same quarter of 2010, an increase of $310,000 or 24%. This increase was due to the higher interest rate on the Debentures and a 29% increase in the interest rate on the Company's revolving term loan debt due to the increase in the average prime rate in the quarter to 3% compared to 2.33% in the second quarter of 2010.

Net Earnings Before Tax from Continuing Operations

For the quarter net earnings before tax were $4.0 million, compared to net earnings of $13.3 million in the same quarter of 2010.

Income Taxes

For the quarter income tax expense was $1.3 million, compared to $3.9 million in the same quarter of 2010.

Net Earnings from Continuing Operations

The net earnings from continuing operations for the quarter ended June 30, 2011 were $2.6 million compared to net earnings of $9.4 million in the same quarter of 2010.

Net Earnings from Discontinued Operations

On November 15, 2010 the Company sold its hardware division. The net earnings in the second quarter of 2010 for that division was $603,000, see Note 4 of the Company's financial statements at June 30, 2011.

Net Earnings

The net earnings for the quarter ended June 30, 2011 were $2.6 million compared to net earnings of $10.0 million in the same quarter of 2010.

Comparison of the Six Month Period Ended June 30, 2011 and June 30, 2010

Sales and Gross Margin

Sales for the six month period were $358 million which compares to $562 million in the same period in 2010, a decrease of 36%.

Contributing to the reduction in volumes in the period were the challenging building conditions that were mainly weather related and generally experienced across Canada until late in the second quarter. This significantly affected construction and renovation activity. When comparing to last year's period, sales were positively impacted last year by upward price pressure of construction materials, whereas in this year's period prices were declining in the range of 7% to 25%. Further, the restocking by our customers following reduced inventory levels in late 2009 and last minute buying in connection with the end of the home renovation tax credit in February 2010 led to increased sales in last year's period. The Company also declined to accept certain high volume business in the period which would not have even been profitable at the gross margin level. The Company's sales in the period were made up of 51% of construction materials compared to 55% in the same period last year.

Gross margin dollars were $40.7 million in the six month period compared to $58.9 million in the same period in 2009, a 31% decrease. Gross margin percentage was 11.4% in the period, an increase from the 10.0% achieved in the same period of 2010. This increase in margin percentage is mainly due to the decrease in construction materials in the Company's sales mix.

Expenses

Expenses for the six months ended June 30, 2011 were $39.0 million as compared to $38.6 million for the same period of 2010, an increase of $373,000 or 1%.

Distribution, selling and administration expense decreased by $2.3 million, or 6%, to $34.4 million from $36.7 million in the same period of 2010.

The Company expensed $2.8 million of integration costs in the period, by comparison in the same period last year the company expensed $595,000 of costs related to the Acquisition and Conversion.

Share-based compensation cost in the period increased to $371,000 compared to $199,000 in the same period of 2010, due to an increase in the amount of shares issued in the period pursuant to the restricted equity common share plan. Depreciation and amortization expense increased by $339,000 in the period to $1.5 million compared to $1.1 million in the same period of 2010, due in the main part to the amortization of intangible assets resulting from the acquisition of BLC.

Operating Earnings

For the six months ended June 30, 2011, operating earnings of $1.7 million compared to $20.3 million in the same period last year, a decrease of 92%.

Finance Costs

Interest expense for the six month period increased to $2.9 million from $2.3 million in the same period last year, an increase of $596,000 or 26%. This increase was due to the higher interest rate on the Debentures and a 31% increase in the interest rate on the Company's revolving term loan debt due to the increase in the average prime rate in the period to 3% compared to 2.29% in the same period of 2010.

Foreign Exchange Gain

On March 31, 2010, the Company repaid the US$18.5 million promissory note that was issued pursuant to the Acquisition on February 1, 2010. This resulted in a realized gain on exchange of $1.1 million. There was no such gain in this same period in 2011.

Net Earnings Before Tax from Continuing Operations

The net loss from continuing operations for the six month period ended June 30, 2011 was $1.1 million compared to net earnings of $19.2 million in the same period of 2010.

Income taxes

For the six months ended June 30, 2011, the provision for income taxes was $20,000, compared to $5.2 million in the same period last year. The difference in the tax provision is due to the higher pre-tax income in the previous year's period.

Net Earnings from Continuing Operations

The net loss from continuing operations for the six months ended June 30, 2011 was $1.2 million compared to net earnings of $14.0 million in the same period of 2010.

Net Earnings from Discontinued Operations

On November 15, 2010 the Company sold its hardware division. The net earnings in the six month period ended June 30, 2010 for that division was $230,000, see Note 4 of the Company's financial statements at June 30, 2011.

Net Earnings

Net loss for the six months ended June 30, 2011 was $1.2 million compared to net earnings of $14.2 million in the same period of 2010.

Summary of Quarterly Results

For the Quarters ended:

	2011		2010				2009	
($ millions, per share in dollars)	June 30	March 31	Dec 31	Sep 30	June 30	March 31	Dec 31(2)	Sep 30(2)
Sales(1)	204.7	153.5	177.8	292.5	340.5	221.4	85.5	120.8
EBITDA(1)	6.3	(2.8)	(0.9)	9.0	15.3	7.5	2.0	8.4
EBITDA before one time items(1)	7.1	(0.8)	1.4	9.4	15.4(5)	6.9 (5)	3.9(5)	8.4
Earnings (loss) before tax(1)	4.0	(5.1)	(3.4)	7.1	13.2	5.9	1.3	7.6
Earnings (loss) before tax and one time items(1)	4.8	(3.1)	(1.2)	7.5(5)	13.4(5)	5.4(5)	2.2(5)	7.6
Net earnings (loss) (1)	2.6	(3.8)	(3.1)	4.9	9.4	4.5	2.0	6.9
Net earnings (loss) before one time items(1)	3.2	(2.4)	(1.5)(5)	5.2(5)	9.5(5)	4.0(5)	3.6(5)	6.9
Net earnings (loss), discontinued operations	-	-	(10.5)	0.3	0.6	(0.4)	(2.2)	0.1
Net earnings (loss)	2.6	(3.8)	(13.5)	5.2	10.0	4.2	(0.2)	7.4
Net earnings (loss) per share(1)(3)	0.04	(0.06)	(0.05)	0.08	0.16	0.09	0.06	0.20
Net earnings (loss) per share, discontinued operations	-	-	(0.17)	0.01	0.01(5)	(0.01)(5)	(0.06)(5)	0.00
Net earnings (loss) per share (3)	0.04	(0.06)	(0.22)	0.09	0.17	0.08	(0.01)	0.20
Dividends/Distributions per share/unit	0.100	0.100	0.100	0.100	0.100	0.108	0.125	0.125

(1) From continuing operations.
(2) Prepared in accordance with Canadian generally accepted accounting principles in place at December 31, 2009.
(3) Basic.
(4) Monthly distribution reduced effective the June 2009 distribution.
(5) One time items refer to costs related to the Acquisition and Conversion, realized foreign exchange gain on debt repayment and reorganization costs.

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

EBITDA

EBITDA for the three months ended June 30, 2011 was $6.3 million compared to $15.3 million in the same quarter of 2010. The EBITDA for the quarter was impacted by the one time costs of $776,000 related to the re-organization of BLC. This compares to one time items in last year's quarter of $91,000. Adjusted EBITDA before these one time items was $7.1 million for the quarter, which compares to $15.4 million Adjusted EBITDA in last year's quarter.

EBITDA for the six months ended June 30, 2011 was $3.5 million compared to $22.9 million in the same period of 2010. The EBITDA for the period was impacted by the one time costs of $2.8 million related to the re-organization of BLC.

This compares to one time items in last year's period of $595,000 for costs related to the Acquisition and Conversion, offset by a realized foreign exchange gain of $1.1 million on repayment of the US$ promissory note. Adjusted EBITDA before these one time items was $6.3 million for the period, which compares to $22.2 million Adjusted EBITDA in last year's period.

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

	Three months ended June 30		Six months ended June 30	
(in thousands of dollars)	2011	2010	2011	2010
Net (Loss) Earnings from continuing operations	$2,628	$9,423	$(1,166)	$13,973
Income tax provision (recovery)	1,346	3,855	20	5,208
Cash interest expense	1,248	978	2,217	1,787
Depreciation of property plant and equipment	479	449	960	987
Amortization of intangible and other assets	250	116	500	97
Amortization of financing costs	332	292	645	468
Amortization of promissory notes	-	-		11
Share-based compensation	57	152	371	199
EBITDA	$6,340	$15,265	3,547	22,730
Acquisition and Conversion costs	-	91	-	595
Integration costs	776	-	2,790	-
Realized foreign exchange gain	-	-	-	(1,102)
Adjusted EBITDA	$7,116	$15,356	$ 6.337	$22,223

Financial Condition

Liquidity and Capital Resources

During the six months June 30, 2011, the Company consumed $25.0 million in cash for continuing operations, versus $7.3 million in the same period of 2010. Discontinued operations generated $1.8 million of cash in last year's period versus $nil in this year's period. The following activities during the period were responsible for the change in cash.

Operating activities consumed $55.8 million in cash for the six months ended June 30, 2011, compared to $64.9 million in the same period of 2010, a decrease in cash required of $9.1 million. This decrease was due to a difference of $26.0 million in cash flow from changes in working capital, substantially offset by $16.9 million less cash generated from operations in the period compared to 2010.

Cash generated by operating activities, before working capital changes, amounted to $3.5 million in the six month period, compared to generating $20.4 million in the same period of 2010, a reduction $16.9 million. This is substantially due to the decrease in net earnings period over period of $15.1 million.

During the six months ended June 30, 2011, working capital changes required $59.3 million of cash, compared to $85.3 million in the same period of 2010, a difference of $26.0 million. Working capital in the period increased as a result of a $69.7 million increase in accounts receivable and a $13.0 million increase in inventory. These increases were partially offset by an increase in accounts payable of $21.5. In the same period of 2010 accounts receivable increased by $98.2 million, inventory increased by $34.0 million and accounts payable increased by $45.2 million. The changes in working capital in this and the prior year's periods are due to the seasonal nature of the business, In the six months ended June 30, 2011, financing activities generated $31.4 million of cash, compared to $77.6 million in the same period of 2010. Shares issued during the period generated $487,000 of cash, whilst in last year's period the conversion of the subscription receipts resulted in proceeds of $54.0 million (net of issuance costs of $3.6 million). Cash distributions and dividends to shareholders holders amounted to $12.2 million in the period, compared to $7.0 million in the same period of 2010. Cash required for interest in the period amounted to $2.2 million compared to $1.9 million in last year's period. During last year's period $18.7 million of cash was used to repay the promissory note issued at time of the Acquisition and the Company incurred $1.9 million in fees and costs in respect of the refinancing of the revolving term debt that took place in February 2010. In this year's period the revolving long-term loan increased by $45.4 million, compared to $10.5 million in the same period last year.

Investing activities in the six month period consumed $538,000 of cash for capital expenditure. In last year's period $20.0 million of cash was used for the cash payment in respect of the Acquisition and $14,000 was used for capital expenditures.

Discontinued operations generated $1.8 million of cash in last year's period compared to $nil this year's period. Operating activities from discontinued operations in last year's period generated $3.0 million and financing activities consumed $1.2 million.

During last year's period the Company renewed its revolving credit facility with Wachovia Capital Finance Corporation (Canada) (now Wells Fargo Capital Finance Corporation Canada) effective February 1, 2010, in conjunction with the Acquisition. The renewed and amended facility provides for a maximum indebtedness of $275 million, with an additional $50 million accordion facility and has a three-year term which expires on January 31, 2013. These facilities are in the nature of a revolving loan and the Company expects they will be sufficient to accommodate the daily operating needs of the Company. The facilities are limited to a defined percentage of the accounts receivable, inventory and land and buildings of the Company. At June 30, 2011, indebtedness under the revolving facility totalled $55.5 million and the Company is in compliance with the credit limits, security requirements and covenants of the facility.

The Company's cash flow from operations and credit facilities are expected to be sufficient to meet operating requirements, Debenture interest, capital expenditures and anticipated dividends. The Company's capital lease obligations require monthly installments and these payments are all current.

Total Assets

Total assets of the Company were $331 million at June 30, 2011, versus $270 million at December 31, 2010, an increase of $61 million. Current assets increased by $62 million, this was due to seasonal increases of $71 million in trade accounts receivable and $13 million in inventory, partially offset by a decrease in cash on hand of $19 million.

Total Liabilities

Total liabilities were $187 million at June 30, 2011, versus $114 million at December 31, 2010, an increase of $73 million. This increase was due to an increase in current liabilities of $27 million, the result of a seasonal increase in accounts payable of $21 million and a $6 million increase in bank indebtedness, and an increase of $46 million in the revolving credit facility, which is used to finance the seasonal working capital requirements of the Company.

Outstanding Unit/Share Data

As at July 27, 2011, there were 60,936,225 Common Shares issued and outstanding. In addition, at July 27, 2011 there were 1,138,415 common share options outstanding with exercise prices ranging from $2.125 to $4.25 and 42,464 Common Shares outstanding pursuant to the restricted equity common share plan of the Company.

Distributions and Dividends

During the six months ended June 30, 2011, the Company declared dividends to shareholders of $0.20 per share, resulting in aggregate distributions of $12.2 million. A dividend of $0.10 per share was declared on June 15, 2011, to shareholders of record on June 30, 2011, and was accrued at June 30, 2011 and paid on July 15, 2011.

Dividend Policy

Following the Conversion, the Board of Directors adopted a dividend policy with the intent to pay a quarterly dividend of $0.10 per share, which on an annualized tax affected basis to a taxable recipient is approximately equivalent to the annual distribution of $0.50 per unit that it was paying as an income trust. The Board of Directors review the Company's dividend periodically in the context of the Company's overall profitability, free cash flow, capital requirements and other business needs.

Looking forward (see Forward-Looking Statements), the Company is continually assessing its dividend policy based on the considerations outlined above as well as other possible factors that may become relevant in the future and, accordingly, there can be no assurance that the current quarterly dividend of $0.10 per share will be maintained. Furthermore, the Company may not use future growth in its profitability or free cash flow, if any, to increase its dividend in the near or medium term, but may focus on reducing the ratio of its dividends paid to its net income or free cash flow and using any additional cash to pay down debt and fund business acquisitions or capital projects.

Future and Contractual Obligations

The following table shows, as at June 30, 2011, the Company's contractual obligations within the periods indicated.

Payment Made by Year Contractual Obligations (in thousands of dollars)	**Total**	**2011**	**2012-2013**	**2014-2015**	**Thereafter**
Long-Term Debt	$55,425	$ —	$55,425	$ —	$ —
Convertible Debenture	45,000	—	—	—	45,000
Operating Leases	45,980	5,082	16,802	11,062	13,034
Total Contractual Obligations	$146,405	$5.082	$72,227	$11,062	$58,034

Hedging

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

The Company utilizes foreign exchange contracts to reduce exposure to fluctuations in foreign currency exchange rates. The Company does not purchase or hold forward exchange contracts for speculative purposes. As at June 30, 2011, there were no such contracts held.

Related Party Transactions

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

Certain distribution facilities used by the Company to store and process inventory are leased from a company in which Amar Doman, a director and officer, and Rob Doman, an officer of the Company, have a minority interest and the land and buildings of certain of the treatment plants are leased from entities solely controlled by Amar Doman. All lease rates were market tested in advance of the signing of the lease agreements and were determined to be at market rates. Lease payments to such related parties were $1,474,031 in the six months ended June 30, 2011, compared to $1,447,487 in the same period of 2010. The minimum payments under the terms of these leases are as follows: $1,487,000 in 2011, $2,973,000 in each of 2012 and 2013, $2,182,000 in 2014 and $4,206,000 thereafter.

Effective July 1, 2010 a subsidiary of the Company entered into leases for certain distribution facilities from a company which is an affiliate of Rudy Holding II S.a.r.l. ("Rudy"), a shareholder of the Company. Jacob Kotzubei, a director of the Company, is a partner at an affiliate of Rudy. All lease rates were market tested in advance of the signing of the lease agreements and were determined to be at market rates. Lease payments to such related parties were $1,392,158 in the six months ended June 30, 2011 (2010 - $nil). The minimum payments under the terms of these leases are as follows: $1,447,000 in 2011, $1,582,000 in each of 2012, 2013, 2014 and 2015, and $7,226,000 thereafter.

During the six months ended June 30, 2011, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of $325,000 (2010—$445,000) by a company owned by Rob Doman, an officer of the Company. Additionally, fees of $348,000 (2010—$405,000) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman, a director and officer of the Company.

During the six month period the Company purchased $2,891,000 (2010—$853,000) of product from a public company in which Amar Doman, a director and officer of the Company, has an ownership interest. These purchases are in the normal course of operations and are recorded at exchange amounts. As at June 30, 2011 payables to this related party were $311,000 (2010—$64,000).

As at June 30, 2011, accounts receivable owed by Amar Doman, a director, in respect of advances for expenses totalled $46,000 (2010—$46,000).

Additional information is contained in note 15 of the 2010 Consolidated Financial Statements.

Contingencies and Commitments

Lease Commitments

The Company has operating lease commitments for the rental of most of its distribution centre and treatment plant properties in Canada and for vehicles, warehouse equipment, a computer hosting contract and the leasing of computer network communication lines. Future minimum payments due under the terms of these leases are as follows:

Year ending December 31 (in thousands of dollars)	**$**
2011	5,082
2012	9,014
2013	7,788
2014	6,118
2015	4,944
Thereafter	13,034
	45,980

Claims

During the normal course of business, certain product liability and other claims have been brought against the Company and, where applicable, its suppliers. While there is inherent difficulty in predicting the outcome of such matters, management has vigorously contested the validity of these claims and, based on current knowledge, believes that they are without merit and does not expect that the outcome of any of these matters, in consideration of insurance coverage maintained, or the nature of the claims, individually or in the aggregate, would have a material adverse effect on the consolidated financial position, results of operations or future earnings of the Company.

Guarantees

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

Sales Tax dispute

The Company is objecting to an interest charge of approximately $700,000 that has been levied by way of a notice of assessment by a provincial tax authority on one of its subsidiaries. The interest is the result of a timing difference between the initial disallowance of input tax credit claims and their subsequent acceptance by the tax authority. There is no dispute on the eventual eligibility of the input tax credit claims and at no time was there any delay in remitting taxes. The Company believes that it will be successful with its appeal, but there can be no certainty on the outcome. The financial statements do not reflect any charge for this matter. Additional information is contained in note 16 of the 2010 Consolidated Financial Statements.

Critical Accounting Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Financial results as determined by actual events could differ from those estimates.

Significant areas requiring estimates are asset valuations, inventory, the composition of future income taxes, volume rebates, share-based compensation, intangible asset valuation and impairment, goodwill impairment, accounting for the debentures, provision for doubtful accounts and certain actuarial and economic assumptions used in the determination of the cost and accrued benefit obligations of employee future benefits.

The Company reviews the carrying value of future income tax assets periodically to ensure the carrying value is appropriate. The key factors considered are the Company’s future expectations of profitability and the timing of expiry of tax loss carryforwards.

Intangible assets comprise customer relationships and are amortized on a straightline basis over 10 years. The Company periodically reviews the useful lives and carrying values of its intangibles, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount, it is considered to be impaired. An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Goodwill represents the excess of the purchase price paid for a business over the fair value of the identifiable net assets acquired. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it may be impaired. The impairment test consists of a comparison of the fair value of the cash generating unit with the carrying amount. The goodwill is attributed to two separate cash generating units, the CanWel Treating Division, in the amount of $30.0 million, and the CanWelBroadleaf division, in the amount of $61.6 million. When the carrying amount exceeds the fair value, the Company compares the fair value of goodwill related to the cash generating unit to its carrying value and recognizes an impairment loss equal to the excess. The fair value of a cash generating unit is calculated based on evaluations of discounted cash flows. The Company tested its goodwill for impairment in 2010 and concluded that a write down was not required. The testing of goodwill impairment involves a significant amount of estimation including future sales volumes and prices, operating costs and the appropriate discount rate to apply. In all cases, the Company has used its best estimates of these future amounts. Given the current economic uncertainty, it is possible the Company’s estimates will be updated in the future and that these updated estimates could result in the future impairment of goodwill.

The Company maintains two defined benefit pension plans which have been closed to new participants effective August 1, 2000. The annual funding requirements and pension expense are based on certain actuarial and economic assumptions (as disclosed in note 12 of the 2010 Consolidated Financial Statements) determined by the Company as well as on actual investment returns on the pension fund assets. Based on the 2010 investment returns of the pension fund and the expected future return on plan assets, the Company anticipates that the required contributions for defined benefit plans in 2011 will be approximately $1.4 million, the same as that contributed in 2010.

The Debentures are compound instruments and the proceeds received are bifurcated to record the material fair value, if any, of the conversion feature with the residual being allocated to the debt portion of the Debentures. The fair value of the conversion feature and the debt was determined using a discounted cash flow model, which resulted in a non-material allocation of value to the conversion feature, and therefore 100% of the fair value was recorded as debt. Transactions costs offset the carrying value and are amortized over the expected life of the Debentures.

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

Changes in Accounting Policies

New Accounting policies to the Company

International Financial Reporting Standards

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

Disclosure Controls and Internal Controls Over Financial Reporting

Controls and Procedures

In accordance with the requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, the Company's management, including the Chief Executive Officer and Chief Financial Officer, acknowledges responsibility for the design and operation of disclosure controls and procedures and internal control over financial reporting, and the requirement to evaluate the effectiveness of these controls on an annual basis.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the quarter ended June 30, 2011 that has affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risks and Uncertainties

The Company is subject to normal business risks associated with distribution firms operating within the building materials industry in Canada, which are described in greater detail in our AIF dated March 31, 2011, our MD&A for 2010 and our public filings on www.sedar.com, which the reader is encouraged to review.

Outlook

The most recent Bank of Canada forecast of overall economic growth for 2011 is 2.8%. Now that the BLC operations are integrated, the Company's focus in the near term remains to be to grow market share while continuing to improve its gross margins and maintaining tight controls over expenses. The Company is committed to enhancing the offering of specialty products to the Canadian market. Management's focus on cash flow, primarily consisting of the management of inventory and accounts receivable, remains paramount.

The improving environment for single family new home construction experienced in 2010, has continued at a similar pace in the first half of 2011, although it is anticipated to decrease in the second half. In 2010 starts were 189,930 and the most recent Canadian Mortgage Housing Corporation's ("CMHC") forecast is for 2011 housing starts to fall to 179,500 and then rise to 185,300 in 2012. The seasonally adjusted housing start rate in June 2011 was 197,400. CMHC is forecasting relatively stable housing resale activity of 452,100 in 2011 and 461,300 in 2012, which compares to 447,010 in 2010. Recent increases in mortgage rates and tighter lending requirements imposed by the CMHC have not yet manifested into materially lower housing start numbers or resale home activity. However, there can be no assurances this may not occur.

We completed our integration of the BLC operations in the first half of 2011 and we are now seeing the year over year cost synergies flowing from this. We expect these to be more clearly demonstrated in the balance of this year. The pricing environment for construction materials has been weak or uncertain at best in this period. U.S. housing starts continue to show little sign of a recovery and therefore no clear sign of a commodity price improvement, unless caused by new supply side corrections. In addition, recent major international economic developments have the potential to threaten some of the nascent economic improvements. Therefore, we will keep a close eye on our customers and continue to carefully manage our costs in line with their activity so that the Company can be appropriately positioned to participate in an economic recovery and be ready to work hard to translate revenue gains into higher EBITDA, cash flow and earnings.