

Unaudited Condensed Consolidated Interim Financial Statements  
(Expressed in Canadian dollars)

## **HARDWOODS DISTRIBUTION INC.**

Three and nine month periods ended September 30, 2013 and 2012

# HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Interim Statements of Financial Position  
(Expressed in thousands of Canadian dollars)

	Note	September 30, 2013	December 31, 2012
<b>Assets</b>			
Current assets:			
Cash		\$ 16	\$ 94
Accounts receivable	6	46,528	34,760
Inventories	7	70,153	51,116
Prepaid expenses		1,506	1,023
Total current assets		118,203	86,993
Non-current assets:			
Long-term receivables	6	1,207	1,208
Property, plant and equipment		7,432	6,492
Deferred income taxes		13,788	14,625
Intangible asset		14	17
Total non-current assets		22,441	22,342
Total assets		\$ 140,644	\$ 109,335
<b>Liabilities</b>			
Current liabilities:			
Bank indebtedness	8	\$ 42,759	\$ 24,683
Accounts payable and accrued liabilities		8,096	6,667
Income taxes payable		590	211
Provisions		26	6
Finance lease obligation	9(a)	819	697
Dividend payable	5	574	492
Total current liabilities		52,864	32,756
Non-current liabilities:			
Finance lease obligation	9(a)	940	567
Total liabilities		53,804	33,323
<b>Shareholders' equity</b>			
Share capital	10(a)	44,762	44,762
Contributed surplus		105,214	104,903
Deficit		(62,832)	(71,803)
Accumulated other comprehensive loss		(304)	(1,850)
Shareholders' equity		86,840	76,012
Total shareholders' equity and liabilities		\$ 140,644	\$ 109,335

Contingencies (note 14)

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

Approved on behalf of the board of directors:

**(Signed) GRAHAM M. WILSON** Director

**(Signed) TERRY M. HOLLAND** Director

# HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)  
(Expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2013 and 2012

	Note	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Sales		\$ 97,546	\$ 79,862	\$ 280,146	\$ 231,954
Cost of sales	7	(79,899)	(65,814)	(228,518)	(190,902)
Gross profit		17,647	14,048	51,628	41,052
Operating expenses:					
Selling and distribution		(10,614)	(8,894)	(28,957)	(25,438)
Administration		(2,139)	(2,153)	(6,565)	(6,600)
		(12,753)	(11,047)	(35,522)	(32,038)
Profit from operating activities		4,894	3,001	16,106	9,014
Finance expense	11	(504)	(686)	(860)	(1,088)
Finance income	11	132	112	757	309
Net finance costs		(372)	(574)	(103)	(779)
Profit before income taxes		4,522	2,427	16,003	8,235
Income tax expense:					
Current		(970)	(457)	(4,203)	(1,338)
Deferred		(443)	(706)	(1,108)	(2,031)
		(1,413)	(1,163)	(5,311)	(3,369)
Profit for the period		3,109	1,264	10,692	4,866
Other comprehensive income (loss):					
Exchange differences translating foreign operations		(1,122)	(1,347)	1,546	(1,288)
Total comprehensive income (loss) for the period		\$ 1,987	\$ (83)	\$ 12,238	\$ 3,578
Basic profit per share		\$ 0.19	\$ 0.08	\$ 0.65	\$ 0.30
Diluted profit per share	10(c)	\$ 0.19	\$ 0.08	\$ 0.64	\$ 0.30

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

# HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity  
(Expressed in thousands of Canadian dollars)

Nine month periods ended September 30, 2013 and 2012

	Note	Share capital	Contributed surplus	Accumulated other comprehensive loss - translation reserve	Deficit	Total
Balance at January 1, 2012		\$ 44,061	\$ 105,097	\$ (1,063)	\$ (76,196)	\$ 71,899
Share based compensation expense for the period	10(b)	-	339	-	-	339
Shares issued pursuant to LTIP		163	(163)	-	-	-
Profit for the period		-	-	-	4,866	4,866
Dividends declared		-	-	-	(1,294)	(1,294)
Translation of foreign operations		-	-	(1,288)	-	(1,288)
Balance at September 30, 2012		\$ 44,224	\$ 105,273	\$ (2,351)	\$ (72,624)	\$ 74,522
Balance at January 1, 2013		\$ 44,762	\$ 104,903	\$ (1,850)	\$ (71,803)	\$ 76,012
Share based compensation expense for the period	10(b)	-	311	-	-	311
Shares issued pursuant to LTIP		-	-	-	-	-
Profit for the period		-	-	-	10,692	10,692
Dividends declared		-	-	-	(1,721)	(1,721)
Translation of foreign operations		-	-	1,546	-	1,546
Balance at September 30, 2013		\$ 44,762	\$ 105,214	\$ (304)	\$ (62,832)	\$ 86,840

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

# HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Statements of Cash Flows  
(Expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2013 and 2012

	Note	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
<b>Cash flow from operating activities:</b>					
Profit for the period		\$ 3,109	\$ 1,264	\$ 10,692	\$ 4,866
Adjustments for:					
Depreciation		375	312	1,046	926
Gain on sale of property, plant and equipment		(3)	(2)	(78)	(39)
Non-cash employee incentive program 10(b)		112	125	311	339
Income tax expense		1,413	1,163	5,311	3,369
Net finance costs	11	372	574	103	779
Interest received		127	106	362	299
Interest paid		(328)	(230)	(836)	(618)
Income taxes paid		(1,845)	(1,034)	(3,841)	(1,142)
		3,332	2,278	13,070	8,779
<b>Changes in non-cash working capital:</b>					
Accounts receivable		2,325	(407)	(11,072)	(9,441)
Inventories		(2,214)	(4,018)	(14,658)	(9,923)
Prepaid expenses		(675)	218	(456)	(296)
Provisions		26	(9)	19	(4)
Accounts payable and accrued liabilities		555	330	1,242	2,547
		17	(3,886)	(24,925)	(17,117)
Net cash provided by (used in) operating activities		3,349	(1,608)	(11,855)	(8,338)
<b>Cash flow from financing activities:</b>					
Increase in bank indebtedness		(2,338)	2,302	17,307	9,643
Principle payments on finance lease obligation		(200)	(186)	(574)	(555)
Dividends paid to shareholders		(573)	(486)	(1,639)	(1,131)
Net cash provided by (used in) financing activities		(3,111)	1,630	15,094	7,957
<b>Cash flow from investing activities:</b>					
Additions to property, plant and equipment		(358)	(412)	(779)	(760)
Proceeds on disposal of property, plant and equipment		33	36	187	119
Business acquisition	4	-	-	(2,984)	-
Payments received on long-term receivables		92	358	259	695
Net cash provided by (used in) investing activities		(233)	(18)	(3,317)	54
Increase (decrease) in cash		5	4	(78)	(327)
Cash, beginning of period		11	61	94	392
Cash, end of period		\$ 16	\$ 65	\$ 16	\$ 65

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

Supplementary information:

Transfer of accounts receivable to long-term customer notes receivable, being a non-cash transaction	\$	-	\$	-	\$	328	\$	-
---	----	---	----	---	----	-----	----	---

# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2013 and 2012

---

## 1. Nature of operations:

Hardwoods Distribution Inc. (the "Company") is incorporated under the Canada Business Corporations Act trading on the Toronto Stock Exchange under the symbol "HWD." Subsidiaries of the Company operate a network of 32 distribution centers in Canada and the US engaged in the wholesale distribution of hardwood lumber and related sheet goods and specialty products.

## 2. Basis of preparation:

### (a) Statement of compliance:

These condensed consolidated interim financial statements of the Company have been prepared in accordance with International Accounting Standards ("IAS 34") "Interim Financial Reporting". The disclosures contained in these condensed consolidated interim financial statements do not include all of the requirements of International Financial Reporting Standards ("IFRS") for annual financial statements, and accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2012.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 14, 2013.

### (b) Basis of measurement:

These condensed consolidated interim financial statements have been prepared on the historical cost basis.

### (c) Functional and presentation currency:

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in the interim financial statements, with the exception of per share amounts, has been rounded to the nearest thousand dollar.

### (d) Use of estimates and judgment:

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts may differ from the estimates applied in the preparation of these financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty are consistent with those disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2012. An additional area of estimate uncertainty arising during the quarter ended June 30, 2013 related to the estimate of fair values and pro-forma sales and profit associated with the Olam Wood Products business acquisition (note 4).

# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2013 and 2012

---

### 3. Significant accounting policies:

The significant accounting policies that have been used in the preparation of these condensed consolidated interim financial statements are summarized in the Company's annual financial statements for the year ended December 31, 2012, except as described in note 3(a).

#### (a) Newly adopted accounting policies:

The Company has adopted the following new IFRS standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

Several other new standards and amendments came into effect on January 1, 2013; however, they do not impact the condensed consolidated interim financial statements and are not anticipated to impact the Company's annual consolidated financial statements.

The nature and impact of each new standard and amendment applicable to the Company are described below:

#### *IAS 1 Presentation of items of other comprehensive income (Amendment)*

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified to profit or loss at a future point in time shall be presented separately from items that will never be reclassified. This amendment has no impact on the Company's presentation as the components of OCI pertain only to gains or losses arising on the translation of foreign operations, for which the cumulative exchange differences would be reclassified to profit or loss on disposal of the foreign operation.

#### *IFRS 10 Consolidated Financial Statements*

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*, to replace IAS 27, *Consolidated and Separate Financial Statements*, and SIC 12, *Consolidation – Special Purpose Entities*. The new consolidation standard changes the definition of control so that the same criteria apply to all entities, both operating and special purpose entities, to determine control. The revised definition focuses on the need to have both power and variable returns before control is present. The adoption of IFRS 10 did not result in any change in the consolidation status of any of the Company's subsidiaries.

#### *IFRS 11 Joint Arrangements*

In May 2011, the IASB issued IFRS 11, *Joint Arrangements*, to replace IAS 31, *Interests in Joint Ventures*. The new standard defines two types of arrangements: Joint Operations and Joint Ventures. The focus of the standard is to reflect the rights and obligations of the parties involved in the joint arrangement, regardless of whether the joint arrangement operates through a separate legal entity. Joint arrangements that are classified as joint ventures are accounted for using the equity method of accounting. Joint arrangements that are classified as joint operations require the venturers to recognize the individual assets, liabilities, revenues and expenses to which they have legal rights or are responsible. The adoption of IFRS 11 did not result in any changes to the Company's condensed consolidated interim financial statements as the Company has no joint arrangements.

# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2013 and 2012

---

### 3. Significant accounting policies (continued):

#### *IFRS 12 Disclosure of Interests in Other Entities*

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities*, to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the disclosure requirements for unconsolidated structured entities (i.e. special purpose entities). The Company has adopted IFRS 12 effective January 1, 2013. The adoption of IFRS 12 may result in incremental disclosures in the Company's annual consolidated financial statements.

#### *IFRS 13 Fair Value Measurement*

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*, as a single source of guidance for all fair value measurements required by IFRS to reduce the complexity and improve consistency across its application. The standard provides a definition of fair value and guidance on how to measure fair value as well as a requirement for enhanced disclosures. The Company has adopted IFRS 13 on a prospective basis effective January 1, 2013.

Fair value is defined by IFRS 13 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to estimate fair value. These levels are defined as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable in an active market for the asset or liability (e.g. volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means.
- Level 3 inputs are unobservable and therefore supported by little or no market activity.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Company does not have any financial assets or liabilities measured and recorded in the statement of financial position at fair value, in accordance with the fair value hierarchy, at either September 30, 2013 or December 31, 2012.

The adoption of IFRS 13 will result in incremental disclosures to the annual consolidated financial statements.

The Company has not early adopted any other standards, interpretations or amendments in the condensed consolidated interim financial statements that have been issued, but are not yet effective.



# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2013 and 2012

## 4. Business acquisition:

On May 31, 2013 a subsidiary of the Company purchased certain assets of Olam Wood Products (“OWP”) with the intention to continue operations of the business. OWP is an importer of high quality tropical lumber and decking material from Africa and South America for resale to industrial customers and wholesale distributors located in North America. OWP conducts business in Leland, North Carolina. The Company purchased the inventory and property, plant and equipment of OWP for cash consideration of \$3.0 million (US\$2.9 million) and hired OWP’s employees to continue operating the business.

The acquisition has been accounted for as a business combination. The allocation of purchase price to identified assets acquired is as follows:

Inventory	\$	2,911
Property, plant and equipment		73
Cash paid	\$	2,984

As part of the acquisition, the building has been leased from the previous landlord at market rates. Liabilities were not assumed.

Had the acquisition occurred on January 1, 2013 management estimated that the Company’s consolidated sales would have been approximately \$281.6 million and profit would have been approximately \$10.7 million for the nine month period ended September 30, 2013. Sales included in these condensed consolidated interim financial statements for the period from June 1 to September 30, 2013 for OWP were \$1.2 million. There was no material impact on profit in the period arising from the OWP acquisition.

## 5. Capital management:

The Company’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company considers its capital to be bank indebtedness (net of cash) and shareholders’ equity. The Company’s capitalization is as follows:

	September 30, 2013	December 31, 2012
Cash and cash equivalents	\$ (16)	\$ (94)
Bank indebtedness	42,759	24,683
Shareholder’s equity	86,840	76,012
Total capitalization	\$ 129,583	\$ 100,601

The terms of the Company’s US and Canadian credit facilities are described in note 8. The terms of the agreements with the Company’s lenders provide that distributions cannot be made by its subsidiaries in the event that its subsidiaries do not meet certain credit ratios. The Company’s operating subsidiaries were compliant with all required credit ratios under the US and Canadian credit facilities as at September 30, 2013 and December 31, 2012, and accordingly there were no restrictions on distributions arising from compliance with financial covenants.

Dividends are one way the Company manages its capital. Dividends are declared having given consideration to a variety of factors including the outlook for the business and financial leverage. There

# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2013 and 2012

## 5. Capital management (continued):

were no changes to the Company's approach to capital management during the three and nine month periods ended September 30, 2013.

On August 2, 2013, the Company declared a cash dividend of \$0.035 per common share to shareholders of record as of October 18, 2013. The dividend was paid to shareholders on October 31, 2013. On November 14, 2013, the Company declared a cash dividend of \$0.035 per common share to shareholders of record as of January 20, 2014, to be paid on January 31, 2014.

## 6. Accounts receivable:

The following is a breakdown of the Company's current and long-term receivables and represents the Company's principal exposure to credit risk.

	September 30, 2013	December 31, 2012
Trade accounts receivable - Canada	\$ 14,082	\$ 11,128
Trade accounts receivable - United States	36,859	26,284
Sundry receivable	220	166
Current portion of long-term receivables	390	260
	51,551	37,838
Less:		
Allowance for credit loss	5,023	3,078
	\$ 46,528	\$ 34,760
Long-term receivables:		
Employee housing loans	\$ 378	\$ 382
Customer notes	801	675
Security deposits	418	411
	1,597	1,468
Less:		
Current portion, included in accounts receivable	390	260
	\$ 1,207	\$ 1,208

The aging of trade receivables is:

	September 30, 2013	December 31, 2012
Current	\$ 35,144	\$ 23,232
Past due 31 - 60 days	8,585	8,484
Past due 61 - 90 days	3,192	2,709
Past due 90+ days	4,020	2,987
	\$ 50,941	\$ 37,412

# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2013 and 2012

## 6. Accounts receivable (continued):

The Company determines its allowance for doubtful accounts based on its best estimate of the net recoverable amount by customer account. Accounts that are considered uncollectable are written off. The total allowance at September 30, 2013 was \$5.0 million (December 31, 2012 - \$3.1 million). The amount of the allowance is considered sufficient based on the past experience of the business, the security the Company has in place for past due accounts, and management's regular review and assessment of customer accounts and credit risk.

Bad debt expense, net of recoveries, for the three month period ended September 30, 2013 was \$0.8 million being 0.8% of sales (three month period ended September 30, 2012 – \$0.6 million, being 0.7% of sales). For the nine month period ended September 30, 2013, net bad debt expense was \$1.6 million being 0.6% of sales (nine month period ended September 30, 2012 - \$0.9 million, being 0.4% of sales).

## 7. Inventories:

	September 30, 2013	December 31, 2012
Lumber	\$ 20,364	\$ 15,394
Sheet goods	34,896	25,607
Specialty	8,151	5,249
Goods in-transit	6,742	4,866
	<b>\$ 70,153</b>	<b>\$ 51,116</b>

Inventory related expenses are included in the condensed consolidated statement of comprehensive income as follows:

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Inventory write-downs	\$ 209	\$ 205	\$ 495	\$ 529
Cost of inventory sold	\$ 77,336	\$ 63,278	\$ 221,037	\$ 183,495
Other cost of sales	2,563	2,536	7,481	7,407
Total cost of sales	<b>\$ 79,899</b>	<b>\$ 65,814</b>	<b>\$ 228,518</b>	<b>\$ 190,902</b>

## 8. Bank indebtedness:

	September 30, 2013	December 31, 2012
Checks issued in excess of funds on deposit	\$ 278	\$ 127
Credit facility, Hardwoods LP	7,476	5,693
Credit facility, Hardwoods USLP (September 30, 2013 - US\$ 33,975; December 31, 2012 - US\$18,959)	35,005	18,863
	<b>\$ 42,759</b>	<b>\$ 24,683</b>

# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2013 and 2012

---

## 8. Bank indebtedness (continued):

Bank indebtedness consists of checks issued in excess of funds on deposit and advances under operating lines of credit (the "Credit Facilities") available to subsidiaries of the Company, Hardwoods Specialty Products LP ("Hardwoods LP") and Hardwoods Specialty Product USLP ("Hardwoods USLP").

The Hardwoods LP Credit Facility, which has a maturity date of August 7, 2016, provides financing up to \$15.0 million. On February 15, 2013 the Hardwoods USLP Credit Facility was amended to increase the maximum borrowing available under the Credit Facility to US\$45.0 million and extend the maturity date to May 26, 2016. On May 31, 2013 the Hardwoods USLP Credit Facility was further amended to increase the maximum borrowing available under the Credit Facility to US \$50.0 million concurrently with completion of the OWP acquisition. Each facility is payable in full at maturity. The Credit Facilities are revolving credit facilities which the Company may terminate at any time without prepayment penalty. The Credit Facilities bear interest at a floating rate based on the Canadian or US prime rate (as the case may be), LIBOR or bankers' acceptance rates plus, in each case, an applicable margin. Letters of credit are also available under the Credit Facilities on customary terms for facilities of this nature. Commitment fees and standby charges usual for borrowings of this nature are payable.

The amount made available under the Credit Facility to Hardwoods LP from time to time is limited to the extent of 85% of the book value of accounts receivable and the lesser of 60% of the book value or 85% of appraised value of inventories with the amount based on inventories not to exceed 60% of the total amount to be available. Certain identified accounts receivable and inventories are excluded from the calculation of the amount available under the Credit Facility. Hardwoods LP is required to maintain a fixed charge coverage ratio (calculated as the ratio of EBITDA less cash taxes less capital expenditures less distributions, divided by interest plus principal payments on capital lease obligations) of not less than 1.1 to 1. However, this covenant does not apply so long as the unused availability under the credit line is in excess of \$2.0 million. At September 30, 2013, the Hardwoods LP credit facility has unused availability of \$7.5 million, before checks issued in excess of funds on deposit of \$0.3 million (December 31, 2012 - \$7.6 million, checks issued in excess of funds on deposit - nil).

The amount to be made available under the Credit Facility to Hardwoods USLP from time to time is limited to the extent of 85% of the book value of certain accounts receivable and 55% of the book value of inventories (with certain accounts receivable and inventory being excluded). Hardwoods USLP is required to maintain a fixed charge coverage ratio (calculated as EBITDA less cash taxes less capital expenditures, divided by interest plus distributions) of 1.0 to 1. This covenant of the Hardwoods USLP Credit Facility does not need to be met, however, when the unused availability under the credit facility is in excess of US\$2.5 million. At September 30, 2013, the Hardwoods USLP credit facility has unused availability of \$15.1 million (US\$14.6 million), before checks issued in excess of funds on deposit of \$nil (December 31, 2012 - \$11.0 million (US\$11.1 million), before checks issued in excess of funds on deposit of \$0.1 million (US\$0.1 million)).

# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2013 and 2012

## 9. Leases:

### (a) Finance leases as lessee:

Subsidiaries of the Company lease vehicles with terms ranging from 18 to 36 months. The Company and its subsidiaries have determined that these vehicle leases are considered finance leases and are recorded on the statement of financial position.

Finance lease liabilities are payable as follows:

Minimum lease payments due	Within one year	One to five years	Total
September 30, 2013:			
Future minimum lease payments	\$ 899	\$ 981	\$ 1,880
Interest	80	41	121
Present value of minimum payments	\$ 819	\$ 940	\$ 1,759

The present value of the lease payments is calculated using the interest rate implicit in the lease as required by IAS 17, "Leases".

### (b) Operating leases as lessee:

At September 30, 2013, the Company's subsidiaries are obligated under various operating leases, mainly building leases, which require future minimum rental payments as follows:

Minimum lease payments due	Within one year	One to five years	After five years	Total
Minimum lease payments due:				
September 30, 2013	\$ 5,542	\$ 7,556	\$ 110	\$ 13,208
Minimum sublease revenue receivable:				
September 30, 2013	72	-	-	72

## 10. Share Capital:

### (a) Share capital:

At September 30, 2013, the authorized share capital of the Company comprised an unlimited number of common shares without par value ("Shares"). A continuity of the Shares is as follows:

	Shares	Total
Balance at September 30, 2013 and December 31, 2012	16,394,490	\$ 44,762

# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2013 and 2012

## 10. Share Capital (continued):

### (b) Long Term Incentive Plan ("LTIP"):

A continuity of the LTIP Shares outstanding is as follows:

	Performance Shares	Restricted Shares
Balance at December 31, 2012	41,680	149,145
LTIP shares issued during the period	13,569	48,182
Balance at September 30, 2013	55,249	197,327

No LTIP shares became fully vested in the three or nine month periods ended September 30, 2013. Non-cash LTIP compensation expense of \$111,630 was recognized in the condensed consolidated interim statement of comprehensive income for the three month period ended September 30, 2013 (three month period ended September 30, 2012 – \$124,953) and \$310,596 for the nine month period ended September 30, 2013 (nine month period ended September 30, 2012 - \$339,048).

### (c) Weighted average shares:

The calculation of basic and fully diluted profit per share is based on the profit for the three and nine month periods ended September 30, 2013 of \$3.8 million (2012 – \$1.7 million) and \$11.4 million (2012 - \$5.3 million), respectively. The weighted average number of common shares outstanding is as follows:

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Issued ordinary shares at beginning of period	16,394,490	16,176,087	16,394,490	16,095,343
Effect of shares issued during the period Pursuant to long-term incentive plan	-	-	-	53,928
Weighted average common shares – basic	16,394,490	16,176,087	16,394,490	16,149,271
Effect of dilutive securities: Long-term incentive plan	223,726	264,832	206,030	212,967
Weighted average common shares – diluted, at September 30	16,618,216	16,440,919	16,600,520	16,362,238

# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2013 and 2012

## 11. Finance income and expense:

	Note	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Finance expense:					
Interest on bank indebtedness	8	\$ (312)	\$ (219)	\$ (790)	\$ (569)
Accretion of finance lease obligation	9	(26)	(20)	(70)	(61)
Write off of uncollectible interest on trade receivables		-	-	-	(46)
Foreign exchange losses		(166)	(447)	-	(412)
<b>Total finance expense</b>		<b>(504)</b>	<b>(686)</b>	<b>(860)</b>	<b>(1,088)</b>
Finance income:					
Interest on trade receivables, customer notes, and employee loans	6	132	109	373	309
Reversal of write off of uncollectible interest on trade receivables		-	3	-	-
Foreign exchange gain		-	-	384	-
<b>Total finance income</b>		<b>132</b>	<b>112</b>	<b>757</b>	<b>309</b>
<b>Net finance costs</b>		<b>\$ (372)</b>	<b>\$ (574)</b>	<b>\$ (103)</b>	<b>\$ (779)</b>

## 12. Segment reporting:

Information about geographic areas is as follows:

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Revenue from external customers:				
Canada	\$ 24,812	\$ 22,673	\$ 71,856	\$ 67,370
United States	72,734	57,189	208,290	164,584
	<b>\$ 97,546</b>	<b>\$ 79,862</b>	<b>\$ 280,146</b>	<b>\$ 231,954</b>
Non-current assets:				
Canada		\$ 1,159	\$ 1,001	
United States		6,287	6,287	5,508
		<b>\$ 7,446</b>	<b>\$ 7,446</b>	<b>\$ 6,509</b>

(1) Excludes financial instruments and deferred income taxes

# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2013 and 2012

---

## 13. Seasonality:

The Company is subject to seasonal influences. Historically, the first and fourth quarters are seasonally slower periods for construction activity and therefore demand for hardwood products.

## 14. Contingencies:

The Company and its subsidiaries are subject to legal proceedings that arise in the ordinary course of its business. Management is of the opinion, based upon information presently available, that it is unlikely that any liability, to the extent not provided for or through insurance, would be material in relation to the Company's condensed consolidated interim financial statements.

### *Trade Investigation*

On September 27, 2012 an unfair trade petition was filed in the United States seeking the imposition of countervailing duties ("CVD") and antidumping duties ("AD") against Chinese hardwood plywood. The trade petition was brought by a coalition of U.S. plywood manufacturers (the "Petitioners"), alleging that Chinese imports are sold in the United States at prices below cost and are subsidized by the Government of China. The Company's wholesale distribution of hardwood lumber and related sheet goods and specialty products includes importing and selling hardwood plywood from China.

On February 27, 2013 the US Department of Commerce ("Commerce") announced it had completed the preliminary stage of its CVD investigation and determined preliminary duty rates ranging from zero to 27.16%, with product from most Chinese mills being assessed a preliminary CVD duty of 22.63%. On April 29, 2013 Commerce announced it had completed the preliminary stage of its AD investigation and imposed a preliminary AD rate of 22.14%. On September 27, 2013 Commerce issued its final determinations with respect to the trade case and imposed a final CVD rate of 13.58% and a final AD rate of 59.46%, for a total combined CVD/AD rate of 73.04% which was scheduled to come fully in effect in late November 2013.

Under United States CVD and AD legislation there exists provision for duty rates to be applied retroactively in certain circumstances to imports made 90 days prior to the date at which preliminary CVD and AD duties were imposed. For the possibility of retroactivity to arise, the Petitioners would need to file a request that Commerce investigate if there was a surge of imports, known as "Critical Circumstances", in the 90 days prior to the imposition of preliminary duties. In the third quarter of 2013 it was confirmed that the Petitioners did not request that Commerce investigate Critical Circumstances, and accordingly there is no longer a risk of retroactive duties arising relating to the period prior to preliminary CVD and AD rates being imposed.

On November 5, 2013 a second US government agency, the International Trade Commission ("ITC"), issued a ruling which resulted in the complete dismissal of the trade case. Petitioners may file an appeal related to the ITC ruling which dismissed the trade case. As a result of the ITC ruling the Company is investigating whether it may be eligible to receive a refund of duty deposits it paid on a portion of its past product purchases from China.