

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

HARDWOODS DISTRIBUTION INC.

Three and nine month periods ended September 30, 2016 and 2015

HARDWOODS DISTRIBUTION INC.

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

	Note	September 30, 2016	December 31, 2015
Assets			
Current assets:			
Cash		\$ 675	\$ —
Accounts and other receivables	6	102,666	56,156
Inventories	7	153,078	103,476
Prepaid expenses		3,987	2,193
Total current assets		260,406	161,825
Non-current assets:			
Non-current receivables	6	1,934	969
Property, plant and equipment		20,301	16,200
Deferred income taxes		9,106	10,974
Goodwill	4	74,038	36
Total non-current assets		105,379	28,179
Total assets		\$ 365,785	\$ 190,004
Liabilities			
Current liabilities:			
Bank indebtedness	8	\$ 98,917	\$ 28,894
Accounts payable and accrued liabilities		44,890	12,438
Income taxes payable		1,865	2,987
Finance lease obligation		873	1,119
Dividend payable	5	1,332	922
Total current liabilities		147,877	46,360
Non-current liabilities:			
Notes payable	4	525	—
Finance lease obligation		1,003	696
Total liabilities		149,405	47,056
Shareholders' equity			
Share capital	9(a)	111,429	46,859
Contributed surplus		106,313	105,547
Deficit		(19,503)	(33,361)
Accumulated other comprehensive income		18,141	23,903
Shareholders' equity		216,380	142,948
Total liabilities and shareholders' equity		\$ 365,785	\$ 190,004

Subsequent event (note 5)

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) WILLIAM R. SAUDER Director

HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Interim Statements of Comprehensive Income
(Expressed in thousands of Canadian dollars, except per share amounts)

	Note	Three months ended		Nine months ended	
		September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Sales	11	\$ 235,428	\$ 152,114	\$ 549,872	\$ 430,581
Cost of goods sold	7	(191,583)	(125,380)	(449,617)	(355,936)
Gross profit		43,845	26,734	100,255	74,645
Operating expenses:					
Selling and distribution		(24,703)	(13,509)	(52,945)	(38,614)
Administration	4	(7,141)	(3,671)	(17,141)	(10,769)
		(31,844)	(17,180)	(70,086)	(49,383)
Profit from operations		12,001	9,554	30,169	25,262
Finance expense	10	(629)	(348)	(1,167)	(1,069)
Finance income	10	663	502	370	1,129
Net finance income (expense)		34	154	(797)	60
Profit before income taxes		12,035	9,708	29,372	25,322
Income tax expense:					
Current		(3,844)	(2,805)	(9,740)	(7,420)
Deferred		(895)	(940)	(2,347)	(2,217)
		(4,739)	(3,745)	(12,087)	(9,637)
Net profit		7,296	5,963	17,285	15,685
Other comprehensive income (loss):					
Exchange differences translating foreign operations		1,838	6,407	(5,762)	12,445
Total comprehensive income		\$ 9,134	\$ 12,370	\$ 11,523	\$ 28,130
Basic net profit per share	9(c)	\$ 0.35	\$ 0.36	\$ 0.96	\$ 0.94
Diluted net profit per share	9(c)	\$ 0.35	\$ 0.35	\$ 0.95	\$ 0.93

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

HARDWOODS DISTRIBUTION INC.

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

Nine month periods ended September 30, 2016 and 2015

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income - translation reserve	Deficit	Total
Balance at January 1, 2016		\$ 46,859	\$ 105,547	\$ 23,903	\$ (33,361)	\$ 142,948
Share based compensation expense	9(b)	—	980	—	—	980
Shares issued in connection with the bought deal financing, net of share issue costs	9(a)	54,458	—	—	—	54,458
Shares issued pursuant to the Rugby acquisition	9(a)	9,091	—	—	—	9,091
Shares issued pursuant to LTIP	9(a)	214	(214)	—	—	—
Deferred tax recovery on share issue costs	9(a)	807	—	—	—	807
Profit for the period		—	—	—	17,285	17,285
Dividends declared		—	—	—	(3,427)	(3,427)
Translation of foreign operations		—	—	(5,762)	—	(5,762)
Balance at September 30, 2016		\$ 111,429	\$ 106,313	\$ 18,141	\$ (19,503)	\$ 216,380
Balance at January 1, 2015		\$ 45,830	\$ 105,154	\$ 7,504	\$ (49,999)	\$ 108,489
Share based compensation expense	9(b)	—	817	—	—	817
Shares issued pursuant to LTIP	9(a)	9	(9)	—	—	—
Profit for the period		—	—	—	15,685	15,685
Dividends declared		—	—	—	(2,589)	(2,589)
Translation of foreign operations		—	—	12,445	—	12,445
Balance at September 30, 2015		\$ 45,839	\$ 105,962	\$ 19,949	\$ (36,903)	\$ 134,847

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

HARDWOODS DISTRIBUTION INC.

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

	Note	Three months ended		Nine months ended	
		September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Cash flow from operating activities:					
Profit for the period		\$ 7,296	\$ 5,963	\$ 17,285	\$ 15,685
Adjustments for:					
Depreciation		1,185	673	2,681	1,891
(Gain) loss on sale of property, plant and equipment		(44)	1	(191)	1
Share-based compensation expense	9(b)	325	345	980	817
Income tax expense		4,739	3,745	12,087	9,637
Net finance (income) expense	10	(34)	(154)	797	(60)
Interest received		127	106	295	298
Interest paid		(587)	(317)	(1,068)	(983)
Income taxes paid		(2,615)	(1,431)	(10,714)	(7,204)
		10,392	8,931	22,152	20,082
Changes in non-cash working capital:					
Accounts and other receivables		335	(326)	(11,306)	(12,172)
Inventories		(2,431)	686	(7,499)	(8,274)
Prepaid expenses		148	(467)	(1,163)	(245)
Accounts payable and accrued liabilities		456	(54)	7,968	3,958
		(1,492)	(161)	(12,000)	(16,733)
Net cash provided by operating activities		8,900	8,770	10,152	3,349
Cash flow from financing activities:					
Increase (decrease) in bank indebtedness		66,673	(7,011)	70,210	853
Principle payments on finance lease obligation		(462)	(301)	(1,113)	(839)
Issue of common shares, net of share issue costs	9(a)	63,549	—	63,549	—
Dividends paid to shareholders		(1,172)	(915)	(3,017)	(2,413)
Net cash provided by (used in) financing activities		128,588	(8,227)	129,629	(2,399)
Cash flow from investing activities:					
Additions to property, plant and equipment		(730)	(670)	(2,717)	(1,359)
Proceeds on disposal of					
property, plant and equipment		155	30	528	189
Business acquisition	4	(137,065)	—	(137,065)	—
Payments received on non-current receivables		47	97	148	207
Net cash used in investing activities		(137,593)	(543)	(139,106)	(963)
(Decrease) increase in cash		(105)	—	675	(13)
Cash, beginning of the period		780	—	—	13
Cash, end of the period		675	—	675	—
Supplementary information:					
Property, plant and equipment acquired under					
finance leases, net of disposals		134	168	1,047	698

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

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, 2016 and 2015

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." The Company operates a network of 62 distribution centers in Canada and the US engaged in the wholesale distribution of hardwood lumber, related sheet goods, specialty products and non-structural architectural grade building products to customers that supply end-products to the residential and commercial construction markets. The Company also has a sawmill and kiln drying operation in Clinton, Michigan. The Company's principal office is located at #306, 9440 202nd Street, Langley, British Columbia V1M 4A6.

On July 15, 2016 (the "Acquisition date"), the Company acquired through one of its wholly owned subsidiaries substantially all the assets used in the business of Rugby Acquisition, LLC and its subsidiaries ("Rugby") and assumed certain of Rugby's liabilities (the "Acquisition") for a base purchase price of \$138.8 million (US\$107.0 million) (the "Purchase Price") plus up to another \$16.9 million (US\$13.0 million) in earn-outs based on future performance (note 4). Rugby operates a network of 30 distribution centers in the US and is engaged in the wholesale distribution of non-structural architectural grade building products to customers that supply end-products to the commercial construction market. Rugby also serves industrial, retail, residential and institutional construction end-markets.

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, should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2015.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 8, 2016.

(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 interim 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, 2015, except for assumptions made related to the Rugby acquisition, which are disclosed in 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, 2016 and 2015

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 audited consolidated financial statements for the year ended December 31, 2015. There were no new standards effective January 1, 2016 that had an impact on the Company's financial statements. In addition to the new standards and interpretations not yet adopted discussed in the Company's December 31, 2015 annual consolidated financial statements, the Company notes the following pronouncements during the period ended September 30, 2016:

IAS 12, Income Taxes (Amendments)

On January 19, 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses as an amendment to IAS 12. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments apply retrospectively for annual periods beginning on or after January 1, 2017 with early adoption permitted.

The Company intends to adopt the amendments to IAS 12 in its consolidated financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

IFRS 2, Share-Based Payment (Amendments)

On June 20, 2016, the IASB issued amendments to IFRS 2 clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

4. Rugby Acquisition:

On July 15, 2016, the Company completed the Acquisition of Rugby (note 1). The base purchase price is comprised of (i) \$129.8 million (US\$100.0 million) in cash consideration, and (ii) \$9.0 million (US\$7.0 million) in cash that was immediately used by the sellers to acquire 563,542 common shares of the Company from treasury. The base purchase price reflects a downward adjustment of \$0.7 million (US\$0.6 million) for the value of notes payable assumed by the Company.

The base purchase price was determined on the basis that the sellers will deliver working capital, as defined in the asset purchase agreement as net asset value ("NAV"), on closing of the Acquisition, of between US\$47.5 million and US\$48.5 million and, to the extent that the NAV is outside this range at closing of the Acquisition, the purchase price will be adjusted on a dollar for dollar basis. As security for the NAV adjustment, the Company retained \$1.0 million (US\$0.8 million) of the base purchase price as a holdback. The holdback, which is accrued in accounts payable and accrued liabilities, is expected to be paid to the sellers in tranches over the next 12 months. As of the date of these financial statements, the NAV delivered by the sellers has not been finalized.

The earn-out is intended to pay future consideration, to be determined at the two-year anniversary of closing of the Acquisition based on achievement of certain gross profit thresholds during such two-year period (the "Earn-Out Period"), of up to an estimated US\$4.8 million in cash or common shares (the "Earn-Out Consideration") to one of the principals of the sellers (the "former owner"). In addition, the earn-out is also intended to pay certain management of Rugby, who will be employed by the

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, 2016 and 2015

4. Rugby Acquisition (continued):

Company after closing of the Acquisition ("Rugby Management"), remuneration of up to an estimated US\$8.2 million in cash or common shares (the "Earn-Out Bonuses") for the achievement of the same gross profit thresholds during the Earn-Out Period. The earn-out is payable in either cash or common shares at the Company's option. The Earn-Out Consideration is accounted for as purchase price consideration, while the Earn-Out Bonuses are accounted for as compensation expense over the next two years. For the purposes of the preliminary purchase price below, the Company currently estimates that neither the Earn-Out Consideration or the Earn-Out Bonuses will result in further payments by the Company.

The Acquisition has been accounted for as a business combination using the acquisition method, with the Company being the acquirer and Rugby being the acquiree, and where the assets acquired and liabilities assumed are recorded at their fair values at the Acquisition date.

In connection with the Acquisition, the Company incurred for the three and nine month periods ended September 30, 2016, \$1.1 million and \$2.4 million, respectively, in transaction costs which are included in administration expense in the condensed consolidated interim statement of comprehensive income. In addition to transaction costs, the Company incurred to September 30, 2016, additional fees of \$3.3 million related to the financing of the Acquisition, which are described in notes 8 and 9(a).

Fair value of assets acquired and liabilities assumed

The preliminary estimated fair value of Rugby's identified assets and liabilities assumed in accordance with the acquisition method are as follows:

	US\$	CDN\$
Cash consideration	\$ 106,438	\$ 138,103
Notes payable assumed	562	730
Consideration	\$ 107,000	\$ 138,833
Assets acquired and liabilities assumed:		
Accounts and other receivables	\$ 28,931	\$ 37,538
Inventories	35,546	46,121
Prepaid expenses	549	712
Non-current receivables	577	749
Property plant and equipment	3,166	4,108
Accounts payable and accrued liabilities	(18,213)	(23,631)
Estimated identifiable net assets acquired	50,556	65,597
Goodwill	56,444	73,236
Estimated net assets acquired	\$ 107,000	\$ 138,833

The above is a preliminary estimate of the fair values of the assets acquired and liabilities assumed of Rugby as of the Acquisition date. The estimate will remain preliminary until the Company is able to (i) complete a valuation of significant intangible assets acquired, (ii) evaluate the fair value of other assets acquired and liabilities assumed, (iii) complete a final assessment of the Earn-Out Consideration, and (iv) finalize the NAV acquired. The final determination of the fair values of assets acquired and liabilities assumed, which is expected to be no later than one year from the acquisition date, could differ significantly from the amounts presented above.

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, 2016 and 2015

4. Rugby Acquisition (continued):

Significant assumptions and estimates made as it relates to the preliminary purchase price presented above are as follows:

- Estimated identifiable assets and liabilities - The book values are assumed to equal their fair values for the purposes of the above preliminary purchase price allocation.
- Goodwill and intangibles - Goodwill currently represents the excess of purchase price compared to the estimate of the fair value of the identifiable assets acquired and liabilities assumed. The goodwill arising from the acquisition is expected to be deductible for tax purposes. Management is in the process of identifying and assigning fair values to intangible assets, if any. For every \$5.0 million allocated to amortizable intangible assets, the Company's amortization expense would increase and net income before tax would decrease for the three and nine month periods ended September 30, 2016 by \$0.2 million assuming a five year amortization period. The Company estimates that for every \$0.2 million dollars in amortization expense recorded, earnings per share for the three and nine month periods ended September 30, 2016 would be reduced by \$0.01.

At each reporting date, the Company will review the carrying amounts of its goodwill to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the goodwill is estimated and an impairment is recorded if necessary. Goodwill will also be tested annually for impairment.

The Company financed the Acquisition through a combination of an equity offering (the "Bought Deal Financing") (note 9) and a renegotiated Hardwoods USLP Credit Facility (note 8).

Had the Acquisition occurred on January 1, 2016 management estimates that the Company's consolidated sales would have been approximately \$250.0 million and \$750.1 million and profit before tax would have been approximately \$12.3 million and \$34.9 million for the three and nine month periods ended September 30, 2016, respectively. Included in these condensed consolidated interim financial statements for the three and nine month periods ended September 30, 2016 are sales of \$81.6 million (US\$62.5 million) and profit before tax of \$3.0 million (US\$2.3 million) relating to Rugby.

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 growth 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, 2016	December 31, 2015
Cash	\$ (675)	\$ —
Bank indebtedness	98,917	28,894
Shareholders' equity	216,380	142,948
Total capitalization	\$ 314,622	\$ 171,842

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 paid 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, 2016 and December 31, 2015, and accordingly there were no restrictions on distributions arising from non-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 were no changes to the Company's approach to capital management during the three and nine month periods ended September 30, 2016.

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, 2016 and 2015

On August 11, 2016, the Company declared a cash dividend of \$0.0625 per common share to shareholders of record as of October 17, 2016. The dividend was paid to shareholders on October 28, 2016. On November 8, 2016, the Company declared a cash dividend of \$0.0625 per common share to shareholders of record as of January 20, 2017, to be paid on January 31, 2017.

6. Accounts and other receivables:

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

	September 30, 2016	December 31, 2015
Trade accounts receivable - Canada	\$ 16,641	\$ 11,937
Trade accounts receivable - United States	88,507	47,586
Sundry receivable	2,694	726
Current portion of non-current receivables	774	751
	108,616	61,000
Less:		
Allowance for credit loss	5,950	4,844
	\$ 102,666	\$ 56,156
Non-current receivables:		
Employee housing loans	\$ 414	\$ 546
Customer notes	787	631
Security deposits	1,507	543
	2,708	1,720
Less:		
Current portion, included in accounts receivable	774	751
	\$ 1,934	\$ 969

The aging of trade receivables is:

	September 30, 2016	December 31, 2015
Current	\$ 80,308	\$ 44,377
1 - 30 days past due	17,157	9,142
31 - 60 days past due	3,901	3,122
60+ days past due	3,782	2,882
	\$ 105,148	\$ 59,523

The Company determines its allowance for credit loss 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, 2016 was \$6.0 million (December 31, 2015 - \$4.8 million). The amount of the allowance is considered sufficient based on the past experience of the business, current and expected collection trends, 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, 2016 was \$0.2 million which equates to 0.1% of sales (three month period ended September 30, 2015 - \$0.2 million, being 0.1% of sales). For the nine month period ended September 30, 2016, net bad debt expense was \$0.8 million being 0.1% of sales (nine month period ended September 30, 2015 - \$0.9 million, being 0.2% of sales).

HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
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Three and nine month periods ended September 30, 2016 and 2015

7. Inventories:

	September 30, 2016	December 31, 2015
Raw materials	\$ 779	\$ 1,265
Work in process	4,704	5,054
Goods in-transit	9,417	7,611
Finished goods:		
Lumber	43,630	38,649
Sheet goods	69,031	42,102
Architectural and other	25,517	8,795
	\$ 153,078	\$ 103,476

After the acquisition of Rugby architectural and other finished goods now includes specialty products, solid surface countertops, post-form countertops, high-pressure laminate, interior and exterior doors and millwork, cabinet hardware, mouldings, and industrial wood coatings. The Company regularly reviews and assesses the condition and value of its inventories and records write-downs to net realizable as necessary.

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

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Inventory write-downs, included in cost of sales	\$ 398	\$ 255	\$ 1,142	\$ 645
Cost of inventory sold	183,940	120,984	432,851	343,742
Other cost of sales	7,643	4,396	16,766	12,194
Total cost of goods sold	\$ 191,583	\$ 125,380	\$ 449,617	\$ 355,936

8. Bank indebtedness:

	September 30, 2016	December 31, 2015
Checks issued in excess of funds on deposit	\$ 593	\$ 3,049
Credit facility, Hardwoods LP	17,824	5,314
Credit facility, Hardwoods USLP (September 30, 2016 - US\$61,579 December 31, 2015 - US\$14,835)	80,500	20,531
	\$ 98,917	\$ 28,894

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 Credit Facilities are 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

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, 2016 and 2015

8. Bank indebtedness (continued):

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 were and are payable.

Hardwoods LP Credit Facility ("LP Credit Facility")

In August 2016, a subsidiary of the Company renewed the LP Credit Facility for a period of five years. As part of the renewal, the LP Credit Facility was increased to \$20.0 million from \$15.0 million. The amount made available under the LP Credit Facility from time to time is limited to the extent of 90% of the net book value of eligible accounts receivable and the lesser of 60% of the book value or 85% of appraised value of eligible 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 LP Credit Facility. Hardwoods LP is required to maintain a fixed charge coverage ratio (calculated as the ratio of earnings before interest, tax, depreciation and amortization ("EBITDA") less cash taxes, capital expenditures and distributions, divided by interest plus principal payments on finance lease obligations) of not less than 1.0 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, 2016, the LP Credit Facility has unused availability of \$2.2 million, before checks issued in excess of funds on deposit of \$0.6 million (December 31, 2015 - \$9.7 million, checks issued in excess of funds on deposit - \$0.9 million).

Hardwoods USLP Credit Facility ("USLP Credit Facility")

In connection with the closing of the Acquisition, a subsidiary of the Company entered into a new USLP Credit Facility with its lender. The USLP Credit Facility has a five year term and can be prepaid at any time with no prepayment penalty. The USLP Credit Facility is guaranteed by the Company and several of its subsidiaries and replaces the previous credit facility. The USLP Credit Facility consists of a revolving credit facility of up to US\$125.0 million with the amount made available limited to the extent of 85% of the value of eligible accounts receivable, and 60% of the value of eligible inventory plus the lesser of (i) 55% of the book value of eligible in-transit inventory or (ii) \$2.0 million.

The USLP Credit Facility also includes a first-in-last-out sub facility (the "FILO Facility") which increases the advance rates to 90% in the case of eligible accounts receivable and 70% in the case of eligible inventory. The FILO Facility will be reduced over an approximate 3 year period back to the advance rates for eligible accounts receivable of 85% and eligible inventory of 60%.

The financial covenants under the USLP Credit Facility include, among others: (i) a springing fixed charge coverage ratio of 1.0x, triggered if excess availability under the USLP Credit Facility falls below 10% of the USLP Credit Facility at any time, and (ii) during the period that any amounts are outstanding under the FILO Facility, the excess availability threshold in the preceding item (i) will be 12.5% rather than 10%.

In addition to the financial covenants, the ability of the Company's US subsidiaries to pay distributions and dividends, complete acquisitions, make additional investments, take on additional indebtedness, allow its assets to become subject to liens, complete affiliate transactions and make capital expenditures are limited and subject to the satisfaction of certain conditions.

In connection with the USLP Credit Facility, the Company incurred for the three and nine month periods ended September 30, 2016, \$0.1 million and \$0.3 million, respectively, in fees, which are netted against bank indebtedness in the condensed consolidated interim statement of financial position. These fees will be amortized over the term of the USLP Credit Facility.

At September 30, 2016, the USLP Credit Facility has unused availability of \$71.5 million (US\$54.5 million), before checks issued in excess of funds on deposit of nil. At December 31, 2015, the USLP Credit Facility had unused availability of \$51.1 million (US\$36.9 million), before checks issued in excess of funds on deposit of \$2.1 million (US\$1.5 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, 2016 and 2015

9. Share capital:

(a) Share capital

At September 30, 2016, the authorized share capital of the Company comprised an unlimited number of common shares without par value ("Shares").

A continuity of share capital is as follows:

	Shares	Total
Balance at December 31, 2014	16,651,414	\$ 45,830
Issued pursuant to long term incentive plan	110,657	1,029
Balance at December 31, 2015	16,762,071	46,859
Bought deal financing - conversion of subscription receipts, net of share issue costs of \$3.1 million	3,966,350	54,458
Issued pursuant to the Rugby acquisition	563,542	9,091
Issued pursuant to long term incentive plan	16,693	214
Deferred income tax on share issue costs	—	807
Share adjustment	3	—
Balance at September 30, 2016	21,308,659	\$ 111,429

In July 2016, the Company issued 563,542 common shares for cash consideration to the sellers of Rugby in accordance with the terms of the Acquisition (note 4) and issued 3,966,350 common shares as part of the financing arrangement related to the Acquisition, as described below.

Bought Deal Financing

In connection with the Rugby Acquisition, the Company entered into an agreement with a syndicate of investment dealers pursuant to which the underwriters agreed to purchase for resale to the public on a bought deal basis 3,449,000 subscription receipts of the Company, at a price of \$14.50 per receipt with an over-allotment option for an additional 517,350 subscription receipts for gross overall proceeds of \$57.5 million (\$54.4 million net of estimated fees associated with the offering).

On June 30, 2016, the Bought Deal Financing closed and \$50.0 million, representing 3,449,000 subscription receipts, was received by the Company and was held in escrow pending the closing of the Acquisition. Each subscription receipt was converted to one common share of the Company on the Acquisition date for no additional consideration in accordance with the terms of the subscription agreement. The over-allotment option, representing 517,350 subscription receipts, was fully exercised by the underwriters in July 2016 and these subscription receipts were also converted on the basis of one subscription receipt to one common share of the Company on the Acquisition date.

In connection with the Bought Deal Financing, the Company incurred for the three and nine month periods ended September 30, 2016, \$1.5 million and \$3.1 million, respectively, in share issue costs. These amounts were recorded in equity on closing of the Acquisition as share issue costs, along with the associated deferred income tax impact of \$0.8 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, 2016 and 2015

9. 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, 2014	20,952	98,913
LTIP shares issued during the year	43,005	70,588
LTIP shares settled by exchange for free-trading Shares	(14,748)	(82,674)
Balance at December 31, 2015	49,209	86,827
LTIP shares issued during the period	20,503	50,578
LTIP shares forfeited during the period	(2,265)	(5,544)
LTIP shares settled by exchange for free-trading Shares	(8,236)	—
Balance at September 30, 2016	59,211	131,861

Non-cash LTIP compensation expense of \$324,900 was recognized in the condensed consolidated interim statement of comprehensive income for the three month period ended September 30, 2016 (September 30, 2015 - \$345,587) and \$979,930 for the nine month period ended September 30, 2016 (September 30, 2015 - \$817,456). The key estimate in determining the compensation in any period is whether the performance criteria have been met and the amount of the payout multiplier on the Performance Shares. The payout multiplier is reviewed and approved by the Company's compensation committee on an annual basis.

(c) Weighted average shares:

The calculation of basic and fully diluted net profit per share is based on the net profit for the three month period ended September 30, 2016 of \$7.3 million (September 30, 2015 - \$5.9 million) and nine month period ended September 30, 2016 of \$17.3 million (September 30, 2015 - \$15.7 million). The weighted average number of common shares outstanding in each of the reporting periods was as follows:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Issued ordinary shares at beginning of the period	16,778,767	16,651,414	16,762,071	16,651,414
Effect of shares issued during the period:				
Pursuant to long-term incentive plan	—	—	8,438	—
Pursuant to Bought Deal Financing	3,305,292	—	1,101,764	—
Pursuant to Rugby acquisition	469,618	—	156,539	—
Weighted average common shares - basic	20,553,677	16,651,414	18,028,812	16,651,414
Effect of dilutive securities:				
Long-term incentive plan	169,097	158,416	166,589	136,576
Weighted average common shares - diluted	20,722,774	16,809,830	18,195,401	16,787,990

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, 2016 and 2015

10. Finance income and expense:

	Note	Three months ended		Nine months ended	
		September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Finance expense:					
Interest on bank indebtedness	8	(587)	(317)	(1,068)	(983)
Accretion of finance lease obligation		(42)	(31)	(99)	(86)
Total finance expense		(629)	(348)	(1,167)	(1,069)
Finance income:					
Interest on trade receivables, customer notes, and employee loans	6	127	106	295	298
Foreign exchange gain		536	396	75	831
Total finance income		663	502	370	1,129
Net finance income (expense)		34	154	(797)	60

11. Segment reporting:

Information about geographic areas is as follows:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenue from external customers:				
Canada	\$ 32,909	\$ 30,736	\$ 98,259	\$ 88,747
United States	202,519	121,378	451,613	341,834
	\$ 235,428	\$ 152,114	\$ 549,872	\$ 430,581

	September 30, 2016	December 31, 2015
Non-current assets ⁽¹⁾ :		
Canada	\$ 1,664	\$ 1,347
United States	92,675	14,889
	\$ 94,339	\$ 16,236

⁽¹⁾ Excludes financial instruments and deferred income taxes.

12. 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 hardwoods products.

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, 2016 and 2015

13. Provisions:

Legal

The Company and its subsidiaries are subject to legal proceedings from time to time 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 as at September 30, 2016.

Decommissioning

The Company and its subsidiaries are not obligated in a material way for decommissioning or site restoration.