

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

HARDWOODS DISTRIBUTION INC.

Three month periods ended March 31, 2016 and 2015

HARDWOODS DISTRIBUTION INC.

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

	Note	March 31, 2016	December 31, 2015
Assets			
Current assets:			
Accounts receivable	5	62,968	56,156
Inventories	6	101,365	103,476
Prepaid expenses		1,813	2,193
Total current assets		166,146	161,825
Non-current assets:			
Non-current receivables	5	827	969
Property, plant and equipment		15,246	16,200
Deferred income taxes		9,868	10,974
Intangible asset		—	36
Total non-current assets		25,941	28,179
Total assets		\$ 192,087	\$ 190,004
Liabilities			
Current liabilities:			
Bank indebtedness	7	\$ 34,605	\$ 28,894
Accounts payable and accrued liabilities		13,853	12,438
Income taxes payable		1,116	2,987
Finance lease obligation		1,008	1,119
Dividend payable	4	923	922
Total current liabilities		51,505	46,360
Non-current liabilities:			
Finance lease obligation		663	696
Total liabilities		52,168	47,056
Shareholders' equity			
Share capital	8(a)	47,073	46,859
Contributed surplus		105,620	105,547
Deficit		(29,662)	(33,361)
Accumulated other comprehensive income		16,888	23,903
Shareholders' equity		139,919	142,948
Total liabilities and shareholders' equity		\$ 192,087	\$ 190,004

Subsequent event (note 4)

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 (Loss)
(Expressed in thousands of Canadian dollars)

Three month periods ended March 31, 2016 and 2015

	Note	2016	2015
Sales	10	\$ 157,413	\$ 135,116
Cost of sales	6	(129,375)	(112,053)
Gross profit		28,038	23,063
Operating expenses:			
Selling and distribution		(14,822)	(12,305)
Administration		(4,533)	(3,683)
		(19,355)	(15,988)
Profit from operations		8,683	7,075
Finance expense	9	(642)	(364)
Finance income	9	74	600
Net finance income (expense)		(568)	236
Profit before income taxes		8,115	7,311
Income tax expense:			
Current		(2,759)	(1,866)
Deferred		(734)	(732)
		(3,493)	(2,598)
Profit		4,622	4,713
Other comprehensive income:			
Exchange differences translating foreign operations		(7,015)	7,200
Total comprehensive income (loss)		\$ (2,393)	\$ 11,913
Basic profit per share	8(c)	\$ 0.28	\$ 0.28
Diluted profit per share	8(c)	\$ 0.27	\$ 0.28

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)

Three month periods ended March 31, 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	8(b)	—	287	—	—	287
Shares issued pursuant to LTIP	8(a)	214	(214)	—	—	—
Profit for the period		—	—	—	4,622	4,622
Dividends declared		—	—	—	(923)	(923)
Translation of foreign operations		—	—	(7,015)	—	(7,015)
Balance at March 31, 2016		\$ 47,073	\$ 105,620	\$ 16,888	\$ (29,662)	\$ 139,919
Balance at January 1, 2015		\$ 45,830	\$ 105,154	\$ 7,504	\$ (49,999)	\$ 108,489
Share based compensation expense	8(b)	—	116	—	—	116
Profit for the period		—	—	—	4,713	4,713
Dividends declared		—	—	—	(749)	(749)
Translation of foreign operations		—	—	7,200	—	7,200
Balance at March 31, 2015		\$ 45,830	\$ 105,270	\$ 14,704	\$ (46,035)	\$ 119,769

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)

Three month periods ended March 31, 2016 and 2015

	Note	2016	2015
Cash flow from operating activities:			
Profit for the period		\$ 4,622	\$ 4,713
Adjustments for:			
Depreciation		750	571
Loss on sale of property, plant and equipment		2	1
Share-based compensation expense	8(b)	287	116
Income tax expense		3,493	2,598
Net finance expense (income)	9	568	(236)
Interest received		74	94
Interest paid		(274)	(336)
Income taxes paid		(4,541)	(2,926)
		4,981	4,595
Changes in non-cash working capital:			
Accounts receivable		(9,477)	(10,844)
Inventories		(3,190)	(4,263)
Prepaid expenses		284	332
Accounts payable and accrued liabilities		1,706	2,650
		(10,677)	(12,125)
Net cash used in operating activities		(5,696)	(7,530)
Cash flow from financing activities:			
Increase in bank indebtedness		7,294	8,878
Principle payments on finance lease obligation		(300)	(264)
Dividends paid to shareholders	4	(923)	(749)
Net cash provided by financing activities		6,071	7,865
Cash flow from investing activities:			
Additions to property, plant and equipment		(442)	(524)
Proceeds on disposal of property, plant and equipment		—	91
Payments received on non-current receivables		67	85
Net cash used in investing activities		(375)	(348)
Decrease in cash		—	(13)
Cash, beginning of the period		—	13
Cash, end of the period		\$ —	\$ —
Supplementary information:			
Property, plant and equipment acquired under finance leases, net of disposals		\$ 232	\$ 170

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 month periods ended March 31, 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." Subsidiaries of the Company operate a network of 32 distribution centers in Canada and the US engaged in the wholesale distribution of hardwood lumber, related sheet goods and specialty products. 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.

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 consolidation 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 May 12, 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.

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 have an impact on the Company's financial statements.

HARDWOODS DISTRIBUTION INC.

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

Three month periods ended March 31, 2016 and 2015

4. 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:

	March 31, 2016	December 31, 2015
Cash	\$ —	\$ —
Bank indebtedness	34,605	28,894
Shareholder's equity	139,919	142,948
Total capitalization	\$ 174,524	\$ 171,842

The terms of the Company's US and Canadian credit facilities are described in note 7. 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 March 31, 2016 and December 31, 2015, 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 were no changes to the Company's approach to capital management during the three month period ended March 31, 2016.

On March 11, 2016, the Company declared a cash dividend of \$0.055 per common share to shareholders of record as of April 19, 2016. The dividend was paid to shareholders on April 29, 2016. On May 12, 2016, the Company declared a cash dividend of \$0.055 per common share to shareholders of record as of July 18, 2016, to be paid on July 29, 2016.

HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
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5. Accounts receivable:

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

	March 31, 2016	December 31, 2015
Trade accounts receivable - Canada	\$ 15,464	\$ 11,937
Trade accounts receivable - United States	51,483	47,586
Sundry receivable	295	726
Current portion of non-current receivables	675	751
	<u>67,917</u>	<u>61,000</u>
Less:		
Allowance for credit loss	4,949	4,844
	<u>\$ 62,968</u>	<u>\$ 56,156</u>
Non-current receivables:		
Employee housing loans	\$ 441	\$ 546
Customer notes	539	631
Security deposits	522	543
	<u>1,502</u>	<u>1,720</u>
Less:		
Current portion, included in accounts receivable	675	751
	<u>\$ 827</u>	<u>\$ 969</u>

The aging of trade receivables is:

	March 31, 2016	December 31, 2015
Current	\$ 52,623	\$ 44,377
1 - 30 days past due	9,358	9,142
31 - 60 days past due	1,993	3,122
60+ days past due	2,973	2,882
	<u>\$ 66,947</u>	<u>\$ 59,523</u>

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 March 31, 2016 was \$4.9 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 March 31, 2016 was \$0.4 million which equates to 0.3% of sales (March 31, 2015 - \$0.2 million, being 0.1% of sales).

HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
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6. Inventories:

	March 31, 2016	December 31, 2015
Raw materials	\$ 1,766	\$ 1,265
Work in process	4,326	5,054
Goods in-transit	5,469	7,611
Finished goods:		
Lumber	37,507	38,649
Sheet goods	46,899	42,102
Specialty	5,398	8,795
	\$ 101,365	\$ 103,476

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 March 31, 2016	Three months ended March 31, 2015
Inventory write-downs, included in cost of sales	\$ 354	\$ 208
Cost of inventory sold	124,773	108,180
Other cost of sales	4,602	3,873
Total cost of sales	\$ 129,375	\$ 112,053

7. Bank indebtedness:

	March 31, 2016	December 31, 2015
Checks issued in excess of funds on deposit	\$ 2,425	\$ 3,049
Credit facility, Hardwoods LP	9,681	5,314
Credit facility, Hardwoods USLP (March 31, 2016 - US\$17,324 December 31, 2015 - US\$14,835)	22,499	20,531
	\$ 34,605	\$ 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 Hardwoods LP Credit Facility, which has a maturity date of August 7, 2016, provides financing up to \$15.0 million. The Hardwoods USLP Credit Facility, which has a maturity date of April 27, 2017, provides financing up to US\$75 million.

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7. Bank indebtedness (continued):

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 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.

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 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 1.1 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 March 31, 2016, the Hardwoods LP Credit Facility has unused availability of \$5.3 million, before checks issued in excess of funds on deposit of \$0.5 million (December 31, 2015 - \$9.7 million, checks issued in excess of funds on deposit - \$0.9 million).

The amount made available under the Credit Facility to Hardwoods USLP from time to time is 85% of the book value of 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 and capital expenditures, divided by the sum of interest, principal payments on finance lease obligations and distributions) of 1.0 to 1. This covenant of the Hardwoods USLP Credit Facility does not need to be met, however, unless the unused availability under the Credit Facility is in excess of certain thresholds. The minimum unused availability that must be maintained for the fixed charge coverage ratio not to apply at March 31, 2016 is US\$7.5 million. At March 31, 2016, the Hardwoods USLP Credit Facility has unused availability of \$52.9 million (US\$40.7 million), before checks issued in excess of funds on deposit of \$1.9 million (US\$1.5 million). At December 31, 2015, the Hardwoods 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).

8. Share capital:

(a) Share capital

At March 31, 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
Issued pursuant to long term incentive plan	16,693	214
Balance at March 31, 2016	16,778,764	\$ 47,073

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8. 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	—	—
LTIP shares forfeited during the period	(2,265)	(1,744)
LTIP shares settled by exchange for free-trading Shares	(8,236)	—
Balance at March 31, 2016	38,708	85,083

Non-cash LTIP compensation expense of \$286,945 was recognized in the condensed consolidated interim statement of comprehensive income for the three month period ended March 31, 2016 (March 31, 2015 - \$116,025). 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 profit per share is based on the profit for the three month period ended March 31, 2016 of \$4.6 million (March 31, 2015 - \$4.7 million). The weighted average number of common shares outstanding in each of the reporting periods was as follows:

	March 31, 2016	March 31, 2015
Issued ordinary shares at beginning of the period	16,762,071	16,651,414
Effect of shares issued during the period pursuant to long-term incentive plan	183	—
Weighted average common shares - basic	16,762,254	16,651,414
Effect of dilutive securities:		
Long-term incentive plan	139,233	104,905
Weighted average common shares - diluted	16,901,487	16,756,319

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(Tabular amounts expressed in thousands of Canadian dollars)

Three month periods ended March 31, 2016 and 2015

9. Finance income and expense:

	Note	Three months ended March 31, 2016	Three months ended March 31, 2015
Finance expense:			
Interest on bank indebtedness	7	\$ (247)	\$ (336)
Accretion of finance lease obligation		(27)	(28)
Foreign exchange loss		(368)	—
Total finance expense		(642)	(364)
Finance income:			
Interest on trade receivables, customer notes, and employee loans	5	74	94
Foreign exchange gain		—	506
Total finance income		74	600
Net finance income (expense)		\$ (568)	\$ 236

10. Segment reporting:

Information about geographic areas is as follows:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Revenue from external customers:		
Canada	\$ 31,342	\$ 27,836
United States	126,071	107,280
	\$ 157,413	\$ 135,116
	March 31, 2016	December 31, 2015
Non-current assets ⁽¹⁾ :		
Canada	\$ 1,374	\$ 1,347
United States	13,872	14,889
	\$ 15,246	\$ 16,236

⁽¹⁾ Excludes financial instruments and deferred income taxes.

11. 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 month periods ended March 31, 2016 and 2015

12. 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 March 31, 2016.

Decommissioning

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