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

HARDWOODS DISTRIBUTION INC.

Three and six month periods ended June 30, 2016 and 2015

HARDWOODS DISTRIBUTION INC.

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

	Note		June 30, 2016		December 31, 2015
Assets					
Current assets:					
Cash		$	780	$	—
Restricted cash	13(b)		50,011		—
Accounts and other receivables	5		64,672		56,156
Inventories	6		102,712		103,476
Prepaid expenses	13(b)(c)		3,396		2,193
Total current assets			221,571		161,825
Non-current assets:					
Non-current receivables	5		811		969
Property, plant and equipment			16,377		16,200
Deferred income taxes			9,117		10,974
Intangible asset			—		36
Total non-current assets			26,305		28,179
Total assets		$	247,876	$	190,004
Liabilities					
Current liabilities:					
Bank indebtedness	7	$	31,089	$	28,894
Accounts payable and accrued liabilities			19,034		12,438
Subscription receipts	13(b)		50,011		—
Income taxes payable			650		2,987
Finance lease obligation			1,363		1,119
Dividend payable	4		922		922
Total current liabilities			103,069		46,360
Non-current liabilities:					
Finance lease obligation			660		696
Total liabilities			103,729		47,056
Shareholders’ equity					
Share capital	8(a)		47,073		46,859
Contributed surplus			105,988		105,547
Deficit			(25,217)		(33,361)
Accumulated other comprehensive income			16,303		23,903
Shareholders’ equity			144,147		142,948
Total liabilities and shareholders’ equity		$	247,876	$	190,004

Subsequent events (notes 4, 8(a) and 13)

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)

	Note	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Sales	10	$ 157,031	$ 143,351	$ 314,444	$ 278,467
Cost of sales	6	(128,659)	(118,503)	(258,034)	(230,556)
Gross profit		28,372	24,848	56,410	47,911
Operating expenses:					
Selling and distribution		(13,420)	(12,800)	(28,242)	(25,105)
Administration	13(a)	(5,467)	(3,415)	(10,000)	(7,098)
		(18,887)	(16,215)	(38,242)	(32,203)
Profit from operations		9,485	8,633	18,168	15,708
Finance expense	9	(357)	(428)	(999)	(721)
Finance income	9	94	98	168	627
Net finance expense		(263)	(330)	(831)	(94)
Profit before income taxes		9,222	8,303	17,337	15,614
Income tax expense:					
Current		(3,137)	(2,749)	(5,896)	(4,615)
Deferred		(718)	(545)	(1,452)	(1,277)
		(3,855)	(3,294)	(7,348)	(5,892)
Profit		5,367	5,009	9,989	9,722
Other comprehensive income:					
Exchange differences translating foreign operations		(585)	(1,162)	(7,600)	6,038
Total comprehensive income		$ 4,782	$ 3,847	$ 2,389	$ 15,760
Basic profit per share	8(c)	$ 0.32	$ 0.30	$ 0.60	$ 0.58
Diluted profit per share	8(c)	$ 0.32	$ 0.30	$ 0.59	$ 0.58

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)

Six month periods ended June 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	8(b)	—	655	—	—	655
Shares issued pursuant to LTIP	8(a)	214	(214)	—	—	—
Profit for the period		—	—	—	9,989	9,989
Dividends declared		—	—	—	(1,845)	(1,845)
Translation of foreign operations		—	—	(7,600)	—	(7,600)
Balance at June 30, 2016		$ 47,073	$ 105,988	$ 16,303	$ (25,217)	$ 144,147
Balance at January 1, 2015		$ 45,830	$ 105,154	$ 7,504	$ (49,999)	$ 108,489
Share based compensation expense	8(b)	—	472	—	—	472
Shares issued pursuant to LTIP	8(a)	9	(9)	—	—	—
Profit for the period		—	—	—	9,722	9,722
Dividends declared		—	—	—	(1,671)	(1,671)
Translation of foreign operations		—	—	6,038	—	6,038
Balance at June 30, 2015		$ 45,839	$ 105,617	$ 13,542	$ (41,948)	$ 123,050

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 months ended		Six months ended	
	Note	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Cash flow from operating activities:					
Profit for the period		$ 5,367	$ 5,009	$ 9,989	$ 9,722
Adjustments for:					
Depreciation		746	647	1,496	1,218
(Gain) loss on sale of property, plant and equipment		(149)	—	(147)	1
Share-based compensation expense	8(b)	368	356	655	472
Income tax expense		3,855	3,294	7,348	5,892
Net finance expense	9	263	330	831	94
Interest received		94	98	168	192
Interest paid		(234)	(330)	(481)	(666)
Income taxes paid		(3,556)	(2,847)	(8,099)	(5,773)
		6,754	6,557	11,760	11,152
Changes in non-cash working capital:					
Accounts receivable		(2,138)	(1,003)	(11,641)	(11,847)
Inventories		(1,879)	(4,697)	(5,068)	(8,960)
Prepaid expenses		(1,595)	(110)	(1,311)	222
Accounts payable and accrued liabilities		5,806	1,362	7,512	4,012
		194	(4,448)	(10,508)	(16,573)
Net cash provided by (used in) operating activities		6,948	2,109	1,252	(5,421)
Cash flow from financing activities:					
(Decrease) Increase in bank indebtedness		(3,757)	(1,014)	3,537	7,864
Increase in restricted cash	13(b)	50,011	—	50,011	—
Proceeds from subscription receipts	13(b)	(50,011)	—	(50,011)	—
Principle payments on finance lease obligation		(352)	(274)	(651)	(538)
Dividends paid to shareholders	4	(922)	(749)	(1,845)	(1,498)
Net cash provided by (used in) financing activities		(5,031)	(2,037)	1,041	5,828
Cash flow from investing activities:					
Additions to property, plant and equipment		(1,545)	(166)	(1,987)	(690)
Proceeds on disposal of property, plant and equipment		374	68	373	159
Payments received on non-current receivables		34	26	101	111
Net cash used in investing activities		(1,137)	(72)	(1,513)	(420)
Increase (decrease) in cash		780	—	780	(13)
Cash, beginning of the period		—	—	—	13
Cash, end of the period		$ 780	$ —	$ 780	$ —
Supplementary information:					
Property, plant and equipment acquired under finance leases, net of disposals		$ 681	$ 360	$ 913	$ 530

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

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.” During the quarter ended June 30, 2016, subsidiaries of the Company operated 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 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 13(a)). 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 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 August 11, 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 13(a).

(Tabular amounts expressed in thousands of Canadian dollars)

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 June 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. 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:

		June 30, 2016		December 31, 2015
Cash	$	(780)	$	—
Bank indebtedness		31,089		28,894
Shareholder’s equity		144,147		142,948
Total capitalization	$	174,456	$	171,842

(Tabular amounts expressed in thousands of Canadian dollars)

4. Capital management (continued):

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 June 30, 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 and six month periods ended June 30, 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. The dividend was paid to shareholders on July 29, 2016. 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, to be paid on October 28, 2016.

5. 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.

	June 30, 2016	December 31, 2015
Trade accounts receivable - Canada	$ 17,057	$ 11,937
Trade accounts receivable - United States	51,743	47,586
Sundry receivable	361	726
Current portion of non-current receivables	664	751
	69,825	61,000
Less:		
Allowance for credit loss	5,153	4,844
	$ 64,672	$ 56,156
Non-current receivables:		
Employee housing loans	$ 426	$ 546
Customer notes	480	631
Security deposits	569	543
	1,475	1,720
Less:		
Current portion, included in accounts receivable	664	751
	$ 811	$ 969

The aging of trade receivables is:

	June 30, 2016	December 31, 2015
Current	$ 54,096	$ 44,377
1 - 30 days past due	9,751	9,142
31 - 60 days past due	2,192	3,122
60+ days past due	2,761	2,882
	$ 68,800	$ 59,523

(Tabular amounts expressed in thousands of Canadian dollars)

5. Accounts receivable (continued):

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 June 30, 2016 was $5.2 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 June 30, 2016 was $0.2 million which equates to 0.1% of sales (three month period ended June 30, 2015 - $0.6 million, being 0.4% of sales). For the six month period ended June 30, 2016, net bad debt expense was $0.6 million being 0.2% of sales (six month period ended June 30, 2015 - $0.8 million, being 0.3% of sales).

6. Inventories:

	June 30, 2016	December 31, 2015
Raw materials	$ 1,095	$ 1,265
Work in process	5,307	5,054
Goods in-transit	7,165	7,611
Finished goods:		
Lumber	37,217	38,649
Sheet goods	45,847	42,102
Specialty	6,081	8,795
	$ 102,712	$ 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 are as follows:

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Inventory write-downs, included in cost of sales	$ 390	$ 182	$ 744	$ 390
Cost of inventory sold	124,138	114,578	248,911	222,758
Other cost of sales	4,521	3,925	9,123	7,798
Total cost of sales	$ 128,659	$ 118,503	$ 258,034	$ 230,556

(Tabular amounts expressed in thousands of Canadian dollars)

7. Bank indebtedness:

	June 30, 2016	December 31, 2015
Checks issued in excess of funds on deposit	$ 1,834	$ 3,049
Credit facility, Hardwoods LP	8,000	5,314
Credit facility, Hardwoods USLP (June 30, 2016 - US$16,455 December 31, 2015 - US$14,835)	21,255	20,531
	$ 31,089	$ 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. Subsequent to period end, both facilities were renewed and amended (note 13(c)).

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 June 30, 2016, the Hardwoods LP Credit Facility has unused availability of $7.0 million, before checks issued in excess of funds on deposit of nil (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 June 30, 2016 is US$7.5 million. At June 30, 2016, the Hardwoods USLP Credit Facility has unused availability of $54.4 million (US$42.1 million), before checks issued in excess of funds on deposit of $1.8 million (US$1.4 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).

(Tabular amounts expressed in thousands of Canadian dollars)

8. Share capital:

(a) Share capital

At June 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
Issued pursuant to long term incentive plan	16,693		214
Share adjustment	3		—
Balance at June 30, 2016	16,778,767	$	47,073

Subsequent to June 30, 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 13(a)) and issued 3,966,350 common shares as part of the financing arrangement related to the acquisition of Rugby (note 13(b)).

(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	20,141	49,432
LTIP shares forfeited during the period	(2,265)	(3,644)
LTIP shares settled by exchange for free-trading Shares	(8,236)	—
Balance at June 30, 2016	58,849	132,615

Non-cash LTIP compensation expense of $368,097 was recognized in the condensed consolidated interim statement of comprehensive income for the three month period ended June 30, 2016 (June 30, 2015 - $355,844) and $655,042 for the six month period ended June 30, 2016 (June 30, 2015 - $471,869). 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.

(Tabular amounts expressed in thousands of Canadian dollars)

8. Share capital (continued):

(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 June 30, 2016 of $5.4 million (June 30, 2015 - $5.0 million) and six month period ended June 30, 2016 of $10.0 million (June 30, 2015 - $9.7 million). The weighted average number of common shares outstanding in each of the reporting periods was as follows:

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 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	—
Weighted average common shares - basic	16,778,767	16,651,414	16,770,509	16,651,414
Effect of dilutive securities:				
Long-term incentive plan	151,113	146,202	151,789	132,201
Weighted average common shares - diluted	16,929,880	16,797,616	16,922,298	16,783,615

9. Finance income and expense:

	Note	Three months ended		Six months ended	
		June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Finance expense:					
Interest on bank indebtedness	7	$ (234)	$ (330)	$ (481)	$ (666)
Accretion of finance lease obligation		(30)	(26)	(57)	(55)
Foreign exchange loss		(93)	(72)	(461)	—
Total finance expense		(357)	(428)	(999)	(721)
Finance income:					
Interest on trade receivables, customer notes, and employee loans	5	94	98	168	192
Foreign exchange gain		—	—	—	435
Total finance income		94	98	168	627
Net finance income (expense)		$ (263)	$ (330)	$ (831)	$ (94)

(Tabular amounts expressed in thousands of Canadian dollars)

10. Segment reporting:

Information about geographic areas is as follows:

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenue from external customers:				
Canada	$ 34,008	$ 30,175	$ 65,350	$ 58,011
United States	123,023	113,176	249,094	220,456
	$ 157,031	$ 143,351	$ 314,444	$ 278,467

	June 30, 2016	December 31, 2015
Non-current assets[(1)]:		
Canada	$ 1,713	$ 1,347
United States	14,664	14,889
	$ 16,377	$ 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.

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 June 30, 2016.

Decommissioning

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

13. Subsequent events:

(a) Rugby Acquisition:

On July 15, 2016, the Company, through one of its wholly owned subsidiaries, acquired substantially all the assets used in the business of Rugby and assumed certain of Rugby's liabilities for a base purchase price of $138.8 million (US$107.0 million) and up to $16.9 million (US$13.0 million) in earn-out contingent consideration. 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.

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. 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 for on a dollar for dollar basis. 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, whom will be employed by the 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 expected to be accounted for as purchase price consideration. The Earn-Out Bonuses are expected to be accounted for as compensation expense over the next two years.

The Company has estimated that the Earn-Out Consideration payable will be approximately $2.6 million (US$2.0 million) and this has been accounted for as purchase consideration in the preliminary purchase price allocation below.

The acquisition will be 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 $1.3 million in transaction costs in the quarter ended June 30, 2016 which are included in administration expenses in the condensed consolidated interim statement of comprehensive income. In addition to transaction costs, the Company incurred to June 30, 2016, additional fees of $1.8 million related to the financing of the acquisition, which are described below in notes 13(b) and (c).

(Tabular amounts expressed in thousands of Canadian dollars)

13. Subsequent events (continued):

(a) Rugby Acquisition (continued):

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	$ 107,000	$ 138,833
Fair value of Earn-Out Consideration	2,000	2,595
Estimated total purchase price	$ 109,000	$ 141,428
Assets acquired and liabilities assumed:		
Accounts and other receivables	$ 28,931	$ 37,538
Inventories	35,546	46,121
Other current assets	1,126	1,461
Property plant and equipment	2,033	2,638
Accounts payable and accrued liabilities	(18,213)	(23,631)
Estimated identifiable net assets acquired	49,423	64,127
Goodwill, intangibles and unallocated purchase price	59,577	77,301
Estimated net assets acquired	$ 109,000	$ 141,428

The above is a preliminary estimate of the fair value 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 value 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.

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, intangibles, and unallocated purchase price - This 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.

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

13. Subsequent events (continued):

(b) 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 ($55.7 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 being held in escrow pending the closing of the Acquisition. This is presented as restricted cash and a subscription receipt liability on the condensed consolidated interim statement of financial position as subscribers of the offering were entitled to a full refund of the subscription price had the Acquisition not closed. 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 517,340 subscription receipts, was fully exercised by the underwriters in July 2016 and the 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 $1.6 million in share issue costs for the quarter ended June 30, 2016. This amount is recorded in prepaid expenses on the condensed consolidated interim statement of financial position and was reclassified to equity on closing of the Acquisition as a share issue cost.

(c) Credit facility renewal and amendments:

USLP Credit Facility

In connection with the closing of the Acquisition, a subsidiary of the Company entered into a new US credit facility (the "US Credit Facility") with its lender. The US Credit Facility will be guaranteed by the Company and several of its subsidiaries and replaces the existing USLP Credit Facility (note 7). The US 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 US 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 US Credit Facility include, among others: (i) a springing fixed charge coverage ratio of 1.0x, triggered if excess availability under the US Credit Facility falls below 10% of the US 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. The US Credit Facility has a 5 year term and can be prepaid at any time with no prepayment penalty.

In connection with the US Credit Facility, the Company incurred $0.2 million in fees in the quarter ended June 30, 2016, which are presented in prepaid expenses in the condensed consolidated interim statement of financial position.

LP Credit Facility

Subsequent to June 30, 2016, a subsidiary of the Company renewed the Hardwoods LP Credit Facility for a period of five years. As part of the renewal, the LP Credit Facility was increased to $20.0 million, the amount available to be borrowed was increased to 90% of net book value of accounts receivable, and the fixed charge ratio required to be maintained was reduced to 1.0x.