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

# HARDWOODS DISTRIBUTION INC.

Three month periods ended March 31, 2017 and 2016

# HARDWOODS DISTRIBUTION INC.

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

| | Note | | March 31, 2017 | | December 31, 2016 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash | | $ | 357 | $ | 766 |
| Accounts and other receivables | 6 | | 108,828 | | 94,534 |
| Inventories | 7 | | 169,411 | | 164,547 |
| Prepaid expenses | | | 2,725 | | 2,689 |
| Total current assets | | | 281,321 | | 262,536 |
| Non-current assets: | | | | | |
| Non-current receivables | 6 | | 1,433 | | 1,378 |
| Property, plant and equipment | | | 19,924 | | 20,710 |
| Intangible assets | | | 19,414 | | 20,114 |
| Deferred income taxes | | | 10,800 | | 11,631 |
| Goodwill | | | 54,774 | | 54,707 |
| Total non-current assets | | | 106,345 | | 108,540 |
| Total assets | | $ | 387,666 | $ | 371,076 |
| **Liabilities** | | | | | |
| Current liabilities: | | | | | |
| Bank indebtedness | 8 | $ | 109,807 | $ | 97,886 |
| Accounts payable and accrued liabilities | | | 37,903 | | 40,978 |
| Income taxes payable | | | 4,999 | | 1,949 |
| Finance lease obligation | | | 1,105 | | 1,055 |
| Dividend payable | 5 | | 1,344 | | 1,332 |
| Total current liabilities | | | 155,158 | | 143,200 |
| Non-current liabilities: | | | | | |
| Finance lease obligation | | | 776 | | 905 |
| Other liabilities | | | 903 | | 972 |
| Total non-current liabilities | | | 1,679 | | 1,877 |
| Total liabilities | | | 156,837 | | 145,077 |
| **Shareholders' equity** | | | | | |
| Share capital | 9(a) | | 112,518 | | 112,362 |
| Contributed surplus | | | 104,130 | | 104,333 |
| Deficit | | | (7,666) | | (14,258) |
| Accumulated other comprehensive income | | | 21,847 | | 23,562 |
| Shareholders' equity | | | 230,829 | | 225,999 |
| Total liabilities and shareholders' equity | | $ | 387,666 | $ | 371,076 |

Subsequent events (note 5 and 14)

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

Approved on behalf of the board of directors:

**(Signed) GRAHAM M. WILSON** Director **(Signed) 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, 2017 and 2016

| | Note | | 2017 | | 2016 |
|---|---|---|---|---|---|
| Sales | 11 | $ | 257,098 | $ | 157,413 |
| Cost of goods sold | 7 | | (208,822) | | (129,375) |
| Gross profit | | | 48,276 | | 28,038 |
| Operating expenses: | | | | | |
| Selling and distribution | | | (26,404) | | (14,822) |
| Administration | | | (9,552) | | (4,533) |
| | | | (35,956) | | (19,355) |
| Profit from operations | | | 12,320 | | 8,683 |
| Finance expense | 10 | | (698) | | (642) |
| Finance income | 10 | | 159 | | 74 |
| Net finance income (expense) | | | (539) | | (568) |
| Profit before income taxes | | | 11,781 | | 8,115 |
| Income tax expense: | | | | | |
| Current | | | (3,087) | | (2,759) |
| Deferred | | | (758) | | (734) |
| | | | (3,845) | | (3,493) |
| Net profit | | | 7,936 | | 4,622 |
| Other comprehensive income: | | | | | |
| Exchange differences translating foreign operations | | | (1,715) | | (7,015) |
| Total comprehensive income (loss) | | $ | 6,221 | $ | (2,393) |
| Basic net profit per share | 9(c) | $ | 0.37 | $ | 0.28 |
| Diluted net profit per share | 9(c) | $ | 0.37 | $ | 0.27 |

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, 2017 and 2016

| | Note | Share capital | Contributed surplus | Accumulated other comprehensive income - translation reserve | Deficit | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2017 | | $ 112,362 | $ 104,333 | $ 23,562 | $ (14,258) | $ 225,999 |
| Share based compensation expense | 9(b) | — | 240 | — | — | 240 |
| Shares issued pursuant to LTIP | | 156 | (156) | — | — | — |
| Shares reclassified to liabilities | | — | (287) | — | — | (287) |
| Profit for the period | | — | — | — | 7,936 | 7,936 |
| Dividends declared | | — | — | — | (1,344) | (1,344) |
| Translation of foreign operations | | — | — | (1,715) | — | (1,715) |
| Balance at March 31, 2017 | | $ 112,518 | $ 104,130 | $ 21,847 | $ (7,666) | $ 230,829 |
| Balance at January 1, 2016 | | $ 46,859 | $ 105,547 | $ 23,903 | $ (33,361) | $ 142,948 |
| Share based compensation expense | 9(b) | — | 287 | — | — | 287 |
| Shares issued pursuant to LTIP | | 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 |

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, 2017 and 2016

| | Note | 2017 | 2016 |
|---|---|---|---|
| Cash flow from operating activities: | | | |
| Profit for the period | | $ 7,936 | $ 4,622 |
| Adjustments for: | | | |
| Depreciation and amortization | | 1,683 | 750 |
| Loss on sale of property, plant and equipment | | (24) | 2 |
| Share-based compensation expense | 9(b) | 132 | 287 |
| Income tax expense | | 3,845 | 3,493 |
| Net finance expense | 10 | 539 | 568 |
| Interest received | | 129 | 74 |
| Interest paid | | (678) | (274) |
| Income taxes paid | | (32) | (4,541) |
| | | 13,530 | 4,981 |
| Changes in non-cash working capital: | | | |
| Accounts receivable | | (14,727) | (9,477) |
| Inventories | | (5,467) | (3,190) |
| Prepaid expenses | | (57) | 284 |
| Accounts payable and accrued liabilities | | (3,887) | 1,706 |
| | | (24,138) | (10,677) |
| Net cash used in operating activities | | (10,608) | (5,696) |
| Cash flow from financing activities: | | | |
| Increase in bank indebtedness | | 12,601 | 7,294 |
| Principle payments on finance lease obligation | | (286) | (300) |
| Note repayment | | (201) | — |
| Dividends paid to shareholders | 5 | (1,332) | (923) |
| Net cash provided by financing activities | | 10,782 | 6,071 |
| Cash flow from investing activities: | | | |
| Additions to property, plant and equipment | | (321) | (442) |
| Proceeds on disposal of property, plant and equipment | | 87 | — |
| Business acquisition | 4(b) | (476) | — |
| Payments received on non-current receivables | | 127 | 67 |
| Net cash used in investing activities | | (583) | (375) |
| Decrease in cash | | (409) | — |
| Cash, beginning of the period | | 766 | — |
| Cash, end of the period | | $ 357 | $ — |
| Supplementary information: | | | |
| Property, plant and equipment acquired under finance leases, net of disposals | | $ 218 | $ 232 |

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 and trades on the Toronto Stock Exchange under the symbol "HWD." The Company operates a network of 58 distribution centers in Canada and the US engaged in the wholesale distribution of architectural 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.

**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, 2016.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 10, 2017.

(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. The Company's subsidiaries operating in the United States have a US dollar 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, 2016.

**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, 2016.

(a) New accounting policy:

Effective January 1, 2017, the Company adopted Recognition of Deferred Tax Assets for Unrealized Losses as an amendment to IAS 12, *Income Taxes (Amendments)* that clarify when a deductible temporary difference exists. The adoption of this amendment did not impact the Company's consolidated financial statements.

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

(b) Future accounting pronouncements:

A number of new standards, amendments to standards and interpretations, are not yet effective for the period ended March 31, 2017, and have not been applied in preparing these condensed consolidated interim financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the consolidated financial statements in future periods.

IFRS 9, *Financial Instruments ("IFRS 9")*

IFRS 9 will replace the multiple classification and measurement models in IAS 39 *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. The new standard also requires a single impairment method to be used, provides additional guidance on the classification and measurement of financial liabilities, and provides a new general hedge accounting standard.

The mandatory effective date has been set for January 1, 2018, however early adoption of the new standard is permitted. The Company does not intend to early adopt IFRS 9. The adoption of IFRS 9 is currently not expected to have a material impact on the consolidated financial statements given the nature of the Company's operations and the types of financial instruments that it currently holds; however, the Company will continue to assess the extent of impact as the mandatory adoption date approaches. The Company expects to complete its assessment of IFRS 9 by the latter half of 2017.

IFRS 15, *Revenue from Contracts with Customers ("IFRS 15")*

IFRS 15 is effective for fiscal years commencing on or after January 1, 2018 and will replace IAS 18, *Revenue* and a number of revenue related standards and interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced, which may affect the amount and/or timing of revenue recognized.

IFRS 15 permits two methods of adoption: (i) the retrospective method, under which comparative periods would be restated, and the cumulative impact of applying the standard would be recognized as at January 1, 2017, the earliest period presented; and (ii) the cumulative effect method, under which comparative periods would not be restated and the cumulative impact of applying the standard would be recognized at the date of initial adoption January 1, 2018. The Company expects to use the cumulative effect method, however it continues to monitor industry developments. Any significant industry developments could change the Company's expected method of adoption.

The majority of the Company's revenue is generated from the sale of hardwood lumber, sheet goods, specialty products and non-structural architectural grade building products to customers. The Company does not expect the adoption of this standard will have a material impact on the measurement of revenue generated from the sale of its products to customers, however, the Company will continue to assess the extent of the impact as the mandatory adoption date approaches. The Company expects to complete its assessment of IFRS 15 by the latter half of 2017.

IFRS 16, *Leases ("IFRS 16")*

On January 13, 2016, the IASB published a new standard, IFRS 16, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The main provision of IFRS 16 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. Under IFRS 16, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; and (ii) recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant, as the right-of-use asset is depreciated and the lease liability is accreted using the effective interest method. The new standard also requires qualitative disclosures along with specific quantitative disclosures. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. Upon adoption of IFRS 16, the Company's operating leases, which are principally comprised of its warehouse facilities and automobiles, will be recorded in the statement of

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

(b) Future accounting pronouncements (continued):

financial position with a corresponding lease obligation. The Company continues to assess the impact of adopting this standard on its consolidated financial statements.

**4. Business acquisitions:**

(a) Rugby acquisition

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 "Rugby Acquisition") for a base purchase price of $138.6 million (US$106.8 million) (the “Purchase Price”) plus up to another $16.9 million (US$13.0 million) in earn-outs based on future performance. Rugby operates a network of 28 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 was comprised of (i) $129.6 million (US$99.8 million) in cash consideration and the assumption of notes payable, 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 paid in cash was adjusted downwards by $0.9 million (US$0.7 million) for the value of notes payable assumed by the Company.

The base purchase price was determined on the basis that the sellers would 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 Rugby 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. In March 2017, the Company finalized the NAV and the estimated NAV exceeded the final NAV by $0.2 million. The Company reduced the holdback amount for the $0.2 million NAV adjustment and the remaining amount of the holdback, which is accrued in accounts payable and accrued liabilities, is expected to be settled in the third quarter of 2017.

The Rugby 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.

(Tabular amounts expressed in thousands of Canadian dollars)

**4. Business acquisitions (continued):**

(a) Rugby acquisition (continued)

*Fair value of assets acquired and liabilities assumed*

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

| | | US$ | | CDN$ |
|---|---|---|---|---|
| Cash consideration | $ | 106,140 | $ | 137,717 |
| Notes payable assumed | | 709 | | 920 |
| Consideration | $ | 106,849 | $ | 138,637 |
| Assets acquired and liabilities assumed: | | | | |
| Accounts and other receivables | $ | 28,931 | $ | 37,538 |
| Inventories | | 35,546 | | 46,121 |
| Prepaid expenses | | 499 | | 647 |
| Non-current receivables | | 577 | | 749 |
| Property plant and equipment | | 3,166 | | 4,108 |
| Intangible assets - customer relationships | | 15,700 | | 20,371 |
| Accounts payable and accrued liabilities | | (18,314) | | (23,762) |
| Estimated identifiable net assets acquired | | 66,105 | | 85,772 |
| Goodwill | | 40,744 | | 52,865 |
| Estimated net assets acquired | $ | 106,849 | $ | 138,637 |

The goodwill of $52.9 million (US$40.7 million) is attributable primarily to the skills and talent of Rugby's workforce, and synergies expected to be achieved in respect of purchasing power with vendors, increases in market share, and operational efficiencies related to the combined operations. The goodwill is deductible for tax purposes.

The intangible asset of $20.4 million (US$15.7 million) represents the value of customer relationships acquired and is being amortized over 10 years, which is the period the Company expects to benefit from these relationships. The intangible asset is deductible for tax purposes.

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

Had the Rugby Acquisition occurred on January 1, 2016 management estimates that the Company’s consolidated sales would have been approximately $251.1 million and profit before tax would have been approximately $10.4 million for the three month period ended March 31, 2016. Included in these condensed consolidated interim financial statements for the three month period ended March 31, 2017 are sales of $93.7 million (US$71.0 million) and profit before tax of $2.6 million (US$2.0 million) relating to Rugby.

(b) Eagle Plywood and Lumber acquisition

On March 13, 2017, the Company acquired through one of its wholly owned subsidiaries substantially all of the assets and assumed certain liabilities of Eagle Plywood and Lumber ("Eagle") for a base purchase price of US$0.4 million plus up to an additional US$0.2 million subject to future sales performance.

Eagle is a single site wholesale distributor located in Dallas, Texas distributing architectural grade building products to customers that supply end-products to the residential and commercial construction markets. The acquisition has been accounted for as a business combination using the acquisition method, with the Company being the acquirer and Eagle being the acquiree, and where the assets acquired and liabilities assumed are recorded at their fair values at the acquisition date.

(Tabular amounts expressed in thousands of Canadian dollars)

## 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:

| | | March 31, 2017 | | December 31, 2016 |
|---|---|---|---|---|
| Cash | $ | (357) | $ | (766) |
| Bank indebtedness | | 109,807 | | 97,886 |
| Shareholder's equity | | 230,829 | | 225,999 |
| Total capitalization | $ | 340,279 | $ | 323,119 |

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 March 31, 2017 and December 31, 2016, 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 month period ended March 31, 2017.

On March 17, 2017, the Company declared a cash dividend of $0.0625 per common share to shareholders of record as of April 17, 2017. The dividend was paid to shareholders on April 28, 2017. On May 10, 2017, the Company declared a cash dividend of $0.0625 per common share to shareholders of record as of July 17, 2017, to be paid on July 28, 2017.

(Tabular amounts expressed in thousands of Canadian dollars)

## 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.

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Trade accounts receivable - Canada | $ 16,723 | $ 14,246 |
| Trade accounts receivable - United States | 94,150 | 81,776 |
| Sundry receivable | 2,283 | 2,417 |
| Current portion of non-current receivables | 932 | 1,133 |
| | 114,088 | 99,572 |
| Less: | | |
| Allowance for credit loss | 5,260 | 5,038 |
| | $ 108,828 | $ 94,534 |
| Non-current receivables: | | |
| Employee housing loans | $ 392 | $ 424 |
| Customer notes | 651 | 758 |
| Security deposits | 1,322 | 1,329 |
| | 2,365 | 2,511 |
| Less: | | |
| Current portion, included in accounts receivable | 932 | 1,133 |
| | $ 1,433 | $ 1,378 |

The aging of trade receivables is:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Current | $ 87,401 | $ 70,936 |
| 1 - 30 days past due | 15,186 | 17,467 |
| 31 - 60 days past due | 4,494 | 4,957 |
| 60+ days past due | 3,792 | 2,662 |
| | $ 110,873 | $ 96,022 |

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, 2017 was $5.3 million (December 31, 2016 - $5.0 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, 2017 was $0.3 million which equates to 0.1% of sales (March 31, 2016 - $0.4 million, being 0.3% of sales).

(Tabular amounts expressed in thousands of Canadian dollars)

## 7. Inventories:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Raw materials | $ 1,747 | $ 1,779 |
| Work in process | 5,082 | 5,021 |
| Goods in-transit | 8,292 | 10,927 |
| Finished goods: | | |
| Lumber | 43,366 | 43,279 |
| Sheet goods | 82,460 | 76,224 |
| Architectural and other | 28,464 | 27,317 |
| | $ 169,411 | $ 164,547 |

The Company regularly reviews and assesses the condition and value of its inventories and records write-downs to net realizable value as necessary.

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

| | Three months ended | |
|---|---|---|
| | March 31, 2017 | March 31, 2016 |
| Inventory write-downs, included in cost of goods sold | $ 430 | $ 354 |
| Cost of inventory sold | 199,973 | 124,773 |
| Other cost of goods sold | 8,849 | 4,602 |
| Total cost of goods sold | $ 208,822 | $ 129,375 |

## 8. Bank indebtedness:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Checks issued in excess of funds on deposit | $ 1,090 | $ 480 |
| Credit facility, Hardwoods LP | 11,359 | 12,546 |
| Credit facility, Hardwoods USLP (March 31, 2017 - US$73,394 December 31, 2016 - US$63,398) | 97,358 | 84,860 |
| | $ 109,807 | $ 97,886 |

Bank indebtedness consists of cheques 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 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.

**8. Bank indebtedness (continued):**

*Hardwoods LP Credit Facility ("LP Credit Facility")*

In February 2017 the LP Credit Facility was amended to increase the amount made available under the facility from $20.0 million to $25.0 million. The LP Credit Facility matures in August 2021. The amount made available under the LP Credit Facility 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 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 March 31, 2017, the LP Credit Facility has unused availability of $12.8 million, before cheques issued in excess of funds on deposit of $1.1 million (December 31, 2016 - $6.9 million, cheques issued in excess of funds on deposit - $0.5 million).

*Hardwoods USLP Credit Facility ("USLP Credit Facility")*

In July 2016, in connection with the closing of the Rugby Acquisition, a subsidiary of the Company entered into a new USLP Credit Facility with its lender, and has made the funds available to Hardwoods USLP. 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 certain of the Company's subsidiaries and replaced 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 financial covenants under the USLP Credit Facility include, among others, a springing fixed charge coverage ratio of 1.0 to 1, triggered if excess availability under the USLP Credit Facility falls below 10% of the USLP Credit Facility at any time.

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.

At March 31, 2017, the USLP Credit Facility has unused availability of $50.1 million (US$37.7 million), before cheques issued in excess of funds on deposit of nil. At December 31, 2016, the USLP Credit Facility had unused availability of $50.9 million (US$37.9 million), before cheques issued in excess of funds on deposit of nil.

The Company has a letter of credit outstanding at March 31, 2017 and December 31, 2016 totaling $0.8 million (US$0.6 million) against the USLP Credit Facility to support self-insured benefit claims.

(Tabular amounts expressed in thousands of Canadian dollars)

## 9. Share capital:

(a) Share capital:

A continuity of share capital is as follows:

| | Shares | | Total |
|---|---|---|---|
| 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 | | 54,434 |
| Issued concurrent with the Rugby acquisition (note 4(a)) | 563,542 | | 9,091 |
| Issued pursuant to long term incentive plan | 58,607 | | 1,162 |
| Deferred income tax on share issue costs | — | | 816 |
| Share adjustment | 2 | | — |
| Balance at December 31, 2016 | 21,350,572 | | 112,362 |
| Issued pursuant to long term incentive plan | 13,035 | | 156 |
| Balance at March 31, 2017 | 21,363,607 | $ | 112,518 |

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 Rugby Acquisition (note 4(a)) and issued 3,966,350 common shares as part of the financing arrangement related to the Rugby 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 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 Rugby 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.

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

A continuity of the LTIP Shares outstanding is as follows:

| | Performance Shares | Restricted Shares |
|---|---|---|
| Balance at December 31, 2015 | 49,209 | 86,827 |
| LTIP shares issued during the year | 20,502 | 53,166 |
| LTIP shares forfeited during the year | (2,763) | (8,292) |
| LTIP shares settled | (8,347) | (58,040) |
| Balance at December 31, 2016 | 58,601 | 73,661 |
| LTIP shares forfeited during the period | (10,975) | (2,119) |
| LTIP shares settled by exchange for free-trading Shares | (13,714) | — |
| Balance at March 31, 2017 | 33,912 | 71,542 |

(Tabular amounts expressed in thousands of Canadian dollars)

## 9. Share capital (continued):

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

Non-cash LTIP compensation expense of $239,855 was recognized in the condensed consolidated interim statement of comprehensive income for the three month period ended March 31, 2017 (March 31, 2016 - $286,945). 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 March 31, 2017 of $7.9 million (March 31, 2016 - $4.6 million). The weighted average number of common shares outstanding in each of the reporting periods was as follows:

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| Issued ordinary shares at beginning of the period | 21,350,572 | 16,762,071 |
| Effect of shares issued during the period pursuant to long-term incentive plan | 145 | 183 |
| Weighted average common shares - basic | 21,350,717 | 16,762,254 |
| Effect of dilutive securities: | | |
| Long-term incentive plan | 97,529 | 139,233 |
| Weighted average common shares - diluted | 21,448,246 | 16,901,487 |

## 10. Finance income and expense:

| | Note | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|---|---|---|---|
| Finance expense: | | | |
| Interest on bank indebtedness | 8 | $ (663) | $ (247) |
| Accretion of finance lease obligation | | (35) | (27) |
| Foreign exchange losses | | — | (368) |
| Total finance expense | | (698) | (642) |
| Finance income: | | | |
| Interest on trade receivables, customer notes, and employee loans | 6 | 129 | 74 |
| Foreign exchange gain | | 30 | — |
| Total finance income | | 159 | 74 |
| Net finance expense | | $ (539) | $ (568) |

(Tabular amounts expressed in thousands of Canadian dollars)

## 11. Segment reporting:

Information about geographic areas is as follows:

| | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|---|---|---|
| Revenue from external customers: | | |
| Canada | $ 34,514 | $ 31,342 |
| United States | 222,584 | 126,071 |
| | $ 257,098 | $ 157,413 |

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Non-current assets[1]: | | |
| Canada | $ 1,461 | $ 1,552 |
| United States | 92,651 | 93,979 |
| | $ 94,112 | $ 95,531 |

[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.

## 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 insured, would be material in relation to the Company's condensed consolidated interim financial statements as at March 31, 2017.

*Decommissioning*

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

## 14. Subsequent Event:

On November 18, 2016 a trade case was filed in the United States by a coalition of U.S. plywood manufacturers (the "Petitioners") seeking the imposition of countervailing duties ("CVD") and antidumping duties ("AD") against Chinese hardwood plywood. On April 19, 2017 the US Department of Commerce ("Commerce") issued its preliminary determination regarding countervailing duties against hardwood plywood manufactured in China and imported into the United States. The preliminary stage of the CVD investigation conducted by Commerce concluded a preliminary duty rate of 9.89% will apply to manufacturers that the Company does business with.

**14. Subsequent Event (continued):**

The preliminary decision by Commerce gives rise to the application of retroactive duties on products that were imported 90 days prior to April 27. The Company estimates that duties of US$0.8 million will be payable on deposit to U.S. Customs related to products that were imported in the retroactive duty period. The duties that are payable on deposit will be accounted for when paid. Whether these retroactively applied duty deposits are later returned to the Company, or are affirmed and forfeited, is a decision that will be rendered at the end of the trade case process which is expected in late 2017.

The CVD rates announced by Commerce represent its preliminary CVD determinations only, and are subject to further investigation and revision (with the exception of the retroactive duties described in the paragraph above, which are not expected to change going forward). The final determination regarding CVD is expected to be issued by Commerce in November 2017.

Commerce is also conducting a separate investigation into antidumping duties and no AD duty determination has yet been made. Commerce is expected to announce their preliminary AD duty decision in June 2017, with their final AD duty decision announced in November 2017.