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

# HARDWOODS DISTRIBUTION INC.

Three and six month periods ended June 30, 2018 and 2017

# HARDWOODS DISTRIBUTION INC.
Unaudited Condensed Consolidated Interim Statements of Financial Position
(Expressed in thousands of Canadian dollars)

| | Note | June 30, 2018 | December 31, 2017 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash | | $ 1,640 | $ 313 |
| Accounts and other receivables | 6 | 125,598 | 97,263 |
| Income taxes receivable | | 1,185 | 1,582 |
| Inventories | 7 | 210,190 | 172,106 |
| Prepaid and other assets | | 6,902 | 5,268 |
| Total current assets | | 345,515 | 276,532 |
| Non-current assets: | | | |
| Non-current receivables | 6 | 1,466 | 1,359 |
| Property, plant and equipment | | 22,204 | 20,650 |
| Intangible assets | | 17,136 | 17,215 |
| Deferred income taxes | | 3,950 | 5,477 |
| Goodwill | | 54,170 | 51,670 |
| Total non-current assets | | 98,926 | 96,371 |
| Total assets | | $ 444,441 | $ 372,903 |
| **Liabilities** | | | |
| Current liabilities: | | | |
| Bank indebtedness | 8 | $ 128,599 | $ 91,146 |
| Accounts payable and accrued liabilities | | 45,408 | 38,588 |
| Finance lease obligation | | 1,342 | 1,281 |
| Dividend payable | 5 | 1,560 | 1,549 |
| Total current liabilities | | 176,909 | 132,564 |
| Non-current liabilities: | | | |
| Finance lease obligation | | 1,281 | 1,068 |
| Other liabilities | | 1,253 | 445 |
| Total non-current liabilities | | 2,534 | 1,513 |
| Total liabilities | | 179,443 | 134,077 |
| **Shareholders' equity** | | | |
| Share capital | 9(a) | 115,105 | 113,788 |
| Contributed surplus | | 104,355 | 105,426 |
| Retained earnings | | 24,945 | 9,919 |
| Accumulated other comprehensive income | | 20,593 | 9,693 |
| Shareholders' equity | | 264,998 | 238,826 |
| Total liabilities and shareholders' equity | | $ 444,441 | $ 372,903 |

Subsequent event (note 5)
Contingency (note 14)
The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Approved on behalf of the board of directors:

**(Signed) GRAHAM M. WILSON** Director  **(Signed) 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, 2018 | Three months ended June 30, 2017 | Six months ended June 30, 2018 | Six months ended June 30, 2017 |
|---|---|---|---|---|---|
| Sales | 11 | $ 298,172 | $ 277,545 | $ 568,927 | $ 536,821 |
| Cost of goods sold | 7 | (245,172) | (226,001) | (467,227) | (437,001) |
| Gross profit | | 53,000 | 51,544 | 101,700 | 99,820 |
| Operating expenses: | | | | | |
| Selling and distribution | | (28,192) | (26,914) | (56,709) | (53,318) |
| Administration | | (10,621) | (9,123) | (19,454) | (18,660) |
| | | (38,813) | (36,037) | (76,163) | (71,978) |
| Profit from operations | | 14,187 | 15,507 | 25,537 | 27,842 |
| Finance expense | 10 | (1,028) | (748) | (1,891) | (1,461) |
| Finance income | 10 | 195 | 107 | 425 | 266 |
| Net finance expense | | (833) | (641) | (1,466) | (1,195) |
| Profit before income taxes | | 13,354 | 14,866 | 24,071 | 26,647 |
| Income tax expense: | | | | | |
| Current | | (2,460) | (3,926) | (4,344) | (7,013) |
| Deferred | | (935) | (1,178) | (1,588) | (1,936) |
| | | (3,395) | (5,104) | (5,932) | (8,949) |
| Net Profit | | 9,959 | 9,762 | 18,139 | 17,698 |
| Other comprehensive income: | | | | | |
| Exchange differences translating foreign operations | | 4,905 | (5,261) | 10,900 | (6,976) |
| Total comprehensive income | | $ 14,864 | $ 4,501 | $ 29,039 | $ 10,722 |
| Basic net profit per share | 9(c) | $ 0.46 | $ 0.46 | $ 0.85 | $ 0.83 |
| Diluted net profit per share | 9(c) | $ 0.46 | $ 0.45 | $ 0.84 | $ 0.82 |

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, 2018 and 2017

| | Note | Share capital | Contributed surplus | Accumulated other comprehensive income - translation reserve | Retained earnings (deficit) | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2018 | | $ 113,788 | $ 105,426 | $ 9,693 | $ 9,919 | $ 238,826 |
| Share based compensation expense | 9(b) | — | 1,062 | — | — | 1,062 |
| Shares issued pursuant to LTIP | | 1,317 | (1,317) | — | — | — |
| Shares reclassified to liabilities | | — | (816) | — | — | (816) |
| Profit for the period | | — | — | — | 18,139 | 18,139 |
| Dividends declared | | — | — | — | (3,113) | (3,113) |
| Translation of foreign operations | | — | — | 10,900 | — | 10,900 |
| Balance at June 30, 2018 | | $ 115,105 | $ 104,355 | $ 20,593 | $ 24,945 | $ 264,998 |
| Balance at January 1, 2017 | | $ 112,362 | $ 104,333 | $ 23,562 | $ (14,258) | $ 225,999 |
| Share based compensation expense | 9(b) | — | 1,055 | — | — | 1,055 |
| Shares issued pursuant to LTIP | | 156 | (156) | — | — | — |
| Shares reclassified to liabilities | | — | (287) | — | — | (287) |
| Profit for the period | | — | — | — | 17,698 | 17,698 |
| Dividends declared | | — | — | — | (2,680) | (2,680) |
| Translation of foreign operations | | — | — | (6,976) | — | (6,976) |
| Balance at June 30, 2017 | | $ 112,518 | $ 104,945 | $ 16,586 | $ 760 | $ 234,809 |

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

# HARDWOODS DISTRIBUTION INC.

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

| | Note | Three months ended June 30, 2018 | Three months ended June 30, 2017 | Six months ended June 30, 2018 | Six months ended June 30, 2017 |
|---|---|---|---|---|---|
| Cash flow from operating activities: | | | | | |
| Profit for the period | | $ 9,959 | $ 9,762 | $ 18,139 | $ 17,698 |
| Adjustments for: | | | | | |
| Depreciation and amortization | | 1,689 | 1,709 | 3,313 | 3,392 |
| Gain on sale of property, plant and equipment | | (57) | (57) | (93) | (81) |
| Gain on bargain purchase | 4(a) | (92) | — | (92) | — |
| Share-based compensation expense | 9(b) | 676 | 900 | 1,242 | 1,032 |
| Income tax expense | | 3,395 | 5,104 | 5,932 | 8,949 |
| Net finance expense | 10 | 833 | 641 | 1,466 | 1,195 |
| Interest received | | 114 | 97 | 249 | 226 |
| Interest paid | | (969) | (728) | (1,556) | (1,233) |
| Income taxes paid | | (3,961) | (8,902) | (3,879) | (8,934) |
| | | 11,587 | 8,526 | 24,721 | 22,244 |
| Changes in non-cash working capital: | | | | | |
| Accounts receivable | | (5,020) | (5,180) | (22,359) | (19,907) |
| Inventories | | (15,212) | (231) | (26,396) | (5,698) |
| Prepaid expenses | | (269) | (1,679) | (1,419) | (1,736) |
| Accounts payable and accrued liabilities | | 6,092 | 4,253 | 4,505 | 193 |
| | | (14,409) | (2,837) | (45,669) | (27,148) |
| Net cash (used in) provided by operating activities | | (2,822) | 5,689 | (20,948) | (4,904) |
| Cash flow from financing activities: | | | | | |
| Increase (decrease) in bank indebtedness | | 11,703 | (2,561) | 32,495 | 10,025 |
| Principle payments on finance lease obligation | | (350) | (287) | (684) | (573) |
| Note repayment | | (14) | (105) | (29) | (306) |
| Dividends paid to shareholders | 5 | (1,553) | (1,345) | (3,102) | (2,677) |
| Net cash provided by (used in) financing activities | | 9,786 | (4,298) | 28,680 | 6,469 |
| Cash flow from investing activities: | | | | | |
| Additions to property, plant and equipment | | (1,096) | (515) | (1,764) | (836) |
| Proceeds on disposal of property, plant and equipment | | 153 | 172 | 220 | 259 |
| Business acquisition | 4 | (4,843) | — | (4,843) | (476) |
| Additions to internally generated software | | (42) | — | (114) | — |
| Payments received on non-current receivables | | 91 | 123 | 96 | 250 |
| Net cash used in investing activities | | (5,737) | (220) | (6,405) | (803) |
| Increase in cash | | 1,227 | 1,171 | 1,327 | 762 |
| Cash, beginning of the period | | 413 | 357 | 313 | 766 |
| Cash, end of the period | | $ 1,640 | $ 1,528 | $ 1,640 | $ 1,528 |
| Supplementary information: | | | | | |
| Property, plant and equipment acquired under finance leases, net of disposals | | $ 477 | $ 251 | $ 871 | $ 469 |
| Future cash settlement of LTIP's in accrued liabilities and non-current liabilities | | 816 | — | 816 | 287 |

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 “HDI.” The Company operates a network of 62 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, 2017.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 8, 2018.

(b) Basis of measurement:

These condensed consolidated interim financial statements have been prepared on the historical cost basis. Certain comparative figures have been restated to conform with the current years presentation.

(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, 2017.

**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, 2017.

(a) New accounting policies:

IFRS 15, *Revenue from Contracts with Customers (“IFRS 15”)*

Effective January 1, 2018, the Company adopted IFRS 15 which replaced 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.

The adoption of this standard did not significantly impact the measurement of revenue generated from the sale of the Company's products to customers and therefore, had no impact on earnings. The adoption of this standard did impact the presentation of freight recovered which is now included in sales instead of cost of goods sold on the condensed consolidated interim statements of comprehensive income. For the three and six month periods ended June 30, 2018, the freight recovered was $2.3 million (June 30, 2017 - $2.3 million) and $4.4 million (June 30, 2017 - $4.5 million), respectively. Comparative figures have been reclassified to conform with the current period presentation.

The Company's revenue recognition accounting policy is that revenue from the sale of architectural grade building products is measured based on the consideration specified in the invoice with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue at a point in time when control of the goods is transferred to the customer. The Company satisfies its performance obligation and control of the goods is transferred to the customer generally when the customer has taken delivery of the goods. No component of the transaction price is allocated to unsatisfied performance obligations.

IFRS 9, *Financial Instruments (“IFRS 9”)*

Effective January 1, 2018, the Company adopted IFRS 9 which replaced 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. IFRS 9 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 adoption of IFRS 9 did not have an impact on the consolidated financial statements given the nature of the Company's operations and the types of financial instruments that it currently holds. There was no change in the classification or measurement of the Company's financial assets and liabilities with the exception of the use of the expected credit loss model to determine the allowance for credit loss for trade accounts receivable. The application of the expected credit loss model to determine the allowance for credit loss had a nominal effect on the December 31, 2017 consolidated financial statements and therefore prior period amounts have not been restated.

The Company's new policy is the allowance for credit loss is determined using both specific identification of customer accounts and the expected credit loss model. The Company uses an estimate of the net recoverable amount for specific customer accounts it has identified and the expected credit loss model for the remaining customer accounts based on historical experience of uncollectable amounts. Accounts that are considered uncollectable are written off.

**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 June 30, 2018, and have not been applied in preparing these condensed consolidated interim financial statements. The following pronouncement is considered by the Company to be the most significant of several pronouncements that may affect the consolidated financial statements in future periods.

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 financial position with a corresponding lease obligation. The Company has determined the adoption of IFRS 16 will have a material impact on the consolidated financial statements. As at December 31, 2017, the Company's future minimum lease payments under operating leases totaled $83.9 million. The Company continues to assess the impact of adopting this standard on its consolidated financial statements.

**4. Business acquisitions:**

(a) Atlanta Hardwood Corporation acquisition

On June 11, 2018, the Company acquired through one of its wholly owned subsidiaries certain of the distribution assets of Atlanta Hardwoods Corporation ("Atlanta") for a total value of $4.8 million (US$3.7 million). The fair value of Atlanta's identified assets acquired consisted of accounts and other receivables of $1.4 million (US$1.1 million), inventories of $3.3 million (US $2.6 million), property, plant and equipment of $0.4 million (US$0.3 million) and accrued liabilities of $0.2 million (US$0.1 million). The fair value of the assets acquired exceeded the purchase price by $0.1 million (US$0.1 million) and this excess has been recorded as income in the consolidated interim statement of comprehensive income.

The distribution assets acquired include Hardwoods of Atlanta, LLC, Hardwoods of North Georgia and Hardwoods of Alabama, LLC, operating under the trade name Hardwoods Incorporated.

(b) Downes & Reader Hardwood Company Inc. acquisition

On July 17, 2017, the Company acquired through one of its wholly owned subsidiaries substantially all of the assets and assumed certain liabilities of Downs & Reader Hardwood Company Inc. ("D&R") for a total value of $7.4 million (US$5.9 million). The fair value of D&R's identified assets acquired and liabilities assumed consisted of accounts and other receivables of $1.4 million (US$1.1 million), inventories of $7.8 million (US$6.2 million), property, plant and equipment of $1.9 million (US$1.5 million) and accounts payable and accrued liabilities of $3.7 million (US$2.9 million).

D&R is a distributor of hardwood lumber with four locations in the US Northeast and services both the wholesale and retail customer segments. The D&R acquisition was accounted for as a business combination using the acquisition method, with the Company being the acquirer and D&R being the acquiree, and where the assets acquired and liabilities assumed were recorded at their fair values at the acquisition date.

(Tabular amounts expressed in thousands of Canadian dollars)

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

(c) 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$0.5 million.

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 was 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 were recorded at their fair values at the acquisition date.

**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:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Cash | $ (1,640) | $ (313) |
| Bank indebtedness | 128,599 | $ 91,146 |
| Shareholder's equity | 264,998 | 238,826 |
| Total capitalization | $ 391,957 | $ 329,659 |

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 June 30, 2018 and December 31, 2017, and accordingly there were no restrictions on distributions arising from non-compliance with financial covenants.

Dividends are one way the Company manages its capital. Dividends are declared having given consideration to a variety of factors including the outlook for the business and financial leverage. There were no changes to the Company's approach to capital management during the three and six month periods ended June 30, 2018.

On May 10, 2018, the Company declared a cash dividend of $0.0725 per common share to shareholders of record as of July 16, 2018. The dividend was paid to shareholders on July 27, 2018. On August 8, 2018, the Company declared a cash dividend of $0.08 per common share to shareholders of record as of October 15, 2018, to be paid on October 26, 2018.

(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.

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Trade accounts receivable - Canada | $ 16,802 | $ 13,458 |
| Trade accounts receivable - United States | 106,767 | 79,880 |
| Sundry receivable | 5,546 | 6,850 |
| Current portion of non-current receivables | 1,196 | 1,255 |
| | 130,311 | 101,443 |
| Less: | | |
| Allowance for credit loss | 4,713 | 4,180 |
| | $ 125,598 | $ 97,263 |
| Non-current receivables: | | |
| Employee housing loans | $ 222 | $ 257 |
| Customer notes | 843 | 816 |
| Security deposits | 1,597 | 1,541 |
| | 2,662 | 2,614 |
| Less: | | |
| Current portion, included in accounts receivable | 1,196 | 1,255 |
| | $ 1,466 | $ 1,359 |

The aging of trade receivables is:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Current | $ 93,535 | $ 65,635 |
| 1 - 30 days past due | 21,392 | 19,075 |
| 31 - 60 days past due | 4,472 | 5,204 |
| 60+ days past due | 4,170 | 3,424 |
| | $ 123,569 | $ 93,338 |

The Company determines its allowance for credit loss using both specific identification of customer accounts and the expected credit loss model. The Company uses an estimate of the net recoverable amount for specific customer accounts it has identified and the effective credit loss model for the remaining customer accounts based on historical experience of uncollectable amounts. Accounts that are considered uncollectable are written off. The total allowance at June 30, 2018 was $4.7 million (December 31, 2017 - $4.2 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, 2018 was $0.1 million which equates to 0.04% of sales (three month period ended June 30, 2017 - $0.2 million, being 0.1% of sales). For the six month period ended June 30, 2018, net bad debt expense was $0.2 million being 0.04% of sales (six month period ended June 30, 2017 - $0.5 million, being 0.1% of sales).

(Tabular amounts expressed in thousands of Canadian dollars)

## 7. Inventories:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Raw materials | $ 1,305 | $ 1,306 |
| Work in process | 6,041 | 4,950 |
| Goods in-transit | 11,797 | 7,947 |
| Finished goods: | | |
| Lumber | 57,306 | 47,807 |
| Sheet goods | 98,865 | 77,922 |
| Specialty | 34,876 | 32,174 |
| | $ 210,190 | $ 172,106 |

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 | | Six months ended | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Inventory write-downs, included in cost of goods sold | $ 601 | $ 439 | $ 1,060 | $ 905 |
| Cost of inventory sold | 232,734 | 214,358 | 442,840 | 414,331 |
| Other cost of goods sold | 12,438 | 11,643 | 24,387 | 22,670 |
| Total cost of goods sold | $ 245,172 | $ 226,001 | $ 467,227 | $ 437,001 |

## 8. Bank indebtedness:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Cheques issued in excess of funds on deposit | $ 1,377 | $ 866 |
| Credit facility, Hardwoods LP | 9,564 | 7,270 |
| Credit facility, Hardwoods USLP (June 30, 2018 - US$89,483 December 31, 2017 - US$66,323) | 117,658 | 83,010 |
| | $ 128,599 | $ 91,146 |

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 II ("Hardwoods USLP II").

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.

(Tabular amounts expressed in thousands of Canadian dollars)

**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 June 30, 2018, the LP Credit Facility has unused availability of $15.4 million, before cheques issued in excess of funds on deposit of $1.4 million (December 31, 2017 - $13.5 million, cheques issued in excess of funds on deposit - $0.9 million).

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

The USLP II Credit Facility consists of a revolving credit facility of up to US$125.0 million with the amount made available limited to the extent of 85% of the value of eligible accounts receivable, and 60% of the value of eligible inventory plus the lesser of (i) 55% of the book value of eligible in-transit inventory or (ii) $2.0 million. The USLP II Credit Facility matures in July 2021. The USLP II Credit Facility is guaranteed by certain of the Company's subsidiaries.

The financial covenants under the USLP II Credit Facility include, among others, a springing fixed charge coverage ratio of 1.0 to 1, triggered if unused availability under the USLP II Credit Facility falls below US$12.5 million 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 June 30, 2018, the USLP II Credit Facility has unused availability of $45.2 million (US$34.3 million), before cheques issued in excess of funds on deposit of nil. At December 31, 2017, the USLP II Credit Facility had unused availability of $53.2 million (US$42.4 million), before cheques issued in excess of funds on deposit of nil.

The Company has letters of credit outstanding at June 30, 2018 totaling $1.5 million (US$1.2 million) (December 31, 2017 - $1.3 million (US$1.0 million)) against the USLP II Credit Facility to support self-insured benefit claims.

**9. Share capital:**

(a) Share capital

A continuity of share capital is as follows:

| | Shares | | Total |
|---|---|---|---|
| Balance at December 31, 2016 | 21,350,572 | $ | 112,362 |
| Issued pursuant to long term incentive plan | 69,413 | | 1,426 |
| Balance at December 31, 2017 | 21,419,985 | | 113,788 |
| Issued pursuant to long term incentive plan | 45,509 | | 1,317 |
| Balance at June 30, 2018 | 21,465,494 | $ | 115,105 |

(Tabular amounts expressed in thousands of Canadian dollars)

**9. Share capital (continued):**

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

A continuity of the LTIP Shares outstanding is as follows:

| | Performance Shares | Restricted Shares |
|---|---|---|
| Balance at December 31, 2016 | 58,601 | 73,661 |
| LTIP shares issued during the year | 87,594 | 128,197 |
| LTIP shares forfeited during the year | (10,975) | (2,119) |
| LTIP shares settled | (13,714) | (83,089) |
| Balance at December 31, 2017 | 121,506 | 116,650 |
| LTIP shares issued during the period | 34,239 | 70,734 |
| LTIP shares settled | (43,548) | — |
| Balance at June 30, 2018 | 112,197 | 187,384 |

LTIP compensation expense of $0.7 million was recognized in the condensed consolidated interim statement of comprehensive income for the three month period ended June 30, 2018 (June 30, 2017 - $0.9 million) and $1.2 for the six month period ended June 30, 2018 (June 30, 2017 - $1.0 million). The equity classified portion of the LTIP compensation expense was $1.1 million (June 30, 2017 - $1.0 million) and the liability classified expense was $0.1 million as at June 30, 2018 (June 30, 2017 - nil).

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. The liability associated with the cash-settled awards is recorded in accounts payable and accrued liabilities, for amounts expected to be settled within one year, and in other liabilities for amounts to be settled after one year.

(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 June 30, 2018 of $10.0 million (June 30, 2017 - $9.8 million) and six month period ended June 30, 2018 of $18.1 million (June 30, 2017 - $17.7 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, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Issued ordinary shares at beginning of the period | 21,465,494 | 21,363,607 | 21,419,985 | 21,350,572 |
| Effect of shares issued during the period pursuant to long-term incentive plan | — | — | 23,635 | 6,626 |
| Weighted average common shares - basic | 21,465,494 | 21,363,607 | 21,443,620 | 21,357,198 |
| Effect of dilutive securities: | | | | |
| Long-term incentive plan | 138,692 | 184,929 | 134,988 | 178,574 |
| Weighted average common shares - diluted | 21,604,186 | 21,548,536 | 21,578,607 | 21,535,772 |

(Tabular amounts expressed in thousands of Canadian dollars)

## 10. Finance income and expense:

| | | Three months ended | | Six months ended | |
|---|---|---|---|---|---|
| | Note | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Finance expense: | | | | | |
| Interest on bank indebtedness | 8 | $ (972) | $ (703) | $ (1,783) | $ (1,366) |
| Accretion of finance lease obligation | | (56) | (45) | (108) | (95) |
| Total finance expense | | (1,028) | (748) | (1,891) | (1,461) |
| Finance income: | | | | | |
| Interest on trade receivables, customer notes, and employee loans | 6 | 114 | 97 | 249 | 226 |
| Foreign exchange gain | | 81 | 10 | 176 | 40 |
| Total finance income | | 195 | 107 | 425 | 266 |
| Net finance expense | | $ (833) | $ (641) | $ (1,466) | $ (1,195) |

## 11. Segment reporting:

Information about geographic areas is as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Revenue from external customers: | | | | |
| Canada | $ 36,997 | $ 35,527 | $ 72,663 | $ 70,279 |
| United States | 261,175 | 242,018 | 496,264 | 466,542 |
| | $ 298,172 | $ 277,545 | $ 568,927 | $ 536,821 |

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Non-current assets[1]: | | |
| Canada | $ 1,841 | $ 1,616 |
| United States | 91,669 | 87,919 |
| | $ 93,510 | $ 89,535 |

[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 June 30, 2018.

**14. Contingency:**

On December 1, 2017, the International Trade Commission (a US government body) affirmed final countervailing duties ("CVD") and antidumping duties ("AD") of 22.98% and 183.36%, respectively on hardwood plywood imported from China. In 2017 the Company had paid $3.5 million in AD deposits to US Customs and Border Patrol ("CBP").

As at June 30, 2018 the Company has received $0.6 million in refunded AD deposits, and expects to receive another $2.0 million during the third quarter of 2018. As at June 30, 2018, $2.0 million in AD deposits are included within accounts and other receivables.

As it relates to the remaining $0.9 million, subsequent to June 30, 2018 CBP indicated that these amounts may not be refunded. The Company is investigating possible courses of action to recover these deposits. In the meantime, an allowance of $0.9 million has been recorded in these financial statements relating to this receivable.