

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

HARDWOODS DISTRIBUTION INC.

Three and nine month periods ended September 30, 2019 and 2018

HARDWOODS DISTRIBUTION INC.

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

	Note	September 30, 2019	Restated (Note 3) December 31, 2018	Restated (Note 3) January 1, 2018
Assets				
Current assets:				
Cash		\$ 7,348	\$ 1,547	\$ 313
Accounts and other receivables	6	119,744	112,005	97,263
Income taxes receivable		—	789	1,582
Inventories	7	203,708	223,785	172,106
Prepaid and other assets		6,546	4,594	5,268
Total current assets		337,346	342,720	276,532
Non-current assets:				
Non-current receivables	6	2,138	1,857	1,359
Property, plant and equipment		19,437	20,357	18,044
Right of use assets	3	84,169	97,241	82,816
Intangible assets		14,919	16,828	17,215
Deferred income taxes		5,204	6,844	8,910
Goodwill		57,842	56,120	51,670
Total non-current assets		183,709	199,247	180,014
Total assets		\$ 521,055	\$ 541,967	\$ 456,546
Liabilities				
Current liabilities:				
Bank indebtedness	8	\$ 91,838	\$ 112,940	\$ 91,146
Accounts payable and accrued liabilities		42,408	39,216	38,056
Income taxes payable		1,566	—	—
Lease obligation	3	23,642	24,373	16,595
Dividend payable	5	1,708	1,717	1,549
Total current liabilities		161,162	178,246	147,346
Non-current liabilities:				
Lease obligation	3	75,596	88,100	79,366
Other liabilities		414	182	445
Total non-current liabilities		76,010	88,282	79,811
Total liabilities		237,172	266,528	227,157
Shareholders' equity				
Share capital	9(a)	113,330	116,524	113,788
Contributed surplus		105,562	104,467	105,426
Retained earnings		43,515	25,653	482
Accumulated other comprehensive income		21,476	28,795	9,693
Shareholders' equity		283,883	275,439	229,389
Total liabilities and shareholders' equity		\$ 521,055	\$ 541,967	\$ 456,546

Subsequent events (note 4(a), 5, 8)

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

Approved on behalf of the board of directors:

(Signed) JIM C. MACAULAY 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		Nine months ended	
		September 30, 2019	Restated (Note 3) September 30, 2018	September 30, 2019	Restated (Note 3) September 30, 2018
Sales	11	\$ 292,459	\$ 290,354	\$ 884,091	\$ 859,281
Cost of goods sold	7	(239,178)	(238,761)	(724,759)	(705,645)
Gross profit		53,281	51,593	159,332	153,636
Operating expenses:					
Selling and distribution		(31,168)	(29,867)	(93,289)	(84,940)
Administration		(8,026)	(8,496)	(28,265)	(27,950)
		(39,194)	(38,363)	(121,554)	(112,890)
Profit from operations		14,087	13,230	37,778	40,746
Finance expense	10	(2,170)	(2,530)	(7,028)	(6,564)
Finance income	10	273	120	626	462
Net finance expense		(1,897)	(2,410)	(6,402)	(6,102)
Profit before income taxes		12,190	10,820	31,376	34,644
Income tax expense:					
Current		(2,526)	(2,388)	(6,814)	(6,732)
Deferred		(810)	(470)	(1,563)	(1,997)
		(3,336)	(2,858)	(8,377)	(8,729)
Net Profit		8,854	7,962	22,999	25,915
Other comprehensive income:					
Exchange differences translating foreign operations		2,947	(3,933)	(7,319)	6,628
Total comprehensive income		\$ 11,801	\$ 4,029	\$ 15,680	\$ 32,543
Basic net profit per share	9(c)	\$ 0.42	\$ 0.37	\$ 1.07	\$ 1.21
Diluted net profit per share	9(c)	\$ 0.41	\$ 0.37	\$ 1.06	\$ 1.20

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

HARDWOODS DISTRIBUTION INC.

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

Nine month periods ended September 30, 2019 and 2018

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income - translation reserve	Retained earnings (deficit)	Total
Balance at January 1, 2019		\$ 116,524	\$ 104,467	\$ 29,411	\$ 35,530	\$ 285,932
Impact of changes in accounting policy	3	—	—	(616)	(9,877)	(10,493)
Restated balance at January 1, 2019	3	116,524	104,467	28,795	25,653	275,439
Share based compensation expense	9(b)	—	1,095	—	—	1,095
Shares repurchased	9(a)	(3,194)	—	—	—	(3,194)
Profit for the period		—	—	—	22,999	22,999
Dividends declared		—	—	—	(5,137)	(5,137)
Translation of foreign operations		—	—	(7,319)	—	(7,319)
Balance at September 30, 2019		\$ 113,330	\$ 105,562	\$ 21,476	\$ 43,515	\$ 283,883
Balance at January 1, 2018		\$ 113,788	\$ 105,426	\$ 9,693	\$ 9,919	\$ 238,826
Impact of changes in accounting policy	3	—	—	—	(9,437)	(9,437)
Restated balance at January 1, 2018	3	113,788	105,426	9,693	482	229,389
Share based compensation expense	9(b)	—	1,847	—	—	1,847
Shares issued pursuant to LTIP		1,317	(1,317)	—	—	—
Shares reclassified to liabilities		—	(816)	—	—	(816)
Profit for the period		—	—	—	25,915	25,915
Dividends declared		—	—	—	(4,830)	(4,830)
Translation of foreign operations		—	—	6,628	—	6,628
Balance at September 30, 2018		\$ 115,105	\$ 105,140	\$ 16,321	\$ 21,567	\$ 258,133

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

HARDWOODS DISTRIBUTION INC.

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

	Note	Three months ended		Nine months ended	
		September 30, 2019	Restated (Note 3) September 30, 2018	September 30, 2019	Restated (Note 3) September 30, 2018
Cash flow from operating activities:					
Profit for the period		\$ 8,854	\$ 7,962	\$ 22,999	\$ 25,915
Adjustments for:					
Depreciation and amortization		6,636	6,504	20,267	18,896
Gain on sale of property, plant and equipment		(67)	(71)	(281)	(164)
Gain on bargain purchase	4(c)	—	—	—	(92)
Share-based compensation expense	9(b)	574	1,111	1,719	2,353
Income tax expense		3,336	2,858	8,377	8,729
Net finance expense	10	1,897	2,411	6,402	6,103
Interest received		211	120	626	369
Interest paid		(989)	(1,214)	(3,056)	(2,770)
Income taxes paid		(1,591)	(1,541)	(4,465)	(5,421)
		18,861	18,140	52,588	53,918
Changes in non-cash working capital:					
Accounts and other receivables		6,897	2,323	(9,722)	(20,036)
Inventories		2,432	(12,518)	15,526	(38,914)
Prepaid expenses		(1,841)	(1,863)	(2,045)	(3,282)
Accounts payable and accrued liabilities		(894)	(2,212)	3,111	1,852
		6,594	(14,270)	6,870	(60,380)
Net cash (used in) provided by operating activities		25,455	3,870	59,458	(6,462)
Cash flow from financing activities:					
Increase (decrease) in bank indebtedness		(11,038)	2,868	(18,358)	35,363
Principle payments on finance lease obligation		(6,386)	(5,930)	(19,229)	(17,230)
Note repayment		—	(30)	—	(59)
Share repurchases		(795)	—	(3,194)	—
Dividends paid to shareholders	5	(1,706)	(1,560)	(5,146)	(4,662)
Net cash provided by (used in) financing activities		(19,925)	(4,652)	(45,927)	13,412
Cash flow from investing activities:					
Additions to property, plant and equipment		(1,076)	(619)	(2,457)	(2,383)
Proceeds on disposal of property, plant and equipment		141	143	513	363
Business acquisition	4	—	—	(4,824)	(4,843)
Additions to internally generated software		(80)	(37)	(195)	(151)
Payments received on non-current receivables		(552)	(20)	(767)	76
Net cash used in investing activities		(1,567)	(533)	(7,730)	(6,938)
Increase in cash		3,963	(1,315)	5,801	12
Cash, beginning of the period		3,385	1,640	1,547	313
Cash, end of the period		\$ 7,348	\$ 325	\$ 7,348	\$ 325
Supplementary information:					
Property, plant and equipment acquired under finance leases, net of disposals		\$ 2,772	\$ 1,952	\$ 5,423	\$ 26,105
Future cash settlement of LTIP's in accrued liabilities and non-current liabilities		—	—	—	816

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

HARDWOODS DISTRIBUTION INC.

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

Three and nine month periods ended September 30, 2019 and 2018

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, 2018.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 8, 2019.

(b) Basis of measurement:

These condensed consolidated interim financial statements have been prepared on the historical cost basis. Comparative figures have been restated for IFRS 16 as discussed in note 3.

(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, 2018, except as discussed in Note 3.

HARDWOODS DISTRIBUTION INC.

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

Three and nine month periods ended September 30, 2019 and 2018

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, 2018, with the exception of new accounting policies adopted on January 1, 2019 related to the adoption of IFRS 16 Leases.

New accounting policy

Effective January 1, 2019, the Company adopted IFRS 16, eliminating the dual accounting model for lessees which distinguished 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 (ROU) 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. As a result of adopting IFRS 16, the Company's operating leases, which are principally comprised of its warehouse facilities and automobiles, are recorded in the statement of financial position as a lease obligation with a corresponding ROU asset.

Significant accounting policy

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assess whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

The Company has applied this approach to contracts entered into or changed on or after January 1, 2019.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

HARDWOODS DISTRIBUTION INC.

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

Three and nine month periods ended September 30, 2019 and 2018

3. Significant accounting policies (continued):

Significant accounting policy (continued)

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Company is reasonably certain to exercise;
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Some of the Company's leases of office buildings contain extension options exercisable up to one year before the end of the non-cancellable contract period. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

The Company leases many assets including buildings, automobiles and forklifts. Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

	Buildings	Automobiles	Forklifts	Total
2018				
Balance at January 1 (restated)	69,553	12,793	470	82,816
Additions	20,941	6,343	509	27,793
Disposals	—	(291)	—	(291)
Depreciation charge for the year (restated)	(15,147)	(4,600)	(196)	(19,943)
Foreign currency transaction	5,673	1,135	58	6,866
Balance at December 31	81,020	15,380	841	97,241
2019				
Balance at January 1	81,020	15,380	841	97,241
Additions	4,319	961	—	5,280
Disposals	—	(231)	—	(231)
Depreciation charge for the year	(12,114)	(3,514)	(170)	(15,796)
Foreign currency transaction	(2,113)	(187)	(24)	(2,325)
Balance at September 30	71,112	12,409	647	84,169

HARDWOODS DISTRIBUTION INC.

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

Three and nine month periods ended September 30, 2019 and 2018

3. Significant accounting policies (continued):

Significant accounting policy (continued)

Lease liabilities

	September 30, 2019	Restated December 31, 2018
Maturity analysis - contractual undiscounted cash flows		
Less than one year	24,291	25,171
One to five years	76,287	85,552
More than five years	11,618	18,128
Total undiscounted lease liabilities	112,196	128,850
Lease liabilities included in the statement of financial position	99,238	112,473
Current	23,642	24,373
Non-current	75,596	88,100

Transition

The Company has applied IFRS 16 using the retrospective approach, under which the comparative information presented for 2018 has been restated.

At transition, for leases classified as operating leases, lease liabilities were measured at the present value of the lease payments, discounted at the Company's incremental borrowing rate at the lease commencement date. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the lease commencement date.

On transition to IFRS 16, the Company elected to apply the practical expedient to use hindsight when determining the lease term if the contract contained options to extend or terminate the lease.

The Company leases a number of automobiles and forklifts. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

Impacts on transition

On transition to IFRS 16, the Company recognized additional right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings. The line items that were impacted on transition are summarized below.

HARDWOODS DISTRIBUTION INC.

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

Three and nine month periods ended September 30, 2019 and 2018

3. Significant accounting policies (continued):

Impacts on transition (continued)

Condensed Consolidated Statements of Financial Position

	As Filed December 31, 2018	IFRS 16 Adjustments	Restated December 31, 2018
Non-current assets:			
Property, plant and equipment	24,184	(3,827)	20,357
Right of use assets	—	97,241	97,241
Deferred income taxes	3,051	3,793	6,844
Total non-current assets	102,040	97,207	199,247
Total assets	444,760	97,207	541,967
Current Liabilities			
Accounts payable and accrued liabilities	39,387	(171)	39,216
Lease obligation	1,529	22,844	24,373
Total current liabilities	155,573	23,301	178,246
Non-current liabilities			
Lease obligation	2,018	86,082	88,100
Other liabilities	1,237	(1,055)	182
Total non-current liabilities	3,255	84,399	88,282
Total Liabilities	158,828	107,700	266,528
Shareholder's Equity			
Retained Earnings (Deficit)	35,530	(9,877)	25,653
Accumulated other comprehensive income	29,411	(616)	28,795
Shareholders' equity	285,932	(10,493)	275,439
Total shareholders' equity and liabilities	444,760	97,207	541,967

HARDWOODS DISTRIBUTION INC.

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

Three and nine month periods ended September 30, 2019 and 2018

3. Significant accounting policies (continued):

Impacts on transition (continued)

Condensed Consolidated Statements of Financial Position

	As Filed January 1, 2018	IFRS 16 Adjustments	Restated January 1, 2018
Non-current assets:			
Property, plant and equipment	20,650	(2,606)	18,044
Right of use assets	—	82,816	82,816
Deferred income taxes	5,477	3,433	8,910
Total non-current assets	96,371	83,643	180,014
Total assets	372,903	83,643	456,546
Current Liabilities			
Accounts payable and accrued liabilities	38,254	(198)	38,056
Lease obligation	1,281	15,314	16,595
Total current liabilities	132,230	15,116	147,346
Non-current liabilities			
Lease obligation	1,068	78,298	79,366
Other liabilities	779	(334)	445
Total non-current liabilities	1,847	77,964	79,811
Total Liabilities	134,077	93,079	227,157
Shareholder's equity			
Retained earnings (deficit)	9,919	(9,437)	482
Accumulated other comprehensive income	9,693	—	9,693
Shareholders' equity	238,826	(9,437)	229,389
Total shareholders' equity and liabilities	372,903	83,643	456,546

HARDWOODS DISTRIBUTION INC.

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

Three and nine month periods ended September 30, 2019 and 2018

3. Significant accounting policies (continued):

Impacts on transition (continued)

**Condensed Consolidated Statements of Comprehensive
Income Three Months Ended**

	As Filed September 30, 2018	IFRS 16 Adjustments	Restated September 30, 2018
Cost of goods sold	(238,946)	185	(238,761)
Gross Profit	51,408	185	51,593
Operating expenses			
Selling and distribution	(30,634)	767	(29,867)
Total operating expenses	(39,130)	767	(38,363)
Finance expense	(1,338)	(1,192)	(2,530)
Net finance expense	(1,218)	(1,192)	(2,410)
Profit before income taxes	11,060	(240)	10,820
Income tax expense:			
Deferred	(530)	60	(470)
Total income tax expense	(2,918)	60	(2,858)
Profit for the period	8,142	(180)	7,962
Other comprehensive income(loss):			
foreign Operations	(4,057)	124	(3,933)
Total comprehensive income for the period	4,085	(56)	4,029
Basic profit per share	0.38	(0.01)	0.37
Diluted profit per share	0.38	(0.01)	0.37

HARDWOODS DISTRIBUTION INC.

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

Three and nine month periods ended September 30, 2019 and 2018

3. Significant accounting policies (continued):

Impacts on transition (continued)

Condensed Consolidated Statements of Comprehensive Income Nine Months Ended

	As Filed September 30, 2018	IFRS 16 Adjustments	Restated September 30, 2018
Cost of goods sold	(706,173)	528	(705,645)
Gross Profit	153,108	528	153,636
Operating expenses			
Selling and distribution	(87,343)	2,403	(84,940)
Total operating expenses	(115,293)	2,403	(112,890)
Finance expense	(3,146)	(3,418)	(6,564)
Net finance expense	(2,684)	(3,418)	(6,102)
Profit before income taxes	35,131	(487)	34,644
Income tax expense:			
Deferred	(2,118)	121	(1,997)
Total income tax expense	(8,850)	121	(8,729)
Profit for the period	26,281	(366)	25,915
Other comprehensive income(loss):			
foreign Operations	6,843	(215)	6,628
Total comprehensive income for the period	33,124	(581)	32,543
Basic profit per share	1.23	(0.02)	1.21
Diluted profit per share	1.22	(0.02)	1.20

HARDWOODS DISTRIBUTION INC.

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

Three and nine month periods ended September 30, 2019 and 2018

3. Significant accounting policies (continued):

Impacts on transition (continued)

Condensed Consolidated Statements of Cash Flows Three Months Ended

	As Filed September 30, 2018	IFRS 16 Adjustments	Restated September 30, 2018
Cash flow from operating activities:			
Profit for the period	8,142	(180)	7,962
Adjustments for:			
Depreciation and amortization	1,732	4,772	6,504
Income tax expense	2,918	(60)	2,858
Net finance expense	1,218	1,193	2,411
	12,415	5,725	18,140
Changes in non-cash working capital:			
Accounts payable and accrued liabilities	(2,060)	(152)	(2,212)
	(14,118)	(152)	(14,270)
Net cash provided by (used in) operating activities	(1,703)	5,573	3,870
Cash flow from financing activities:			
Principle payments on finance lease obligation	(357)	(5,573)	(5,930)
Net cash provided by (used in) financing activities	921	(5,573)	(4,652)

Condensed Consolidated Statements of Cash Flows Nine Months Ended

	As Filed September 30, 2018	IFRS 16 Adjustments	Restated September 30, 2018
Cash flow from operating activities:			
Profit for the period	26,281	(366)	25,915
Adjustments for:			
Depreciation and amortization	5,045	13,851	18,896
Income tax expense	8,850	(121)	8,729
Net finance expense	2,684	3,419	6,103
	37,136	16,782	53,918
Changes in non-cash working capital:			
Accounts payable and accrued liabilities	2,445	(593)	1,852
	(59,787)	(593)	(60,380)
Net cash provided by (used in) operating activities	(22,651)	16,189	(6,462)
Cash flow from financing activities:			
Principle payments on finance lease obligation	(1,041)	(16,189)	(17,230)
Net cash provided by (used in) financing activities	29,601	(16,189)	13,412

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3. Significant accounting policies (continued):

Impacts for the period

In relation to those leases under IFRS 16, the Company recognized depreciation and interest costs, instead of operating lease expense. During the three and nine months ended Sept 30, 2019, the Company recognized \$4.9 million (2018 - \$4.7 million) and \$14.7 million (2018 - \$13.9 million), respectively, of depreciation expense and \$1.1 million (2018 - \$1.2 million) and \$3.3 million (2018 - \$3.4 million), respectively, of interest expense from these leases.

4. Business acquisitions:

(a) Pacific Mutual Door Company acquisition

Subsequent to quarter end, on October 28, 2019, the Company acquired through one of its wholly owned subsidiaries substantially all of the assets and assumed certain liabilities of Pacific Mutual Door Company ("Pacific") for total estimated consideration of \$45.0 million (US\$34.5 million). The purchase price was determined on the basis that the sellers will deliver a specified amount of working capital as defined in the asset purchase agreement. To the extent that the working capital delivered by the seller is different than the agreed upon amount, the purchase price will be adjusted on a dollar for dollar basis. As of the date of these financial statements, the working capital delivered by the seller has not been finalized.

Pacific operates five distribution centers in the US and is engaged in the distribution of interior and exterior doors, custom millwork, and other ancillary architectural building products to customers that supply end products to the residential and commercial construction markets.

The acquisition will be accounted for as a business combination using the acquisition method, with the Company being the acquirer and Pacific 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 amended its US credit facility (see note 8 for further details). The amendment included an increase in the revolver from US\$125 million to US\$150 million, and lower borrowing rates.

(b) Far West Plywood Company acquisition

On January 28, 2019, the Company acquired through one of its wholly owned subsidiaries substantially all of the assets and assumed certain liabilities of Far West Plywood Company ("Far West") for a total value of \$4.8 million (US\$3.6 million). The fair value of Far West's identified assets acquired consisted of accounts and other receivables of \$0.5 million (US\$0.4 million), inventories of \$1.3 million (US\$0.9 million), property, plant and equipment of \$0.1 million (US\$0.1 million) and accrued liabilities of \$0.4 million (US\$0.3 million). Goodwill of \$3.4 million (US\$2.5 million) was recognized as part of this acquisition and is attributable to the skills and talent of Far West's workforce, value of the customer base, and an increase in market share. The goodwill is deductible for tax purposes.

Far West is a single site wholesale distributor located in Northridge, California that distributes architectural building products to customers that fabricate end-products to commercial, industrial, retail, residential, and institutional construction markets. The Far West acquisition was accounted for as a business combination using the acquisition method, with the Company being the acquirer and Far West being the acquiree, and where the assets acquired and liabilities assumed were recorded at their fair values at the acquisition date.

(c) Atlanta Hardwood Corporation acquisition

On June 11, 2018, the Company acquired through one of its wholly owned subsidiaries certain of the distribution assets and assumed certain liabilities 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. The Atlanta acquisition was accounted for as a business

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4. Business acquisitions (continued):

(c) Atlanta Hardwood Corporation acquisition (continued):

combination using the acquisition method, with the Company being the acquirer and Atlanta 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:

	September 30, 2019	December 31, 2018
Cash	\$ (7,348)	\$ (1,547)
Bank indebtedness	91,838	\$ 112,940
Shareholder's equity	283,883	275,439
Total capitalization	\$ 368,373	\$ 386,832

The terms of the Company's US and Canadian credit facilities are described in note 8. The terms of the agreements with the Company's lenders provide that distributions cannot be paid by its subsidiaries in the event that its subsidiaries do not meet certain credit ratios. The Company's operating subsidiaries were compliant with all required credit ratios under the US and Canadian credit facilities as at September 30, 2019 and December 31, 2018, and accordingly there were no restrictions on distributions arising from non-compliance with financial covenants.

Dividends and share repurchases are some of the ways the Company manages its capital. Dividends are declared and shares are repurchased after consideration of a variety of factors including the outlook for the business and financial leverage. There were no changes to the Company's approach to capital management during the three and nine month periods ended September 30, 2019.

On August 12, 2019, the Company declared a cash dividend of \$0.080 per common share to shareholders of record as of October 14, 2019. The dividend was paid to shareholders on October 25, 2019. On November 8, 2019, the Company declared a cash dividend of \$0.085 per common share to shareholders of record as of January 20, 2020, to be paid on January 31, 2020.

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6. Accounts and other receivables:

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

	September 30, 2019	December 31, 2018
Trade accounts receivable - Canada	\$ 16,436	\$ 13,131
Trade accounts receivable - United States	104,791	97,907
Sundry receivable	3,777	4,973
Current portion of non-current receivables	1,412	802
	<u>126,416</u>	<u>116,813</u>
Less:		
Allowance for credit loss	6,672	4,808
	<u>\$ 119,744</u>	<u>\$ 112,005</u>
Non-current receivables:		
Employee housing loans	\$ 145	\$ 136
Customer notes	1,328	570
Security deposits	2,077	1,953
	<u>3,550</u>	<u>2,659</u>
Less:		
Current portion, included in accounts receivable	1,412	802
	<u>\$ 2,138</u>	<u>\$ 1,857</u>

The aging of trade receivables is:

	September 30, 2019	December 31, 2018
Current	\$ 84,156	\$ 76,206
1 - 30 days past due	22,377	22,549
31 - 60 days past due	7,401	7,037
60+ days past due	7,293	5,246
	<u>\$ 121,227</u>	<u>\$ 111,038</u>

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 September 30, 2019 was \$6.7 million (December 31, 2018 - \$4.8 million). The amount of the allowance is considered sufficient based on the past experience of the business, current and expected collection trends, the security the Company has in place for past due accounts and management's regular review and assessment of customer accounts and credit risk.

Bad debt expense, net of recoveries, for the three month period ended September 30, 2019 was \$0.8 million which equates to 0.3% of sales (three month period ended September 30, 2018 - \$0.3 million, being 0.1% of sales). For the nine month period ended September 30, 2019, net bad debt expense was \$2.4 million being 0.3% of sales (nine month period ended September 30, 2018 - \$0.5 million, being 0.05% of sales).

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7. Inventories:

	September 30, 2019	December 31, 2018
Raw materials	\$ 774	\$ 780
Work in process	4,594	4,584
Goods in-transit	6,233	12,630
Finished goods:		
Lumber	55,768	55,223
Sheet goods	90,143	110,060
Specialty	46,196	40,508
	\$ 203,708	\$ 223,785

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		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Inventory write-downs, included in cost of goods sold	\$ 561	\$ 530	\$ 1,955	\$ 1,590
Cost of inventory sold	227,903	226,060	690,245	668,557
Other cost of goods sold	11,275	12,701	34,514	37,088
Total cost of goods sold	\$ 239,178	\$ 238,761	\$ 724,759	\$ 705,645

8. Bank indebtedness:

	September 30, 2019	December 31, 2018
Cheques issued in excess of funds on deposit	\$ 1,490	\$ 1,011
Credit facility, Hardwoods LP	15,093	10,626
Credit facility, Hardwoods USLP (Sept 30, 2019 - US\$56,902 December 31, 2018 - US\$74,369)	75,255	101,303
	\$ 91,838	\$ 112,940

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.

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8. Bank indebtedness (continued):

Hardwoods LP Credit Facility ("LP Credit Facility")

The LP Credit Facility consists of a revolving credit facility of \$25.0 million with the amount made available 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. The LP Credit Facility matures in August 2021. 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 September 30, 2019, the LP Credit Facility has unused availability of \$9.9 million, before cheques issued in excess of funds on deposit of \$1.5 million (December 31, 2018 - \$11.9 million, cheques issued in excess of funds on deposit - \$1.0 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 has a five year term and can be prepaid at any time with no prepayment penalty. The USLP II Credit Facility is guaranteed by certain of the Company's subsidiaries.

In connection with the acquisition of Pacific (note 4), on October 28, 2019 the Company amended its US credit facility. The amendment includes an increase to the revolver from US\$125 million to US\$150 million, and lowered borrowing rates.

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 September 30, 2019, the USLP II Credit Facility has unused availability of \$90.2 million (US\$68.1 million), before cheques issued in excess of funds on deposit of nil. At December 31, 2018, the USLP II Credit Facility had unused availability of \$66.5 million (US\$48.7 million), before cheques issued in excess of funds on deposit of nil.

The Company has letters of credit outstanding at September 30, 2019 totaling \$2.3 million (US\$1.7 million) (December 31, 2018 - \$2.6 million (US\$1.9 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, 2017	21,419,985	\$ 113,788
Issued pursuant to long term incentive plan	119,131	2,736
Balance at December 31, 2018	21,539,116	116,524
Share repurchase	(255,030)	(3,194)
Balance at September 30, 2019	21,284,086	\$ 113,330

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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, 2017	121,506	116,650
LTIP shares issued during the year	55,079	94,373
LTIP shares settled	(43,508)	(82,509)
Balance at December 31, 2018	133,077	128,514
LTIP shares issued during the period	67,181	138,238
LTIP shares forfeited during the period	(41,648)	—
Balance at September 30, 2019	158,610	266,752

LTIP compensation expense of \$0.6 million was recognized in the condensed consolidated interim statement of comprehensive income for the three month period ended September 30, 2019 (September 30, 2018 - \$1.1 million) and \$1.7 million for the nine month period ended September 30, 2019 (September 30, 2018 - \$2.4 million). The equity classified portion of the LTIP compensation expense was \$1.1 million for nine month period ended September 30, 2019 (September 30, 2018 - \$1.8 million) and the liability classified expense was \$0.6 million as at September 30, 2019 (September 30, 2018 - \$0.6 million).

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 September 30, 2019 of \$9.3 million (September 30, 2018 - \$8.0 million) and nine month period ended September 30, 2019 of \$23.5 million (September 30, 2018 - \$25.9 million). The weighted average number of common shares outstanding in each of the reporting periods was as follows:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Issued ordinary shares at beginning of the period	21,346,986	21,465,494	21,539,116	21,419,985
Effect of shares issued during the period pursuant to long-term incentive plan	—	—	—	31,006
Effect of shares repurchased	(48,723)	—	(124,313)	—
Weighted average common shares - basic	21,298,263	21,465,494	21,414,803	21,450,991
Effect of dilutive securities:				
Long-term incentive plan	199,474	166,941	181,229	163,661
Weighted average common shares - diluted	21,497,737	21,632,435	21,596,032	21,614,652

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10. Finance income and expense:

	Note	Three months ended		Nine months ended	
		September 30, 2019	Restated September 30, 2018	September 30, 2019	Restated September 30, 2018
Finance expense:					
Interest on bank indebtedness	8	\$ (1,041)	\$ (1,188)	\$ (3,410)	\$ (2,971)
Accretion of lease obligation		(1,130)	(1,259)	(3,507)	(3,593)
Foreign exchange losses		—	(83)	(112)	—
Total finance expense		(2,170)	(2,530)	(7,029)	(6,564)
Finance income:					
Interest on trade receivables, customer notes, and employee loans	6	211	120	626	369
Foreign exchange gain		62	—	—	93
Total finance income		273	120	626	462
Net finance expense		\$ (1,897)	\$ (2,410)	\$ (6,403)	\$ (6,102)

11. Segment reporting:

Information about geographic areas is as follows:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenue from external customers:				
Canada	\$ 35,209	\$ 35,009	\$ 105,255	\$ 107,672
United States	257,250	255,345	778,836	751,609
	\$ 292,459	\$ 290,354	\$ 884,091	\$ 859,281

	September 30, 2019	Restated (Note 3) December 31, 2018
Non-current assets ⁽¹⁾ :		
Canada	\$ 11,152	\$ 9,609
United States	165,215	180,937
	\$ 176,367	\$ 190,546

⁽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 impacts demand for architectural building products.