

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

HARDWOODS DISTRIBUTION INC.

Three and nine month periods ended September 30, 2020 and 2019

HARDWOODS DISTRIBUTION INC.

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

	Note	September 30, 2020	December 31, 2019
Assets			
Current assets:			
Cash and cash equivalents		\$ 3,704	\$ 15,118
Accounts and other receivables	6	124,511	113,740
Income taxes receivable		—	820
Inventories	7	203,101	207,935
Prepaid and other assets		10,497	9,887
Total current assets		341,813	347,500
Non-current assets:			
Receivables and investments	6	9,204	2,376
Property, plant and equipment		20,056	20,430
Right of use assets		93,134	93,982
Intangible assets		26,548	28,248
Deferred income taxes		3,208	4,461
Goodwill	4	77,364	72,974
Total non-current assets		229,514	222,471
Total assets		\$ 571,327	\$ 569,971
Liabilities			
Current liabilities:			
Bank indebtedness	8	\$ 84,967	\$ 121,548
Accounts payable and accrued liabilities		61,674	53,805
Income taxes payable		1,173	—
Lease obligation		14,527	24,973
Dividend payable	5	1,796	1,809
Total current liabilities		164,137	202,135
Non-current liabilities:			
Lease obligation		93,721	83,726
Other liabilities		1,598	665
Total non-current liabilities		95,319	84,391
Total liabilities		259,456	286,526
Shareholders' equity			
Share capital	9(a)	111,030	113,837
Contributed surplus		105,693	104,850
Retained earnings		73,004	48,288
Accumulated other comprehensive income		22,144	16,470
Shareholders' equity		311,871	283,445
Total liabilities and shareholders' equity		\$ 571,327	\$ 569,971

Subsequent events (note 5)

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, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Sales	11	\$ 315,813	\$ 292,459	\$ 936,918	\$ 884,091
Cost of goods sold	7	(255,798)	(239,178)	(756,489)	(724,759)
Gross profit		60,015	53,281	180,429	159,332
Operating expenses:					
Selling and distribution		(31,931)	(31,168)	(98,011)	(93,289)
Administration		(12,906)	(8,026)	(36,456)	(28,265)
		(44,837)	(39,194)	(134,467)	(121,554)
Profit from operations		15,178	14,087	45,962	37,778
Finance expense	10	(1,639)	(2,170)	(6,378)	(7,028)
Finance income	10	153	273	582	626
Net finance expense		(1,486)	(1,897)	(5,796)	(6,402)
Profit before income taxes		13,692	12,190	40,166	31,376
Income tax expense:					
Current		(2,843)	(2,526)	(8,805)	(6,814)
Deferred		(399)	(810)	(1,289)	(1,563)
		(3,242)	(3,336)	(10,094)	(8,377)
Net profit		10,450	8,854	30,072	22,999
Other comprehensive income:					
Exchange differences translating foreign operations		(7,759)	2,947	5,674	(7,319)
Total comprehensive income		\$ 2,691	\$ 11,801	\$ 35,746	\$ 15,680
Basic net profit per share	9(c)	\$ 0.49	\$ 0.42	\$ 1.42	\$ 1.07
Diluted net profit per share	9(c)	\$ 0.49	\$ 0.41	\$ 1.41	\$ 1.06

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, 2020 and 2019

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income - translation reserve	Retained earnings	Total
Balance at January 1, 2020		\$ 113,837	\$ 104,850	\$ 16,470	\$ 48,288	\$ 283,445
Share based compensation expense	9(b)	—	867	—	—	867
Shares issued pursuant to LTIP	9(a)	24	(24)	—	—	—
Shares repurchased	9(a)	(2,831)	—	—	—	(2,831)
Profit for the period		—	—	—	30,072	30,072
Dividends declared	5	—	—	—	(5,356)	(5,356)
Translation of foreign operations		—	—	5,674	—	5,674
Balance at September 30, 2020		\$ 111,030	\$ 105,693	\$ 22,144	\$ 73,004	\$ 311,871
Balance at January 1, 2019		\$ 116,524	\$ 104,467	\$ 29,411	\$ 35,530	\$ 285,932
Impact of changes in accounting policy		—	—	(616)	(9,877)	(10,493)
Restated balance at January 1, 2019		116,524	104,467	28,795	25,653	275,439
Share based compensation expense	9(b)	—	1,095	—	—	1,095
Shares repurchased		(3,194)	—	—	—	(3,194)
Profit for the period		—	—	—	22,999	22,999
Dividends declared	5	—	—	—	(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

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, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Cash flow from (used in) operating activities:					
Profit for the period		\$ 10,450	\$ 8,854	\$ 30,072	\$ 22,999
Adjustments for:					
Depreciation and amortization		7,777	6,636	23,458	20,267
Gain on sale of property, plant and equipment		(184)	(67)	(285)	(281)
Share-based compensation expense	9(b)	2,220	574	2,945	1,719
Income tax expense		3,242	3,336	10,094	8,377
Net finance expense	10	1,486	1,897	5,796	6,402
Interest received		110	211	354	626
Interest paid		(517)	(989)	(2,876)	(3,056)
Income taxes paid		(6,258)	(1,591)	(6,758)	(4,465)
		18,326	18,861	62,800	52,588
Changes in non-cash working capital:					
Accounts receivable		(6,193)	6,897	(7,677)	(9,722)
Inventories		4,415	2,432	11,151	15,526
Prepaid expenses		(3,586)	(1,841)	(419)	(2,045)
Accounts payable and accrued liabilities		(3,621)	(894)	4,467	3,111
		(8,985)	6,594	7,522	6,870
Net cash provided by operating activities		9,341	25,455	70,322	59,458
Cash flow (used in) financing activities:					
(Decrease) in bank indebtedness		(52,945)	(11,038)	(40,179)	(18,358)
Principle payments on finance lease obligation		(7,018)	(6,386)	(21,018)	(19,229)
Repurchase of common shares	9(a)	—	(795)	(3,091)	(3,194)
Dividends paid to shareholders	5	(1,751)	(1,706)	(5,369)	(5,146)
Net cash (used) in financing activities		(61,714)	(19,925)	(69,657)	(45,927)
Cash flow from (used in) investing activities:					
Additions to property, plant and equipment		(534)	(1,076)	(2,102)	(2,457)
Disposal of property, plant and equipment		243	141	437	513
Business acquisitions	4	—	—	(3,663)	(4,824)
Additions to internally generated software		(51)	(80)	(223)	(195)
Receipt (payments) on non-current receivables		101	(552)	176	(767)
Increase (decrease) in investments		922	—	(7,291)	—
Net cash from (used in) investing activities		681	(1,567)	(12,666)	(7,730)
(Decrease) increase in cash and cash equivalents		(51,692)	3,963	(12,001)	5,801
Cash and cash equivalents, beginning of period		55,404	3,385	15,118	1,547
Foreign exchange (loss) gain on cash held in foreign currency		(8)	—	587	—
Cash and cash equivalents, end of period		\$ 3,704	\$ 7,348	\$ 3,704	\$ 7,348
Supplementary information:					
Property, plant and equipment acquired under finance leases, net of disposals		\$ 2,027	\$ 2,772	\$ 14,711	\$ 5,423

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, 2020 and 2019

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 65 distribution centres 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 statement 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, 2019.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 6, 2020.

(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 consolidated financial statements, with the exception of per share amounts, has been rounded to the nearest thousand dollar unless otherwise stated.

(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 condensed consolidated 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, 2019, except as noted below.

During the first half of 2020, financial markets were negatively impacted by the novel Coronavirus or COVID-19, which was declared a pandemic by the World Health Organization on March 12, 2020. This has resulted in significant economic uncertainty and consequently, it is difficult to reliably measure the potential impact of this uncertainty on our future financial results. The Company continues to monitor the operations, credit risk and liquidity position. The impacts to the Company are not determinable at the date of these condensed consolidated interim financial statements, however they could be material and include impairments of receivables, inventory and reduction in available liquidity.

Given the uncertainty around the potential impact of COVID-19, this may impact our estimates disclosed in the condensed consolidated interim financial statements given that there is significant judgement and estimation uncertainty. This could significantly impact the estimates that were disclosed in note 2(d) in the annual audited consolidated financial statements for the year ended December 31, 2019.

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, 2020 and 2019

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 financial statements for the year ended December 31, 2019. In addition to those policies:

(l) Financial instruments:

Financial Assets

In addition to those policies, the Company's has expanded its financial instruments policy due to new investments entered into in 2020 and the updated policy is detailed below.

Investments

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or at fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income ("FVTOCI"), or (iii) at fair value through profit or loss ("FVTPL").

Financial assets that are held for the purpose of collecting contractual cash flows that are SPPI are classified as amortized cost. Amortized cost financial assets are initially recognized at their fair value and are subsequently measured at amortized cost using the effective interest rate method. Transaction costs of financial instruments classified as amortized cost are capitalized and amortized into the consolidated statement of comprehensive income on the same basis as the financial instrument.

Financial assets that are held for both the purpose of collecting contractual cash flows and selling financial assets that have contractual cash flows that are SPPI are classified as FVTOCI. FVTOCI financial instruments are recognized at fair value at initial recognition and at each reporting date, with gains and losses accumulating in other comprehensive income until the asset is derecognized, at which point the cumulative gains or losses are reclassified to profit or loss. IFRS 9 provides an election to designate equity instruments at FVTOCI that would otherwise be classified as FVTPL. Equity instruments designated at FVTOCI must be made on an instrument-by-instrument basis and if elected, subsequent changes in fair value are recognized in other comprehensive income only and are not transferred into profit or loss upon disposition.

Financial assets that are not measured at amortized cost or at FVTOCI are measured at FVTPL. FVTPL financial assets are recognized at fair value at initial recognition and at each reporting date, with gains and losses recognized in the consolidated statement of comprehensive income. Transaction costs of financial assets classified as FVTPL are recognized in profit or loss as they are incurred.

The Company recognizes our investments at FVTPL.

4. Business acquisitions:

(a) Diamond Hardwoods

On March 9, 2020, the Company acquired through one of its wholly owned subsidiaries substantially all of the assets and assumed certain liabilities of Diamond Hardwoods ("Diamond") for total consideration for \$3.7 million (US\$3.0 million). Diamond operates two locations in Northern California and is engaged in the distribution of architectural building products to contractors, industrial manufacturers, and retail customers.

The acquisition was accounted for as a business combination under the acquisition method. The fair value of Diamond's identified assets acquired consisted of accounts and other receivables of \$0.3 million (US\$0.2 million), inventories of \$1.2 million (US\$0.9 million), and property, plant and equipment of \$0.1 million (US\$0.1 million). Goodwill of \$2.4 million (US\$1.8 million) was recognized as part of this acquisition and is attributable to the skills and talent of Diamond's workforce, value of the customer base, and an increase in market share. The goodwill is deductible for tax purposes.

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, 2020 and 2019

4. Business acquisitions (continued):

(b) Pacific Mutual Door Company

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 for total estimated consideration for \$48.0 million (US\$36.2 million). Pacific operates four distribution centres 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 was 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.

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

	US\$	CAD\$
Cash consideration	\$36,199	\$48,028
Assets acquired and liabilities assumed:		
Accounts and other receivables	7,332	9,728
Inventories	6,349	8,424
Prepaid expenses	87	114
Property plant and equipment	1,059	1,405
Right of use asset	3,387	4,493
Intangible assets - customer relationships	11,000	14,595
Accounts payable and accrued liabilities	(2,137)	(2,837)
Lease obligation	(3,387)	(4,493)
Identifiable net assets acquired	23,690	31,429
Goodwill	12,510	16,599
Net assets acquired	\$36,200	\$48,028

The goodwill of \$16.6 million (US\$12.5 million) is attributable primarily to the skills and talent of Pacific's workforce, and synergies expected to be achieved in respect of purchasing power with vendors, increase in market share, and operational efficiencies related to the combined operations. The goodwill is deductible for tax purposes.

The intangible assets of \$14.6 million (US\$11.0 million) primarily represent the value of customer relationships acquired and are 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 purchase price was financed by the Company's US credit facility. In connection with the acquisition, the Company amended its US credit facility, see note 8 for further details.

Transaction costs of \$0.4 million were incurred in connection with the acquisition, and have been expensed in the consolidated statements of comprehensive income.

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, 2020 and 2019

4. Business acquisitions (continued):

(c) Far West

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.

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, 2020	December 31, 2019
Cash	\$ (3,704)	\$ (15,118)
Bank indebtedness	84,967	121,548
Shareholder's equity	311,871	283,445
Total capitalization	\$ 393,134	\$ 389,875

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, 2020 and December 31, 2019, 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.

On August 7, 2020, the Company declared a cash dividend of \$0.085 per common share to shareholders of record as of October 19, 2020. The dividend was paid to shareholders on October 30, 2020. On November 6, 2020, the Company declared a cash dividend of \$0.10 per common share to shareholders of record as of January 18, 2021, to be paid on January 29, 2021.

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, 2020 and 2019

6. Receivables and investments:

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

	September 30, 2020	December 31, 2019
Trade accounts receivable - Canada	\$ 15,842	\$ 13,401
Trade accounts receivable - United States	107,045	98,877
Sundry receivable	5,480	4,387
Current portion of non-current receivables	1,040	1,257
	129,407	117,922
Less:		
Allowance for credit loss	4,896	4,182
	\$ 124,511	\$ 113,740
Non-current receivables:		
Employee housing loans	\$ 65	\$ 120
Customer notes	632	1,065
Security deposits	2,355	2,448
	3,052	3,633
Less:		
Current portion, included in accounts receivable	1,040	1,257
	2,012	2,376
Investments	7,192	—
	\$ 9,204	\$ 2,376

The aging of trade receivables is:

	September 30, 2020	December 31, 2019
Current	\$ 96,231	\$ 77,922
1 - 30 days past due	16,772	20,015
31 - 60 days past due	4,202	8,061
60+ days past due	5,682	6,280
	\$ 122,887	\$ 112,278

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, 2020 was \$4.9 million (December 31, 2019 - \$4.2 million). The amount of the allowance is determined 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.

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, 2020 and 2019

6. Receivables and investments (continued):

Bad debt recovery for the three month periods ended September 30, 2020 was \$0.3 million (bad debt expense, net of recoveries for the three month periods ended September 30, 2019 - \$0.8 million, being 0.3% of sales). For the nine month periods ended September 30, 2020, net bad debt was \$0.7 million, being 0.0% of sales (nine month periods ended September 30, 2019 - \$2.4 million being 0.3% of sales).

Investments are classified as level 2 of the fair value hierarchy, where the inputs used in measuring fair value are observable, either directly or indirectly, for substantially the full contract term.

7. Inventories:

	September 30, 2020	December 31, 2019
Raw materials	\$ 1,211	\$ 1,171
Work in process	3,943	3,821
Goods in-transit	10,608	8,442
Finished goods	187,339	194,501
	\$ 203,101	\$ 207,935

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 statements of comprehensive income as follows:

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Inventory write-downs, included in cost of goods sold	\$ 444	\$ 561	\$ 1,497	\$ 1,955
Cost of inventory sold	243,867	227,903	720,737	690,245
Other cost of goods sold	11,931	11,275	35,752	34,514
Total cost of goods sold	\$ 255,798	\$ 239,178	\$ 756,489	\$ 724,759

8. Bank indebtedness:

	September 30, 2020	December 31, 2019
Cheques issued in excess of funds on deposit	\$ 1,631	\$ 2,489
Credit facility, Hardwoods LP	18,798	13,013
Credit facility, Hardwoods USLP II (September 30, 2020 - US\$48,466 December 31, 2019 - US\$81,650)	64,538	106,046
	\$ 84,967	\$ 121,548

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").

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, 2020 and 2019

8. Bank indebtedness (continued):

The Credit Facilities are payable in full at maturity. The Credit Facilities are revolving credit facilities which the Company may terminate at any time without prepayment penalty. The Credit Facilities bear interest at a floating rate based on the Canadian or US prime rate (as the case may be), LIBOR or bankers' acceptance rates plus, in each case, an applicable margin. Letters of credit are also available under the Credit Facilities on customary terms for facilities of this nature. Commitment fees and standby charges usual for borrowings of this nature were and are payable.

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 and can be prepaid anytime with no prepayment penalty. 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, 2020, the LP Credit Facility has unused availability of \$6.2 million, before cheques issued in excess of funds on deposit of \$1.6 million (December 31, 2019 - \$10.3 million, cheques issued in excess of funds on deposit - \$2.5 million).

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

In connection with the acquisition of Pacific (note 4), on October 28, 2019 the Company amended The USLP II Credit Facility. The amendment included an increase to the revolver from US\$125.0 million to US\$150.0 million, and lowered borrowing rates. The amount made available under the credit facility is limited to 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 October 2024 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.

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\$15.0 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, 2020, the USLP II Credit Facility has unused availability of \$100.0 million (US\$75.3 million), before cheques issued in excess of funds on deposit of nil. At December 31, 2019, the USLP II Credit Facility had unused availability of \$59.5 million (US\$45.8 million), before cheques issued in excess of funds on deposit of nil.

The Company has letters of credit outstanding at September 30, 2020 totaling \$4.6 million (US\$3.4 million) (December 31, 2019 - \$3.6 million (US\$2.8 million)) against the USLP II Credit Facility to support self-insured benefit claims.

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, 2020 and 2019

9. Share capital:

(a) Share capital

A continuity of share capital is as follows:

	Shares	Total
Balance at December 31, 2018	21,539,116	\$ 116,524
Issued pursuant to long term incentive plan	87,491	1,016
Share repurchase	(271,280)	(3,703)
Balance at December 31, 2019	21,355,327	113,837
Issued pursuant to long term incentive plan	1,531	24
Share repurchase	(222,133)	(2,831)
Balance at September 30, 2020	21,134,725	\$ 111,030

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

A continuity of the LTIP Shares outstanding is as follows:

	Performance Shares	Restricted Shares
Balance at December 31, 2018	88,535	128,514
LTIP shares issued during the year	67,181	136,763
LTIP shares forfeited during the year	(41,648)	(1,375)
LTIP shares settled during the year	—	(105,427)
Balance at December 31, 2019	114,068	158,475
LTIP shares issued during the year	117,671	212,331
LTIP shares forfeited during the period	(48,420)	—
LTIP shares settled during the period	(748)	—
Balance at September 30, 2020	182,571	370,806

LTIP compensation expense of \$2.2 million was recognized in the consolidated statements of comprehensive income for three months ended September 30, 2020 (September 30, 2019 - \$0.6 million) and \$2.9 million for the nine month period ended September 30, 2020 (September 30, 2019 - \$1.7 million). The equity classified portion of the LTIP compensation expense was \$0.9 million for nine months ended September 30, 2020 (September 30, 2019 - \$1.1 million) and the liability classified expense was \$2.0 million (September 30, 2019 - \$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 months ended September 30, 2020 of \$10.5 million (September 30, 2019 - \$8.9 million) and nine month period ended September 30, 2020 of \$30.1 million (September 30, 2019 - \$23.0 million). The weighted average number of common shares outstanding in each of the reporting years was as follows:

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, 2020 and 2019

9. Share capital (continued):

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Issued ordinary shares at beginning of year	21,252,444	21,346,986	21,355,327	21,539,116
Effect of shares repurchased	—	(48,723)	(172,896)	(124,313)
Effect of shares issued during the year:				
Pursuant to long-term incentive plan	—	—	1,024	—
Weighted average common shares - basic	21,252,444	21,298,263	21,183,455	21,414,803
Effect of dilutive securities:				
Long-term incentive plan	231,729	199,474	167,696	181,229
Weighted average common shares - diluted	21,484,173	21,497,737	21,351,151	21,596,032

10. Finance income and expense:

	Note	Three months ended		Nine months ended	
		September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Finance expense:					
Interest on bank indebtedness	8	\$ (517)	\$ (989)	\$ (2,876)	\$ (3,056)
Accretion of finance lease obligation		(1,122)	(1,182)	(3,475)	(3,861)
Foreign exchange loss		—	—	(27)	(112)
Total finance expense		(1,639)	(2,170)	(6,378)	(7,028)
Finance income:					
Interest on trade receivables, customer notes, and employee loans	6	110	211	354	626
Foreign exchange gain		10	62	—	—
Unrealized gain on investments		33	—	228	—
Total finance income		153	273	582	626
Net finance expense		\$ (1,486)	\$ (1,897)	\$ (5,796)	\$ (6,402)

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, 2020 and 2019

11. Segment reporting:

Information about geographic areas is as follows:

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Revenue from external customers:				
Canada	\$ 36,609	\$ 35,209	\$ 104,638	\$ 105,255
United States	279,204	257,250	832,280	778,836
	<u>\$ 315,813</u>	<u>\$ 292,459</u>	<u>\$ 936,918</u>	<u>\$ 884,091</u>

	September 30, 2020	December 31, 2019
Non-current assets ⁽¹⁾ :		
Canada	\$ 9,764	\$ 10,816
United States	207,338	204,818
	<u>\$ 217,102</u>	<u>\$ 215,634</u>

⁽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.

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 September 30, 2020.