

Unaudited Condensed Consolidated Interim Financial Statements
(Expressed in thousands of US dollars, unless stated otherwise)

HARDWOODS DISTRIBUTION INC.

Three month periods ended March 31, 2021 and 2020

HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Interim Statements of Financial Position
(Expressed in thousands of US dollars, unless stated otherwise)

| | Note | March 31, 2021 | Restated (Note 2(c)) December 31, 2020 | Restated (Note 2(c)) January 1, 2020 |
|---|------|-------------------|---|---|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | | \$ 7,212 | \$ 459 | \$ 11,640 |
| Accounts and other receivables | 6 | 113,940 | 93,345 | 87,573 |
| Income taxes receivable | | — | — | 631 |
| Inventories | 7 | 180,747 | 172,311 | 160,098 |
| Prepaid and other assets | | 17,857 | 8,704 | 7,612 |
| Total current assets | | 319,756 | 274,819 | 267,554 |
| Non-current assets: | | | | |
| Receivables and investments | 6 | 6,955 | 7,154 | 1,829 |
| Property, plant and equipment | | 12,257 | 13,484 | 15,730 |
| Right of use assets | | 77,278 | 80,950 | 72,361 |
| Intangible assets | | 18,622 | 19,288 | 21,749 |
| Deferred income taxes | | 2,927 | 3,195 | 3,435 |
| Goodwill | 4 | 61,333 | 61,333 | 56,186 |
| Total non-current assets | | 179,372 | 185,404 | 171,290 |
| Total assets | | 499,128 | 460,223 | 438,844 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Bank indebtedness | 8 | 93,674 | 74,604 | 93,585 |
| Accounts payable and accrued liabilities | | 56,858 | 48,976 | 41,427 |
| Income taxes payable | | 6,135 | 2,189 | — |
| Lease obligation | | 19,873 | 19,522 | 19,228 |
| Dividend payable | 5 | 1,691 | 1,649 | 1,393 |
| Total current liabilities | | 178,231 | 146,940 | 155,633 |
| Non-current liabilities: | | | | |
| Lease obligation | | 68,580 | 72,737 | 64,464 |
| Other liabilities | | 695 | 720 | 512 |
| Total non-current liabilities | | 69,275 | 73,457 | 64,976 |
| Total liabilities | | 247,506 | 220,397 | 220,609 |
| Shareholders' equity | | | | |
| Share capital | 9(a) | 98,206 | 97,742 | 98,702 |
| Contributed surplus | | 105,661 | 105,907 | 106,074 |
| Retained earnings | | 61,002 | 49,700 | 27,115 |
| Accumulated other comprehensive income | | (13,247) | (13,523) | (13,656) |
| Shareholders' equity | | 251,622 | 239,826 | 218,235 |
| Total liabilities and shareholders' equity | | \$ 499,128 | \$ 460,223 | \$ 438,844 |

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 US dollars, unless stated otherwise)

Three month periods ended March 31, 2021 and 2020

| | Note | 2021 | Restated (Note 2(c)) 2020 |
|---|------|-----------|---------------------------------|
| Sales | 11 | 291,159 | 241,726 |
| Cost of goods sold | 7 | (233,263) | (195,171) |
| Gross profit | | 57,896 | 46,555 |
| Operating expenses: | | | |
| Selling and distribution | | (28,632) | (25,995) |
| Administration | | (10,295) | (9,396) |
| | | (38,927) | (35,391) |
| Profit from operations | | 18,969 | 11,164 |
| Finance expense | 10 | (1,562) | (1,897) |
| Finance income | 10 | 55 | 177 |
| Net finance expense | | (1,507) | (1,720) |
| Profit before income taxes | | 17,462 | 9,444 |
| Income tax expense: | | | |
| Current | | (4,174) | (2,123) |
| Deferred | | (295) | (335) |
| | | (4,469) | (2,458) |
| Net profit | | 12,993 | 6,986 |
| Other comprehensive income: | | | |
| Exchange differences translating foreign operations | | 276 | (1,726) |
| Total comprehensive income | | 13,269 | 5,260 |
| Basic net profit per share | 9(c) | \$ 0.61 | \$ 0.33 |
| Diluted net profit per share | 9(c) | \$ 0.61 | \$ 0.33 |

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 US dollars, unless stated otherwise)

Three month periods ended March 31, 2021 and 2020

| | Note | Share capital | Contributed surplus | Accumulated other comprehensive income - translation reserve | Retained earnings | Total |
|-----------------------------------|------|---------------|---------------------|--|-------------------|----------------|
| Balance at January 1, 2021 | | 97,742 | 105,907 | (13,523) | 49,700 | 239,826 |
| Share based compensation expense | 9(b) | — | 218 | — | — | 218 |
| Shares issued pursuant to LTIP | 9(a) | 464 | (464) | — | — | — |
| Profit for the period | | — | — | — | 12,993 | 12,993 |
| Dividends declared | 5 | — | — | — | (1,691) | (1,691) |
| Translation of foreign operations | | — | — | 276 | — | 276 |
| Balance at March 31, 2021 | | 98,206 | 105,661 | (13,247) | 61,002 | 251,622 |
| Balance at January 1, 2020 | | 98,702 | 106,074 | (13,656) | 27,115 | 218,235 |
| Share based compensation expense | 9(b) | — | 208 | — | — | 208 |
| Shares issued pursuant to LTIP | | 17 | (17) | — | — | — |
| Shares repurchased | | (1,992) | — | — | — | (1,992) |
| Profit for the period | | — | — | — | 6,986 | 6,986 |
| Dividends declared | 5 | — | — | — | (1,248) | (1,248) |
| Translation of foreign operations | | — | — | (1,726) | — | (1,726) |
| Balance at March 31, 2020 | | 96,727 | 106,265 | (15,382) | 32,853 | 220,463 |

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 US dollars, unless stated otherwise)

Three month periods ended March 31, 2021 and 2020

| | Note | 2021 | Restated (Note 2(c)) 2020 |
|---|------|-----------|---------------------------------|
| Cash flow from operating activities: | | | |
| Profit for the period | | \$ 12,993 | \$ 6,986 |
| Adjustments for: | | | |
| Depreciation and amortization | | 6,113 | 5,766 |
| Gain on sale of property, plant and equipment | | (155) | (36) |
| Share-based compensation expense | 9(b) | 677 | 1 |
| Income tax expense | | 4,469 | 2,458 |
| Net finance expense | 10 | 1,507 | 1,720 |
| Interest received | | 55 | 96 |
| Interest paid | | (495) | (895) |
| Income taxes paid | | (234) | (180) |
| | | 24,930 | 15,916 |
| Changes in non-cash working capital: | | | |
| Accounts receivable | | (22,981) | (13,767) |
| Inventories | | (13,720) | (4,407) |
| Prepaid expenses | | (9,363) | 1,017 |
| Accounts payable and accrued liabilities | | 7,244 | 3,386 |
| | | (38,820) | (13,771) |
| Net cash (used in) from operating activities | | (13,890) | 2,145 |
| Cash flow from (used in) financing activities: | | | |
| Increase in bank indebtedness | | 18,804 | 39,725 |
| Principle payments on finance lease obligation | | (5,686) | (5,149) |
| Repurchase of common shares | 9(a) | — | (1,257) |
| Dividends paid to shareholders | 5 | (1,643) | (1,367) |
| Net cash from financing activities | | 11,475 | 31,952 |
| Cash flow from (used in) investing activities: | | | |
| Additions to property, plant and equipment | | (427) | (632) |
| Proceeds on disposal of property, plant and equipment | | 109 | 76 |
| Business sale (acquisitions) | 4 | 9,201 | (2,694) |
| Additions to internally generated software | | (7) | (59) |
| Receipt (payments) on non-current receivables | | 258 | (532) |
| Net cash from (used in) investing activities | | 9,134 | (3,841) |
| Increase in cash and cash equivalents | | 6,719 | 30,256 |
| Cash and cash equivalents, beginning of period | | 459 | 11,640 |
| Foreign exchange gain on cash held in foreign currency | | 34 | 289 |
| Cash and cash equivalents, end of period | | \$ 7,212 | \$ 42,185 |
| Supplementary information: | | | |
| Property, plant and equipment acquired under finance leases, net of disposals | | \$ 1,011 | \$ 1,504 |
| Future cash settlement of LTIP's in accrued liabilities and non-current liabilities | | 2,160 | — |
| Fair value of LTIP Liability | | 459 | — |

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 US dollars, unless stated otherwise)

Three month periods ended March 31, 2021 and 2020

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 70 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'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 consolidated 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, 2020.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 12, 2021.

(b) Basis of measurement:

These condensed consolidated interim financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency:

Effective January 1, 2021 the Company elected to change its presentation currency from Canadian dollars ("CAD") to US dollars. The comparative period in these condensed consolidated interim financial statements has been restated to a US dollar reporting currency to conform with the current years presentation.

The Company's subsidiaries operating in the United States have a US dollar functional currency, and those operating in Canada have a Canadian dollar functional currency. Monetary assets and liabilities denominated in Canadian dollars are retranslated into the presentational currency at the spot exchange rate on the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities, other than those measured at fair value, are translated at the exchange rate on the date of the initial transaction. Income statement items are translated at the average exchange rate for the period.

(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, 2020.

The potential impacts of COVID-19 on the Company's critical accounting estimates are being monitored on a regular basis. There were no significant impact during the first quarter ended March 31, 2021.

HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Tabular amounts expressed in thousands of US dollars, unless stated otherwise)

Three month periods ended March 31, 2021 and 2020

3. Significant accounting policies:

With the exception of the presentation currency per Note 2 (c), 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, 2020 .

4. Acquisitions and sale of business:

(a) Hardwoods of Michigan

On March 10, 2021, the Company sold substantially all of the assets related to its sawmill and kiln drying operation in Clinton, Michigan to a third party. Proceeds of the sale were \$9.2 million. The company previously recognized a \$2.3 million write down on associated property plant and equipment in the fourth quarter of 2020.

(b) River City Millwork Inc.

On December 14, 2020, the Company acquired through one of its wholly owned subsidiaries substantially all of the assets and assumed certain liabilities of River City Millwork Inc. ("River City") for a total value of \$4.3 million. The acquisition was accounted for as a business combination under the acquisition method. The fair value of River City's identified assets acquired consisted of accounts receivable and other assets of \$1.5 million, inventories of \$1.6 million, property, plant and equipment of \$0.7 million, and payables and accruals of \$0.5 million. Goodwill of \$1.1 million was recognized as part of this acquisition and is attributable to the skills and talent of River City's workforce, value of the customer base, and an increase in market share. The goodwill is deductible for tax purposes.

(c) Aura Hardwoods

On December 8, 2020, the Company acquired through one of its wholly owned subsidiaries substantially all of the assets and assumed certain liabilities of Aura Hardwoods ("Aura") for a total value of \$10.6 million. The acquisition was accounted for as a business combination under the acquisition method. The fair value of Aura's identified assets acquired consisted of accounts receivable and other assets of \$3.8 million, inventories of \$7.4 million, property, plant and equipment of \$0.2 million, and payables and accruals of \$3.1 million. Goodwill of \$2.3 million was recognized as part of this acquisition and is attributable to the skills and talent of Aura's workforce, value of the customer base, and an increase in market share. The goodwill is deductible for tax purposes.

(d) 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 \$3.0 million. 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 receivable and other receivables of \$0.2 million, inventories of \$0.9 million, property, plant and equipment of \$0.1 million, and payables and accruals of \$0.2 million. Goodwill of \$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.

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.

HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Tabular amounts expressed in thousands of US dollars, unless stated otherwise)

Three month periods ended March 31, 2021 and 2020

5. Capital management (continued):

The Company's capitalization is as follows:

| | March 31, 2021 | Restated (Note 2(c)) December 31, 2020 | Restated (Note 2(c)) January 1, 2020 |
|----------------------|-------------------|---|---|
| Cash | \$ (7,212) | \$ (459) | \$ (11,640) |
| Bank indebtedness | 93,674 | 74,604 | 93,585 |
| Shareholder's equity | 251,622 | 239,826 | 218,235 |
| Total capitalization | \$ 338,084 | \$ 313,971 | \$ 300,180 |

The terms of the Company's US and Canadian credit facilities are described in note 8. The terms of the agreements with the Company's lenders provide that distributions cannot be paid by its subsidiaries in the event that its subsidiaries do not meet certain credit ratios. The Company's operating subsidiaries were compliant with all required credit ratios under the US and Canadian credit facilities as at March 31, 2021 and December 31, 2020, 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 March 11, 2021, the Company declared a cash dividend of CAD\$0.10 per common share to shareholders of record as of April 19, 2021. The dividend was paid to shareholders on April 30, 2021. On May 12, 2021, the Company declared a cash dividend of CAD\$0.10 per common share to shareholders of record as of July 19, 2021, to be paid on July 30, 2021.

HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Tabular amounts expressed in thousands of US dollars, unless stated otherwise)

Three month periods ended March 31, 2021 and 2020

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.

| | March 31, 2021 | Restated (Note 2(c)) December 31, 2020 | Restated (Note 2(c)) January 1, 2020 |
|--|-------------------|---|---|
| Trade accounts receivable - Canada | \$ 16,651 | \$ 11,594 | \$ 10,318 |
| Trade accounts receivable - United States | 95,578 | 80,134 | 76,130 |
| Sundry receivable | 4,119 | 4,167 | 3,377 |
| Current portion of non-current receivables | 679 | 648 | 968 |
| | 117,027 | 96,543 | 90,793 |
| Less: | | | |
| Allowance for credit loss | 3,087 | 3,198 | 3,220 |
| | \$ 113,940 | \$ 93,345 | \$ 87,573 |
| Non-current receivables: | | | |
| Employee housing loans | \$ — | \$ — | \$ 92 |
| Customer notes | 280 | 372 | 820 |
| Security deposits | 1,836 | 1,691 | 1,885 |
| | 2,116 | 2,063 | 2,797 |
| Less: | | | |
| Current portion, included in accounts receivable | 679 | 648 | 968 |
| | 1,437 | 1,415 | 1,829 |
| Investments | 5,518 | 5,739 | — |
| | \$ 6,955 | \$ 7,154 | \$ 1,829 |

The aging of trade receivables is:

| | March 31, 2021 | Restated (Note 2(c)) December 31, 2020 | Restated (Note 2(c)) January 1, 2020 |
|-----------------------|-------------------|---|---|
| Current | \$ 92,234 | \$ 68,032 | \$ 59,995 |
| 1 - 30 days past due | 12,595 | 15,118 | 15,411 |
| 31 - 60 days past due | 3,626 | 4,211 | 6,206 |
| 60+ days past due | 3,774 | 4,367 | 4,836 |
| | \$ 112,229 | \$ 91,728 | \$ 86,448 |

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 uncollectible amounts. Accounts that are considered uncollectible are written off. The total allowance at March 31, 2021 was \$3.1 million (December 31, 2020 - \$3.2 million, January 1, 2020 - \$3.2 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 US dollars, unless stated otherwise)

Three month periods ended March 31, 2021 and 2020

6. Receivables and investments (continued):

Bad debt recovery for the three month periods ended March 31, 2021 was \$0.1 million (bad debt expense, net of recoveries for the three month periods ended March 31, 2020 - \$0.7 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:

| | March 31, 2021 | Restated (Note 2(c)) December 31, 2020 | Restated (Note 2(c)) January 1, 2020 |
|------------------|-------------------|---|---|
| Raw materials | \$ — | \$ 998 | \$ 902 |
| Work in process | 325 | 2,462 | 2,942 |
| Goods in-transit | 23,614 | 18,537 | 6,500 |
| Finished goods | 156,808 | 150,314 | 149,754 |
| | \$ 180,747 | \$ 172,311 | \$ 160,098 |

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:

| | March 31, 2021 | Restated (Note 2(c)) March 31, 2020 |
|---|-------------------|--|
| Inventory write-downs, included in cost of goods sold | \$ 433 | \$ 324 |
| Cost of inventory sold | 223,307 | 185,610 |
| Other cost of goods sold | 9,956 | 9,561 |
| Total cost of goods sold | \$ 233,263 | \$ 195,171 |

8. Bank indebtedness:

| | March 31, 2021 | Restated (Note 2(c)) December 31, 2020 | Restated (Note 2(c)) January 1, 2020 |
|--|-------------------|---|---|
| Checks issued in excess of funds on deposit | \$ 290 | \$ 976 | \$ 1,916 |
| Credit facility, Hardwoods LP (March 31, 2021 - CAD\$21,632, December 31, 2020 - CAD\$21,806, January 1, 2020 - CAD\$13,013) | 17,201 | 17,127 | 10,019 |
| Credit facility, Hardwoods USLP | 76,183 | 56,501 | 81,650 |
| | \$ 93,674 | \$ 74,604 | \$ 93,585 |

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 US dollars, unless stated otherwise)

Three month periods ended March 31, 2021 and 2020

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 \$19.9 million (CAD\$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 \$1.6 million (CAD\$2.0 million).

At March 31, 2021, the LP Credit Facility has unused availability of \$2.7 million (December 31, 2020 - \$1.7 million, January 1, 2020 - \$7.9 million) before cheques issued in excess of funds on deposit of \$0.3 million (December 31, 2020 - \$1.0 million, January 1, 2020 - \$1.9 million).

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

The USLP II Credit Facility consists of a revolving credit facility of \$150.0 million. 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 \$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 March 31, 2021, the USLP II Credit Facility has unused availability of \$72.0 million, before cheques issued in excess of funds on deposit of nil. At December 31, 2020, the USLP II Credit Facility had unused availability of \$70.8 million, before cheques issued in excess of funds on deposit of nil. At January 1, 2020, the USLP II Credit Facility had unused availability of \$45.8 million, before cheques issued in excess of funds deposit of nil.

The Company has letters of credit outstanding at March 31, 2021 totaling \$3.4 million (December 31, 2020 - \$3.4 million, January 1, 2020 - \$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 US dollars, unless stated otherwise)

Three month periods ended March 31, 2021 and 2020

9. Share capital:

(a) Share capital

A continuity of share capital is as follows:

| | Shares | Total |
|---|------------|-----------|
| Balance at December 31, 2019 restated (Note 2(c)) | 21,355,327 | \$ 98,702 |
| Issued pursuant to long term incentive plan | 108,343 | 1,139 |
| Share repurchase | (222,133) | (2,099) |
| Balance at December 31, 2020 restated (Note 2(c)) | 21,241,537 | 97,742 |
| Issued pursuant to long term incentive plan | 46,713 | 464 |
| Balance at March 31, 2021 | 21,288,250 | \$ 98,206 |

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

A continuity of the LTIP Shares outstanding is as follows:

| | Performance Shares | Restricted Shares |
|---|--------------------|-------------------|
| 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) | (131,683) |
| Balance at December 31, 2020 | 182,571 | 239,123 |
| LTIP shares issued during the year | — | — |
| LTIP shares forfeited during the period | (8,268) | (2,482) |
| LTIP shares settled during the period | (43,848) | (2,865) |
| Balance at March 31, 2021 | 130,455 | 233,776 |

LTIP compensation expense of \$0.7 million was recognized in the consolidated statements of comprehensive income for three months ended March 31, 2021 (March 31, 2020 - \$ nil). The equity classified portion of the LTIP compensation expense was \$0.2 million for three months ended March 31, 2021 (March 31, 2020 - \$0.2 million) and the liability classified expense was \$0.5 million (March 31, 2020 - recovery of \$0.2 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.

HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Tabular amounts expressed in thousands of US dollars, unless stated otherwise)

Three month periods ended March 31, 2021 and 2020

9. Share capital (continued):

(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 March 31, 2021 of \$13.0 million (March 31, 2020 - \$7.0 million). The weighted average number of common shares outstanding in each of the reporting years was as follows:

| | March 31, 2021 | March 31, 2020 |
|---|-------------------|-------------------|
| Issued ordinary shares at beginning of year | 21,241,537 | 21,355,327 |
| Effect of shares repurchased | — | (74,711) |
| Effect of shares issued during the year: | | |
| Pursuant to long-term incentive plan | 519 | 17 |
| Weighted average common shares - basic | 21,242,056 | 21,280,633 |
| Effect of dilutive securities: | | |
| Long-term incentive plan | 217,899 | 128,952 |
| Weighted average common shares - diluted | 21,459,955 | 21,409,585 |

10. Finance income and expense:

| | Note | March 31, 2021 | Restated (Note 2(c)) March 31, 2020 |
|---|------|-------------------|--|
| Finance expense: | | | |
| Interest on bank indebtedness | 8 | (495) | (1,010) |
| Accretion of finance lease obligation | | (819) | (887) |
| Foreign exchange loss | | (79) | — |
| Unrealized loss on investments | | (169) | — |
| Total finance expense | | (1,562) | (1,897) |
| Finance income: | | | |
| Interest on trade receivables, customer notes, and employee loans | 6 | 55 | 96 |
| Foreign exchange gain | | — | 81 |
| Total finance income | | 55 | 177 |
| Net finance expense | | (1,507) | (1,720) |

HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Tabular amounts expressed in thousands of US dollars, unless stated otherwise)

Three month periods ended March 31, 2021 and 2020

11. Segment reporting:

Information about geographic areas is as follows:

| | March 31, 2021 | Restated (Note 2(c)) March 31, 2020 |
|----------------------------------|-------------------|--|
| Revenue from external customers: | | |
| Canada | \$ 38,863 | \$ 27,341 |
| United States | 252,296 | 214,385 |
| | \$ 291,159 | \$ 241,726 |

| | March 31, 2021 | Restated (Note 2(c)) December 31, 2020 | Restated (Note 2(c)) January 1, 2020 |
|-------------------------------------|-------------------|---|---|
| Non-current assets ⁽¹⁾ : | | | |
| Canada | \$ 6,905 | \$ 7,222 | \$ 8,328 |
| United States | 162,735 | 167,833 | 157,698 |
| | \$ 169,640 | \$ 175,055 | \$ 166,026 |

⁽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 March 31, 2021.