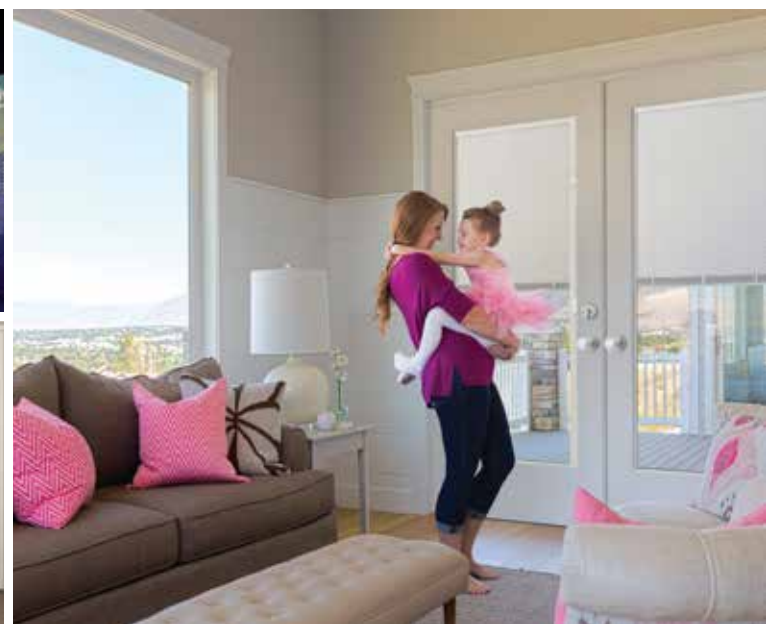






## A WORLD-CLASS DISTRIBUTOR OF ARCHITECTURAL BUILDING PRODUCTS



North American leader in the distribution of architectural building products



**90%**  
of the business operates in the US

Trusted partner to a diverse base of leading suppliers in the industry

With whom we have built long lasting relationships

Provides us with a wide offering of products, including proprietary and exclusive offerings

Bringing value to **40,000+** customers

Industrial manufacturers use our products to make end-use applications for the commercial, residential, repair and remodel, and diversified construction markets

Customers rely on us for tailored and unique material supply solutions, best-in-class service, and top quality products

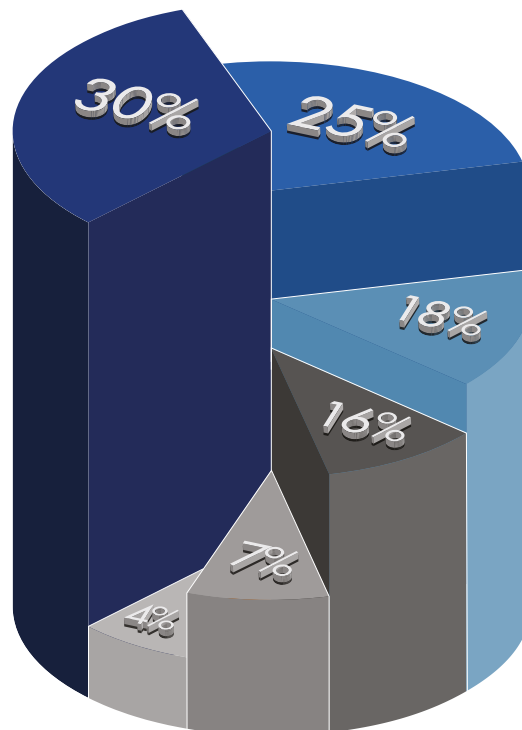


**1,329** employees

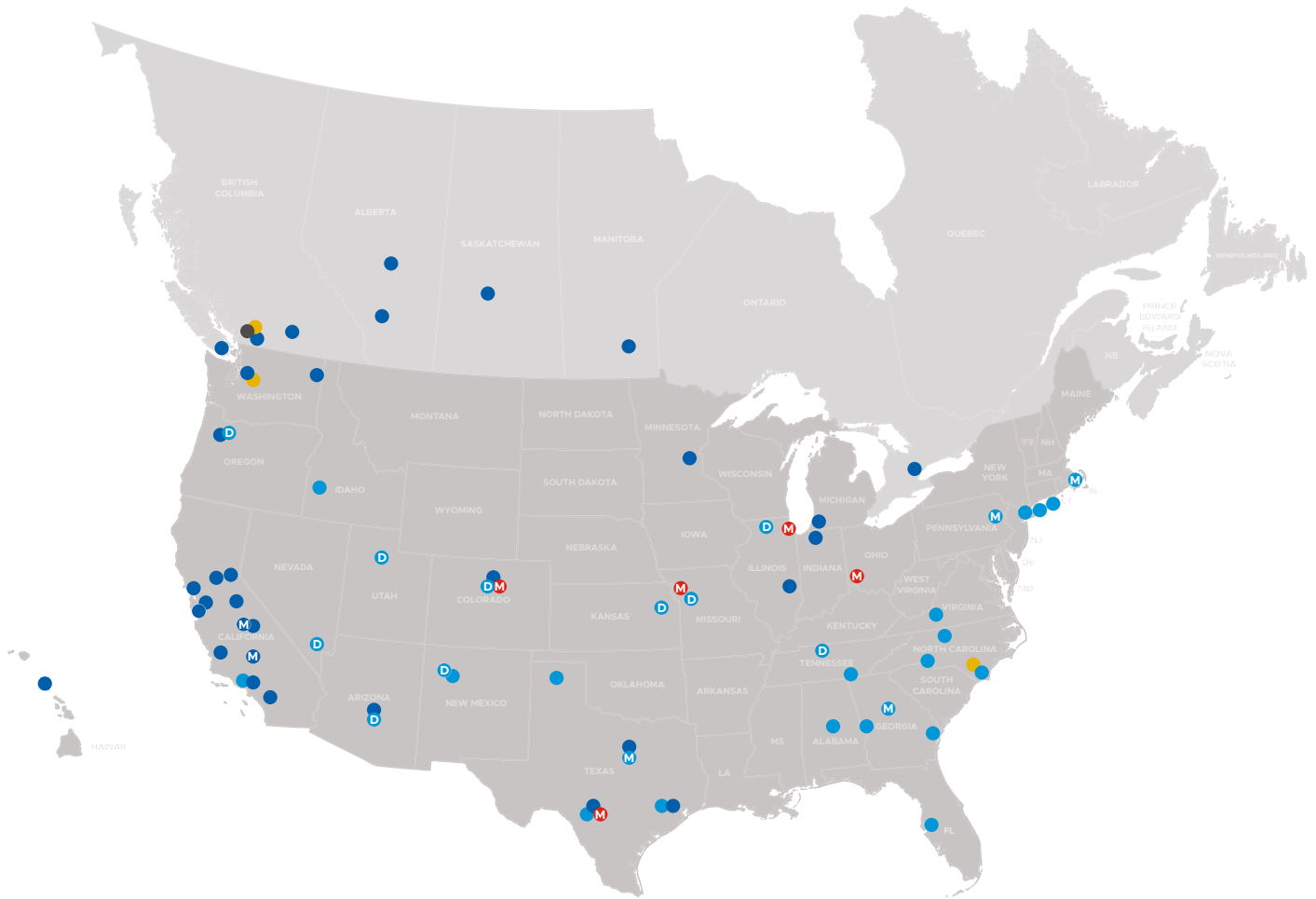


**450** in sales and marketing

2020  
**Sales**



- Hardwood Plywood
- Hardwood Lumber
- Decorative Surfaces
- Doors and Related Millwork
- Composite Panels
- Diversified



Multi-brand strategy, a differentiator in the marketplace

**HARDWOODS**  
HARDWOODS SPECIALTY PRODUCTS

**25 US LOCATIONS**

- BAKERSFIELD, CA
- CHATSWORTH, CA
- FRESNO, CA
- LOS ANGELES, CA
- MODESTO, CA
- PHOENIX, AZ
- RANCHO CORDOVA, CA
- SACRAMENTO, CA
- SAN FRANCISCO, CA
- SAN JOSE, CA
- SAN LUIS OBISPO, CA
- SANTA CRUZ, CA
- KAPOLEI, OAHU, HI
- PORTLAND, OR
- SEATTLE, WA
- SPOKANE, WA
- ELKHART, IN
- GRAND RAPIDS, MI
- MATTOON, IL
- MINNEAPOLIS, MN
- DENVER, CO
- DALLAS, TX
- HOUSTON, TX
- SAN ANTONIO, TX

**8 CANADIAN LOCATIONS**

- CALGARY, AB
- EDMONTON, AB
- SASKATOON, SK
- KELOWNA, BC
- VANCOUVER, BC
- VICTORIA, BC
- TORONTO, ON
- WINNIPEG, MB

**Rugby**  
Architectural Building Products

**32 LOCATIONS**

- ATLANTA, GA
- BIRMINGHAM, AL
- CHARLOTTE, NC
- CHATTANOOGA, TN
- COLUMBUS, GA
- KERNERSVILLE, NC
- ROANOKE, VA
- SAYANNAH, GA
- TAMPA, FL
- WILMINGTON, NC
- DALLAS, TX
- HOUSTON, TX
- SAN ANTONIO, TX
- ALBUQUERQUE, NM
- AMARILLO, TX
- LOS ANGELES, CA
- PHOENIX, AZ
- KANSAS CITY, MO
- NASHVILLE, TN
- OLATHE, KS
- ROCKFORD, IL
- BLAKESLEE, PA
- BOSTON-STOUGHTON, MA
- BRONX, NY
- LONG ISLAND, NY
- MOONACHE, NJ
- BOISE, ID
- DENVER, CO
- LAS VEGAS, NV
- PORTLAND, OR
- SALT LAKE CITY, UT

**FRANK PRATO LUMBER COMPANY**

**5 LOCATIONS**

- CINCINNATI, OH
- CHICAGO, IL
- DENVER, CO
- KANSAS CITY, MO
- SAN ANTONIO, TX

**HDI**  
HARDWOODS DISTRIBUTION INC.

**HEAD OFFICE**  
VANCOUVER (LANGLEY), BC

**HDI**  
Import Division

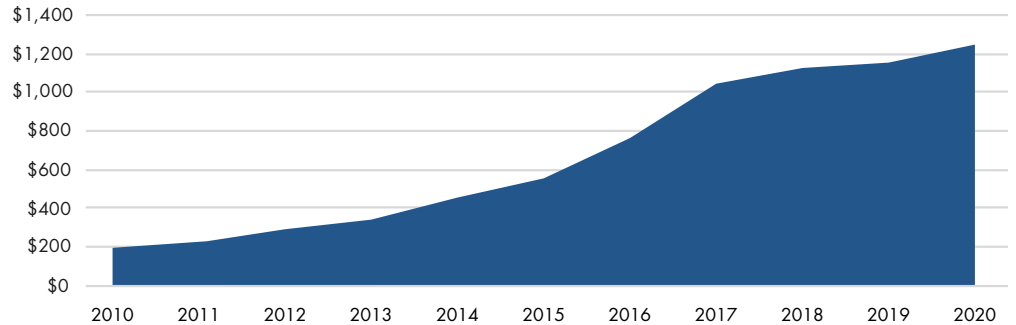
HDI IMPORT DIVISION VANCOUVER, BC  
HDI IMPORT LUMBER DIVISION LELAND, NC  
HDI IMPORT PANEL DIVISION RENTON, WA

**D** DOOR MANUFACTURING    **M** MOULDING AND MILLWORK MANUFACTURING

## Sales Growth

Sales of **\$1.2 billion, \$625 million** from acquired businesses. Compound annual sales growth rate of **17%** in the last five years.

Sales (in \$ millions)

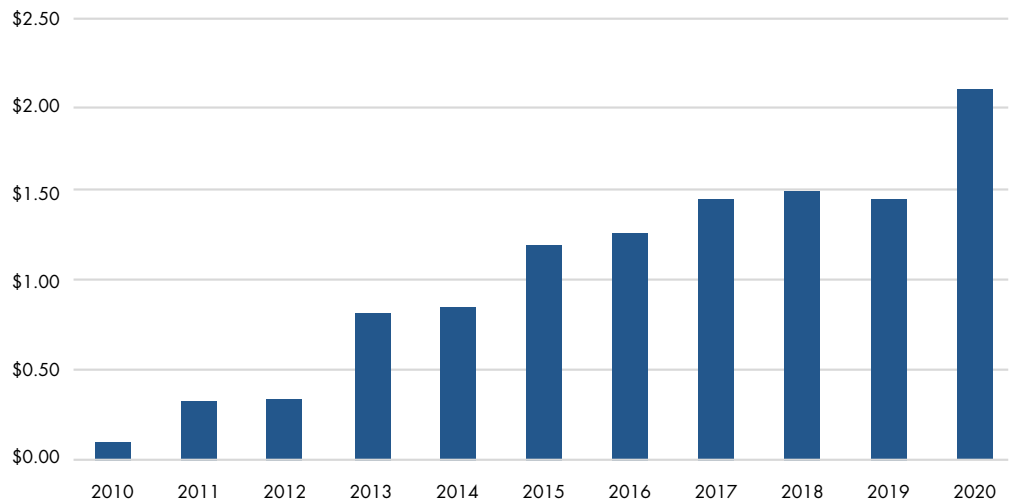


## Adjusted Earnings Per Share (in \$)

Growth leads to strong earnings per share, and **accretive growth** for shareholders.

Compound annual growth rate of **9%** in the last five years.

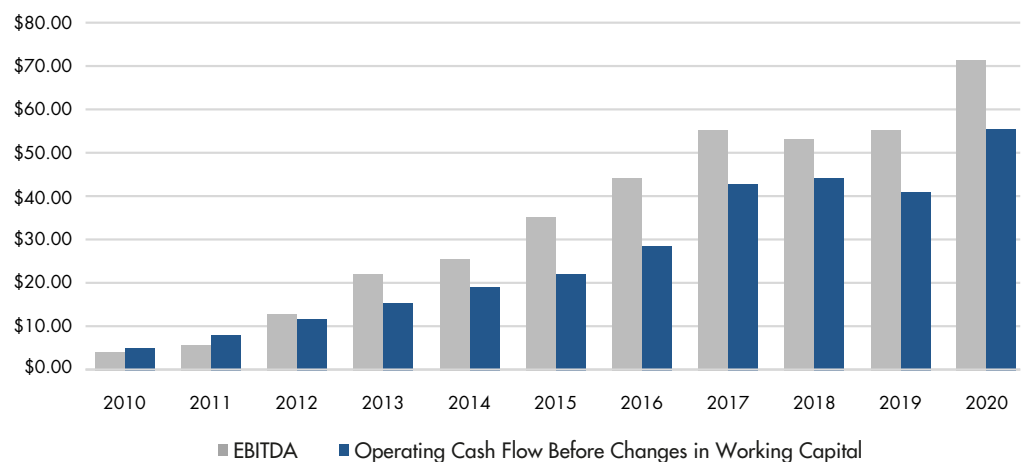
Adjusted Earnings Per Share (in \$)



## Cash Flow Generation

Significant **cash flow generation**, and conversion of EBITDA to cash flow before changes in working capital has averaged **80%**.

EBITDA and Cash Flows (in \$ millions)<sup>1</sup>

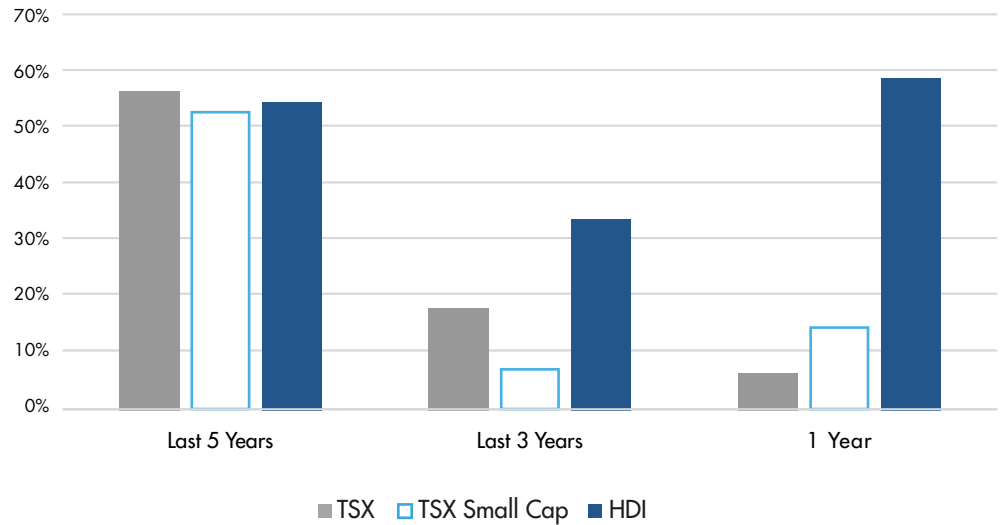


<sup>1</sup> Excludes the effects of IFRS 16

## Total Shareholder Returns

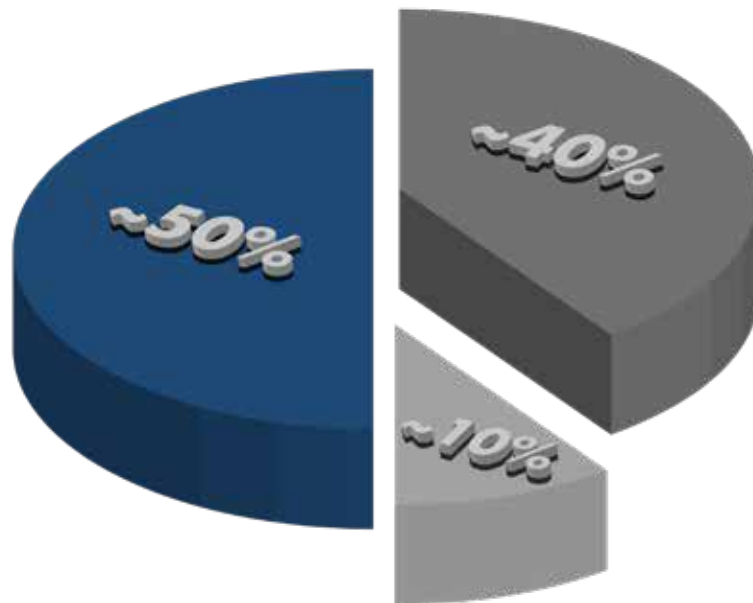
Our **shareholder returns** compare favorably to the TSX and TSX small cap indices, and significantly exceeds these benchmarks in 2020 and over the last 3 years. Shareholder returns include **share repurchases** and **dividends**, which have been increased every year for the last eight years.

Total Shareholder Returns to December 2020



## End Markets

We are **diversified** by end market, participate in all major **architectural building products** categories, and have no significant customer or supplier concentration.



- Residential**  
 • New Construction  
 • Repair & Renovation
- Commercial**  
 • Office Buildings  
 • Restaurants, Bars, Hotels  
 • Retail  
 • Schools, Hospitals, Airports
- Diversified**

## **To our Shareholders,**

HDI achieved record-setting results in 2020 as we executed on our strategies and created value for shareholders in a period heavily influenced by the global pandemic.

Our team moved quickly to adapt to pandemic conditions early in the second quarter, keeping our people safe and our operations open for business, reducing expenses and working capital, and capturing market share. We further benefited from our proprietary global sourcing capability in 2020, and we completed three acquisitions which added \$90 million in annualized revenues. Our strategies contributed to record financial results across key metrics, including a 27.1% increase in profit per share to \$1.78. Importantly, we were also able to increase our dividend by 17% to an annual rate of \$0.40 per share.

I am proud of our performance and I am also excited by our prospects and outlook going forward. We are now moving into what we anticipate will be a multi-year growth environment and HDI is as well positioned to take advantage of this today as at any time in the 16 years I've been with the company. Here's why:

### **Our operational execution has never been better**

Our gross margin percentage is one important indicator of our operational performance, and in 2020 we increased it to a record 19.2%, from 18.0% in 2019. Our focus on capturing growth in the profitable door product category has been successful and we have grown this product segment to 16% of our revenues in 2020 from nil just five years ago. In addition, our proprietary global supply lines are operating at peak performance and contributing to our record gross margin percentage.

On the operating expense side, we learned to do more with less in 2020 and many of the expense savings initiatives we put in place during the pandemic have continued.

While our efforts culminated in the best sales, gross margin percentage, adjusted EBITDA and profits in HDI's history, keep in mind that we generally achieved these results without

the benefit of significant product price appreciation. Organic demand took many months to recover and product prices did not start to appreciate until after the year ended. We achieved our 2020 results on strong operational execution. Now moving into fiscal 2021, our execution is as strong as it has ever been and it's about to be paired with a significantly better market conditions.

**We are entering a highly favourable macro-demand environment for our products**

Our customers today are the busiest they have been since the onset of the pandemic. In the US, which accounts for approximately 90% of our sales, the outlook for residential and repair and remodel construction is very positive. Housing starts are increasing after meaningfully lagging population growth this past decade. Millennials represent the largest segment of the population and are expected to further drive demand for homes. Forecasts suggest we are entering a multi-year period of demand growth driven by record low mortgage rates and the aging of U.S. housing stock that will need to be refurbished or replaced.

Social trends are only accelerating the demand for architectural building products. The pandemic resulted in more people working from home, fuelling both a desire for additional living space and a trend towards individuals spending more of their disposable income on home renovations and repairs.

**Well positioned for demand growth and have the business model to capitalize on it**

As North America's largest distributor of architectural building products, we are uniquely positioned to capitalize on this growing demand. The pandemic reinforced for suppliers and customers the value that our size and scale brings to the architectural building products value chain. The investments we have made in our platform, including global sourcing, a specification sales team targeting architects and designers to create pull through sales demand, and technology enablement tools that make it easier to do business with us, bring an overall offering to the market that differentiates us from our regionally focused competitors.

Our ability to benefit financially from demand growth is supported by our price pass-through model, which keeps our selling prices closely aligned with product prices. This is especially critical when demand-supply imbalances drive up costs as we've seen in recent months. And because we maintain a strong and stable gross margin on our sales, higher product prices



typically boost our profits and EBITDA, which in turn converts very efficiently to operating cash flow.

**We will accelerate growth with acquisitions**

As we move forward, we see significant opportunities to complement our organic growth with acquisitions. Our industry remains highly fragmented and our balance sheet positions us to act on a very strong acquisition pipeline. M&A is a core competency here at HDI. In the past 10 years, we have doubled our revenues with over \$700M of new annualized sales achieved and over 50 locations added. Every one of these transactions has been accretive to earnings and each strengthened our market position in specific ways aligned with our strategy. We will continue to execute on attractive acquisitions with a dedicated M&A team and a proven formula for identifying, assessing and integrating targeted opportunities.

**We are as positive about our future as we have ever been**

To summarize, HDI is entering the strongest macro-demand environment we've seen in years and approaching it from a place of operational, financial and competitive strength. Add to this a business model that captures and capitalizes on organic demand, a robust acquisition program that accelerates our growth trajectory, and our long track record of translating topline growth into strong EBITDA and cash flow performance, and I believe we are better positioned than ever to reward your investment in HDI.

I want to close by sincerely thanking our HDI team for their remarkable performance in the challenging 2020 year. And I thank you our shareholders for your continued confidence in HDI.



---

Rob Brown  
President & CEO

This management's discussion and analysis ("MD&A") has been prepared by Hardwoods Distribution Inc. ("HDI" or the "Company") as of March 11, 2021. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes ("Audited Financial Statements") of the Company for the years ended December 31, 2020 and 2019. Results are reported in Canadian dollars unless otherwise noted. For additional information, readers should also refer to our Annual Information Form and other information filed on [www.sedar.com](http://www.sedar.com).

In this MD&A, references to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization, where interest is defined as net finance costs as per the consolidated statement of comprehensive income. Furthermore, we discuss certain EBITDA Ratios, such as EBITDA margin (being EBITDA as a percentage of sales), net bank debt-to-EBITDA after rents (or "Leverage Ratio") (net bank debt as described in section 5.3 as compared to EBITDA after rent payments), and certain Liquidity Ratios such as working capital (as defined in section 5.2 of this report), cash provided by operating activities before changes in working capital, per share (as defined in section 5.1 of this report); and net bank debt-to-capitalization (net bank debt as compared to capitalization as described in section 5.3). In addition to profit, we consider EBITDA, EBITDA Ratios, and Liquidity Ratios to be useful supplemental measures of our ability to meet debt service and capital expenditure requirements, and we interpret trends in EBITDA and EBITDA Ratios (such as EBITDA margin) as an indicator of relative operating performance.

In this MD&A, references to "Adjusted EBITDA" are EBITDA as defined above, before non-cash Long Term Incentive Plan (LTIP) expense, impairment loss related to Hardwoods of Michigan ("HMI"), transaction expenses, and duties payable. "Adjusted EBITDA margin" and "net bank debt-to-Adjusted EBITDA after rent" (together the "Adjusted EBITDA Ratios") are as defined above, before non-cash LTIP expense, impairment loss related to Hardwoods of Michigan ("HMI"), transaction expenses, and duties payable. References to "Adjusted profit", "Adjusted basic profit per share", and "Adjusted diluted profit per share" are profit for the period, basic profit per share, and diluted profit per share, before non-cash LTIP expense, impairment loss related to Hardwoods of Michigan ("HMI"), transaction expenses, and duties payable. The aforementioned adjusted measures are collectively referenced as "the Adjusted Measures". We consider the Adjusted Measures to be useful

supplemental measures of our profitability, our ability to meet debt service and capital expenditure requirements, our ability to generate cash flow from operations, and as an indicator of relative operating performance, before non-cash LTIP expense, transaction expenses, and allowance for duty deposits.

EBITDA, EBITDA Ratios, Liquidity Ratios and the Adjusted Measures (collectively "the Non-GAAP Measures") are not measures recognized by International Financial Reporting Standards ("IFRS") and do not have a standardized meaning prescribed by IFRS. Investors are cautioned that the Non-GAAP Measures should not replace profit, earnings per share or cash flows (as determined in accordance with IFRS) as an indicator of our performance. Our method of calculating the Non-GAAP Measures may differ from the methods used by other issuers. Therefore, our Non-GAAP Measures may not be comparable to similar measures presented by other issuers. For a reconciliation between Non-GAAP Measures and measures as determined in accordance with IFRS, please refer to the discussion of Results of Operations described in section 3.0, Working Capital in section 5.2, and Revolving Credit Facilities and Debt Management Strategy in section 5.3 of this report.

## Contents

This MD&A includes the following sections:

- 1.0 Executive Summary
  - 1.1 Highlights
  - 1.2 Outlook
  - 1.3 Recent Acquisitions
- 2.0 Business and Industry Overview
- 3.0 Results of Operations
  - 3.1 Years ended December 31, 2020 and December 31, 2019
  - 3.2 Three-Month Periods Ended December 31, 2020 and December 31, 2019
- 4.0 Quarterly Financial Information and Seasonality
- 5.0 Liquidity and Capital Resources
  - 5.1 Cash Flows from Operating, Investing and Financing Activities
  - 5.2 Working Capital
  - 5.3 Revolving Credit Facilities and Debt Management Strategy
  - 5.4 Contractual Obligations
  - 5.5 Off-Balance Sheet Arrangements
  - 5.6 Financial Instruments
  - 5.7 Share Data
  - 5.8 Dividends
- 6.0 Related-Party Transactions
- 7.0 Critical Accounting Estimates and Adoption of Changes in Accounting Policies
  - 7.1 Critical Accounting Estimates
- 8.0 Risks and Uncertainties
- 9.0 Internal Control over Financial Reporting
- 10.0 Note Regarding Forward-Looking Information

## 1.0 Executive Summary

### 1.1 Highlights

We achieved record-breaking financial performance in 2020, including the highest sales in our history and our best-ever gross margin percentage, EBITDA, and profit results. These gains were driven by strong execution at the operating and strategic level, and were achieved despite a significant slowdown in economic activity in the second quarter as our markets adjusted to operating amidst the COVID-19 pandemic. Against this backdrop, we generated the following record results:

#### *Summary financial highlights*

- **Consolidated sales** grew 6.3% to \$1,245.3 million
- **Gross margin percentage** increased to 19.2%, from 18.1% in 2019
- **Adjusted EBITDA** grew 23.5% to \$97.5 million
- **Profit per share** increased to \$1.78, up 29.0% year-over-year
- **Adjusted profit per share** increased to \$2.09, up 40.3% year-over-year
- **Cash provided by operating activities** before changes in working capital climbed to \$3.91 per share, an increase of \$0.80 per share

Our success in overcoming pandemic-related challenges, including the over 20% fall off in April 2020 sales demand, reflects a number of key strengths and strategies. First, we have an experienced and responsive leadership team that has managed through many economic cycles. When faced with the material disruption of the pandemic, our team moved quickly to a) implement policies and procedures to protect our people and keep our locations open for business; b) reduce working capital and expenses without impacting productive capacity; and c) refocus our sales capability on taking market share. The result was a consistent improvement in sales subsequent to April 2020. In the third quarter, organic sales recovered to pre-pandemic levels and by the fourth quarter, we were once again achieving year-over-year organic sales growth. We note that most of this sales recovery was volume based. While prices in our product categories have recently begun to appreciate, this strengthening has occurred subsequent to the fiscal year-end.

Our record-setting year was further supported by the successful execution of our acquisition strategy. We completed three transactions during the year and combined these transactions represent approximately \$90 million of new sales on an annualized basis (for further information on acquisitions, see Section 1.3). Additionally our 2020 results benefited from our strategies for improving gross margin percentage, including continued execution of our proprietary global sourcing strategy. We were successful in boosting our gross margin percentage to a record 19.2% in 2020, from 18.1% in 2019.

Our strong performance extended to our balance sheet as well. We ended the year in a strong financial position, generating significant cash flows which we used to meet our capital allocation priorities. These included financing the \$22.8 million of acquisitions completed in 2020, returning value to shareholders in the form of \$2.8 million in share repurchases and \$7.2 million in dividends, and reducing our Leverage Ratio (see Section 5.2 for definition) to 1.3 times, from 2.0 times at December 31, 2019.

## 1.2 Outlook

Our customers today are the busiest they have been since the onset of the COVID-19 pandemic in early 2020, and leading indicators for the US residential construction market are very positive. Housing starts have meaningfully lagged population growth this past decade leading to pent-up demand for housing. Millennials represent the largest segment of the population and will further drive demand for homes. Furthermore record low mortgage rates and a trend, resulting from the pandemic, towards population shift from urban to suburban markets are contributing to a sharp increase in housing permits and starts. As most of our products relate to the interior finishing of a building, there can be a six-to-nine-month lag between positive construction data and demand for our products. Accordingly, the positive data we saw in the latter half of 2020 should benefit us in 2021.

The repair and remodel market is benefiting from rising home equity and availability of low-cost consumer capital, the age of the current U.S. housing stock, and social trends such as individuals spending more of their time and disposable income on their home. These trends are expected to drive multi-year demand for our products.

The outlook for US commercial markets remains mixed. This is a diverse market for HDI, including manufacturers of recreational vehicles and furniture, as well as builders of healthcare, education, hospitality, and retail facilities, interiors and fixtures. We expect certain of these commercial end-markets will perform better than others, with the diverse nature of our participation reducing the impact of dynamics in any one geography or end-market.

With a strong growth environment forecasted for 2021, there is a potential for demand to outpace supply, which in turn could create supply constraints and result in rising product prices. We generally expect to have consistent and predictable access to supply given we are often the largest customer for our suppliers. Additionally, our price pass-through model and ability to adjust pricing in a relatively short period of time typically enable us to translate higher product costs into increased sales and gross margin dollars.

We believe HDI is very well positioned going forward. We are moving into 2021 with a diversified business with no significant geographic, supplier, or customer concentration. We are also diversified from an end-market perspective. We estimate that more than half of the products we sell are used in residential and repair and remodel applications, and the remainder in a wide array of commercial and other applications.

Our financial position is also strong, supported by significant cash-generating capability, no term debt, and good liquidity. We remain well positioned to pursue our business strategies and to continue creating value for our shareholders. Additionally, to reduce volatility from exchange rates, effective January 1, 2021, HDI will begin reporting results in U.S. dollars. Given 90% of the Company's revenues come from the U.S., this is considered an appropriate currency for reporting purposes.

Our capital allocation priorities will continue to include growth through acquisitions as we believe there are numerous accretive acquisition opportunities available. We also intend to allocate cash to support organic growth and return value to shareholders in the form of dividends, while remaining opportunistic in our approach to share repurchases.

## 1.3 Recent Acquisitions

We have a robust pipeline of accretive acquisition opportunities that we have been acting upon in order to enhance our position as North America's #1 distributor of architectural building products. In 2020 we completed three acquisitions (the "Acquired Businesses"), adding over \$90 million in annualized sales.

### **River City Millwork Inc.**

On December 14, 2020, we acquired (through one of our wholly owned subsidiaries) substantially all of the assets and assumed certain liabilities of River City Millwork Inc. ("River City") for a total value of US\$4.3 million. Located in Rockford, Illinois, River City is a wholesale distributor of interior and exterior doors, custom millwork, and other ancillary products with annual sales of US\$14 million. River City complements our growing presence in the higher-margin door and related millwork product category.

### **Aura Hardwoods**

On December 8, 2020, we acquired (through one of our wholly owned subsidiaries) substantially all of the assets and assumed certain liabilities of Aura Hardwoods ("Aura") for a total value of US\$10.6 million. Aura is a wholesale distributor of architectural building products with six locations in Northern California and annual sales of US\$53 million. Aura adds significant size and scale to our existing California operations.

### **Diamond Hardwoods**

On March 9, 2020, we purchased substantially all of the assets and assumed certain liabilities of Diamond Hardwoods ("Diamond") for a total value of US\$3.0 million. Diamond is a wholesale distributor with annual sales of US\$6 million and locations in Fresno and Bakersfield, California. The addition of Diamond broadens our service capabilities in Northern California, while adding bench strength to our team and a customer set with minimal overlap.





## 2.0 Business and Industry Overview

Serving customers for over 60 years, HDI is North America's largest distributor of architectural building products to the residential, repair and remodel and commercial construction markets. As at March 11, 2021 we operated 73 distribution facilities across North America. Certain of these facilities include light manufacturing capabilities, which enable us to create custom moulding and millwork packages for our customers.

Approximately 25% of our 2020 sales were made up of decorative surfaces and composites, such as high pressure laminates, thermally fused laminates, medium-density fiberboard, and particleboard. Approximately 30% of our sales were of hardwood plywood, 25% of our sales were high-grade hardwood lumber, 16% of our sales were doors, and 4% were comprised of other ancillary architectural building products. Many of our product lines are complementary, and our customers, industrial manufacturers, typically use a number of key products from the categories described to manufacture their own end-use products.

Our primary role in the industry is to provide the critical link between suppliers manufacturing large volumes of products, and small-to-mid-sized industrial customers that require lesser quantities of many different products for their own manufacturing processes. We provide a means for hundreds of primary manufacturers to get their product to thousands of fabrication customers. We add value to our suppliers by buying their product in volume and paying them promptly, by providing access to our large North American distribution network, and by supporting their products with strong sales and marketing support. We effectively act as their third-party sales force. We add value for our customers by providing them with the materials they need on a just-in-time basis, selling in smaller quantities, and offering a wider range of product selection than the customer would be able to purchase directly from an individual mill. We also provide an important source of financing for our customers by allowing them to buy material from us on approved credit terms.

Our customer base manufactures a range of end-use products, such as cabinetry, furniture and custom millwork. These products, in turn, are sold into multiple sectors of the economy, including new home construction, renovation, non-residential construction, institutional markets and manufacturing. As a result of this diversity, it is difficult to determine with certainty what proportion of our products end up in each sector of the economy. We estimate that approximately half of our products are used in residential construction and repair and remodel, in the form of cabinets, mouldings, custom finishing, and home furniture. We

believe the balance of our products ends up in other sectors of the economy not associated with new residential construction, such finishing millwork for office buildings, recreational vehicles, restaurant and bar interiors, hotel lobbies, retail point-of-purchase displays, schools, hospitals, custom motor coaches, yacht interiors and other specialty areas.

Our products are sourced as follows: A majority of decorative surfaces, composites, and doors are generally supplied by large manufacturers in North America. Hardwood plywood is produced in North America by large manufacturers using domestic hardwoods and other materials, as well as by overseas hardwood plywood manufacturers. The majority of the high-grade hardwood lumber we distribute is harvested from North American hardwood forests, located principally in the Eastern United States, and is milled by hundreds of small mills. Imported hardwood lumber is largely limited to specialty species that generally do not compete with domestic hardwood lumber. A majority of other architectural building products are generally sourced from North American mills or manufacturers, of varying sizes depending on the product. Principally third parties such as us distribute the majority of the products we carry.



## 3.0 Results of Operations

### 3.1 Years ended December 31, 2020 and December 31, 2019

Selected Consolidated Financial Information (in thousands of Canadian dollars)						
	For the year		For the year			
	ended Dec 31		ended Dec 31		\$ Increase	
	2020		2019		(Decrease)	
					% Increase	
					(Decrease)	
Total sales	\$	1,245,312	\$	1,171,921	\$ 73,391	6.3 %
<i>Sales in the US (US\$)</i>		821,034		779,203	41,831	5.4 %
<i>Sales in Canada</i>		144,077		138,100	5,977	4.3 %
Gross profit		239,482		211,979	27,503	13.0 %
<i>Gross profit %</i>		19.2%		18.1%		
Operating expenses		(180,934)		(163,721)	17,213	10.5 %
Profit from operating activities	\$	58,548	\$	48,258	\$ 10,290	21.3 %
Add: Depreciation and amortization		31,229		27,953	3,276	11.7 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	\$	89,777	\$	76,211	\$ 13,566	17.8 %
<i>EBITDA as a % of revenue</i>		7.2%		6.5%		
Add (deduct):						
Depreciation and amortization		(31,229)		(27,953)	(3,276)	
Net finance income (expense)		(7,593)		(9,158)	1,565	
Income tax expense		(13,354)		(9,520)	(3,834)	
Profit for the period	\$	37,602	\$	29,581	\$ 8,021	27.1 %
Basic profit per share	\$	1.78	\$	1.38		
Diluted profit per share	\$	1.76	\$	1.38		
Average Canadian dollar exchange rate for one US dollar	\$	1.342	\$	1.327		

Analysis of Specific Items Affecting Comparability (in thousands of Canadian dollars)						
	For the year		For the year			
	ended Dec 31		ended Dec 31		\$ Increase	
	2020		2019		(Decrease)	
					% Increase	
					(Decrease)	
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	\$	89,777	\$	76,211	\$ 13,566	17.8 %
Non-cash LTIP expense		3,551		2,249	1,302	
Impairment loss related to HMI		3,085		—	3,085	
Duties payable		912		—	912	
Transaction expenses		218		509	(291)	
Adjusted EBITDA	\$	97,543	\$	78,969	\$ 18,574	23.5 %
<i>Adjusted EBITDA as a % of revenue</i>		7.8%		6.7%		
Profit for the period, as reported	\$	37,602	\$	29,581	\$ 8,021	27.1 %
Adjustments, net of tax		6,465		2,360	4,105	
Adjusted profit for the period	\$	44,067	\$	31,941	\$ 12,125	38.0 %
Basic profit per share, as reported	\$	1.78	\$	1.38	\$ 0.40	29.0 %
Net impact of above items per share		0.31		0.11	0.20	
Adjusted basic profit per share	\$	2.09	\$	1.49	\$ 0.60	40.3 %
Diluted profit per share, as reported	\$	1.76	\$	1.38	\$ 0.38	27.5 %
Net impact of above items per share		0.30		0.11	0.19	
Adjusted diluted profit per share	\$	2.06	\$	1.49	\$ 0.57	38.3 %

## **Sales**

For the year ended December 31, 2020, total sales increased 6.3% to \$1,245.3 million, from \$1,171.9 million in 2019, a year-over-year improvement of \$73.4 million. The addition of Acquired Businesses contributed \$75.0 million of this growth, representing a 6.4% increase in total sales, and \$11.1 million of the increase related to the favorable foreign exchange impact of a stronger US dollar when translating our US sales to Canadian dollars for reporting purposes. These gains were partially offset by a year-over-year organic sales decrease of \$12.7 million, which represents a 1.1% decrease in total sales. Organic sales were negatively impacted by the second quarter decline in economic activity that followed the emergence of the COVID-19 pandemic. Our organic sales returned to more typical levels in the third quarter, and by the fourth quarter, outpaced what we had achieved in the fourth quarter of 2019.

Sales from our US operations increased by US\$41.8 million, or 5.4%, to US\$821.0 million, from US\$779.2 million in 2019. The Acquired Businesses contributed sales growth of US\$55.9 million or 7.2%, which was partially offset by a US\$14.0 million reduction in US organic sales attributable to second quarter COVID-19 related economic impacts. Sales in Canada increased by \$6.0 million, or 4.3%, year-over-year.

## **Gross Profit**

Gross profit for the year ended December 31, 2020 increased 13.0% to \$239.5 million, from \$212.0 million in 2019. This \$27.5 million improvement primarily reflects the increased sales and a higher gross profit margin, which improved year-over-year to 19.2%, from 18.1%. The increase in gross margin percentage was supported by strong performance of our import supply lines, the inclusion of sales from the acquired Pacific Mutual Door operations which carry a higher gross profit margin percentage relative to the rest of the business, and higher gross margins in the door product category as a result of market demand outpacing supply.

## **Operating Expenses**

For the year ended December 31, 2020, operating expenses were \$180.9 million as compared to \$163.7 in 2019. The \$17.2 million increase includes \$14.2 million of operating expenses from the Acquired Businesses, an impairment loss relate to HMI of \$3.1 million, and \$1.6 million of expenses related to the impact of a stronger US dollar on translation of US

operating expenses. These increases were partially offset by a \$1.7 million expense savings primarily attributable to the cost management and cost reduction measures taken in April in response to the COVID-19 related reduction in economic activity. As a percentage of sales, operating expenses were 14.5%, compared to 14.0% in the same period last year.

### **Adjusted EBITDA**

For the year ended December 31, 2020, we increased Adjusted EBITDA by \$18.6 million or 23.5% to \$97.5 million, from \$79.0 million in 2019. Our record Adjusted EBITDA result reflects the \$27.5 million increase in gross profit, partially offset by a \$8.9 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, the impairment loss related to HMI, duties payable, and transaction expenses).

On March 10, 2021 the Company entered into an agreement to sell substantially all of the assets related to HMI, its sawmill and kiln drying operation in Clinton, Michigan, to a third party. Proceeds of the sale are expected to be \$11.5 million (US\$9.0 million), and this transaction resulted in a write down of property, plant and equipment of \$3.1 million (US\$2.3 million). This loss was recorded in the fourth quarter of 2020.

### **Net Finance Income (Expense)**

For the year ended December 31, 2020, net finance expense decreased \$1.6 million to \$7.6 million, from \$9.2 million in 2019. The year-over-year decrease primarily relates to lower interest expense as we have reduced bank indebtedness.

### **Income Tax Expense**

Income tax expense increased to \$13.4 million for the year ended December 31, 2020, from \$9.5 million during the same period in 2019. The increase was primarily driven by a higher taxable income as compared to 2019.

### **Profit for the Period**

Profit for the year ended December 31, 2020 grew 27.1% to \$37.6 million, from \$29.6 million in 2019. The \$8.0 million profit improvement primarily reflects the \$27.5 million increase in gross profit and the \$1.6 million decrease in finance expense, partially offset by the \$17.2 million increase in operating expenses and the \$3.8 million higher income tax expense.

Adjusted profit for the year ended December 31, 2020 grew to \$44.1 million, from \$31.9 million in 2019, an increase of \$12.1 million or 38.0%. Adjusted diluted profit per share also climbed to \$2.06, from \$1.49 in 2019.

### 3.2 Three Months Ended December 31, 2020 and December 31, 2019

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)						
	Three months ended Dec 31 2020		Three months ended Dec 31 2019		\$ Increase (Decrease)	% Increase (Decrease)
Total sales	\$	308,394		287,830	\$ 20,564	7.1 %
<i>Sales in the US (US\$)</i>		206,295		193,260	13,035	6.7 %
<i>Sales in Canada</i>		39,439		32,845	6,594	20.1 %
Gross profit		59,052		52,647	6,405	12.2 %
<i>Gross profit %</i>		19.1%		18.3%		
Operating expenses		(46,467)		(42,167)	4,300	10.2 %
Profit from operating activities	\$	12,585	\$	10,480	\$ 2,105	20.1 %
Add: Depreciation and amortization		7,772		7,686	86	1.1 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	\$	20,357	\$	18,166	\$ 2,190	12.1 %
<i>EBITDA as a % of revenue</i>		6.6%		6.3%		
Add (deduct):						
Depreciation and amortization		(7,772)		(7,686)	(86)	
Net finance income (expense)		(1,797)		(2,756)	959	
Income tax expense		(3,260)		(1,142)	(2,118)	
Profit for the period	\$	7,527	\$	6,582	\$ 945	14.4 %
Basic profit per share	\$	0.36	\$	0.31		
Diluted profit per share	\$	0.35	\$	0.31		
Average Canadian dollar exchange rate for one US dollar	\$	1.303	\$	1.320		

Analysis of Specific Items Affecting Comparability (in thousands of Canadian dollars)						
	Three months ended Dec 31 2020		Three months ended Dec 31 2019		\$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	\$	20,357	\$	18,166	\$ 2,190	12.1 %
Non-cash LTIP expense		605		529	76	
Impairment loss related to HMI		3,085		—	3,085	
Transaction expenses		218		433	(215)	
Adjusted EBITDA	\$	24,265	\$	19,128	\$ 5,136	26.9 %
<i>Adjusted EBITDA as a % of revenue</i>		7.9%		6.6%		
Profit for the period, as reported	\$	7,527	\$	6,582	\$ 945	14.4 %
Adjustments, net of tax		3,017		780	2,237	
Adjusted profit for the period	\$	10,544	\$	7,362	\$ 3,182	43.2 %
Basic profit per share, as reported	\$	0.36	\$	0.31	\$ 0.05	16.1 %
Net impact of above items per share		0.14		0.04	0.10	
Adjusted basic profit per share	\$	0.50	\$	0.35	\$ 0.15	42.9 %
Diluted profit per share, as reported	\$	0.35	\$	0.31	\$ 0.04	12.9 %
Net impact of above items per share		0.14		0.04	0.10	
Adjusted diluted profit per share	\$	0.49	\$	0.35	\$ 0.14	40.0 %



## **Sales**

For the three months ended December 31, 2020, total sales increased 7.1% to \$308.4 million, from \$287.8 million during the same period in 2019, a year-over-year increase of \$20.6 million. The addition of Acquired Businesses contributed \$13.6 million of this increase, representing a 4.7% increase in total sales; and organic sales growth accounted for an additional \$10.4 million, representing a 3.6% increase in total sales. These gains were partially offset by a \$3.4 million negative foreign exchange impact related to a stronger Canadian dollar when translating our US sales to Canadian dollars for reporting purposes.

Fourth quarter sales from our US operations increased to US\$206.3 million, from US\$193.3 million in the same period in 2019, an increase of US\$13.0 million, or 6.7%. The Acquired Businesses contributed sales growth of US\$10.4 million, or 5.4%, and organic sales growth accounted for an additional \$2.6 million, or 1.4%.

Fourth quarter sales in Canada increased to \$39.4 million, from \$32.8 million year-over-year, an increase of \$6.6 million or 20.1%. The increase in Canadian sales was the result of strong performance across all locations and was generally volume driven.

## **Gross Profit**

Gross profit for the three months ended December 31, 2020 increased 12.2% to \$59.1 million, from \$52.6 million during the same period in 2019. This \$6.4 million improvement primarily reflects the increased sales paired with a higher gross profit margin. As a percentage of sales, fourth quarter gross profit margin increased to 19.1%, from 18.3% in the same period last year, as we benefited from the strong performance of our import supply lines and higher gross margins in the door product category.

## **Operating Expenses**

For the three months ended December 31, 2020, operating expenses were \$46.5 million, as compared to \$42.2 million during the same period in 2019. The \$4.3 million increase includes \$2.4 million of added operating expenses from the Acquired Business and an impairment loss related to HMI of \$3.1 million, offset by a \$0.7 million expense savings primarily attributable to the cost management and cost reduction measures taken earlier in the year, and a decrease of \$0.5 million related to the impact of a stronger Canadian dollar on

translation of US operating expenses. As a percentage of sales, fourth quarter operating expenses were 15.1%, compared to 14.6% in Q4 2019.

### **Adjusted EBITDA**

For the three months ended December 31, 2020, we increased Adjusted EBITDA by 26.9% to \$24.3 million, from \$19.1 million during the same period in 2019. The \$5.1 million improvement primarily reflects the \$6.4 million increase in gross profit partially offset by a \$1.3 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, the impairment loss related to HMI, and transaction expenses).

On March 10, 2021 the Company entered into an agreement to sell substantially all of the assets related to HMI, its sawmill and kiln drying operation in Clinton, Michigan, to a third party. Proceeds of the sale are expected to be \$11.5 million (US\$9.0 million), and this transaction resulted in a write down of property, plant and equipment of \$3.1 million (US\$2.3 million). This loss was recorded in the fourth quarter of 2020.

### **Net Finance Income (Expense)**

For the three months ended December 31, 2020, net finance expense decreased to \$1.8 million, from \$2.8 million in Q4 2019. The \$1.0 million decrease primarily relates to lower interest expense as we have reduced our bank indebtedness.

### **Income Tax Expense**

Income tax expense increased to \$3.3 million for the year ended December 31, 2020, from \$1.1 million during the same period in 2019. The increase was primarily driven by a higher taxable income as compared to 2019.

### **Profit for the Period**

Profit for the three months ended December 31, 2020 grew 14.4% to \$7.5 million, from \$6.6 million in the same period in 2019. The \$0.9 million year-over-year improvement primarily reflects the \$6.4 million increase in gross profit and \$1.0 million reduction in finance expense, partially offset by the \$4.3 million increase in operating expenses and \$2.1 increase in tax expense. Fourth quarter diluted profit per share increased to \$0.35, from \$0.31 in Q4 2019, a gain of \$0.04 per share.

Adjusted profit for the three months ended December 31, 2020 increased 43.2% to \$10.5 million, from \$7.4 million in the same period in 2019. Fourth quarter Adjusted diluted profit per share grew to \$0.49, from \$0.35 in Q4 2019.



## 4.0 Selected Financial Information and Seasonality

### 4.1 Quarterly Financial Information

(in thousands of dollars)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	2020	2020	2020	2020	2019	2019	2019	2019	2018 <sup>(1)</sup>
Total sales	\$308,394	\$315,813	\$296,005	\$325,100	\$287,830	\$292,459	\$304,545	\$287,087	\$274,986
Profit	\$ 7,527	\$ 10,450	\$ 10,227	\$ 9,397	\$ 6,582	\$ 8,854	\$ 8,165	\$ 5,980	\$ 5,804
Basic profit per share	\$ 0.36	\$ 0.49	\$ 0.48	\$ 0.44	\$ 0.31	\$ 0.42	\$ 0.38	\$ 0.28	\$ 0.27
Fully diluted profit per share	\$ 0.35	\$ 0.49	\$ 0.48	\$ 0.44	\$ 0.31	\$ 0.41	\$ 0.38	\$ 0.28	\$ 0.27
EBITDA	\$ 20,357	\$ 22,956	\$ 23,696	\$ 22,769	\$ 18,165	\$ 20,723	\$ 20,626	\$ 16,696	\$ 16,227
Adjusted profit	\$ 10,544	\$ 12,504	\$ 10,880	\$ 9,397	\$ 7,362	\$ 9,364	\$ 8,661	\$ 6,494	\$ 5,537
Adjusted basic profit per share	\$ 0.50	\$ 0.59	\$ 0.51	\$ 0.44	\$ 0.35	\$ 0.44	\$ 0.40	\$ 0.30	\$ 0.26
Adjusted diluted profit per share	\$ 0.49	\$ 0.59	\$ 0.51	\$ 0.44	\$ 0.35	\$ 0.43	\$ 0.40	\$ 0.30	\$ 0.26
Adjusted EBITDA	\$ 24,265	\$ 26,072	\$ 24,427	\$ 22,770	\$ 19,137	\$ 21,297	\$ 21,185	\$ 17,282	\$ 15,966

(1) Restated for the adoption of IFRS 16

The preceding table provides selected quarterly financial information for our eight most recently completed fiscal quarters. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in our opinion, necessary to present a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. Historically, the first and fourth quarters have been seasonally slower periods for our business. In addition, net earnings reported in each quarter may be impacted by acquisitions and by changes in the foreign exchange rate of the Canadian and US dollars.

### 4.2 Annual Financial Information

(in thousands of dollars except per unit amounts)	For the year	For the year	For the year
	ended Dec 31	ended Dec 31	ended Dec 31
	2020	2019	2018 (Restated <sup>(1)</sup> )
Total sales	\$ 1,245,312	\$ 1,171,921	\$ 1,134,267
Profit	\$ 37,602	\$ 29,581	\$ 31,719
Basic profit per share	\$ 1.78	\$ 1.38	\$ 1.48
Fully diluted profit per share	\$ 1.76	\$ 1.38	\$ 1.47
Total assets	\$ 585,956	\$ 569,971	\$ 541,967
Total non-current financial liabilities	\$ 93,526	\$ 84,391	\$ 88,282
Adjusted EBITDA	\$ 97,543	\$ 78,969	\$ 78,934

(1) Restated for the adoption of IFRS 16

## 5.0 Liquidity and Capital Resources

### 5.1 Cash Flows from Operating, Investing and Financing Activities

	Year ended Dec 31			Three months ended Dec 31		
	2020	2019	\$ change	2020	2019	\$ change
Cash provided by operating activities before changes in non-cash working capital	\$ 83,508	\$ 66,860	\$ 16,648	\$ 20,708	\$ 14,272	\$ 6,436
Changes in non-cash working capital	(1,651)	25,944	(27,595)	(9,173)	19,074	(28,247)
Net cash provided (used in) by operating activities	\$ 81,857	\$ 92,804	\$ (10,947)	\$ 11,535	\$ 33,346	\$ (21,811)
Net cash used in investing activities	(32,698)	(55,907)	23,209	(20,032)	(48,177)	28,145
Net cash provided by (used in) financing activities	(64,224)	(23,326)	(40,898)	5,433	22,601	(17,168)
Increase (decrease) in cash	\$ (15,065)	\$ 13,571	\$ (28,636)	\$ (3,064)	\$ 7,770	\$ (10,834)
Cash and cash equivalents, beginning of period	15,118	1,547	13,571	3,704	7,348	(3,644)
Cash and cash equivalents, end of the period	\$ 531	\$ —	\$ 531	\$ (56)	\$ —	\$ (56)
Weighted average common shares - diluted	21,378	21,488		21,397	21,412	
Cash provided by operating activities before changes in non-cash working capital, per share	\$ 3.91	\$ 3.11	\$ 0.80	\$ 0.97	\$ 0.67	\$ 0.30

For the year ended December 31, 2020, net cash provided by operating activities was \$81.9 million, as compared to \$92.8 million in 2019, a decrease of \$10.9 million. Cash provided by operating activities before changes in non-cash working capital grew to \$83.5 million, up \$16.6 million from \$66.9 million in 2019. Investment in non-cash working capital decreased by \$27.6 million in 2020, as compared to 2019. An analysis of changes in working capital is provided in section 5.2 of this report.

For the three months ended December 31, 2020, net cash provided by operating activities was \$11.5 million, as compared to \$33.3 million in the same period in 2019, a decrease of \$21.8 million. Cash provided by operating activities before changes in non-cash working capital increased to \$20.7 million, from \$14.3 million in the same period in 2019. Fourth quarter investment in non-cash working capital increased by \$28.2 million year-over-year. An analysis of changes in working capital is provided in section 5.2 of this report.

#### *Net cash used in investing activities*

Net cash used in investing activities for the year and three months ended December 31, 2020 decreased by \$23.2 million and \$28.1 million, respectively, as compared to the same periods in 2019. The decreases primarily relate to the purchase price of Acquired Businesses during the year, partially offset by an increase in investments.

Capital expenditures in our distribution business have historically been low as we generally lease our buildings and typically contract out delivery equipment. Capital expenditures in this part of our business are principally for the replacement of forklifts, furniture and fixtures, leasehold improvements and computer equipment. We believe we have made sufficient expenditures to sustain productive capacity of our business as it relates to our needs for property, plant and equipment.

### ***Net cash provided by (used in) financing activities***

For the year and three months ended December 31, 2020, net cash used in financing activities increased by \$40.9 million and \$17.2 million, respectively, as compared to the same periods in 2019. This change primarily reflects a decrease in bank indebtedness.

## **5.2 Working Capital**

Our business requires an ongoing investment in working capital, which we consider to be comprised of accounts receivable, inventory, and prepaid expenses, partially offset by short-term credit provided by suppliers in the form of accounts payable and accrued liabilities.

The increase in investment in working capital for the year ended December 31, 2020 was \$1.7 million, which was in-line with our organic sales pace for the year. As compared to 2019, our investment in working capital increased by \$27.6 million, however the 2019 period included a reduction in inventory to normal levels following increased purchasing of certain product lines in 2018 to secure supply.

Our investment in working capital may fluctuate from quarter-to-quarter based on factors such as sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers. Historically the first and fourth quarters are seasonally slower periods for construction activity, resulting in reduced demand for architectural building products. A summary of changes in our non-cash operating working capital during the year and three months ended December 31, 2020 and 2019 is provided below.

<b>(in thousands of Canadian dollars)</b>				
	Year	Year	Three months	Three months
	ended Dec 31	ended Dec 31	ended Dec 31	ended Dec 31
Source (use) of funds	2020	2019	2020	2019
Accounts receivable	\$ 287	\$ 3,180	\$ 7,964	\$ 12,902
Inventories	(2,308)	16,107	(13,459)	581
Prepaid expenses	(1,475)	(5,442)	(1,056)	(3,397)
Accounts payable and accrued liabilities	1,845	12,099	(2,622)	8,988
Change in non-cash operating working capital	\$ (1,651)	\$ 25,944	\$ (9,173)	\$ 19,074

Continued compliance with financial covenants under our credit facilities is important to ensure that we have adequate financing available to meet our working capital requirements. The terms of our revolving credit facilities are addressed in section 5.3 of this report.

### 5.3 Revolving Credit Facilities and Debt Management Strategy

<b>Selected Unaudited Consolidated Financial Information (in thousands of dollars)</b>			
	<b>As at</b>		<b>As at</b>
	<b>December 31, 2020</b>		<b>December 31, 2019</b>
Cash	\$	(584)	\$ (15,118)
Bank indebtedness		94,986	121,548
Net bank debt	\$	94,402	\$ 106,430
Shareholders' equity		305,346	283,445
Capitalization	\$	399,748	\$ 389,875
<b>Net bank debt to capitalization</b>		<b>24%</b>	<b>27%</b>
Previous 12 months Adjusted EBITDA	\$	97,543	\$ 78,969
Rental payments related to warehousing and trucks		(25,797)	(24,700)
Previous 12 months Adjusted EBITDA after rent	\$	71,746	\$ 54,269
<b>Net bank debt to previous 12 months Adjusted EBITDA after rent, or "Leverage Ratio"</b>		<b>1.3</b>	<b>2.0</b>

We consider our capital to be bank indebtedness (net of cash) and shareholders' equity. Overall net bank debt compared to total capitalization stood at 24% as at December 31, 2020, as compared to 27% at December 31, 2019. At December 31, 2020, our ratio of net debt-to-Adjusted-EBITDA after rent for the year was 1.3 times, down from 2.0 times at December 31, 2019. Net debt-to-Adjusted-EBITDA after rent and net bank debt-to-total capitalization serve as indicators of our financial leverage, however they are not measures prescribed by IFRS and our method of calculating these measures may differ from methods used by other issuers.

We have independent credit facilities in both Canada and the US. These facilities may be drawn down to meet short-term financing requirements such as fluctuations in non-cash working capital, and in the case of the Canadian credit facility, to also make capital contributions to our US operating subsidiary. The amount made available under our Canadian and US revolving credit facilities is limited to the extent of the value of certain accounts receivable and inventories held by our subsidiaries. Credit facilities also require ongoing compliance with certain credit ratios. A summary of our credit facilities as at December 31, 2020 is provided in the following table.

<b>Selected unaudited consolidated financial information (in thousands of dollars)</b>		
	<b>Canadian Credit Facility</b>	<b>US Credit Facility</b>
Maximum borrowings under the credit facility	\$ 25.0 million	\$ 191.0 million (US\$150.0 million)
Credit facility expiry date	August 5, 2021	October 28, 2024
Available to borrow	24.0 million	162.1 million (US\$127.3 million)
Credit facility borrowings	<u>21.8 million</u>	<u>73.5 million (US\$57.7 million)</u>
Unused credit facility	<u>\$ 2.2 million</u>	<u>\$ 88.6 million (US\$69.6 million)</u>
Financial covenants:	Covenant does not apply when the unused credit facility available exceeds \$2.0 million	Covenant does not apply when the unused credit facility available exceeds 10% of the maximum borrowings under the credit facility or US\$15.0 million

The terms of the agreements with our lenders provide that dividends cannot be made to our shareholders in the event that our subsidiaries are not compliant with their financial covenants. Our operating subsidiaries were compliant with all required credit ratios as at December 31, 2020. Accordingly, there were no restrictions on dividends arising from non-compliance with financial covenants.

We have a US credit facility ("the USLP II Credit Facility") and a Canadian credit facility ("the LP Credit Facility"). The USLP II Credit Facility consists of a revolving credit line of US\$150.0 million. The amounts made available under the USLP II Credit Facility are limited based on a borrowing base determined by reference to the value of certain eligible accounts receivable and inventories held by certain of our subsidiaries. The financial covenants under the USLP II Credit Facility include, among others, a springing fixed charge coverage ratio of 1.0x, 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 our subsidiaries to pay distributions and dividends, complete acquisitions, make additional investments, take on additional indebtedness, allow assets to become subject to liens, complete affiliate transactions and make capital expenditures are limited and subject to the satisfaction of certain conditions. We were in compliance with these covenants as at December 31, 2020.

The LP Credit Facility consists of a revolving credit line of \$25.0 million. The amounts made available under the LP Credit Facility are limited based on a borrowing base determined by reference to the value of certain eligible accounts receivable and inventories held by our Canadian subsidiary. The covenants under the LP Credit Facility relate to our Canadian subsidiary and include, among others: (i) a springing fixed charge covenant ratio of 1.0x, triggered if unused availability under the LP Credit Facility falls below \$2.0 million, and (ii) restrictions on our ability to pay distributions and dividends, complete acquisitions, make additional investments, take on additional indebtedness, allow our assets to become subject to liens, complete affiliate transactions and make capital expenditures. We were in compliance with these covenants as at December 31, 2020.

Our debt management strategy is to roll and renew (as opposed to repay and retire) our credit facilities as they expire. We do not intend to restrict future dividends in order to fully extinguish our bank debt obligations upon their maturity. The amount of bank debt that will actually be drawn on our available revolving credit facilities will depend upon the seasonal and cyclical needs of the business, and our cash generating capacity going forward. When making future dividend decisions, we will consider the amount of financial leverage, and therefore bank debt, we believe is appropriate given existing and expected market conditions and available business opportunities. We do not target a specific financial leverage amount. We believe our current credit facilities are sufficient to finance our working capital needs and market expansion strategy.

## 5.4 Contractual Obligations

There were no significant changes in our contractual commitments outside the normal course of business, compared with those set forth in our 2020 Annual Report, available on SEDAR at [www.sedar.com](http://www.sedar.com).

## 5.5 Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

## 5.6 Financial Instruments

Financial assets include cash and current and non-current receivables, which are measured at amortized cost. Financial liabilities include bank indebtedness, accounts payable and accrued liabilities, income taxes payable, dividend payable, notes payable and finance lease obligations which are measured at amortized cost. The carrying values of our cash, current accounts receivable, income taxes payable, accounts payable and accrued liabilities, and dividend payable approximate their fair values due to the relatively short period to maturity of the instruments. The fair value of non-current receivables, notes payable, other liabilities and finance lease obligations are not expected to differ materially from carrying value given the interest rates being charged and term to maturity. The carrying values of the credit facilities approximate their fair values due to the existence of floating market-based interest rates.

## 5.7 Share Data

As at March 11, 2021, the date of this MD&A, we had 21,241,537 common shares issued and outstanding. In addition, at March 11, 2021, we had outstanding 182,571 performance shares and 239,123 restricted shares under the terms of our long-term incentive plan. The performance and restricted shares can be settled in common shares of the Company issued from treasury, common shares purchased by us in the market, or in an amount of cash equal to the fair value of our common shares, or any combination of the foregoing. The restricted and performance shares vest over periods of up to three years and employees have the option, when the restricted and performance share vest, to receive up to half the fair value in cash and the remainder in common shares. We intend to issue common shares from treasury to settle the portion of the obligation not paid to employees in cash.

## 5.8 Dividends

In the fourth quarter of 2020, we declared a quarterly dividend of \$0.10 per common share, which was paid on January 29, 2021 to shareholders of record as at January 18, 2021. On March 11, 2021, we declared a quarterly dividend of \$0.10 per share, payable on April 30, 2021 to shareholders of record as at April 19, 2021.

## 6.0 Related-Party Transactions

There were no material related-party transactions during the three and twelve-month periods ended December 31, 2020 or in the comparative periods in the prior year.

## 7.0 Critical Accounting Estimates & Adoption of Changes in Accounting Policies

### 7.1 Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS requires that we make estimates and assumptions that can have a material impact on our results of operations as reported on a periodic basis. We base our estimates and assumptions on past experience and other factors that are deemed reasonable under the circumstances. Actual results could differ from these estimates. The critical estimates used in preparing our financial statements are:

*Leases:* We are required to make estimates and assumptions related to leases, including the discount rates used for each lease, determining the lease term, and consideration of lease renewal options.

*Goodwill impairment testing:* We are required to make estimates and assumptions related to the annual goodwill impairment test, including the cash generating unit ("CGU") to which goodwill relates, the recoverable amount of a CGU, gross margin percentage, and the discount rates. The value assigned to these factors is based on management's estimate of future trends and are based on historical data from both internal and external sources.

*Accounts receivable provision:* Due to the nature of our business and the credit terms we provide to our customers, we anticipate that a certain portion of required customer payments will not be made, and we maintain an allowance for these doubtful accounts. The allowance is based on our estimate of the potential of recovering our accounts receivable, and incorporates current and expected collection trends.

*Valuation of inventory:* We are required to make estimates and assumptions regarding the net realizable value of our inventory. The estimates and assumptions may have a material impact on the values at which we recognize inventory.

## 8.0 Risks and Uncertainties

We are exposed to a number of risks and uncertainties in the normal course of business that could have a negative effect on our financial condition or results of operations. We identify significant risks that we were aware of in our Annual Information Form, which is available to readers along with other disclosure documents at [www.sedar.com](http://www.sedar.com).

## 9.0 Internal Control over Financial Reporting

Our management, under the supervision of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), is responsible for establishing and maintaining adequate disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”). Any systems of DC&P and ICFR, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to information required to be disclosed and financial statement preparation and presentation.

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, we carried out an evaluation of the effectiveness of our DC&P as of December 31, 2020. The evaluation was carried out under the supervision of, and with the participation of, the CEO and CFO. Based on this evaluation, our CEO and CFO concluded that our DC&P were effective as of December 31, 2020.

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, we carried out an evaluation of the effectiveness of our ICFR as of December 31, 2020. The evaluation was carried out within the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control - Integrated Framework (2013) (the “2013 COSO framework”) and under the supervision of, and with the participation of, our CEO and the CFO. Based on this evaluation, our CEO and CFO concluded that our ICFR were effective as of December 31, 2020.

There have not been any changes in our ICFR during the quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our ICFR.

The CEO and CFO have limited the scope of their design of disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of the Diamond Hardwoods, Aura Hardwoods, and River City Millwork

businesses, which we acquired in 2020. Summary financial information about the acquired businesses can be found in note 4 of the Consolidated Financial Statements.

## **10.0 Note Regarding Forward Looking Information**

Certain statements in this MD&A contain forward-looking information within the meaning of applicable securities laws in Canada (“forward-looking information”). The words “anticipates”, “believes”, “budgets”, “could”, “estimates”, “expects”, “forecasts”, “intends”, “may”, “might”, “plans”, “projects”, “schedule”, “should”, “will”, “would” and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

The forward-looking information in this MD&A includes, but is not limited to: We are now moving into what we anticipate will be a strong multi-year growth environment and HDI is as well positioned to take advantage of this today as at any time in the 16 years I’ve been with the company; on the operating expense side, we learned to do more with less in 2020 and some of the expense savings initiatives we put in place during the pandemic have continued; product prices did not start to appreciate until after the year ended; now moving into fiscal 2021, our execution is as strong as it has ever been and it’s about to be paired with a significantly better set of market conditions; our customers today are the busiest they have been since the onset of the pandemic; millennials represent the largest segment of the population and are expected to further drive demand for homes; forecasts suggest we are entering a multi-year period of demand growth driven by record low mortgage rates and the aging of U.S. housing stock that will need to be refurbished or replaced; social trends are only accelerating the demand for architectural building products; the pandemic resulted in more people working from home, fuelling both a desire for additional living space and a trend towards individuals spending more of their disposable income on home renovations and repairs; demand-supply imbalances drive up costs as we’ve seen in recent months, and because we maintain a strong and stable gross margin on our sales, higher product prices typically boost our profits and EBITDA, which in turn converts very efficiently to operating cash flow; as we move forward, we see significant opportunities to complement our organic growth with acquisitions; we will continue to execute on attractive acquisitions with a dedicated M&A team and a proven formula for identifying, assessing and integrating targeted opportunities; HDI is entering the strongest macro-demand environment we’ve seen in years; our customers today are the busiest they have been since the onset of the COVID-19 pandemic in early 2020, and leading indicators for the US residential construction market are

very positive; housing starts have meaningfully lagged population growth this past decade leading to pent-up demand for housing; millennials represent the largest segment of the population and will further drive demand for homes; as most of our products relate to the interior finishing of a building, there can be a six-to-nine-month lag between positive construction data and demand for our products, accordingly, the positive data we saw in the latter half of 2020 should benefit us in 2021; the repair and remodel market is benefiting from rising home equity and availability of low-cost consumer capital, the age of the current U.S. housing stock, and social trends such as individuals spending more of their time and disposable income on their home, and these trends are expected to drive strong multi-year demand for our products; the outlook for US commercial markets remains mixed; we expect certain of these commercial end-markets will perform better than others, with the diverse nature of our participation reducing the impact of dynamics in any one geography or end-market; with a strong growth environment forecasted for 2021, there is a potential for demand to outpace supply, which in turn could create supply constraints and result in rising product prices; we generally expect to have consistent and predictable access to supply given we are often the largest customer for our suppliers; additionally, our price pass-through model and ability to adjust pricing in a relatively short period of time typically enable us to translate higher product costs into increased sales and gross margin dollars; we believe HDI is very well positioned going forward; we are moving into 2021 with a diversified business with no significant geographic, supplier, or customer concentration; we remain well positioned to pursue our business strategies and to continue creating value for our shareholders; our capital allocation priorities will continue to include growth through acquisitions as we believe there are numerous accretive acquisition opportunities available; we also intend to allocate cash to support organic growth and return value to shareholders in the form of dividends, while remaining opportunistic in our approach to share repurchases.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: exchange rate fluctuations between the Canadian and US dollar could affect our performance; our results are dependent upon the general state of the economy; we depend on key personnel, the loss of which could harm our business; decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods could harm our business; we may incur losses related to credit provided to our customers; our products may be subject to negative trade outcomes; we may not be able to sustain our level

of sales or EBITDA margins; we may be unable to grow our business long term to manage any growth; competition in our markets may lead to reduced revenues and profitability; we may become subject to more stringent regulations; we may be subject to product liability claims that could adversely affect our revenues, profitability and reputation; importation of products manufactured with hardwood lumber or sheet goods may increase, and replace products manufactured in North America; we are dependent upon our management information systems; our insurance may be insufficient to cover losses that may occur as a result of our operations; we are dependent upon the financial condition and results of operations of our business; our credit facilities affect our liquidity, contain restrictions on our ability to borrow funds, and impose restrictions on distributions that can be made by our operating limited partnerships; our future growth may be restricted by the payout of substantially all of our operating cash flow; and, other risks described in our Annual Information Form our Information Circular and in this MD&A.

All forward-looking information in this MD&A is qualified in its entirety by this cautionary statement and, except as may be required by law, we undertake no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

Consolidated Financial Statements  
(Expressed in Canadian dollars)

## **HARDWOODS DISTRIBUTION INC.**

Years ended December 31, 2020 and 2019





**KPMG LLP**  
**Chartered Professional Accountants**  
PO Box 10426 777 Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada

Telephone (604) 691-3000  
Fax (604) 691-3031  
Internet www.kpmg.ca

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Hardwoods Distributions Inc.

### **Opinion**

We have audited the consolidated financial statements of Hardwoods Distributions Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

### ***Description of the matter***

We draw attention to Notes 3(j) and 12 to the financial statements. The goodwill balance is \$78,089 thousand. The Entity tests goodwill for impairment on an annual basis. The Entity also performs an impairment test whenever events or changes in circumstances indicate that the carrying value of a cash generating unit exceeds its recoverable amount. The Entity recognizes an impairment loss if the carrying amount of its cash generating unit exceeds its estimated recoverable amount.

The recoverable amount of an asset or cash generating unit is the greater of its value in use or its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value. Significant assumptions used in determining the recoverable amount include gross margin percentages and discount rates.

### ***Why the matter is a key audit matter***

We identified the evaluation of the goodwill impairment assessment for the Rugby Architectural Building Products and Pacific Mutual Door Company cash generating units to be a key audit matter. This matter represented an area of significant risk of material misstatement as the recoverable amount is sensitive to minor changes in certain significant assumptions. Significant auditor judgment was required in evaluating the results of our audit procedures. Further, professionals with specialized skills and knowledge were needed to evaluate the discount rates.

### ***How the matter was addressed in the audit***

The following are the primary procedures we performed to address this key audit matter.

We evaluated the appropriateness of the gross margin percentages assumptions by comparing to historical results for up to three years. We considered changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

We involved valuations professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of the discount rates. The discount rates used were compared against a range of discount rates that were independently developed using publicly available market data for comparable entities.

### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.



Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are



*Hardwoods Distribution Inc.*

responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

*KPMG LLP*

---

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Andrew James.

Vancouver, Canada  
March 11, 2021

# HARDWOODS DISTRIBUTION INC.

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

	Note	December 31, 2020	December 31, 2019
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 584	\$ 15,118
Accounts and other receivables	7	118,847	113,740
Income taxes receivable	15	—	820
Inventories	8	219,386	207,935
Prepaid and other assets		11,082	9,887
<b>Total current assets</b>		<b>349,899</b>	<b>347,500</b>
Non-current assets:			
Non-current receivables and investments	7	9,109	2,376
Property, plant and equipment	9	17,168	20,430
Right of use assets	10	103,066	93,982
Intangible assets	10	24,557	28,248
Deferred income taxes	15	4,068	4,461
Goodwill	12	78,089	72,974
<b>Total non-current assets</b>		<b>236,057</b>	<b>222,471</b>
<b>Total assets</b>		<b>\$ 585,956</b>	<b>\$ 569,971</b>
<b>Liabilities</b>			
Current liabilities:			
Bank indebtedness	13	\$ 94,986	\$ 121,548
Accounts payable and accrued liabilities		62,356	53,805
Income taxes payable	15	2,787	—
Lease obligation	10	24,855	24,973
Dividend payable	5	2,100	1,809
<b>Total current liabilities</b>		<b>187,084</b>	<b>202,135</b>
Non-current liabilities:			
Lease obligation	10	92,609	83,726
Other liabilities		917	665
<b>Total non-current liabilities</b>		<b>93,526</b>	<b>84,391</b>
<b>Total liabilities</b>		<b>280,610</b>	<b>286,526</b>
<b>Shareholders' equity</b>			
Share capital	14(a)	112,458	113,837
Contributed surplus		104,705	104,850
Retained earnings		78,434	48,288
Accumulated other comprehensive income		9,749	16,470
<b>Shareholders' equity</b>		<b>305,346</b>	<b>283,445</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 585,956</b>	<b>\$ 569,971</b>

Subsequent events (note 5, 9)

The accompanying notes are an integral part of these consolidated financial statements.  
Approved on behalf of the board of directors:

**(Signed) JIM C. MACAULAY** Director

**(Signed) WILLIAM R. SAUDER** Director

# HARDWOODS DISTRIBUTION INC.

Consolidated Statements of Comprehensive Income  
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2020 and 2019

	Note	2020	2019
Sales	17	\$ 1,245,312	\$ 1,171,921
Cost of goods sold	8	(1,005,829)	(959,941)
Gross profit		239,483	211,980
Operating expenses:			
Selling and distribution		(133,663)	(124,782)
Administration		(47,271)	(38,939)
		(180,934)	(163,721)
Profit from operations		58,549	48,259
Finance expense	16	(8,430)	(9,784)
Finance income	16	837	626
Net finance expense		(7,593)	(9,158)
Profit before income taxes		50,956	39,101
Income tax expense:			
Current	15	(13,009)	(7,227)
Deferred	15	(345)	(2,293)
		(13,354)	(9,520)
Net profit		37,602	29,581
Other comprehensive income:			
Exchange differences translating foreign operations		(6,721)	(12,325)
Total comprehensive income		\$ 30,881	\$ 17,256
Basic net profit per share	14(c)	\$ 1.78	\$ 1.38
Diluted net profit per share	14(c)	\$ 1.76	\$ 1.38

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

# HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 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	14(b)	—	1,307	—	—	1,307
Shares issued pursuant to LTIP	14(a)	1,452	(1,452)	—	—	—
Shares repurchased	14(a)	(2,831)	—	—	—	(2,831)
Profit for the year		—	—	—	37,602	37,602
Dividends declared		—	—	—	(7,456)	(7,456)
Translation of foreign operations		—	—	(6,721)	—	(6,721)
<b>Balance at December 31, 2020</b>		<b>\$ 112,458</b>	<b>\$ 104,705</b>	<b>\$ 9,749</b>	<b>\$ 78,434</b>	<b>\$ 305,346</b>
Balance at January 1, 2019		116,524	104,467	28,795	25,653	275,439
Share based compensation expense	14(b)	—	1,399	—	—	1,399
Shares issued pursuant to LTIP	14(a)	1,016	(1,016)	—	—	—
Shares repurchased		(3,703)	—	—	—	(3,703)
Profit for the year		—	—	—	29,581	29,581
Dividends declared		—	—	—	(6,946)	(6,946)
Translation of foreign operations		—	—	(12,325)	—	(12,325)
<b>Balance at December 31, 2019</b>		<b>\$ 113,837</b>	<b>\$ 104,850</b>	<b>\$ 16,470</b>	<b>\$ 48,288</b>	<b>\$ 283,445</b>

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



# HARDWOODS DISTRIBUTION INC.

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

	Note	2020	2019
Cash flow from (used in) operating activities:			
Profit for the year		\$ 37,602	\$ 29,581
Adjustments for:			
Depreciation and amortization		31,229	27,953
Gain on sale of property, plant & equipment and ROU	9	(547)	(635)
Share-based compensation expense	14(b)	3,551	2,249
Income tax expense	15	13,354	9,520
Net finance expense	16	7,593	9,158
Impairment of assets	9	3,085	—
Interest received		459	626
Interest paid		(3,347)	(4,293)
Income taxes paid		(9,471)	(7,299)
		83,508	66,860
Changes in non-cash working capital:			
Accounts receivable		287	3,180
Inventories		(2,308)	16,107
Prepaid expenses		(1,475)	(5,442)
Accounts payable and accrued liabilities		1,845	12,099
		(1,651)	25,944
Net cash provided by operating activities		81,857	92,804
Cash flow (used in) financing activities:			
(Decrease) increase in bank indebtedness		(26,252)	13,317
Principle payments on finance lease obligation		(27,976)	(26,346)
Repurchase of common shares	14(a)	(2,831)	(3,443)
Dividends paid to shareholders	5	(7,165)	(6,854)
Net cash used in financing activities		(64,224)	(23,326)
Cash flow from (used in) investing activities:			
Additions to property, plant & equipment	9	(2,804)	(3,321)
Disposal of property, plant & equipment and ROU		607	664
Business acquisitions	4	(22,802)	(52,850)
Additions to internally generated software	11	(316)	(282)
Receipt (payments) on non-current receivables		317	(118)
Increase in investments		(7,700)	—
Net cash used in investing activities		(32,698)	(55,907)
(Decrease) increase in cash and cash equivalents		(15,065)	13,571
Cash and cash equivalents, beginning of period		15,118	1,547
Foreign exchange gain on cash held in foreign currency		531	—
Cash and cash equivalents, end of period		\$ 584	\$ 15,118
Supplementary information:			
Property, plant & equipment acquired under finance leases, net of disposals		36,220	18,352
Transfer of accounts receivable to non-current customer notes receivable		—	573
Future cash settlement of LTIP's in accrued Liabilities and non-current liabilities		2,804	1,208

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

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 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 70 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 consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements were authorized for issue by the Board of Directors on March 11, 2021.

### (b) Basis of measurement:

These consolidated financial statements have been prepared on a going concern basis under on the historical cost method.

### (c) Functional and presentation currency:

These consolidated 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 these consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting year. Actual amounts may differ from the estimates applied in the preparation of these consolidated financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

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 year ended December 31, 2020.

Information about significant areas of estimation uncertainty in applying policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 12 - the annual goodwill impairment test;
- Note 7 - the collectability of accounts receivable and the determination of the allowance for credit loss;
- Note 8 - the valuation of inventories; and
- Note 15 - the recognition of deferred income taxes and utilization of tax loss carry forwards.

Critical judgments in applying policies that have the most significant effect on the amounts recognized in the consolidated financial statements are included in the following notes:

- Note 10 - the classification and valuation of lease obligations.

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

---

## 2. Basis of preparation (continued):

### (d) Use of estimates and judgment (continued):

In assessing the Company's leases, judgment is required in determining whether substantially all of the risks and rewards of ownership are transferred to the Company. This involves assessing the term of each lease, the risk associated with the residual value of leased vehicles and assessing the present value of the minimum lease payments in relation to the fair value of the vehicle and forklift at the inception of the lease.

For deferred income taxes, judgment is required in determining whether it is probable that the Company's net deferred tax assets will be realized prior to their expiry. In making such a determination, the Company considers the carry forward periods of losses and the Company's projected future taxable income.

## 3. Significant accounting policies:

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. These accounting policies have been applied consistently by the Company and its subsidiaries to all years presented in these consolidated financial statements.

### (a) Principles of consolidation and business acquisitions:

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company balances and transactions have been eliminated on consolidation.

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. The Company measures goodwill in business acquisitions as the fair value of the consideration transferred less the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Transaction costs, other than those associated with the issuance of debt or equity securities, are expensed as incurred.

### (b) Foreign currencies:

#### *Foreign currency transactions*

Foreign currency transactions are translated into the respective functional currencies of the Company, and its subsidiaries, using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate in effect at the financial statement date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in the profit or loss and presented within finance expense.

#### *Translation of foreign operations for consolidation*

For purposes of consolidation, the assets and liabilities of foreign operations with functional currencies other than the Canadian dollar are translated to Canadian dollars using the rate of exchange in effect at the financial statement date. Revenue and expenses of the foreign operations are translated to Canadian dollars at exchange rates at the date of the transactions. Foreign currency differences resulting from translation of the accounts of foreign operations are recognized directly in other comprehensive income and are accumulated in the translation reserve as a separate component of shareholders' equity.

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

---

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

(b) Foreign currencies (continued):

Gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of the net investment in a foreign operation and are recognized directly in other comprehensive income in the cumulative amount of foreign currency translation differences. When a foreign operation is disposed of the amount of the associated translation reserve is fully transferred to profit or loss.

(c) Segment reporting:

Operating segments are based on the information about the components of the business that management uses to make decisions about operating matters. The subsidiaries of the Company engage in one main business activity being the sourcing and distribution of architectural grade building products, hence operating segment information is not provided. Geographical segment information is provided by country of operations in note 17.

(d) Revenue recognition:

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

(e) Finance expense and income:

Finance expense is primarily comprised of interest on the Company's operating lines of credit, notes payable and the unwinding of the discount on the Company's finance lease obligations. Interest on these liabilities is expensed using the effective interest method.

Finance income is comprised of interest earned on cash balances, imputed interest income on employee loans receivable, and interest charged and received or receivable on trade accounts receivable and notes receivable from customers. Finance income is recognized as it accrues using the effective interest method.

Foreign exchange gains and losses are reported on a net basis as either finance income or finance expense.

(f) Prepaid and other assets:

Prepaid and other assets includes prepaid expenses and inventory purchases for which payment has been made but control of the inventory has not transferred to the Company.

(g) Inventories:

Finished goods are measured at the lower of cost and net realizable value. Raw materials are measured at the lower of cost and replacement cost. Work-in-process and goods-in-transit are measured at cost. For purchased wood products, cost is determined using the weighted average cost method and includes invoice cost, duties, freight, and other directly attributable costs of acquiring the inventory. For manufactured wood products, cost is defined as all costs that relate to bringing the inventory to its present condition and location under normal operating conditions and includes manufacturing costs, such as raw materials and labor and production overhead.

Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Volume rebates and other supplier discounts are accounted for as a reduction of the cost of the related inventory and are earned when inventory is sold.

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

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

(h) Property, plant and equipment:

Items of property, plant and equipment are carried at acquisition cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is provided at straight-line rates sufficient to depreciate the cost of the assets over their estimated useful lives less estimated residual values as follows:

Assets	Estimated useful life
Buildings, machinery and equipment	3 to 30 years
Leased vehicles	Over the term of the lease
Leasehold improvements	Over the term of the lease

Leased assets are depreciated over the lease term unless the useful life is shorter than the lease term. If a significant component of an asset has a useful life that is different from the remainder of the asset, then that component is depreciated separately.

Depreciation methods, material residual value estimates and estimates of useful lives are reviewed at each financial year end and updated as considered necessary.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss at the time of the disposal.

(i) Intangible assets:

Intangible assets with finite lives consist of acquired customer relationships and costs capitalized for internally generated software. The customer relationships are amortized on a straight-line basis over their estimated useful life of 10 years and are measured at cost less accumulated amortization. Costs capitalized for internally generated software consist of costs incurred in the development and implementation of the software and amortization begins when the software is substantially completed and ready for use. Costs capitalized for internally generated software are amortized on a straight-line basis over their estimated useful life of 10 years and are measured at cost less accumulated amortization. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(j) Goodwill:

Goodwill represents the excess, at the dates of acquisition, of the purchase price over the fair value of the net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. After initial measurement in a business combination, goodwill is recorded at cost less accumulated impairment losses.

Goodwill is allocated to the cash generating unit or group of cash generating units that are expected to receive the benefits from the business combinations. The Company tests goodwill for impairment on an annual basis. The Company also performs an impairment test whenever events or changes in circumstances indicate that the carrying value of a cash generating unit exceeds its recoverable amount. An impairment loss for goodwill is not reversed.

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

---

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

(k) Impairment:

*Non-financial assets*

The carrying values of the Company's non-financial assets are reviewed at each reporting date to assess whether there is any indication of impairment. If any such indication is present, then the recoverable amount of the assets is estimated.

The recoverable amount of an asset or cash generating unit is the greater of its value in use or its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets are grouped at lowest levels that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit and loss. Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment charge is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

*Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

The Company considers evidence of impairment for financial assets, and in particular receivables, at both a specific asset and account balance level.

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss is recognized. For financial assets measured at amortized cost, this reversal is recognized in profit or loss.

(l) Financial instruments:

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value including transaction costs.

The classification and measurement of the Company's financial instruments is disclosed in note 6 of these consolidated financial statements.

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

---

## 3. Significant accounting policies (continued):

### (l) Financial instruments (continued):

#### *Financial assets*

##### *Cash*

The Company considers deposits in banks as cash and cash equivalents.

##### *Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provisions for impairment, if any. Discounting is omitted where the effect of discounting is immaterial.

Individual receivables are considered for impairment when they are past due or when other objective evidence exists that a specific counterparty will default. Impairment of trade receivables is presented within selling and distribution expenses.

Loans receivable consist of notes from customers and loans to employees for relocation costs, discounted using the effective interest method. Interest revenue on these loans is recognized within finance income.

##### *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.

##### *Financial liabilities*

Loans, payables, and lease obligations are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. After initial recognition these liabilities are measured at amortized cost using the effective interest method. Discounting is omitted when the effect of discounting is immaterial. The revolving bank line of credit is not discounted; rather, actual interest accrued is based on the daily balances and is recorded each month.

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

---

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

#### (m) Income taxes:

Income tax expense comprises current and deferred tax and is recognized in profit and loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of the previous years.

Deferred tax is recognized by the Company and its subsidiaries in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and taxable differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset only when the Company has a legally enforceable right and intention to set off current tax assets and liabilities from the same taxation authority.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### (n) Provisions:

Provisions are recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

#### (o) Basic and diluted profit per share:

The Company presents basic and diluted profit per share data for its outstanding common shares. Basic profit per share attributable to shareholders is calculated by dividing profit by the weighted average number of common shares outstanding during the reporting year. Diluted profit per share is determined by adjusting the profit attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

#### (p) Share based compensation:

The Company has a share based long-term incentive plan as described in note 14(b). At the discretion of the Board of Directors, the Restricted Shares and Performance Shares to which a grantee is entitled may be settled by the Company in Shares or in an amount of cash equal to the fair market value of such Shares, or a combination of the foregoing.



# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

---

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

(p) Share based compensation (continued):

The Company is accounting for half of the Restricted Shares and Performance Shares as employee equity settled awards whereby the compensation cost is determined based on the grant date fair value and is recognized as an expense with a corresponding increase to contributed surplus in equity over the period that the employees unconditionally become entitled to payment. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met. For the remaining 50% of Restricted and Performance Shares that can be settled in either cash or common shares at the employees option, the Company accounts for the award as cash-settled share based compensation. Compensation expense is recorded over the vesting period based on the estimated fair value at the date of grant. The fair value of this 50% portion of the Restricted and Performance Shares is subsequently re-measured at each reporting date with any change in fair value reflected in share based compensation expense in the statement of comprehensive income. The liability associated with cash-settled awards is recorded in accounts payable and accrued liabilities, for amounts expected to be settled within one year, and in non-current liabilities for amounts to be settled in excess of one year.

(q) Leases ("*IFRS 16*")

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. The Company's operating leases, which are principally comprised of its warehouse facilities and automobiles, are recorded in the statements of financial position as a lease obligation with a corresponding ROU asset.

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 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 the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

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

(q) Leases ("*IFRS 16*") (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.

(r) Future accounting pronouncements:

Several new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2020, and have not been applied in preparing these consolidated financial statements. None are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

### 4. Business acquisitions:

The purchase price allocations at the transaction dates are summarized as follows:

	December 31, 2020	December 31, 2019
Current assets acquired	\$ 19,916	\$ 20,002
Property, plant and equipment	1,351	6,013
Intangible assets	—	14,595
Goodwill	6,703	19,966
	\$ 27,970	\$ 60,576
Current liabilities assumed	(5,168)	(7,726)
<b>Net assets acquired</b>	<b>\$ 22,802</b>	<b>\$ 52,850</b>
<b>Consideration</b>	<b>\$ 22,802</b>	<b>\$ 52,850</b>

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

---

## 4. Business acquisitions (continued):

### (a) 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 \$5.6 million (US\$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 \$1.9 million (US\$1.5 million), inventories of \$2.1 million (US\$1.6 million), property, plant and equipment of \$0.9 million (US\$0.7 million), and payables and accruals of \$0.7 million (US\$0.5 million). Goodwill of \$1.4 million (US\$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.

### (b) 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 \$13.5 million (US\$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 \$4.9 million (US\$3.8 million), inventories of \$9.5 million (US\$7.4 million), property, plant and equipment of \$0.2 million (US\$0.2 million), and payables and accruals of \$4.0 million (US\$3.1 million). Goodwill of \$2.9 million (US\$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.

### (c) 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). 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 \$0.3 million (US\$0.2 million), inventories of \$1.2 million (US\$0.9 million), property, plant and equipment of \$0.1 million (US\$0.1 million), and payables and accruals of \$0.3 million (US\$0.2 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.

### (d) 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 Mutual Door Company ("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:

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

## 4. Business acquisitions (continued):

### (d) Pacific Mutual Door Company (continued)

	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 12 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.

Had the Pacific Acquisition occurred on January 1, 2019 management estimates that the Company's consolidated sales would have been approximately \$1,249.2 million and profit before income tax would have been approximately \$45.1 million for the year ended December 31, 2019. Included in these consolidated financial statements for the year ended December 31, 2019 are sales of \$12.7 million (US\$9.6 million) and profit before income tax of \$0.5 million (US\$0.4 million) relating to Pacific.

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

### (e) Far West Plywood Company

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.

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

## 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:

	December 31, 2020	December 31, 2019
Cash	\$ (584)	\$ (15,118)
Bank indebtedness	94,986	\$ 121,548
Shareholder's equity	305,346	283,445
Total capitalization	\$ 399,748	\$ 389,875

The terms of the Company's US and Canadian credit facilities are described in note 13. 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 December 31, 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 November 6, 2020, the Company declared a cash dividend of \$0.10 per common share to shareholders of record as of January 18, 2021. The dividend was paid to shareholders on January 29, 2021. On March 11, 2021, the Company declared a cash dividend of \$0.10 per common share to shareholders of record as of April 19, 2021, to be paid on April 30, 2021.

## 6. Financial instruments:

Financial instrument assets include cash and current and non-current receivables, which are designated as subsequently measured at amortized cost and investments which are designated as FVTPL. Non-derivative financial instrument liabilities include bank indebtedness, accounts payable and accrued liabilities, income taxes payable, dividend payable, notes payable and finance lease obligation. All financial liabilities are designated as subsequently measured at amortized cost.

### *Fair value hierarchy*

IFRS 13 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The three levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full contractual term.

Level 3 - Inputs for the asset or liability are not based on observable market data.

The Company's cash and cash equivalents are classified as level 1 and all other financial instruments are classified as level 2 of the fair value hierarchy.

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

---

## 6. Financial instruments (continued):

### *Fair values of financial instruments*

The carrying values of cash and cash equivalents, accounts and other receivables, income taxes receivable, dividend payable and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of the instruments. The fair value of non-current receivables and investments, other liabilities and finance lease obligations are not expected to differ materially from their respective carrying values, given the interest rates applicable to these financial instruments. The carrying values of the credit facilities approximate their fair values due to the existence of floating market based interest rates.

### *Financial risk management:*

The Board of Directors of the Company and its subsidiaries has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Company's activities. Through its standards and procedures management has developed a disciplined and constructive control environment in which all employees understand their roles and obligations. Management regularly monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company has exposure to credit, liquidity and market risks from its use of financial instruments.

#### (i) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's cash held at banks, and current and non-current receivables. The carrying value of these financial assets, which total \$122.1 million at December 31, 2020 (December 31, 2019 - \$131.0 million), represents the Company's maximum exposure to credit risk.

#### *Trade accounts receivable*

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company is exposed to credit risk in the event it is unable to collect in full amounts receivable from its customers. The Company employs established credit approval practices and engages credit attorneys when appropriate to mitigate credit risk. The Company attempts to secure credit advanced to customers whenever possible by registering security interests in the assets of the customer and by obtaining personal guarantees. Credit limits are established for each customer and are regularly reviewed. In some instances the Company may choose to transact with a customer on a cash-on-delivery basis. The Company's largest individual customer balance amounted to 1.4% (December 31, 2019 - 2.0%) of trade accounts receivable and customer notes receivable at December 31, 2020. No one customer represents more than 1.0% of sales.

More detailed information regarding management of trade accounts receivable is found in note 7 to these consolidated financial statements.

#### *Customer notes:*

Customer notes are issued to certain customers to provide fixed repayment schedules for amounts owing that have been agreed will be repaid over longer periods of time. The terms of each note are negotiated with the customer. For notes issued, the Company requires a fixed payment amount, personal guarantees, general security agreements, and security over specific property or assets. Customer notes bear market interest rates up to 10%.

#### *Security deposits:*

Security deposits are recoverable on leased premises at the end of the related lease term. The Company does not believe there is any material credit risk associated with its security deposits.

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

---

## 6. Financial instruments (continued):

### (i) Credit risk (continued):

#### *Cash and investments:*

Cash and investment balances are maintained with high credit quality financial institutions. The Company does not believe there is any material credit risk associated with cash and investments.

### (ii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will have sufficient cash available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. At December 31, 2020, in Canada, a subsidiary of the Company had a revolving credit facility of up to \$25.0 million, and, in the US, a subsidiary of the Company had a revolving credit facility of up to \$191.0 million (US\$150.0 million). These credit facilities can be drawn down to meet short-term financing requirements, including fluctuations in non-cash working capital. The amount made available under the revolving credit facilities is limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Company, as well as by continued compliance with credit ratios and certain other terms under the credit facilities. See note 13 for further information regarding the Company's credit facilities and borrowing capacity.

The Company's accounts payable and accrued liabilities are subject to normal trade terms and have contracted maturities that will result in payment in the following quarter. The undiscounted contractual maturities of finance lease obligations are presented in note 10 to these consolidated financial statements.

### (iii) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and commodity prices will affect the Company's net earnings or value of its holdings of financial instruments.

#### *Interest rate risk*

The Company is exposed to interest rate risk on its credit facilities which bear interest at floating market rates. Based upon the December 31, 2020 bank indebtedness balance of \$95.0 million, a 1% increase or decrease in the interest rates charged would result in a decrease or increase to profit after tax by approximately \$0.6 million.

#### *Currency risk*

As the Company conducts business in both Canada and the United States it is exposed to currency risk. Most of the products sold by the Company in Canada are purchased in U.S. dollars from suppliers in the United States. Although the Company reports its financial results in Canadian dollars, approximately 90% of its sales are generated in the United States. Changes in the currency exchange rates of the Canadian dollar against the U.S. dollar will affect the results presented in the Company's financial statements and cause its earnings to fluctuate. Changes in the costs of products purchased by the Company in the United States as a result of the changing value of the Canadian dollar against the U.S. dollar are usually absorbed by the Canadian market. When the products are resold in Canada it is generally sold at a Canadian dollar equivalent selling price, and accordingly revenues in Canada are effectively increased by decreases in value of the Canadian dollar and vice versa.

At December 31, 2020, the primary exposure to foreign denominated financial instruments was in the Company's Canadian subsidiaries and relates to U.S. dollar cash balances, accounts receivable from U.S. customers (2020 - US\$0.2 million, 2019 - US\$0.9 million) and accounts payable to U.S. suppliers (2020 - US\$0.7 million, 2019 - US\$1.3 million).

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

## 6. Financial instruments (continued):

### (iii) Market risk (continued):

Based on the Company's Canadian subsidiaries exposure to foreign denominated financial instruments, the Company estimates a \$0.05 weakening or strengthening in the Canadian dollar as compared to the U.S. dollar would not have a material effect on net profit for the years ended December 31, 2020 or December 31, 2019.

This foreign currency sensitivity is focused solely on the currency risk associated with the Company's Canadian subsidiaries exposure to foreign denominated financial instruments as at December 31, 2020 and December 31, 2019 and does not take into account the effect a change in currency rates will have on the translation of the balance sheet and operations of the Company's U.S. subsidiaries nor is it intended to estimate the potential impact changes in currency rates would have on the Company's sales and purchases.

### Commodity price risk:

The Company does not enter in to any commodity contracts. Inventory purchases are transacted at current market rates based on expected usage and sale requirements and increases or decreases in prices are reflected in the Company's selling prices to customers.

## 7. Accounts receivables and others:

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

	December 31, 2020	December 31, 2019
Trade accounts receivable - Canada	\$ 14,761	\$ 13,401
Trade accounts receivable - United States	102,026	98,877
Sundry receivable	5,306	4,387
Current portion of non-current receivables	825	1,257
	<u>122,918</u>	<u>117,922</u>
Less:		
Allowance for credit loss	4,071	4,182
	<u>\$ 118,847</u>	<u>\$ 113,740</u>
Non-current receivables:		
Employee housing loans	\$ —	\$ 120
Customer notes	473	1,065
Security deposits	2,153	2,448
	<u>2,626</u>	<u>3,633</u>
Less:		
Current portion, included in accounts receivable	825	1,257
	<u>\$ 1,801</u>	<u>2,376</u>
Investments	7,308	—
	<u>\$ 9,109</u>	<u>\$ 2,376</u>



# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

## 7. Accounts and other receivables (continued):

The aging of trade receivables is:

	December 31, 2020	December 31, 2019
Current	86,618	77,922
1 - 30 days past due	19,248	20,015
31 - 60 days past due	5,361	8,061
60+ days past due	5,560	6,280
	<b>\$ 116,787</b>	<b>\$ 112,278</b>

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 December 31, 2020 was \$4.1 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.

Bad debt expense, net of recoveries, for the year ended ended December 31, 2020 was \$0.6 million which equates to 0.1% of sales (for the year ended December 31, 2019 - \$2.2 million, being 0.2% of sales).

## 8. Inventories:

	December 31, 2020	December 31, 2019
Raw materials	\$ 1,271	\$ 1,171
Work in process	3,135	3,821
Goods in-transit	23,602	8,442
Finished goods	191,378	194,501
	<b>\$ 219,386</b>	<b>\$ 207,935</b>

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 consolidated statements of comprehensive income as follows:

	2020	2019
Inventory write-downs, included in cost of goods sold	\$ 2,069	\$ 2,453
Cost of inventory sold	958,275	913,363
Other cost of goods sold	47,554	46,578
Total cost of goods sold	<b>\$ 1,005,829</b>	<b>\$ 959,941</b>

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

## 9. Property, plant and equipment:

		Land	Buildings, machinery and equipment	Leasehold improvements	Total
<b>Cost</b>					
Balance at January 1, 2019	\$	838	\$ 36,134	\$ 1,722	\$ 38,694
Additions		18	2,952	351	3,321
Acquisition of Far West and Pacific (note 4)		—	1,520	—	1,520
Disposals		—	(1,530)	(131)	(1,661)
Adjustments:					
Foreign currency translation		(40)	(1,672)	(53)	(1,765)
Balance at December 31, 2019		816	37,404	1,889	40,109
Additions		(18)	2,148	674	2,804
Acquisition of Diamond, Aura and River (note 4)		—	1,351	—	1,351
Disposals		—	(1,746)	(88)	(1,834)
Adjustments:					
Foreign currency translation		(16)	(694)	(47)	(757)
Balance at December 31, 2020	\$	782	\$ 38,463	\$ 2,428	\$ 41,673
<b>Accumulated depreciation</b>					
Balance at January 1, 2019	\$	—	\$ 17,272	\$ 1,065	\$ 18,337
Depreciation		—	3,558	173	3,731
Disposals		—	(1,456)	(124)	(1,580)
Adjustments:					
Foreign currency translation		—	(770)	(39)	(809)
Balance at December 31, 2019		—	18,604	1,075	19,679
Depreciation		—	3,748	279	4,027
Disposals		—	(1,613)	(79)	(1,692)
Impairment		—	3,085	—	3,085
Adjustments:					
Foreign currency translation		—	(588)	(6)	(594)
Balance at December 31, 2020	\$	—	\$ 23,236	\$ 1,269	\$ 24,505
Net book value:					
December 31, 2019	\$	816	\$ 18,800	\$ 814	\$ 20,430
December 31, 2020	\$	782	\$ 15,227	\$ 1,159	\$ 17,168

On March 10, 2021 the Company entered into an agreement to sell substantially all of the assets related to its sawmill and kiln drying operation in Clinton, Michigan to a third party. Proceeds of the sale are expected to be \$11.5 million (US\$9.0 million), and this transaction resulted in a write down of property, plant and equipment of \$3.1 million (US\$2.3 million). This loss was recorded in the fourth quarter of 2020.

Depreciation of property, plant and equipment for the year ended December 31, 2020 was \$4.0 million (2019 - \$3.7 million) and is included in the statement of comprehensive income as follows:

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

## 9. Property, plant and equipment (continued):

	2020	2019
Cost of sales	\$ 1,783	\$ 1,766
Selling and distribution	2,081	1,708
Administration	163	257
	\$ 4,027	\$ 3,731

Gains and losses on disposal of property, plant and equipment for the year ended December 31, 2020 was a net gain of \$0.1 million (2019 - net gain of \$0.2 million) and is included in selling and distribution in the statement of comprehensive income.

## 10. Leases:

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
Balance at January 1, 2019	81,020	15,380	841	97,241
Additions	18,698	2,775	—	21,473
Acquisition (Note 4)	4,493	—	—	4,493
Disposals	(2,857)	(274)	—	(3,131)
Depreciation charge for the year	(16,693)	(4,913)	(222)	(21,828)
Foreign currency transaction	(3,579)	(654)	(33)	(4,266)
Balance at December 31, 2019	81,082	12,314	586	93,982
Additions	29,997	6,395	85	36,477
Disposals	(1,313)	(159)	—	(1,472)
Depreciation charge for the year	(18,454)	(4,901)	(221)	(23,576)
Foreign currency transaction	(2,043)	(295)	(7)	(2,345)
Balance at December 31, 2020	89,269	13,354	443	103,066

### Lease liabilities

	December 31, 2020	December 31, 2019
Maturity analysis - contractual undiscounted cash flows		
Less than one year	28,606	25,504
One to five years	90,135	82,442
More than five years	10,365	13,734
Total undiscounted lease liabilities	129,106	121,680
Lease liabilities included in the statement of financial position	117,464	108,699
Current	24,855	24,973
Non-current	92,609	83,726

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

## 11. Intangible assets:

		Internally generated software	Customer relationships	Total
<b>Cost</b>				
Balance at January 1, 2019	\$	636	\$ 21,504	\$ 22,140
Additions		282	—	282
Acquisition of Pacific (Note 4(a))		—	14,595	14,595
Adjustments:				
Foreign currency transaction		(28)	(1,339)	(1,367)
Balance at December 31, 2019		890	34,760	35,650
Additions		316	—	316
Adjustments:				
Foreign currency transaction		(26)	(685)	(711)
Balance at December 31, 2020	\$	1,180	\$ 34,075	\$ 35,255
<b>Accumulated amortization</b>				
Balance at January 1, 2019	\$	6	\$ 5,306	\$ 5,312
Amortization		36	2,358	2,394
Adjustments:				
Foreign currency transaction		(2)	(302)	(304)
Balance at December 31, 2019		40	7,362	7,402
Amortization		39	3,587	3,626
Adjustments:				
Foreign currency transaction		(1)	(329)	(330)
Balance at December 31, 2020	\$	78	\$ 10,620	\$ 10,698
Net book value:				
December 31, 2019	\$	850	\$ 27,398	\$ 28,248
December 31, 2020	\$	1,102	\$ 23,455	\$ 24,557

Amortization of intangible assets for the year ended December 31, 2020 was \$3.6 million (2019 - \$2.4 million) and is included in selling and distribution expenses in the statement of comprehensive income.

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

## 12. Goodwill:

Balance at January 1, 2019	\$	56,120
Acquired through acquisitions (Note 4)		19,966
Adjustments:		
Foreign currency translation		(3,112)
Balance at December 31, 2019	\$	72,974
Acquired through acquisitions (Note 4)		6,703
Adjustments:		
Foreign currency translation		(1,588)
Balance at December 31, 2020	\$	78,089

For the purposes of impairment testing, goodwill has been allocated to the group CGU's (operating divisions) as follows:

	2020	2019
Other	8,410	3,300
Rugby Architectural Building Products	53,750	53,426
Pacific Mutual Door Company	15,929	16,248
	78,089	72,974

For the year ended December 31, 2020 the Company performed an impairment test for all three CGU's. The recoverable amount of the CGU's were based on value in use, determined by discounting the future cash flows to be generated from their continuing use. Significant assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends and are based on historical data from both internal and external sources.

	2020	2019
Discount rate	8 %	10 %
Gross margin percentage	17% - 28%	19% - 27%

The discount rate was a post-tax measure, estimated based on the historical industry average weighted-average cost of capital. The gross margin percentage is consistent with historical experience.

The estimate recoverable amounts for the CGU's exceeded their carrying amount, and as a result the goodwill is not impaired as at December 31, 2020. Management has identified that a possible change in significant assumptions, including the discount rate and the gross margin percentage, could cause the carrying amount to exceed the recoverable amount. The discount rate would have to increase from 8% to 13% - 15% before the carrying amount exceeded the recoverable amount. The gross margin percentage would have to decrease from 17% - 28% to 15% - 24%.

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

## 13. Bank Indebtedness:

	December 31, 2020	December 31, 2019
Cheques issued in excess of funds on deposit	\$ 1,243	\$ 2,489
Credit facility, Hardwoods LP	21,806	13,013
Credit facility, Hardwoods USLP II (December 31, 2020 - US\$56,500 December 31, 2019 - US\$81,650)	71,937	106,047
	<u>\$ 94,986</u>	<u>\$ 121,548</u>

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.

### *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 December 31, 2020, the LP Credit Facility has unused availability of \$2.2 million, before cheques issued in excess of funds on deposit of \$1.2 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 million to US\$150 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.

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

## 13. Bank Indebtness (continued):

At December 31, 2020, the USLP II Credit Facility has unused availability of \$90.2 million (US\$70.8 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 December 31, 2020 totaling \$4.4 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.

The average annual interest rates paid in respect of bank indebtedness for the year ended December 31, 2020 were 2.5% and 2.8% (2019 - 4.1% and 4.4%) for the LP and USLP II Credit Facilities, respectively.

## 14. Share capital:

### (a) Share capital

At December 31, 2020, the authorized share capital of the Company comprised an unlimited number of common shares without par value ("Shares").

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	108,343	1,452
Share repurchase	(222,133)	(2,831)
Balance at December 31, 2020	21,241,537	\$ 112,458

At December 31, 2020 the Company had nil (December 31, 2019 - 0.3 million) accrued in accounts payable related to share repurchase obligations.

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

The Company has an approved long term incentive plan which authorizes the issuance of a maximum of 2,100,000 Shares to qualified trustees, directors, officers, employees and consultants to align the interests of such persons with the interests of shareholders.

The LTIP is comprised of Restricted Shares and Performance Shares. Each Restricted Share will entitle the holder to be issued the number of Shares of the Company designated in the grant agreement for that Restricted Share. Shares issuable pursuant to Restricted Share grants will vest and be issued on the date or dates determined by the Company's Compensation Committee and set out in the grant agreement, provided such date or dates are not later than December 31st following the third anniversary of the date the Restricted Share was granted. Each Performance Share will entitle the holder to be issued the number of Shares designated in the grant agreement for the Performance Share multiplied by a payout multiplier which may range from a minimum of zero to a maximum of two depending on the achievement of the defined performance criteria. Shares issuable pursuant to Performance Shares will be issued on the date set out in the grant agreement if the performance criteria are satisfied, provided such date is not later than December 31st following the third anniversary of the date the Performance Share was granted.

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

## 14. Share capital (continued):

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

The Shares to which a grantee is entitled under a Restricted Share or Performance Share may, at the discretion of the Board of Directors, be settled by the Company in Shares issued from treasury, Shares purchased by the Company in the secondary market, in an amount of cash equal to the fair market value of such Shares, or any combination of the foregoing. Grantees have the option to settle up to 50% of the Restricted Shares and Performance Shares in cash. The Company has made an estimate of the amount it expects to settle in cash related to future vestings of Restricted Shares and Performance Shares. As at December 31, 2020 the fair value of the Restricted Shares and Performance Shares estimated to be settled in the future in cash was \$2.8 million (December 31, 2019 - \$1.2 million) and this value has been classified within accounts payable and accrued liabilities and non-current liabilities.

If any Restricted Shares or Performance Shares granted under LTIP expire, terminate or are cancelled for any reason without the Shares issuable under the Restricted Share or Performance Share having been issued in full, those Shares will become available for the purposes of granting further Restricted Shares or Performance Shares under the LTIP. To the extent any Shares issuable pursuant to Restricted Shares or Performance Shares are settled in cash or with Shares purchased in the market, those Shares will become available for the purposes of granting further Restricted Shares or Performance Shares.

The LTIP provides for cumulative adjustments to the number of Shares to be issued pursuant to Restricted Shares or Performance Shares on each date that dividends are paid on the Shares by an amount equal to a fraction having as its numerator the amount of the dividends per Share and having as its denominator the fair market value of the Shares on the trading day immediately preceding the dividend payment date. Fair market value is the weighted average price that the Shares traded on the Toronto Stock Exchange for the five trading days on which the Shares traded immediately preceding that date.

The LTIP provides that the number of Shares issued to insiders or employees pursuant to the plan and other Share compensation arrangements of the Company within a one year period, or at any one time, may not exceed 10% of the issued and outstanding Shares.

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)	(131,683)
Balance at December 31, 2020	182,571	239,123

LTIP compensation expense of \$3.6 million was recognized in the consolidated statements of comprehensive income for year ended ended December 31, 2020 (December 31, 2019 - \$2.2 million) . The equity classified portion of the LTIP compensation expense was \$1.3 million for year ended December 31, 2020 (December 31, 2019 - \$1.4 million) and the liability classified expense was \$2.3 million (December 31, 2019 - \$0.8 million).



# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

## 14. Share capital (continued):

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

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 year ended December 31, 2020 of \$37.6 million (December 31, 2019 - \$29.6 million). The weighted average number of common shares outstanding in each of the reporting years was as follows:

	December 31, 2020	December 31, 2019
Issued ordinary shares at beginning of year	21,355,327	21,539,116
Effect of shares repurchased	(185,306)	(160,085)
Effect of shares issued during the year:		
Pursuant to long-term incentive plan	1,450	240
Weighted average common shares - basic	21,171,471	21,379,271
Effect of dilutive securities:		
Long-term incentive plan	207,098	109,652
Weighted average common shares - diluted	21,378,569	21,488,923

## 15. Income taxes:

	2020	2019
Current tax expense	\$ (13,009)	\$ (7,227)
Deferred tax expense	(345)	(2,293)
	\$ (13,354)	\$ (9,520)

Under current income tax regulations, subsidiaries of the Company are subject to income taxes in Canada and the United States. The applicable statutory rate in Canada for the year ended December 31, 2020 is 26.9% (2019 - 26.9%) and in the United States is 26.0% (2019 - 26.0%). The majority of the Company's tax expense is generated from its US subsidiaries, and as such the Company reconciles its consolidated income tax expense to the statutory tax rate applicable to the United States.

Income tax expense differs from that calculated by applying U.S. federal and state income tax rates to earnings before income taxes for the following reasons:

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

## 15. Income taxes (continued):

	2020	2019
Profit before income tax	\$ 50,955	\$ 39,101
Statutory rate	26.0%	26.0%
Computed tax expense at statutory rate	(13,248)	(10,166)
Effect of tax rate differentials and other restructuring	836	1,116
Non-deductible expenses	(861)	(547)
Prior year tax true-ups	84	127
Change in unrecognized deferred tax assets	—	46
Other	(165)	(96)
Income tax expense	\$ (13,354)	\$ (9,520)

The tax effect of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities is as follows:

	December 31, 2020	December 31, 2019
Deferred tax assets:		
Accounts receivable	\$ 1,047	\$ 1,208
Accounts payable and provisions	854	466
Inventory	2,600	2,433
Finance lease obligations, net	5,500	6,055
Tax loss carry forwards and future interest deductions	886	516
Share and debt issuance costs	147	270
Other	116	(67)
	11,150	10,881
Deferred tax liabilities:		
Prepaid expenses	(761)	(777)
Property, plant and equipment	(4,895)	(5,643)
Goodwill and intangibles	(1,426)	—
	(7,082)	(6,420)
Deferred tax asset	\$ 4,068	\$ 4,461

Deferred tax assets and liabilities are measured at the substantively enacted rates expected to apply at the time such temporary differences are forecast to reverse. At December 31, 2020, the Company and its subsidiaries have operating loss carry forwards for income tax purposes of approximately \$nil in Canada that may be utilized to offset future taxable income (December 31, 2019 - \$1.6 million). The Company's US subsidiaries have no operating loss carry forwards.

At December 31, 2020, the Company and its Canadian subsidiaries have capital losses of approximately \$23.0 million (December 31, 2019 - \$23.0 million), and suspended capital losses of approximately \$44.7 million (December 31, 2019 - \$44.7 million) available to offset future Canadian taxable capital gains. These capital losses arose as a result of internal restructuring and inter-entity transactions during the year ended December 31, 2009. The deferred income tax asset of \$9.0 million (December 31, 2019 - \$9.0 million) associated with these capital losses has not been recorded because it is not probable that future taxable capital gains will be generated to utilize the benefit.

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

## 16. Finance income and expense:

	Note	2020	2019
Finance expense:			
Interest on bank indebtedness	13	\$ (3,347)	\$ (4,721)
Accretion of finance lease obligation		(4,492)	(4,700)
Foreign exchange loss		(591)	(364)
<b>Total finance expense</b>		<b>(8,430)</b>	<b>(9,784)</b>
Finance income:			
Interest on trade receivables, customer notes, and employee loans	7	459	626
Unrealized gain on investments	7	378	—
<b>Total finance income</b>		<b>837</b>	<b>626</b>
<b>Net finance expense</b>		<b>\$ (7,593)</b>	<b>\$ (9,158)</b>

## 17. Segment reporting:

Information about geographic areas is as follows:

	2020	2019
Revenue from external customers:		
Canada	\$ 144,077	\$ 138,100
United States	1,101,235	1,033,821
	<b>\$ 1,245,312</b>	<b>\$ 1,171,921</b>

	December 31, 2020	December 31, 2019
Non-current assets <sup>(1)</sup> :		
Canada	\$ 9,195	\$ 10,816
United States	213,685	204,818
	<b>\$ 222,880</b>	<b>\$ 215,634</b>

<sup>(1)</sup> Excludes financial instruments and deferred income taxes.

## 18. Employee remuneration:

(a) Employee benefits expense:

Expenses recognized for employee benefits are summarized below.

	2020	2019
Wages, salaries and benefits	\$ 132,023	\$ 120,746
Pensions - defined contribution plans	1,706	1,519
LTIP share based compensation	3,551	2,249
	<b>\$ 137,280</b>	<b>\$ 124,514</b>

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

## 18. Employee remuneration (continued):

### (a) Employee benefits expense (continued):

Employee benefit expenses are included in the consolidated statement of comprehensive income as follows:

	2020	2019
Cost of sales	\$ 27,538	\$ 26,260
Selling and distribution	77,457	71,235
Administration	32,285	27,019
	\$ 137,280	\$ 124,514

### (b) Pensions:

Hardwoods USLP, Rugby Holdings LLC, Paxton Hardwoods LLC and HMI Hardwoods LLC maintain defined contribution 401(k) retirement savings plans ("Plans"). The assets of these Plans are held and related investment transactions are executed by the Plan's Trustees who are third parties and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2020, Hardwoods USLP, Rugby Holdings LLC and Paxton Hardwoods LLC contributed and expensed \$1.3 million (US \$1.0 million) (2019 - \$1.2 million (US \$0.9 million)) in relation to these Plans. There is no requirement for an employer contribution to the plan maintained by HMI Hardwood LLC and accordingly HMI Hardwoods LLC did not make any contributions to this plan.

Hardwoods LP does not maintain a pension plan. Hardwoods LP does, however, administer a group registered retirement savings plan ("LP Plan") that has a matching component whereby Hardwoods LP makes contributions to the LP Plan which match contributions made by employees up to a certain level. The assets of the LP Plan are held and related investment transactions are executed by LP Plan's Trustee who is a third party, and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2020, Hardwoods LP contributed and expensed \$0.5 million (2019 - \$0.4 million) in relation to the LP plan.

## 19. Related party transactions:

The Company's related parties include key management personnel and post-employment benefit plans for the employees of the Company's subsidiaries.

### (a) Transactions with key management personnel:

Key management of the Company includes members of the Board of Directors, the President and Chief Executive Officer, Chief Financial Officer, Senior Vice President and Vice Presidents. Key management personnel remuneration includes the following expenses:

	2020	2019
Short-term employee benefits:		
Salaries and benefits including bonuses	\$ 4,749	\$ 3,583
Automobile benefit	34	40
LTIP Share compensation	2,501	1,603
Total remuneration	\$ 7,284	\$ 5,226

# HARDWOODS DISTRIBUTION INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31 2020 and 2019

---

## 19. Related party transactions (continued):

(b) Transactions with post-employment benefit plans:

The defined contribution plans referred to in note 18(b) are related parties of the Company. The Company's transactions with the pension plans include contributions paid to the plans, which are disclosed in note 18(b). The Company has not entered into other transactions with the pension plans, nor has it any outstanding balances at December 31, 2020 or December 31, 2019.

## 20. 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 consolidated financial statements as at December 31, 2020.

## Corporate Information

### Directors

Robert J. Brown  
Director

Peter M. Bull  
President, Blenheim Realty Ltd.

Michelle Lewis  
Principal, CapStreet Group

Jim Macaulay  
Chief Financial Officer, Marvin Companies

E. Lawrence Sauder  
Chair, Interfor Corporation

William Sauder  
President, Emax Investments Ltd.

Rob Taylor  
President, Sonepar North America

Graham Wilson  
President, Grawil Consultants Inc.

### Officers

Robert J. Brown  
President & Chief Executive Officer

Lance R. Blanco  
Senior Vice President, Corporate Development

Faiz H. Karmally  
Vice President and Chief Financial Officer

Jason West  
Vice President, Canada

Dan A. Besen  
Senior Vice President, United States

Dan Figgins  
Vice President, Imports

John Griffin  
Vice President, Paxton

Dave Hughes  
Senior Vice President, Acquisitions

Drew Dickinson  
President, Rugby

### Head Office

#306 - 9440 202<sup>nd</sup> Street  
Langley, BC Canada V1M 4A6  
Telephone: 604-881-1988  
Facsimile: 604-881-1995

### Auditors

KPMG LLP  
Vancouver, British Columbia

### Investor Relations

Faiz H. Karmally  
Chief Financial Officer  
Telephone: 604-881-1982  
fkarmally@hardwoods-inc.com

### Listings

The Toronto Stock Exchange  
Trades under **HDI**

### Transfer Agent

Computershare Trust

**HDI**  
HARDWOODS DISTRIBUTION INC.