Consolidated Financial Statements
(Expressed in Canadian dollars)

HARDWOODS DISTRIBUTION INC.

Years ended December 31, 2016 and 2015

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 Distribution Inc.

We have audited the accompanying consolidated financial statements of Hardwoods Distribution Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hardwoods Distribution Inc. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP (signed)

Chartered Professional Accountants

March 17, 2017
Vancouver, Canada

HARDWOODS DISTRIBUTION INC.

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

	Note	December 31, 2016	December 31, 2015
Assets			
Current assets:			
Cash		$ 766	$ —
Accounts and other receivables	7	94,534	56,156
Inventories	8	164,547	103,476
Prepaid expenses		2,689	2,193
Total current assets		262,536	161,825
Non-current assets:			
Non-current receivables	7	1,378	969
Property, plant and equipment	9	20,710	16,200
Intangible assets	10	20,114	36
Deferred income taxes	14	11,631	10,974
Goodwill	4	54,707	—
Total non-current assets		108,540	28,179
Total assets		$ 371,076	$ 190,004
Liabilities			
Current liabilities:			
Bank indebtedness	11	$ 97,886	$ 28,894
Accounts payable and accrued liabilities		40,978	12,438
Income taxes payable		1,949	2,987
Finance lease obligation	12(a)	1,055	1,119
Dividend payable	5	1,332	922
Total current liabilities		143,200	46,360
Non-current liabilities:			
Finance lease obligation	12(a)	905	696
Other liabilities	13(b)	972	—
Total non-current liabilities		1,877	696
Total liabilities		145,077	47,056
Shareholders' equity			
Share capital	13(a)	112,362	46,859
Contributed surplus		104,333	105,547
Deficit		(14,258)	(33,361)
Accumulated other comprehensive income		23,562	23,903
Shareholders' equity		225,999	142,948
Total liabilities and shareholders' equity		$ 371,076	$ 190,004

Subsequent event (note 5 and note 11)
Commitments (note 12)

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

Approved on behalf of the board of directors:

(Signed) GRAHAM M. WILSON Director **(Signed) WILLIAM R. SAUDER** Director

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2016 and 2015

	Note		2016		2015
Sales	16	$	789,321	$	571,598
Cost of goods sold	8		(645,543)		(471,965)
Gross profit			143,778		99,633
Operating expenses:					
Selling and distribution	17		(77,070)		(52,965)
Administration	17		(27,801)		(14,457)
			(104,871)		(67,422)
Profit from operations			38,907		32,211
Finance expense	15		(1,823)		(1,333)
Finance income	15		358		1,476
Net finance income (expense)			(1,465)		143
Profit before income taxes			37,442		32,354
Income tax expense:					
Current	14		(13,600)		(9,732)
Deferred	14		20		(2,476)
			(13,580)		(12,208)
Net profit			23,862		20,146
Other comprehensive income:					
Exchange differences translating foreign operations			(341)		16,399
Total comprehensive income		$	23,521	$	36,545
Basic net profit per share	13(c)	$	1.27	$	1.21
Diluted net profit per share	13(c)	$	1.25	$	1.20

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, 2016 and 2015

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income - translation reserve	Deficit	Total
Balance at January 1, 2015		$ 45,830	$ 105,154	$ 7,504	$ (49,999)	$ 108,489
Share based compensation expense	13 (b)	—	1,299	—	—	1,299
Share based compensation tax adjustment		—	123	—	—	123
Shares issued pursuant to LTIP	13 (b)	1,029	(1,029)	—	—	—
Profit for the year		—	—	—	20,146	20,146
Dividends declared		—	—	—	(3,508)	(3,508)
Translation of foreign operations		—	—	16,399	—	16,399
Balance at December 31, 2015		46,859	105,547	23,903	(33,361)	142,948
Share based compensation expense	13 (b)	—	1,130	—	—	1,130
Shares issued in connection with the bought deal financing, net of share issue costs	13 (a)	54,434	—	—	—	54,434
Shares issued concurrent with the Rugby acquisition	13 (a)	9,091	—	—	—	9,091
Shares issued pursuant to LTIP	13 (b)	1,162	(1,162)	—	—	—
Share reclassified to liabilities	13 (b)	—	(1,182)	—	—	(1,182)
Deferred tax recovery on share issue costs		816	—	—	—	816
Profit for the year		—	—	—	23,862	23,862
Dividends declared		—	—	—	(4,759)	(4,759)
Translation of foreign operations		—	—	(341)	—	(341)
Balance at December 31, 2016		$ 112,362	$ 104,333	$ 23,562	$ (14,258)	$ 225,999

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)

Years ended December 31, 2016 and 2015

	Note	2016	2015
Cash flow from operating activities:			
Profit for the year		$ 23,862	$ 20,146
Adjustments for:			
Depreciation and amortization	9,10	4,806	2,593
Gain on sale of property, plant and equipment	9	(171)	(29)
Share-based compensation expense	13(b)	1,130	1,299
Income tax expense	14	13,580	12,208
Net finance expense (income)	15	1,465	(143)
Interest received		358	421
Interest paid		(1,651)	(1,333)
Income taxes paid		(14,535)	(8,374)
		28,844	26,788
Changes in non-cash working capital:			
Accounts receivable		(956)	(2,930)
Inventories		(15,723)	(4,499)
Prepaid expenses		187	39
Accounts payable and accrued liabilities		2,320	1,346
		(14,172)	(6,044)
Net cash provided by operating activities		14,672	20,744
Cash flow from financing activities:			
Increase (decrease) in bank indebtedness	11	67,343	(15,030)
Principle payments on finance lease obligation		(1,204)	(1,045)
Note repayment		(407)	—
Issue of common shares, net of share issue costs	13(a)	63,525	—
Dividends paid to shareholders	5	(4,349)	(3,330)
Net cash provided by (used in) financing activities		124,908	(19,405)
Cash flow from investing activities:			
Additions to property, plant and equipment		(2,785)	(1,850)
Proceeds on disposal of property, plant and equipment		421	140
Business acquisition	4	(136,875)	—
Payments received on non-current receivables		425	358
Net cash used in investing activities		(138,814)	(1,352)
Increase (decrease) in cash		766	(13)
Cash, beginning of year		—	13
Cash, end of year		$ 766	$ —
Supplementary information:			
Property, plant and equipment acquired under finance leases, net of disposals		$ 1,404	$ 860
Deferred income tax on share issue costs in share capital		816	—
Future cash settlement of LTIP's in accrued liabilities and non-current liabilities	13(b)	1,182	—
Property, plant and equipment purchases in accrued liabilities and non-current liabilities		596	—
Transfer of accounts receivable to non-current customer notes receivable		199	192

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

1. Nature of operations:

Hardwoods Distribution Inc. (the "Company") is incorporated under the Canada Business Corporations Act and trades on the Toronto Stock Exchange under the symbol "HWD." The Company operates a network of 58 distribution centers in Canada and the US engaged in the wholesale distribution of hardwood lumber, sheet goods, specialty products and non-structural architectural grade 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.

On July 15, 2016 (the "Acquisition date"), the Company acquired through one of its wholly owned subsidiaries substantially all the assets used in the business of Rugby Acquisition, LLC and its subsidiaries ("Rugby") and assumed certain of Rugby's liabilities (the "Acquisition") for a base purchase price of $138.8 million (US$107.0 million) (the "Purchase Price") plus up to another $16.9 million (US$13.0 million) in earn-outs based on future performance (note 4). Rugby operates a network of 28 distribution centers in the US and is engaged in the wholesale distribution of non-structural architectural grade building products to customers that supply end-products to the commercial construction market. Rugby also serves industrial, retail, residential and institutional construction end-markets.

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") as issued by the International Accounting Standards Board. The consolidated financial statements were authorized for issue by the Board of Directors on March 17, 2017.

(b) Basis of measurement:

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

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

(d) Use of estimates and judgment:

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting year. Actual amounts may differ from the estimates applied in the preparation of these 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.

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 4 - the estimate of fair value of assets acquired and liabilities assumed and proforma sales and profitability associated with the Acquisition of Rugby;
- Notes 6 and 7 - the collectability of accounts receivable and the determination of the allowance for credit loss; and
- Note 8 - the valuation of inventories.

2. Basis of preparation (continued):

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

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 12 - the classification of lease obligations; and
- Note 14 - the valuation of deferred income taxes and utilization of tax loss carry forwards.

In assessing the Company's vehicle 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 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.

Wholly owned subsidiaries of the Company are Hardwoods Specialty Products LP, Hardwoods Specialty Products GP, Hardwoods Specialty Products GP Inc. II, Hardwoods Specialty Products USLP, Hardwoods Specialty Products USGP, Hardwoods Specialty Products (Washington) Corp., Hardwoods USLP II, LP, Hardwoods US LLC, Hardwoods Finance LLC, Hardwoods Finance Company Inc., Paxton Hardwoods LLC, HMI Hardwoods LLC and Rugby Holdings LLC.

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.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

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. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the exchange rate at the end of the year. Such exchange gains or losses arising from translation are recognized in profit and loss for the reporting year in net finance costs.

3. Significant accounting policies (continued):

(b) Foreign currencies (continued):

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.

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 hardwood lumber and related sheet goods and specialty products, hence operating segment information is not provided. Geographical segment information is provided by country of operations in note 16.

(d) Revenue recognition:

Revenue from the sale of hardwood lumber, sheet goods, specialty products and non-structural architectural grade building products is measured by reference to the fair value of consideration received or receivable by the operating subsidiaries of the Company, excluding taxes, rebates, and trade discounts. Revenue is recognized when persuasive evidence exists that the Company has transferred to the buyer the significant risks and rewards of ownership of the goods supplied, collection of the consideration is probable and the revenue and associated costs can be measured reliably. Significant risks and rewards are generally considered to be transferred when the customer has taken undisputed delivery of the goods.

(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) 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.

3. Significant accounting policies (continued):

(f) Inventories (continued):

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

(g) 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.

(h) Intangible assets:

Intangible assets with finite lives consist of acquired customer relationships. These 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.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

After initial measurement in a business combination (note 3(a)), goodwill is recorded at cost less accumulated impairment losses.

(i) 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. Goodwill is tested annually regardless of whether there is any indication of impairment.

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").

3. Significant accounting policies (continued):

(i) Impairment (continued):

Non-financial assets (continued)

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. An impairment loss for goodwill is not reversed.

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.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment of receivables, management considers the aging of receivables, the nature and extent of security held, historical trends of default, and current economic and credit conditions to estimate impairments.

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.

(j) 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 plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

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

Financial assets

Cash

The Company considers deposits in banks as cash.

3. Significant accounting policies (continued):

(j) Financial instruments (continued):

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.

Financial liabilities

Loans and payables 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.

(k) 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.

(l) Leases:

Automobile leases for which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments and a lease obligation is recorded equal to the present value of the minimum lease payments.

Subsequent to initial recognition, the leased asset is accounted for in accordance with the accounting policies applicable to property, plant and equipment. Minimum lease payments made under finance leases are apportioned between finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3. Significant accounting policies (continued):

(l) Leases (continued):

Other leases are operating leases and as such the leased assets are not recognized in the Company's statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(m) 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.

(n) 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.

(o) Share based compensation:

The Company has a share based long-term incentive plan as described in note 13(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.

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.

(p) New accounting policy:

Amendments to IAS 1, *Presentation of Financial Statements*

Effective January 1, 2016, the Company adopted the amendments to IAS 1, *Presentation of Financial Statements* that improved the presentation and disclosure in financial reports. The adoption of these amendments did not impact the Company's consolidated financial statements.

(q) Future accounting pronouncements:

A number of new standards, amendments to standards and interpretations, are not yet effective for the year ended December 31, 2016, and have not been applied in preparing these consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the consolidated financial statements in future periods.

3. Significant accounting policies (continued):

(q) Future accounting pronouncements (continued):

IFRS 9, *Financial Instruments ("IFRS 9")*

IFRS 9 will replace the multiple classification and measurement models in IAS 39 *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. The new standard also requires a single impairment method to be used, provides additional guidance on the classification and measurement of financial liabilities, and provides a new general hedge accounting standard.

The mandatory effective date has been set for January 1, 2018, however early adoption of the new standard is permitted. The Company does not intend to early adopt IFRS 9. The adoption of IFRS 9 is currently not expected to have a material impact on the consolidated financial statements given the nature of the Company's operations and the types of financial instruments that it currently holds; however, the Company will continue to assess the extent of impact as the mandatory adoption date approaches.

IFRS 15, *Revenue from Contracts with Customers ("IFRS 15")*

IFRS 15 is effective for fiscal years commencing on or after January 1, 2018 and will replace IAS 18, *Revenue* and a number of revenue related standards and interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced, which may affect the amount and/or timing of revenue recognized.

IFRS 15 permits two methods of adoption: (i) the retrospective method, under which comparative periods would be restated, and the cumulative impact of applying the standard would be recognized as at January 1, 2017, the earliest period presented; and (ii) the cumulative effect method, under which comparative periods would not be restated and the cumulative impact of applying the standard would be recognized at the date of initial adoption January 1, 2018. The Company expects to use the cumulative effect method, however it continues to monitor industry developments. Any significant industry developments could change the Company's expected method of adoption.

The majority of the Company's revenue is generated from the sale of hardwood lumber, sheet goods, specialty products and non-structural architectural grade building products to customers. The Company does not expect the adoption of this standard will have a material impact on the measurement of revenue generated from the sale of its products to customers.

IFRS 16, *Leases ("IFRS 16")*

On January 13, 2016, the IASB published a new standard, IFRS 16, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The main provision of IFRS 16 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. Under IFRS 16, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; and (ii) recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant, as the right-of-use asset is depreciated and the lease liability is accreted using the effective interest method. The new standard also requires qualitative disclosures along with specific quantitative disclosures. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. Upon adoption of IFRS 16, the Company's operating leases, which are principally comprised of its warehouse facilities and automobiles, will be recorded in the statement of financial position with a corresponding lease obligation. The Company continues to assess the impact of adopting this standard on its consolidated financial statements.

3. Significant accounting policies (continued):

(q) Future accounting pronouncements (continued):

IAS 12, Income Taxes (Amendments)

On January 19, 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses as an amendment to IAS 12. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments apply retrospectively for annual periods beginning on or after January 1, 2017 with early adoption permitted.

The Company intends to adopt the amendments to IAS 12 in its consolidated financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

IFRS 2, Share-Based Payment (Amendments)

On June 20, 2016, the IASB issued amendments to IFRS 2 clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

4. Rugby acquisition:

On July 15, 2016, a subsidiary of the Company completed the Acquisition of Rugby (note 1). The base purchase price was comprised of (i) $129.8 million (US$100.0 million) in cash consideration and the assumption of notes payable, and (ii) $9.0 million (US$7.0 million) in cash that was immediately used by the sellers to acquire 563,542 common shares of the Company from treasury. The base purchase price paid in cash was adjusted downwards by $0.9 million (US$0.7 million) for the value of notes payable assumed by the Company.

The base purchase price was determined on the basis that the sellers would deliver working capital, as defined in the asset purchase agreement as net asset value ("NAV"), on closing of the acquisition of between US$47.5 million and US$48.5 million and, to the extent that the NAV is outside this range at closing of the Acquisition, the purchase price will be adjusted on a dollar for dollar basis. As security for the NAV adjustment, the Company retained $1.0 million (US$0.8 million) of the base purchase price as a holdback. The holdback, which is accrued in accounts payable and accrued liabilities, is expected to be paid to the sellers in tranches over the next 12 months. As of the date of these financial statements, the NAV delivered by the sellers has not been finalized.

As disclosed in note 1, in addition to the base purchase price, the parties agreed to an earn-out which is intended to pay future consideration, to be determined at the two-year anniversary of closing of the Acquisition based on achievement of certain gross profit thresholds during such two-year period (the "Earn-Out Period"), of up to US$4.8 million (the "Earn-Out Consideration") to one of the principals of the sellers (the "former owner"). In addition, the earn-out is also intended to pay certain management of Rugby, who will be employed by the Company after closing of the Acquisition ("Rugby Management"), remuneration of up to US$8.2 million (the "Earn-Out Bonuses") for the achievement of the same gross profit thresholds during the Earn-Out Period. The earn-out is payable in either cash or common shares at the Company's option. The Earn-Out Consideration is accounted for as purchase price consideration, while the Earn-Out Bonuses are accounted for as compensation expense over the next two years. The Company estimates that neither the Earn-Out Consideration nor the Earn-Out Bonuses will result in further

(Tabular amounts expressed in thousands of Canadian dollars)

4. Rugby acquisition (continued):

payments by the Company and no value was attributed to the Earn-Out Consideration in the purchase price allocation and, as at the date of these financial statements, no accrual has been made in respect of either the Earn-Out Consideration or the Earn-Out Bonuses.

The Acquisition has been accounted for as a business combination using the acquisition method, with the Company being the acquirer and Rugby being the acquiree, and where the assets acquired and liabilities assumed are recorded at their fair values at the Acquisition date.

In connection with the Acquisition, the Company incurred, $2.4 million in transaction costs which are included in administration expense in the consolidated statement of comprehensive income. In addition to transaction costs, the Company incurred to December 31, 2016, additional fees of $3.3 million related to the financing of the Acquisition, which are described in notes 11 and 13(a).

Fair value of assets acquired and liabilities assumed

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

	US$	CDN$
Cash consideration	$ 106,291	$ 137,913
Notes payable assumed	709	920
Consideration	$ 107,000	$ 138,833
Assets acquired and liabilities assumed:		
Accounts and other receivables	$ 28,931	$ 37,538
Inventories	35,546	46,121
Prepaid expenses	549	712
Non-current receivables	577	749
Property plant and equipment	3,166	4,108
Intangible assets - customer relationships	15,700	20,371
Accounts payable and accrued liabilities	(18,213)	(23,631)
Estimated identifiable net assets acquired	66,256	85,968
Goodwill	40,744	52,865
Estimated net assets acquired	$ 107,000	$ 138,833

The above is the fair values of the assets acquired and liabilities assumed of Rugby as of the Acquisition date. The estimate will remain preliminary until the Company is able to finalize the NAV acquired. During the fourth quarter of 2016, the Company completed its valuation of intangible assets acquired, resulting in a reduction in the value of goodwill, and an increase in intangible assets of $20.4 million (US$15.7 million) from the purchase price allocation presented at September 30, 2016.

The goodwill of $52.9 million (US$40.7 million) is attributable primarily to the skills and talent of Rugby's workforce, and synergies expected to be achieved in respect of purchasing power with vendors, increases in market share, and operational efficiencies related to the combined operations. The goodwill is deductible for tax purposes.

The intangible asset of $20.4 million (US$15.7 million) represents the value of customer relationships acquired and is being amortized over 10 years, which is the period the Company expects to benefit from these relationships. Amortization related to intangible assets from the Acquisition date to December 31, 2016 was $0.9 million and this expense was recorded in the fourth quarter. The intangible asset is deductible for tax purposes.

The Company financed the Acquisition through a combination of an equity offering (the "Bought Deal Financing") (note 13(a)) and a renegotiated Hardwoods USLP Credit Facility (note 11).

(Tabular amounts expressed in thousands of Canadian dollars)

4. Rugby acquisition (continued):

Had the Acquisition occurred on January 1, 2016 management estimates that the Company's consolidated sales would have been approximately $989.3 million and profit before tax would have been approximately $42.6 million for the year ended December 31, 2016. Included in these consolidated financial statements for the year ended December 31, 2016 are sales of $175.1 million (US$132.6 million) and profit before tax of $4.0 million (US$3.1 million) relating to Rugby.

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, 2016		December 31, 2015
Cash	$	(766)	$	—
Bank indebtedness		97,886		28,894
Shareholder's equity		225,999		142,948
Total capitalization	$	323,119	$	171,842

The terms of the Company's US and Canadian credit facilities are described in note 11. 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, 2016 and December 31, 2015, and accordingly there were no restrictions on distributions arising from non-compliance with financial covenants.

Dividends are one way the Company manages its capital. Dividends are declared having given consideration to a variety of factors including the outlook for the business and financial leverage. There were no changes to the Company's approach to capital management during the year ended December 31, 2016.

On November 8, 2016, the Company declared a cash dividend of $0.0625 per common share to shareholders of record as of January 20, 2017. The dividend was paid to shareholders on January 31, 2017. On March 17, 2017, the Company declared a cash dividend of $0.0625 per common share to shareholders of record as of April 17, 2017, to be paid on April 28, 2017.

6. Financial instruments:

Financial instrument assets include cash and current and non-current receivables, which are designated as loans and receivables and measured at amortized cost. 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 other liabilities and are measured at amortized cost. There are no financial instruments classified as available-for-sale or held-to-maturity.

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.

6. Financial instruments (continued):

Fair value hierarchy (continued):

The Company has no financial assets or financial liabilities included in Level 3 of the fair value hierarchy.

Fair values of financial instruments

The carrying values of cash, accounts and other receivables, income tax payable, 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, notes payable and finance lease obligations are not expected to differ materially from their respective carrying values, given the interest rates being charged. 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 current and non-current receivables from its customers. Cash held at banks, employee housing loans and security deposits also present credit risk to the Company. The carrying value of these financial assets, which total $96.7 million at December 31, 2016 (December 31, 2015 - $57.1 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 2.5% (December 31, 2015 - 3.9%) of trade accounts receivable and customer notes receivable at December 31, 2016. No one customer represents more than 1.4% of sales.

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

Employee housing loans:

Employee loans are non-interest bearing and are granted to employees who are relocated. Employee loans are secured by a deed of trust or mortgage depending upon the jurisdiction. Employee loans are repaid in accordance with the loan agreement. These loans are measured at their fair market value upon granting the loan and subsequently measured at amortized cost.

6. Financial instruments (continued):

(*i*) Credit risk (continued):

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 ranging from 5%-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.

Cash:

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

(*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, 2016, in Canada, a subsidiary of the Company had a revolving credit facility of up to $20.0 million, and, in the US, a subsidiary of the Company had a revolving credit facility of up to $167.8 million (US$125.0 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 11 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 12 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, 2016 bank indebtedness balance of $97.9 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 85% 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

6. **Financial instruments (continued):**

Financial risk management (continued):

(*iii*) Market risk (continued):

Currency risk (continued)

Canadian dollar equivalent selling price, and accordingly revenues in Canada are effectively increased by decreases in value of the Canadian dollar and vice versa. Fluctuations in the value of the Canadian dollar against the U.S. dollar will affect the amount of cash available to the Company for distribution to its shareholders.

At December 31, 2016, the primary exposure to foreign denominated financial instruments was in the Company's Canadian subsidiaries and relates to US dollar cash balances, accounts receivable from U.S. customers (2016 - US$0.2 million, 2015 - US$0.1 million) and accounts payable to U.S. suppliers (2016 - US$0.4 million, 2015 - US$0.3 million).

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 income for the years ended December 31, 2016 or December 31, 2015.

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, 2016 and December 31, 2015 and does not take into account the effect of 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.

(Tabular amounts expressed in thousands of Canadian dollars)

7. Accounts and other receivables:

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

	December 31, 2016	December 31, 2015
Trade accounts receivable - Canada	$ 14,246	$ 11,937
Trade accounts receivable - United States	81,776	47,586
Sundry receivable	2,417	726
Current portion of non-current receivables	1,133	751
	99,572	61,000
Less:		
Allowance for credit loss	5,038	4,844
	$ 94,534	$ 56,156
Non-current receivables:		
Employee housing loans	$ 424	$ 546
Customer notes	758	631
Security deposits	1,329	543
	2,511	1,720
Less:		
Current portion, included in accounts receivable	1,133	751
	$ 1,378	$ 969

The aging of trade receivables is:

	December 31, 2016	December 31, 2015
Current	$ 70,936	$ 44,377
1 - 30 days past due	17,467	9,142
31 - 60 days past due	4,957	3,122
60+ days past due	2,662	2,882
	$ 96,022	$ 59,523

The Company determines its allowance for credit loss based on its best estimate of the net recoverable amount by customer account. Accounts that are considered uncollectable are written off. The total allowance at December 31, 2016 was $5.0 million (December 31, 2015 - $4.8 million). The amount of the allowance is considered sufficient based on the past experience of the business, current and expected collection trends, the security the Company has in place for past due accounts and management's regular review and assessment of customer accounts and credit risk.

(Tabular amounts expressed in thousands of Canadian dollars)

7. Accounts and other receivables (continued):

The change in the allowance for credit loss can be reconciled as follows:

	2016	2015
Balance as at January 1	$ 4,844	$ 3,478
Additions during the year	1,764	1,922
Use during the year	(1,426)	(1,217)
Changes due to currency rate fluctuations	(144)	661
Balance as at December 31	$ 5,038	$ 4,844

Bad debt expense, net of recoveries, for the year ended December 31, 2016 was $0.8 million which equates to 0.1% of sales (year ended December 31, 2015 - $1.5 million, being 0.3% of sales).

8. Inventories:

	December 31, 2016	December 31, 2015
Raw materials	$ 1,779	$ 1,265
Work in process	5,021	5,054
Goods in-transit	10,927	7,611
Finished goods:		
Lumber	43,279	38,649
Sheet goods	76,224	42,102
Architectural and other	27,317	8,795
	$ 164,547	$ 103,476

After the acquisition of Rugby, architectural and other now includes specialty products, solid surface countertops, post-form countertops, high-pressure laminate, interior and exterior doors and millwork, cabinets and casework, mouldings, and industrial wood coatings. 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 statement of comprehensive income as follows:

	2016	2015
Inventory write-downs, included in cost of goods sold	$ 1,972	$ 1,530
Cost of inventory sold	620,115	455,544
Other cost of goods sold	25,428	16,421
Total cost of goods sold	$ 645,543	$ 471,965

(Tabular amounts expressed in thousands of Canadian dollars)

9. Property, plant and equipment:

	Land	Leased vehicles (note 12(a))	Buildings, machinery and equipment	Leasehold improvements	Total
Cost					
Balance at January 1, 2015	$ 580	$ 3,149	$ 18,156	$ 824	$ 22,709
Additions	—	1,200	1,695	155	3,050
Disposals	—	(1,088)	(277)	(119)	(1,484)
Adjustments:					
Foreign currency transaction	112	432	3,151	49	3,744
Balance at December 31, 2015	692	3,693	22,725	909	28,019
Additions	151	1,656	3,124	113	5,044
Acquisition of Rugby (note 4)	—	—	3,861	247	4,108
Disposals	—	(1,452)	(482)	—	(1,934)
Adjustments:					
Foreign currency transaction	(19)	(82)	(432)	3	(530)
Balance at December 31, 2016	$ 824	$ 3,815	$ 28,796	$ 1,272	$ 34,707
Accumulated depreciation					
Balance at January 1, 2015	$ —	$ 1,235	$ 6,950	$ 760	$ 8,945
Depreciation	—	962	1,584	47	2,593
Disposals	—	(747)	(173)	(113)	(1,033)
Adjustments:					
Foreign currency transaction	—	176	1,097	41	1,314
Balance at December 31, 2015	—	1,626	9,458	735	11,819
Depreciation	—	1,077	2,620	125	3,822
Disposals	—	(1,059)	(357)	—	(1,416)
Adjustments:					
Foreign currency transaction	—	(30)	(194)	(4)	(228)
Balance at December 31, 2016	$ —	$ 1,614	$ 11,527	$ 856	$ 13,997
Net book value:					
December 31, 2015	$ 692	$ 2,067	$ 13,267	$ 174	$ 16,200
December 31, 2016	$ 824	$ 2,201	$ 17,269	$ 416	$ 20,710

(Tabular amounts expressed in thousands of Canadian dollars)

9. Property, plant and equipment (continued):

Depreciation of property, plant and equipment for the year ended December 31, 2016 was $3.8 million (2015 - $2.6 million) and is included in the statement of comprehensive income as follows:

		2016		2015
Cost of sales	$	1,477	$	1,080
Selling and distribution		2,195		1,447
Administration		150		66
	$	3,822	$	2,593

Gains and losses on disposal of property, plant and equipment for the year ended December 31, 2016 was a net gain of $171,000 (2015 - net gain of $28,566) and is included in selling and distribution in the statement of comprehensive income.

10. Intangible assets:

		Customer relationships
Cost		
Balance at December 31, 2015	$	57
Acquisition of Rugby (note 4)		20,371
Eliminate fully amortized intangibles		(57)
Adjustments:		
Foreign currency transaction		709
Balance at December 31, 2016	$	21,080
Accumulated amortization		
Balance at December 31, 2015	$	21
Amortization		984
Eliminate fully amortized intangibles		(57)
Adjustments:		
Foreign currency transaction		18
Balance at December 31, 2016	$	966
Net book value:		
December 31, 2015	$	36
December 31, 2016	$	20,114

Amortization of intangible assets for the year ended December 31, 2016 was $0.9 million (2015 - nil) and is included in selling and distribution expenses in the statement of comprehensive income.

(Tabular amounts expressed in thousands of Canadian dollars)

11. Bank indebtedness:

	December 31, 2016	December 31, 2015
Cheques issued in excess of funds on deposit	$ 480	$ 3,049
Credit facility, Hardwoods LP	12,546	5,314
Credit facility, Hardwoods USLP (December 31, 2016 - US$63,398 December 31, 2015 - US$14,835)	84,860	20,531
	$ 97,886	$ 28,894

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 (“Hardwoods USLP”).

Each of the Credit Facilities is separate, is not guaranteed by the other partnership, and does not contain cross default provisions to the other Credit Facility. The Credit Facility made available to Hardwoods LP is secured by a first security interest in all of the present and after acquired property of Hardwoods LP and the Hardwoods LP partnership units held directly and indirectly by the Company. The Credit Facility made available to Hardwoods USLP is secured by a first security interest in all of the present and after acquired property of Hardwoods USLP, Rugby Holdings LLC, Paxton Hardwoods LLC and HMI Hardwoods LLC, and the Hardwoods USLP partnership units held indirectly by the Company.

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")

In August 2016, a subsidiary of the Company renewed the LP Credit Facility for a period of five years. As part of the renewal, the LP Credit Facility was increased to $20.0 million from $15.0 million. The amount made available under the LP Credit Facility is limited to the extent of 90% of the net book value of eligible accounts receivable and the lesser of 60% of the book value or 85% of appraised value of eligible inventories with the amount based on inventories not to exceed 60% of the total amount to be available. Certain identified accounts receivable and inventories are excluded from the calculation of the amount available under the LP Credit Facility. Hardwoods LP is required to maintain a fixed charge coverage ratio of not less than 1.0 to 1. However, this covenant does not apply so long as the unused availability under the credit line is in excess of $2.0 million. At December 31, 2016, the LP Credit Facility has unused availability of $6.9 million, before cheques issued in excess of funds on deposit of $0.5 million (December 31, 2015 - $9.7 million, cheques issued in excess of funds on deposit - $0.9 million).

In February 2017 the LP Credit Facility was amended to increase the amount made available under the facility from $20.0 million to $25.0 million.

11. Bank indebtedness (continued):

Hardwoods USLP Credit Facility ("USLP Credit Facility")

In connection with the closing of the Acquisition, a subsidiary of the Company entered into a new USLP Credit Facility with its lender, and has made the funds available to Hardwoods USLP. The USLP Credit Facility has a five year term and can be prepaid at any time with no prepayment penalty. The USLP Credit Facility is guaranteed by certain of the Company's subsidiaries and replaces the previous credit facility. The USLP Credit Facility consists of a revolving credit facility of up to US$125.0 million with the amount made available limited to the extent of 85% of the value of eligible accounts receivable, and 60% of the value of eligible inventory plus the lesser of (i) 55% of the book value of eligible in-transit inventory or (ii) $2.0 million.

The financial covenants under the USLP Credit Facility include, among others, a springing fixed charge coverage ratio of 1.0 to 1, triggered if excess availability under the USLP Credit Facility falls below 10% of the USLP Credit Facility 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.

In connection with the USLP Credit Facility, the Company incurred for the year ended December 31, 2016, $0.3 million, respectively, in fees, which are netted against bank indebtedness in the consolidated statement of financial position. These fees will be amortized over the term of the USLP Credit Facility.

At December 31, 2016, the USLP Credit Facility has unused availability of $50.9 million (US$37.9 million), before cheques issued in excess of funds on deposit of nil. At December 31, 2015, the USLP Credit Facility had unused availability of $51.1 million (US$36.9 million), before cheques issued in excess of funds on deposit of $2.1 million (US$1.5 million).

The Company has a letter of credit outstanding at December 31, 2016 totaling $0.8 million (US$0.6 million) (2015 - nil) against the USLP 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, 2016 were 3.2% and 2.8% (2015 - 3.4% and 2.7%) for the LP and USLP credit facilities, respectively.

12. Leases:

(a) Finance leases as lessee:

Subsidiaries of the Company lease vehicles with terms ranging from 18 to 36 months. Hardwoods LP guarantees a residual value under the terms of the leases in Canada, and any difference between the amount realized and the guaranteed residual value is either paid to or paid by Hardwoods LP. In the US, the lease payments cover the full capitalized cost over the term of the lease, and any proceeds from the sale of the vehicle are paid to Hardwoods USLP. The Company and its subsidiaries have determined that these vehicle leases are considered finance leases and are recorded on the statement of financial position.

(Tabular amounts expressed in thousands of Canadian dollars)

12. Leases (continued):

(a) Finance leases as lessee (continued):

Finance lease liabilities are payable as follows:

Minimum lease payments due		Within one year	One to three years	Total
December 31, 2016:				
	Future minimum lease payments	$ 1,137	$ 938	$ 2,075
	Interest	82	33	115
Present value of minimum payments		$ 1,055	$ 905	$ 1,960
December 31, 2015:				
	Future minimum lease payments	$ 1,190	$ 719	$ 1,909
	Interest	71	23	94
Present value of minimum payments		$ 1,119	$ 696	$ 1,815

The present value of the lease payments is calculated using the interest rate implicit in the lease, which range from 4.1% - 7.1%.

(b) Operating leases as lessee:

The Company's subsidiaries are obligated under various operating leases, including building and automobile leases that require future minimum rental payments as follows:

	With one year	One to five years	After five years	Total
Minimum lease payments due:				
December 31, 2016	$ 18,081	$ 41,422	$ 4,947	$ 64,450

Minimum lease payments recognized as an expense during the year ended December 31, 2016 amounted to $13.5 million (2015 - $7.3 million).

The Company's warehouse leases are combined leases of the land and building; however both the land and building elements are considered operating leases as the risk and reward of ownership remains with the landlord. The Company's operating lease agreements do not contain any contingent rent clauses. Some operating warehouse lease agreements contain renewal options. Renewal options are reviewed regularly by management. The operating lease agreements do not contain any restrictions regarding distributions, further leasing or additional debt.

13. Share capital:

(a) Share capital

At December 31, 2016, the authorized share capital of the Company comprised an unlimited number of common shares without par value ("Shares").

(Tabular amounts expressed in thousands of Canadian dollars)

13. Share capital (continued):

(a) Share capital (continued)

A continuity of share capital is as follows:

	Shares		Total
Balance at December 31, 2014	16,651,414	$	45,830
Issued pursuant to long term incentive plan	110,657		1,029
Balance at December 31, 2015	16,762,071		46,859
Bought deal financing - conversion of subscription receipts, net of share issue costs of $3.1 million	3,966,350		54,434
Issued concurrent with the Rugby acquisition (note 4)	563,542		9,091
Issued pursuant to long term incentive plan	58,607		1,162
Deferred income tax on share issue costs	—		816
Share adjustment	2		—
Balance at December 31, 2016	21,350,572	$	112,362

In July 2016, the Company issued 563,542 common shares for cash consideration to the sellers of Rugby in accordance with the terms of the Acquisition (note 4) and issued 3,966,350 common shares as part of the financing arrangement related to the Acquisition, as described below.

Bought Deal Financing

In connection with the Rugby Acquisition, the Company entered into an agreement with a syndicate of investment dealers pursuant to which the underwriters agreed to purchase for resale to the public on a bought deal basis 3,449,000 subscription receipts of the Company, at a price of $14.50 per receipt with an over-allotment option for an additional 517,350 subscription receipts for gross overall proceeds of $57.5 million ($54.4 million net of fees associated with the offering).

On June 30, 2016, the Bought Deal Financing closed and $50.0 million, representing 3,449,000 subscription receipts, was received by the Company and was held in escrow pending the closing of the Acquisition. Each subscription receipt was converted to one common share of the Company on the Acquisition date for no additional consideration in accordance with the terms of the subscription agreement. The over-allotment option, representing 517,350 subscription receipts, was fully exercised by the underwriters in July 2016 and these subscription receipts were also converted on the basis of one subscription receipt to one common share of the Company on the Acquisition date.

In connection with the Bought Deal Financing, the Company incurred $3.1 million in share issue costs. These amounts were recorded in equity on closing of the Acquisition as share issue costs, along with the associated deferred income tax impact of $0.8 million.

(b) Long Term Incentive Plan (“LTIP”):

The Company has an approved long term incentive plan which authorizes the issuance of a maximum of 1,650,000 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

(Tabular amounts expressed in thousands of Canadian dollars)

13. Share capital (continued):

(b) Long Term Incentive Plan (“LTIP”) (continued):

criteria are satisfied, provided such date is not later than December 31st following the third anniversary of the date the Performance Share was granted.

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. In December 2016, the Board of Directors provided grantees with 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, 2016 the fair value of the Restricted Shares and Performance Shares estimated to be settled in the future in cash is $1.2 million (December 31, 2015 - nil) and this value has been removed from contributed surplus and 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 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, 2014	20,952	98,913
LTIP shares issued during the year	43,005	70,588
LTIP shares settled by exchange for free-trading Shares	(14,748)	(82,674)
Balance at December 31, 2015	49,209	86,827
LTIP shares issued during the year	20,502	53,166
LTIP shares forfeited during the year	(2,763)	(8,292)
LTIP shares settled	(8,347)	(58,040)
Balance at December 31, 2016	58,601	73,661

On December 31, 2016, 8,347 (December 31, 2015 - 14,748) Performance Shares and 58,040 (December 31, 2015 - 82,674) Restricted Shares became fully vested and were settled by the issuance of 58,607 (December 31, 2015 - 110,657) Shares and $0.3 million in cash (December 31, 2015 - nil). On issuance of the Shares, the accumulated share-based compensation expense of $1.2 million (December 31, 2015 - $1.0 million) associated with the settled Performance Shares and Restricted Shares was transferred from contributed surplus to share capital.

(Tabular amounts expressed in thousands of Canadian dollars)

13. Share capital (continued):

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

Non-cash LTIP compensation expense of $1.1 million was recognized in the consolidated statement of comprehensive income for the year ended December 31, 2016 (2015 - $1.3 million). The key estimate in determining the compensation in any period is whether the performance criteria have been met and the amount of the payout multiplier on the Performance Shares. The payout multiplier is reviewed and approved by the Company's compensation committee on an annual basis.

(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, 2016 of $23.9 million (December 31, 2015 - $20.1 million). The weighted average number of common shares outstanding in each of the reporting years was as follows:

	December 31, 2016	December 31, 2015
Issued ordinary shares at		
beginning of year	16,762,071	16,651,414
Effect of shares issued during the year		
Pursuant to long-term incentive plan	13,322	815
Pursuant to Bought Deal Financing	1,817,910	—
Pursuant to Rugby acquisition	258,290	—
Weighted average common shares - basic	18,851,593	16,652,229
Effect of dilutive securities:		
Long-term incentive plan	166,377	128,649
Weighted average common shares - diluted	19,017,970	16,780,878

14. Income taxes:

	2016	2015
Current tax expense	$ (13,600)	$ (9,732)
Deferred tax expense	20	(2,476)
	$ (13,580)	$ (12,208)

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, 2016 is 26.4% (2015 - 26.3%) and in the United States is 39.4% (2015 - 39.4%). 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.

(Tabular amounts expressed in thousands of Canadian dollars)

14. Income taxes (continued):

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:

	2016	2015
Profit before income tax	$ 37,442	$ 32,354
Statutory rate	39.4%	39.4%
Computed tax expense at statutory rate	(14,752)	(12,747)
Effect of lower tax rates in Canada, other rate changes and restructuring	1,798	697
Non-deductible expenses	(73)	(484)
Change in unrecognized deferred tax assets	(363)	(43)
Other	(190)	369
Income tax expense	$ (13,580)	$ (12,208)

Certain comparative period figures in the table above have been changed to adhere to the current period presentation.

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, 2016	December 31, 2015
Deferred tax assets:		
Accounts receivable	$ 2,838	$ 1,902
Accounts payable and provisions	1,629	556
Inventory	1,985	1,539
Finance lease obligations	681	654
Goodwill and intangibles	5,711	7,797
Tax loss carry forwards and future interest deductions	810	1,209
Share and debt issuance costs	1,122	—
Other	—	224
	14,776	13,881
Deferred tax liabilities:		
Prepaid expenses	(325)	(248)
Property, plant and equipment	(2,725)	(2,659)
Other	(95)	—
	(3,145)	(2,907)
Deferred tax asset	$ 11,631	$ 10,974

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, 2016, the Company and its subsidiaries have operating loss carry forwards for income tax purposes of approximately $3.1 million in Canada that may be utilized to offset future taxable income (December 31, 2015 - $4.3 million). These losses, if not utilized, expire between 2026 and 2031. The Company's US subsidiaries have no operating loss carry forwards.

(Tabular amounts expressed in thousands of Canadian dollars)

14. Income taxes (continued):

At December 31, 2016, the Company and its Canadian subsidiaries have capital losses of approximately $23.1 million (December 31, 2015 - $24.1 million), and suspended capital losses of approximately $44.7 million (December 31, 2015 - $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 $8.9 million (December 31, 2015 - $8.9 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.

15. Finance income and expense:

	Note		2016		2015
Finance expense:					
Interest on bank indebtedness	11	$	(1,675)	$	(1,217)
Accretion of finance lease obligation	12(a)		(137)		(116)
Foreign exchange losses			(11)		—
Total finance expense			(1,823)		(1,333)
Finance income:					
Interest on trade receivables, customer notes, and employee loans	7		358		421
Foreign exchange gain			—		1,055
Total finance income			358		1,476
Net finance (expense) income		$	(1,465)	$	143

16. Segment reporting:

Information about geographic areas is as follows:

		2016		2015
Revenue from external customers:				
Canada	$	129,935	$	116,805
United States		659,386		454,793
	$	789,321	$	571,598

		December 31, 2016		December 31, 2015
Non-current assets[(1)]:				
Canada	$	1,552	$	1,347
United States		93,979		14,889
	$	95,531	$	16,236

[(1)] Excludes financial instruments and deferred income taxes.

(Tabular amounts expressed in thousands of Canadian dollars)

17. Employee remuneration:

(a) Employee benefits expense:

Expenses recognized for employee benefits are summarized below.

		2016		2015
Wages, salaries and benefits	$	72,528	$	45,116
Pensions - defined contribution plans		1,078		831
LTIP share based compensation		1,130		1,300
	$	74,736	$	47,247

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

		2016		2015
Cost of sales	$	14,967	$	8,996
Selling and distribution		43,936		29,636
Administration		15,833		8,615
	$	74,736	$	47,247

(b) Pensions:

Hardwoods USLP, Rugby Holdings LLC, Paxton Hardwoods LLC and HMI Hardwoods LLC maintain defined contribution 401(k) retirement savings plans (the “USLP Plan”, the "Rugby Plan", the “Paxton Plan” and the “HMI Hardwoods Plan”). The assets of the USLP Plan are held and related investment transactions are executed by the Plan’s Trustee, ING National Trust, and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2016, Hardwoods USLP contributed and expensed $0.5 million (US$0.4 million) (2015 - $0.4 million (US $0.3 million)) in relation to the USLP Plan.

The assets of the Rugby Plan are held and related investment transactions are executed by the Plan’s Trustee, Fidelity Management Trust Company and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2016, Rugby Holdings LLC contributed and expensed $0.1 million (US $0.1 million) in relation to the Rugby Plan.

The assets of the Paxton Plan are held and related investment transactions are executed by the Plan’s Trustee, PNC Bank, and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2016, Hardwoods USLP contributed and expensed $0.1 million (US $0.1 million) (2015 - $0.1 million (US $0.1 million)) in relation to the Paxton Plan.

The assets of the HMI Hardwoods Plan are held and related investment transactions are executed by the Plan’s Trustee, Voya Financial (Voya Institutional Trust Company) and, accordingly, are not reflected in these consolidated financial statements. There is no requirement for an employer contribution to this plan 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, Sun Life Trust Inc., and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2016, Hardwoods LP contributed and expensed $0.3 million (2015 - $0.3 million) in relation to the LP plan.

(Tabular amounts expressed in thousands of Canadian dollars)

18. 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:

	2016	2015
Short-term employee benefits:		
Salaries and benefits including bonuses	$ 4,260	$ 2,915
Automobile benefit	38	39
LTIP Share compensation	896	932
Total remuneration	$ 5,194	$ 3,886

(b) Transactions with post-employment benefit plans:

The defined contribution plans referred to in note 17(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 17(b). The Company has not entered into other transactions with the pension plans, nor has it any outstanding balances at December 31, 2016 or December 31, 2015.

19. 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, 2016.

Decommissioning

The Company and its subsidiaries are not obligated in a material way for decommissioning or site restoration.