Consolidated Financial Statements
(Expressed in Canadian dollars)

HARDWOODS DISTRIBUTION INC.

Years ended December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Hardwoods Distributions Inc.

Opinion

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

- the consolidated statements of financial position as at December 31, 2019, December 31, 2018 and January 1, 2018
- the consolidated statements of comprehensive income for the years ended December 31, 2019 and December 31, 2018
- the consolidated statements of changes in shareholders' equity for the years ended December 31, 2019 and December 31, 2018
- the consolidated statements of cash flows for the years ended December 31, 2019 and December 31, 2018
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019, December 31, 2018 and January 1, 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and December 31, 2018 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

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

Emphasis of Matter – Comparative Information

We draw attention to Note 3(q) to the financial statements ("Note 3(q)"), which explains that certain comparative information presented:

- for the year ended December 31, 2018 has been restated.
- as at January 1, 2018 has been derived from the financial statements for the year ended December 31, 2017 which have been restated (not presented herein).

Note 3(q) explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in the "2019 Hardwoods Distribution Inc. Annual Report".

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

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

We obtained the information included in Management's Discussion and Analysis and 2019 Hardwoods Distribution Inc. Annual Report filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained

up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

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

Vancouver, Canada
March 19, 2020

HARDWOODS DISTRIBUTION INC.

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

	Note	December 31, 2019	Restated (Note 3(q)) December 31, 2018	Restated (Note 3(q)) January 1, 2018
Assets				
Current assets:				
Cash and cash equivalents		$ 15,118	$ 1,547	$ 313
Accounts and other receivables	7	113,740	112,005	97,263
Income taxes receivable	14	820	789	1,582
Inventories	8	207,935	223,785	172,106
Prepaid and other assets		9,887	4,594	5,268
Total current assets		347,500	342,720	276,532
Non-current assets:				
Non-current receivables	7	2,376	1,857	1,359
Property, plant and equipment	9	20,430	20,357	18,044
Right of use assets	3(q)	93,982	97,241	82,816
Intangible assets	10	28,248	16,828	17,215
Deferred income taxes	14	4,461	6,844	8,910
Goodwill	11	72,974	56,120	51,670
Total non-current assets		222,471	199,247	180,014
Total assets		$ 569,971	$ 541,967	$ 456,546
Liabilities				
Current liabilities:				
Bank indebtedness	12	$ 121,548	$ 112,940	$ 91,146
Accounts payable and accrued liabilities		53,805	39,216	38,056
Lease obligation	3(q)	24,973	24,373	16,595
Dividend payable	5	1,809	1,717	1,549
Total current liabilities		202,135	178,246	147,346
Non-current liabilities:				
Lease obligation	3(q)	83,726	88,100	79,366
Other liabilities		665	182	445
Total non-current liabilities		84,391	88,282	79,811
Total liabilities		286,526	266,528	227,157
Shareholders' equity				
Share capital	13(a)	113,837	116,524	113,788
Contributed surplus		104,850	104,467	105,426
Retained earnings		48,288	25,653	482
Accumulated other comprehensive income		16,470	28,795	9,693
Shareholders' equity		283,445	275,439	229,389
Total liabilities and shareholders' equity		$ 569,971	$ 541,967	$ 456,546

Subsequent events (note 4, 5)

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

(Signed) JIM C. MACAULAY Director **(Signed) WILLIAM R. SAUDER** Director

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2019 and 2018

	Note		2019		Restated (Note 3(q)) 2018
Sales	16	$	1,171,921	$	1,134,267
Cost of goods sold	8		(959,941)		(933,004)
Gross profit			211,980		201,263
Operating expenses:					
Selling and distribution			(124,782)		(114,933)
Administration			(38,939)		(35,998)
			(163,721)		(150,931)
Profit from operations			48,259		50,332
Finance expense	15		(9,784)		(8,931)
Finance income	15		626		952
Net finance expense			(9,158)		(7,979)
Profit before income taxes			39,101		42,353
Income tax expense:					
Current	14		(7,227)		(8,287)
Deferred	14		(2,293)		(2,347)
			(9,520)		(10,634)
Net profit			29,581		31,719
Other comprehensive income:					
Exchange differences translating foreign operations			(12,325)		19,102
Total comprehensive income		$	17,256	$	50,821
Basic net profit per share	13(c)	$	1.38	$	1.48
Diluted net profit per share	13(c)	$	1.38	$	1.47

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

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2019 and 2018

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income - translation reserve	Retained earnings	Total
Balance at January 1, 2019		$ 116,524	$ 104,467	$ 29,411	$ 35,530	$ 285,932
Impact of changes in accounting policy	3(q)	—	—	(616)	(9,877)	(10,493)
Restated balance at January 1, 2019	3(q)	116,524	104,467	28,795	25,653	275,439
Share based compensation expense	13(b)	—	1,399	—	—	1,399
Shares issued pursuant to LTIP	13(a)	1,016	(1,016)	—	—	—
Shares repurchased	13(a)	(3,703)	—	—	—	(3,703)
Profit for the period		—	—	—	29,581	29,581
Dividends declared		—	—	—	(6,946)	(6,946)
Translation of foreign operations		—	—	(12,325)	—	(12,325)
Balance at December 31, 2019		$ 113,837	$ 104,850	$ 16,470	$ 48,288	$ 283,445
Balance at January 1, 2018		$ 113,788	$ 105,426	$ 9,693	$ 9,919	$ 238,826
Impact of changes in accounting policy	3(q)	—	—	—	(9,437)	(9,437)
Restated balance at January 1, 2018	3(q)	113,788	105,426	9,693	482	229,389
Share based compensation expense	13(b)	—	2,593	—	—	2,593
Shares issued pursuant to LTIP	13(a)	2,736	(2,736)	—	—	—
Shares reclassified to liabilities		—	(816)	—	—	(816)
Profit for the period		—	—	—	31,719	31,719
Dividends declared		—	—	—	(6,548)	(6,548)
Translation of foreign operations		—	—	19,102	—	19,102
Balance at December 31, 2018		$ 116,524	$ 104,467	$ 28,795	$ 25,653	$ 275,439

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

HARDWOODS DISTRIBUTION INC.

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

	Note	2019	Restated (Note 3) 2018
Cash flow from operating activities:			
Profit for the year		$ 29,581	$ 31,719
Adjustments for:			
Depreciation and amortization		27,953	25,537
Gain on sale of property, plant and equipment	9	(635)	(156)
Gain on bargain purchase		—	(92)
Share-based compensation expense	13(b)	2,249	2,096
Income tax expense	14	9,520	10,634
Net finance expense	15	9,158	7,980
Interest received		626	513
Interest paid		(4,293)	(3,938)
Income taxes paid		(7,299)	(7,396)
		66,860	66,897
Changes in non-cash working capital:			
Accounts receivable		3,180	(5,915)
Inventories		16,107	(33,290)
Prepaid expenses		(5,442)	932
Accounts payable and accrued liabilities		12,099	(2,551)
		25,944	(40,824)
Net cash provided by operating activities		92,804	26,073
Cash flow from financing activities:			
Increase in bank indebtedness		13,317	13,955
Principle payments on finance lease obligation		(26,346)	(23,454)
Note repayment		—	(60)
Repurchase of common shares	13(a)	(3,443)	—
Dividends paid to shareholders	5	(6,854)	(6,379)
Net cash used in financing activities		(23,326)	(15,938)
Cash flow from investing activities:			
Additions to property, plant and equipment	9	(3,321)	(4,076)
Proceeds on disposal of property, plant and equipment		664	452
Business acquisitions	4	(52,850)	(4,843)
Additions to internally generated software	10	(282)	(280)
Payments (made) received on non-current receivables		(118)	(153)
Net cash used in investing activities		(55,907)	(8,900)
Increase in cash		13,571	1,234
Cash, beginning of year		1,547	313
Cash, end of year		$ 15,118	$ 1,547
Supplementary information:			
Property, plant and equipment acquired under finance leases, net of disposals		$ 18,352	$ 27,644
Future cash settlement of LTIP's in accrued liabilities and non-current liabilities		1,208	816
Transfer of accounts receivable to non-current customer notes receivable		573	136

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 "HDI." The Company operates a network of 64 distribution centers in Canada and the US engaged in the wholesale distribution of architectural building products to customers that supply end-products to the residential and commercial construction markets. The Company also has a sawmill and kiln drying operation in Clinton, Michigan. The Company's principal office is located at #306, 9440 202nd Street, Langley, British Columbia V1M 4A6.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements were authorized for issue by the Board of Directors on March 19, 2020.

(b) Basis of measurement:

These consolidated financial statements have been prepared a going concern basis under on the historical cost basis. Comparative figures have been restated for IFRS 16 as discussed in note 3(q).

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The Company's subsidiaries operating in the United States have a US dollar functional currency. All financial information presented in the consolidated financial statements, with the exception of per share amounts, has been rounded to the nearest thousand dollar unless otherwise stated.

(d) Use of estimates and judgment:

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

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

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 3(j) - the annual goodwill impairment test;
- Note 7 - the collectability of accounts receivable and the determination of the allowance for credit loss;
- Note 8 - the valuation of inventories; and
- Note 14 - the recognition of deferred income taxes and utilization of tax loss carry forwards.

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

- Note 3 - the classification and valuation of lease obligations.

In assessing the Company's leases, judgment is required in determining whether substantially all of the risks and rewards of ownership are transferred to the Company. This involves assessing the term of each lease, the risk associated with the residual value of leased vehicles and assessing the present value of the minimum lease payments in relation to the fair value of the vehicle and forklift at the inception of the lease. For deferred income taxes, judgment is required in determining whether it is probable that the Company's net deferred tax assets will be realized prior to their

2. Basis of preparation (continued):

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

expiry. In making such a determination, the Company considers the carry forward periods of losses and the Company's projected future taxable income.

3. Significant accounting policies:

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

(a) Principles of consolidation and business acquisitions:

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

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

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

(b) Foreign currencies:

Foreign currency transactions

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

Translation of foreign operations for consolidation

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

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.

3. Significant accounting policies (continued):

(c) Segment reporting:

Operating segments are based on the information about the components of the business that management uses to make decisions about operating matters. The subsidiaries of the Company engage in one main business activity being the sourcing and distribution of architectural grade building products, hence operating segment information is not provided. Geographical segment information is provided by country of operations in note 16.

(d) Revenue recognition:

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

(e) Finance expense and income:

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

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

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

(f) Prepaid and other assets:

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

(g) Inventories:

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

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

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

(h) Property, plant and equipment:

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

3. Significant accounting policies (continued):

(h) Property, plant and equipment (continued):

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

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

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

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

(i) Intangible assets:

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

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

(j) Goodwill:

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

Goodwill is allocated to the cash generating unit or group of cash generating units that are expected to receive the benefits from the business combinations. Rugby Holdings LLC (the "Rugby operations") and Pacific Mutual Door Company ("Pacific", see Note 4(a)) have been determined to be the cash generating units to which the goodwill balance relates. The Company tests goodwill for impairment on an annual basis. The Company also performs an impairment test if events or changes in circumstances arise that suggest the carrying value of goodwill may be impaired. An impairment loss for goodwill is not reversed.

Impairment testing was performed as at December 31, 2019 and the recoverable amount determined based on value-in-use calculations which requires discounting of future cash flows generated from the continuing use of the operations. The calculations use cash flow projections based on financial budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 3.0%. The growth rate is consistent with past experience, market conditions and actual operating results.

Key assumptions used are based on industry sources as well as management estimates. A post-tax discount rate of 10.0% was used in determining the recoverable amount of the Rugby operations. The discount rate was estimated with the assistance of industry data, past experience and the industry targeted capital structure.

The recoverable amount of the Rugby operations as at December 31, 2019, was determined to be higher than the related carrying amount and no impairment has been recognized.

3. Significant accounting policies (continued):

(k) Impairment:

Non-financial assets

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

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

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

Financial assets

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

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

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

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

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

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

(l) Financial instruments:

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

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

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

3. Significant accounting policies (continued):

(l) Financial instruments (continued):

Financial assets

Cash

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

Receivables

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

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

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

Financial liabilities

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

(m) Income taxes:

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

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

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

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

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

3. Significant accounting policies (continued):

(n) Provisions:

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

(o) Basic and diluted profit per share:

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

(p) Share based compensation:

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

3. Significant accounting policies (continued):

(q) New accounting policies

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

Effective January 1, 2019, the Company adopted IFRS 16, eliminating the dual accounting model for lessees which distinguished between on-balance sheet finance leases and off-balance sheet operating leases. The main provision of IFRS 16 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. Under IFRS 16, a lessee is required to do the following: (i) recognize a right-of-use (ROU) asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; and (ii) recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant, as the right-of-use asset is depreciated and the lease liability is accreted using the effective interest method. As a result of adopting IFRS 16, the Company's operating leases, which are principally comprised of its warehouse facilities and automobiles, are recorded in the statements of financial position as a lease obligation with a corresponding ROU asset.

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

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

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

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

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

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

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

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

3. Significant accounting policies (continued):

New accounting policy (continued)

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

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

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

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

Right-of-use assets

	Buildings	Automobiles	Forklifts	Total
2018 restated				
Balance at January 1	69,553	12,793	470	82,816
Additions	20,941	6,343	509	27,793
Disposals	—	(291)	—	(291)
Depreciation charge for the year	(15,147)	(4,600)	(196)	(19,943)
Foreign currency transaction	5,673	1,135	58	6,866
Balance at December 31 restated	81,020	15,380	841	97,241
2019				
Balance at January 1	81,020	15,380	841	97,241
Additions	18,698	2,775	—	21,473
Acquisition (Note 4)	4,493	—	—	4,493
Disposals	(2,857)	(274)	—	(3,131)
Depreciation charge for the year	(16,693)	(4,913)	(222)	(21,828)
Foreign currency transaction	(3,579)	(654)	(33)	(4,266)
Balance at December 31	81,082	12,314	586	93,982

3. Significant accounting policies (continued):

New accounting policy (continued)

Lease liabilities

	December 31, 2019	Restated December 31, 2018	Restated January 1, 2018
Maturity analysis - contractual undiscounted cash flows			
Less than one year	25,504	25,171	20,607
One to five years	82,442	85,552	72,640
More than five years	13,734	18,128	16,809
Total undiscounted lease liabilities	121,680	128,850	110,056
Lease liabilities included in the statement of financial position	108,699	112,473	95,961
Current	24,973	24,373	16,595
Non-current	83,726	88,100	79,366

Transition

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

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

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

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

Impacts on transition

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

3. Significant accounting policies (continued):

Impacts on transition (continued)

Consolidated Statements of Financial Position

	As Filed December 31, 2018	IFRS 16 Adjustments	Restated December 31, 2018
Non-current assets:			
Property, plant and equipment	24,184	(3,827)	20,357
Right of use assets	—	97,241	97,241
Deferred income taxes	3,051	3,793	6,844
Total non-current assets	102,040	97,207	199,247
Total assets	444,760	97,207	541,967
Current Liabilities			
Accounts payable and accrued liabilities	39,387	(171)	39,216
Lease obligation	1,529	22,844	24,373
Total current liabilities	155,573	22,673	178,246
Non-current liabilities			
Lease obligation	2,018	86,082	88,100
Other liabilities	1,237	(1,055)	182
Total non-current liabilities	3,255	85,027	88,282
Total Liabilities	158,828	107,700	266,528
Shareholder's Equity			
Retained Earnings	35,530	(9,877)	25,653
Accumulated other comprehensive income	29,411	(616)	28,795
Shareholders' equity	285,932	(10,493)	275,439
Total shareholders' equity and liabilities	444,760	97,207	541,967

3. Significant accounting policies (continued):

Impacts on transition (continued)

Consolidated Statements of Financial Position

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

3. Significant accounting policies (continued):

Impacts on transition (continued)

Consolidated Statements of Comprehensive Income

	As Filed December 31, 2018	IFRS 16 Adjustments	Restated December 31, 2018
Cost of goods sold	(933,719)	715	(933,004)
Gross Profit	200,548	715	201,263
Operating expenses			
Selling and distribution	(118,215)	3,282	(114,933)
Total operating expenses	(154,213)	3,282	(150,931)
Finance expense	(4,350)	(4,581)	(8,931)
Net finance expense	(3,398)	(4,581)	(7,979)
Profit before income taxes	42,937	(584)	42,353
Income tax expense:			
Deferred	(2,491)	144	(2,347)
Total income tax expense	(10,778)	144	(10,634)
Profit for the period	32,159	(440)	31,719
Other comprehensive income(loss):			
Exchange differences translating foreign operations	19,718	(616)	19,102
Total comprehensive income for the period	51,877	(1,056)	50,821
Basic profit per share	1.50	(0.02)	1.48
Diluted profit per share	1.49	(0.02)	1.47

3. Significant accounting policies (continued):

Impacts on transition (continued)

Consolidated Statements of Cash Flows

	As Filed December 31, 2018	IFRS 16 Adjustments	Restated December 31, 2018
Cash flow from operating activities:			
Profit for the period	32,159	(440)	31,719
Adjustments for:			
Depreciation and amortization	6,847	18,690	25,537
Income tax expense	10,778	(144)	10,634
Net finance expense	3,398	4,582	7,980
	44,209	22,688	66,897
Changes in non-cash working capital:			
Accounts payable and accrued liabilities	(1,922)	(629)	(2,551)
	(40,195)	(629)	(40,824)
Net cash provided by (used in) operating activities	4,015	22,058	26,073
Cash flow from financing activities:			
Principle payments on finance lease obligation	(1,396)	(22,058)	(23,454)
Net cash provided by (used in) financing activities	6,120	(22,058)	(15,938)

Impacts for the period

In relation to those leases under IFRS 16, the Company recognized depreciation and interest costs, instead of operating lease expense. During the year ended December 31, 2019 the Company recognized $20.2 million (2018 - $18.6) of depreciation expense and $4.5 million (2018 - $4.6 million) of interest expense from leases.

4. Business acquisitions:

(a) Diamond Hardwoods acquisition

On March 9, 2020, the Company acquired through one of its wholly owned subsidiaries substantially all of the assets and assumed certain liabilities of Diamond Hardwoods ("Diamond") for total estimated consideration for $4.0 million (US$3.0 million). Diamond operates two locations in Northern California and is engaged in the distribution of architectural building products to contractors, industrial manufacturers, and retail customers. The acquisition will be accounted for as a business combination using the acquisition method, with the Company being the acquirer and Diamond being the acquiree, and where the assets acquired and liabilities assumed are recorded at their fair values at the acquisition date.

(b) Pacific Mutual Door Company acquisition

On October 28, 2019, the Company acquired through one of its wholly owned subsidiaries substantially all of the assets and assumed certain liabilities of Pacific for total estimated consideration for $48.0 million (US$36.2 million). Pacific operates four distribution centers in the US and is engaged in the distribution of interior and exterior doors, custom millwork, and other ancillary architectural building products to customers that supply end products to the residential and commercial construction markets.

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

4. Business acquisitions (continued):

(b) Pacific Mutual Door Company acquisition (continued)

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

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

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

The intangible assets of $14.6 million (US$11.0 million) primarily represent the value of customer relationships acquired and are being amortized over 10 years, which is the period the Company expects to benefit from these relationships. The intangible asset is deductible for tax purposes.

The purchase price was financed by the Company's US credit facility. In connection with the acquisition, the Company amended its US credit facility, see note 12 for further details.

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

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

(c) Other acquisitions

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

On June 11, 2018, the Company acquired through one of its wholly owned subsidiaries certain of the distribution assets and assumed certain liabilities of Atlanta Hardwoods Corporation ("Atlanta") for a total value of $4.8 million (US$3.7 million). The fair value of Atlanta's identified assets acquired consisted of accounts and other receivables of $1.4 million (US$1.1 million), inventories of $3.3 million (US$2.6 million), property, plant and equipment of $0.4 million (US$0.3 million) and accrued liabilities of $0.2 million (US$0.1 million).

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, 2019	December 31, 2018	January 1, 2018
Cash	$ (15,118)	$ (1,547)	$ (313)
Bank indebtedness	121,548	$ 112,940	$ 91,146
Shareholder's equity	283,445	275,439	229,389
Total capitalization	$ 389,875	$ 386,832	$ 320,222

The terms of the Company's US and Canadian credit facilities are described in note 12. 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, 2019 and December 31, 2018, and accordingly there were no restrictions on distributions arising from non-compliance with financial covenants.

Dividends and share repurchases are some of the ways the Company manages its capital. Dividends are declared and shares are repurchased after consideration of a variety of factors including the outlook for the business and financial leverage.

On November 8, 2019, the Company declared a cash dividend of $0.085 per common share to shareholders of record as of January 20, 2020. The dividend was paid to shareholders on January 31, 2020. On March 19, 2020, the Company declared a cash dividend of $0.085 per common share to shareholders of record as of April 16, 2020, to be paid on April 30, 2020.

6. Financial instruments:

Financial instrument assets include cash and current and non-current receivables, which are designated as subsequently 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 subsequently measured at amortized cost.

Fair value hierarchy

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

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

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

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

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

Fair values of financial instruments

The carrying values of cash and cash equivalents, accounts and other receivables, income taxes receivable, dividend payable and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of the instruments. The fair value of non-current receivables, other liabilities 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.

6. Financial instruments (continued):

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 $131.0 million at December 31, 2019 (December 31, 2018 - $115.2 million, January 1, 2018 - $96.4 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 2.0% (December 31, 2018 - 2.0%) of trade accounts receivable and customer notes receivable at December 31, 2019. No one customer represents more than 1.0% of sales.

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

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.

Customer notes:

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

6. Financial instruments (continued):

Financial risk management (continued):

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.

(*i*) Credit risk (continued):

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, 2019, in Canada, a subsidiary of the Company had a revolving credit facility of up to $25.0 million, and, in the US, a subsidiary of the Company had a revolving credit facility of up to $194.8 million (US$150.0 million). These credit facilities can be drawn down to meet short-term financing requirements, including fluctuations in non-cash working capital. The amount made available under the revolving credit facilities is limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Company, as well as by continued compliance with credit ratios and certain other terms under the credit facilities. See note 12 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 3 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, 2019 bank indebtedness balance of $121.6 million, a 1% increase or decrease in the interest rates charged would result in a decrease or increase to profit after tax by approximately $0.9 million.

Currency risk

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

At December 31, 2019, the primary exposure to foreign denominated financial instruments was in the Company's Canadian subsidiaries and relates to U.S. dollar cash balances, accounts receivable from U.S. customers (2019 - US$0.9 million, 2018 - US$0.5 million) and accounts payable to U.S. suppliers (2019 - US$1.3 million, 2018 - US$0.2 million).

6. Financial instruments (continued):

Currency risk (continued):

Based on the Company's Canadian subsidiaries exposure to foreign denominated financial instruments, the Company estimates a $0.05 weakening or strengthening in the Canadian dollar as compared to the U.S. dollar would not have a material effect on net profit for the years ended December 31, 2019 or December 31, 2018.

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, 2019 and December 31, 2018 and does not take into account the effect a change in currency rates will have on the translation of the balance sheet and operations of the Company's U.S. subsidiaries nor is it intended to estimate the potential impact changes in currency rates would have on the Company's sales and purchases.

Commodity price risk:

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

7. Accounts 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, 2019	December 31, 2018	January 1, 2018
Trade accounts receivable - Canada	$ 13,401	$ 13,131	$ 13,458
Trade accounts receivable - United States	98,877	97,907	79,880
Sundry receivable	4,386	4,973	6,745
Current portion of non-current receivables	1,257	802	1,360
	117,921	116,813	101,443
Less:			
Allowance for credit loss	4,182	4,808	4,180
	$ 113,740	$ 112,005	$ 97,263
Non-current receivables:			
Employee housing loans	$ 120	$ 136	$ 257
Customer notes	1,065	570	921
Security deposits	2,448	1,953	1,541
	3,633	2,659	2,719
Less:			
Current portion, included in accounts receivable	1,257	802	1,360
	$ 2,376	$ 1,857	$ 1,359

The aging of trade receivables is:

	December 31, 2019	December 31, 2018	January 1, 2018
Current	$ 77,922	$ 76,206	$ 65,635
1 - 30 days past due	20,016	22,549	19,075
31 - 60 days past due	8,061	7,037	5,204
60+ days past due	6,280	5,246	3,424
	$ 112,279	$ 111,038	$ 93,338

The Company determines its allowance for credit loss using both specific identification of customer accounts and the expected credit loss model. The Company uses an estimate of the net recoverable amount for specific customer accounts it has identified and the effective credit loss model for the remaining customer accounts based on historical experience of uncollectable amounts. Accounts that are considered uncollectable are written off. The total allowance at December 31, 2019 was $4.2 million (December 31, 2018 - $4.8 million, January 1, 2018 - $4.2 million). The amount of the allowance is determined based on the past experience of the business, current and expected collection trends, the security the Company has in place for past due accounts and management's regular review and assessment of customer accounts and credit risk.

Bad debt expense, net of recoveries, for the year ended ended December 31, 2019 was $2.2 million which equates to 0.2% of sales (for the year ended December 31, 2018 - $0.6 million, being 0.05% of sales).

8. Inventories:

	December 31, 2019	December 31, 2018	January 1, 2018
Raw materials	$ 1,171	$ 780	$ 1,306
Work in process	3,821	4,584	4,950
Goods in-transit	8,442	12,630	7,947
Finished goods	194,501	205,791	157,903
	$ 207,935	$ 223,785	$ 172,106

The Company regularly reviews and assesses the condition and value of its inventories and records write-downs to net realizable value as necessary.

Inventory related expenses are included in the consolidated statements of comprehensive income as follows:

	2019	2018
Inventory write-downs, included in cost of goods sold	$ 2,453	$ 2,065
Cost of inventory sold	913,363	883,425
Other cost of goods sold	46,578	49,579
Total cost of goods sold	$ 959,941	$ 933,004

9. Property, plant and equipment:

	Land	Leased vehicles and forklifts	Buildings, machinery and equipment	Leasehold improvements	Total
Cost					
Balance at January 1, 2018	$ 770	$ 4,222	$ 30,377	$ 1,299	$ 36,668
Impact of changes in accounting (Note 3)	—	(4,222)	—	—	(4,222)
Balance at January 1, 2018, restated	770	—	30,377	1,299	32,446
Additions	—	—	3,696	380	4,076
Acquisition of Atlanta	—	—	390	—	390
Disposals	—	—	(896)	(31)	(927)
Adjustments:					
Foreign currency translation	68	—	2,567	74	2,709
Balance at December 31, 2018	838	—	36,134	1,722	38,694
Additions	18	—	2,952	351	3,321
Acquisition of Far West and Pacific (note 4)	—	—	1,520	—	1,520
Disposals	—	—	(1,530)	(131)	(1,661)
Adjustments:					
Foreign currency translation	(40)	—	(1,672)	(53)	(1,765)
Balance at December 31, 2019	$ 816	$ —	$ 37,404	$ 1,889	$ 40,109
Accumulated depreciation					
Balance at January 1, 2018	$ —	$ 1,616	$ 13,479	$ 923	$ 16,018
Impact of changes in accounting (Note 3)	—	(1,616)	—	—	(1,616)
Balance at January 1, 2018, restated	—	—	13,479	923	14,402
Depreciation	—	—	3,387	131	3,518
Disposals	—	—	(740)	(29)	(769)
Adjustments:					
Foreign currency translation	—	—	1,146	40	1,186
Balance at December 31, 2018	—	—	17,272	1,065	18,337
Depreciation	—	—	3,558	173	3,731
Disposals	—	—	(1,456)	(124)	(1,580)
Adjustments:	—	—			—
Foreign currency translation	—	—	(770)	(39)	(809)
Balance at December 31, 2019	$ —	$ —	$ 18,604	$ 1,075	$ 19,679
Net book value:					
January 1, 2018	$ 770	$ —	$ 16,898	$ 376	$ 18,044
December 31, 2018 restated (Note 3(q))	$ 838	$ —	$ 18,862	$ 657	$ 20,357
December 31, 2019	$ 816	$ —	$ 18,800	$ 814	$ 20,430

9. Property, plant and equipment (continued):

Depreciation of property, plant and equipment for the year ended December 31, 2019 was $3.7 million (2018 - $4.8 million) and is included in the statement of comprehensive income as follows:

	2019	2018
Cost of sales	$ 1,766	$ 1,614
Selling and distribution	1,708	2,936
Administration	257	224
	$ 3,731	$ 4,774

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

10. Intangible assets:

	Internally generated software	Customer relationships	Total
Cost			
Balance at January 1, 2018	$ 318	$ 19,775	$ 20,093
Additions	280	—	280
Adjustments:			
Foreign currency transaction	38	1,729	1,767
Balance at December 31, 2018	636	21,504	22,140
Additions	282	—	282
Acquisition of Pacific (Note 4(a))	—	14,595	14,595
Adjustments:			
Foreign currency transaction	(28)	(1,339)	(1,367)
Balance at December 31, 2019	$ 890	$ 34,760	$ 35,650
Accumulated amortization			
Balance at January 1, 2018	$ —	$ 2,878	$ 2,878
Amortization	6	2,067	$ 2,073
Adjustments:			
Foreign currency transaction	—	361	$ 361
Balance at December 31, 2018	6	5,306	5,312
Amortization	36	2,358	2,394
Adjustments:			
Foreign currency transaction	(2)	$ (302)	(304)
Balance at December 31, 2019	$ 40	$ 7,362	$ 7,402
Net book value:			
January 1, 2018	$ 318	$ 16,897	$ 17,215
December 31, 2018	$ 630	$ 16,198	$ 16,828
December 31, 2019	$ 850	$ 27,398	$ 28,248

10. Intangible assets (continued):

Amortization of intangible assets for the year ended December 31, 2019 was $2.4 million (2018 - $2.1 million) and is included in selling and distribution expenses in the statement of comprehensive income.

11. Goodwill:

Balance at January 1, 2018	$	51,670
Adjustments:		
Foreign currency translation		4,450
Balance at December 31, 2018		56,120
Acquired through acquisitions (Note 4)		19,966
Adjustments:		
Foreign currency translation		(3,112)
Balance at December 31, 2019	$	72,974

12. Bank indebtedness:

	December 31, 2019	December 31, 2018	January 1, 2018
Cheques issued in excess of funds on deposit	$ 2,489	$ 1,011	$ 866
Credit facility, Hardwoods LP	13,013	10,626	7,270
Credit facility, Hardwoods USLP II (December 31, 2019 - US$81,650 December 31, 2018 - US$74,369 January 1, 2018 - US$66,323)	106,047	101,303	83,010
	$ 121,548	$ 112,940	$ 91,146

Bank indebtedness consists of cheques issued in excess of funds on deposit and advances under operating lines of credit (the “Credit Facilities”) available to subsidiaries of the Company, Hardwoods Specialty Products LP (“Hardwoods LP”) and Hardwoods Specialty Product USLP II (“Hardwoods USLP II”).

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

Hardwoods LP Credit Facility ("LP Credit Facility")

The LP Credit Facility consists of a revolving credit facility of $25.0 million with the amount made available limited to the extent of 90% of the net book value of eligible accounts receivable and the lesser of 60% of the book value or 85% of appraised value of eligible inventories with the amount based on inventories not to exceed 60% of the total amount to be available. Certain identified accounts receivable and inventories are excluded from the calculation of the amount available under the LP Credit Facility. The LP Credit Facility matures in August 2021 and can be prepaid anytime with no prepayment penalty. Hardwoods LP is required to maintain a fixed charge coverage ratio of not less than 1.0 to 1. However, this covenant does not apply so long as the unused availability under the credit line is in excess of $2.0 million. At December 31, 2019, the LP Credit Facility has unused availability of $10.3 million, before cheques issued in excess of funds on deposit of $2.5 million (December 31, 2018 - $11.9 million, cheques issued in excess of funds on deposit - $1.0 million).

12. Bank indebtedness (continued):

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

In connection with the acquisition of Pacific (note 4), on October 28, 2019 the Company amended The USLP II Credit Facility. The amendment included an increase to the revolver from US$125 million to US$150 million, and lowered borrowing rates. The amount made available under the credit facility is limited to 85% of the value of eligible accounts receivable, and 60% of the value of eligible inventory plus the lesser of (i) 55% of the book value of eligible in-transit inventory or (ii) $2.0 million. The USLP II Credit Facility matures in October 2024 and can be prepaid at any time with no prepayment penalty. The USLP II Credit Facility is guaranteed by certain of the Company's subsidiaries.

The financial covenants under the USLP II Credit Facility include, among others, a springing fixed charge coverage ratio of 1.0 to 1, triggered if unused availability under the USLP II Credit Facility falls below US$15.0 million at any time.

In addition to the financial covenants, the ability of the Company's US subsidiaries to pay distributions and dividends, complete acquisitions, make additional investments, take on additional indebtedness, allow its assets to become subject to liens, complete affiliate transactions and make capital expenditures are limited and subject to the satisfaction of certain conditions.

At December 31, 2019, the USLP II Credit Facility has unused availability of $59.5 million (US$45.8 million), before cheques issued in excess of funds on deposit of nil. At December 31, 2018, the USLP II Credit Facility had unused availability of $66.5 million (US$48.7 million), before cheques issued in excess of funds on deposit of nil.

The Company has letters of credit outstanding at December 31, 2019 totaling $3.6 million (US$2.8 million) (December 31, 2018 - $2.6 million (US$1.9 million)) against the USLP II Credit Facility to support self-insured benefit claims.

The average annual interest rates paid in respect of bank indebtedness for the year ended December 31, 2019 were 4.1% and 4.4% (2018 - 3.5% and 3.6%) for the LP and USLP II Credit Facilities, respectively.

13. Share capital:

(a) Share capital

At December 31, 2019, the authorized share capital of the Company comprised an unlimited number of common shares without par value (“Shares”).

A continuity of share capital is as follows:

	Shares		Total
Balance at December 31, 2017	21,419,985	$	113,788
Issued pursuant to long term incentive plan	119,131		2,736
Balance at December 31, 2018	21,539,116		116,524
Issued pursuant to long term incentive plan	87,491		1,016
Share repurchase	(271,280)		(3,703)
Balance at December 31, 2019	21,355,327	$	113,837

At December 31, 2019 the Company had $260,000 (December 31, 2018 and January 1, 2018 - nil) accrued in accounts payable related to share repurchase obligations. This amount was settled in January 2020.

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

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

13. Share capital (continued):

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

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

The Shares to which a grantee is entitled under a Restricted Share or Performance Share may, at the discretion of the Board of Directors, be settled by the Company in Shares issued from treasury, Shares purchased by the Company in the secondary market, in an amount of cash equal to the fair market value of such Shares, or any combination of the foregoing. Grantees have the option to settle up to 50% of the Restricted Shares and Performance Shares in cash. The Company has made an estimate of the amount it expects to settle in cash related to future vestings of Restricted Shares and Performance Shares. As at December 31, 2019 the fair value of the Restricted Shares and Performance Shares estimated to be settled in the future in cash was $1.1 million (December 31, 2018 - $0.4 million) and this value has been classified within accounts payable and accrued liabilities and non-current liabilities.

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

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

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

A continuity of the LTIP Shares outstanding is as follows:

	Performance Shares	Restricted Shares
Balance at December 31, 2017	121,506	116,650
LTIP shares issued during the year	55,079	94,373
LTIP shares settled	(88,050)	(82,509)
Balance at December 31, 2018	88,535	128,514
LTIP shares issued during the period	67,181	136,763
LTIP shares forfeited during the period	(41,648)	(1,375)
LTIP shares settled	—	(105,427)
Balance at December 31, 2019	114,068	158,475

13. Share capital (continued):

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

LTIP compensation expense of $2.2 million was recognized in the consolidated statements of comprehensive income for year ended ended December 31, 2019 (December 31, 2018 - $2.1 million) . The equity classified portion of the LTIP compensation expense was $1.4 million for year ended December 31, 2019 (December 31, 2018 - $2.6 million, January 1, 2018 - $1.4) and the liability classified expense was $0.8 million (December 31, 2018 - recovery of $0.5 million, January 1, 2018 - $0.5 million).

The key estimate in determining the compensation in any period is whether the performance criteria have been met and the amount of the payout multiplier on the Performance Shares. The payout multiplier is reviewed and approved by the Company's compensation committee on an annual basis. The liability associated with the cash-settled awards is recorded in accounts payable and accrued liabilities, for amounts expected to be settled within one year, and in other liabilities for amounts to be settled after one year.

(c) Weighted average shares:

The calculation of basic and fully diluted net profit per share is based on the net profit for the year ended December 31, 2019 of $29.6 million (December 31, 2018 - $31.7 million). The weighted average number of common shares outstanding in each of the reporting years was as follows:

	December 31, 2019	December 31, 2018
Issued ordinary shares at beginning of year	21,539,116	21,419,985
Effect of shares repurchased	(160,085)	—
Effect of shares issued during the year:		
Pursuant to long-term incentive plan	240	34,863
Weighted average common shares - basic	21,379,271	21,454,848
Effect of dilutive securities:		
Long-term incentive plan	109,652	124,331
Weighted average common shares - diluted	21,488,923	21,579,179

14. Income taxes:

	2019	2018
Current tax expense	$ (7,227)	$ (8,287)
Deferred tax expense	(2,293)	(2,347)
	$ (9,520)	$ (10,634)

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, 2019 is 26.9% (2018 - 26.9%) and in the United States is 26.0% (2018 - 26.0%). The majority of the Company's tax expense is generated from its US subsidiaries, and as such the Company reconciles its consolidated income tax expense to the statutory tax rate applicable to the United States.

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

14. Income taxes (continued):

	2019	2018
Profit before income tax	$ 39,101	$ 42,353
Statutory rate	26.0%	26.0%
Computed tax expense at statutory rate	(10,166)	(11,011)
Effect of tax rate differentials and other restructuring	1,116	962
Non-deductible expenses	(547)	350
Prior year tax true-ups	127	300
Change in unrecognized deferred tax assets	46	(1,081)
Other	(96)	(154)
Income tax expense	$ (9,520)	$ (10,634)

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, 2019	December 31, 2018	January 1, 2018
Deferred tax assets:			
Accounts receivable	$ 1,208	$ 1,115	$ 1,014
Accounts payable and provisions	466	764	532
Inventory	2,433	2,672	1,867
Finance lease obligations, net	6,055	4,722	4,049
Goodwill and intangibles	—	1,047	3,088
Tax loss carry forwards and future interest deductions	516	115	252
Share and debt issuance costs	270	518	746
Other	(67)	91	104
	10,881	11,044	11,652
Deferred tax liabilities:			
Prepaid expenses	(777)	(72)	(80)
Property, plant and equipment	(5,643)	(4,128)	(2,662)
	(6,420)	(4,200)	(2,742)
Deferred tax asset	$ 4,461	$ 6,844	$ 8,910

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, 2019, the Company and its subsidiaries have operating loss carry forwards for income tax purposes of approximately $1.6 million in Canada that may be utilized to offset future taxable income (December 31, 2018 - $0.4 million). These losses, if not utilized, will expire in 2040. The Company's US subsidiaries have no operating loss carry forwards.

At December 31, 2019, the Company and its Canadian subsidiaries have capital losses of approximately $23.0 million (December 31, 2018 - $24.7 million, January 1, 2018 - $25.0 million), and suspended capital losses of approximately $44.7 million (December 31, 2018 - $44.7 million, January 1, 2018 - $44.7 million) available to offset future Canadian taxable capital gains. These capital losses arose as a result of internal restructuring and inter-entity transactions during the year ended December 31, 2009. The deferred income tax asset of $9.0 million (December 31, 2018 - $12.7 million, January 1, 2018 - $8.6 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	2019	Restated (Note 3) 2018
Finance expense:			
Interest on bank indebtedness	11	$ (4,721)	$ (4,106)
Accretion of finance lease obligation		(4,700)	(4,825)
Foreign exchange loss		(364)	—
Total finance expense		(9,784)	(8,931)
Finance income:			
Interest on trade receivables, customer notes, and employee loans	7	626	513
Foreign exchange gain		—	439
Total finance income		626	952
Net finance expense		$ (9,158)	$ (7,979)

16. Segment reporting:

Information about geographic areas is as follows:

	2019	2018
Revenue from external customers:		
Canada	$ 138,100	$ 140,903
United States	1,033,821	993,364
	$ 1,171,921	$ 1,134,267

	December 31, 2019	Restated (Note 3) December 31, 2018	January 1, 2018'
Non-current assets[(1)]:			
Canada	$ 10,816	$ 9,609	$ 10,981
United States	204,818	180,937	158,764
	$ 215,634	$ 190,546	$ 169,745

(1) Excludes financial instruments and deferred income taxes.

17. Employee remuneration:

(a) Employee benefits expense:

Expenses recognized for employee benefits are summarized below.

		2019		2018
Wages, salaries and benefits	$	120,746	$	112,419
Pensions - defined contribution plans		1,519		1,399
LTIP share based compensation		2,249		2,096
	$	124,514	$	115,914

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

		2019		2018
Cost of sales	$	26,260	$	24,571
Selling and distribution		71,235		66,054
Administration		27,019		25,289
	$	124,514	$	115,914

(b) Pensions:

Hardwoods USLP, Rugby Holdings LLC, Paxton Hardwoods LLC and HMI Hardwoods LLC maintain defined contribution 401(k) retirement savings plans ("Plans"). The assets of these Plans are held and related investment transactions are executed by the Plan's Trustees who are third parties and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2019, Hardwoods USLP, Rugby Holdings LLC and Paxton Hardwoods LLC contributed and expensed $1.2 million (US $0.9 million) (2018 - $1.0 million (US $0.8 million)) in relation to these Plans. There is no requirement for an employer contribution to the plan maintained by HMI Hardwood LLC and accordingly HMI Hardwoods LLC did not make any contributions to this plan.

Hardwoods LP does not maintain a pension plan. Hardwoods LP does, however, administer a group registered retirement savings plan (“LP Plan”) that has a matching component whereby Hardwoods LP makes contributions to the LP Plan which match contributions made by employees up to a certain level. The assets of the LP Plan are held and related investment transactions are executed by LP Plan's Trustee who is a third party, and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2019, Hardwoods LP contributed and expensed $0.4 million (2018 - $0.4 million) in relation to the LP plan.

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:

		2019		2018
Short-term employee benefits:				
	Salaries and benefits including bonuses	$ 3,583	$	3,732
	Automobile benefit	40		40
	LTIP Share compensation	1,603		1,595
Total remuneration		$ 5,226	$	5,367

(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, 2019 or December 31, 2018.

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, 2019.