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

HARDWOODS DISTRIBUTION INC.

Three month periods ended March 31, 2014 and 2013

HARDWOODS DISTRIBUTION INC.

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

	Note	March 31, 2014	December 31, 2013
Assets			
Current assets:			
Cash		$ 24	$ 78
Accounts receivable	6	50,761	42,382
Inventories	7	70,423	62,288
Prepaid expenses		1,089	1,205
Total current assets		122,297	105,953
Non-current assets:			
Long-term receivables	6	1,440	1,363
Property, plant and equipment		7,830	7,492
Deferred income taxes		13,347	13,443
Intangible asset		13	13
Total non-current assets		22,630	22,311
Total assets		$ 144,927	$ 128,264
Liabilities			
Current liabilities:			
Bank indebtedness	8	$ 37,539	$ 27,881
Accounts payable and accrued liabilities		9,476	7,426
Income taxes payable		140	-
Finance lease obligation		887	872
Dividend payable	5	744	574
Total current liabilities		48,786	36,753
Non-current liabilities:			
Finance lease obligation		786	828
Total liabilities		49,572	37,581
Shareholders' equity			
Share capital	9(a)	45,298	45,298
Contributed surplus		105,022	104,911
Deficit		(58,815)	(61,031)
Accumulated other comprehensive income		3,850	1,505
Shareholders' equity		95,355	90,683
Total shareholders' equity and liabilities		$ 144,927	$ 128,264

Contingencies (note 13)
Subsequent events (notes 5,8 and 14)

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

Approved on behalf of the board of directors:

(Signed) GRAHAM M. WILSON Director **(Signed) TERRY M. HOLLAND** Director

HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Interim Statements of Comprehensive Income
(Expressed in thousands of Canadian dollars, except for per share amounts)

Three month periods ended March 31, 2014 and 2013

	Note	2014	2013
Sales		$ 100,934	$ 86,983
Cost of sales	7	(82,671)	(71,083)
Gross profit		18,263	15,900
Operating expenses:			
Selling and distribution		(11,005)	(8,752)
Administration		(2,593)	(2,334)
		(13,598)	(11,086)
Profit from operating activities		4,665	4,814
Finance expense	10	(245)	(232)
Finance income	10	310	399
Net finance income		65	167
Profit before income taxes		4,730	4,981
Income tax expense:			
Current		(1,394)	(1,187)
Deferred		(371)	(614)
		(1,765)	(1,801)
Profit for the period		2,965	3,180
Other comprehensive income:			
Exchange differences translating foreign operations		2,345	846
Total comprehensive income for the period		$ 5,310	$ 4,026
Basic profit per share		$ 0.18	$ 0.19
Diluted profit per share		0.18	0.19

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

HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Interim Statement of Changes in Shareholders' Equity
(Expressed in thousands of Canadian dollars)

Three month periods ended March 31, 2014 and 2013

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income (loss) - translation reserve	Deficit	Total
Balance at January 1, 2013		$ 44,762	$ 104,903	$ (1,850)	$ (71,803)	$ 76,012
Share-based compensation expense for the period	9(b)	-	88	-	-	88
Shares issued pursuant to LTIP		-	-	-	-	-
Profit for the period		-	-	-	3,180	3,180
Dividends declared		-	-	-	(574)	(574)
Translation of foreign operations		-	-	846	-	846
Balance at March 31, 2013		$ 44,762	$ 104,991	$ (1,004)	$ (69,197)	$ 79,552
Balance at January 1, 2014		$ 45,298	$ 104,911	$ 1,505	$ (61,031)	$ 90,683
Share-based compensation expense for the period	9(b)	-	111	-	-	111
Profit for the period		-	-	-	2,965	2,965
Dividends declared		-	-	-	(749)	(749)
Translation of foreign operations		-	-	2,345	-	2,345
Balance at March 31, 2014		$ 45,298	$ 105,022	$ 3,850	$ (58,815)	$ 95,355

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

HARDWOODS DISTRIBUTION INC.

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

Three month periods ended March 31, 2014 and 2013

	Note	2014	2013
Cash flows from operating activities:			
Profit for the period		$ 2,965	$ 3,180
Adjustments for:			
Depreciation and amortization		438	329
Gain on sale of property, plant and equipment		(1)	(31)
Non-cash employee incentive program		111	88
Income tax expense		1,765	1,801
Net finance income		(65)	(167)
Interest received		100	100
Interest paid		(233)	(224)
Income taxes paid		(1,167)	(562)
		3,913	4,514
Changes in non-cash working capital:			
Accounts receivable		(7,426)	(9,525)
Inventories		(6,211)	(5,116)
Prepaid expenses		146	224
Accounts payable, accrued liabilities and provisions		1,829	480
		(11,662)	(13,937)
Net cash used in operating activities		(7,749)	(9,423)
Cash flow from financing activities:			
Increase in bank indebtedness		8,708	9,945
Principle payments on finance lease obligation		(215)	(182)
Dividends paid to shareholders		(579)	(492)
Net cash provided by financing activities		7,914	9,271
Cash flow from investing activities:			
Additions to property, plant and equipment		(381)	(65)
Proceeds on disposal of property, plant and equipment		7	64
Payments received on long-term receivables		155	81
Net cash provided by (used in) investing activities		(219)	80
Decrease in cash during the period		(54)	(72)
Cash, beginning of period		78	94
Cash, end of period		$ 24	$ 22

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

Supplementary information:			
Property, plant and equipment acquired under finance leases, net of disposals		$ 82	$ 258
Transfer of accounts receivable to long-term customer notes receivable, being a non-cash transaction		$ 99	$ 328

1. Nature of operations:

Hardwoods Distribution Inc. (the "Company") is incorporated under the Canada Business Corporations Act trading on the Toronto Stock Exchange under the symbol "HWD." Subsidiaries of the Company operate a network of 32 distribution centers in Canada and the US engaged in the wholesale distribution of hardwood lumber and related sheet goods and specialty products.

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements of the Company have been prepared in accordance with International Accounting Standards ("IAS 34") "Interim Financial Reporting". The disclosures contained in these condensed consolidated interim financial statements do not include all of the requirements of International Financial Reporting Standards ("IFRS") for annual financial statements, and accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 14, 2014.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in the interim financial statements, with the exception of per share amounts, has been rounded to the nearest thousand dollar.

(d) Use of estimates and judgment:

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty are consistent with those disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2013.

3. Significant accounting policies:

The significant accounting policies that have been applied in the preparation of these condensed consolidated interim financial statements are summarized in the Company's annual audited consolidated financial statements for the year ended December 31, 2013. There were no new standards effective January 1, 2014 that have an impact to the Company's financial statements.

(a) New standards and interpretations not yet adopted:

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

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

The mandatory effective date has tentatively been set for January 1, 2018, however early adoption of the new standard is permitted. The Company does not intend to early adopt IFRS 9 in its consolidated financial statements for the annual period beginning on January 1, 2015. The adoption of IFRS 9 is currently not expected to have a material impact on the consolidated financial statements as the classification and measurement of the Company's financial instruments is not expected to change given of the nature of the Company's operations and the types of financial instruments that it currently holds..

The Company has not early adopted any other standards, interpretations or amendments that have been issued, but are not yet effective, in the condensed consolidated interim financial statements.

4. Business acquisition:

On May 31, 2013 a subsidiary of the Company purchased certain assets of Olam Wood Products ("OWP") with the intention to continue operations of the business. OWP is an importer of high quality tropical lumber and decking material from Africa and South America for resale to industrial customers and wholesale distributors located in North America. OWP conducts business in Leland, North Carolina. The Company's subsidiary purchased the inventory and property, plant and equipment of OWP for cash consideration of $3.0 million (US$2.9 million) and hired OWP's employees to continue operating the business.

Included in these condensed consolidated interim financial statements for the three month period ended March 31, 2014 are sales of $1.0 million and profit of $0.1 million relating to OWP.

(Tabular amounts expressed in thousands of Canadian dollars)

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 development 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:

	March 31, 2014	December 31, 2013
Cash	$ (24)	$ (78)
Bank indebtedness	37,539	27,881
Shareholders' equity	95,355	90,683
Total capitalization	$ 132,870	$ 118,486

The terms of the Company's US and Canadian credit facilities are described in note 8. The terms of the agreements with the Company's lenders provide that distributions cannot be made by its subsidiaries in the event that its subsidiaries do not meet certain credit ratios. The Company's operating subsidiaries were compliant with all required credit ratios under the US and Canadian credit facilities as at March 31, 2014 and December 31, 2013, and accordingly there were no restrictions on distributions arising from compliance with financial covenants.

Dividends are one way the Company manages its capital. Dividends are declared having given consideration to a variety of factors including the outlook for the business and financial leverage. There were no changes to the Company's approach to capital management during the three month period ended March 31, 2014.

On March 10, 2014, the Company declared a cash dividend of $0.045 per common share to shareholders of record as of April 18, 2014. The dividend was paid to shareholders on April 30, 2014. On May 14, 2014, the Company declared a cash dividend of $0.045 per common share to shareholders of record as of July 18, 2014, to be paid on July 31, 2014.

(Tabular amounts expressed in thousands of Canadian dollars)

6. Accounts receivable:

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

	March 31, 2014	December 31, 2013
Trade accounts receivable - Canada	$ 14,286	$ 11,642
Trade accounts receivable - United States	38,109	31,138
Sundry receivable	1,322	1,807
Income taxes receivable	7	90
Current portion of long-term receivables	642	693
	54,366	45,370
Less:		
Allowance for credit loss	3,605	2,988
	$ 50,761	$ 42,382
Long-term receivables:		
Employee housing loans	$ 385	$ 378
Customer notes	1,272	1,268
Security deposits	425	410
	2,082	2,056
Less:		
Current portion, included in accounts receivable	642	693
	$ 1,440	$ 1,363

The aging of trade receivables was:

	March 31, 2014	December 31, 2013
Current	$ 38,768	$ 30,822
Past due 31 - 60 days	8,171	7,143
Past due 61 - 90 days	2,346	2,524
Past due 90+ days	3,110	2,291
	$ 52,395	$ 42,780

The Company determines its allowance for credit loss based on its best estimate of the net recoverable amount by customer account. Accounts that are considered uncollectable are written off. The total allowance at March 31, 2014 was $3.6 million (December 31, 2013 - $3.0 million). The amount of the allowance is considered sufficient based on the past experience of the business, current and expected collection trends, the security the Company has in place for past due accounts and management's regular review and assessment of customer accounts and credit risk.

Bad debt expense, net of recoveries, for the three month period ended March 31, 2014 was $0.4 million which equates to 0.4% of sales (three month period ended March 31, 2013 – $0.1 million, being 0.1% of sales).

(Tabular amounts expressed in thousands of Canadian dollars)

7. Inventories:

	March 31, 2014	December 31, 2013
Lumber	$ 24,980	$ 18,189
Sheet goods	30,338	29,802
Specialty	6,850	7,223
Goods in-transit	8,255	7,074
	$ 70,423	$ 62,288

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Inventory write-downs, included in cost of sales	$ 209	$ 60
Cost of inventory sold	$ 79,824	$ 68,691
Other cost of sales	2,847	2,392
Total cost of sales	$ 82,671	$ 71,083

8. Bank indebtedness:

	March 31, 2014	December 31, 2013
Checks issued in excess of funds on deposit	$ 1,140	$ 440
Credit facility, Hardwoods LP	7,085	4,000
Credit facility, Hardwoods USLP (March 31, 2014 - US$26,517; December 31, 2013 - US$22,039)	29,314	23,441
	$ 37,539	$ 27,881

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

The Hardwoods LP Credit Facility, which expires August 7, 2016, provides financing up to $15.0 million and the Hardwoods USLP Credit Facility, which expires on May 26, 2016, provides financing of up to US$50.0 million.

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

8. Bank indebtedness (continued):

on customary terms for facilities of this nature. Commitment fees and standby charges usual for borrowings of this nature were and are payable.

The amount made available under the Credit Facility to Hardwoods LP from time to time is limited to the extent of 85% of the book value of accounts receivable and the lesser of 60% of the book value or 85% of appraised value of 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 Credit Facility. Hardwoods LP is required to maintain a fixed charge coverage ratio (calculated as the ratio of earnings before interest, tax, depreciation and amortization ("EBITDA") less cash taxes less capital expenditures less distributions, divided by interest plus principal payments on finance lease obligations) of not less than 1.1 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 March 31, 2014, the Hardwoods LP Credit Facility has unused availability of $7.9 million, before checks issued in excess of funds on deposit of $0.5 million (December 31, 2013 - $10.3 million, checks issued in excess of funds on deposit - nil).

The amount to be made available under the Credit Facility to Hardwoods USLP from time to time is limited to the extent of 85% of the book value of accounts receivable and 55% of the book value of inventories (with certain accounts receivable and inventory being excluded). Hardwoods USLP is required to maintain a fixed charge coverage ratio (calculated as EBITDA less cash taxes less capital expenditures, divided by interest plus distributions) of 1.0 to 1. This covenant of the Hardwoods USLP Credit Facility does not need to be met, however, when the unused availability under the Credit Facility is in excess of US$2.5 million. At March 31, 2014, the Hardwoods USLP Credit Facility has unused availability of $20.7 million (US$18.7 million), before checks issued in excess of funds on deposit of $0.6 million (US$0.5 million) (December 31, 2013 - $19.5 million (US$18.3 million), before checks issued in excess of funds on deposit of $0.4 million (US$0.4 million).

On April 28, 2014 the Company amended the credit facility of its subsidiary Hardwoods USLP concurrently with completing the acquisition of Hardwoods of Michigan, Inc. (note 14). The term of the Hardwoods USLP credit facility was extended to April 27, 2017, and the maximum available borrowing under the credit facility increased from US$50.0 million to US$79.1 million, comprised of US$75.0 million available under revolving credit facilities, and US$4.1 million under a term loan that matures April 27, 2017, with monthly payments based on a five year amortization. The amount made available under the Credit Facility to Hardwoods USLP from time to time was increased to 90% of the book value of accounts receivable and 65% of the book value of inventories (with certain accounts receivable and inventory being excluded). This increase to advance rates will be reduced over a three year period back to the advance rates previously available to Hardwoods USLP of 85% of the book value of accounts receivable, and 55% of the book value of inventories. The minimum unused availability that must be maintained for the fixed charge coverage ratio not to apply was increased to US$7.5 million when advance rates for accounts receivable and inventories is calculated at 85% and 55% respectively, and to US$9.4 million in periods when advance rates in excess of these amounts are utilized.

(Tabular amounts expressed in thousands of Canadian dollars)

9. Share capital:

(a) Share capital:

At March 31, 2014, the authorized share capital of the Company comprised an unlimited number of common shares without par value ("Shares"). A continuity of the Shares is as follows:

	Shares	Total
Balance at March 31, 2014 and December 31, 2013	16,539,378	$ 45,298

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

A continuity of the LTIP Shares outstanding is as follows:

	Performance Shares	Restricted Shares
Balance at December 31, 2013	30,618	108,719
LTIP shares issued during the period	7,383	57,640
Balance at March 31, 2014	38,001	166,359

No LTIP shares became fully vested during the three month period ended March 31, 2014. Non-cash compensation expense of $110,877 was recognized in the condensed consolidated interim statement of comprehensive income for the three month period ended March 31, 2014 (three month period ended March 31, 2013 – $87,938).

(c) Weighted average shares:

The calculation of basic and fully diluted profit per share is based on the profit for the three month period ended March 31, 2014 of $3.0 million (March 31, 2013 – profit of $3.2 million). The weighted average number of common shares outstanding is as follows:

	2014	2013
Issued ordinary shares at January 1	16,539,378	16,394,490
Effect of shares issued during the period pursuant to long term incentive plan	-	-
Weighted average common shares – basic	16,539,378	16,394,490
Effect of dilutive securities:		
Long term incentive plan	118,675	153,628
Weighted average common shares – diluted March 31	16,658,053	16,548,118

(Tabular amounts expressed in thousands of Canadian dollars)

10. Finance income and expense:

	Note	Three months ended March 31, 2014	Three months ended March 31, 2013
Finance expense:			
Interest on bank indebtedness	8	$ (219)	$ (213)
Accretion of finance lease obligation		(26)	(19)
Total finance expense		(245)	(232)
Finance income:			
Imputed interest on employee loans receivable		4	3
Interest on trade receivables and customer notes	6	100	100
Foreign exchange gain		206	296
Total finance income		310	399
Net finance income		$ 65	$ 167

11. Segment reporting:

Information about the Company's geographic areas of business is as follows:

	Three months ended March 31, 2014	Three months ended March 31, 2013
Revenue from external customers:		
Canada	$ 24,189	$ 22,560
United States	76,745	64,423
	$ 100,934	$ 86,983

	March 31, 2014	December 31, 2013
Non-current assets[1]:		
Canada	$ 1,087	$ 1,118
United States	6,756	6,387
	$ 7,843	$ 7,505

[1] Excludes financial instruments and deferred income taxes

12. Seasonality:

The Company is subject to seasonal influences. Historically, the first and fourth quarters are seasonally slower periods for construction activity and, therefore, demand for hardwood products.

13. Contingencies:

The Company and its subsidiaries are subject to legal proceedings 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 through insurance, would be material in relation to the Company's condensed consolidated interim financial statements at March 31, 2014.

14. Subsequent event:

On April 28, 2014 a subsidiary of the Company acquired the business operations of Hardwoods of Michigan, Inc. ("HMI") a hardwood sawmill and kiln drying operation located in Clinton, Michigan. The acquisition builds on the Company's expertise in value-added manufacturing, provides access to additional high quality manufactured products to meet the needs of the Company's customers, and provides a new customer base for the Company to sell its import products into. The transaction resulted in the acquisition of the assets of HMI with a purchase price of $17.0 million (US$15.4 million), subject to final working capital adjustments to be calculated after closing. The acquired assets include accounts receivable of $4.3 million (US$4.0 million), inventory of $7.0 million (US$6.4 million), prepaid expenses of $0.7 million (US$0.6 million), and property, plant and equipment of $4.9 million (US$4.5 million). The purchase price was satisfied with cash consideration, funded by drawing down on the Hardwoods USLP Credit Facility (note 8), with a holdback of a portion of the purchase price until certain post-closing adjustments have been satisfied. As updated information becomes available, and post-closing adjustments are satisfied, further analysis may result in a refinement of the preliminary values attributable to the assets acquired.