Management's Discussion and Analysis

August 13, 2015

This management's discussion and analysis ("MD&A") has been prepared by Hardwoods Distribution Inc. ("HDI" or the "Company") as of August 13, 2015. This MD&A covers our unaudited condensed consolidated interim financial statements as at and for the three and six month periods ended June 30, 2015 ("Interim Financial Statements"). As well, it provides an update to the MD&A section contained in our 2014 Annual Report. The information below should be read in conjunction with our Interim Financial Statements and the audited consolidated financial statements and accompanying notes for the years ended December 31, 2014 and 2013 ("Audited Financial Statements"). Results are reported in Canadian dollars unless otherwise stated, and have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting" as permitted by International Financial Reporting Standards ("IFRS"). For additional information, readers should also refer to our Annual Information Form and other information filed on www.sedar.com.

In this MD&A, references to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization, where interest is defined as net finance costs as per the consolidated statement of comprehensive income. In addition to profit or loss, we consider EBITDA to be a useful supplemental measure of a company's ability to meet debt service and capital expenditure requirements, and we interpret trends in EBITDA as an indicator of relative operating performance.

EBITDA is not an earnings measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. Investors are cautioned that EBITDA should not replace profit or loss or cash flows (as determined in accordance with IFRS) as an indicator of our performance. Our method of calculating EBITDA may differ from the methods used by other issuers. Therefore, our EBITDA may not be comparable to similar measures presented by other issuers. For reconciliation between EBITDA and profit or loss as determined in accordance with IFRS, please refer to the discussion of Results of Operations described in section 3.0 of this report.

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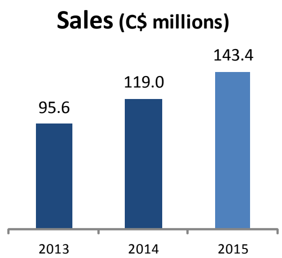
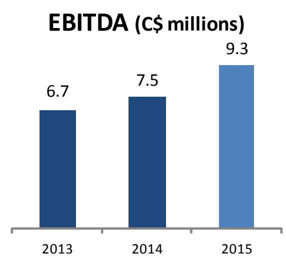
This MD&A includes the following sections:

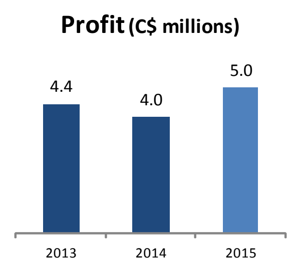
1.0 Executive Summary

1.1 Overview

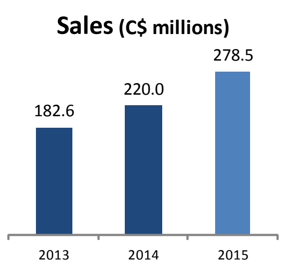
We achieved record sales and EBITDA results in the second quarter as we executed our business strategy and continued to benefit from a strong US dollar. For the three months ended June 30, 2015, our sales increased 20.4%, EBITDA climbed 23.0%, and profit grew 25.4% compared to the same period in 2014.

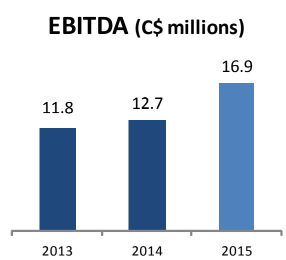


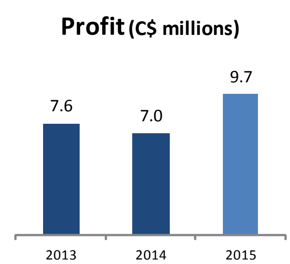




Results were also excellent for the six-month period ended June 30, 2015, with sales up 26.6%, EBITDA rising 33.8% and profit climbing 39.7%.







Our record results reflect a combination of organic growth, including continued success in implementing our "leverage import" and "strengthen commercial" strategies (as further discussed in section 1.2), together with acquisition-based growth following the April 28, 2014 purchase of Hardwoods of Michigan ("HMI"), an integrated, high-quality hardwood lumber producer and exporter. The HMI business contributed $2.7 million (US$2.2 million) of the second quarter sales growth and $13.5 million (US$11.0 million) of the first-half sales growth. This is the last quarter of acquisitions based growth related to HMI as they will be fully included in the comparative financial information going forward.

Our results also benefited from the appreciation in the average value of the US dollar relative to the Canadian dollar. A stronger US dollar benefits us by: i) increasing the value of sales and profits earned in our US operations when translated into Canadian dollars for financial reporting purposes; ii) increasing the selling price of US dollar-denominated products sold to our Canadian customers; and iii) improving the export competitiveness of our Canadian industrial customers, many of whom have the capability to sell their manufactured products in the US.

On the market front, the US residential construction market recovered from a sluggish start to the year. According to the US Census Bureau, the seasonally adjusted annual rate of US housing starts averaged 1,144,000 during the second quarter of 2015, up 16.7% from 980,000 in the same period last year. Given that hardwoods products are used later in the construction cycle (typically 9-12 months after construction starts), this growth did not benefit second quarter results, but should translate into improved demand in the future.

We reported a second quarter gross profit margin of 17.3%, which was up slightly from 17.2% in the second quarter of 2014. First-half gross profit margin declined to 17.2% from 17.6% last year. We view our gross profit margin levels as sustainable based on current product pricing, competition, the level of strategic investments being made in our business, and the addition of the HMI manufacturing business which carries a somewhat lower gross margin than does our traditional distribution business.

Expenses remained in line with expectations across the organization. As a percentage of revenue, operating expenses were stable at 11.3% in the second quarter compared to the same period in 2014. This reflects our success in achieving growth while managing infrastructure, overheads and bad debts. During the second quarter of 2015 bad debts represented 0.4% of sales and for the first half of the year represented 0.3% of sales, well below our long-term historical average of approximately 0.5% of sales.

Cash from operating activities decreased by $3.9 million year-to-date, primarily reflecting additional investments we made in working capital to support our growth. Our EBITDA as a percentage of revenue was 6.1% in the first half of the year, which we consider to be indicative of an efficient level of operating performance for our business. We ended the quarter with $49.2 million of bank debt and have a debt to total capitalization of 28.6%. We also had borrowing capacity of $42.7 million available as at June 30, 2015. For a further discussion of these non-GAAP measures see section 5.3 of this report.

Based on our continuing strong performance and favourable outlook, our Board of Directors approved a quarterly dividend of $0.055 per share, payable on October 30, 2015 to shareholders of record as at October 20, 2015.

1.2 Outlook

Economic forecasters continue to predict a multi-year strengthening of the US residential construction market. With a strong base of business in the US, growing import and commercial sales, and the positive foreign exchange impact of a stronger US dollar, we expect to achieve continued sales growth through the balance of 2015.

Industry forecasts are for hardwood lumberprices to generally remain soft through the second half of 2015 as increased supply works its way through the market. Prices for hardwood plywood are expected to remain steady and prices for some composite panel products are expected to increase modestly.

Our focus in 2015 will be on further expanding our US market share. Our priorities will be to actively pursue our “leverage imports” and “strengthen commercial” strategies which focus on:

- growing sales of our high-quality proprietary import lines, supported both by the Company’s established international quality assurance team and continued global sourcing initiatives designed to bring world-wide product solutions to our customers; and

- capitalizing on significant opportunities in the commercial market. In particular, we are actively growing our supply of products for commercial customers. We are also capitalizing on our import capabilities to offer commercial customers an attractive and differentiated line-up of products.

We will also continue to pursue well-priced acquisition opportunities that support our strategic objectives.

Our Board will continue to review our financial performance and assess distribution levels on a regular basis. However, our primary focus in 2015 will remain on retaining the cash necessary to finance the significant market growth opportunity in the US and to keep our balance sheet strong to support strategic acquisitions.

2.0 Background

2.1 Company Overview

Hardwoods Distribution Inc. is a publicly traded company that holds, indirectly, a 100% ownership interest in Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP (collectively, "Hardwoods" or the "Business"). Hardwoods Distribution Inc. is listed on the Toronto Stock Exchange and trades under the symbol HWD.

2.2 Business and Industry Overview

Serving customers for over 50 years, Hardwoods is one of North America's largest distributors of high-grade hardwood lumber and specialty sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. At August 13, 2015 we operated 33 facilities located in 17 states and 5 provinces throughout North America. Five of these facilities include light manufacturing capabilities to create customer moulding and millwork packages for our customers; and one facility, HMI is a fully integrated producer and exporter of high-quality, value-added hardwood lumber. To maximize inventory management, we utilize a hub and spoke distribution system, with major hub distribution centres holding the bulk of our inventory and making regular truck transfers to replenish stock in satellite distribution centres that are located in smaller markets.

Approximately 51% of our second quarter 2015 sales were made up of hardwood plywood and non-structural sheet goods such as medium-density fiberboard, particleboard and melamine-coated stock. Approximately 39% of our sales were of high-grade hardwood lumber. Our sheet goods and lumber are complementary product lines; both are key products used by our customers in the manufacture of their end-use products. The balance of our product sales, about 10%, was made up of other specialty products.

Our primary role in the industry is to provide the critical link between mills that manufacture large volumes of hardwood lumber and sheet goods, and industrial customers that require smaller quantities of many different hardwood products for their own manufacturing processes. We provide a means for hundreds of hardwood mills to get their product to thousands of small-to-mid-sized industrial manufacturers. We add value to our suppliers by buying their product in volume and paying them promptly, effectively acting as their third-party sales force. We add value for our customers by providing them with the materials they need on a just-in-time basis, remanufacturing materials to customer specifications when required, selling in smaller quantities, and offering a wider range of product selection than the customer would be able to purchase directly from an individual mill. We also provide an important source of financing for our customers by allowing them to buy material from us on approved credit.

Our customer base manufactures a range of end-use products, such as cabinetry, furniture and custom millwork. These products in turn are sold into multiple sectors of the economy, including new home construction, renovation, non-residential construction and institutional markets. As a result of this diversity, it is difficult to determine with certainty what proportion of our products end up in each sector of the economy. We estimate about 60% of our products are used in new residential construction, in the form of cabinets, mouldings, custom finishing, and home furniture. We believe the balance of our products end up in other sectors of the economy not associated with new residential construction, such as home renovations, finishing millwork for office buildings, restaurant and bar interiors, hotel lobbies, retail point-of-purchase displays, schools, hospitals, custom motor coaches, yacht interiors and other specialty areas.

The majority of the hardwood lumber distributed in North America is harvested from North American hardwood forests, located principally in the Eastern United States, and is milled by hundreds of small mills. Imported hardwood lumber is largely limited to specialty species that generally do not compete with domestic hardwood lumber. Sheet goods are generally produced in North America by large manufacturers using domestic hardwoods and other materials, although imported hardwood plywood volumes have been increasing. Both domestic and imported hardwood lumber and plywood are distributed principally by third parties such as us.

3.0 Results of Operations

3.1 Three Month Periods Ended June 30, 2015 and June 30, 2014

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)

	For the three months Ended June 30 2015	For the three months Ended June 30 2014	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 143,351	$ 119,038	$ 24,313	20.4%
Sales in the US (US$)	*92,046*	*83,521*	*8,525*	10.2%
Sales in Canada	*30,175*	*27,904*	*2,271*	8.1%
Gross profit	24,848	20,528	4,320	21.0%
Gross profit %	*17.3%*	*17.2%*		
Operating expenses	(16,215)	(13,500)	2,715	20.1%
Profit from operating activities	8,633	7,028	1,605	22.8%
Add: Depreciation and amortization	647	515	132	25.6%
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 9,280	$ 7,543	$ 1,737	23.0%
Add (deduct):				
Depreciation and amortization	(647)	(515)	(132)	
Net finance expense	(330)	(414)	84	
Income tax expense	(3,294)	(2,618)	(676)	
Profit for the period	$ 5,009	$ 3,996	$ 1,013	25.4%
Basic and fully diluted profit per share	$ 0.30	$ 0.24		
Average Canadian dollar exchange rate for one US dollar	1.229	1.090		

Sales

For the three months ended June 30, 2015, total sales increased 20.4% to $143.4 million, from $119.0 million during the same period in 2014. Of the $24.3 million year-over-year increase, $11.5 million was due to stronger underlying sales and $12.8 million reflects the positive impact of a stronger US dollar when translating our US sales to Canadian dollars for reporting purposes.

Sales from our US operations, which comprise approximately three quarters of our revenues, increased by US$8.5 million, or 10.2%, to US$92.0 million, from US$83.5 million in the same period in 2014. Organic growth accounted for US$6.3 million of the increase as a result of stronger underlying sales activity. HMI, the high-quality hardwood lumber producer and exporter we acquired on April 28, 2014, contributed US$2.2 million to the increase in US sales.

Sales in Canada, which comprise approximately one quarter of our revenues, increased by $2.3 million, or 8.1%, year-over-year. The growth reflects successes in winning new business, as well as overall stronger product prices in Canada resulting from the stronger US dollar, and other positive foreign exchange impacts as described in Section 1.1.

Gross Profit

Gross profit for the three months ended June 30, 2015 increased 21.0% to $24.8 million, from $20.5 million in the second quarter of 2014. This $4.3 million improvement reflects the higher sales for the period at a slightly higher gross profit margin. As a percentage of sales, second quarter gross profit margin increased to 17.3%, from 17.2% last year and is within the range we consider sustainable at this point in the business cycle.

Operating Expenses

Operating expenses increased to $16.2 million in the second quarter of 2015, from $13.5 million during the same period last year. The $2.7 million increase primarily reflects $1.4 million of higher expense due to the impact of a stronger US dollar on translation of US operating expenses, $1.1 million of costs to support growth, and $0.2 million in incremental costs from the acquired HMI business. As a percentage of sales, operating expenses were 11.3% of sales in the three months ended June 30, 2015 and 2014.

EBITDA

We generated EBITDA of $9.3 million in the second quarter of 2015, an increase of $1.7 million, or 23.0%, from $7.6 million in the same period last year. The increase reflects the $4.3 million increase in gross profit, partially offset by the $2.6 million increase in operating expense before depreciation and amortization.

Net Finance Income (expense)

(in thousands of Canadian dollars)		Three months ended June 30 2015		Three months ended June 30 2014		$ Increase (Decrease)
Finance expense:						
Interest on bank indebtedness	$	(330)	$	(319)	$	11
Accretion of finance lease obligation		(26)		(27)		(1)
Foreign exchange losses		(72)		(184)		(112)
Total finance expense		(428)		(530)		(102)
Finance income:						
Interest on trade receivables, customer notes, and employee loans		98		116		(18)
Foreign exchange gain (loss)		-		-		-
Total finance income		98		116		(18)
Net finance expense	$	(330)	$	(414)	$	(84)

Second quarter net finance expense was $0.3 million, compared to a net finance expense of $0.4 million during the same period in 2014. The year-over-year decrease in expense primarily reflects the impact of changes in the Canadian/US dollar exchange rate on translation for reporting purposes of intercompany debt held by or with subsidiaries of the Company.

Income Tax Expense

Income tax expense increased to $3.3 million in the second quarter of 2015, from $2.6 million in the same period in 2014. This increase primarily reflects higher taxable income.

Profit for the Period

Profit for the three months ended June 30, 2015 was $5.0 million, compared to $4.0 million during the same period in 2014. The $1.0 million increase in profit primarily reflects the $1.7 million increase in EBITDA partially offset by a $0.7 million increase in income tax expense.

3.2 Six Month Periods Ended June 30, 2015 and June 30, 2014

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)	For the six months Ended June 30 2015	For the six months Ended June 30 2014	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 278,467	$ 219,972	$ 58,495	26.6%
Sales in the US (US$)	*178,479*	*153,062*	*25,417*	16.6%
Sales in Canada	*58,011*	*52,093*	*5,918*	11.4%
Gross profit	47,911	38,791	9,120	23.5%
Gross profit %	*17.2%*	*17.6%*		
Operating expenses	(32,203)	(27,098)	5,105	18.8%
Profit from operating activities	15,708	11,693	4,015	34.3%
Add: Depreciation and amortization	1,218	953	265	27.8%
Earnings before interest, taxes, depreciation and amortization (“EBITDA”)	$ 16,926	$ 12,646	$ 4,280	33.8%
Add (deduct):				
Depreciation and amortization	(1,218)	(953)	(265)	
Net finance expense	(94)	(349)	255	
Income tax expense	(5,892)	(4,383)	(1,509)	
Profit for the period	$ 9,722	$ 6,961	$ 2,761	39.7%
Basic and fully diluted profit per share	$ 0.58	$ 0.42		
Average Canadian dollar exchange rate for one US dollar	1.235	1.097		

Sales

For the six months ended June 30, 2015, total sales increased 26.6% to $278.5 million, from $220.0 million during the same period in 2014. Of the $58.5 million year-over-year increase, $33.8 million was due to stronger underlying sales and $24.7 million reflects the positive impact of a stronger US dollar when translating our US sales to Canadian dollars for reporting purposes.

Sales from our US operations, which comprise approximately three quarters of our revenues, increased by US$25.4 million, or 16.6%, to US$178.5 million, from US$153.1 million in the same period in 2014. Organic growth accounted for US$14.4 million of the increase as a result of stronger underlying sales. HMI, acquired on April 28, 2014, contributed US$11.0 million to the increase in US sales.

Sales in Canada, which comprise approximately one quarter of our revenues, increased by $5.9 million, or 11.4%, year-over-year. The increase in sales reflects our successes in winning new business, as well as the positive impacts of a stronger US dollar as described in Section 1.1.

Gross Profit

Gross profit for the six months ended June 30, 2015 increased 23.5% to $47.9 million, from $38.8 million in the same period of 2014. This $9.1 million improvement reflects the higher sales for the period, partially offset by a lower gross profit margin. As a percentage of sales, gross profit margin for the six months ended June 30, 2015 was 17.2%, compared to 17.6% in the same period last year. The year-over-year reduction reflects competitive conditions as well as the impact of the acquired HMI manufacturing business. HMI generates a slightly lower gross profit percentage than does Hardwoods' traditional distribution business. Our entry into targeted commercial market segments also impacted margins as we offered competitive introductory pricing to some of our new accounts.

Operating Expenses

Operating expenses increased to $32.2 million in the six months ended June 30, 2015, from $27.1 million during the same period last year. The $5.1 million increase primarily reflects $2.7 million of higher expense due to the impact of a stronger US dollar on translation of US operating expenses, $1.5 million of added expenses to support our organic growth and $0.9 million in incremental costs from the acquired HMI business. As a percentage of sales, operating expenses improved to 11.6% of sales in the six months ended June 30, 2015, from 12.3% during the same period in 2014.

EBITDA

We generated EBITDA of $16.9 million for the six months ended June 30, 2015, an increase of $4.3 million or 33.8%, from $12.6 million in the same period last year. The increase reflects the $9.1 million increase in gross profit, partially offset by the $4.8 million increase in operating expense before depreciation and amortization.

Net Finance Income (Cost)

(in thousands of Canadian dollars)	For the six months ended June 30 2015	For the six months ended June 30 2014	$ Increase (Decrease)
Finance expense:			
Interest on bank indebtedness	$ (666)	$ (538)	$ 128
Accretion of finance lease obligation	(55)	(53)	2
Foreign exchange losses	-	-	-
Total finance expense	(721)	(591)	130
Finance income:			
Interest on trade receivables customer notes, and employee loans	192	220	(28)
Foreign exchange gain	435	22	413
Total finance income	627	242	385
Net finance expense	$ (94)	$ (349)	$ (255)

For the six months ended June 30, 2015, net finance expense was $0.1 million, compared to a net finance cost of $0.3 million during the same period in 2014. The year-over-year decrease primarily reflects the impact of changes in the Canadian/US dollar exchange rate on translation for reporting purposes of intercompany debt held by or with subsidiaries of the Company.

Income Tax Expense

Income tax expense increased to $5.9 million for the six months ended June 30, 2015, from $4.4 million in the same period in 2014. This increase primarily reflects higher taxable income.

Profit for the Period

Profit for the six months ended June 30, 2015 increased to $9.7 million, from $7.0 million during the same period in 2014. The $2.7 million increase reflects the $4.3 million increase in EBITDA and the $0.3 million decrease in net finance expense, partially offset by a $1.5 million increase in income tax expense, and a $0.3 million increase in depreciation and amortization.

4.0 Quarterly Financial Information and Seasonality

(in thousands of dollars)	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Total sales	$ 143,351	$ 135,116	$ 114,324	$ 121,398	$ 119,038	$ 100,934	$ 91,069	$ 97,546
Profit	5,009	4,713	2,808	4,246	3,996	2,965	2,375	3,109
Basic profit per share	0.30	0.28	0.17	0.26	0.24	0.18	0.14	0.19
Fully diluted profit per share	0.30	0.28	0.17	0.25	0.24	0.18	0.14	0.19
EBITDA	9,280	7,646	5,238	7,594	7,543	5,103	4,216	5,269

The preceding table provides selected quarterly financial information for our eight most recently completed fiscal quarters. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in our opinion, necessary to present a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. Historically, the first and fourth quarters have been seasonally slower periods for our business. In addition, net earnings reported in each quarter may be impacted by acquisitions, such as our acquisition of the HMI business in the second quarter of 2014, and by changes in the foreign exchange rate of the Canadian and US dollars.

5.0 Liquidity and Capital Resources

5.1 Cash Flows from Operating, Investing and Financing Activities

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)	Three months ended June 30			Six months ended June 30		
	2015	2014	$ Change	2015	2014	$ Change
Cash provided by operating activities before changes in non-cash working capital	$ 6,557	$ 5,796	$ 761	$ 11,152	$ 9,709	$ 1,443
Changes in non-cash working capital	(4,448)	383	(4,831)	(16,573)	(11,279)	(5,294)
Net cash provided by (used in) operating activities	2,109	6,179	(4,070)	(5,421)	(1,570)	(3,851)
Net cash used in investing activities	(72)	(15,466)	15,394	(420)	(15,685)	15,265
Net cash provided by (used in) financing activities	(2,037)	9,284	(11,321)	5,828	17,198	(11,370)
Decrease (increase) in cash	-	(3)	3	(13)	(57)	44
Cash, beginning of period	-	24	(24)	13	78	(65)
Cash, end of period	$ -	$ 21	$ (21)	$ -	$ 21	$ (21)

Net cash used in operating activities

For the three months ended June 30, 2015, net cash provided by operating activities was $2.1 million, compared to $6.2 million in the same period in 2014, a decrease of $4.1 million. Cash provided by operating activities before changes in non-cash working capital increased by $0.8 million period-over-period, primarily reflecting an increase in EBITDA of $1.7 million offset by an increase in income taxes paid of $1.0 million. Investment in non-cash working capital increased by $4.8 million in the second quarter of 2015 compared to the second quarter of 2014. An analysis of changes in working capital is provided in section 5.2 of this report.

For the six months ended June 30, 2015, net cash used in operating activities was $5.4 million, compared to $1.6 million in the same period in 2014, an increase of $3.9 million. Cash provided by operating activities before changes in non-cash working capital increased by $1.4 million period-over-period, primarily reflecting an increase in EBITDA of $4.3 million offset by an increase in income taxes paid of $2.8 million. Investment in non-cash working capital increased by $5.3 million in the second half of 2015 compared to the second half of 2014. An analysis of changes in working capital is provided in section 5.2 of this report.

Net cash used in investing activities

Net cash used in investing activities decreased $15.4 million and $15.3 million in the three and six month periods ended June 30, 2015 respectively as compared to the same periods in 2014. The decrease primarily relates to the $15.3 million paid on acquisition of HMI on April 28, 2014.

Capital expenditures in our traditional distribution business have historically been low as we lease our buildings and typically contract out all freight delivery services. Capital expenditures in this part of our business are principally for the replacement of forklifts, furniture and fixtures, leasehold improvements and computer equipment.

Our Paxton business, which includes five branches, requires some additional ongoing investment in moulders and other light remanufacturing equipment. Paxton also buys trailers and leases tractor units for use in delivery of product to customers, whereas other Hardwoods operations contract out this freight delivery service to third-party carriers.

The addition of HMI has increased our future capital expenditure needs, with the business requiring ongoing investment in machinery and equipment. We anticipate that additional annual capital expenditure requirements of approximately $0.6 million will be required to maintain the productive capacity of the HMI business.

We believe we have made sufficient expenditures to sustain productive capacity of our business as it relates to our needs for property, plant and equipment.

Net cash provided by financing activities

For the three and six months ended June 30, 2015 net cash from financing activities decreased $11.3 million and $11.4 million respectively as compared to the same periods in 2014. There were no significant changes in the composition of cash provided by financing activities, with drawings on the Company's credit facilities being the main financing activity during the period.

5.2 Working Capital

Our business requires an ongoing investment in working capital, which we consider to be comprised of accounts receivable, inventory, and prepaid expenses, partially offset by provisions and short-term credit provided by suppliers in the form of accounts payable and accrued liabilities. We had working capital of $148.3 million as at June 30, 2015, compared to $123.8 million at December 31, 2014. Most of this increase is attributable to increased investment in accounts receivable and inventory to support sales growth.

Our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers. Historically the first and fourth quarters are seasonally slower periods for construction activity, resulting in reduced demand for hardwood products. As a result, sales and working capital requirements may be lower in these quarters. A summary of changes in our non-cash operating working capital during the three and six months ended June 30, 2015 and 2014 is provided below.

(in thousands of Canadian dollars) Source (use) of funds	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Accounts receivable	$ (1,003)	$ 2,280	$ (11,847)	$ (5,146)
Inventory	(4,697)	(2,521)	(8,960)	(8,732)
Prepaid expenses	(110)	(560)	222	(414)
Accounts payable, accrued liabilities and provisions	1,362	1,184	4,012	3,013
Increase in non-cash operating working capital	$ (4,448)	$ 383	$ (16,573)	$ (11,279)

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

5.3 Revolving Credit Facilities and Debt Management Strategy

Selected Unaudited Consolidated Financial Information (in thousands of dollars)	As at June 30, 2015	As at December 31, 2014
Cash	$ -	$ (13)
Bank indebtedness	49,191	38,742
Net Debt	49,191	38,729
Shareholders' equity	123,050	108,489
Total Capitalization	$ 172,241	$ 147,218
Net debt to total capitalization	28.6%	26.3%
Previous 12 months EBITDA	$ 29,758	$ 25,478
Net debt to previous 12 months EBITDA	1.7	1.5

We consider our capital to be bank indebtedness (net of cash) and shareholders’ equity. As shown above, our net debt balance increased by $10.5 million to $49.2 million at June 30, 2015, from $38.7 million at December 31, 2014. The increase in net debt primarily reflects the use of our bank lines to finance the additional investment in working capital required to support higher sales. Overall net debt compared to total capitalization stood at 28.6% as at June 30, 2015, compared to 26.3% at December 31, 2014. At June 30, 2015 our ratio of net debt-to-EBITDA for the previous 12 months was 1.7 times, compared to 1.5 times at December 31, 2014. Net debt-to-EBITDA and net debt to total capitalization serve as indicators of our financial leverage, however they are not measures prescribed by IFRS and our method of calculating these measures may differ from methods used by other issuers.

We have independent credit facilities in both Canada and the U.S. These facilities may be drawn down to meet short-term financing requirements such as fluctuations in non-cash working capital, and in the case of the Canadian credit facility, to also make capital contributions to our US operating subsidiary. The amount made available under our Canadian and US revolving credit facilities is, from time-to-time, limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Company. Credit facilities also require ongoing compliance with certain credit ratios. A summary of our credit facilities as at June 30, 2015 is provided in the following table. In the second quarter of 2014, we amended our US credit facility to extend its term to April 27, 2017 and to increase the maximum borrowings available under the credit facility. The revised credit facility is comprised of US$75.0 million available under revolving credit facilities and US$4.1 million under a term loan that matures on April 27, 2017, with monthly payments based on a five-year amortization. The US credit facility was increased to provide us with additional flexibility to borrow against the value of collateral arising from the HMI acquisition. At June 30, 2015 we had total borrowing capacity of $42.7 million available for future use and to cover checks issued in excess of funds on deposit of $1.9 million at June 30, 2015.

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	Canadian Credit Facility	**US Credit Facility**
Maximum borrowings under credit facility	$15.0 million	$ 97.7 million (US$78.2 million)
Credit facility expiry date	August 7, 2016	April 27, 2017
Available to borrow	$ 15.0 million	$ 71.1 million (US$ 56.9 million)
Credit facility borrowings	$ 8.3 million	$ 35.1 million (US$ 28.1 million)
Unused credit facility available	$ 6.7 million	$ 36.0 million (US$ 28.8 million)
Financial covenants:		
	Covenant does not apply when the unused credit facility available exceeds $2.0 million, which it did at June 30, 2015	Covenant does not apply when the unused credit facility available exceeds US$7.5 million, which it did at June 30, 2015

The terms of the agreements with our lenders provide that dividends cannot be made to our shareholders in the event that our subsidiaries are not compliant with their financial covenants. Our operating subsidiaries were compliant with all required credit ratios as at June 30, 2015. Accordingly there were no restrictions on dividends arising from non-compliance with financial covenants.

Our debt management strategy is to roll and renew (as opposed to repay and retire) our revolving credit facilities in Canada and the US when they expire in August 2016 and April 2017, respectively. We do not intend to restrict future dividends in order to fully extinguish our bank debt obligations upon their maturity. The amount of bank debt that will actually be drawn on our available revolving credit facilities will depend upon the seasonal and cyclical needs of the business, and our cash generating capacity going forward. When making future dividend decisions, we will consider the amount of financial leverage, and therefore bank debt, we believe is appropriate given existing and expected market conditions and available business opportunities. We do not target a specific financial leverage amount. We believe our current credit facilities are sufficient to finance our working capital needs and market expansion strategy.

5.4 Contractual Obligations

There were no significant changes in our contractual commitments outside of the normal course of business, compared with those set forth in the Company's 2014 Annual Report, available on SEDAR at www.sedar.com.

5.5 Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

5.6 Financial Instruments

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

5.7 Share Data

As at August 13, 2015, the date of this MD&A, we had 16,652,237 common shares issued and outstanding. In addition, at August 13, 2015, we had outstanding 51,317 performance shares and 165,202 restricted shares under the terms of our long-term incentive plan. The performance and restricted shares can be settled in common shares of the Company issued from treasury, shares purchased by the Company in the market, or in an amount of cash equal to the fair value of our common shares, or any combination of the foregoing. The restricted and performance shares vest over periods of up to three years and we intend to issue common shares from treasury to settle these obligations as they vest.

5.8 Dividends

In the second quarter of 2015, we declared a quarterly dividend of $0.055 per share, which was paid on July 31, 2015 to shareholders of record as at July 20, 2015. On August 13, 2015 we declared a quarterly dividend of $0.055 per share, payable on October 30, 2015 to shareholders of record as at October 20, 2015. The Board regularly assesses our dividend strategy, giving due consideration to anticipated cash needs for additional working capital to support growing the business, appropriate debt levels, acquisition opportunities which may be available, expected market conditions, demand for our products, and other factors.

6.0 Related Party Transactions

There were no material related party transactions in the three and six months ended June 30, 2015 or in the comparative periods in the prior year.

7.0 Critical Accounting Estimates & Adoption of Changes in Accounting Policies

7.1 Critical Accounting Estimates

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

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

Deferred income taxes: We are required to make estimates and assumptions regarding future business results, as well as the amount and timing of certain future discretionary tax deductions available to us. These estimates and assumptions can have a material impact upon the amount of deferred income tax assets and liabilities that we recognize.

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

7.2 Adoption of New Accounting Policies

There were no new standards effective January 1, 2015 that have an impact on the Company's Interim Financial Statements.

8.0 Risks and Uncertainties

We are exposed to a number of risks and uncertainties in the normal course of business that could have a negative effect on our financial condition or results of operations. We identify significant risks that we were aware of in our Annual Information Form dated March 26, 2015, and in our Information Circular dated March 26, 2015. Both documents are available to readers at www.sedar.com.

9.0 Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"). Any systems of DC&P and ICFR, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to information required to be disclosed and financial statement preparation and presentation. There have been no changes in our ICFR during the quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our ICFR.

10.0 Note Regarding Forward Looking Information

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

The forward-looking information in this MD&A includes, but is not limited to: The US residential construction market recovered from a sluggish start to the year; given that hardwood products are used later in the construction cycle (typically 9-12 months after construction starts), this growth did not benefit second quarter results, but should translate into improved demand in the future; we view our gross profit margin levels as sustainable; economic forecasters continue to predict a multi-year strengthening of the US residential construction market; with a strong base of business in the US, growing import and commercial sales, and the positive foreign exchange impact of a stronger US dollar, we expect to achieve continued sales growth through the balance of 2015; prices for hardwoods lumber are expected to remain soft through the second half of 2015 as increased supply works its way through the market; our EBITDA as a percentage of revenue was 6.1% in the first half of the year, which we consider to be indicative of an efficient level of operating performance for our business; prices for hardwood plywood are expected to remain steady and prices for some composite panel products are expected to increase modestly; as a percentage of sales, second quarter gross profit margin increased and is within the range we consider sustainable at this point in the business cycle; historically, the first and fourth quarters have been seasonally slower periods for our business; we anticipate that additional annual capital expenditure requirements of approximately $0.6 million will be required to maintain the productive capacity of the HMI business; we believe we have made sufficient expenditures to sustain productive capacity of our business as it relates to our needs for property, plant and equipment; our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers; historically the first and fourth quarters are seasonally slower periods for construction activity, resulting in reduced demand for hardwood products and sales and working capital requirements may be lower in these quarters as a result; our debt management strategy is to roll and renew (as opposed to repay and retire) our revolving credit facilities in Canada and the US when they expire in August 2016 and April 2017, respectively; we do not intend to restrict future dividends in order to fully extinguish our bank debt obligations upon their maturity; the amount of bank debt that will actually be drawn on our available revolving credit facilities will depend upon the seasonal and cyclical needs of the business, and our cash generating capacity going forward; when making future dividend decisions, we will consider the amount of financial leverage, and therefore bank debt, we believe is appropriate given existing and expected market conditions and available business opportunities; we believe our current credit facilities are sufficient to finance our working capital needs and market expansion strategy; we intend to issue common shares from treasury to settle restricted and performance shares when they vest; we estimate about 60% of our products are used in new residential construction and the balance of our products end up in other sectors of the economy not associated with new residential construction; and we anticipate that a certain portion of required customer payments will not be made.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: there are no material exchange rate fluctuations between the Canadian and US dollar that affect our performance; the general state of the economy does not worsen; we do not lose any key personnel; there are no decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods that harm our business; we do not incur material losses related to credit provided to our customers; our products are not subjected to negative trade outcomes; we are able to sustain our level of sales and EBITDA margins; we are able to grow our business long term and to manage our growth; there is no new competition in our markets that leads to reduced revenues and profitability; we do not become subject to more stringent regulations; importation of products manufactured with hardwood lumber or sheet goods does not increase and replace products manufactured in North America; our management information systems upon which we are dependent are not impaired; our insurance is sufficient to cover losses that may occur as a result of our operations; and, the financial condition and results of operations of our business upon which we are dependent is not impaired.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: exchange rate fluctuations between the Canadian and US dollar could affect our performance; our results are dependent upon the general state of the economy; we depend on key personnel, the loss of which could harm our business; decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods could harm our business; we may incur losses related to credit provided to our customers; our products may be subject to negative trade outcomes; we may not be able to sustain our level of sales or EBITDA margins; we may be unable to grow our business long term to manage any growth; competition in our markets may lead to reduced revenues and profitability; we may become subject to more stringent regulations; importation of products manufactured with hardwood lumber or sheet goods may increase, and replace products manufactured in North America; we are dependent upon our management information systems; our insurance may be insufficient to cover losses that may occur as a result of our operations; we are dependent upon the financial condition and results of operations of our business; our credit facilities affect our liquidity, contain restrictions on our ability to borrow funds, and impose restrictions on distributions that can be made by our operating limited partnerships; our future growth may be restricted by the payout of substantially all of our operating cash flow; and, other risks described in our Annual Information Form our Information Circular and in this MD&A.

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