Management's Discussion and Analysis

November 14, 2013

This management's discussion and analysis ("MD&A") has been prepared by Hardwoods Distribution Inc. ("HDI" or the "Company") as of November 14, 2013. This MD&A covers our unaudited interim condensed consolidated financial statements as at and for the three and nine month periods ended September 30, 2013 ("Interim Financial Statements"). As well, it provides an update to the MD&A section contained in the Company's 2012 Annual Report. The information below should be read in conjunction with the Interim Financial Statements and the audited consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2012 and 2011 ("Audited Financial Statements"). Results are reported in Canadian dollars unless otherwise stated, and have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34 "Interim Financial Reporting." 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 income or cost 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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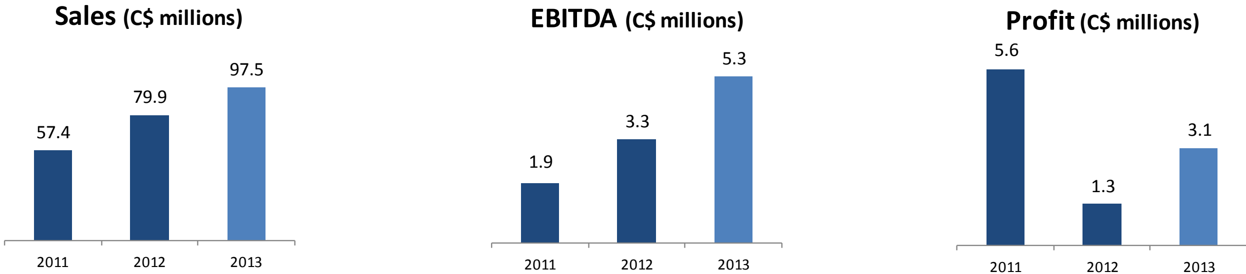
1.0 Executive Summary

1.1 Overview

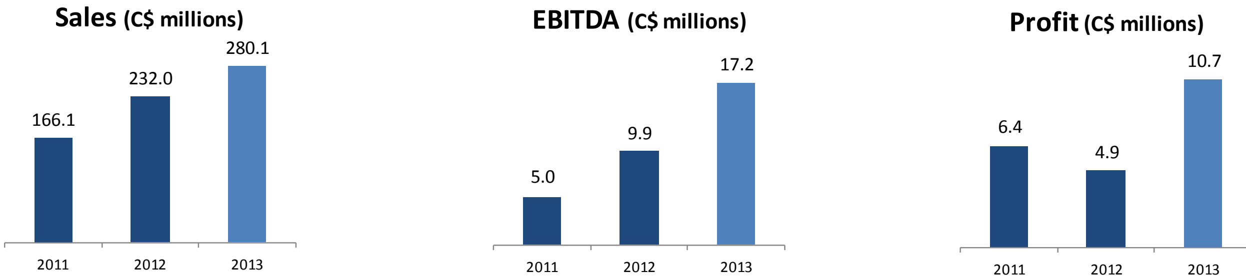
Our financial performance continued to strengthen in the third quarter as we implemented our business strategy and responded to improving market conditions.

For the three months ended September 30, 2013, revenue grew 22.1%, gross profit increased 25.6%, EBITDA was up 59.0%, and profit climbed 146.0%, compared to the same period in 2012. For the nine months ended September 30, 2013, we grew revenue by 20.8%, gross profit by 25.8%, EBITDA by 72.6% and profit by 119.7% compared to the first nine months of 2012.

Three Months Ended September 30th:



Nine Months Ended September 30th:



The recovering US residential construction market was a key factor in our year-over-year growth. According to the US Census Bureau, the seasonally adjusted annual rate of US housing averaged 887,000 starts during July and August of 2013, up 19% from 745,000 in the same period last year. With nearly three quarters of our business in the US, and approximately half of our US sales focused on new residential construction, we are well positioned to benefit from this recovery.

Our US operations successfully capitalized on the increased activity levels, increasing third quarter US sales by 22.0%, compared to the third quarter of 2012. Substantially all of this growth was organic, and it is estimated roughly half of the sales increase was driven by higher sales volumes, with the balance attributed to higher product prices. According to the Hardwood Lumber Review, average prices for hardwood lumber products were up approximately 14% in the third quarter of 2013 compared to 2012.

In contrast to the US market, the seasonally adjusted rate of Canadian housing starts was down 12.6% in the third quarter, compared to the same period last year, according to Canada Mortgage and Housing Corporation. This decline was anticipated and reflects the impact of tighter mortgage insurance rules implemented to cool the housing market. Despite the reduction in market activity, we grew third quarter Canadian sales by 9.4% year-over-year, primarily due to higher product prices.

Gross profit margin returned to a more sustainable level in the third quarter, after rising to an unusually high 18.9% in the second quarter during a period of rapid product price escalation. At 18.1%, third quarter 2013 gross profit margin was in line with our expectations, and exceeded the 17.6% we achieved during the same period in 2012. We consider a gross margin percentage of approximately 18% to be a sustainable level for our operations under normal business conditions.

Third quarter and year to date operating expenses increased year-over-year as we supported growth in our business. As a percentage of sales, however, expenses were lower than a year ago, reflecting the efficiency of our business model. EBITDA as a percentage of sales for the first nine months of the year was 6.1%, which is a strong EBITDA margin for our industry.

As we approach the final part of the 2013 year, we are fully on track with our business strategy implementation. We have been very successful in capturing growth in the recovering US residential construction market and we are making steady inroads into the commercial construction market.

Our new Leland hardwood lumber import business is also providing benefits. Acquired in the second quarter of 2013, this new business has further strengthened our import product sourcing capabilities and supports our entire branch network with access to high-margin, tropical lumber products from Africa and South America. The acquisition has also expanded our US branch

network into the US East Coast for the first time. While the new business does not generate significant revenue on a stand-alone basis, its value to Hardwoods is substantial as we leverage Leland's product sourcing expertise through all 32 of our branch locations.

Overall we are encouraged by our third quarter and nine month results. On November 14th our Board of Directors declared a quarterly dividend of $0.035 per share, payable January 31, 2014 to shareholders of record as of January 20, 2014. The Board regularly evaluates the dividend with due regard to desired financial leverage and the outlook for the business. This includes assessing cash needs to finance additional working capital to support growth of the business, the potential utilization of cash to help finance acquisition opportunities, and consideration of uncertainties facing the business.

1.2 Outlook

We anticipate that market conditions will remain strong through the balance of 2013, but that we will experience the usual seasonal fourth quarter slowdown as customer activity tapers off during the Thanksgiving and Christmas holiday periods.

Although some forecasters have become more cautious in their expectations for the pace of the continued recovery in US housing starts, most continue to predict a multi-year strengthening trend for the US residential construction market. Given that hardwood products are typically applied at the final stages of house construction (approximately 9-to-12 months after house construction starts), we expect to see higher demand for our products continuing at least through 2014.

Our short term outlook for the US market is tempered by uncertainty over the impact of the recently announced trade decision which dismissed the antidumping and countervailing duties case against imported hardwood plywood from China. We consider a period of upset conditions may arise as U.S. hardwood plywood markets adjust for this latest trade development. The rise of hardwood plywood prices in 2013 has in part reflected the impact of duties which were imposed earlier in the trade investigation. If eliminating the threat of duties results in downward pressure to U.S. hardwood plywood prices, this could reduce Hardwoods gross profit margin in the next several months while markets adjust. In contrast we are evaluating the extent to which Hardwoods may be eligible for a refund of duty deposits paid on a portion of our import purchases made from China in 2013. It is too early to determine any potential duty refund amount, as well as what impact the dismissal of the trade case against Chinese plywood will

have on short term hardwood plywood pricing and margins. In the longer term however, given our established high quality import product line from China, the dismissal of this trade case is considered very positive for Hardwoods business.

Our outlook for the Canadian market remains neutral, with 2013 housing starts expected to remain below 2012 levels following the changes to Canada's mortgage insurance rules. Growth in the Canadian renovation and commercial construction markets is expected to be modest in the 3% to 4% annual range.

Our primary goal at this point of the market cycle continues to be capturing the growth opportunity available to us from a strengthening US housing market, both in terms of sales volumes and product pricing. In addition, as we close out the third year of our successful market expansion strategy, we will continue to:

1. Leverage our ability to source high quality products from a range of international markets.
2. Strengthen our presence in commercial and institutional construction markets.
3. Solidify our presence in large geographic markets, primarily through the introduction of new products, and through the expansion of production capabilities at our Paxton branches.

Overall our outlook remains positive. We are successfully optimizing and growing the business organically, and we will continue to pursue well-priced, strategic acquisition opportunities.

2.0 Background

2.1 Company Overview

Hardwoods is one of North America's largest wholesale distributors of hardwood lumber and related sheet good products, operating a network of 32 distribution centres in the US and Canada. 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 November 14, 2013 we operated 32

distribution facilities located in 17 states and 5 provinces throughout North America. 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 one third of our product mix is made up of high-grade hardwood lumber. The balance is made up of sheet goods and other specialty products, including hardwood plywood and non-structural sheet goods such as medium-density fiberboard, particleboard and melamine-coated stock. 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.

Our 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 where 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 ends up in each sector of the economy. We estimate at least 50% 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

3.1Three Months Ended September 30, 2013 and September 30, 2012

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

	For the three months Ended September 30 2013	For the three months Ended September 30 2012	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 97,546	$ 79,862	$ 17,684	22.1%
Sales in the US (US$)	*70,081*	*57,421*	*12,660*	22.0%
Sales in Canada	*24,812*	*22,672*	*2,140*	9.4%
Gross profit	17,647	14,048	3,599	25.6%
Gross profit %	*18.1%*	*17.6%*		
Operating expenses	(12,753)	(11,047)	1,706	15.4%
Profit from operating activities	4,894	3,001	1,893	63.1%
Add: Depreciation and amortization	375	312	63	20.2%
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 5,269	$ 3,313	$ 1,956	59.0%
Add (deduct):				
Depreciation and amortization	(375)	(312)	(63)	-20.2%
Net finance cost	(372)	(574)	202	-35.2%
Income tax expense	(1,413)	(1,163)	(250)	-21.5%
Profit for the period	$ 3,109	$ 1,264	$ 1,845	146.0%
Basic and fully diluted profit per share	$ 0.19	$ 0.08		
Average Canadian dollar exchange rate for one US dollar	1.038	0.995		

Sales

For the three months ended September 30, 2013, total sales increased to $97.5 million, up 22.1% from $79.9 million during the same period in 2012. The 22.1% increase in sales reflects an 18.4% increase in underlying sales activity and product prices, plus a 3.7% increase in sales due to the positive impact of a weaker Canadian dollar. Organic growth from existing operations accounted for $16.9 million of the $17.7 million sales increase. The remaining $0.8 million in increased sales was contributed by the acquired Leland import lumber business, which we purchased on May 31, 2013.

Sales in our US operations were US$70.1 million, an increase of US$12.7 million, or 22.0%, compared to the same period last year. This growth reflects higher sales volumes related to increased demand from the US residential construction market. Product prices also increased, reflecting the shift to higher market demand, as well as the impact of newly announced duties on hardwood plywood imported from China described in section 1.2 and section 8.0 of this report.

Sales in Canada increased by $2.1 million, or 9.4%. This improvement reflects the higher product pricing, partially offset by weaker volume demand in Canada. As the majority of the products we sell originate in the United States, conditions that cause hardwood prices to increase in the US generally also result in higher selling prices in Canada.

Gross Profit

Gross profit for the three months ended September 30, 2013 was $17.6 million, an increase of $3.6 million, or 25.6%, from $14.0 million in the third quarter of 2012. This improvement reflects higher sales, together with an increase in gross profit margin. As a percentage of sales, third quarter gross profit was 18.1%, compared to 17.6% in the same period in 2012. Some quarter-to-quarter fluctuations in gross profit margin can arise in our business as a result of rapid shifts in product prices, changes in customer product mix requirements and intensity of competition. However, over the longer term we view 18% as a sustainable gross margin target for our business, while recognizing that results may fluctuate up or down based upon short-term market conditions.

Operating Expenses

Operating expenses increased $1.7 million to $12.8 million in the third quarter of 2013, from $11.0 million during the third quarter of 2012. The year-over-year increase primarily reflects additional personnel costs, warehouse expense and bad debts associated with our 22.1% increase in sales. As a percentage of sales, third quarter 2013 operating expenses improved to 13.1% of sales, from 13.8% in 2012.

EBITDA

For the three months ended September 30, 2013, EBITDA increased to $5.3 million, up $2.0 million from $3.3 million in the third quarter of 2012. This significant improvement reflects the $3.6 million increase in gross profit, partially offset by the $1.7 million increase in operating expenses.

Income Tax Expense

An income tax expense of $1.4 million was recorded in the third quarter of 2013, compared to $1.2 million in the same period in the prior year. The increase in income tax expense reflects higher taxable income generated during the three months ended September 30, 2013 compared to the same period in 2012.

Profit for the Period

Profit for the three months ended September 30, 2013 increased to $3.1 million, from $1.3 million during the same period in 2012. The $1.8 million improvement reflects the $2.0 million increase in EBITDA and a $0.2 million decrease in net finance costs, partially offset by a $0.3 million increase in income tax expense.

3.2 Nine Months Ended September 30, 2013 and September 30, 2012

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

	For the nine months Ended September 30 2013	For the nine months Ended September 30 2012	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 280,146	$ 231,954	$ 48,192	20.8%
Sales in the US (US$)	*203,528*	*164,207*	*39,321*	23.9%
Sales in Canada	*71,856*	*67,369*	*4,487*	6.7%
Gross profit	51,628	41,052	10,576	25.8%
Gross profit %	*18.4%*	*17.7%*		
Operating expenses	(35,522)	(32,038)	3,484	10.9%
Profit from operating activities	16,106	9,014	7,092	78.7%
Add: Depreciation and amortization	1,046	926	120	13.0%
Earnings before interest, taxes, depreciation and amortization (“EBITDA”)	$ 17,152	$ 9,940	$ 7,212	72.6%
Add (deduct):				
Depreciation and amortization	(1,046)	(926)	(120)	-13.0%
Net finance cost	(103)	(779)	676	86.8%
Income tax expense	(5,311)	(3,369)	(1,942)	-57.6%
Profit for the period	$ 10,692	$ 4,866	$ 5,826	119.7%
Basic and fully diluted profit per share	$ 0.65	$ 0.30		
Fully diluted profit per share	0.64	0.30		
Average Canadian dollar exchange rate for one US dollar	1.023	1.002		

Sales

For the nine months ended September 30, 2013 total sales increased to $280.1 million, from $232.0 million during the same period of 2012, an increase of $48.2 million or 20.8%. The positive impact of a weaker Canadian dollar contributed to a 1.9% increase in revenues, while higher underlying sales activity and product prices accounted for sales growth of 18.9%.

Our sales growth was predominantly driven by our US operations, where sales activity in the first nine months of 2013 increased by US$39.3 million, or 23.9%, compared to the same period in 2012. Substantially all of the sales increase came from organic growth, with just US$1.2 million attributed to sales from newly acquired operations. The strong US organic sales growth reflects

increased volume demand and stronger product pricing related to improved housing market conditions compared to a year ago, as discussed in section 1.0 of this report.

Sales in Canada for the nine months ended September 30, 2013 increased by $4.5 million, or 6.7% year-over-year, with stronger product pricing helping to offset the impact of weaker volume demand.

Gross Profit

Year-to-date gross profit increased to $51.6 million, from $41.1 million in the first nine months of 2012. The 25.8% improvement reflects increased sales and a higher gross profit margin. As a percentage of sales, gross profit increased to 18.4% in the first nine months of 2013, from 17.7% during the same period in 2012. The stronger gross profit margin reflects the short-term benefits of selling lower-cost inventory into a rising price market in 2013. Over the longer term, we view 18% to be a more typical gross profit margin percentage for our business.

Operating Expenses

Operating expenses increased $3.5 million to $35.5 million in the first nine months of 2013, from $32.0 million during the same period in 2012. This 10.9% increase was undertaken to support the 20.8% year-over-year growth in our sales. Most of the increase was made up of higher personnel expenses and increased bad debt expense associated with the increased sales activity. Bad debt expense in the current year is running at 0.6% of sales (2012 – 0.4% of sales), which is within the normal historical range for our operations. As a percentage of sales, operating expenses in the first nine months of the year were 12.7% of sales, compared to 13.8% in 2012.

EBITDA

For the nine months ended September 30, 2012, EBITDA increased to $17.2 million, from $9.9 million during the same period in 2012. The $7.2 million, or 72.6%, increase reflects the $10.6 million increase in gross profit, partially offset by the $3.5 million increase in operating expenses.

Net Finance Income (Cost)

(in thousands of Canadian dollars)		Nine months ended September 30 2013		Nine months ended September 30 2012		$ Increase (Decrease)
Finance expense:						
Interest on bank indebtedness	$	(790)	$	(569)	$	221
Accretion of finance lease obligation		(70)		(61)		9
Write-off of uncollectible interest on trade receivables		-		(46)		(46)
Foreign exchange losses		-		(412)		(412)
Total finance expense		(860)		(1,088)		(228)
Finance income:						
Interest on trade receivables						
customer notes, and employee loans		373		309		64
Foreign exchange gain		384		-		384
Total finance income		757		309		448
Net finance cost	$	(103)	$	(779)	$	(676)

Net finance cost during the first nine months of 2013 was $0.1 million, compared to a net finance cost of $0.8 million during the same period in 2012. As shown in the preceding table, the main factor in this increase was a $0.8 million increase in foreign exchange gain between the periods. This 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. During the nine months ended September 30, 2013, a weakening of the Canadian dollar resulted in a foreign exchange gain of $0.4 million on this intercompany debt, compared to a loss of $0.4 million in the comparative period in 2012.

Income Tax Expense

Income tax expense increased to $5.3 million in the first nine months of 2013, from $3.4 million in the same period in 2012. This increase primarily reflects higher taxable income.

Profit for the Period

Profit for the nine months ended September 30, 2013 increased to $10.7 million, from $4.9 million during the same period in 2012. The $5.8 million or 119.7% improvement reflects the $7.2 million increase in EBITDA and the $0.7 million decrease in net finance cost, partially offset by a $0.1 million increase in depreciation expense and the $1.9 million increase in income tax expense.

4.0 Quarterly Financial Information and Seasonality

(in thousands of dollars)	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011
Total sales	$ 97,546	$ 95,617	$ 86,983	$ 74,133	$ 79,862	$ 79,153	$ 72,939	$ 63,899
Profit (loss)	$ 3,109	$ 4,403	$ 3,180	$ 1,313	$ 1,264	$ 2,377	$ 1,225	$ (350)
Basic profit (loss) per share or unit	$ 0.19	$ 0.27	$ 0.19	$ 0.08	$ 0.08	$ 0.15	$ 0.08	$ (0.02)
Fully diluted profit (loss) per share or unit	$ 0.19	$ 0.27	$ 0.19	$ 0.08	$ 0.08	$ 0.15	$ 0.07	$ (0.02)
EBITDA	$ 5,269	$ 6,740	$ 5,143	$ 2,407	$ 3,313	$ 4,065	$ 2,562	$ 941

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 (which occurred with the import lumber business acquisition in Leland, NC during the three months ended June 30, 2013), and changes to the foreign exchange rate of the Canadian and US dollar.

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 September 30			Nine months ended September 30		
	2013	2012	$ Change	2013	2012	$ Change
Cash provided by operating activities before changes in non-cash working capital	$ 3,332	$ 2,278	$ 1,054	$ 13,070	$ 8,779	$ 4,291
Changes in non-cash working capital	17	(3,886)	3,903	(24,925)	(17,117)	(7,808)
Net cash provided by (used in) operating activities	3,349	(1,608)	4,957	(11,855)	(8,338)	(3,517)
Net cash provided by (used in) investing activities	(233)	(18)	(215)	(3,317)	54	(3,371)
Net cash provided by (used in) financing activities	(3,111)	1,630	(4,741)	15,094	7,957	7,137
Increase (decrease) in cash	5	4	1	(78)	(327)	249
Cash, beginning of period	11	61	(50)	94	392	(298)
Cash, end of period	$ 16	$ 65	$ (49)	$ 16	$ 65	$ (49)

Net cash provided by (used in) operating activities

For the three months ended September 30, 2013, cash provided by operating activities was $3.3 million, compared to cash used in operating activities of $1.6 million in the same period in 2012. Cash provided by operating activities, before changes in non-cash working capital, increased by $1.1 million. This primarily reflects the $2.0 million increase in third quarter EBITDA, partially offset by a $0.8 million increase in income taxes paid. In addition, investment in non-cash

working capital was $3.9 million lower in the third quarter of 2013 compared to the same period in the prior year. An analysis of changes in working capital is provided in section 5.2 of this report.

For the nine months ended September 30, 2013, cash used in operating activities was $11.9 million, compared to $8.3 million during the same period in the prior year. Cash provided by operating activities, before changes in non-cash working capital, increased by $4.3 million. The increase primarily reflects the $7.2 million increase in EBITDA partially offset by the $2.7 million increase in income taxes paid. Investment made in non-cash working capital increased by $7.8 million in the nine months ended September 30, 2013 compared to the prior-year period. An analysis of changes in working capital is provided in section 5.2 of this report.

Net cash provided by (used in) investing activities

Net cash used in investing activities increased by $0.2 million and $3.4 million, respectively, in the third quarter and first nine months of 2013, compared to the same periods in 2012. The $3.4 million increase in the first nine months of 2013 primarily reflects the Leland acquisition of $3.0 million made on May 31, 2013. Net cash provided by (used in) investing activities comprises cash collections on long-term receivables and proceeds from disposal of property, plant and equipment, less expenditures made on business acquisitions as well as capital expenditures made to acquire additional property, plant and equipment.

Other than our five Paxton distribution centres, our capital expenditures are typically low as we lease our buildings and 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 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.

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. Ongoing maintenance capital expenditures for our operations are anticipated to be approximately $1.0 million annually.

We also lease automobiles for the use of outside sales representatives and certain managers. For the three months ended September 30, 2013, principle payments on automobile finance lease obligation were $0.2 million (2012 - $0.2 million) and for the nine months ended September 30, 2013 were $0.6 million (2012 - $0.6 million).

Net cash provided by (used in) financing activities

Net cash used in financing activities in the third quarter of 2013 was $3.1 million, compared to net cash provided of $1.6 million the same period in 2012. This primarily reflects the $2.3 million reduction in our bank indebtedness during the third quarter as we used cash generated from operating activities to reduce our Canadian credit facility.

Net cash provided by financing activities increased by $7.1 million in the first nine months of 2013, compared to the same period in 2012. This increase primarily reflects increased bank indebtedness as we supported sales growth with higher working capital investment, together with increased bank borrowings during the second quarter of 2013 to finance the $3.0 million purchase of the Leland import lumber business.

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 $110.1 million at September 30, 2013, compared to $82.4 million at September 30, 2012. Most of this increase is attributable to our increased investment in accounts receivable and inventory to support sales growth of just over 20% in the three and nine month periods ended September 30, 2013, compared to the same periods in the prior year. It also reflects additional working capital acquired as part of the Leland acquisition.

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 and therefore demand for hardwood products decreases. 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 nine months ended September 30, 2013 and 2012 is provided below.

(in thousands of Canadian dollars) Source (use) of funds	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Accounts receivable	$ 2,325	$ (407)	$ (11,072)	$ (9,441)
Inventory	(2,214)	(4,018)	(14,658)	(9,923)
Prepaid expenses	(675)	218	(456)	(296)
Provisions	26	(9)	19	(4)
Accounts payable and accrued liabilities	555	330	1,242	2,547
Increase in non-cash operating working capital	$ 17	$ (3,886)	$ (24,925)	$ (17,117)

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 September 30, 2013	As at December 31, 2012
Cash	$ (16)	$ (94)
Bank indebtedness	42,759	24,683
Net Debt	42,743	24,589
Shareholders' equity	86,840	76,012
Total Capitalization	$ 129,583	$ 100,601
Net debt to total capitalization	33.0%	24.4%
Previous 12 months EBITDA	$ 19,559	$ 12,347
Net debt to previous 12 months EBITDA	2.2	2.0

We consider our capital to be bank indebtedness (net of cash) and shareholder’s equity. As shown above, our net debt balance increased by $18.2 million to $42.7 million at September 30, 2013, from $24.6 million at December 31, 2012. This increase in net debt primarily reflects the use of our bank lines to finance additional investment in working capital to support our higher sales, and the $3.0 million Leland acquisition completed on May 31, 2013. Overall net debt compared to total capitalization stood at 33.0% as at September 30, 2013, compared to 24.4% at December 31, 2012.

We have independent credit facilities in both Canada and the U.S. Our Canadian credit facility, which has a maturity date of August 7, 2016, provides financing up to $15.0 million. On February 15, 2013, our US credit facility was amended to increase the maximum borrowing available under the credit facility to US$45 million and to extend the maturity date to May 26,

2016. On May 31, 2013, our US credit facility was further amended to increase the maximum borrowing available to US$50 million. This amendment was undertaken concurrently with the completion of the Leland acquisition. Our credit facilities may be drawn down to meet short-term financing requirements such as fluctuations in non-cash working capital, and in the case of the Canadian credit facility, to also make capital contributions to our US operating subsidiary. The amount made available under our Canadian and US revolving credit facilities is limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Company. Credit facilities also require ongoing compliance with certain credit ratios. A summary of our credit facilities at September 30, 2013 is provided in the following table. At September 30, 2013, we had total borrowing capacity available of $22.6 million for future use, as well as to cover checks issued in excess of funds on deposit, which at September 30, 2013, amounted to $0.3 million.

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	Canadian Credit Facility	**US Credit Facility**
Maximum borrowings under credit facility	$15 million	$ 51.5 million (US$50 million)
Credit facility expiry date	August 7, 2016	May 26, 2016
Available to borrow	$ 15.0 million	$ 50.1 million (US$ 48.6 million)
Credit facility borrowings	$ 7.5 million	$ 35.0 million (US$ 34.0 million)
Unused credit facility available	$ 7.5 million	$ 15.1 million (US$ 14.6 million)
Financial covenants:		
	Covenant does not apply when the unused credit facility available exceeds $2.0 million, which it did at September 30, 2013	Covenant does not apply when the unused credit facility available exceeds US$2.5 million, which it did at September 30, 2013

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. As at September 30, 2013, our operating subsidiaries were compliant with all required credit ratios. 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 May 2016, 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 2012 Annual Report, available on SEDAR at www.sedar.com.

5.5 Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

5.6 Financial Instruments

Financial assets include cash and cash equivalents and current and long-term receivables, which are measured at amortized cost. Financial liabilities include bank indebtedness, accounts payable and accrued liabilities, income taxes payable and finance lease obligations which are measured at amortized cost. The carrying values of our cash and cash equivalents, accounts receivable, income taxes payable, accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of the instruments. The fair value of long-term 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 November 14, 2013, the date of this MD&A, we had 16,394,490 common shares issued and outstanding. In addition at November 14, 2013, 55,249 performance shares and 197,327 restricted shares were outstanding 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 third quarter of 2013, we declared a quarterly dividend of $0.035 per share, which was paid on October 31, 2013 to shareholders of record as at October 18, 2013. On November 14, 2013 we declared a quarterly dividend of $0.035 per share, payable on January 31, 2014 to shareholders of record as at January 20, 2014. 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 nine months ended September 30, 2013 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.

7.2 Adoption of New Accounting Policies

The significant accounting policies that have been used applied in the preparation of the Interim Financial Statements are summarized in our Audited Financial Statements for the year ended December 31, 2012, except as described below. We adopted the following new IFRS standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions. Several other new standards and amendments came into effect on January 1, 2013; however, they do not impact the Interim Financial Statements and are not anticipated to impact our annual consolidated financial statements.

The nature and impact of each new standard and amendment applicable to the Company are as follows:

IAS 1 Presentation of items of other comprehensive income (Amendment)

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified to profit or loss at a future point in time shall be presented separately from items that will never be reclassified. This amendment has no impact on our presentation as the components of OCI pertain only to gains or losses arising on the translation of foreign operations, for which the cumulative exchange differences would be reclassified to profit or loss on disposal of the foreign operation.

IFRS 10 Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements, to replace IAS 27, Consolidated and Separate Financial Statements, and SIC 12, Consolidation – Special Purpose Entities. The new consolidation standard changes the definition of control so that the same criteria apply to all entities, both operating and special purpose entities, to determine control. The revised definition focuses on the need to have both power and variable returns before control is present. The adoption of IFRS 10 did not result in any change in the consolidation status of any of our subsidiaries or investees.

IFRS 11 Joint Arrangements

In May 2011, the IASB issued IFRS 11, Joint Arrangements, to replace IAS 31, Interests in Joint Ventures. The new standard defines two types of arrangements: Joint Operations and Joint

Ventures. The focus of the standard is to reflect the rights and obligations of the parties involved in the joint arrangement, regardless of whether the joint arrangement operates through a separate legal entity. Joint arrangements that are classified as joint ventures are accounted for using the equity method of accounting. Joint arrangements that are classified as joint operations require the venturers to recognize the individual assets, liabilities, revenues and expenses to which they have legal rights or are responsible. The adoption of IFRS 11 did not result in any changes to our Interim Financial Statements as we have no joint arrangements.

IFRS 12 Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities, to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the disclosure requirements for unconsolidated structured entities (i.e. special purpose entities). We adopted IFRS 12 effective January 1, 2013. The adoption of IFRS 12 may result in incremental disclosures in our annual consolidated financial statements.

IFRS 13 Fair Value Measurement

In May 2011, the IASB issued IFRS 13, Fair Value Measurement, as a single source of guidance for all fair value measurements required by IFRS to reduce the complexity and improve consistency across its application. The standard provides a definition of fair value and guidance on how to measure fair value as well as a requirement for enhanced disclosures. We adopted IFRS 13 on a prospective basis effective January 1, 2013.

We have not undertaken early adoption of any other standard, interpretation or amendment in the Interim Financial Statements that have been issued, but not yet effective.

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 19, 2013, and in our Information Circular dated April 2, 2013. Both documents are available to readers at www.sedar.com.

US Trade Case:

On September 27, 2012 an unfair trade petition was filed in the United States seeking the imposition of countervailing duties ("CVD") and antidumping duties ("AD") against Chinese hardwood plywood. Hardwoods estimates approximately 14% of its total sales are of product imported from China subject to the outcomes of this trade dispute. The trade petition was brought by a coalition of U.S. plywood manufacturers, alleging that Chinese imports are sold in the United States at prices below cost and are subsidized by the Government of China. On February 27, 2013 Commerce completed the preliminary stage of its CVD investigation and imposed a preliminary CVD rate of 22.63% against most Chinese mill producers. On April 29, 2013 Commerce announced it had completed the preliminary stage of its AD duty investigation, and imposed a preliminary AD duty rate of 22.14% against most Chinese mill producers. On September 27, 2013 Commerce issued its final determinations with respect to the trade case and imposed a final CVD rate of 13.58% and final AD rate of 59.46%, for a total combined final CVD/AD duty rate of 73.04% which was scheduled to come fully into effect in late November 2013.

Under US CVD and AD legislation, provisions exist for duty rates to be applied retroactively in certain circumstances to imports made 90 days prior to the date at which preliminary CVD and AD duties were imposed. For the possibility of retroactivity to arise, the Petitioners that initiated this trade case would need to file a request that Commerce investigate if there was a surge of imports, known as "Critical Circumstances," in the 90 days prior to the imposition of preliminary duties. In the third quarter of 2013 it was confirmed that the Petitioners did not request that Commerce investigate Critical Circumstances, and accordingly there is no longer a risk of retroactive duties arising relating to the period prior to preliminary CVD and AD rates being imposed.

On November 5, 2013 a second US government agency, the International Trade Commission ("ITC"), issued a ruling which resulted in the complete dismissal of the trade case. Petitioners may file an appeal related to the ITC ruling which dismissed the trade case. As a result of the ITC ruling the Company is investigating whether it may be eligible to receive a refund of duty deposits it paid on a portion of its past product purchases from China.

U.S. Government Regulation of Trade in Imported Wood Products:

On September 26th federal authorities initiated an investigation against a large specialty retailer of hardwood flooring in North America. The investigation relates to procedures for the sourcing, harvesting and manufacturing of its products designed to comply with federal and other regulations related to the importation of wood flooring products. More specifically, we believe this investigation is focused on alleged violations of the Lacey Act on flooring product purchased from China. The Lacey Act governs, amongst other things, the importation of wood species to the US, with the objective of guarding against illegal trade in endangered wood products or habitat.

Although the specialty retailer of hardwood flooring targeted in this case is not a competitor and Hardwoods does not sell hardwood flooring, the Company does purchase imported wood products which are covered by provisions of the U.S. Lacey Act. Hardwoods has Lacey Act compliance procedures in place with respect to sourcing compliance.

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 September 30, 2013 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: that we consider a gross margin percentage of approximately 18% to be a sustainable level for our operations

under normal business conditions; that we anticipate that market conditions will remain strong through the balance of 2013, but that we will experience the usual seasonal fourth quarter slowdown as customer activity tapers off during the Thanksgiving and Christmas holiday periods; our perspective that although some forecasters have become more cautious in their expectations for the pace of the continued recovery in US housing starts, most continue to predict a multi-year strengthening trend for the US residential construction market; that given that hardwood products are typically applied at the final stages of house construction (approximately 9-to-12 months after house construction starts), we expect to see higher demand for our products continuing at least through 2014;that our short term outlook for the US market is tempered by uncertainty over the impact of the recently announced trade decision which dismissed the antidumping and countervailing duties case against imported hardwood plywood from China; that we consider a period of upset conditions may arise as U.S. hardwood plywood markets adjust for this latest trade development; that the rise of hardwood plywood prices in 2013 has in part reflected the impact of duties which were imposed earlier in the trade investigation, and if eliminating the threat of duties results in downward pressure to U.S. hardwood plywood prices, this could reduce Hardwoods gross profit margin in the next several months while markets adjust; that we are evaluating the extent to which Hardwoods may be eligible for a refund of duty deposits paid on a portion of our import purchases made from China in 2013; that it is too early to determine any potential duty refund amount, as well as what impact the dismissal of the trade case against Chinese plywood will have on short term hardwood plywood pricing and margins; that in the longer term however, given our established high quality import product line from China, the dismissal of this trade case is considered very positive for Hardwoods business; that our outlook for the Canadian market remains neutral, with 2013 housing starts expected to remain below 2012 levels following the changes to Canada's mortgage insurance rules; our view that growth in the Canadian renovation and commercial construction markets is expected to be modest in the 3% to 4% annual growth range; that our primary goal at this point of the market cycle continues to be capturing the growth opportunity available to us from a strengthening US housing market, both in terms of sales volumes and product pricing; that as we close out the third year of our successful market expansion strategy, we will continue to: (1) leverage our ability to source high quality products from a range of international markets; (2) strengthen our presence in commercial and institutional construction markets; (3) solidify our presence in large geographic markets, primarily through the introduction of new products, and through the expansion of production capabilities at our Paxton branches; our view that we are successfully optimizing and growing the business

organically, and we will continue to pursue well-priced, strategic acquisition opportunities; that we estimate at least 50% of our products are used in new residential construction, in the form of cabinets, mouldings, custom finishing, and home furniture; that 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; that we believe ongoing maintenance capital expenditures for our operations are anticipated to be approximately $1.0 million annually; that 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 May 2016, respectively; that we do not intend to restrict future dividends in order to fully extinguish our bank debt obligations upon their maturity; that 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; that 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; that we do not target a specific financial leverage amount; that we believe our current credit facilities are sufficient to finance our working capital needs and market expansion strategy.

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.