

Management's Discussion and Analysis

May 7, 2012

This management's discussion and analysis ("MD&A") has been prepared by Hardwoods Distribution Inc. ("HDI" or the "Company") as of May 7, 2012. This MD&A covers our unaudited interim condensed consolidated financial statements as at and for the three month period ended March 31, 2012 ("Interim Financial Statements"). As well, it provides an update to the MD&A section contained in the Company's 2011 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, 2011 and 2010 ("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 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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1.0 Executive Summary

1.1 Overview

We achieved strong financial results in the first quarter of 2012, with revenues, gross profit, EBITDA and profit all up significantly over 2011 levels.

Our acquisition of the Frank Paxton Lumber Company (“Paxton”), which closed on September 19, 2011, was a key factor in our improved results. The Paxton business has strengthened our presence in five key US geographic markets, while also expanding our product lines with higher-margin, value-added product offerings. In addition, we achieved solid organic growth in our existing operations through continued expansion in sales of our import product line and a growing base of commercial and institutional customer accounts.

On a consolidated basis, we grew first quarter revenue by 40.2%, gross profit by 44.1% and EBITDA by 359.1% compared to the same period last year. We also achieved a gross profit margin of 18.0%, compared to 17.5% in the first quarter of last year, reflecting the addition of higher-value products in our product mix.

These gains were achieved against a backdrop of challenging market conditions. While US housing starts increased by approximately 10.3% compared to the same period last year, the US residential construction market as a whole remains weak. According to the US Census Bureau, the seasonally adjusted annual rate of housing starts in the US at the end of March 2012 was 654,000 units, about half of what is generally considered to be a healthy market. The broader US economy also remained challenged, with high government debt and unemployment levels hampering prospects for growth.

In Canada, the housing market was comparatively solid, with the seasonally adjusted annual rate of housing starts rising to 215,600 units at the end of March 2012, compared to 205,300 in March 2011.

The Canadian dollar remained strong, trading near par with the US dollar. A strong Canadian dollar reduces the value of our US sales and earnings when translated to Canadian dollars for reporting purposes. A strong Canadian dollar also reduces the value of cash realized from our US operations when those US dollars are exchanged into Canadian dollars.

Average product prices for the first three months of 2012 were generally comparable to the same period a year ago. Prices started to strengthen slightly towards the end of the first quarter of 2012.

Overall, the growth in our financial results was driven primarily by strategic initiatives rather than by market conditions. We are confident we can continue to make progress in the current market environment. Our balance sheet remains conservative, with \$70.7 million of net current assets financed by just \$22.4 million of bank indebtedness as at March 31, 2012. We also have \$23.0 million of unused debt capacity available to finance future growth.

In recognition of our stable financial position and improving financial performance, the Board of Directors increased the amount of our quarterly dividend to shareholders by one cent and on May 7, 2012 declared a quarterly dividend of \$0.03 per share, payable on July 31, 2012 to shareholders of record on July 20, 2012. 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 and demand for our Company's products, and other factors.

1.2 Outlook

Looking forward, we anticipate that the North American economy will continue to experience a slow recovery with very gradual improvement in the US residential construction market, steady demand in Canadian housing markets, and moderately stronger gains in non-residential construction markets. Given these modest expectations for market demand, we will continue to rely on market share strategies to drive sales and increase profits.

Specifically we will seek to:

- Further strengthen our presence in the commercial and institutional construction markets, including leveraging Paxton's products and capabilities to make a broader range of products available to customers in these sectors.
- Leverage our successful import program by continuing to seek out attractive new products and introducing our branded lines of import products to Paxton's base of customers.

- Solidify and further expand our presence in the large and promising new geographic markets we have entered via the Paxton acquisition, while targeting additional growth in selected existing markets.

Key priorities in 2012 will be to build on the business platform from the acquired Paxton operations and to continue executing our business strategy, while tightly managing the business. We will also continue to evaluate acquisition opportunities that further increase shareholder value.

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”). The Company was formed in order to convert Hardwoods Distribution Income Fund (the “Fund”) from an income trust structure to a corporation. The Fund was converted to a corporation by way of a plan of arrangement effective July 1, 2011, and the Fund was wound up into HDI. 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 March 31, 2012 we operated 30 distribution facilities located in 16 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 40% 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. Historically, balanced supply and demand conditions have resulted in a stable pricing environment for hardwood lumber and hardwood plywood. More recently, global economic conditions and weaker US housing markets have resulted in supply/demand imbalances and greater variability in product pricing.

The North American economy is currently experiencing a slow recovery after a significant economic downturn in housing and construction, which are key markets for the hardwood products that we distribute. However, current levels of housing and construction activity in North America are low relative to expected longer-term population and housing trends. We believe that when a sustained economic recovery takes hold, prospects for our industry are attractive.

3.0 Results of Operations

3.1 Three Months Ended March 31, 2012 and March 31, 2011

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)					
	For the three months Ended March 31,		For the three months Ended March 31,		
	2012	2011	\$ Increase (Decrease)	% Increase (Decrease)	
Total sales	\$ 72,939	\$ 52,030	\$ 20,909	40.2%	
<i>Sales in the US (US\$)</i>	<i>51,100</i>	<i>31,840</i>	<i>19,260</i>	<i>60.5%</i>	
<i>Sales in Canada</i>	<i>21,788</i>	<i>20,642</i>	<i>1,146</i>	<i>5.6%</i>	
Gross profit	13,110	9,099	4,011	44.1%	
<i>Gross profit %</i>	<i>18.0%</i>	<i>17.5%</i>			
Operating expenses	(10,850)	(8,772)	2,078	23.7%	
Profit from operating activities	2,260	327	1,933	591.1%	
Add: Depreciation and amortization	302	231	71	30.7%	
Earnings before interest, taxes, depreciation and amortization and non-controlling interest ("EBITDA")	\$ 2,562	\$ 558	\$ 2,004	359.1%	
Add (deduct):					
Depreciation and amortization	(302)	(231)	71	30.7%	
Net finance expense	(340)	(735)	(395)	-53.7%	
Income tax expense	(695)	(293)	402	137.2%	
Profit for the period	\$ 1,225	\$ (701)	\$ 1,926	274.8%	
Basic profit per share/unit	\$ 0.08	\$ (0.05)			
Fully diluted profit per share/unit	0.07	(0.05)			
Average Canadian dollar exchange rate for one US dollar	1.001	0.986			

Sales

For the three months ended March 31, 2012, total sales increased to \$72.9 million, up 40.2% from \$52.0 million during the same period in 2011. Incremental sales from the Paxton operations, acquired in September 2011, contributed \$14.1 million, or approximately two-thirds of the increase, while organic growth from existing operations accounted for \$6.8 million, or approximately one-third of the sales increase.

The growth in organic sales reflects the success of market expansion strategies introduced in late 2010. We increased sales to the commercial and institutional construction markets as we worked to diversify our end markets, and continued to build sales for our successful line of import products.

Average product pricing in the three-month period ended March 31, 2012 was generally comparable to the same quarter a year ago, although product prices started to gain strength near the end of the quarter. It should be noted that we benefited from an additional business day during the first quarter of 2012 compared to the first quarter of the previous year.

Sales in our US operations were US\$51.1 million, an increase of US\$19.3 million or 60.5% compared to the same period in the prior year. Approximately US\$14.1 million of this growth was provided by the Paxton operations, while the remaining US\$5.2 million of the increase reflects organic sales growth. Sales in Canada, a market which has seen more stable ongoing

demand for hardwoods throughout the recent economic downturn and is not affected by the Paxton acquisition, increased by a more modest \$1.1 million or 5.6% in the first quarter.

Gross Profit

Gross profit for the three months ended March 31, 2012 was \$13.1 million, an increase of \$4.0 million, or 44.1%, from \$9.1 million in the first quarter of 2011. This improvement reflects higher sales for the period, combined with a higher gross profit margin. As a percentage of sales, first quarter gross profit increased to 18.0%, from 17.5% in the same period in 2011. The increase in gross profit margin is attributed to Paxton's in-house remanufacturing capability, which adds value to the products it sells. As a result, Paxton's product mix generates a higher average gross profit margin than Hardwoods' other product lines.

Operating Expenses

Operating expenses were \$10.9 million in the first quarter of 2012, compared to \$8.8 million during the first quarter of 2011, an increase of \$2.1 million. Incremental expenses related to the acquired Paxton operations accounted for most of this increase, partially offset by the absence of \$0.3 million of corporate conversion costs that were incurred in the first quarter of 2011, but were not repeated in the 2012 period. As a percentage of sales, first quarter 2012 operating expenses were 14.9% of sales, compared to 16.9% in 2011.

EBITDA

For the three months ended March 31, 2012, EBITDA increased to \$2.6 million, up \$2.0 million from \$0.6 million in the first quarter of 2011. The significant year-over-year improvement in EBITDA reflects the \$4.0 million increase in gross profit, partially offset by the \$2.1 million increase in operating expenses.

Net Finance Cost

(in thousands of Canadian dollars)	Three months ended March 31, 2012	Three months ended March 31, 2011	\$ Increase (Decrease)
Finance expense:			
Interest on bank indebtedness	\$ (164)	\$ (136)	\$ 28
Amortization of deferred finance cost	-	(44)	(44)
Accretion of finance lease obligation	(19)	(24)	(5)
Change in fair value of non-controlling interest	-	(574)	(574)
Write-off of uncollectible interest on trade receivables	(63)	-	63
Foreign exchange losses	(222)	(89)	133
Total finance expense	(468)	(867)	(399)
Finance income:			
Imputed interest on employee loans receivable	4	4	-
Interest on trade receivables and customer notes	124	128	(4)
Total finance income	128	132	(4)
Net finance cost	\$ (340)	\$ (735)	\$ (395)

For the three months ended March 31, 2012, net finance cost was \$0.3 million compared to \$0.7 million during the same period in 2011. The most significant factor in the decrease in net finance cost was the \$0.6 million change in the fair value of the non-controlling interest in the prior-year period, which did not occur in the current-year period. Prior to our conversion to a corporation on July 1, 2011, a non-controlling interest (“NCI”) held a 20% ownership interest in the Fund’s operating subsidiaries. The fair value of the NCI changed by \$0.6 million at the March 31, 2011 reporting date, which resulted in a finance expense of \$0.6 million in the first quarter of 2011. As the NCI no longer existed in the first quarter of 2012, no similar finance expense was incurred in the three months ended March 31, 2012.

Income Tax Expense

An income tax expense of \$0.7 million was recorded in the first quarter of 2012, compared to \$0.3 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 March 31, 2012 than in the comparable period in 2011.

Profit (loss) for the Period

Profit for the three months ended March 31, 2012 increased to \$1.2 million, from a loss of \$0.7 million during the same period in 2011. The \$1.9 million improvement reflects the \$2.0 million increase in EBITDA and the \$0.4 million decrease in net finance cost, partially offset by the \$0.4 million increase in income tax expense.

4.0 Quarterly Financial Information and Seasonality

(in thousands of dollars)	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Total sales	\$ 72,939	\$ 63,899	\$ 57,372	\$ 56,718	\$ 52,030	\$ 46,392	\$ 50,559	\$ 52,206
Profit (loss)	\$ 1,225	\$ (350)	\$ 5,605	\$ 1,511	\$ (701)	\$ (980)	\$ (147)	\$ 1,495
Basic profit (loss) per share or unit	\$ 0.08	\$ (0.02)	\$ 0.37	\$ 0.10	\$ (0.05)	\$ (0.07)	\$ (0.01)	\$ 0.10
Fully diluted profit (loss) per share or unit	\$ 0.07	\$ (0.02)	\$ 0.36	\$ 0.10	\$ (0.05)	\$ (0.07)	\$ (0.01)	\$ 0.10
EBITDA	\$ 2,562	\$ 941	\$ 1,928	\$ 2,542	\$ 558	\$ (339)	\$ 1,399	\$ 2,387

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 changes to the foreign exchange rate of the Canadian and US dollar, changes in the carrying value of deferred income tax assets (which occurred in the three months ended September 30, 2011), changes in the fair value of the non-controlling interest liability prior to July 1, 2011, and the impact of the Paxton acquisition on financial results for the third and fourth quarters of 2011 and the first quarter of 2012.

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 March 31		
	2012	2011	\$ Change
Cash provided by (used by) operating activities before changes in non-cash working capital	\$ 2,582	\$ 2,543	\$ 39
Changes in non-cash working capital	(5,466)	(1,715)	(3,751)
Net cash provided by (used in) operating activities	(2,884)	828	(3,712)
Net cash provided by investing activities	178	53	125
Net cash provided by (used in) financing activities	2,361	(736)	3,097
Increase (decrease) in cash	(345)	145	(490)
Cash, beginning of period	392	43	349
Cash, end of period	\$ 47	\$ 188	\$ (141)

Net cash used in operating activities

Cash used in operating activities was \$2.9 million in the first quarter of 2012, compared to cash provided by operating activities of \$0.8 million in the same period in 2011. Cash provided by operating activities before changes in non-cash working capital increased by \$39,000, primarily reflecting the \$2.0 million increase in first quarter EBITDA, partially offset by a \$1.8 million collection of income tax refund in the prior-year period which was not repeated in the current-year period. In addition, investment in non-cash working capital was higher by \$3.8 million in the first quarter of 2011 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.

Net cash provided by investing activities

Net cash provided by investing activities was \$0.2 million in the first quarter of 2012, largely unchanged from \$0.1 million in the same period in 2011. Net cash provided by investing activities comprises cash collections on long-term receivables and proceeds from disposal of property, plant and equipment, less capital expenditures made to acquire additional property, plant and equipment.

Prior to the Paxton acquisition, our capital expenditures were typically low as we leased all of our buildings and contracted out all freight delivery services. Capital expenditures that were made were principally for the replacement of forklifts, furniture and fixtures, leasehold improvements and computer equipment. Between 2007 and 2011, capital expenditures were lower than normal, reflecting the closure of 11 branch locations in response to weak economic

conditions. These closures freed up additional forklift capacity and reduced our need to purchase replacement forklift equipment. We also decreased many of our discretionary cash outlays for capital items during this period as we emphasized cost reduction and cash conservation. As a result, our total capital expenditures amounted to just \$0.1 million in the year ended December 31, 2010, \$0.4 million in 2011, and were \$0.1 million in the first quarter of 2012.

We also lease automobiles for the use of outside sales representatives and certain managers. For the year ended December 31, 2011, principle payments on automobile finance lease obligation were \$0.7 million (2010 - \$0.8 million). In the three months ended March 31, 2012 principle payments on automobile finance lease obligation were \$0.2 million (three months ended March 31, 2011 - \$0.2 million)

Despite the reduced spending on capital expenditures, 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 acquisition of Paxton on September 19, 2011 will increase our future maintenance capital expenditure needs. Unlike other Hardwoods distribution operations, the Paxton business requires 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 anticipate that additional annual capital expenditure requirements of approximately \$0.5 million will be associated with maintaining the productive capacity of the Paxton business.

Net cash provided by (used in) financing activities

Net cash provided by financing activities was \$2.4 million for the three months ended March 31, 2012, compared with net cash used in financing activities of \$0.7 million during the same period in 2011. The increase in cash provided by financing activities is primarily attributed to increased bank indebtedness as we supported sales growth with higher working capital investment.

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 \$72.0 million at March 31, 2012, compared to \$67.6

million at December 31, 2011 and \$52.4 million at March 31, 2011. Most of this increase is attributable to the Paxton inventory and accounts receivable we purchased as part of the acquisition, together with our own increased investment in accounts receivable 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 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 months ended March 31, 2012 and 2011 is provided below.

(in thousands of Canadian dollars)			
	Three months ended March		Three months ended March
Source (use) of funds	31, 2012		31, 2011
Accounts receivable	\$	(6,556)	\$ (5,500)
Inventory		(150)	808
Prepaid expenses		155	143
Provisions		(9)	(70)
Accounts payable and accrued liabilities		1,094	2,904
Increase in non-cash operating working capital	\$	(5,466)	\$ (1,715)

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 March 31, 2012	As at December 31, 2011
Cash and cash equivalents	\$	(47)	\$ (392)
Bank indebtedness		22,368	19,794
Net Debt	\$	22,321	\$ 19,402
Shareholders' equity		72,184	71,899
Total Capitalization	\$	94,505	\$ 91,301
Net debt to total capitalization		23.6%	21.3%

We consider our capital to be bank indebtedness (net of cash) and shareholder's equity. As shown above, our net debt balance increased by \$2.9 million to \$22.3 million at March 31, 2012, from \$19.4 million at December 31, 2011. 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. Overall net debt compared to total capitalization stood at 23.6% as at March 31, 2012, compared to 21.3% at December 31, 2011.

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 at March 31, 2012 is provided in the following table.

Selected Unaudited Consolidated Financial Information (in thousands of dollars)		
	Canadian Credit Facility	US Credit Facility
Maximum borrowings under credit facility	\$15 million	\$ 29.9 million (US\$30 million)
Credit facility expiry date	August 7, 2016	May 26, 2015
Available to borrow	\$ 14.3 million	\$ 29.9 million (US\$ 30.0 million)
Credit facility borrowings	<u>\$ 5.6 million</u>	<u>\$ 15.6 million (US\$ 15.6 million)</u>
Unused credit facility available	<u><u>\$ 8.7 million</u></u>	<u><u>\$ 14.3 million (US\$ 14.4 million)</u></u>
Financial covenants:	Covenant does not apply when the unused credit facility available exceeds \$2.0 million, which it did at March 31, 2012	Covenant does not apply when the unused credit facility available exceeds US\$2.5 million, which it did at March 31, 2012

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 March 31, 2012. 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 2015, 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 the cash generating capacity of the Company 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

The table below sets forth our contractual obligations as at March 31, 2012. These obligations relate to leases on various premises and automobiles, and become due in the fiscal years indicated.

(in thousands of Canadian dollars)						
Total	2012	2013	2014	2015	2016	2017 and thereafter
\$ 18,189	\$ 4,557	\$ 5,132	\$ 4,261	\$ 2,732	\$ 1,322	\$ 185

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, current and long-term receivables and income taxes recoverable which are measured at amortized cost. Financial liabilities include bank indebtedness, and accounts payable and accrued liabilities, income taxes payable and finance lease obligations which are measured at amortized cost. The carrying values of the Company's

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 rate being charged. 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 May 7, 2012, the date of this MD&A, we had 16,176,087 common shares issued and outstanding. In addition at May 7, 2012 we have outstanding 65,581 performance shares and 219,442 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 first quarter of 2012, we declared a quarterly dividend of \$0.02 per share, which was paid on April 30, 2012 to shareholders of record as at April 20, 2012. On May 7, 2012 we declared a quarterly dividend of \$0.03 per share, payable on July 31, 2012 to shareholders of record as at July 20, 2012. The Board regularly assesses the Company's 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 and demand for our Company's products, and other factors.

6.0 Related Party Transactions

Two of our Company directors are senior officers of Sauder Industries Limited ("SIL"). For the three months ended March 31, 2012, sales of \$0.1 million were made to affiliates of SIL, and purchases of \$20,000 were made from affiliates of SIL. These sales and purchases took place at prevailing market prices.

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.

Valuation of Inventories: We anticipate that the net realizable value of our inventory could be affected by market shifts or damage to our products. Our inventory is valued at the lower of cost and net realizable value.

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 Standards

We note that the standard-setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that we have selected. The impact of any new IFRS standards or interpretations will be evaluated as they are drafted and published. New standards and interpretations that have been identified but have yet to be adopted are:

IFRS 9 - Financial Instruments

In November 2009, the IASB issued IFRS 9 - *Financial Instruments*, which is the first step in its project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 establishes the measurement and classification of financial assets. Under IFRS 9, financial assets are measured either at fair value through earnings or at amortized cost if certain

conditions are met. The effective date of this standard is January 1, 2015, but early adoption is permitted. We will apply this standard to our financial statements beginning on January 1, 2015. We are currently evaluating the impact of IFRS 9 on our financial statements.

IFRS 10 – Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 – *Consolidated Financial Statements*. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The effective date of this standard is January 1, 2013, but early adoption is permitted. We will apply this standard to our financial statements beginning on January 1, 2013. The adoption of IFRS 10 is not expected to have a significant impact on our consolidated financial statements.

IFRS 12 – Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 – *Disclosure of Interests in Other Entities*. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The effective date of this standard is January 1, 2013, but early adoption is permitted. We will apply this standard to our financial statements beginning on January 1, 2013. The Company is currently evaluating the impact of IFRS 12 on its financial statements.

IFRS 13 – Fair Value Measurement

In May 2011, the IASB issued IFRS 13 – *Fair Value Measurement*. The objective of IFRS 13 is to define fair value, set out in a single IFRS framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. The effective date of this standard is January 1, 2013, but early adoption is permitted. We will apply this standard to our financial statements beginning on January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its 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 identified significant risks that we were aware of in our Annual Information Form dated March 9, 2012,

and in our Information Circular dated March 28, 2012. 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.

Our management has limited the scope of its design of DC&P and ICFR to exclude controls, policies and procedures of Paxton, which we acquired on September 19, 2011. For the quarter ended March 31, 2012, Paxton accounted for \$14.1 million of our consolidated revenues and \$0.4 million of our profit. As at March 31, 2012, Paxton accounted for \$11.4 million of our current assets, \$3.9 million of our non-current assets, \$0.9 million of our current liabilities and nil of our non-current liabilities.

There have been no changes in our ICFR during the quarter ended March 31, 2012 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: Our belief that we can continue to make progress in the current market environment; our belief that our balance sheet remains conservative; our perspective that the North American economy will continue to experience a slow recovery with very gradual improvement in the US residential construction market, steady demand in Canadian housing markets, and moderately stronger gains in non-residential construction markets; our perspective that given these modest expectations for market demand, we will continue to rely on market share strategies to drive sales and increase

profits; our intention to further strengthen our presence in the commercial and institutional construction markets, including leveraging Paxton's products and capabilities to make a broader range of products available to customers in these sectors; our intention to leverage our successful import program by continuing to seek out attractive new products and introducing our branded lines of import products to Paxton's base of customers; our intention to solidify and further expand our presence in the large and promising new geographic markets we have entered via the Paxton acquisition, while targeting additional growth in selected existing markets; that our key priorities in 2012 will be to build on the business platform from the acquired Paxton operations and to continue executing our business strategy, while tightly managing the business; our intention to continue to evaluate acquisition opportunities that further increase shareholder value; our belief that current levels of housing and construction activity in North America are low relative to expected longer-term population and housing trends; our believe that when a sustained economic recovery takes hold, prospects for our industry are attractive; our perspective that despite reduced spending on capital expenditures in 2010 and 2011, we have made sufficient expenditures to sustain productive capacity of our business as it relates to our needs for property, plant and equipment; our perspective that our acquisition of Paxton on September 19, 2011 will increase our future maintenance capital expenditure needs; that we anticipate that additional annual capital expenditure requirements of approximately \$0.5 million will be associated with maintaining the productive capacity of the Paxton business; 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 2015, respectively; that we do not intend to restrict future dividends in order to fully extinguish our bank debt obligations upon their maturity; our perspective 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 the cash generating capacity of the Company going forward; our intention 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; and 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.