Management's Discussion and Analysis

May 14, 2014

This management's discussion and analysis ("MD&A") has been prepared by Hardwoods Distribution Inc. ("HDI" or the "Company") as of May 14, 2014. This MD&A covers our unaudited interim condensed consolidated financial statements as at and for the three-month period ended March 31, 2014 ("Interim Financial Statements"). As well, it provides an update to the MD&A section contained in our 2013 Annual Report. The information below should be read in conjunction with our Interim Financial Statements and the audited consolidated financial statements and accompanying notes for the years ended December 31, 2013 and 2012 ("Audited Financial Statements"). Results are reported in Canadian dollars unless otherwise stated, and have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting" as permitted by International Financial Reporting Standards ("IFRS"). For additional information, readers should also refer to our Annual Information Form and other information filed on www.sedar.com.

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

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

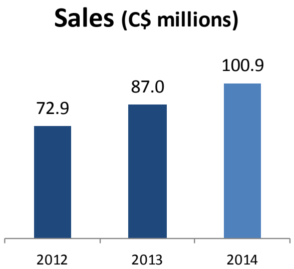
Contents

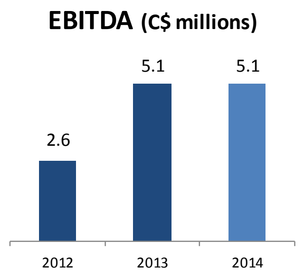
This MD&A includes the following sections:

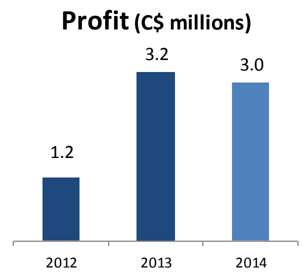
1.0 Executive Summary

1.1 Overview

We achieved record sales results in the first quarter of 2014, breaking the $100 million quarterly mark for the first time in our history. This result was achieved despite extreme weather conditions which forced multi-day closures at a number of our US branches, and reflects the strong momentum in our business.







Our sales growth continues to be supported by the ongoing recovery in the US residential construction market. According to the US Census Bureau, in the twelve months ended March 31, 2014 construction started on new housing units was up 10% compared to the same period in the prior year. With approximately 75% of our business in the US, and approximately 60% of our US sales focused on new residential construction, we are benefiting from this recovery. In the Canadian market, as at March 31, 2014 housing starts decreased by 16% on a seasonally adjusted annual basis, compared to the same period a year earlier.

First quarter sales results were further supported by the 10% year-over-year decline in the value of the Canadian dollar relative to the US dollar. A weaker Canadian dollar benefits HDI by: (i) increasing the value of sales and profits earned in our US operations when translated into Canadian dollars for financial reporting purposes; (ii) increasing the selling price of US dollar-denominated products sold to our Canadian customers; and (iii) improving the export competitiveness of our Canadian industrial customers, many of whom have the capability to sell their manufactured products in the US.

Average hardwood lumber product prices were 24% higher in the first quarter of 2014, compared to the same period in 2013, as measured by the Hardwood Review's kiln dried lumber index. Higher prices for hardwood lumber helped offset weaker pricing for other products in our import plywood line. Weaker year-over-year pricing for some import plywood products reflects the impact of preliminary duties of 22% that were added to the price of Chinese plywood imports in February of 2013 due to a trade dispute in the US, but did not apply in the first quarter of the current year period because the trade case was subsequently dismissed.

First quarter gross profit increased by $2.4 million in 2014, reflecting higher sales and a strong gross profit margin. At 18.1%, gross profit margin was well within our target level, but slightly below the 18.3% achieved in the first quarter of 2013 when we benefited from rapid product price escalation. We consider a gross margin percentage of approximately 18.0% to be a sustainable level for our operations under normal business conditions.

First quarter expenses increased by $2.5 million year over year as we increased investment in our operations to support existing and future sales growth, and to support strategic initiatives, including our “Leverage Imports” and “Strengthen Commercial” strategies which are discussed in more detail in section 1.2 of this report.

EBITDA remained steady at $5.1 million, with the higher gross profit in the first quarter of 2014 period fully offset by the increase in expenses. First quarter 2014 profit declined by $0.2 million year over year, primarily reflecting the flat EBITDA result together with increased depreciation and decreased net finance income.

Subsequent to the quarter end, we announced the acquisition of Hardwoods of Michigan Inc (“HMI”), a fully integrated producer and exporter of high-quality, value-added hardwood lumber based in Clinton, Michigan. HMI represents an attractively priced acquisition that is well-timed to the ongoing recovery in the US housing market. That addition of HMI broadens our customer base and is expected to provide an anticipated $33 million annually in new revenues, while also increasing cross-selling opportunities for our established lines of import products. HMI also strengthens the expertise in value-added manufacturing we have developed since acquiring the Frank Paxton Lumber Company in 2011.

In conjunction with the HMI transaction, we increased the size of our US credit facilities from US$50.0 million to US$79.1 million and extended the term of the facilities to April 27, 2017. The amended facility enabled us to finance the transaction, while still providing sufficient unused borrowing availability to pursue our growth strategy.

On May 14, 2014, our Board of Directors declared a quarterly dividend of $0.045 per share, payable July 31, 2014 to shareholders of record as of July 18, 2014.

1.2 Outlook

We anticipate continued strength in sales in the second quarter of 2014, supported by momentum in US market demand and product pricing, implementation of our business strategies, the positive foreign exchange impact of a weaker Canadian dollar, and the addition of the HMI business. Second quarter gross profit margin is expected to be within our normal target range, but is not expected to match the unusually high 18.9% margin we achieved in the second quarter of 2013 during a period of rapid product price escalation.

Market forecasters indicate continued recovery in the US residential construction market, with US housing starts expected to increase from 0.924 million starts in 2013 to 1.145 million starts in 2014 (+24%) according to the National Association of Homebuilders. The outlook for the US repair and remodeling market remains positive with growth of over 10% forecast for 2014 by Harvard's Joint Center for Housing Studies. Indicators for commercial construction are for steady mid-single digit growth in 2014.

In the Canadian market, 2014 housing starts are expected to remain unchanged from 2013 levels, while growth in the renovation and commercial construction markets is expected to be in line with inflation.

Our goal in 2014 continues to be to capture the growth potential in the US market, both in terms of sales volume and product pricing. We will also focus on successfully integrating the newly acquired HMI business. In addition, we are actively pursuing our "Leverage Imports" and "Strengthen Commercial" strategies which focus on:

- Growing sales of Hardwoods' high-quality proprietary import lines, supported both by the established quality assurance team located in Asia and new international sourcing initiatives designed to bring world-wide product solutions to our customers.

- Capitalizing on significant opportunities in the commercial market. In particular, we are growing our supply of first-tier product supply for commercial customers. We are also capitalizing on our import capabilities to offer off-shore product solutions to the commercial sector to supplement domestic product solutions.

Our Board of Directors will continue to review our financial performance and assess dividend levels on a regular basis. However in terms of cash utilization, our primary focus in 2014 will remain on retaining the cash necessary to finance the significant market opportunity to grow in the US, and to keep our balance sheet strong to support strategic acquisitions.

2.0 Background

2.1 Company Overview

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

2.2 Business and Industry Overview

Serving customers for over 50 years, Hardwoods is one of North America’s largest distributors of high-grade hardwood lumber and specialty sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. At March 31, 2014 we operated 32 distribution facilities located in 17 states and 5 provinces throughout North America. Five of these facilities include light manufacturing capabilities to create customer moulding and millwork packages for our customers. 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. On April 28, 2014 we acquired HMI, an integrated hardwood sawmill and kiln drying operation located in Michigan, which will expand our business and further enhance our capabilities to provide value-added wood processing solutions to our customer base.

In the first quarter of 2014, approximately 58% of our sales were made up of hardwood plywood and non-structural sheet goods such as medium-density fiberboard, particleboard and melamine-coated stock. Approximately 34% of our sales were of high-grade hardwood lumber. Our sheet goods and lumber are complementary product lines; both are key products used by our customers in the manufacture of their end-use products. The balance of our product sales, about 8%, was made up of other specialty products.

We 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 about 60% of our products are used in new residential construction, in the form of cabinets, mouldings, custom finishing, and home furniture. We believe the balance of our products end up in other sectors of the economy not associated with new residential construction, such as home renovations, finishing millwork for office buildings, restaurant and bar interiors, hotel lobbies, retail point-of-purchase displays, schools, hospitals, custom motor coaches, yacht interiors and other specialty areas.

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

3.0 Results of Operations

3.1Three Months Ended March 31, 2014 and March 31, 2013

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)	For the three months Ended March 31 2014	For the three months Ended March 31 2013	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 100,934	$ 86,983	$ 13,951	16.0%
Sales in the US (US$)	*69,541*	*63,912*	*5,629*	8.8%
Sales in Canada	*24,189*	*22,560*	*1,629*	7.2%
Gross profit	18,263	15,900	2,363	14.9%
Gross profit %	*18.1%*	*18.3%*		
Operating expenses	(13,598)	(11,086)	2,512	22.7%
Profit from operating activities	4,665	4,814	(149)	-3.1%
Add: Depreciation and amortization	438	329	109	33.1%
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 5,103	$ 5,143	$ (40)	-0.8%
Add (deduct):				
Depreciation and amortization	(438)	(329)	(109)	-33.1%
Net finance income	65	167	(102)	-61.1%
Income tax expense	(1,765)	(1,801)	36	2.0%
Profit for the period	$ 2,965	$ 3,180	$ (215)	-6.8%
Basic and fully diluted profit per share	$ 0.18	$ 0.19		
Average Canadian dollar exchange rate for one US dollar	1.104	1.008		

Sales

For the three months ended March 31, 2014, total sales increased to $100.9 million, up 16.0% from $87.0 million during the same period in 2013. The year-over-year sales improvement includes a 7.6% increase due to stronger underlying sales activity and higher product prices, together with an 8.4% increase due to the positive impact of a weaker Canadian dollar.

Organic growth from existing operations accounted for approximately $12.9 million, or 92% of the sales increase. The Leland import business, which was acquired on May 31, 2013, contributed an additional $1.1 million, or 8%, of the sales growth.

First quarter sales in the United States increased by US$5.6 million, or 8.8%, compared to the same period in 2013. Our US sales growth was negatively impacted by extreme weather conditions in the US Midwest and US South, which contributed to lost sales days for some of our branch locations. In the US regions impacted by the unusually severe weather, first quarter sales declined by 7.4% (-US$1.7m) year over year. In the US regions not affected by severe weather, sales increased by 17.8% (+US$7.3m), reflecting continued strength in hardwood lumber prices and ongoing recovery in the US housing market.

Sales in Canada increased by $1.6 million, or 7.2%, in 2014 compared to 2013. This improvement reflects higher product pricing, as well as the positive impact of a weaker Canadian dollar. A depreciation of the Canadian dollar against the US dollar results in the value of product purchased from suppliers in the US being resold in Canada at higher prices, thereby increasing our Canadian sales.

Gross Profit

Gross profit for the three months ended March 31, 2014 increased 14.9% to $18.3 million, from $15.9 million in the first quarter of 2013. This $2.4 million improvement reflects the higher sales for the period, partially offset by a lower gross profit margin. As a percentage of sales, first quarter gross profit margin was 18.1%, compared to 18.3% last year. The slightly higher gross profit margin in the first quarter of 2013 was achieved at a time when product prices for hardwood plywood products were increasing rapidly, due to imposition of preliminary duties against Chinese plywood imported into the US. That trade case was eventually dismissed in November of 2013, but caused unusual variation in panel pricing and therefore margins during the course of the prior year.

Operating Expenses

Operating expenses increased to $13.6 million in the first quarter of 2014, from $11.1 million during the same period last year. The $2.5 million increase primarily reflects $1.8 million in initiatives designed to support existing and anticipated sales growth. These included higher personnel and premises costs and investments in the rollout of our growth strategy. Bad debt expense increased by $0.3 million, reflecting a return to a more typical level following an unusually low bad debt level in the first quarter of 2013. A weaker Canadian dollar accounted for an additional $0.2 million of the increased costs, and incremental expenses from the Leland operation acquired in May 2013 accounted for $0.2 million of the increase. As a percentage of sales, operating expenses were 13.5% of sales in the three months ended March 31, 2014 compared to 12.7% in the same period in 2013.

EBITDA

EBITDA was $5.1 million in the first quarter of 2014 and 2013. This reflects the increase in gross profit being fully offset by increased operating expense in the current period.

Profit for the Period

Profit for the three months ended March 31, 2014 was $3.0 million, compared to $3.2 million during the same period in 2013. The flat year-over-year EBITDA result, together with a $0.1 million increase in depreciation and a $0.1 million decrease in net finance income accounted for the year-over-year change.

4.0 Quarterly Financial Information and Seasonality

(in thousands of dollars)	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Total sales	$ 100,934	$ 91,069	$ 97,546	$ 95,617	$ 86,983	$ 74,133	$ 79,862	$ 79,153
Profit	2,965	2,375	3,109	4,403	3,180	1,313	1,264	2,377
Basic profit per share	0.18	0.14	0.19	0.27	0.19	0.08	0.08	0.15
Fully diluted profit per share	0.18	0.14	0.19	0.27	0.19	0.08	0.08	0.15
EBITDA	5,103	4,216	5,269	6,740	5,143	2,407	3,313	4,065

The preceding table provides selected quarterly financial information for our eight most recently completed fiscal quarters. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in our opinion, necessary to present a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. Historically, the first and fourth quarters have been seasonally slower periods for our business. In addition, net earnings reported in each quarter may be impacted by acquisitions, such as our second quarter 2013 acquisition of the import lumber business acquisition in Leland, NC, 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 March 31**		
	2014	**2013**	**$ Change**
Cash provided by operating activities before changes in non-cash working capital	$ 3,913	$ 4,514	$ (601)
Changes in non-cash working capital	(11,662)	(13,937)	2,275
Net cash used in operating activities	(7,749)	(9,423)	1,674
Net cash provided by (used in) investing activities	(219)	80	(299)
Net cash provided by financing activities	7,914	9,271	(1,357)
Increase (decrease) in cash	(54)	(72)	18
Cash, beginning of period	78	94	(16)
Cash, end of period	$ 24	$ 22	$ 2

Net cash used in operating activities

For the three months ended March 31, 2014, net cash used in operating activities was $7.7 million, compared to $9.4 million in the same period in 2013, a decrease of $1.7 million. Cash provided by operating activities before changes in non-cash working capital decreased by $0.6 million year over year, reflecting that while EBITDA was unchanged between the two periods, income taxes paid increased by $0.6 million. Investment in non-cash working capital decreased by $2.3 million in the first quarter of 2014 compared to the first quarter of 2013, reflecting more efficient collection of accounts receivable and utilization of trade accounts payable. 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 was $0.2 million in the first quarter of 2014. By comparison, net cash provided by investing activities was $0.1 million in the same period in 2013. The year-over-year increase in net cash used in investing activities primarily reflects higher capital expenditures in the first quarter of 2014 compared to the prior year period. 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 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 related to our operations as at March 31, 2014 are estimated to be approximately $1.0 million annually. The newly acquired HMI operations will require additional capital expenditures, estimated in the range of $0.6 million annually.

We also lease automobiles for the use of outside sales representatives and certain managers. For the three months ended March 31, 2014, principle payments on automobile finance lease obligation were $0.2 million (2013 - $0.2 million).

Net cash provided by financing activities

For the three months ended March 31, 2014 net cash provided by financing activities was $7.9 million, compared to $9.3 million during the same period in 2013. This is primarily attributed to a smaller increase in bank indebtedness, arising due to less being invested in non-cash working capital in the three months ended March 31, 2014 compared to the same period in the prior year.

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 $112.8 million as at March 31, 2014, compared to $98.4 million at December 31, 2013 and $95.3 million at March 31, 2013. Most of this increase is attributable to increased investment in accounts receivable and inventory to support sales growth.

Our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers. Historically the first and fourth quarters are seasonally slower periods for construction activity, resulting in reduced demand for hardwood products. As a result, sales and working capital requirements may be lower in these quarters. A summary of changes in our non-cash operating working capital during the three months ended March 31, 2014 and 2013 is provided below.

(in thousands of Canadian dollars)				
Source (use) of funds		**Three months ended March 31, 2014**		**Three months ended March 31, 2013**
Accounts receivable	$	(7,426)	$	(9,525)
Inventory		(6,211)		(5,116)
Prepaid expenses		146		224
Accounts payable, accrued liabilities and provisions		1,829		480
Increase in non-cash operating working capital	$	(11,662)	$	(13,937)

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, 2014		**As at December 31, 2013**
Cash	$	(24)	$	(78)
Bank indebtedness		37,539		27,881
Net Debt		37,515		27,803
Shareholders' equity		95,355		90,683
Total Capitalization	$	132,870	$	118,486
Net debt to total capitalization		28.2%		23.5%
Previous 12 months EBITDA	$	21,328	$	21,368
Net debt to previous 12 months EBITDA		1.8		1.3

We consider our capital to be bank indebtedness (net of cash) and shareholders’ equity. As shown above, our net debt balance increased by $9.7 million to $37.5 million at March 31, 2014, from $27.8 million at December 31, 2013. The increase in net debt primarily reflects the use of our bank lines to finance the additional investment in working capital required to support higher sales. Overall net debt compared to total capitalization stood at 28.2% as at March 31, 2014, compared to 23.5% at December 31, 2013. At March 31, 2014 our ratio of net debt-to-EBITDA for the previous 12 months was 1.8 times, compared to 1.3 times at December 31, 2013. Net debt-to-EBITDA and net debt to total capitalization serve as indicators of our financial leverage, however they are not measures prescribed by IFRS and our method of calculating these measures may differ from methods used by other issuers.

We have independent credit facilities in both Canada and the U.S. Our Canadian credit facility which has a maturity date of August 7, 2016, provides financing up to $15.0 million. In the three month period ended March 31, 2014 we had a US credit facility with a maturity date of May 26, 2016 providing financing of up to US$50.0 million. Subsequent to the first quarter, on April 28, 2014, we amended our US credit facility to increase the maximum borrowing available to US$79.1 million and extend the maturity date to April 27, 2017. The expanded US credit facility was utilized to acquire HMI for US$15.4 million on April 28, 2014, as discussed in section 1.1 of this report. 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, 2014 is provided in the following table. At March 31, 2014 the Company had total borrowing capacity available of $28.6 million for future use, and to cover checks issued in excess of funds on deposit which were $1.1 million at March 31, 2014.

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	Canadian Credit Facility	**US Credit Facility**
Maximum borrowings under credit facility	$15 million	$ 53.2 million (US$50 million)
Credit facility expiry date	August 7, 2016	May 26, 2016
Available to borrow	$ 15.0 million	$ 50.0 million (US$ 45.2 million)
Credit facility borrowings	$ 7.1 million	$ 29.3 million (US$ 26.5 million)
Unused credit facility available	$ 7.9 million	$ 20.7 million (US$ 18.7 million)
Financial covenants:		
	Covenant does not apply when the unused credit facility available exceeds $2.0 million, which it did at March 31, 2014	Covenant does not apply when the unused credit facility available exceeds US$2.5 million, which it did at March 31, 2014

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, 2014.

Accordingly there were no restrictions on dividends arising from non-compliance with financial covenants.

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

5.4 Contractual Obligations

There were no significant changes in our contractual commitments outside of the normal course of business, compared with those set forth in the Company's 2013 Annual Report, available on SEDAR at www.sedar.com.

5.5 Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

5.6 Financial Instruments

Financial assets include cash and 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 May 14, 2014, the date of this MD&A, we had 16,539,378 common shares issued and outstanding. In addition, at May 14, 2014 we had outstanding 38,001 performance shares and 172,075 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 2014, we declared a quarterly dividend of $0.045 per share, which was paid on April 30, 2014 to shareholders of record as at April 18, 2014. On May 14, 2014 we declared a quarterly dividend of $0.045 per share, payable on July 31, 2014 to shareholders of record as at July 18, 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 months ended March 31, 2014 or in the comparative period 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

There were no new standards effective January 1, 2014 that have an impact on the Company's Interim Financial Statements. The following new standards and interpretations have not yet been adopted:

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

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

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

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

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 10, 2014, and in our Information Circular dated March 28, 2014. Both documents are available to readers at www.sedar.com.

In March 2014 certain trade sanctions were imposed against Russia, in response to Russia's actions in the Crimean peninsula of Ukraine. Approximately 2% of our sales are of product that is sourced from Russia. The limited sanctions imposed on Russia have not impacted our purchases from Russia. However we are closely monitoring developments in Ukraine that may lead to additional trade sanctions that could affect future sourcing of Russian product for resale in North America.

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 March 31, 2014 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 anticipate continued strength in sales in the second quarter of 2014, supported by momentum in

US market demand and product pricing, implementation of our business strategies, the positive foreign exchange impact of a weaker Canadian dollar, and the addition of the HMI business; that second quarter gross profit margin is expected to be within our normal target range, but is not expected to match the unusually high 18.9% margin we achieved in the second quarter of 2013 during a period of rapid product price escalation; that market forecasters indicate continued recovery in the US residential construction market, with US housing starts expected to increase from 0.924 million starts in 2013 to 1.145 million starts in 2014 (+24%) according to the National Association of Homebuilders; that the outlook for the US repair and remodeling market remains positive with growth of over 10% forecast for 2014 by Harvard's Joint Center for Housing Studies; that indicators for commercial construction are for steady mid-single digit growth in 2014; that in the Canadian market, 2014 housing starts are expected to remain unchanged from 2013 levels, while growth in the renovation and commercial construction markets is expected to be in line with inflation; that our goal in 2014 continues to be to capture the growth potential in the US market, both in terms of sales volume and product pricing, as well as to successfully integrate the newly acquired HMI business; that we are actively pursuing our "Leverage Imports" and "Strengthen Commercial" strategies which focus on growing sales of Hardwoods' high-quality proprietary import lines, and capitalizing on significant opportunities in the commercial market; that our Board of Directors will continue to review our financial performance and assess dividend levels on a regular basis; that in terms of cash utilization, our primary focus in 2014 will remain on retaining the cash necessary to finance the significant market opportunity to grow in the US, and to keep our balance sheet strong to support strategic acquisitions; that we estimate about 60% 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 we have made sufficient expenditures to sustain productive capacity of our business as it relates to our needs for property, plant and equipment; that ongoing maintenance capital expenditures related to our operations as at March 31, 2014 are estimated to be approximately $1.0 million annually and the newly acquired HMI operations will require additional capital expenditures, estimated in the range of $0.6 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 April 2017, 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; and that we are closely monitoring developments in Ukraine that may lead to additional trade sanctions that could affect future sourcing of Russian product for resale in North America.

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.