

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

HARDWOODS DISTRIBUTION INC.

Three month periods ended March 31, 2015 and 2014

HARDWOODS DISTRIBUTION INC.

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

	Note	March 31, 2015	December 31, 2014
Assets			
Current assets:			
Cash		\$ -	\$ 13
Accounts receivable	6	60,762	46,127
Inventories	7	96,023	85,401
Prepaid expenses		1,747	1,951
Total current assets		158,532	133,492
Non-current assets:			
Long-term receivables	6	914	1,253
Property, plant and equipment		14,787	13,764
Deferred income taxes		12,148	12,277
Intangible asset		31	27
Total non-current assets		27,880	27,321
Total assets		\$ 186,412	\$ 160,813
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	8	\$ 47,230	\$ 35,371
Accounts payable and accrued liabilities		13,218	9,682
Income taxes payable		322	1,383
Finance lease obligation		1,085	1,024
Dividend payable	5	749	744
Total current liabilities		62,604	48,204
Non-current liabilities:			
Bank indebtedness	8	3,292	3,371
Finance lease obligation		747	749
Total non-current liabilities		4,039	4,120
Total liabilities		66,643	52,324
Shareholders' equity:			
Share capital	9(a)	45,830	45,830
Contributed surplus		105,270	105,154
Deficit		(46,035)	(49,999)
Accumulated other comprehensive income		14,704	7,504
Shareholders' equity		119,769	108,489
Total shareholders' equity and liabilities		\$ 186,412	\$ 160,813

Subsequent events (note 5)

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

Approved on behalf of the board of directors:

(Signed) GRAHAM M. WILSON Director

(Signed) TERRY M. HOLLAND Director

HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Interim Statements of Comprehensive Income
(Expressed in thousands of Canadian dollars)

Three month periods ended March 31, 2015 and 2014

	Note	2015	2014
Sales	11	\$ 135,116	\$ 100,934
Cost of sales	7	(112,053)	(82,671)
Gross profit		23,063	18,263
Operating expenses:			
Selling and distribution		(12,305)	(11,005)
Administration		(3,683)	(2,593)
		(15,988)	(13,598)
Profit from operating activities		7,075	4,665
Finance expense	10	(364)	(245)
Finance income	10	600	310
Net finance income		236	65
Profit before income taxes		7,311	4,730
Income tax expense:			
Current		(1,866)	(1,394)
Deferred		(732)	(371)
		(2,598)	(1,765)
Profit for the period		4,713	2,965
Other comprehensive income:			
Exchange differences translating foreign operations		7,200	2,345
Total comprehensive income for the period		\$ 11,913	\$ 5,310
Basic profit per share	9(c)	\$ 0.28	\$ 0.18
Diluted profit per share	9(c)	0.28	0.18

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

HARDWOODS DISTRIBUTION INC.

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

Three month periods ended March 31, 2015 and 2014

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income - translation reserve	Deficit	Total
Balance at January 1, 2014		\$ 45,298	\$ 104,911	\$ 1,505	\$ (61,031)	\$ 90,683
Share based compensation expense	9(b)	-	111	-	-	111
Profit for the period		-	-	-	2,965	2,965
Dividends declared		-	-	-	(749)	(749)
Translation of foreign operations		-	-	2,345	-	2,345
Balance at March 31, 2014		\$ 45,298	\$ 105,022	\$ 3,850	\$ (58,815)	\$ 95,355
Balance at January 1, 2015		\$ 45,830	\$ 105,154	\$ 7,504	\$ (49,999)	\$ 108,489
Share based compensation expense	9(b)	-	116	-	-	116
Profit for the period		-	-	-	4,713	4,713
Dividends declared		-	-	-	(749)	(749)
Translation of foreign operations		-	-	7,200	-	7,200
Balance at March 31, 2015		\$ 45,830	\$ 105,270	\$ 14,704	\$ (46,035)	\$ 119,769

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

HARDWOODS DISTRIBUTION INC.

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

Three month periods ended March 31, 2015 and 2014

	Note	2015	2014
Cash flows from operating activities:			
Profit for the period		\$ 4,713	\$ 2,965
Adjustments for:			
Depreciation and amortization		571	438
Loss (gain) on sale of property, plant and equipment		1	(1)
Non-cash employee share based compensation	9(b)	116	111
Income tax expense		2,598	1,765
Net finance income		(236)	(65)
Interest received		94	100
Interest paid		(336)	(233)
Income taxes paid		(2,926)	(1,167)
		4,595	3,913
Changes in non-cash working capital:			
Accounts receivable		(10,844)	(7,426)
Inventories		(4,263)	(6,211)
Prepaid expenses		332	146
Accounts payable, accrued liabilities and provisions		2,650	1,829
		(12,125)	(11,662)
Net cash used in operating activities		(7,530)	(7,749)
Cash flow from financing activities:			
Increase in bank indebtedness		8,878	8,708
Principal payments on finance lease obligation		(264)	(215)
Dividends paid to shareholders	5	(749)	(579)
Net cash provided by financing activities		7,865	7,914
Cash flow from investing activities:			
Additions to property, plant and equipment		(524)	(381)
Proceeds on disposal of property, plant and equipment		91	7
Payments received on long-term receivables		85	155
Net cash used in investing activities		(348)	(219)
Decrease in cash		(13)	(54)
Cash, beginning of period		13	78
Cash, end of period		\$ -	\$ 24
Supplementary information:			
Property, plant and equipment acquired under finance leases, net of disposals		\$ 170	\$ 82
Accounts receivable transferred to long-term notes receivable		-	99

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

HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Tabular amounts expressed in thousands of Canadian dollars)

Three month periods ended March 31, 2015 and 2014

1. Nature of operations:

Hardwoods Distribution Inc. (the "Company") is incorporated under the Canada Business Corporations Act trading on the Toronto Stock Exchange under the symbol "HWD." Subsidiaries of the Company operate a network of 33 distribution centers in Canada and the US engaged in the wholesale distribution of hardwood lumber and related sheet goods and specialty products. The Company's operation in Clinton, Michigan includes a sawmill and kiln drying operations (note 4).

The Company's principal office is located at #306, 9440 202nd Street, Langley, British Columbia V1M 4A6.

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard No. 34 "*Interim Financial Reporting*" ("IAS 34"). The disclosures contained in these condensed consolidated interim financial statements do not include all of the requirements of International Financial Reporting Standards ("IFRS") for annual financial statements, and accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2014.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 14, 2015.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgment:

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty are consistent with those disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2014.

HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Tabular amounts expressed in thousands of Canadian dollars)

Three month periods ended March 31, 2015 and 2014

3. Significant accounting policies:

The significant accounting policies that have been used in the preparation of these condensed consolidated interim financial statements are summarized in the Company's annual audited consolidated financial statements for the year ended December 31, 2014. There were no new standards effective January 1, 2015 that have an impact on the Company's financial statements.

4. Business acquisition:

Hardwoods of Michigan Acquisition

On April 28, 2014 a subsidiary of the Company purchased the business operations of Hardwoods of Michigan Inc. ("HMI") a fully integrated producer and distributor of high quality hardwood lumber from its sawmill and kiln drying operations located on 23 acres in Clinton, Michigan. The Company's subsidiary purchased the accounts receivable, inventory, prepaid expenses, and property, plant and equipment of HMI for cash consideration of \$16.5 million (US\$15.0 million) and hired HMI's employees to continue operating the business. The purchase price was satisfied with cash consideration, funded by the drawdown of the Hardwoods USLP Credit Facility (note 8).

Had the acquisition occurred on January 1, 2014 management estimates that the Company's consolidated sales would have been approximately \$111.1 million and profit would have been approximately \$3.8 million for the three month period ended March 31, 2014. Included in these consolidated financial statements for the three month period ended March 31, 2015 are sales of \$10.9 million (US\$8.8 million) and profit of \$0.4 million (US\$0.3 million).

HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
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5. Capital management:

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company considers its capital to be bank indebtedness (net of cash) and shareholders' equity. The Company's capitalization is as follows:

	March 31, 2015	December 31, 2014
Cash	\$ -	\$ (13)
Bank indebtedness	50,522	38,742
Shareholders' equity	119,769	108,489
Total capitalization	\$ 170,291	\$ 147,218

The terms of the Company's US and Canadian credit facilities are described in note 8. The terms of the agreements with the Company's lenders provide that distributions cannot be made by its subsidiaries in the event that its subsidiaries do not meet certain credit ratios. The Company's operating subsidiaries were compliant with all required credit ratios under the US and Canadian credit facilities as at March 31, 2015 and December 31, 2014 and accordingly there were no restrictions on distributions arising from compliance with financial covenants.

Dividends are one way the Company manages its capital. Dividends are declared having given consideration to a variety of factors including the outlook for the business and financial leverage. There were no changes to the Company's approach to capital management during the three months ended March 31, 2015.

On March 26, 2015 Hardwoods Distribution Inc. declared a cash dividend of \$0.045 per common share to shareholders of record as of April 20, 2015. The dividend was paid to shareholders on April 30, 2015. On May 14, 2015, the Company declared a cash dividend of \$0.055 per common share to shareholders of record as of July 20, 2015 to be paid on July 31, 2015.

HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
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Three month periods ended March 31, 2015 and 2014

6. Accounts receivable:

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

	March 31, 2015	December 31, 2014
Trade accounts receivable - Canada	\$ 13,659	\$ 10,490
Trade accounts receivable - United States	50,090	37,960
Sundry receivable	250	786
Current portion of long-term receivables	750	369
	64,749	49,605
Less:		
Allowance for credit loss	3,987	3,478
	\$ 60,762	\$ 46,127
Long-term receivables:		
Employee housing loans	\$ 456	\$ 429
Customer notes	559	679
Security deposits	649	514
	1,664	1,622
Less:		
Current portion, included in accounts receivable	750	369
	\$ 914	\$ 1,253

The aging of trade receivables was:

	March 31, 2015	December 31, 2014
Current	\$ 48,895	\$ 35,428
Past due 31 - 60 days	9,568	8,041
Past due 61 - 90 days	2,467	2,752
Past due 90+ days	2,819	2,229
	\$ 63,749	\$ 48,450

The Company determines its allowance for credit loss based on its best estimate of the net recoverable amount by customer account. Accounts that are considered uncollectable are written off. The total allowance at March 31, 2015 was \$4.0 million (December 31, 2014 - \$3.5 million). The amount of the allowance is considered sufficient based on the past experience of the business, current and expected collection trends, the security the Company has in place for past due accounts and management's regular review and assessment of customer accounts and credit risk.

HARDWOODS DISTRIBUTION INC.

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6. Accounts receivable (continued):

Bad debt expense, net of recoveries, for the three month period ended March 31, 2015 was \$150,000 which equates to 0.1% of sales (2014 – \$0.4 million, being 0.4% of sales).

7. Inventories:

	March 31, 2015	December 31, 2014
Raw materials	\$ 1,978	\$ 1,624
Work in process	4,502	5,044
Goods in transit	9,740	9,594
Finished goods:		
Lumber	35,187	31,059
Sheet goods	36,472	31,127
Specialty	8,144	6,953
	<u>\$ 96,023</u>	<u>\$ 85,401</u>

The Company regularly reviews and assesses the condition and value of its inventories and records write-downs to net realizable value as necessary.

Inventory related expenses are included in the consolidated statement of comprehensive income as follows:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Inventory write-downs	\$ 208	\$ 209
Cost of inventory sold	\$ 108,180	\$ 79,824
Other cost of sales	3,873	2,847
Total cost of sales	<u>\$ 112,053</u>	<u>\$ 82,671</u>

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8. Bank indebtedness:

	March 31, 2015	December 31, 2014
Checks issued in excess of funds on deposit	\$ 3,050	\$ 1,368
Credit facility, Hardwoods LP	8,597	5,318
Credit facility, Hardwoods USLP (March 31, 2015 - US\$27,272; December 31, 2014 - US\$24,004)	34,543	27,851
Term loan, Hardwoods USLP (March 31, 2015 – US\$3,420; December 31, 2014 – US\$3,625)	4,332	4,205
	50,522	38,742
Less: non-current portion of term loan	3,292	3,371
	\$ 47,230	\$ 35,371

Bank indebtedness consists of checks issued in excess of funds on deposit and advances under operating lines of credit (the “Credit Facilities”) available to subsidiaries of the Company, Hardwoods Specialty Products LP (“Hardwoods LP”) and Hardwoods Specialty Product USLP (“Hardwoods USLP”), which in the case of Hardwoods USLP also includes a term loan.

The Hardwoods LP Credit Facility, which has a maturity date of August 7, 2016, provides financing up to \$15.0 million. The Hardwoods USLP Credit Facility, which has a maturity date of April 27, 2017, provides financing up to US\$79.1 million, comprised of US\$75.0 million available under a revolving credit facility, and US\$4.1 million under a term loan that matures on April 27, 2017, with monthly payments based on a five year amortization. Monthly payments on the term loan reduce the total Credit Facility and so the Credit Facility at March 31, 2015 is comprised of US\$75.0 million available under revolving credit facilities and US\$3.4 million under the term loan.

The Credit Facilities are payable in full at maturity. The Credit Facilities are revolving credit facilities which the Company may terminate at any time without prepayment penalty. The Credit Facilities and term loan bear interest at a floating rate based on the Canadian or US prime rate (as the case may be), LIBOR or bankers’ acceptance rates plus, in each case, an applicable margin. Letters of credit are also available under the Credit Facilities on customary terms for facilities of this nature. Commitment fees and standby charges typical for borrowings on this nature were and are payable.

HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
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8. Bank indebtedness (continued):

The amount made available under the Credit Facility to Hardwoods LP from time to time is limited to the extent of 85% of the book value of accounts receivable and the lesser of 60% of the book value or 85% of appraised value of inventories with the amount based on inventories not to exceed 60% of the total amount to be available. Certain identified accounts receivable and inventories are excluded from the calculation of the amount available under the Credit Facility. Hardwoods LP is required to maintain a fixed charge coverage ratio (calculated as the ratio of earnings before interest, tax, depreciation and amortization ("EBITDA") less cash taxes less capital expenditures less distributions, divided by interest plus principal payments on capital lease obligations) of not less than 1.1 to 1. However, this covenant does not apply so long as the unused availability under the credit line is in excess of \$2.0 million. At March 31, 2015, the Hardwoods LP Credit Facility has unused availability of \$6.4 million, before checks issued in excess of funds on deposit of \$1.0 (December 31, 2014 - \$8.2 million, checks issued in excess of funds on deposit - nil), and thus the fixed charge covenant was not applicable at March 31, 2015.

The amount made available under the Credit Facility to Hardwoods USLP from time to time was increased in April 2014 to 90% of the book value of accounts receivable and 65% of the book value of inventories (with certain accounts receivable and inventory being excluded). This increase to the advance rates will be reduced over a three year period back to the advance rates previously available to Hardwoods USLP of 85% of the book value of accounts receivable, and 55% of the book value of inventories. Hardwoods USLP is required to maintain a fixed charge coverage ratio (calculated as EBITDA less cash taxes less capital expenditures, divided by interest plus capital lease obligations plus distributions) of 1.0 to 1. This covenant of the Hardwoods USLP Credit Facility does not need to be met, however, when the unused availability under the Credit Facility is in excess of certain thresholds. The minimum unused availability that must be maintained for the fixed charge coverage ratio not to apply is US\$7.5 million when advance rates for accounts receivable and inventories are calculated at 85% and 55%, respectively, and US\$9.4 million in periods when advance rates in excess of these amounts are utilized.

At March 31, 2015, the Hardwoods USLP Credit Facility has unused availability of \$37.1 million (US\$29.3 million), before checks issued in excess of funds on deposit of \$2.1 million (US\$1.6 million) (December 31, 2014 - \$28.7 million (US\$24.8 million), before checks issued in excess of funds on deposit of \$1.3 million (US\$1.1 million)), and thus the fixed charge covenant was not applicable at March 31, 2015.

HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Tabular amounts expressed in thousands of Canadian dollars)

Three month periods ended March 31, 2015 and 2014

9. Share capital:

(a) Share capital

At March 31, 2015, the authorized share capital of the Company comprised an unlimited number of common shares without par value ("Shares"). At March 31, 2015 and December 31, 2014 the Company had 16,651,414 Shares outstanding.

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

At March 31, 2015 and December 31, 2014 the Company had outstanding under the terms of the LTIP 20,952 performance shares and 98,913 restricted shares.

No LTIP shares became fully vested in the three month period ended March 31, 2015. Non-cash LTIP compensation expense of \$116,025 was recognized in the condensed consolidated interim statement of comprehensive income for the three month period ended March 31, 2015 (2014 – \$110,877).

(c) Weighted average shares:

The calculation of basic and fully diluted profit per share is based on the profit for the three month period ended March 31, 2015 of \$4.7 million (2014 - \$3.0 million). The weighted average number of common shares outstanding was as follows:

	2015	2014
Issued ordinary shares/units at January 1	16,651,414	16,539,378
Effect of shares issued during the year:		
Pursuant to long-term incentive plan	-	-
Weighted average common shares (basic) March 31	16,651,414	16,539,378
Effect of dilutive securities:		
Long term incentive plan	104,905	118,675
Weighted average common shares (diluted) March 31	16,756,319	16,658,053

HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Tabular amounts expressed in thousands of Canadian dollars)

Three month periods ended March 31, 2015 and 2014

10. Finance income and expense:

	Note	Three months ended March 31, 2015	Three months ended March 31, 2014
Finance expense:			
Interest on bank indebtedness	8	\$ (336)	\$ (219)
Accretion of finance lease obligation		(28)	(26)
Total finance expense		(364)	(245)
Finance income:			
Interest on trade receivables and customer notes	6	94	104
Foreign exchange gains		506	206
Total finance income		600	310
Net finance income		\$ 236	\$ 65

11. Segment reporting:

Information about geographic areas is as follows:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Revenue from external customers:		
Canada	\$ 27,836	\$ 24,189
United States	107,280	76,745
	\$ 135,116	\$ 100,934
Non-current assets ⁽¹⁾ :		
Canada	\$ 1,163	\$ 991
United States	13,655	12,800
	\$ 14,818	\$ 13,791

⁽¹⁾ Excludes financial instruments and deferred income taxes.

HARDWOODS DISTRIBUTION INC.

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(Tabular amounts expressed in thousands of Canadian dollars)

Three month periods ended March 31, 2015 and 2014

12. Seasonality

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

13. Contingencies:

The Company and its subsidiaries are subject to legal proceedings that arise in the ordinary course of its business. Management is of the opinion, based upon information presently available, that it is unlikely that any liability, to the extent not provided for or insured, would be material in relation to the Company's condensed consolidated interim financial statements at March 31, 2015.